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# **MUNICH RE AMERICA CORPORATION**

## **Annual Report For The Fiscal Year Ended December 31, 2020**

(Pursuant to Section 4.04 of the  
Indenture between the Company and the  
holders of the Company's 7.45% Senior Notes\*)

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\*IN MARCH 2002 THE COMPANY DEREGISTERED THE NOTES IN ACCORDANCE WITH THE RULES AND REGULATIONS OF THE SECURITIES AND EXCHANGE ACT OF 1934. THIS FINANCIAL REPORT IS NOT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION.

**March 31, 2021**

# **MUNICH RE AMERICA CORPORATION**

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Unless indicated otherwise, all financial data presented herein are derived from or based on Munich Re America Corporation's consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Statutory data, where specifically identified as such, is presented on a combined basis for Munich Reinsurance America, Inc., American Alternative Insurance Corporation, The Princeton Excess and Surplus Lines Insurance Company, and Bridgeway Insurance Company. (These companies together are the "insurance subsidiaries"). The statutory data are derived from statutory financial statements. Such statutory financial statements are prepared in accordance with statutory accounting principles, which differ from GAAP.

## ***Business***

### **The Company and Munich Reinsurance America, Inc.**

Munich Re America Corporation (the "Company"), is the holding company for various reinsurance and insurance entities which provide reinsurance, insurance and related services to insurance companies, commercial businesses, government agencies, and self-insurers in the United States. The Company is one of the largest property and casualty reinsurers in the United States according to the Reinsurance Association of America, based on combined statutory gross premiums written by the insurance subsidiaries of \$5,488.7 million in 2020. The Company's principal subsidiary, Munich Reinsurance America, Inc., a Delaware insurance company founded in 1917, primarily underwrites property and casualty reinsurance. Other subsidiaries of the Company are American Alternative Insurance Corporation ("AAIC"), which writes primary insurance business on an admitted basis, The Princeton Excess and Surplus Lines Insurance Company ("Princeton E&S"), which writes insurance coverage on a non-admitted basis, and Bridgeway Insurance Company ("Bridgeway"), which is also eligible to write insurance coverage on a non-admitted basis. The Company had total assets of \$23,234.6 million and stockholder's equity of \$4,723.9 million at December 31, 2020. The Company and its subsidiaries employed 539 persons as of December 31, 2020.

Munich Reinsurance America, Inc. is licensed to transact insurance or reinsurance business in all fifty states and the District of Columbia. AAIC is licensed to transact insurance or reinsurance business in all fifty states and the District of Columbia. Princeton E&S is licensed as a domestic surplus lines insurer in its state of domicile, Delaware, and is eligible to write insurance on a non-admitted basis in all other states. The Delaware Insurance Department ("the Insurance Department") is the domiciliary regulator for the insurance subsidiaries. Bridgeway, which was repurposed within the group and commenced operations as part of the Specialty Insurance unit, and is eligible or approved to write surplus lines insurance in 49 states and the District of Columbia on a non-admitted basis. Bridgeway redomesticated from Ohio to Delaware as its domiciliary regulator during 2020.

The Company is a subsidiary of Munich-American Holding Corporation ("MAHC"), a subsidiary of Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München ("Munich Re"), a company organized under the laws of Germany. Munich Re is the one of the world's largest reinsurance companies, based on 2019 net premiums written, according to *Standard & Poor's*. The Munich Re Group, led by Munich Re, includes primary insurance operations under the ERGO Insurance Group, reinsurance subsidiaries, branches, service companies and liaison offices serving clients in more than 160 countries throughout the world.

## **Our Strategy**

Our strategy is to achieve the full potential of the U.S. property-casualty market through underwriting excellence and sustainable profitable growth over the course of the market cycle. The strategy seeks to increase its profitability through direct and broker reinsurance as well as primary insurance by:

- employing a client-centric approach to develop reinsurance solutions that leverage Munich Re's expertise and risk appetite;
- developing closer broker relationships to support clients' needs;
- building a leading presence in niche primary insurance segments.

Our business model consists of two business segments, Reinsurance Division and Specialty Insurance. The reinsurance segment is comprised of (i) Client Management, responsible for managing client and broker relationships; and (ii) Underwriting, which focuses on property and casualty underwriting for large national and regional clients, including facultative business and Specialty Lines business (credit, ocean marine, cyber, and

professional liability), written on a direct basis and through reinsurance intermediaries. Specialty Insurance, consisting of two business units within Munich Re Specialty Insurance, focuses on 1) Municipal, Educational and Religious entities including large self-insurers, captives, risk retention groups, governmental entities, and pools, and 2) Insurance Programs where licensed program administrators underwrite the individual policies within a program and the programs are underwritten on a portfolio basis. The insurance is provided through AAIC, Princeton E&S, Bridgeway, or other affiliate insurers. A variety of reinsurance and insurance products and solutions are provided by Specialty Insurance to these client groups.

## **Other Products and Services**

The Company offers a full range of property and casualty insurance coverage including property, general liability, professional liability, umbrella, commercial multi-peril, workers' compensation, auto liability and physical damage, surety, marine, construction, and errors and omissions, through its subsidiaries AAIC, Princeton E&S, and Bridgeway.

## **Risk Factors**

In the course of conducting its business, the Company could be exposed to a variety of risks to the Company's business, financial condition or results of operations, among others. The following risk factors have been organized by category for ease of use; however, many of the risks may have impacts in more than one category.

### ***Insurance Related Risks***

*Adequacy of loss reserves.* The Company regularly establishes reserves to cover its estimated liabilities for losses and loss adjustment expenses for both reported and unreported claims. These reserves do not represent an exact calculation of liabilities. Rather, these reserves are management's estimates of the cost to settle and administer claims. These expectations are based on facts and circumstances known at the time, predictions of future events, estimates of future trends in the severity and frequency of claims, and judicial theories of liability and inflation. The establishment of appropriate reserves is an inherently uncertain process, and the Company cannot be sure that ultimate losses and related expenses will not materially exceed the Company's reserves. To the extent that reserves prove to be inadequate in the future, the Company would have to increase its reserves and incur a charge to earnings in the period such reserves are increased, which could have a material and adverse impact on our financial condition and results.

*Accumulation of event losses.* The Company is exposed to large event losses that may accumulate across the portfolio. Examples of event losses include natural catastrophes, terrorism, pandemic, and cyber security breaches. Concentration of our insurance, reinsurance and other risk exposures may have adverse effects. We are exposed to risks as a result of concentrations in our insurance and reinsurance policies, investments, and other obligations that we undertake for customers. We manage these concentration risks by monitoring the accumulation of our exposures to factors such as exposure type and size, industry, geographic region, counterparty and other factors. We also seek to use third-party reinsurance, hedging and other arrangements to limit or offset exposures that exceed the retention and risk appetite limits we define as part of our Risk Appetite Statement. In certain circumstances, however, these risk management arrangements may not be available on acceptable terms or may prove to be ineffective for certain exposures. Our risk exposures under insurance and reinsurance policies, and other obligations are, from time to time, compounded by risk exposure assumed in our investment business. Also, our exposure for certain single risk coverages and other coverages may be so large that adverse experience compared to our expectations may have a material adverse effect on our consolidated results of operations or result in additional statutory capital requirements for our subsidiaries.

*Changing Climate Conditions.* Changing climate and weather patterns may adversely affect our business, financial condition and results of operation. Climate change presents risks to us as an insurer, investor and employer. Climate models indicate that rising temperatures will likely result in rising sea levels over the decades to come and may increase the frequency and intensity of natural catastrophes and severe weather events. Extreme weather events such as abnormally high temperatures may result in increased losses associated with our property, auto, workers' compensation and group benefits businesses. Changing climate patterns may also increase the duration, frequency and intensity of heat/cold waves, which may result in increased claims for property damage, business interruption and losses under workers' compensation. Precipitation patterns across the U.S. are projected to change, which if realized, may increase risks of flash floods and wildfires. Additionally, there may be an impact on the demand, price and availability of automobile and homeowners insurance, and there is a risk of higher reinsurance costs or more limited availability of reinsurance coverage. Changes in climate conditions may also cause our underlying modeling

data to not adequately reflect frequency and severity, limiting our ability to effectively evaluate and manage risks of catastrophes and severe weather events. Among other impacts, this could result in not charging enough premiums or not obtaining timely state approvals for rate increases to cover the risks we insure. We may also experience significant interruptions to the Company's systems and operations that hinder our ability to sell and service business, manage claims and operate our business. In addition, climate change-related risks may adversely impact the value of the securities that we hold. The effects of climate change could also lead to increased credit risk of other counterparties we transact business. Rising sea levels may lead to decreases in real estate values in coastal areas, reducing premium and demand for commercial property and homeowners insurance. Additionally, government policies or regulations to address climate change, such as emission controls or technology mandates, or accelerated divestment of our investments, may have an adverse impact on sectors such as utilities, transportation and manufacturing, and affect demand for our products and our investments in these sectors.

Changes in security asset prices may impact the value of our investments, resulting in realized or unrealized losses on our invested assets. Our decision to invest in certain securities may also be impacted by changes in climate patterns due to:

- changes in supply/demand characteristics for fuel (e.g., coal, oil, natural gas)
- advances in low-carbon technology and renewable energy development and
- effects of extreme weather events on the physical and operational exposure of industries and issuers.

Because there is significant variability associated with the impacts of climate change, we cannot predict how physical, legal, regulatory and social responses may impact our business.

*Competition and Disruptive Technology.* We compete in the United States reinsurance and insurance markets. The property and casualty insurance industry is highly competitive, and we believe that it will remain highly competitive for the foreseeable future. We compete with both domestic and foreign insurers, including an increasing number of start-ups, which may offer products at prices and on terms that are not consistent with our economic standards in an effort to maintain or increase their business. The competitive environment in which we operate could also be impacted by current general economic conditions, which could reduce the volume of business available to us as well as to our competitors. In recent years, pension and hedge funds and other entities with substantial available capital and potentially lower return objectives have increasingly sought to participate in the property and casualty insurance and reinsurance businesses. Well-capitalized new entrants to the property and casualty insurance and reinsurance industries and existing competitors that receive substantial infusions of capital may conduct business in ways that adversely impact our business volumes and profitability. Further, an expanded supply of reinsurance capital may lower costs for insurers that rely significantly on reinsurance and, as a consequence, those insurers may be able to price their products more competitively. In addition, the competitive environment could be impacted by changes in customer preferences, including customer demand for direct distribution channels and/or greater choice, in personal lines and also in commercial lines. Similarly, customer behavior could evolve in the future towards buying insurance in point-of-sale or other non-traditional distribution channels. Consolidation within the insurance industry also could alter the competitive environment in which we operate, which may impact our business volumes and/or the rates or terms of our products.

The increasing use of comparative rating technologies has impacted, and may continue to impact, our business as well as the industry as a whole. An increasing amount of new insurance business is written after a customer or agent compares quotes using comparative rating technologies, a cost-efficient means of obtaining quotes from multiple companies. Because the use of this technology, whether by agents or directly by customers, facilitates the process of generating multiple quotes, the technology has increased price comparison on new business and, increasingly, on renewal business. It also has resulted in an increase in the level of quote activity and a lower percentage of quotes that result in new business from customers, and these trends may continue or accelerate. If we are not able to operate with a competitive cost structure or accurately estimate and price for claims and claim adjustment expenses, our business volume and underwriting margins could be adversely affected over time. Additionally, similar technology is starting to be used to access comparative rates for small commercial business and that trend is likely to continue and may accelerate. In recent years, there have been new entrants into the small commercial insurance business and this trend may continue.

Technology companies or other third parties have created, and may in the future create, digitally-enabled business models, platforms or alternate distribution channels for personal or commercial business that may adversely impact our competitive position. These technology companies or other third parties may compete with us directly by providing, or arranging to provide, insurance coverage themselves.

Other technological changes also present competitive risks. For example, our competitive position could be impacted if we are unable to deploy, in a cost effective and competitive manner, technology such as artificial intelligence and machine learning that collects and analyzes a wide variety of data points (so-called “big data” analysis) to make underwriting or other decisions, or if our competitors collect and use data which we do not have the ability to access or use. In addition, innovations, such as telematics and other usage-based methods of determining premiums, can impact product design and pricing and may become an increasingly important competitive factor.

Competitive dynamics may impact the success of efforts to improve our underwriting margins on our insurance products. These efforts could include seeking improved rates, as well as improved terms and conditions, and could also include other initiatives, such as reducing operating expenses and acquisition costs. These efforts may not be successful and/or may result in lower retention and new business levels and therefore lower business volumes. In addition, if our underwriting is not effective, further efforts to increase rates could also lead to “adverse selection”, whereby accounts retained have higher losses, and are less profitable, than accounts lost.

### ***Government Regulation.***

We are subject to extensive laws and regulations that are complex, subject to change and often conflict in their approach or intended outcomes. Compliance with these laws and regulations can increase cost, affect our strategy, and constrain our ability to adequately price our products. Regulatory and legislative developments could have a material adverse impact on our business, financial condition, results of operations and liquidity.

In the U.S., regulatory initiatives and legislative developments may significantly affect our operations and prospects in ways that we cannot predict. For example, further reforms to the Dodd-Frank Act could have unanticipated consequences for the Company and its businesses. It is unclear whether and to what extent Congress will continue to make changes to the Dodd-Frank Act, and how those changes might impact the Company, its business, financial conditions, results of operations and liquidity.

Our U.S. insurance subsidiaries are regulated by the insurance departments of the states in which they are domiciled, licensed or authorized to conduct business. State regulations generally seek to protect the interests of policyholders rather than an insurer or the insurer’s stockholders and other investors. U.S. state laws grant insurance regulatory authorities broad administrative powers with respect to, among other things, licensing and authorizing lines of business, approving policy forms and premium rates, setting statutory capital and reserve requirements, limiting the types and amounts of certain investments and restricting underwriting practices. State insurance departments also set constraints on domestic insurer transactions with affiliates and dividends and, in many cases, must approve affiliate transactions and extraordinary dividends as well as strategic transactions such as acquisitions and divestitures.

In addition, future regulatory initiatives could be adopted at the federal, state and international level that could impact the profitability of our businesses. For example, the NAIC and state insurance regulators are continually reexamining existing laws and regulations, specifically focusing on modifications to U.S. statutory accounting principles, interpretations of existing laws and the development of new laws and regulations. The NAIC continues to enhance the U.S. system of insurance solvency regulation, with a particular focus on group supervision, risk-based capital, accounting and financial reporting, enterprise risk management and reinsurance which could, among other things, affect statutory measures of capital sufficiency, including risk-based capital ratios. In addition, changes in laws or regulations, particularly relating to privacy and data security and potential limitations on predictive models, such as use of certain underwriting rating variables, may materially impede our ability to execute on business strategies and/or our ability to be competitive. Any proposed or future legislation or NAIC initiatives, if adopted, may be more restrictive on our ability to conduct business than current regulatory requirements or may result in higher costs or increased statutory capital and reserve requirements.

In addition, the Federal Reserve Board and National Association of Insurance Commissioners continue to advance the development of insurance group capital standards. While the Company would not currently be subject to either of these capital standard regimes, it is possible that, in the future, standards similar to what is being contemplated by the Federal Reserve Board or the NAIC could apply to the Company. Further, a particular regulator or enforcement authority may interpret a legal, accounting, or reserving issue differently than we have, exposing us to different or additional regulatory risks. The application of these regulations and guidelines by insurers involves interpretations and judgments that may be challenged by state insurance departments and other regulators. The result of those potential challenges could require us to increase levels of regulatory capital and reserves or incur higher operating and/or tax costs. In addition, our asset management businesses are also subject to

extensive regulation in the various jurisdictions where they operate. These laws and regulations are primarily intended to protect investors in the securities markets or investment advisory clients and generally grant supervisory authorities broad administrative powers. Compliance with these laws and regulations is costly, time consuming and personnel intensive, and may have an adverse effect on our business, financial condition, results of operations and liquidity.

*Federal Financial and Sanctions Regulations.* The USA PATRIOT Act, the Foreign Corrupt Practices Act, the Office of Foreign Assets Control regulations and similar laws and regulations that apply to us may expose us to significant penalties. The USA PATRIOT Act of 2001 requires companies to know certain information about their clients and to monitor their transactions for suspicious activities. The Foreign Corrupt Practices Act makes it unlawful for certain classes of persons and entities to make payments to foreign government officials to assist in obtaining or retaining business. Also, the Department of the Treasury's Office of Foreign Assets Control administers regulations requiring U.S. persons to refrain from doing business, or allowing their clients to do business through them, with certain organizations or individuals on a prohibited list maintained by the U.S. government or with certain countries. The laws and regulations of other jurisdictions may sometimes conflict with those of the U.S. Although we have instituted compliance programs to address these requirements, as well as potential conflicts of law, there are inherent risks in global transactions.

*New Federal Regulatory Initiatives.* Although, in the United States, the business of insurance is regulated by state insurance authorities, the federal government has increased its involvement in the insurance regulatory framework in recent years. Current and proposed federal measures that may significantly affect the Company's business and the market as a whole include federal regulation of insurance companies, systemic risk regulation, federal terrorism insurance, tort reform, natural catastrophes, corporate governance, data breach, cyber security, health care reform including changes in the Affordable Care Act, medical malpractice reform and patients' rights, privacy, international trade, and the taxation of insurance companies. We cannot predict what impact, if any, these or other new initiatives or legislation will have on us.

*Data Protection, Data Privacy and Cyber Security Regulation.* We are subject to U.S. and foreign laws and regulations that require financial institutions and other businesses to protect the security and confidentiality of personal information, to provide notice of their practices and respond to consumer requests relating to the collection, use and disclosure of personal information, to maintain a written information security program, to conduct risk assessments, to oversee the data security practices of third-party service providers and other related requirements. We also are subject to laws and regulations requiring notification to affected individuals and regulators of security breaches. In addition, we must comply with laws and regulations regarding the cross-border transfer of information. It is not clear whether or not, or in what form, the federal government and state governments will adopt additional data protection and cyber security regulation.

*Social and Emerging Issues.* Unexpected and unintended claim and coverage issues under our insurance contracts may adversely impact our financial performance. Changes in industry practices and in legal, judicial, social and other environmental conditions, technological advances or fraudulent activities, may require us to pay claims we did not intend to cover when we wrote the policies. Social, economic and environmental issues, including rising income inequality, climate change, prescription drug use and addiction, exposures to new substances or those previously considered to be safe and sexual harassment claims, along with the use of social media to proliferate messaging around such issues, has expanded the theories for reporting claims, which may increase our claims administration and/or litigation costs. State and local governments' increased efforts aimed to respond to the costs and concerns associated with these types of issues, may also lead to expansive, new theories for reporting claims. In addition, these and other social, economic and environmental issues may either extend coverage beyond our underwriting intent or increase the frequency or severity of claims. Some of these changes, advances or activities may not become apparent until sometime after we have issued insurance contracts that are affected by the changes, advances or activities and/or we may be unable to compensate for such losses through future pricing and underwriting. As a result, the full extent of liability under our insurance contracts may not be known for many years after a contract is issued, and this liability may have a material adverse effect on our business, financial condition, results of operations and liquidity at the time it becomes known.

As writers of direct insurance, through the Company's insurance subsidiaries (AAIC, Princeton E&S and Bridgeway), litigation is a routine part of the Company's business - both in defending and indemnifying our insureds and in litigating insurance coverage disputes. The Company accounts for such activity by establishing unpaid loss and loss adjustment expense reserves. Significant changes in the legal environment could cause our ultimate liabilities to change from our current expectations. Such changes could be judicial in nature, like trends in the size of jury awards, developments in the law relating to tort liability or the liability of insurers, and rulings concerning the

scope of insurance coverage or the amount or types of damages covered by insurance. In addition, changes in federal or state laws and regulations relating to the liability of insurers or policyholders, including laws that retroactively require insurers to pay for uninsured losses and state laws expanding “bad faith” liability and state “reviver” statutes, extending statutes of limitations for certain sexual abuse claims, could result in changes in business practices, additional litigation, or could result in unexpected losses, including increased frequency and severity of claims. It is impossible to forecast such changes reliably, much less to predict how they might affect our loss reserves or how those changes might adversely affect our ability to price our insurance products appropriately. Thus, significant judicial or legislative developments could adversely affect the Company’s business, financial condition, results of operations and liquidity.

### ***Financial Strength***

*Capital Requirements.* The amount of capital that we must hold to maintain our financial strength and credit ratings and meet other requirements can vary significantly from time to time and is sensitive to a number of factors outside of our control. We conduct the vast majority of our business through licensed insurance company subsidiaries. In the United States, statutory accounting standards and statutory capital and reserve requirements for these entities are prescribed by the applicable insurance regulators and the NAIC. The minimum capital we must hold is based on risk-based capital (“RBC”) formulas for both life and property and casualty companies. The RBC formula for property and casualty companies sets required statutory surplus levels based on underwriting, asset, and credit and off-balance sheet risks.

In any particular year, statutory surplus amounts, RBC ratios may increase or decrease depending on a variety of factors, including:

- the amount of statutory income or losses generated by our insurance subsidiaries,
- the amount of additional capital our insurance subsidiaries must hold to support business growth,
- the amount of dividends or distributions taken out of our insurance subsidiaries,
- the value of certain fixed-income in our investment portfolio,
- changes in interest rates,
- admissibility of deferred tax assets, and
- changes to the regulatory capital formulas.

Most of these factors are outside of the Company's control. The Company's financial strength and credit ratings are significantly influenced by the amount of capital and regulatory capital formulas of various insurance operations. In addition, rating agencies may implement changes to their regulatory capital formulas that have the effect of increasing the amount of capital we must hold in order to maintain our current ratings. The regulatory capital formulas could also be negatively affected if the NAIC, state insurance regulators or other insurance regulators change the accounting guidance for determining capital adequacy. If our capital resources are insufficient to maintain a particular rating by one or more rating agencies, we may need to use holding company resources or seek capital from our Parent. If we were not to raise additional capital, either at our discretion or because we were unable to do so, our financial strength and credit ratings might be downgraded by one or more rating agencies.

*Risk Based Capital.* The Insurance Department has a risk based capital (“RBC”) standard for property and casualty insurance (and reinsurance) companies which measures the amount of capital appropriate for a property and casualty insurance company to support its overall business operations in light of its size and risk profile. At December 31, 2020, Munich Reinsurance America, Inc.’s RBC ratio was 271.5%, compared to 269.6% at December 31, 2019. An RBC ratio in excess of 200% generally requires no regulatory action. The RBC ratios of AAIC, Princeton E&S, and Bridgeway were also in excess of 200% at December 31, 2020 and 2019.

*Dividends.* The payment of future dividends on our capital stock is subject to the discretion of our board of directors, which considers, among other factors, our operating results, overall financial condition, credit-risk considerations and capital requirements, as well as general business and market conditions. Our board of directors may only declare such dividends out of funds legally available for such payments. Moreover, as a holding company that is separate and distinct from our insurance subsidiaries, we have no significant business operations of our own. Therefore, we rely on dividends from our insurance company subsidiaries as the principal source of cash flow to meet our obligations. Subsidiary dividends fund payments on our debt securities and the payment of dividends to stockholders on our capital stock. Because the operations of the Company are conducted primarily through its insurance subsidiaries, the Company is dependent upon management service agreements and dividends from the insurance subsidiaries to meet its debt service obligations. The payment of dividends to the Company by the insurance subsidiaries is subject to limitations imposed by the Insurance Department, including the requirement that



dividends be paid from available unassigned funds, as set forth in the most recent annual statement of the insurer. Based on these limitations, Munich Reinsurance America, Inc. cannot pay dividends in 2021 without the prior approval of the Insurance Department. At December 31, 2020, AAIC, Princeton E&S, and Bridgeway can pay dividends of up to \$25.6 million, \$16.4 million, and \$4.9 million, respectively, in 2021 without the prior approval of the Insurance Department.

*Investment Limitations.* The Delaware Insurance Code contains rules governing the types and amounts of investments that are permissible for a Delaware insurer, including the insurance subsidiaries. These rules are designed to ensure the safety and liquidity of the insurer's investment portfolio.

*Statutory Financial Condition Examinations.* As part of its general regulatory oversight process, the Insurance Department usually conducts financial condition examinations of domiciled insurers and reinsurers every three to five years, or at such other times as is deemed appropriate by the Insurance Commissioner. In 2017, the Insurance Department completed the regularly scheduled financial condition examination of the Company's insurance subsidiaries, excluding Bridgeway, for the financial period 2013 through 2016. The Insurance Department's final examination reports were received in 2018, with no adverse findings.

*Insurance Regulatory Information System Ratios.* The National Association of Insurance Commissioners annually calculates thirteen financial ratios to assist state insurance departments in monitoring the financial condition of insurance companies. Results are compared against a "usual range" of results for each ratio, established by the NAIC. In 2020 Munich Reinsurance America, Inc. had one ratio outside of the usual range. The two-year overall operating ratio was 108% compared to the usual range of 100% or less. This result is attributable to significant natural catastrophe loss events in 2020 and 2019 and COVID-19 related losses in 2020. Management believes the results of these ratios do not indicate a trend and are not an indication of financial concern.

*Collateralization Requirements.* Ceding companies may, at times, require reinsurers to collateralize their obligations. The Company's policy against generally providing collateral to support its reinsurance transactions could detract from the Company's ability to compete for some clients' business.

### ***Business and Operational Risk***

*COVID.* The COVID-19 outbreak has adversely affected, and in the future may adversely affect, our results of operations, financial position and/or liquidity. The full extent of the impact of the pandemic on the Company's operational and financial performance remains dependent on certain ongoing developments, including the duration and severity of the pandemic, its impact on clients, employees, and vendors, and impact on claims coverages from government or other regulatory actions or litigation, all of which remain uncertain at this time. For additional information, see the Consolidated Financial Statements of the Company, and the related notes thereto included elsewhere in this report".

*Information Systems.* Our businesses may suffer and we may incur substantial costs if we are unable to access our systems and safeguard the security of our data in the event of a disaster, cyber breach or other information security incident. We use technology to process, store, retrieve, evaluate and utilize customer and company data and information. Our information technology and telecommunications systems, in turn, interface with and rely upon third-party systems. We and our third party vendors must be able to access our systems to provide insurance quotes, process premium payments, make changes to existing policies, file and pay claims, administer mutual funds, provide customer support, manage our investment portfolios, report on financial results and perform other necessary business functions. Systems failures or outages could compromise our ability to perform these business functions in a timely manner, which could harm our ability to conduct business and hurt our relationships with our business partners and customers. In the event of a disaster such as a natural catastrophe, a pandemic, an industrial accident, a cyber-attack, a blackout, a terrorist attack (including conventional, nuclear, biological, chemical or radiological) or war, systems upon which we rely may be inaccessible to our employees, customers or business partners for an extended period of time. Even if our employees and business partners are able to report to work, they may be unable to perform their duties for an extended period of time if our data or systems used to conduct our business are disabled or destroyed. Our systems have been, and will likely continue to be, subject to viruses, ransomware, or other malicious codes, unauthorized access, cyber-attacks, cyber frauds or other computer related penetrations. The frequency and sophistication of such threats continue to increase as well. While, to date, we are not aware of having experienced a material breach of our cyber security systems, administrative, internal accounting and technical controls as well as other preventive actions may be insufficient to prevent physical and electronic break-ins, denial of service, cyber-attacks, business email compromises, ransomware or other security breaches to our systems or those of third parties with whom we do business. Such an event could compromise our confidential information as

well as that of our clients and third parties, impede or interrupt our business operations and result in other negative consequences, including remediation costs, loss of revenue, additional regulatory scrutiny and litigation and reputational damage. In addition, we routinely transmit to third parties personal, confidential and proprietary information, which may be related to employees and customers, by email and other electronic means, along with receiving and storing such information on our systems. Although we attempt to protect privileged and confidential information, we may be unable to secure the information in all events, especially with clients, vendors, service providers, counterparties and other third parties who may not have appropriate controls to protect confidential information. Our businesses must comply with regulations to control the privacy of customer, employee and third party data, and state, federal and international regulations, including, through our Parent Company, the European Union General Data Protection Regulation and other consumer privacy laws. Regulations regarding data privacy are becoming increasingly more onerous. A misuse or mishandling of confidential or proprietary information could result in legal liability, regulatory action and reputational harm. Third parties, including third party administrators and cloud-based systems, are also subject to cyber-breaches of confidential information, along with the other risks outlined above, any one of which may result in our incurring substantial costs and other negative consequences, including a material adverse effect on our business, reputation, financial condition, results of operations and liquidity. While we maintain cyber liability insurance that provides both third party liability and first party insurance coverages, our insurance may not be sufficient to protect against all loss.

*Regional Shared Services Organization.* Our restructuring initiatives to form a regional shared services organization in North America may not yield improvements in operational and organizational efficiency or expense reductions. We may not be able to fully realize the operational and organizational efficiency improvements we expect to result from our regional and operational restructuring initiatives. Actual costs to implement these initiatives may exceed our estimates or we may be unable to fully implement and execute these initiatives as planned. The implementation of these initiatives may harm our relationships with customers or employees or our competitive position. Our businesses and results of operations may be negatively impacted if we are unable to realize these efficiency improvements. The successful implementation of these initiatives may continue to require us to effect business rationalizations, systems enhancements, business process outsourcing, business and asset dispositions, acquisitions, workforce reductions, and other actions, which depend on a number of factors, some of which are beyond our control.

*Human Capital Resources.* Difficulty in attracting and retaining talented and qualified personnel may adversely affect the execution of our business strategies. Our ability to attract, develop and retain talented employees, managers and executives is critical to our success. There is significant competition within and outside the insurance and financial services industry for qualified employees, particularly for individuals with highly specialized knowledge in areas such as underwriting, actuarial, data and analytics, technology and digital commerce. Our continued ability to compete effectively in our businesses and to expand into new business areas depends on our ability to attract new employees and to retain and motivate our existing employees. The loss of any one or more key employees, including executives, managers and employees with strong technological, analytical and other specialized skills, may adversely impact the execution of our business objectives or result in loss of important institutional knowledge. Our inability to attract and retain key personnel could have a material adverse effect on our financial condition and results of operations.

*Third Party Relationships.* Performance problems due to outsourcing and other third party relationships may compromise our ability to conduct business. We outsource certain business and administrative functions and rely on third-party vendors to perform certain functions or provide certain services on our behalf and have a significant number of information technology and business processes outsourced with a single vendor. If we are unable to reach agreement in the negotiation of contracts or renewals with certain third-party providers, or if such third-party providers experience disruptions or do not perform as anticipated, we may be unable to meet our obligations to customers and claimants, incur higher costs and lose business which may have a material adverse effect on our business and results of operations. For other risks associated with our outsourcing of certain functions, see the Risk Factor, “Information Systems”.

## *Financial, Economic and Credit Risk*

*Economic Conditions.* Unfavorable economic, political and global market conditions may adversely impact our business and results of operations. The Company's investment portfolio and insurance liabilities are sensitive to changes in economic, political and global capital market conditions, such as the effect of a weak economy and changes in credit spreads and inflation.. Weak economic conditions, such as high unemployment, low labor force participation, lower family income, a weak real estate market, lower business investment and lower consumer spending may adversely affect the demand for insurance and financial products and lower the Company's profitability in some cases. In addition, a deterioration in global economic conditions and/or geopolitical conditions, including due to military action, trade wars, tariffs or other actions with respect to international trade agreements or policies, has the potential to, among other things, reduce demand for our products, reduce exposures we insure, drive higher inflation that could increase the Company's loss costs and result in increased incidence of claims, particularly for workers' compensation. The Company's investment portfolio includes limited partnerships and other alternative investments and equity securities for which changes in value are reported in earnings. These investments may be adversely impacted by economic volatility, including real estate market deterioration, which could impact our net investment returns and result in an adverse impact on operating results.

*Market Volatility and Changes in Interest Rates.* Financial market volatility, such as has occurred in the past, resulting in a negative economic impact may adversely affect our investment portfolio which primarily consists of fixed income securities (such as corporate debt securities and U.S. government securities). The fair value of securities in the investment portfolio may fluctuate depending on general economic and market conditions or events related to a particular issuer of securities. In addition, the Company's fixed income investments are subject to risks of loss upon default and price volatility in reaction to changes in risk spreads and interest rates. These factors could cause us to realize less than expected returns on invested assets, sell investments for a loss or write off or write down investments. These changes in the fair value of securities in the investment portfolio are reflected in the consolidated financial statements and, therefore, could affect the Company's financial condition or results.

*Credit risk.* The Company is exposed to loss from the failure of counterparties to meet their financial obligations to the Company, or the failure to meet them in a timely fashion. The Company is exposed to credit risks on both sides of the balance sheet. In addition to the credit risks of the investment portfolio, the Company is exposed to losses on receivables from transactions with clients or on the business we cede externally through reinsurance or retrocession. The Company is also exposed to losses through the active assumption of credit risk from the writing of surety and political risk business.

*LIBOR.* LIBOR is an indicative measure of the average interest rate at which major global banks could borrow from one another. LIBOR is used as a benchmark or reference rate in certain derivatives and floating rate fixed maturities that are part of our investment portfolio. In July 2017, the U.K. Financial Conduct Authority announced that by the end of 2021, it intends to stop persuading or compelling banks to report information used to set LIBOR, which could result in LIBOR no longer being published after 2021 or a determination by regulators that LIBOR is no longer representative of its underlying market. Since 2017, actions by regulators have resulted in efforts to establish alternative reference rates to LIBOR in several major currencies. The Alternative Reference Rate Committee, a group of private-market participants convened by the Federal Reserve Board and the Federal Reserve Bank of New York, has recommended the Secured Overnight Funding Rate ("SOFR") as its preferred alternative rate for U.S. dollar LIBOR. SOFR is a measure of the cost of borrowing cash overnight, collateralized by U.S. Treasury securities, and is based on directly observable U.S. Treasury-backed repurchase transactions. The Federal Reserve Bank of New York began publishing daily SOFR in April 2018. Development of broadly accepted methodologies for transitioning from LIBOR, an unsecured forward-looking rate, to SOFR, a secured rate based on historical transactions, is ongoing.

The Company continues to monitor and assess the potential impacts of the discontinuation of LIBOR, which will vary depending on (1) existing contract language to determine a LIBOR replacement rate, referred to as "fall back provisions", in individual contracts and (2) whether, how, and when industry participants develop and widely adopt new reference rates and fallback provisions for both existing and new products or instruments. At this time, it is not possible to predict how markets will respond to these new rates and the effect that the discontinuation of LIBOR might have on new or existing financial instruments. If LIBOR ceases to exist or is found by regulators to no longer be representative, outstanding contracts with interest rates tied to LIBOR may be adversely affected and impact our results of operations through a reduction in value of some of our LIBOR referenced floating rate investments, an increase in the interest we pay on our outstanding junior subordinated debentures, or an adverse impact to hedge effectiveness of derivatives or availability of hedge accounting. Additionally, any discontinuation of or transition from LIBOR may impact pricing, valuation and risk analytic processes and hedging strategies.

*Tax Issues.* The Tax Cuts and Jobs Act enacted in 2017 (the “Act” or “tax reform”) included a broad range of tax reforms affecting businesses, including reducing the corporate income tax rate from 35% to 21% and changing business deductions and international tax provisions. There were also substantial changes to tax loss discounting, which would be phased in over eight years, proration of interest and dividend income received, and the repeal of the alternative minimum tax. Many of the new tax provisions significantly differed from the previous tax law. The tax accounting impact of the Act was recorded in 2017 and significantly increased tax expense for the year.

The Act also introduced a new minimum tax, known as the base erosion and anti-abuse tax (“BEAT”), on international payments as a means to reduce the ability of multi-national companies to erode the U.S. tax base through deductible related-party payments. The Company is subject to the BEAT and terminated several related party reinsurance programs with its foreign affiliates to minimize its BEAT liability. In September 2020, the BEAT regulations were amended to allow for a waiver election to apply to reinsurance premiums ceded to foreign affiliates. The intent was to allow companies that were narrowly in excess of the 3% base erosion percentage, and therefore subject to BEAT, to disallow all or a portion of their BEAT payments as regular tax deductions to get below the 3% threshold. While the Company elected to utilize the waiver election in the determination of its taxable income for the 2019 tax year, the waiver election is not expected to benefit the Company in the 2020 tax return.

The corporate income tax changes recently proposed by President Biden have several potential impacts to the insurance industry. The corporate income tax rate could be raised from 21% to 28%. There is a new tax proposal of an alternative minimum tax at 15% on companies book income, potentially applicable to companies with at least \$100 million in book income. As an alternative minimum tax, a company would pay the greater of its regular tax or minimum tax liability. There is also a proposal for a potential tax on large financial institutions, although no details are available yet, and a potential 7% tax rate on net liabilities that applies to financial institutions with worldwide assets greater than \$50 billion, which would apply to insurance companies. There currently is no proposal adjusting the BEAT rate. The Company is currently monitoring the tax proposals. No legislative text for any tax proposal has been introduced and additional details regarding most of the proposals still are expected. The Company is also modeling the potential impacts for an increase in the corporate tax rate for potential impacts to the revaluation of the deferred tax asset of the Company which may impact regulatory capital.

Our income tax expense includes deferred income taxes arising from temporary differences between the financial reporting and tax bases of assets and liabilities and carry-forwards for possible foreign tax credits, capital losses and net operating losses. Deferred tax assets are assessed periodically by management to determine if it is more likely than not that the deferred income tax assets will be realized. Factors in management's determination include the performance of the business, including the ability to generate, from a variety of sources and tax planning strategies, sufficient future taxable income and capital gains before net operating loss and capital loss carry-forwards, if any, expire. If based on available information, it is more likely than not that we are unable to recognize a full tax benefit on deferred tax assets, then a valuation allowance will be established with a corresponding charge to net income (loss). Charges to increase our valuation allowance could have a material adverse effect on our results of operations and financial condition.

*Goodwill.* Goodwill represents the excess of the amounts we paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. We test goodwill at least annually for impairment. Impairment testing is performed based upon estimates of the fair value of the “reporting unit” to which the goodwill relates. The reporting unit is the operating segment or a business one level below an operating segment if discrete financial information is prepared and regularly reviewed by management at that level. The fair value of the reporting unit could decrease if new business, customer retention, profitability or other drivers of performance differ from expectations. If it is determined that the goodwill has been impaired, the Company must write down the goodwill by the amount of the impairment, with a corresponding charge to net income (loss). These write downs could have a material adverse effect on our results of operations or financial condition.

## LEGAL PROCEEDINGS

The Company is involved in non-claim litigation incidental to its business principally related to insurance company insolvencies or liquidation proceedings in the ordinary course of business. Also, in the ordinary course of business, the Company is sometimes involved in adversarial proceedings incidental to its insurance and reinsurance business. The amounts at risk in these proceedings are taken into account in setting loss reserves. Based upon its familiarity with or review and analysis of such matters, the Company believes that none of the pending litigation matters will have a material adverse effect on the consolidated financial statements of the Company. However, no assurance can be given as to the ultimate outcome of any such litigation matters.

## Operating Controls

*Forecasting and Results Monitoring.* To establish appropriate loss ratios for future periods, the Company first quantifies the condition of the current portfolio. Then the Company considers the impact of market conditions to establish prudent loss ratios for the prospective period. The intent is to establish loss reserves which are sufficient in aggregate to fund future claim payments and to avoid the need for future reserve increases after the end of the period.

Once the planning process is complete, the Company begins a rigorous results monitoring process to ensure that assumptions employed in building plan figures hold true. The key metrics that are monitored over the course of the year include: effective rate change on primary and reinsurance renewals; adherence to pricing guidelines; mix of business (including concentration levels in special risk areas); commission levels; and premium production. The Company also compares pricing ultimate loss ratio assumptions to reserving ultimate loss ratio assumptions for the current and previous underwriting years. In addition, the Company reviews its largest client groups to ensure that the relationships are yielding results that are consistent with the Company's strategy. The focus is on maintaining appropriate underwriting standards and sustainable profitability.

To ensure that prior year reserves are adequate, the Company frequently monitors the emergence of actual reported and paid losses as compared to projected amounts. If actual paid and reported figures are higher or lower than the amounts expected, then this information may be an indicator that loss reserves may need to be adjusted. This information is used to supplement the formal reserve reviews conducted by the Company's actuarial staff. The objective is to continuously have an adequate reserve position and integrity in the balance sheet at the close of each financial period.

The Company believes the planning and results monitoring process addresses many of the inherent risks associated with the property and casualty reinsurance product. Specifically, the reinsurance product is priced and sold using estimates of the ultimate costs to be incurred by the reinsurance company. The final costs are only known in hindsight. To ensure that financial statements are appropriately stated, the Company must continually re-examine the assumptions and data leading to the estimates of these ultimate costs. This estimation process is particularly difficult for reinsurance providers given the complexity of many factors involved, including: lengthy reporting and settlement lags associated with liability cases and evolving judicial decisions which can expand liability for reinsurers.

*Aggregate Controls.* The Company closely manages and monitors its aggregations. Risk management aggregation budgets have been established for natural catastrophe, terrorism, professional liability, political risk, worker's compensation losses resulting from natural perils, trade credit and multiple cyber security risk scenarios. Additional risk concentration exposures are continually being evaluated. The Company works closely with the Corporate Underwriting unit of Munich Re to establish global aggregation budgets, and usage is monitored on a quarterly basis. The Company also uses group expertise in addition to industry accumulation risk modeling tools to price and model the Company's natural peril, terrorism and pandemic exposures.

*Underwriting Audit Process.* The Company has an extensive internal underwriting audit process and works closely with the Corporate Underwriting unit of Munich Re in order to monitor adherence to underwriting and pricing guidelines and maintain best practices. Supplementing the on-site audit process is an individual account review of hand-selected programs as needed.

*Enterprise Risk Management ("ERM").* Risk Management is a key part of our corporate management. Its purpose is to safeguard the Company's financial strength, enable the Company to meet its obligations to clients and create sustained value for our shareholder. The Integrated Risk Management ("IRM") Division's role is to

implement the group-wide ERM framework locally through the coordination of decentralized risk management processes into the group framework. Risk governance is overseen by a Risk Management Committee which reports into the Board. Risk topics considered by the Risk Management Committee include the full scope of risk that would be faced by the enterprise including: underwriting, market, credit, operational, liquidity, strategic, and reputational. IT and Cyber Security Risks are regularly discussed with the Board and Risk Management Committee. The members of the Risk Management Committee include specialists from the Company's insurance and reinsurance areas as well as representatives from corporate functions. The scope of Risk Management activities overseen by IRM includes identification, measurement, risk strategy development, risk control, and disclosure.

The ERM framework balances regulatory and rating agency requirements with business objectives and culture. The Company utilizes the group-wide internal control system ("ICS") for managing operational risks across all risk dimensions. The ICS satisfies group management needs as well as local regulatory requirements of the Model Audit Rule and links risks, processes and relevant risk controls. The ICS ensures that appropriate internal controls are set up and maintained for operational, compliance, and financial risks enabling us to ensure that financial reporting is reliable and our published financial statements are correct.

In addition to the risk management activities listed above, Munich Reinsurance America, Inc. follows a group-wide liability driven investment process and closely manages and monitors its investment risks within tolerances and limits established at Munich Re as part of an overall Asset Liability Management framework.

In response to the dynamic changing threat environment and regulatory changes the Company has strengthened its controls to manage cyber security risks. A number of IT tools have been implemented to allow the organization to prevent and detect cyber incidents. Additionally, Munich Reinsurance America, Inc. has developed and tested processes and procedures to manage cyber incidents when they occur.

## Selected Financial Information of the Company

Set forth below are five years of selected financial information derived from the audited consolidated financial statements and related notes of the Company. For additional information, see the Consolidated Financial Statements of the Company, and the related notes thereto included elsewhere in this report.

	2020	2019	2018	2017	2016
	(Dollars in millions)				
<b>Operating Data:</b>					
Net premiums written	\$ 5,163.6	\$ 4,969.4	\$ 5,271.9	\$ 4,172.1	\$ 3,127.5
Net premiums earned	4,997.1	5,056.2	5,065.5	3,502.0	3,051.3
Losses and LAE <sup>(1)</sup>	3,793.1	3,693.5	3,753.4	2,886.9	1,673.2
Underwriting expenses	1,805.5	1,859.1	1,778.3	1,128.0	970.3
Underwriting gain (loss) <sup>(2)</sup>	(601.5)	(496.4)	(466.2)	(512.9)	407.8
Net investment income	306.6	445.6	387.8	331.6	288.2
Net realized capital gains (losses)	306.5	142.7	(117.9)	(34.8)	83.9
Interest expense	25.1	25.1	25.2	25.5	25.7
Income (loss) before income taxes	(104.1)	46.8	(211.9)	(271.6)	724.6
Income taxes (benefit)	(80.1)	(7.3)	(12.2)	141.0	78.9
Net income (loss)	(24.0)	54.1	(199.7)	(412.6)	645.7
<b>Other GAAP Operating Data <sup>(3)</sup>:</b>					
Loss and LAE ratio	75.9 %	73.0 %	74.1 %	82.4 %	54.8 %
Underwriting expense ratio	36.1	36.8	35.1	32.2	31.8
Combined ratio	112.0 %	109.8 %	109.2 %	114.6 %	86.6 %
<b>Balance Sheet Data (at end of period):</b>					
Total investments and cash	\$ 16,380.8	\$ 14,816.9	\$ 13,553.6	\$ 13,605.2	\$ 13,191.1
Reinsurance recoverables	2,983.4	3,383.3	3,855.5	5,286.6	5,418.0
Total assets	23,234.6	24,080.7	23,472.5	25,596.3	24,976.2
Loss and LAE reserves	13,264.3	12,622.4	12,335.4	12,464.3	11,661.3
Funds held under reinsurance treaties	545.0	3,080.8	3,111.8	4,505.5	4,474.4
Deferred underwriting gain	1,419.1	1,474.5	1,553.6	1,644.1	1,723.8
Senior notes	332.1	331.9	331.7	331.5	339.4
Stockholder's equity	4,723.9	3,765.8	3,292.1	3,432.8	3,962.5

(1) "LAE" means loss adjustment expenses.

(2) A company's underwriting gain or loss is measured by its premiums earned, net of losses and LAE incurred and underwriting expenses.

(3) GAAP loss and LAE ratio represents the sum of losses and LAE as a percentage of net premiums earned. GAAP underwriting expense ratio represents underwriting expenses as a percentage of net premiums earned. GAAP combined ratio represents the sum of the GAAP loss and LAE ratio and GAAP underwriting expense ratio. See "Management's Discussion and Analysis of the Company's Results of Operations and Financial Condition."

## Management's Discussion and Analysis of the Company's Results of Operations and Financial Condition

### Executive Overview

Munich Re America Corporation (the "Company"), is the holding company for various reinsurance and insurance entities that provide reinsurance, insurance and related services to insurance companies, commercial businesses, government agencies, and self-insurers in the United States. The Company's principal subsidiary, Munich Reinsurance America, Inc., a Delaware insurance company, primarily underwrites property and casualty reinsurance. The Company is one of the largest property and casualty reinsurers in the United States according to the Reinsurance Association of America, based on combined statutory gross premiums written by the insurance subsidiaries of \$5,488.7 million in 2020. The Company had total assets of \$23,234.6 million and stockholder's equity of \$4,723.9 million at December 31, 2020.

The Company's strategy is to achieve the full potential of the U.S. property-casualty market through underwriting excellence and sustainable profitable growth over the course of the market cycle. Management's

review of financial results focuses on its property and casualty (“P&C”) business segments, comprised of its Reinsurance and Specialty Insurance divisions. The underwriting results of business segments in run-off, retrocessional programs designed to protect the overall surplus of Munich Reinsurance America, Inc., health care business, and certain business written on behalf of Munich Re and its affiliated companies, are not included in the P&C results.

## **Revenues**

Revenues are derived principally from the following:

- net premiums earned, which are gross premiums assumed from clients, earned during the accounting period, net of premiums ceded to retrocessionnaires;
- net investment income earned on invested assets;
- net realized capital gains on the sale of investments, and
- other income, which includes interest income on underwriting balances, margin income on underwriting deposit balances, and net foreign exchange gains on foreign currency-denominated assets and liabilities other than investments.

## **Expenses**

Expenses consist predominately of the following:

- losses and loss adjustment expenses, including estimates for losses and loss adjustment expenses incurred during the period and changes in estimates from prior periods, net of those insurance losses and loss adjustment expenses ceded to retrocessionnaires and the recognition of previously recorded deferred loss benefits;
- commissions and other underwriting expenses, which consist of commissions paid to clients, in addition to operating expenses related to the production and underwriting of reinsurance, less ceding commissions received under the Company’s retrocessional contracts;
- interest expense on debt obligations,
- interest on ceded funds held balances, predominantly on retrocessional programs with Munich Re, and
- other expenses, which include allowance for doubtful accounts and net foreign exchange losses on foreign currency-denominated assets and liabilities other than investments.

## **Results of Operations**

### **Year Ended December 31, 2020 Compared with Year Ended December 31, 2019**

#### **Underwriting Results and Combined Ratio**

A key measure of the financial success of a reinsurance company is a positive underwriting result, or an underwriting profit. A major goal of a successful reinsurance company is to produce an underwriting profit, exclusive of investment income. A company’s underwriting result is measured by its premiums earned, net of losses and LAE incurred and underwriting expenses. If underwriting is not profitable, investment income must be used to cover underwriting losses.

Combined ratio is also an industry-wide measure of a reinsurance company’s profitability. Combined ratio is the sum of the loss ratio and the underwriting expense ratio. The combined ratio is calculated, on a GAAP basis, as the sum of the losses and loss adjustment expenses incurred and underwriting expenses, divided by net premiums earned. These ratios are relative measurements that describe the cost of losses and expenses for every \$1 of net premiums earned. The combined ratio presents the total cost per \$1 of premium production. A combined ratio below 100% demonstrates underwriting profit; a combined ratio above 100% demonstrates underwriting loss.



In addition to reviewing the overall underwriting results and ratios of the Company at a corporate, or consolidated financial statement level, management focuses on the P&C business segments in evaluating the underwriting performance of the Company. The underwriting results of business segments in run-off, retrocessional programs designed to protect the overall surplus of Munich Reinsurance America, Inc., health care business, and certain business written on behalf of Munich Re and its affiliated companies, are not included in the P&C results.

The underwriting results and combined ratios for the Company for the years ended December 31, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
	<u>(Dollars in millions)</u>	
Premiums earned	\$ 4,997.1	\$ 5,056.2
Less: Losses and LAE	3,793.1	3,693.5
Commission expense	1,580.3	1,587.5
Operating expense	225.2	271.6
Underwriting loss	<u>\$ (601.5)</u>	<u>\$ (496.4)</u>
Loss ratio	75.9 %	73.0 %
Expense ratio	36.1	36.8
Combined ratio	<u>112.0 %</u>	<u>109.8 %</u>

In 2020 the Company reported an underwriting loss of \$601.5 million for the year, compared to an underwriting loss of \$496.4 million in 2019. These underwriting losses are primarily the result of natural catastrophe loss events in both 2020 and 2019, in addition to COVID-19 related losses in 2020 and loss reserve strengthening of prior accident years in 2019.

### **Financial Statement Results**

The Company's net loss to its common stockholder was \$24.0 million for the year ended December 31, 2020, compared to net income of \$54.1 million for the same period in 2019.

### **Revenues**

Net premiums written by the Company's P&C business segments, which exclude certain corporate retrocessional programs, decreased 1.8% to \$4,399.5 million for the year ended December 31, 2020, from \$4,480.4 million for the same period in 2019. The Reinsurance segment experienced a 3.9% decrease in net premiums written to \$3,541.9 million for the year ended December 31, 2020, from \$3,686.6 million for the same period in 2019. This decrease is generally attributable to decreases in the casualty line of business offset by an increase in the property line of business. The Specialty Insurance segment experienced a 8.0% increase in net premiums written to \$857.6 million for the year ended December 31, 2020, from \$793.8 million for the same period in 2019. This increase is attributable to increases in the property and marine lines of business offset by decreases in the casualty line of business. The decrease in premiums written by the P&C segments was offset by a 56.3% increase in net premiums written for business not included in the P&C segments to \$764.1 million for the year ended December 31, 2020, from \$489.0 million for the same period in 2019. This resulted in a 3.9% increase in consolidated net premiums written to \$5,163.6 million for the year ended December 31, 2020, from \$4,969.4 million for the same period in 2019.

The Company's net premiums earned decreased 1.2% to \$4,997.1 million for the year ended December 31, 2020, from 5,056.2 million for the same period in 2019. The decrease in premiums earned is a result of the timing of earnings of premiums in force, partially offset by the increase in net premiums written.

**Investment Income.** Net investment income decreased 31.2% to \$306.6 million for the year ended December 31, 2020, from \$445.6 million for the same period in 2019. This decrease is primarily due to lower average book yields on fixed income securities, and lower income from treasury inflation-protected securities, derivative investments, and infrastructure investments.

**Net Realized Capital Gains.** The Company realized net capital gains of \$306.5 million for the year ended December 31, 2020, compared to net capital gains of \$142.7 million for the same period in 2019. The 2020 period included net capital gains of \$323.2 million on the sale of fixed income securities and other invested assets. These

gains were offset by write-downs of \$16.7 million resulting from either the Company's intent to sell the securities as part of the active management of the portfolio or the evaluation of certain securities' credit quality and expected cash flows. The 2019 period included net capital gains of \$143.5 million on the sale of fixed income securities and write-downs of \$0.8 million of investments.

## ***Expenses***

*Losses and Loss Adjustment Expenses.* Net losses and LAE incurred increased 2.7% to \$3,793.1 million for the year ended December 31, 2020, from \$3,693.5 million for the same period in 2019. This increase was primarily attributable to increased property catastrophe losses and COVID-19 related losses and LAE. Current accident year property catastrophe losses were \$605.1 million for the year ended December 31, 2020, predominantly from Gulf Coast hurricanes, West Coast wildfires, and Midwest thunderstorms, compared to \$202.1 million for the year ended December 31, 2019, predominantly from U.S. thunderstorms, California wildfires, and Hurricane Dorian. Current accident year incurred losses for 2020 also include \$73.0 million for COVID-19 associated earned exposures. Excluding these property catastrophe and COVID-19 related losses, current accident year losses decreased \$198.5 million, in part due to lower earned premium and changes in mix of business. Prior accident year losses and LAE were reduced \$49.7 million in 2020, compared to a \$127.3 million reduction in 2019.

Reflecting the indications of the Company's ongoing monitoring of loss reserves and its in-depth annual reserve review, in 2020 the Company increased loss and LAE reserves for prior accident years by \$313.5 million, excluding the impact of certain corporate retrocessional programs with Munich Re. This increase is predominantly attributable to the increases to liability lines due to ongoing social inflationary pressures affecting the casualty market.

The increased losses resulted in increased cessions to various corporate retrocessional programs with Munich Re. The reserve increase of \$313.5 million was offset by the increased cessions and the recognition of previously deferred loss benefits totaling \$363.2 million, and resulted in an overall decrease to prior accident year losses of \$49.7 million, for the year ended December 31, 2020.

*Underwriting Expense.* Underwriting expense, consisting of commission expense plus operating expenses related to underwriting activities, decreased 2.9% to \$1,805.5 million for the year ended December 31, 2020, from \$1,859.1 million for the same period in 2019. This decrease was due to a 17.1% decrease in operating expense to \$225.2 million for the year ended December 31, 2020, from \$271.6 million for the same period in 2019. The decrease in operating expense is primarily due to decreased personnel related and travel costs, decreased premium taxes, and the timing of expense recognition associated with unearned premiums. The decrease in operating expense was combined with a slight decrease in commission expense to \$1,580.3 million for the year ended December 31, 2020, from \$1,587.5 million for the year ended December 31, 2019.

*Interest Expense on Ceded Funds Held Balances.* Interest expense on funds held under reinsurance treaties increased to \$93.4 million for the year ended December 31, 2020, from \$24.4 million for the same period in 2019. This increase was primarily attributable to the loss sensitive features of the variable quota share program with Munich Re. Concurrent with its commutation in December 2020, increases in remeasured ultimate ceded losses and LAE resulted in a decrease in the amount the Company was to recover at the termination of the contracts and a charge to expense.

*Federal and Foreign Income Taxes.* Federal and foreign income tax benefit of \$80.1 million was recognized for the year ended December 31, 2020, compared to a benefit of \$7.3 million for the year ended December 31, 2019. The expected tax expense at the 21% statutory rate on pretax loss of \$104.1 million in the 2020 period was a benefit of \$21.9 million. This benefit was increased by \$51.5 million of tax benefits related to affiliated reinsurance and \$14.8 million of base erosion and anti-abuse tax ("BEAT") benefit, offset by \$12.5 million waiver election reinsurance premium. In the 2019 period, the expected tax expense at the statutory rate was expense of \$9.8 million. This expense was reduced by a \$23.6 million of tax benefits related to affiliated reinsurance and \$23.5 million decrease in the valuation allowance on deferred tax assets and offset by \$14.0 million of BEAT and the expiration of \$11.4 million of foreign tax credits. The 2019 BEAT expense was reversed in 2020 based on amended BEAT regulations released in September 2020.

## Year Ended December 31, 2019 Compared with Year Ended December 31, 2018

### Underwriting Results and Combined Ratio

The underwriting results and combined ratios for the Company for the years ended December 31, 2019 and 2018, are as follows:

	<u>2019</u>	<u>2018</u>
	<u>(Dollars in millions)</u>	
Premiums earned	\$ 5,056.2	\$ 5,065.5
Less: Losses and LAE	3,693.5	3,753.4
Commission expense	1,587.5	1,531.8
Operating expense	271.6	246.5
Underwriting loss	<u>\$ (496.4)</u>	<u>\$ (466.2)</u>
Loss ratio	73.0 %	74.1 %
Expense ratio	<u>36.8</u>	<u>35.1</u>
Combined ratio	<u>109.8 %</u>	<u>109.2 %</u>

In 2019 the Company reported an underwriting loss of \$496.4 million for the year, compared to an underwriting loss of \$466.2 million in 2018. These underwriting losses are primarily the result of natural catastrophe loss events in both years.

### Financial Statement Results

The Company's net income to its common stockholder was \$54.1 million for the year ended December 31, 2019, compared to net loss of \$199.7 million for the same period in 2018.

#### **Revenues**

*Premiums.* Gross premiums written for the year ended December 31, 2019 increased to \$5,549.3 million from \$5,514.0 million for 2018. This increase is primarily attributable to an increase in gross premiums with an affiliated subsidiary of MAHC.

Net premiums written by the Company's P&C business segments, which exclude certain corporate retrocessional programs, decreased 6.3% to \$4,480.4 million for the year ended December 31, 2019, from \$4,781.7 million for the same period in 2018. The Reinsurance segment experienced a 6.5% decrease in net premiums written to \$3,686.6 million for the year ended December 31, 2019, from \$3,943.8 million for the same period in 2018. This decrease is generally attributable to decreases in the casualty and property lines of business, in part due to share reductions on a number of large client portfolios. The Specialty Insurance segment experienced a 5.3% decrease in net premiums written to \$793.8 million for the year ended December 31, 2019, from \$837.9 million for the same period in 2018. This decrease is attributable to the casualty line of business which, in part, is due to programs in runoff and reductions to programs in force. The decrease in premiums written by the P&C segments was coupled with a slight decrease in net premiums written for business not included in the P&C segments, resulting in a 5.7% decrease in consolidated net premiums written to \$4,969.4 million for the year ended December 31, 2019, from \$5,271.9 million for the same period in 2018.

The Company's net premiums earned decreased slightly to \$5,056.2 million for the year ended December 31, 2019, from \$5,065.5 million for the same period in 2018. The decrease in premiums earned resulted from the decrease in net premiums written, offset by the timing of the earnings of premiums in force.

*Investment Income.* Net investment income increased 14.9% to \$445.6 million for the year ended December 31, 2019, from \$387.8 million for the same period in 2018. This increase is primarily due to higher average book yields on fixed income securities coupled with a higher asset base and increased income from infrastructure investments, partially offset by lower income from derivative investments and treasury inflation protected securities.

The Company realized net capital gains of \$142.7 million for the year ended December 31, 2019, compared to net capital losses of \$117.9 million for the same period in 2018. The 2019 period included net capital gains of

\$143.5 million on the sale of fixed income securities and other invested assets. These gains were partially offset by write-downs of \$0.8 million resulting from either the Company's intent to sell the securities as part of the active management of the portfolio or the evaluation of certain securities' credit quality and expected cash flows. The 2018 period included net capital losses of \$104.2 million on the sale of fixed income securities and write-downs of \$13.7 million of investments, as the decline in fair value was considered to be other-than-temporary.

*Other Income.* Other income decreased 27.1% to \$30.4 million for the year ended December 31, 2019, from \$41.7 million for the same period in 2018. This decrease was attributable to a 2018 reduction in the provision for uncollectible accounts that did not recur in 2019.

## ***Expenses***

*Losses and Loss Adjustment Expenses.* Net losses and LAE incurred decreased 1.6% to \$3,693.5 million for the year ended December 31, 2019, from \$3,753.4 million for the same period in 2018. This decrease was primarily attributable to decreased property catastrophe losses, offset by an increase to loss reserves for prior accident years for liability lines of business. Current accident year property catastrophe losses were \$202.1 million for the year ended December 31, 2019, predominantly from U.S. thunderstorms, the Kincaid wildfire in California, and Hurricane Dorian, compared to \$703.3 million for the year ended December 31, 2018, predominantly from Hurricanes Florence and Michael, and the California wildfires. Prior accident year losses and LAE were increased \$127.3 million in 2019, compared to a \$138.1 million reduction in 2018. Additionally, non-catastrophe current accident year losses increased \$154.6 million due to elevated frequency and severity loss trends and social inflation considerations.

Reflecting the indications of the Company's ongoing monitoring of loss reserves and its in-depth annual reserve review, in 2019 the Company increased loss and LAE reserves for prior accident years by \$227.9 million, excluding the impact of certain corporate retrocessional programs with Munich Re. This increase is predominantly attributable to the casualty lines of business: auto liability, general liability, and professional liability, in addition to increased reserves for other latent exposures for sexual misconduct, toxic products, and lead.

The increased losses resulted in increased cessions to various corporate retrocessional programs with Munich Re. The reserve increase of \$227.9 million was partially offset by the increased cessions and the recognition of previously deferred loss benefits totaling \$100.6 million, and resulted in an overall increase to prior accident year losses of \$127.3 million, for the year ended December 31, 2019.

*Underwriting Expense.* Underwriting expense, consisting of commission expense plus operating expenses related to underwriting activities, increased 4.5% to \$1,859.1 million for the year ended December 31, 2019, from \$1,778.3 million for the same period in 2018. This increase was due to a 3.6% increase in commission expense to \$1,587.5 million for the year ended December 31, 2019, from \$1,531.8 million for the same period in 2018. The increase in commission expense is primarily due to a change in business mix to more treaty proportional, which carries a higher commission ratio, and the retention of certain direct business for which ceding commission benefit is no longer received. The increase in commission expense was combined with a 10.2% increase in operating expense to \$271.6 million for the year ended December 31, 2019, from \$246.5 million for the year ended December 31, 2018, partially the result of increased compensation related expenses.

*Interest Expense on Ceded Funds Held Balances.* Interest expense on funds held under reinsurance treaties increased to \$24.4 million for the year ended December 31, 2019, from \$9.5 million for the same period in 2018. This increase was primarily attributable to net increases in the interest on fund balances for a variable quota share program with Munich Re.

*Other Expense.* Other expense increased 15% to \$26.0 million for the year ended December 31, 2019, from \$22.6 million for the same period in 2018. This increase was primarily the result of increased foreign exchange losses on foreign currency denominated assets and liabilities and increased defined benefit plan costs.

*Federal and Foreign Income Taxes.* Federal and foreign income tax benefit of \$7.3 million was recognized for the year ended December 31, 2019, compared to a benefit of \$12.2 million for the year ended December 31, 2018. The expected tax expense at the 21% statutory rate on pretax income of \$46.8 million in the 2019 period was expense of \$9.8 million. This expense was reduced by \$23.6 million of tax benefits related to affiliated reinsurance and a \$23.5 million decrease in the valuation allowance on deferred tax assets partially offset by \$14.0 million of BEAT and the expiration of \$11.4 million of foreign tax credits. In the 2018 period, the expected tax expense at the

statutory rate was a benefit of \$44.5 million. This tax benefit was reduced by a \$25.6 million increase in the valuation allowance on deferred tax assets and \$10.8 million of BEAT.

### **Critical Accounting Policies and Estimates**

The accounting policies discussed in this section are those that management considers to be the most critical to understanding the Company's financial statements. Certain accounting policies require management to make estimates that affect the amounts of assets and liabilities reported at the date of the financial statements and the amounts of revenues and expenses reported during the period. These estimates are necessarily based on numerous assumptions involving varying and potentially significant degrees of judgment and uncertainty. As such, actual results will likely differ from those estimates.

*Premiums and Unearned Premiums.* Premiums are earned over the terms of the related insurance policies and reinsurance contracts. Unearned premiums reserves are computed for the remaining period of coverage using pro rata methods.

Assumed reinsurance premiums are based on information provided by ceding companies. Written and earned premiums, and their related cost, which have not yet been reported to the Company are estimated and accrued. The information used in establishing these estimates is reviewed and subsequent adjustments are recorded in the period in which they are determined. On retrospectively rated contracts, estimated additional or return premiums are accrued.

Assumed reinsurance and ceded retrocessional contracts that do not both transfer significant insurance risk and result in the reasonable possibility that the Company or its retrocessionnaires may realize a significant loss from the insurance risk assumed are required to be accounted for as deposits. These contract deposits are included in other assets and other liabilities in the Consolidated Balance Sheets and are accounted for as financing transactions with interest income or expense credited or charged to the contract deposits.

*Loss and Loss Adjustment Expense Reserves.* The Company is required to maintain reserves to cover its estimated ultimate liability for losses and LAE with respect to reported and unreported claims incurred as of the end of each accounting period modified for current trends and estimates of expenses for investigating and settling claims (net of estimated related salvage and subrogation claims).

It is the Company's policy to discount all workers' compensation claims on reported and unreported losses at a rate permitted by the Commissioner of Insurance of the State of Delaware. Claims related to accident years prior to 2007 are discounted using an interest rate of 4.5%. Claims related to accident years 2007 through 2010 are discounted using an interest rate of 3.0%. Claims related to accident years 2011 through 2020 are discounted using an interest rate of 0.0%.

The reserve for losses and LAE is based upon reports received from reinsureds supplemented with the Company's own case reserve estimates provided by the Company's Claims Division, upon which additional reserves are established for claims that are incurred but not reported ("IBNR").

These reserves are estimates, involving actuarial and statistical projections at a given time, of what management expects the ultimate settlement and administration of claims to cost. The estimates reflect facts and circumstances then known, predictions of future events, estimates of future trends in claims severity and other variable factors such as inflation and new concepts of liability. For certain types of claims, most significantly asbestos-related, environmental, and other mass tort and latent liability claims, the effects of evolving scientific, legal and social issues are potentially so significant that the Company's reserve estimate is subject to significant revision as these issues are resolved over time. For example, asbestos, once regarded as a state-of-the-art construction material, was ultimately determined to be carcinogenic. Still more time passed before courts determined that various types of losses arising from the manufacture and use of asbestos (such as product liability, workers' compensation and the cost of removal) were covered by insurance companies, thereby requiring revisions in such estimates. For asbestos and environmental liabilities, considerable judgment has been exercised by the Company in formulating its estimates. The Company's estimates will be revised as legal, judicial and factual information develops and/or is clarified. The amounts ultimately paid by the Company for these exposures likely will differ, perhaps significantly, from the Company's currently recorded reserves.

The inherent uncertainties of estimating loss reserves are exacerbated for reinsurers by the significant periods of time that often elapse between the occurrence of an insured loss, the reporting of the loss to the primary insurer and,

ultimately, to the reinsurer, and the primary insurer's payment of that loss and subsequent indemnification by the reinsurer (the "tail"). As a consequence, actual losses and LAE paid may deviate, perhaps substantially, from estimates reflected in the Company's reserves in its financial statements. Any adjustments of these estimates or differences between estimates and amounts subsequently paid or collected are reflected in income as they occur.

*Deferred Underwriting Gain.* The Company has several retroactive reinsurance contracts, most notably the loss portfolio transfer agreement and adverse loss development covers with Munich Re. For retroactive reinsurance contracts, adverse loss development in excess of the premiums paid is generally deferred and recognized in income using the interest method over the settlement period of the underlying claims. Changes in the expected timing and estimated amounts of the underlying claim payment patterns produce changes in the periodic income recognized. These changes in estimates are determined retrospectively and included in income in the period of the change and subsequent periods.

*Reinsurance Recoverables on Unpaid Losses.* Reinsurance recoverables are based upon the application of estimates of unpaid loss and LAE reserves in conjunction with terms specified under individual retrocessional contracts. The amounts ultimately collected may be more or less than such estimates. Any adjustments of these estimates or differences between estimates and amounts subsequently collected are reflected in income as they occur. Loss reserves ceded to unauthorized companies are collateralized by letters of credit, pledged trusts, or cash. The Company has provided for amounts deemed to be uncollectible. Management believes such provision is sufficient to reduce reinsurance recoverables to their collectible amounts.

*Investments.* Debt securities classified as available for sale are reported at fair value, with unrealized gains and losses excluded from earnings and reflected in stockholder's equity as a component of accumulated other comprehensive income, net of related income taxes.

Treasury inflation-protected securities classified as available for sale are reported at fair value with unrealized gains and losses excluded from earnings and reflected in stockholder's equity as a component of accumulated other comprehensive income, net of related income taxes. Adjustments related to the inflation factor are included in net investment income.

Equity investments, and debt securities classified as trading, are reported at fair value, with gains and losses, both realized and unrealized, included in net investment income.

Other invested assets includes investments accounted for under the equity method, as the Company's ownership is deemed to represent significant influence. These investments represent the Company's ownership portion of the respective investee's equity. Other invested assets also includes the Company's investments in senior secured fixed term loans carried at amortized cost.

The Company's derivative portfolio may consist of credit default swaps, credit default swap indices, foreign exchange forward contracts, and fixed income futures. The Company does not apply hedge accounting in its reporting of derivative instruments. Derivative instruments are reported at fair value, with gains and losses, both realized and unrealized, included in net investment income. Derivative assets and liabilities and any related cash collateral received or paid, are presented on a net basis when a legally enforceable master netting agreement exists between the Company and the counterparty. A master netting agreement is an agreement between two counterparties who have multiple derivative contracts with each other that provides for the net settlement of all contracts, as well as cash collateral, through a single payment.

The fair value of the credit default swaps and foreign exchange forward contracts are reported in other invested assets if in a net gain position or other liabilities if in a net loss position. The fixed income futures are settled with cash daily, therefore only the one-day open receivable or payable related to the variation margin is included in the Company's Consolidated Balance Sheet in other assets or other liabilities, respectively. The value of the Company's derivative instruments can change, sometimes significantly, based on varying factors such as changes in equity market values, credit spreads, and foreign exchange rates.

Realized gains and losses on the sale of investments are determined on a first-in, first-out basis and are included in net income. Investment income is recognized as earned and includes the accretion of discounts and amortization of premiums related to fixed maturity securities. Purchases and sales are recorded on a trade date basis.

Investments are subject to regular reviews to determine if a decline in value is other than temporary. Factors considered are: the reasons for the decline in value, the extent and durations of the decline, the Company's intent to

sell the investment or when it is more likely than not that the Company will be required to sell the investment before its anticipated recovery in value.

For equity securities and investments in limited partnerships and limited liability companies, that the Company intends to sell, or for which it does not have the intent and ability to hold until such time that it has recovered in value, the full amount of an impairment is reported in net realized capital losses.

For fixed income securities that the Company intends to sell, or for which it is more likely than not that it would be required to sell before the anticipated recovery in value, the full amount of an impairment is reported in net realized capital losses.

For fixed income securities that the Company does not intend to sell, or for which it is more likely than not that it would not be required to sell before the anticipated recovery in value, the Company separates the credit loss component of an impairment, defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis, from the amount related to other factors and reports the credit loss component in net realized capital losses. The impairment related to the other factors is reported in a separate category of accumulated other comprehensive income.

*Defined Benefit Plans.* The liability for the Company's defined benefit plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of the qualified pension plan assets. Gains or losses and prior service costs or credits that may arise during the period, but are not included as components of net periodic benefit cost, are recognized in other comprehensive income, net of tax.

The defined benefit obligation and periodic benefit cost are calculated by independent actuaries based on plan and employee data and actuarial assumptions provided by the Company. Key assumptions include discount rate, mortality rates, health care cost trends, and expected return on the plan assets of the qualified pension plan. These assumptions are based on available market data and are updated annually. The actuarial assumptions may differ from the actual results due to changes in market conditions, economic trends and mortality experience. Any changes in these assumptions could have a significant impact on the defined benefit plan liability and future plan costs.

*Income Taxes.* The Company uses the liability method of accounting for income taxes, whereby deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws. The Company establishes a "valuation allowance" for any portion of the deferred tax asset that management does not believe is more likely than not realizable.

## **Financial Condition**

The Company is a holding company, which includes its principal subsidiary, Munich Reinsurance America, Inc. Based on combined statutory gross premiums written by the insurance subsidiaries of \$5,488.7 million in 2020, the Company is one of the largest property and casualty reinsurers in the U.S., according to Reinsurance Association of America statistics.

Total consolidated assets decreased by 3.5% to \$23,234.6 million at December 31, 2020, from \$24,080.7 million at December 31, 2019. Total consolidated liabilities decreased by 8.9% to \$18,510.7 million at December 31, 2020, from \$20,314.9 million at December 31, 2019. These decreases are primarily due to decreases in premiums and other receivables, reinsurance recoverables, and ceded funds held balances resulting from the December 2020 commutation of the variable quota share program with Munich Re. The decrease in total assets was partially offset by an increase in total investments and cash primarily resulting from unrealized gains in the market value of the Company's investment portfolio and contributed cash from Munich Re.

The Company may, from time to time, redeem all or part of its 7.45% Senior Notes due 2026 (the "Notes") pursuant to the terms of the indenture under which the Notes were issued (the "Indenture"), or purchase them in privately negotiated transactions, tender offers or otherwise. The indenture contains certain covenants, including, but not limited to, covenants imposing limitations on liens, and restrictions on mergers and sale of assets. At December 31, 2020, \$333.8 million aggregate principal of Notes remain outstanding.

Common stockholder's equity increased 25.4% to \$4,723.9 million at December 31, 2020, from \$3,765.8 million at December 31, 2019. This increase was primarily the result of comprehensive income of \$329.6 million and capital contributions of \$680.0 million, offset by a dividend paid by the Company to MAHC of \$51.5 million.

Statutory surplus of the Company's insurance subsidiaries increased to \$4,422.5 million at December 31, 2020, from \$3,962.3 million at December 31, 2019. This increase was primarily the result of capital contributions of \$680.0 million and increased deferred income taxes of \$64.2 million, offset by a combined statutory net loss of \$185.8 million, dividends paid to the Company of \$51.5 million, and a change in non-admitted assets of \$37.7 million. This statutory net loss is different from the net loss reported in these financial statements, primarily due to differing accounting treatment for deferred federal income taxes, retroactive reinsurance contracts, and deferred acquisition costs.

The Insurance Department of the State of Delaware (the "Insurance Department") has a risk based capital ("RBC") standard for property and casualty insurance (and reinsurance) companies which measures the amount of capital appropriate for a property and casualty insurance company to support its overall business operations in light of its size and risk profile. At December 31, 2020, Munich Reinsurance America, Inc.'s RBC ratio was 271.5%, compared to 269.6% at December 31, 2019. An RBC ratio in excess of 200% generally requires no regulatory action.

### *Investments*

The total financial statement value of investments and cash increased 10.6% to \$16,380.8 million at December 31, 2020, from \$14,816.9 million at December 31, 2019, primarily resulting from capital contributions, increased unrealized market valuation adjustments, net realized capital gains, and net cash flow from operating activities.

The financial statement value of the investment portfolio at December 31, 2020, included a net increase from amortized cost to fair value of \$745.7 million for investments available for sale, compared to a net increase of \$299.8 million at December 31, 2019. At December 31, 2020, the Company recognized a cumulative unrealized gain of \$584.6 million due to the net adjustment to fair value on investments, after applicable income tax effects, which was reflected as a component of accumulated other comprehensive income. This represents a net increase to stockholder's equity of \$349.6 million from the cumulative unrealized gain on investments of \$235.0 million recognized at December 31, 2019.

The Company follows an investment strategy that emphasizes maintaining a high-quality investment portfolio while providing stable periodic returns. The composition of the Company's investment portfolio, on a fair value basis, for the periods ending December 31, was as follows:

	2020		2019	
	Amount	Percent	Amount	Percent
	(Dollars in millions)			
Fixed income securities, available for sale:				
U.S. Government and government agency bonds	\$ 6,659.1	40.2 %	\$ 6,079.6	40.5 %
Foreign governments	790.8	4.8	866.2	5.8
State and municipal bonds	13.3	0.1	19.0	0.1
Asset-backed securities	775.4	4.7	480.3	3.2
Residential mortgage-backed securities	638.1	3.8	1,033.3	6.9
Commercial mortgage-backed securities	629.1	3.8	483.4	3.2
Domestic corporate bonds	3,648.3	22.0	3,554.4	23.6
Foreign bonds	1,507.1	9.1	980.4	6.5
Fixed income securities, trading	18.7	0.1	17.4	0.1
Equity securities	166.2	1.0	161.7	1.1
Other invested assets	1,037.5	6.2	845.1	5.6
Short term investments	246.6	1.5	164.7	1.1
Cash and cash equivalents	443.1	2.7	345.8	2.3
Total fair value	<u>\$ 16,573.3</u>	<u>100.0 %</u>	<u>\$ 15,031.3</u>	<u>100.0 %</u>

The Company's current investment strategy emphasizes investments in fixed income securities and real estate and infrastructure investment vehicles, rather than equity securities. This strategy is premised on the investment and tax planning strategies within the Munich Re Group. The Company's investment in equity securities was \$166.2 million and \$161.7 million at December 31, 2020 and 2019, respectively.



The following table indicates the composition of the Company's fixed income securities available for sale, on a fair value basis, by rating as assigned by Standard & Poor's at December 31.

	2020		2019	
	Amount	Percent	Amount	Percent
	(Dollars in millions)			
AAA	\$ 1,145.3	7.8 %	\$ 814.2	6.0 %
AA	8,018.4	54.7	7,713.4	57.1
A	1,395.7	9.5	941.0	7.0
BBB	3,498.5	23.9	3,533.2	26.2
BB and below	603.3	4.1	494.8	3.7
Total fair value	<u>\$ 14,661.2</u>	<u>100.0 %</u>	<u>\$ 13,496.6</u>	<u>100.0 %</u>

The Company continues to seek opportunities to enhance investment yield through a fixed maturity investment strategy. The Company also monitors investment and liability duration for each of its insurance subsidiaries to ensure optimal investment performance. The Company seeks to control its need for liquidity through prudent cash management steps, which include frequent and regular communication with its investment manager. The effective duration of the Company's bond portfolio was 5.26 and 4.90 years at December 31, 2020, and 2019, respectively.

### Liquidity and Capital Resources

The Company is an insurance holding company whose only material investment is in the capital stock of Munich Reinsurance America, Inc. The Company has been dependent on management service agreements and dividends from the insurance subsidiaries in order to meet its short and long term liquidity requirements, including its debt service obligations. The payment of dividends by the insurance subsidiaries is subject to limitations imposed by the Insurance Department, including the requirement that dividends be paid from available unassigned funds, as set forth in the most recent annual statement of the insurer. Based on these restrictions, Munich Reinsurance America, Inc. cannot pay dividends in 2021 without the prior approval of the Insurance Department. AAIC, Princeton E&S, and Bridgeway can pay dividends of up to \$25.6 million, \$16.4 million, and \$4.9 million, respectively, in 2021 without the prior approval of the Insurance Department. In the future, the Company believes that its long-term debt service obligations will be provided for by available cash of the Company, dividends and/or tax allocation payments from its subsidiaries, and/or through other forms of financing.

The following table represents the Company's contractual obligations on a consolidated basis and the future periods in which they are expected to be due, at December 31, 2020.

	Less than 1 year	1-3 years	4-5 years	More than 5 years	Total
Loss and LAE reserves	\$ 3,073.5	\$ 4,922.3	\$ 1,494.0	\$ 4,476.7	\$ 13,966.5
Loss balances payable	251.1	-	-	-	251.1
Funds held under reinsurance treaties	52.8	122.3	12.9	1,074.7	1,262.7
Long term debt obligations	24.9	74.6	383.5	-	483.0
Operating lease obligations	6.9	15.3	7.4	8.5	38.1
Total contractual obligations	<u>\$ 3,409.2</u>	<u>\$ 5,134.5</u>	<u>\$ 1,897.8</u>	<u>\$ 5,559.9</u>	<u>\$ 16,001.4</u>

The payment of loss and LAE reserves included above represents the Company's estimated settlement of its undiscounted reserves based on projected payout patterns. These payout patterns are developed based on historical loss payment data and trends by type and line of business. The timing and amount of such payments is contingent upon the ultimate outcome of claim settlements that will occur over many years. Certain incurred losses and LAE are recoverable under retrocessional contracts. Such recoverables are not reflected in this table. The expected periods due for funds held under reinsurance treaties are based on the projected payout pattern of the associated retrocessional loss reserves, interest accretion, and the expected settlement of any residual balances.

Long term debt obligations reflect the cumulative interest and principal to be paid related to the Company's senior notes through their respective maturity date.

The Company's cash flow from operations may be influenced by a variety of factors, including cyclical changes in the property and casualty reinsurance market, insurance regulatory initiatives, and changes in general economic conditions. Liquidity requirements are met on both a short- and long-term basis by funds provided by operations

and from the maturity and sale of investments. Cash provided by operations primarily consists of premiums collected, investment income, and reinsurance recoverable balances collected, less paid claims, retrocessional payments, underwriting and interest expenses, and income tax payments. Cash flows provided by operations were \$152.6 million for the year ended December 31, 2020, generally resulting from the Company's underwriting activities. Cash flows provided by operations were \$477.5 million and \$44.6 million for the years ended December 31, 2019 and 2018, respectively.

Cash flows used in investing activities were \$683.6 million, \$516.0 million, and \$225.5 million for the years ended December 31, 2020, 2019, and 2018, respectively. The negative cash flows from investing activities in 2020, 2019, and 2018 were generally the result of the reinvestment of cash flows provided by operating activities and cash equivalents.

Cash and cash equivalents of \$443.1 million and \$345.8 million at December 31, 2020 and 2019, respectively, are maintained for liquidity purposes and represented 2.7% and 2.3%, respectively, of total financial statement investments and cash on such dates.

## Credit Ratings

The Company and its subsidiaries are assigned financial strength and debt ratings from internationally recognized ratings agencies. Financial strength ratings represent the rating agencies opinion on the financial strength of a company and its capacity to meet the obligations of insurance policies. These independent ratings are one of the important factors that contribute to the Company's competitive position in the insurance market. Debt ratings are assessments of the likelihood that a company will make timely payments on principle and interest on short-and long-term debt.

*Standard & Poor's.* On December 16, 2020, Standard & Poor's Rating Services ("S&P") affirmed its "AA-" (Very Strong) insurer financial strength rating of Munich Re and its related core operating subsidiaries. The rating reflects S&P's expectation that Munich Re will maintain its extremely strong franchise as one of the global leading reinsurance companies in the P&C and life reinsurance market, supported by solid and conservative financial capabilities. While S&P expects downward pressure on earnings from COVID-19-related claims, they believe Munich Re benefits from strong earnings diversification and expects a recovery in earnings during 2021. S&P stated that Munich Re's capitalization remains very strong, protected by sound risk control capabilities and sound reserving. Another key strength is Munich Re's liquidity, which is expected to remain exceptional. In addition, the Company's issuer credit rating and senior debt rating continue to be rated "A-" (Strong). The outlook on the ratings is "stable".

*Moody's.* On September 28, 2020, and December 14, 2020 Moody's Investors Service issued credit opinion updates on Munich Re America Corporation and Munich Re, respectively. This followed its May 6, 2020 rating affirmation on Munich Re and Munich Reinsurance America Inc., along with the group's associated debt ratings. Moody's affirmed the "Aa3" (Excellent) insurance financial strength rating of Munich Reinsurance America, Inc. and the "A2" (Upper Medium Grade) senior unsecured debt rating of the Company. The credit opinion update noted the Company's strong explicit and implicit support from Munich Re and the strategic importance of the U.S. operations to the Munich Re group. Moody's also stated that the Company has a strong franchise in the direct and broker reinsurance market, long-standing client relationships and well-established broker distribution channels in the U.S., well diversified product lines, and a high quality investment portfolio. The outlook on the ratings is "stable".

*Fitch Ratings.* On September 3, 2020, Fitch Ratings ("Fitch") announced that it affirmed the "AA" (Very Strong) insurer financial strength rating of Munich Re, including Munich Reinsurance America, Inc. Fitch also affirmed the long-term issuer default rating of "AA-" (Very Strong) of the Company. The ratings affirmation reflects Munich Re's continuing "most favorable" business profile within the global reinsurance sector, very strong risk-adjusted capitalization, and very strong financial performance. Fitch regards Munich Re's reinsurance operation as having the scale, diversity and financial strength to attract the highest-quality business in the global reinsurance market. In addition, while Fitch expects deterioration in Munich Re's financial performance due to COVID-19, over the near term the impact is manageable for Munich Re due to its strong capital position. Fitch's rating announcements reflect that the Company is a core subsidiary of Munich Re, recognizing a long track record of support and that the Company is the primary platform for the Munich Re organization to pursue reinsurance operations in the large U.S. reinsurance market. The outlook on these ratings is "stable".

*A.M. Best.* On July 17, 2020, A.M. Best affirmed the Financial Strength Rating of A+ (Superior) and the Long-Term Issuer Credit Rating of “aa” (Superior) of Munich Re and its operating subsidiaries. The ratings reflect Munich Re’s balance sheet strength, which A.M. Best categorizes as “strongest”, as well as its strong operating performance, very favorable business profile and very strong enterprise risk management. Concurrently, A.M. Best affirmed the issuer credit rating and senior debt rating of “a” (Excellent) of the Company. A.M. Best considers the Company to be integral to the Munich Re group. Additionally, the U.S. reinsurance subsidiaries serve as an important conduit for Munich Re’s access to the U.S. market. The outlook for these ratings is “stable”.

There can be no assurance that the Company or its subsidiaries will maintain their current ratings.

## **Market and Interest Rate Risk**

The Company is subject to market risk arising from the potential change in the value of its various financial instruments. These changes may be due to fluctuations in interest and foreign exchange rates, credit spreads, and equity prices. The major components of market risk affecting the Company are interest rate and foreign currency risk.

*Interest rate and equity price risk.* The Company has both fixed and variable income investments with a value of \$14,926.5 million at December 31, 2020, that are subject to changes in value due to market interest rates. In addition to interest rate and foreign exchange risk, the Company’s common equity portfolio of \$166.2 million at December 31, 2020, is subject to changes in value based on changes in equity prices.

*Foreign currency rate risk.* Foreign currency rate risk is the potential change in value, income and cash flow arising from adverse changes in foreign currency exchange rates. Although the majority of the Company’s remaining international operations are in run-off, the Company generally maintains investments in local currencies to meet its foreign obligations. The Company’s primary foreign currency exposures are the Canadian Dollar, Australian Dollar, and the Euro.

*Management of market risk.* The Company invests in foreign exchange forward contracts to economically hedge the foreign currency exchange risk associated with certain non-U.S. dollar denominated exposures. At December 31, 2020, the Company had three open foreign currency forward contracts with an aggregate notional value of \$166.1 million. To hedge credit risk, the Company may at times purchase or sell credit default swaps in the form of CDS or CDX contracts. At December 31, 2020, the Company had no open CDS or CDX contracts. The Company may also use other derivative instruments, such as futures, to economically hedge the duration of fixed income assets due to anticipated changes in the interest rate environment. At December 31, 2020, the Company had three open futures position with a notional value of \$110.7 million. Derivatives, depending on the type of instrument, are inherently at risk to changes in interest rates, foreign exchange rates and price movements. The market valuations are also a function of the volume of transactions and the terms of the given agreement.

## **Sensitivity Analysis of Market Risk and Disclosures About Model**

Interest rate sensitivity analysis is used to measure the Company’s interest rate price risk by computing estimated changes in fair value of fixed and variable rate assets and liabilities in the event of a range of assumed changes in market interest rates. This analysis assesses the risk in market risk sensitive instruments in the event of a sudden and sustained 100 to 200 basis point increase or decrease in market interest rates. The following table presents the Company’s projected change in fair value of the Company’s financial instruments at December 31, 2020. All market sensitive investments presented in this table are either available for sale or trading.

The calculation of fair value is based on quoted market prices, where available. If market prices are not available from a public exchange, fair values are based on quoted market prices of comparable instruments or determined based on quotes from various brokers.

<b>Percent Change in Interest Rates</b>	<b>Fair Value of Total Investments, excluding Common Equities</b>	<b>Hypothetical Change</b>	<b>Percentage Hypothetical Change</b>
(Dollars in millions)			
200 basis point rise	\$ 14,965.1	\$ (1,442.0)	(8.8) %
100 basis point rise	15,639.1	(768.0)	(4.7)
Base Scenario	16,407.1	-	-
100 basis point decline	17,268.7	861.6	5.3
200 basis point decline	18,224.3	1,817.2	11.1

<b>Percent Change in Interest Rates</b>	<b>Fair Value of Senior Notes</b>	<b>Hypothetical Change</b>	<b>Percentage Hypothetical Change</b>
(Dollars in millions)			
200 basis point rise	\$ 414.7	\$ (43.4)	(9.5) %
100 basis point rise	435.7	(22.4)	(4.9)
Base Scenario	458.1	-	-
100 basis point decline	481.9	23.8	5.2
200 basis point decline	507.2	49.1	10.7

The preceding tables indicate that at December 31, 2020, in the event of a sudden and sustained increase in prevailing market interest rates, the fair value of the Company's investment and debt instruments would be expected to decrease, and that in the event of a sudden and sustained decrease in prevailing market interest rates, the fair value of the Company's fixed maturity investments and debt instruments would be expected to increase.

#### ***Disclosures About Limitations of Sensitivity Analysis***

Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates and loan prepayments, and should not be relied on as indicative of future results.

Certain shortcomings are inherent in the method of analysis presented in the computation of the fair value of fixed rate instruments. Actual values may differ from those projections presented should market conditions vary from assumptions used in the calculation of the fair value. In the event of a change in interest rates, prepayment and early withdrawal levels could deviate significantly from those assumed in the calculation of fair value. Actual results may differ from the hypothetical change in market rates assumed in this disclosure, especially since this sensitivity analysis does not reflect the results of any actions that would be taken by the Company to mitigate such hypothetical losses in fair value.

#### **Reserves for Unpaid Losses and Loss Adjustment Expenses**

The Company maintains reserves to cover its estimated ultimate liability for losses and LAE with respect to reported and unreported claims incurred as of the end of each accounting period modified for current trends and estimates of expenses for investigating and settling claims, net of estimated related salvage and subrogation claims. It is the Company's policy to discount all workers' compensation claims on reported and unreported losses at a rate permitted by the Commissioner of Insurance of the State of Delaware. Claims related to accident years prior to 2007 are discounted using an interest rate of 4.5%. Claims related to accident years 2007 through 2010 are discounted using an interest rate of 3.0%. Claims related to accident years 2011 through 2020 are discounted using an interest rate of 0.0%.

The reserve for losses and LAE is based upon reports received from reinsureds supplemented with the Company's own case reserve estimates, upon which additional reserves are established for claims that are incurred but not reported. These reserves are estimates reflecting actuarial and statistical projections at a given time of what management expects the ultimate settlement and administration of claims to cost based on facts and circumstances then known, as well as predictions of future events, estimates of future trends in claims severity and other variable factors such as inflation and new concepts of liability.

When a claim is reported to a ceding company, its claims personnel establish a “case reserve” for the estimated amount of the ultimate payment. The estimate reflects the informed judgment of such personnel based on general insurance reserving practices and on the experience and knowledge of such personnel regarding the nature and value of the specific type of claim. The Company, in turn, establishes a case reserve when it receives notice of a claim from the ceding company. Such reserves are based on an independent evaluation by the Company’s claims personnel, and may take into consideration coverage, liability, severity of injury or damage, jurisdiction, the Company’s assessment of the ceding company’s ability to evaluate and handle the claim and the amount of reserves recommended by the ceding company. Case reserves are adjusted periodically based on subsequent developments and audits of ceding companies.

In calculating its IBNR reserves, which include future development on reported claims, the Company uses generally accepted actuarial reserving techniques that take into account quantitative loss experience data, together, where appropriate, with qualitative factors. IBNR reserves are based on loss experience of the Company and are grouped both by class of business and by contract year or accident year. IBNR reserves are also adjusted to take into account certain factors such as changes in the volume of business written, reinsurance contract terms and conditions, the mix of business, claims processing and inflation that can be expected to affect the Company’s liability for losses over time.

For certain types of claims, most significantly for asbestos and environmental-related (“A&E”) coverage exposures, the effects of evolving scientific, legal and social issues are potentially so significant that the Company’s reserve estimate is subject to significant revision as these issues are resolved over time. For A&E liabilities, considerable judgment has been exercised by the Company in formulating its estimates. The Company’s estimates will be revised as legal, judicial and factual information develops and/or is clarified. The amounts ultimately paid by the Company for these exposures likely will differ, perhaps significantly, from the Company’s currently recorded reserves.

The Company has geographic exposure to catastrophe losses, which can be caused by a variety of events, including, among others, hurricanes, tornadoes and other windstorms, earthquakes, hail, wildfires, severe winter weather, floods, tsunamis, volcanic eruptions and other naturally-occurring events, such as solar flares. Catastrophes can also result from terrorist attacks and other intentionally destructive acts including those involving nuclear, biological, chemical, radiological, cyber-attacks, explosions and infrastructure failures. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes and earthquakes may produce significant damage in larger areas, especially those that are heavily populated. The Company generally seeks to mitigate its exposure to catastrophes through individual risk selection and the purchase of catastrophe reinsurance.

Traditional liabilities are reviewed using standard actuarial methodologies. Through the application of the chain ladder, Bornhuetter-Ferguson, and expected loss ratio methodologies, pure mathematical indications of ultimate loss and allocated loss adjustment expenses (“ALAE”) are established. The best fitting method or a blending of different methods is typically selected for each contract or accident year. In cases where the resulting estimate using these methodologies does not appear to be reasonable based on known information about the portfolio’s historical performance or known market trends, the final estimate of ultimate loss and ALAE is determined using actuarial expertise and management’s judgement. While these methods represent the most common approach to establishing ultimate loss and loss expense indications, the Company may utilize numerous other actuarial methods as developed by the global casualty actuarial profession, as may be warranted given the circumstances of a given reserving segment or year.

For events classified as “outliers”, large losses exceeding certain dollar thresholds defined by Munich Re, the Company generally establishes the ultimate loss and expense based on a comprehensive evaluation of the specific characteristics associated with a particular event in conjunction with experts from claims and underwriting.

For finite risk, A&E, and other latent exposures, special models and approaches are used, and may include epidemiological studies, statistical based models or cash flow models. Additionally, industry statistics may be used; for example, survival ratios for asbestos and environmental.

The inherent uncertainties of estimating loss reserves are exacerbated for reinsurers by the significant periods of time that often elapse between the occurrence of an insured loss, the reporting of the loss to the primary insurer and, ultimately, to the reinsurer, and the primary insurer’s payment of that loss and subsequent indemnification by the reinsurer (the “tail”). As a consequence, actual losses and LAE paid may deviate, perhaps substantially, from

estimates reflected in the Company's reserves in its financial statements. Any adjustments of these estimates or differences between estimates and amounts subsequently paid or collected are reflected in income as they occur.

The reconciliation between statutory basis and GAAP basis reserves for each of the three years in the period ended December 31, 2020, is shown below:

**Reconciliation of Reserves for Unpaid Losses and LAE  
From Statutory Basis to GAAP Basis**

	Year ended December 31,		
	2020	2019	2018
	(Dollars in millions)		
Statutory reserves	\$ 10,115.0	\$ 9,063.2	\$ 8,331.6
Adjustments to a GAAP basis <sup>(1)</sup>	208.1	220.8	182.4
Reinsurance recoverables on unpaid losses	2,941.2	3,338.4	3,821.4
Reserves on a GAAP basis	<u>\$ 13,264.3</u>	<u>\$ 12,622.4</u>	<u>\$ 12,335.4</u>

<sup>(1)</sup> Consists primarily of the application of retroactive accounting rules of ASC 944, "Financial Services – Insurance."

**Reconciliation of Reserves for Unpaid Losses and LAE  
(GAAP Basis)**

	Year ended December 31,		
	2020	2019	2018
	(Dollars in millions)		
Reserves at beginning of period	\$ 12,622.4	\$ 12,335.4	\$ 12,464.3
Reinsurance recoverables on unpaid losses	<u>(3,338.4)</u>	<u>(3,821.4)</u>	<u>(5,263.5)</u>
Net reserves at beginning of period	9,284.0	8,514.0	7,200.8
Contributed net loss reserves	-	0.7	-
Net incurred related to:			
Current period	3,831.5	3,554.1	3,876.4
Prior periods	<u>(38.4)</u>	<u>139.4</u>	<u>(123.0)</u>
Total net incurred	3,793.1	3,693.5	3,753.4
Net paid related to:			
Current period	(801.8)	(712.8)	(931.2)
Prior periods	<u>(2,013.8)</u>	<u>(2,292.3)</u>	<u>(1,598.0)</u>
Total net paid	(2,815.6)	(3,005.1)	(2,529.2)
Deferred underwriting gain	55.4	79.1	91.5
Foreign exchange increase (decrease) in reserves	<u>6.2</u>	<u>1.8</u>	<u>(2.5)</u>
Net reserves at end of period	10,323.1	9,284.0	8,514.0
Reinsurance recoverables on unpaid losses	2,941.2	3,338.4	3,821.4
Reserves at end of year	<u>\$ 13,264.3</u>	<u>\$ 12,622.4</u>	<u>\$ 12,335.4</u>

As a result of total changes in estimates of insured events in prior years, losses and LAE were decreased by \$38.4 million in 2020, increased by \$139.4 million in 2019 and reduced by \$123.0 million in 2018. This prior accident year loss development includes accretion of workers' compensation discount of \$11.2 million, \$12.1 million, and \$15.1 million for 2020, 2019, and 2018, respectively.

Reflecting the indications of the Company's ongoing monitoring of loss reserves and its in-depth annual reserve review, in response to trends in both frequency and severity that deteriorated more than expected, in 2020 the Company increased loss and LAE reserves for prior accident years by \$313.5 million, excluding the impact of certain corporate retrocessional programs with Munich Re and the aforementioned accretion of workers'

compensation discount. The increase is predominantly attributable to increases in reserves for casualty lines of business: auto liability, general liability, and professional liability.

The increased losses resulted in increased cessions to various corporate retrocessional programs with Munich Re. The reserve increase of \$313.5 million was offset by the increased cessions and the recognition of previously deferred loss benefits totaling \$363.2 million, and resulted in an overall decrease to prior accident year losses of \$49.7 million for the year ended December 31, 2020.

In 2019 the Company increased loss and LAE reserves for prior accident years by \$227.9 million, excluding the impact of certain corporate retrocessional programs with Munich Re. This reserve increase was predominantly attributable to increases in reserves for casualty lines of business: auto liability, general liability, and professional liability. The reserve increase of \$227.9 million was partially offset by increased cessions and the recognition of previously deferred loss benefits totaling \$100.6 million, and resulted in an overall increase to prior accident year losses of \$127.3 million, for the year ended December 31, 2019.

In 2018 the Company decreased loss and LAE reserves for prior accident years by \$183.0 million, excluding the impact of certain corporate retrocessional programs with Munich Re. This reserve decrease was primarily attributable to reductions to third party liability, workers compensation, and property lines of business, offset by increases to the auto liability, health, and other latent liability lines of business. The reserve decrease of \$183.0 million, coupled with the net benefit from the corporate retrocessional programs, which includes current recognition of previously deferred loss benefits, resulted in an overall decrease to prior accident year losses of \$138.1 million, excluding the accretion of workers' compensation discount, for the year ended December 31, 2018.

Munich Re provides retrocessional support to accident years 2001 and prior by means of a loss portfolio transfer agreement ("LPT"). The aggregate limit on the LPT cover of \$10.1 billion was reached, on an undiscounted loss basis, in 2012. The LPT is a retroactive reinsurance contract and, as such, loss recoveries in excess of premiums ceded are generally deferred and will be recognized in income over the settlement period of the underlying claims. This transaction does not relieve the Company of its obligation to its reinsureds for the periods covered.

In 2010, the Company purchased additional retrocessional support for accident years 2001 and prior from Munich Re, in the form of an adverse development cover ("2010 ADC"). This contract provides protection for adverse development in excess of the LPT limit. Similar to the LPT, the ADC is a retroactive reinsurance contract. The aggregate limit on the ADC of \$500.0 million was reached, on an undiscounted loss basis, in 2013.

In 2013, the Company purchased a second adverse development cover from Munich Re ("2013 ADC"). The 2013 ADC provides an additional \$500.0 million of limit, of which \$389.7 million remains available, on an undiscounted loss basis at December 31, 2020.

The reserves for losses and LAE represent management's best estimate of the ultimate gross, ceded, and net cost of losses and LAE incurred through December 31, 2020. Management will continue to closely evaluate future emerging paid and reported claims activity for its estimation of ultimate loss and LAE reserves, and appropriate loss reserve changes will be recognized as a result of changes in the loss trend assumptions indicated.

*Asbestos and Environmental-Related Claims.* Reserves established for asbestos and environmental-related coverage exposures ("A&E") reflect the uncertainty inherent in estimating the ultimate future claim amounts arising from these types of exposures. Given the latent nature of A&E exposures, evolving court decisions, wide variations in coverage terms offered over multiple policy periods, and the indefinite nature of any future tort reform, A&E liabilities are subject to significant variation. These factors are particularly challenging for casualty excess-of-loss reinsurers since primary exposure information is not consistently available. Management counterbalances these risks by monitoring claims activity on a quarterly basis and diligently following judicial and legislative decisions which may impact the Company's ultimate liabilities for these unique claims.

The Company had loss reserves for asbestos and environmental liability exposures at December 31, as follows:

	2020		2019	
	Gross	Net	Gross	Net
	(Dollars in millions)			
Asbestos	\$ 869.0	\$ 0.2	\$ 885.2	\$ -
Environmental-related liability	322.6	1.5	283.3	1.9
Total	<u>\$ 1,191.6</u>	<u>\$ 1.7</u>	<u>\$ 1,168.5</u>	<u>\$ 1.9</u>

Loss reserves for A&E exposures at December 31, 2020 and 2019, represent best estimates drawn from a range of possible outcomes based upon currently known facts, projected forward for additional claimants using assumptions and methodologies considered reasonable. There can be no assurance that future losses resulting from these exposures will not have a material adverse effect on future earnings.

The following tables present three calendar years of development of loss and LAE reserves associated with A&E exposures, including case and IBNR reserves. Net loss reserves, net incurred losses and net paid losses include the application of reinsurance recoveries from both specific reinsurance contracts and existing adverse loss retrocessional agreements, including the LPT and ADC contracts. The LPT and ADC contracts are accounted for as retroactive reinsurance with loss development recoveries generally deferred and recognized in income in future periods. The net incurred losses in this table do not reflect the impacts of that deferral and recognition process.

### Three Year Development Asbestos Liabilities

	Year ended December 31,		
	2020	2019	2018
	(Dollars in millions)		
Gross Basis:			
Beginning reserve balance	\$ 885.2	\$ 959.6	\$ 1,010.4
Incurred loss and LAE	40.0	-	-
Loss and LAE paid	(56.2)	(74.4)	(50.8)
Ending reserve balance	<u>\$ 869.0</u>	<u>\$ 885.2</u>	<u>\$ 959.6</u>
Net Basis:			
Beginning reserve balance	\$ -	\$ -	\$ -
Incurred loss and LAE	0.2	-	-
Loss and LAE paid	-	-	-
Ending reserve balance	<u>\$ 0.2</u>	<u>\$ -</u>	<u>\$ -</u>

### Environmental-Related Liabilities

	Year ended December 31,		
	2020	2019	2018
	(Dollars in millions)		
Gross Basis:			
Beginning reserve balance	\$ 283.3	\$ 295.2	\$ 317.3
Incurred loss and LAE	50.0	-	-
Loss and LAE paid	(10.7)	(11.9)	(22.1)
Ending reserve balance	<u>\$ 322.6</u>	<u>\$ 283.3</u>	<u>\$ 295.2</u>
Net Basis:			
Beginning reserve balance	\$ 1.9	\$ 1.6	\$ 1.6
Incurred loss and LAE	(0.4)	0.3	-
Loss and LAE paid	-	-	-
Ending reserve balance	<u>\$ 1.5</u>	<u>\$ 1.9</u>	<u>\$ 1.6</u>

In 2020, the Company's reported activity for both asbestos and environmental liabilities were greater than expected. The Company continues to utilize the latest industry reports and projections for future claim and severity expectations, and complete internal assessments of industry trends. Leveraging the industry information with



internal emergence data, the Company increased gross loss and LAE reserves for asbestos and environmental liabilities by \$40.0 million and \$50.0 million, respectively, for the year ended December 31, 2020.

In 2019 and 2018, the Company's reported activity for both asbestos and environmental-related liabilities was generally as expected. The Company continues to utilize the latest industry reports and projections for future claim and severity expectations, and complete internal assessments of industry trends. Given the stability of reported losses and after comparing the industry information to internal emergence and analyses, the Company made no change to gross asbestos or environmental liabilities in 2019 or 2018.

### **Forward-Looking Information**

The Company has disclosed certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, concerning its operations, economic performance and financial condition, including, in particular the likelihood of the Company's success in developing and expanding its business and the risks related thereto. All statements, other than statements of historical facts, may be forward-looking statements. These statements are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond the control of the Company, and reflect future business decisions that are subject to change. Some of these assumptions inevitably will not materialize, and unanticipated events will occur which will affect the Company's results. Such statements may include, but are not limited to, the impact of COVID-19 and related economic conditions, including the potential impact on the Company's investments, the impact of legislative or regulatory actions or court decisions taken in response to COVID-19 or otherwise, projections of premium revenue, investment income, other revenue, losses, expenses, earnings, cash flows, plans for future operations, common stockholder's equity, investments, capital plans, dividends, plans relating to products or services of the Company, estimates concerning the effects of litigation or other disputes, adverse state or federal legislation or regulation, adverse publicity or news coverage or changes in general economic factors as well as the assumptions for any of the foregoing and are generally expressed with words, such as "believes," "estimates," "expects," "anticipates," "plans," "projects," "forecasts," "goals," "could have," "may have" and similar expressions.

## **MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES**

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## **Report of Independent Auditors**

The Board of Directors and Stockholder of  
Munich Re America Corporation

We have audited the accompanying consolidated financial statements of Munich Re America Corporation and subsidiaries, which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of comprehensive income, stockholder's equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Munich Re America Corporation and subsidiaries at December 31, 2020, and the consolidated results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

### **Report of Other Auditors on December 31, 2019 and 2018 Financial Statements**

The consolidated financial statements of Munich Re America Corporation and subsidiaries for the years ended December 31, 2019 and 2018, were audited by other auditors who expressed an unmodified opinion on those statements on March 31, 2020.



### **Required Supplementary Information**

U.S. generally accepted accounting principles require that incurred and cumulative paid loss and loss adjustment expense development as well as average annual payout of incurred losses for the years prior to 2020 presented in Note 8D be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, 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 financial statements, and other knowledge we obtained during our audit of the 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.

### **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. Financial statements for the years ended December 31, 2019 and 2018 were audited by other auditors whose report dated March 31, 2020 expressed an unmodified opinion on such information. The accompanying supplementary information included in the Supplemental Schedules I through IV, and VI is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for that pertaining to the years ended December 31, 2019 and 2018, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the reports of other auditors, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Ernst & Young LLP*

March 31, 2021

**MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**December 31, 2020 and 2019**  
**(Dollars in millions, except share amounts)**

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Assets:</b>		
Investments		
Fixed income securities		
Available for sale, at fair value (amortized cost: December 31, 2020 and 2019 - \$13,915.7 and \$13,196.8 respectively)	\$ 14,661.2	\$ 13,496.6
Trading, at fair value	18.7	17.4
Equity securities	166.2	161.7
Other invested assets	845.0	630.7
Short term investments	246.6	164.7
Cash and cash equivalents	443.1	345.8
Total investments and cash	<u>16,380.8</u>	<u>14,816.9</u>
Accrued investment income	72.2	85.7
Premiums and other receivables	1,001.3	2,844.7
Deferred policy acquisition costs	634.4	589.8
Reinsurance recoverables on paid and unpaid losses	2,983.4	3,383.3
Funds held by ceding companies	1,140.3	1,147.7
Prepaid reinsurance premiums	4.7	129.1
Goodwill	237.3	237.3
Deferred federal income taxes	418.7	450.0
Other assets	361.5	396.2
Total assets	<u><u>\$ 23,234.6</u></u>	<u><u>\$ 24,080.7</u></u>
<b>Liabilities:</b>		
Loss and loss adjustment expense reserves	\$ 13,264.3	\$ 12,622.4
Unearned premium reserve	2,143.0	2,100.9
Total insurance reserves	<u>15,407.3</u>	<u>14,723.3</u>
Loss balances payable	251.1	40.4
Funds held under reinsurance treaties	545.0	3,080.8
Deferred underwriting gain	1,419.1	1,474.5
Senior notes	332.1	331.9
Other liabilities	556.1	664.0
Total liabilities	<u>18,510.7</u>	<u>20,314.9</u>
<b>Stockholder's Equity:</b>		
Common stock, par value: \$0.01 per share; authorized: 1,000 shares; issued and outstanding: 149.49712 shares at December 31, 2020 and 2019	-	-
Additional paid-in capital	6,316.3	5,636.3
Accumulated deficit	(2,030.5)	(1,955.0)
Accumulated other comprehensive income	438.1	84.5
Total stockholder's equity	<u>4,723.9</u>	<u>3,765.8</u>
Total liabilities and stockholder's equity	<u><u>\$ 23,234.6</u></u>	<u><u>\$ 24,080.7</u></u>

See accompanying notes to consolidated financial statements.

**MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**Years Ended December 31, 2020, 2019, and 2018**  
**(Dollars in millions)**

	<b>Year ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Revenue:</b>			
Premiums written	\$ 5,163.6	\$ 4,969.4	\$ 5,271.9
Change in unearned premium reserve	(166.5)	86.8	(206.4)
Premiums earned	4,997.1	5,056.2	5,065.5
Net investment income	306.6	445.6	387.8
Net realized capital gains (losses)	306.5	142.7	(117.9)
Other income	32.5	30.4	41.7
Total revenue	5,642.7	5,674.9	5,377.1
<b>Losses and expenses:</b>			
Losses and loss adjustment expenses	3,793.1	3,693.5	3,753.4
Commission expense	1,580.3	1,587.5	1,531.8
Operating expense	225.2	271.6	246.5
Interest expense	25.1	25.1	25.2
Interest on ceded funds held balances	93.4	24.4	9.5
Other expense	29.7	26.0	22.6
Total losses and expenses	5,746.8	5,628.1	5,589.0
Income (loss) before income taxes	(104.1)	46.8	(211.9)
Federal and foreign income taxes	(80.1)	(7.3)	(12.2)
<b>Net income (loss)</b>	<b>(24.0)</b>	<b>54.1</b>	<b>(199.7)</b>
<b>Other comprehensive income, net of tax:</b>			
Unrealized appreciation (depreciation) of investments	442.9	356.0	(208.8)
Reclassification adjustment for losses (gains) included in operations	(93.3)	76.6	1.4
Defined benefit plan adjustment	0.7	(8.2)	17.0
Reclassification adjustment for losses included in operations	3.3	2.9	3.5
Other comprehensive income (loss)	353.6	427.3	(186.9)
<b>Comprehensive income (loss)</b>	<b>\$ 329.6</b>	<b>\$ 481.4</b>	<b>\$ (386.6)</b>

See accompanying notes to consolidated financial statements.

**MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY**  
**Years Ended December 31, 2020, 2019, and 2018**  
**(Dollars in millions)**

	<b>Common stock</b>	<b>Additional paid in capital</b>	<b>Accumulated deficit</b>	<b>Accumulated other comprehensive income (loss)</b>	<b>Total</b>
Balance at January 1, 2018	\$ -	\$ 5,320.3	\$ (1,735.3)	\$ (152.2)	\$ 3,432.8
Cumulative-effect adjustment for accounting change	-	-	14.2	(4.2)	10.0
Net loss	-	-	(199.7)	-	(199.7)
Other comprehensive income	-	-	-	(186.9)	(186.9)
Capital contribution	-	275.0	-	-	275.0
Dividend paid to parent company	-	-	(39.1)	-	(39.1)
Balance at December 31, 2018	-	5,595.3	(1,959.9)	(343.3)	3,292.1
Cumulative-effect adjustment for accounting change	-	-	(0.7)	-	(0.7)
Net income	-	-	54.1	-	54.1
Other comprehensive income	-	-	-	427.3	427.3
Capital contribution	-	41.0	4.8	0.5	46.3
Dividend paid to parent company	-	-	(53.3)	-	(53.3)
Balance at December 31, 2019	-	5,636.3	(1,955.0)	84.5	3,765.8
Net loss	-	-	(24.0)	-	(24.0)
Other comprehensive income	-	-	-	353.6	353.6
Capital contribution	-	680.0	-	-	680.0
Dividend paid to parent company	-	-	(51.5)	-	(51.5)
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ 6,316.3</u>	<u>\$ (2,030.5)</u>	<u>\$ 438.1</u>	<u>\$ 4,723.9</u>

See accompanying notes to consolidated financial statements.

**MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2020, 2019, and 2018**  
**(Dollars in millions)**

	<b>Year ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Cash Flows From Operating Activities:</b>			
Net income (loss)	\$ (24.0)	\$ 54.1	\$ (199.7)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Accrued investment income	13.5	(3.7)	(3.5)
Trading securities	(1.3)	0.2	3.5
Premiums and other receivables	1,843.4	(97.8)	(490.1)
Deferred policy acquisition costs	(44.6)	55.5	(69.3)
Reinsurance recoverables on paid and unpaid losses	399.9	472.2	1,423.2
Funds held, net	(2,528.4)	143.6	(599.2)
Insurance reserves	684.0	208.3	(282.8)
Deferred underwriting gain	(55.4)	(79.1)	(90.5)
Current and deferred federal and foreign income taxes, net	(54.1)	(9.5)	(21.9)
Other assets and liabilities, net	257.6	(52.9)	309.4
Depreciation expense on property and equipment	6.6	5.9	5.6
Net realized capital losses (gains)	(297.1)	(145.5)	117.4
Equity in income of investees	(9.4)	(41.0)	(5.6)
Other, net	(38.1)	(32.8)	(51.9)
Net cash provided by operating activities	<u>152.6</u>	<u>477.5</u>	<u>44.6</u>
<b>Cash Flows From Investing Activities:</b>			
Fixed income securities available for sale:			
Purchases	(12,003.9)	(14,178.5)	(10,868.9)
Maturities	225.6	415.7	304.7
Sales	11,373.7	12,817.0	10,493.9
Equity securities:			
Purchases	-	-	(0.3)
Sales	-	15.6	7.4
Other invested assets:			
Purchases	(240.0)	(92.8)	(78.3)
Sales	33.7	89.3	10.0
Net derivative instrument settlements	20.5	(1.9)	14.6
Net purchases and sales of short term investments	(80.1)	431.0	(106.5)
Cost of additions to property and equipment	(13.1)	(11.4)	(2.1)
Net cash used in investing activities	<u>(683.6)</u>	<u>(516.0)</u>	<u>(225.5)</u>
<b>Cash Flows From Financing Activities:</b>			
Capital contributions	680.0	32.1	275.0
Dividends paid to parent company	(51.5)	(53.4)	(39.1)
Net cash provided by (used in) financing activities	<u>628.5</u>	<u>(21.3)</u>	<u>235.9</u>
Effect of exchange rate changes on cash and cash equivalents	(0.2)	-	0.1
Net increase (decrease) in cash and cash equivalents	97.3	(59.8)	55.1
Cash and cash equivalents, beginning of period	345.8	405.6	350.5
Cash and cash equivalents, end of period	<u>\$ 443.1</u>	<u>\$ 345.8</u>	<u>\$ 405.6</u>
<b>Supplemental Cash Flow Information:</b>			
Income taxes received (paid), net	\$ 27.6	\$ (6.5)	\$ (8.7)
Interest paid	\$ (24.9)	\$ (24.9)	\$ (24.9)
<b>Supplemental Schedule of Noncash Financing Activities</b>			
Capital contribution	\$ -	\$ 14.2	\$ -

See accompanying notes to consolidated financial statements.



**MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars in millions)**

**1. NATURE OF OPERATIONS**

Munich Re America Corporation (the “Company”) primarily acts as the holding company for four insurance subsidiaries. Munich Reinsurance America, Inc. underwrites property and casualty reinsurance. American Alternative Insurance Corporation (“AAIC”) writes primary insurance program business on an admitted basis. The Princeton Excess and Surplus Lines Insurance Company (“Princeton E&S”) provides insurance coverage on a non-admitted basis in the United States primarily for the alternative market. Princeton E&S is licensed as a domestic surplus lines insurer in its state of domicile and is eligible or approved to write surplus lines insurance in all other states and the District of Columbia. Bridgeway Insurance Company (“Bridgeway”) provides excess and surplus lines insurance coverages on a non-admitted basis in the United States. Bridgeway is a domestic surplus lines insurer in its state of domicile and is eligible or approved to write surplus lines insurance in 49 states and the District of Columbia. The insurance subsidiaries are domiciled in the State of Delaware.

The Company is a wholly-owned subsidiary of Munich-American Holding Corporation (“MAHC”), a Delaware holding company, which in turn is wholly-owned by Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München (“Munich Re”), a company organized under the laws of Germany.

**2. SUBSEQUENT EVENTS**

In February 2021, severe winter weather impacted Texas and other states causing widespread power outages and property damage. Given the recency of the events, the Company is not yet able to determine the full impact to the consolidated financial statements, but estimates that net incurred losses from these events will be \$150.0 to \$275.0.

The Company holds equity ownership investments in two wind energy entities in Texas. These entities were also impacted by the severe winter weather in February 2021. The Company has evaluated these investments for impairment and will record write-downs of \$59.6 in the first quarter of 2021 as the losses are considered to be other than temporary.

There were no other subsequent events requiring adjustment to the financial statements or disclosure through March 31, 2021, the date that the Company’s financial statements were available to be issued.

**3. COVID-19**

As the COVID-19 pandemic has continued for more than a year, the Company has actively monitored emerging and evolving developments from governmental, health, and insurance industry resources. In addition to the global human tragedy, all sectors of the economy have been impacted and the long-term economic and business consequences are still uncertain. The extent of the impact of COVID-19 on the Company’s operational and financial performance remains dependent on certain ongoing developments, including the duration and severity of the pandemic, its impact on clients, employees, and vendors, and impact on claims coverages from government or other regulatory actions or litigation, all of which remain uncertain at this time. The Company continues to review its business portfolios, contract coverages, and investment portfolios to assess the short- and long-term impacts this pandemic will have on the Company. To date, the impact to the Company’s investment portfolios has not been material. At December 31, 2020, the Company has recorded net loss and allocated loss adjustment expenses of \$73.0 associated with earned exposures. This represents management’s best estimate of COVID-19 related losses based on currently available information and actual losses may vary materially from these estimates. The Company will continue to monitor and update loss estimates as more information becomes available. Given the continued uncertainties around the impact of the COVID-19 crisis, in particular the complexity associated with estimating insurance and reinsurance losses, the ultimate impact on the Company’s operations and financial statements remains uncertain.

**MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars in millions)**

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **A. Basis of Presentation**

The Company's primary business is reinsuring property-casualty risks of domestic and foreign insurance organizations under excess of loss and pro rata reinsurance contracts and providing risk management solutions to alternative market clients. The Company and its subsidiaries operate on a calendar year basis.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of the Company and its subsidiaries. Inter-company accounts and transactions have been eliminated. Investees which represent the Company's investment in voting interests of 20% to 50% generally are recorded using the equity method. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### **B. Capital Contributions**

In December 2020 and 2018, Munich Re contributed capital of \$680.0 and \$275.0, respectively, to MAHC and further to the Company and Munich Reinsurance America, Inc., as a means to strengthen the statutory surplus of that entity.

In 2019, the Company received a contribution from MAHC of the net assets of an affiliated entity, Bridgeway Insurance Company (formerly, American Modern Surplus Lines Insurance Company). The acquired net assets included fixed income securities, cash equivalents, and a net payable to an affiliate that was subsequently settled. The net assets also included de minimis direct loss reserves from operations in run-off. This capital contribution was recorded at the affiliate's book value of \$25.3 on the date of contribution. In November 2019, Munich Re contributed cash of \$21.0 to MAHC and further to the Company and Bridgeway, to further strengthen the statutory surplus of that entity.

##### **C. Application of New Accounting Standards**

###### *Changes to Disclosure Requirements for Fair Value Measurement*

In August 2018, the FASB issued ASU 2018-13, "Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement", which eliminates, adds, and modifies certain disclosure requirements for fair value measurements as part of its disclosure framework project. The new guidance is effective for all entities for interim and annual periods beginning after December 15, 2019. Note 4 – Fair Value Measurement reflects the disclosure changes required by this guidance.

##### **D. Future Application of Accounting Standards**

###### *Measurement of Credit Losses on Financial Instruments*

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments", which significantly changes the way entities recognize impairment of many financial assets by requiring immediate recognition of estimated credit losses expected to occur over their remaining life based on an expected loss model. Under the new guidance, an entity will measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The FASB has since issued several ASU updates which amend and/or provide clarification for the application of the original ASU 2016-13 guidance. The standards are effective for interim and annual periods beginning after December 15, 2022, for public business entities that do not file with the Securities and Exchange Commission

**MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES**  
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(“SEC”). Early adoption is permitted for interim and annual periods beginning after December 15, 2018. The Company is currently assessing the provisions of this new accounting guidance, which will require the establishment of an allowance for credit losses with a resulting negative adjustment to accumulated deficit, but does not believe it will have a material impact on the Company’s consolidated financial statements.

*Goodwill*

In January 2017, the FASB issued ASU 2017-04, “Intangibles and Other – Simplifying the Test for Goodwill Impairment”, which eliminates the requirement to determine implied goodwill in measuring an impairment loss. An impairment loss will be measured as the amount by which a reporting unit’s carrying value exceeds its fair value, limited to the amount of the goodwill. The guidance is effective prospectively for goodwill impairment tests in fiscal years beginning after December 15, 2022, for public business entities that do not file with the SEC. Early adoption is permitted. The Company is currently assessing the new guidance, but does not believe its adoption will have a material impact on the Company’s consolidated financial statements.

All other recently issued but not yet effective accounting and reporting standards are either not applicable to the Company or are not expected to have an impact on the Company.

**E. Investments**

Debt securities classified as available for sale are reported at fair value, with unrealized gains and losses excluded from earnings and reflected in stockholder’s equity as a component of accumulated other comprehensive income, net of related income taxes.

Treasury inflation-protected securities classified as available for sale are reported at fair value with unrealized gains and losses excluded from earnings and reflected in stockholder’s equity as a component of accumulated other comprehensive income, net of related income taxes. Adjustments related to the inflation factor are included in net investment income.

Equity investments, and debt securities classified as trading, are reported at fair value, with gains and losses, both realized and unrealized, included in net investment income.

Other invested assets includes investments accounted for under the equity method, as the Company’s ownership is deemed to represent significant influence. These investments represent the Company’s ownership portion of the respective investee’s equity. Where the investee is a variable interest entity, the Company has determined it is not the primary beneficiary and its exposure is limited to the value of its equity method investment. Other invested assets also includes the Company’s investments in senior secured fixed term loans carried at amortized cost.

The Company’s derivative portfolio may consist of credit default swaps, credit default swap indices, foreign exchange forward contracts, and fixed income futures. The Company does not apply hedge accounting in its reporting of derivative instruments. Derivative instruments are reported at fair value, with gains and losses, both realized and unrealized, included in net investment income. Derivative assets and liabilities and any related cash collateral received or paid, are presented on a net basis when a legally enforceable master netting agreement exists between the Company and the counterparty. A master netting agreement is an agreement between two counterparties who have multiple derivative contracts with each other that provides for the net settlement of all contracts, as well as cash collateral, through a single payment.

The fair value of the credit default swaps and foreign exchange forward contracts are reported in other invested assets if in a net gain position or other liabilities if in a net loss position. The fixed income futures are settled with cash daily, therefore only the one-day open receivable or payable related to the variation margin is included in the Company’s Consolidated Balance Sheet in other assets or other liabilities, respectively. The value of the Company’s derivative instruments can change, sometimes significantly, based on varying factors such as changes in equity market values, credit spreads, and foreign exchange rates.

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Short term investments are predominantly debt securities purchased with a maturity of greater than three months and less than one year when purchased. Long term securities purchased within a year of their maturity are reported at fair value, with unrealized gains and losses reflected in accumulated other comprehensive income, net of tax. Short term investments with original maturities of less than one year are carried at amortized cost which, because of their short-term nature, approximates fair value.

Realized gains and losses on the sale of investments are determined on a first-in, first-out basis and are included in net income. Investment income is recognized as earned and includes the accretion of discounts and amortization of premiums related to fixed maturity securities. Purchases and sales are recorded on a trade date basis.

The amortized cost for fixed maturity securities is adjusted for unamortized premiums and discounts, which are amortized or accreted using the interest-rate method over the estimated remaining term of the securities. Mortgage-backed and asset-backed securities are further adjusted for anticipated prepayments and defaults.

Investments are subject to regular reviews to determine if a decline in value is other than temporary. Factors considered are: the reasons for the decline in value, the extent and duration of the decline, the Company's intent to sell the investment or when it is more likely than not that the Company will be required to sell the investment before its anticipated recovery in value.

For equity securities and investments in limited partnerships and limited liability companies, that the Company intends to sell, or for which it does not have the intent and ability to hold until such time that it has recovered in value, the full amount of an impairment is reported in net realized capital losses.

For fixed income securities that the Company intends to sell, or for which it is more likely than not that it would be required to sell before the anticipated recovery in value, the full amount of an impairment is reported in net realized capital losses.

For fixed income securities that the Company does not intend to sell, or for which it is more likely than not that it would not be required to sell before the anticipated recovery in value, the Company separates the credit loss component of an impairment, defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis, from the amount related to other factors and reports the credit loss component in net realized capital losses. The impairment related to the other factors is reported in a separate category of accumulated other comprehensive income.

#### **F. Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, money market funds, and other debt issues purchased with a maturity of three months or less when purchased.

#### **G. Premiums and Unearned Premiums**

Premiums are earned over the terms of the related insurance policies and reinsurance contracts. Unearned premium reserves are computed for the remaining period of coverage using pro rata methods.

Assumed reinsurance premiums are based on information provided by ceding companies. Written and earned premiums, and their related cost, which have not yet been reported to the Company are estimated and accrued. The information used in establishing these estimates is reviewed and subsequent adjustments are recorded in the period in which they are determined. On retrospectively rated contracts, estimated additional or return premiums are accrued.

Assumed reinsurance and ceded retrocessional contracts that do not both transfer significant insurance risk and result in the reasonable possibility that the Company or its retrocessionnaires may realize a significant loss from the insurance risk assumed are required to be accounted for as deposits. These contract deposits are included in other

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assets and other liabilities in the Consolidated Balance Sheets and are accounted for as financing transactions with interest income or expense included in other income and credited or charged to the contract deposits.

A premium deficiency occurs when expected losses and LAE and deferred policy acquisition costs exceed related unearned premiums. Anticipated investment income is considered in making this evaluation. A premium deficiency reserve is established after the related deferred policy acquisition costs have been reduced to zero.

The Company maintains an allowance for doubtful accounts for amounts due from clients in receivership or believed to be in financial difficulty. The total allowance reflected in premiums and other receivables was \$13.7 and \$13.6 at December 31, 2020 and 2019. There can be no assurance future charges for uncollectible premiums and other receivables will not have a material adverse effect on results of operations in any future period, although management believes any such charges would not be expected to have a material adverse effect on the Company's liquidity or financial condition.

#### **H. Deferred Policy Acquisition Costs**

Deferred policy acquisition costs represent acquisition costs, primarily commissions and certain operating expenses related to the successful acquisition of new or renewal contracts. These costs are deferred and limited to their estimated realizable value based on the related unearned premiums, anticipated loss and loss adjustment expenses, and anticipated investment income. These costs are amortized ratably over the terms of the related contracts. The amortization of deferred policy acquisition costs was \$589.8, \$645.3, and \$576.0 for the years ended December 31, 2020, 2019, and 2018, respectively. At least annually deferred policy acquisition costs are reviewed for recoverability; anticipated investment income is considered in making these evaluations.

#### **I. Loss and Loss Adjustment Expense Reserves**

The Company maintains reserves to cover its estimated ultimate liability for loss and loss adjustment expenses ("LAE") with respect to reported and unreported claims incurred as of the end of each accounting period modified for current trends and estimates of expenses for investigating and settling claims, net of estimated related salvage and subrogation claims. These reserves represent management's best estimates based on actuarial indications of ultimate loss and expenses.

It is the Company's policy to discount all workers' compensation claims on reported and unreported losses at a rate permitted by the Commissioner of Insurance of the State of Delaware. Claims related to accident years prior to 2007 are discounted using an interest rate of 4.5%. Claims related to accident years 2007 through 2010 are discounted using an interest rate of 3.0%. Claims related to accident years 2011 through 2020 are discounted using an interest rate of 0.0%. Such discounts resulted in a reduction in gross loss reserves of \$702.2 and \$742.6, and net loss reserves of \$350.7 and \$232.8, at December 31, 2020 and 2019, respectively.

#### **J. Deferred Underwriting Gain**

The Company has several retroactive reinsurance contracts, most notably the loss portfolio transfer agreement and adverse loss development covers with Munich Re (see Note 15 – Related Party Transactions). For retroactive reinsurance contracts, adverse loss development in excess of the premiums paid is generally deferred and recognized in income using the interest method over the settlement period of the underlying claims. Changes in the expected timing and estimated amounts of the underlying claim payment patterns produce changes in the periodic income recognized. These changes in estimates are determined retrospectively and included in income in the period of the change and subsequent periods.

#### **K. Reinsurance Recoverables on Unpaid Losses**

Reinsurance recoverables on unpaid losses were \$2,941.2 and \$3,338.4 at December 31, 2020, and 2019, respectively. These recoverables were based upon the application of estimates of unpaid loss and LAE reserves in conjunction with terms specified under individual retrocessional contracts. The amounts ultimately collected may

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be more or less than such estimates. Any adjustments of these estimates or differences between estimates and amounts subsequently collected are reflected in income as they occur.

The Company maintains an allowance for doubtful accounts for amounts due from reinsurers in receivership or believed to be in financial difficulty. The total allowance reflected in reinsurance recoverables on paid and unpaid losses was \$36.6 and \$40.7 at December 31, 2020 and 2019, respectively. Management believes such provision is sufficient to reduce reinsurance recoverables to their collectible amounts. There can be no assurance future charges for uncollectible reinsurance will not have a material adverse effect on results of operations in any future period, although management believes any such charges would not be expected to have a material adverse effect on the Company's liquidity or financial condition.

**L. Defined Benefit Plans**

The liability for the Company's defined benefit plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of the qualified pension plan assets. Gains or losses and prior service costs or credits that may arise during the period are recognized in other comprehensive income, net of tax.

The defined benefit obligation and periodic benefit cost are calculated by independent actuaries based on plan and employee data and actuarial assumptions provided by the Company. Key assumptions include discount rate, mortality rates, health care cost trends, and expected return on the plan assets of the qualified pension plan. These assumptions are based on available market data and are updated annually. The actuarial assumptions may differ from the actual results due to changes in market conditions, economic trends and mortality experience. Any changes in these assumptions could have a significant impact on the defined benefit plan liability and future plan costs.

**M. Leases**

The Company has operating leases for office space used by its branch offices and subsidiary locations. A right of use asset, representing the Company's right to use the underlying asset, and a lease liability, representing the Company's obligation to make lease payments, are recorded upon commencement of the lease. These leases do not provide an implicit rate, therefore the incremental borrowing rate of Munich Re is used in determining the present value of lease payments. The lease term begins on the commencement date, which is the date the Company takes possession of the property, and may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. These leases generally do not contain any material residual value guarantees or material restrictive covenants.

Operating leases for office space are expensed on a straight-line basis over the term of the lease. Variable lease payments, such as those for taxes and utilities, are recorded in the period in which the obligation for the payment is incurred.

The Company also has operating leases for certain office equipment and automobiles. The financial statement impact of these leases is de minimis, therefore the lease payments are expensed as paid, with no right of use asset or liability reflected on the Consolidated Balance Sheet.

**N. Property, Equipment and Software**

Property, equipment and software are carried at cost less accumulated depreciation and are included in other assets in the consolidated balance sheets. Property in own use is evaluated for impairment based on periodic third-party appraisals. The Company uses straight-line depreciation for all of its depreciable assets, with the useful lives ranging from three to forty years depending on the type of asset. The cost of depreciable assets was \$260.6 and \$250.9 at December 31, 2020 and 2019, respectively. Accumulated depreciation was \$160.6 and \$157.4 at December 31, 2020 and 2019, respectively.

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**O. Goodwill**

Goodwill represents the cost in excess of net assets acquired in the acquisitions of Munich Reinsurance America, Inc. in 1992 and the minority interests in Munich American Reinsurance Company in 1997. The Company evaluates the recoverability of goodwill annually. The carrying value of goodwill would be reduced to its implied fair value, through a direct write-off, if it were determined through evaluation that the goodwill was impaired.

**P. Income Taxes**

Pursuant to a tax sharing agreement between MAHC and its subsidiaries, which includes the Company and its subsidiaries, a consolidated U.S. Federal income tax return is filed. Each company's annual federal income tax liability is calculated on a standalone basis. The Company also files separate foreign income tax returns as required. The Company uses the liability method of accounting for income taxes, whereby deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws. The Company establishes a "valuation allowance" for any portion of the deferred tax asset that management does not believe is more likely than not realizable. Interest and penalties, if and when applicable, are included as a component of other expense in the Consolidated Statement of Comprehensive Income.

**Q. Foreign Currency Translation**

Foreign currency revenue and expenses are translated at exchange rates in effect when the transactions are recorded. Assets and liabilities are re-measured at the rate of exchange in effect at the close of each reporting period. Re-measurement gains and losses of foreign currency denominated investment holdings available for sale are recorded in accumulated other comprehensive income, net of tax. Transaction gains and losses on sales of investments are included in net realized capital gains. Transaction and re-measurement gains and losses related to investments designated as "trading" are included in net investment income. All other transactions and re-measurement gains and losses are included in other income or other expense.

**R. Fair Values of Financial Instruments**

Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between willing, able, and knowledgeable market participants at the measurement date. Fair value measurements are not adjusted for transaction costs. In addition, a three-tiered hierarchy for inputs is used in management's determination of fair value of financial instruments that emphasizes the use of observable inputs over the unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are market participant assumptions based on market data obtained from sources independent of the reporting entity. Unobservable inputs are the reporting entity's own assumptions about market participant assumptions based on the best information available under the circumstances. In assessing the appropriateness of using observable inputs in making its fair value determinations, the Company considers whether the market for a particular security is "active" or "inactive" based on all the relevant facts and circumstances. A market may be considered to be inactive if there are relatively few recent transactions or if there is a significant decrease in market volume.

The Company is responsible for the determination of the fair value of its financial assets and the supporting methodologies and assumptions, however, it relies on its third-party investment accounting service provider to analyze prices received from pricing services and broker-dealers to ensure they represent a reasonable estimate of fair value. The majority of the Company's selected sources for its fixed income securities are pricing vendors. The Company performs additional analyses to gain assurance on the overall reasonableness of inputs and valuation methodologies used by those sources. These analyses include an annual review of respective price services methodologies and processes, quarterly comparison of market prices to prices obtained from different independent pricing vendors.

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The fair value hierarchy prioritizes pricing sources based on the source's expertise, reliability and availability. Priority is given to established pricing services ahead of broker-dealer price sources. The highest level price source available in the hierarchy is used to measure fair value. Vendors typically obtain data about market transactions and other key valuation model inputs from multiple sources and, through the use of widely accepted valuation models, provide a single fair value measurement for individual securities for which a fair value has been requested under the terms of service agreements. The inputs used by the valuation service providers include, but are not limited to, market prices from recently completed transactions and transactions of comparable securities, interest rate yield curves, credit spreads, currency rates and other market observable information, as applicable. The valuation models 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 issue or issuer specific information. When market transactions or other market observable data is limited, the extent to which judgment is applied in determining the fair value is greatly increased.

Based on the reliability and observability of the inputs, the Company categorizes the fair value of its financial instruments as follows:

*Level 1 – Unadjusted quoted prices accessible in active markets for identical assets or liabilities at the measurement date.* A market is considered active if: (i) pricing information is obtained from the exchange-traded securities, (ii) the securities are actively traded, and (iii) current pricing is available. The types of assets and liabilities utilizing Level 1 valuations include equity securities listed in active markets and investments in publicly traded mutual funds with quoted market prices. The Company receives the quoted market prices from nationally recognized, independent pricing services. Foreign exchange forward contracts are also categorized as Level 1 holdings, as they are valued on actively traded markets.

*Level 2 – Unadjusted quoted prices for similar assets or liabilities in active markets or inputs, other than quoted prices, that are observable or that are derived principally from, or corroborated by, observable market data through correlation or other means.* The Company uses quoted values and other data provided by nationally recognized, independent pricing sources for determining fair values of its fixed income investments. When quoted market prices are unavailable, the pricing services provide an estimated fair value. The pricing services will only produce an estimate of fair value if there is objectively verifiable information to produce a valuation. The services use pricing applications that vary by asset class and incorporate available market information through processes such as matrix pricing. Fixed income securities are generally categorized as Level 2 since a particular security may not have traded, but the pricing services are able to use valuation models with observable market inputs, such as interest yield curves and prices for similar fixed maturity securities in terms of issuer, maturity and seniority. The types of assets and liabilities utilizing Level 2 valuations generally include U.S. Government securities, municipal bonds, structured notes, mortgage-backed and asset-backed securities, and corporate debt. Credit default swaps are also categorized as Level 2 holdings, as they are valued from various models that utilize actively quoted or observable market input values from external market data providers and third party pricing vendors.

*Level 3 – Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.* The types of assets and liabilities utilizing Level 3 valuations generally include collateralized or senior secured loans; fixed income securities, and certain equity securities which do not have a readily determinable fair value. These instruments are measured via broker-dealer pricing, cash flow modeling, or net asset value per share, as applicable.

Asset-backed securities are initially valued at the transaction price. Subsequently, the Company uses widely accepted valuation practices that produce a fair value measurement. The vast majority of fair values are determined using an income approach. The income approach primarily involves developing a discounted cash flow model using the future projected cash flows of the underlying collateral, as well as other inputs described below. A few Level 3 valuations are based entirely on non-binding broker quotes. These securities consist primarily of asset-backed securities where reliable pool and loan level collateral information cannot be reasonably obtained, and as such, an income approach is not feasible.



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Unobservable inputs, significant to the measurement and valuation of asset-backed securities, mainly collateralized loan obligations, are generally used in the income approach, and include assumptions about prepayment speed and collateral performance, including default, delinquency and loss severity rates. Significant changes to any one of these inputs, or combination of inputs, could significantly change the fair value measurement for these securities. The fair value is based on pricing received from valuation groups at various brokers trading these securities in the marketplace. Prices are determined using a combination of matrix pricing of similar securities and observed transactions. By nature, a valuation group cannot give a binding quote considering they are an independent valuation group and not a trading desk. These prices are received by the Company's investment advisor and validated as part of their internal pricing process. In cases where a price is obtained from multiple brokers, the most conservative price is used. The investment advisor assesses market movements and volatility month-over-month by reviewing the spread movements across the sector based on published index data. This analysis provides indications of how securities performed based on market conditions over the pricing period and is used to validate the prices received from third parties. Spread movements that are not consistent with pricing movements are further reviewed, analyzed, and challenged with the broker if necessary.

The impact of prepayment speeds on fair value is dependent on a number of variables including whether the securities were purchased at a premium or discount. A decrease in interest rates generally increases the assumed rate of prepayments, and an increase in interest rates generally decrease the assumed speed of prepayments. Increased prepayments increase the yield on securities purchased at a discount and reduce the yield on securities purchased at a premium. In a decreasing prepayment environment, yields on securities purchased at a discount are reduced but are increased for securities purchased at a premium. Changes in default assumptions on underlying collateral are generally accompanied by directionally similar changes in other collateral performance factors, but generally result in a directionally opposite change in prepayment assumptions.

Privately placed fixed income securities and loans which are not actively traded and do not have readily observable prices are valued using discounted cash flow modeling. The cash flow model uses significant observable and unobservable inputs, including: a risk free rate curve, rating and currency spread curve, a credit spread curve, and an illiquidity spread. Changes to assumptions around rate curves or spreads may increase or decrease the fair value. In general, increases in risk free rates or credit and illiquidity spreads would decrease the fair value of the investment.

The fair value of the Company's equity investments in privately placed real estate limited partnerships are based on net asset values ("NAV") provided by the fund sponsors. These partnerships acquire investments in real estate within the United States for the purposes of generating capital appreciation and current income. The NAV determinations often include appraisals of operational properties, as well as those in various stages of development. The Company may redeem its interests with 90 days notice, subject to liquidity at the fund, as determined by the general partner. To the extent liquidity is not available, distributions are made on a pro-rata basis, based on availability of funds as determined by the general partner. Based on the Company's ownership interests in the funds, the Company does not expect liquidity to be a matter of concern, should it wish to redeem its interests.

The Company reviews its fair value hierarchy classifications quarterly. Changes in observability of significant valuation inputs identified during these reviews may trigger reclassification of fair value hierarchy levels of financial assets and liabilities.

The carrying amount of cash and cash equivalents approximate the fair value because of their short-term nature. The fair value of the senior notes obligation was determined based on a price provided by an independent pricing service.

The fair value of financial instruments has been determined by the Company using available market information at December 31, 2020 and 2019. Although the Company is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date; therefore, current estimates of fair value may differ significantly from the amounts disclosed in the financial statements.

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**5. INVESTMENTS**

**A. Fixed Income Securities Designated as Available for Sale**

Investments available for sale at December 31, were as follows:

<b>2020</b>				
	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Fair value</b>
Fixed income securities:				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$ 6,300.3	\$ 380.3	\$ 21.5	\$ 6,659.1
Obligation of states and political subdivisions	12.6	0.7	-	13.3
Foreign government securities	712.6	78.4	0.2	790.8
Corporate securities	4,925.1	233.5	3.2	5,155.4
Asset-backed securities	771.3	4.9	0.8	775.4
Residential mortgage-backed securities	611.1	27.0	-	638.1
Commercial mortgage-backed securities	582.7	47.2	0.8	629.1
Total fixed income securities	<u>13,915.7</u>	<u>772.0</u>	<u>26.5</u>	<u>14,661.2</u>
Short term investments	246.4	0.2	-	246.6
Total investments available for sale	<u>\$ 14,162.1</u>	<u>\$ 772.2</u>	<u>\$ 26.5</u>	<u>\$ 14,907.8</u>
<b>2019</b>				
	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Fair value</b>
Fixed income securities:				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$ 6,006.6	\$ 95.0	\$ 22.0	\$ 6,079.6
Obligation of states and political subdivisions	17.5	1.5	-	19.0
Foreign government securities	816.2	51.7	1.7	866.2
Corporate securities	4,393.3	148.7	7.2	4,534.8
Asset-backed securities	480.1	0.7	0.5	480.3
Residential mortgage-backed securities	1,022.2	13.3	2.2	1,033.3
Commercial mortgage-backed securities	460.9	23.0	0.5	483.4
Total fixed income securities	<u>13,196.8</u>	<u>333.9</u>	<u>34.1</u>	<u>13,496.6</u>
Short term investments	164.7	-	-	164.7
Total investments available for sale	<u>\$ 13,361.5</u>	<u>\$ 333.9</u>	<u>\$ 34.1</u>	<u>\$ 13,661.3</u>

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In addition to U.S. Treasury securities, the Company's investment in bonds and securitizations issued by the Federal National Mortgage Association ("FNMA") exceeded 10% of stockholder's equity. The fair value of these securities was \$472.7 and \$791.7 at December 31, 2020 and 2019, respectively. The majority of these holdings are comprised of mortgage-backed securities.

The amortized cost and fair value of fixed income securities available for sale at December 31, 2020, are shown below by contractual maturity. Actual maturities may differ from contractual maturities because securities may be called or prepaid with or without call or prepayment penalties.

	<b>2020</b>	
	<b><u>Amortized cost</u></b>	<b><u>Fair value</u></b>
Due to mature:		
One year or less	\$ 321.7	\$ 324.5
After one year through five years	5,706.7	5,923.2
After five years through ten years	4,236.8	4,450.3
After ten years	2,456.7	2,696.0
Residential mortgage-backed securities	611.1	638.1
Commercial mortgage-backed securities	582.7	629.1
Total fixed income securities	<u>\$ 13,915.7</u>	<u>\$ 14,661.2</u>

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At December 31, 2020, and 2019, the Company's investments in fixed income securities investments available for sale were \$14,661.2 or 89.5% and \$13,496.6 or 91.1%, respectively, of total investments and cash. Fixed income security investments available for sale by market sector at December 31, were as follows:

	<b>2020</b>		<b>2019</b>	
	<b>Amortized cost</b>	<b>Fair value</b>	<b>Amortized cost</b>	<b>Fair value</b>
U.S. government	\$ 6,300.3	\$ 6,659.1	\$ 6,006.6	\$ 6,079.6
Foreign government	712.6	790.8	816.2	866.2
State and municipal	12.6	13.3	17.5	19.0
Asset-backed securities	771.3	775.4	480.1	480.3
Residential mortgage-backed securities	611.1	638.1	1,022.2	1,033.3
Commercial mortgage-backed securities	582.7	629.1	460.9	483.4
Financial	886.2	916.1	624.5	643.2
Utilities	469.9	485.9	545.4	560.7
Transportation	119.6	138.3	52.1	53.5
Health care	86.1	89.3	148.4	153.0
Natural resources	520.7	550.0	436.5	452.2
Other corporate securities	2,842.6	2,975.8	2,586.4	2,672.2
Total	<u>\$ 13,915.7</u>	<u>\$ 14,661.2</u>	<u>\$ 13,196.8</u>	<u>\$ 13,496.6</u>

Net unrealized appreciation (depreciation) on investments included within accumulated other comprehensive income was as follows:

	<b>Year ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Change in unrealized appreciation (depreciation)			
Fixed income securities	\$ 445.7	\$ 551.3	\$ (263.5)
Equity securities	-	-	(5.3)
Other investments	0.2	0.6	(0.5)
Subtotal	445.9	551.9	(269.3)
Income tax effect	96.3	118.8	(57.7)
Net change in unrealized appreciation (depreciation)	349.6	433.1	(211.6)
Balance, beginning of year	235.0	(198.1)	13.5
Balance, end of year	<u>\$ 584.6</u>	<u>\$ 235.0</u>	<u>\$ (198.1)</u>

Proceeds from sales of investments available for sale and the related gains and losses realized on those sales were as follows:

	<b>Year ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Proceeds from sales	\$ 11,373.7	\$ 12,817.0	\$ 10,493.9
Gross gains realized	381.4	202.5	30.2
Gross losses realized	58.2	59.9	134.1

The Company holds certain foreign currency denominated securities in portfolios classified as "trading", and as a result, proceeds from any sales of these securities are not included in cash flows from investing activities.

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Investments with unrealized losses at December 31, 2020 and 2019, and the period of time for which they have been in a continuous loss position, were as follows:

		December 31, 2020					
		Less than 12 months		12 months or longer		Total	
		Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Fixed income securities:							
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$ 1,277.2	\$ 21.5	\$ -	\$ -	\$ 1,277.2	\$ 21.5	
Foreign government securities	-	-	4.8	0.2	4.8	0.2	
Corporate securities	169.3	0.8	55.9	2.4	225.2	3.2	
Asset-backed securities	163.2	0.8	-	-	163.2	0.8	
Commercial mortgage-backed securities	96.4	0.6	10.1	0.2	106.5	0.8	
Total temporarily impaired investments	\$ 1,706.1	\$ 23.7	\$ 70.8	\$ 2.8	\$ 1,776.9	\$ 26.5	

		December 31, 2019					
		Less than 12 months		12 months or longer		Total	
		Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Fixed income securities:							
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$ 1,437.7	\$ 19.9	\$ 575.7	\$ 2.1	\$ 2,013.4	\$ 22.0	
Foreign government securities	24.1	0.3	25.2	1.4	49.3	1.7	
Corporate securities	217.4	3.8	54.0	3.4	271.4	7.2	
Asset-backed securities	-	-	104.1	0.5	104.1	0.5	
Residential mortgage-backed securities	-	-	155.4	2.2	155.4	2.2	
Commercial mortgage-backed securities	36.9	0.1	83.1	0.4	120.0	0.5	
Total temporarily impaired investments	\$ 1,716.1	\$ 24.1	\$ 997.5	\$ 10.0	\$ 2,713.6	\$ 34.1	

**B. Other-than-Temporary Impairment Evaluation**

Investments classified as available for sale are subject to regular reviews to determine if a decline in value is other than temporary. For fixed income securities, the Company individually analyzes all positions with greater emphasis on those that have, in management's opinion, declined significantly below cost. The Company considers market conditions, industry characteristics and the fundamental operating results of the issuer to determine if declines in value are due to changes in interest rates, changes relating to a decline in credit quality, or other issues affecting the investment.

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For debt securities that are not deemed to be credit impaired, management performs additional analysis to assess whether it intends to sell or if it is more likely than not that the Company will be required to sell the investment before its anticipated recovery in value. This analysis is performed on an individual security basis.

The Company's analysis regarding credit impairment is based on the characteristics of the security:

*Corporate securities.* In assessing whether a corporate debt security is other than temporarily impaired the Company considers the issuer's financial condition. An analysis of the issuer's financial condition includes whether there has been a decline in the overall value of the issuer or its ability to service the specific security. Factors which may be used include, but are not limited to, credit quality ratings, cash flow sustainability, liquidity, the company's financial strength, industry, and market position.

*Structured securities.* When evaluating whether a residential mortgage-backed security, commercial mortgage-backed security, collateralized debt obligation and other asset-backed securities are other than temporarily impaired due to credit, the Company examines characteristics of the underlying collateral, such as delinquency and default rates, the quality of the underlying borrower, the type of collateral in the pool, the vintage year of the collateral, subordination levels within the structure of the collateral pool and the quality of any credit guarantors.

For mortgage-backed securities, other than those issued by the Government National Mortgage Association ("GNMA"), which are backed by the full faith and credit of the U.S. Government, or FNMA and FHLMC which are government sponsored enterprises, non-interest related impairment is assessed using a cash flow model that estimates the cash flows on the underlying mortgages. The cash flow model incorporates actual cash flows on the mortgage-backed securities and projects the remaining cash flows using a number of assumptions, including default rates, prepayment rates, and recovery rates.

Management obtains assessments from its investment advisor, an affiliated entity, which develops specific assumptions using as much market data as possible and includes internal estimates as well as estimates published by rating agencies and other third-party sources. Default rates are projected by considering current underlying mortgage loan performance. Other assumptions used contemplate the actual collateral attributes, including geographic concentrations, rating agency loss projections, rating actions and current market prices.

The analysis management utilizes to assess home equity asset-backed securities includes expected cash flow projections provided by the Company's investment advisor which consider expected default expectations and loss severities and prepayment assumptions. The significant inputs in the models include the expected default rates, delinquency rates and foreclosure costs. For non-home equity asset-backed securities, reports and analysis are used to determine expected recovery value for such securities.

At December 31, 2020, fixed income securities that have been in an unrealized loss position for twelve months or longer are comprised of 20 securities with an amortized cost of \$73.6 and a gross unrealized loss of \$2.8. These securities mature as follows: 3.5% due in less than one year; 12.5% due in one to five years; 8.6% due in five to ten years; and 75.4% due in greater than ten years (calculated as a percentage of amortized cost). Management believes these unrealized losses are temporary and the result of changes in market conditions, including interest rates and sector spreads. Management does not intend to sell its fixed income securities that are in loss positions, and believes it is not more likely than not that it will be required to sell the securities that are in an unrealized loss position until such time as they recover in value to the Company's amortized cost or they mature.

For other invested assets that are deemed to be impaired, management performs additional analysis to assess whether it intends to sell, or if it is more likely than not that the Company will be required to sell, the investment before its anticipated recovery in value. This analysis is performed on an individual security basis. Additionally, for investments in limited partnerships or limited liability companies, the Company regularly monitors the holding for potential impairment indicators. The Company may consider third-party valuations of the investment or its underlying holdings, sales of underlying holdings, lower than expected cash flows, or any other adverse event that may affect the fair value of the investee's stockholders' equity.

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**C. Fixed Income Securities Designated as Trading**

Fixed income securities designated as “trading” include certain foreign currency denominated securities related to an international branch in run-off operations. It is the Company’s intent to actively trade these securities. Net gains and losses on trading securities, both realized and unrealized, were included in net investment income as follows:

	<b>Year ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Net gains (losses) recognized on trading securities	\$ 1.5	\$ (0.6)	\$ (1.5)
Less: Net gains (losses) recognized on securities sold	0.1	(0.6)	0.8
Unrealized gains (losses) recognized on securities still held at the reporting date	<u>\$ 1.4</u>	<u>\$ -</u>	<u>\$ (2.3)</u>

**D. Equity Securities**

Net gains and losses on equity securities, both realized and unrealized, were included in net investment income as follows:

	<b>Year ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Net gains recognized on equity securities	\$ 5.7	\$ 6.3	\$ 0.6
Less: Net gains recognized on securities sold	3.3	3.1	5.7
Unrealized gains (losses) recognized on securities still held at the reporting date	<u>\$ 2.4</u>	<u>\$ 3.2</u>	<u>\$ (5.1)</u>

**E. Derivative Financial Instruments**

Derivatives are financial instruments whose market values are (i) derived from changes in interest rates, foreign exchange rates, credit exposures, or the value of related securities, and (ii) a function of the type of derivative product, the volume of transactions, the terms of the given agreement and market volatility. The Company's derivative portfolio may at times consist of credit default swaps (“CDS”), credit default swap indices (“CDX”), foreign currency forward contracts, and fixed income futures. Derivatives may be exchange-traded or contracted in the over-the-counter market. The Company does not apply hedge accounting in its reporting of derivative instruments. The Company does not use derivatives for speculative purposes.

Derivative transactions are customarily entered into under industry standard master netting agreements. These are agreements between two counterparties who have multiple derivative contracts with each other that provide for the net settlement of all contracts. Cash collateral and security collateral are used to secure the net open exposure of the other party. The risk that counterparties might be unable to fulfill their contractual obligations is mitigated by (i) entering into derivative transactions with highly-rated and creditworthy counterparties, (ii) monitoring counterparty credit exposure to ensure that exposures are within defined limits, and (iii) monitoring collateral values.

A CDS is an over-the-counter derivative instrument representing an agreement between two parties, a seller and a buyer. The seller of the CDS compensates the buyer in the event of a loan default or other credit event pertaining to a “reference entity.” The reference entity may be a specified entity, a group of single name entities, or an index. In return, the buyer makes a series of “premium” payments to the seller. If a credit event does not occur, the seller makes no payments to the buyer and receives only the contractually specified premiums. A CDX is an exchange-traded portfolio of single-entity credit default swaps used to hedge credit risk in the form of an index. Unlike a CDS, a CDX is standardized, making it highly liquid, mitigating counterparty credit risk and a primary market vehicle for gaining diversified credit exposure.

The Company, at times, sells CDS contracts referencing single-name exposures written on corporate credit instruments with the intention of earning spread income on credit exposure through asset replication. Asset

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replication refers to the development of a synthetic financial instrument with similar risk and return characteristics of an actual security, such as a bond issued by a corporation, that is either unavailable in the cash markets or more economical to acquire in the form of a CDS. The Company replicates the investment characteristics of the reference bond using a combination of a credit default swap and one or more highly-rated fixed income securities held in its investment portfolio. The Company's CDS derivative agreements contain credit-rating triggers. If the credit rating of either counterparty to the contract were to fall below a given rating level, as specified in each agreement, the transaction is terminated at the then fair value of the derivative.

The notional amounts specified in a CDS or CDX contract are (i) used to calculate the exchange of contractual payments under the agreements, (ii) generally not representative of the potential for gain or loss on these agreements, and (iii) the maximum amount of potential future payments assuming no recoveries in a credit event with respect to a referenced entity. The Company typically enters into CDS or CDX contracts with a maturity of five years. At December 31, 2020, the Company had no open CDS or CDX contracts.

Foreign currency forwards are commitments to purchase and sell designated currency amounts at an agreed upon price at a specified future date. The Company invests in foreign exchange forward contracts to economically hedge the foreign currency exchange risk associated with certain non-U.S. dollar denominated exposures. These contracts can be with various counterparties. Cash collateral is required to be maintained within a counterparty's unsecured account to cover any loss position in excess of \$0.3 on open contracts. A similar requirement exists for the counterparty, should the open contract reflect a gain position. Foreign currency forward contracts are generally settled by the Company every ninety days. At December 31, 2020, the Company's three open foreign currency forward contracts, having an aggregate notional value of \$166.1, reflected a net unrealized loss of \$0.1, with \$1.4 cash collateral having been received by the Company.

Futures are standardized contracts between two parties, traded on an exchange, to buy or sell an asset for an agreed upon price as of a given date with delivery and payment occurring at a specified future date. The Company has entered into fixed income futures contracts in order to economically hedge the duration of certain fixed income assets in its portfolio due to anticipated changes in the interest rate environment. The daily fair value of the futures contract is determined by the value of an underlying referenced investment. Futures contracts are settled with cash on a daily basis. At December 31, 2020, the Company had three open futures position with a notional value of \$110.7. The Company provided \$2.0 cash collateral to the counterparty.

The fair value of derivatives by contract type are as follows:

		<b>December 31,</b>	
		<b>2020</b>	<b>2019</b>
<b>Derivatives not designated as hedging instruments under ASC 815</b>			
Derivative assets			
Foreign exchange forward contracts	Other liabilities	\$ 0.1	\$ 0.1
Fixed income futures	Other invested assets	2.0	3.5
Total		<u>\$ 2.1</u>	<u>\$ 3.6</u>
Derivative liabilities			
Foreign exchange forward contracts	Other liabilities	\$ 0.2	\$ 2.2
Total		<u>\$ 0.2</u>	<u>\$ 2.2</u>



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The following table provides information about the earnings (loss) effects of the Company's derivative investments.

	<b>Location in statement of operations</b>	<b>Year ended December 31,</b>		
		<b>2020</b>	<b>2019</b>	<b>2018</b>
Derivatives not designated as hedging instruments under ASC 815				
Credit default swaps and indices	Net investment income	\$ (12.0)	\$ (1.2)	\$ (1.2)
Foreign exchange forward contracts	Net investment income	(2.9)	(4.7)	16.6
Fixed income futures	Net investment income	(35.3)	0.6	(3.3)
Total		<u>\$ (50.2)</u>	<u>\$ (5.3)</u>	<u>\$ 12.1</u>

The following table provides the derivative asset and liability balances, including cash collateral paid or received, that are offset together in the Consolidated Balance Sheet.

<b>December 31, 2020</b>					
	<b>Gross amounts of recognized assets (liabilities)</b>	<b>Gross amounts offset in Balance Sheet</b>	<b>Net amounts presented in Balance Sheet</b>	<b>Cash collateral paid (received) not offset in Balance Sheet</b>	<b>Net Amount</b>
Derivative assets					
Foreign exchange forward contracts	\$ 0.1	\$ (0.1)	\$ -	\$ -	\$ -
Fixed income futures	-	-	-	2.0	2.0
Total	<u>\$ 0.1</u>	<u>\$ (0.1)</u>	<u>\$ -</u>	<u>\$ 2.0</u>	<u>\$ 2.0</u>
Derivative liabilities					
Foreign exchange forward contracts	\$ (0.2)	\$ 0.1	\$ (0.1)	\$ (1.4)	\$ (1.5)
Total	<u>\$ (0.2)</u>	<u>\$ 0.1</u>	<u>\$ (0.1)</u>	<u>\$ (1.4)</u>	<u>\$ (1.5)</u>
<b>December 31, 2019</b>					
	<b>Gross amounts of recognized assets (liabilities)</b>	<b>Gross amounts offset in Balance Sheet</b>	<b>Net amounts presented in Balance Sheet</b>	<b>Cash collateral paid (received) not offset in Balance Sheet</b>	<b>Net Amount</b>
Derivative assets					
Foreign exchange forward contracts	\$ 0.1	\$ (0.1)	\$ -	\$ -	\$ -
Fixed income futures	-	-	-	3.5	3.5
Total	<u>\$ 0.1</u>	<u>\$ (0.1)</u>	<u>\$ -</u>	<u>\$ 3.5</u>	<u>\$ 3.5</u>
Derivative liabilities					
Foreign exchange forward contracts	\$ (2.2)	\$ 0.9	\$ (1.3)	\$ -	\$ (1.3)
Total	<u>\$ (2.2)</u>	<u>\$ 0.9</u>	<u>\$ (1.3)</u>	<u>\$ -</u>	<u>\$ (1.3)</u>

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**F. Net Investment Income and Realized Capital Gains and Losses**

Sources of net investment income (loss) were as follows:

	Year ended December 31,		
	2020	2019	2018
Fixed income securities	\$ 350.0	\$ 395.0	\$ 385.1
Equity securities	10.5	10.0	(15.0)
Other invested assets	10.7	46.5	13.5
Derivatives	(50.2)	(5.3)	12.1
Short-term investments	3.1	14.5	8.6
Other	0.7	3.3	1.7
Gross investment income	324.8	464.0	406.0
Investment expenses	(18.2)	(18.4)	(18.2)
Net investment income	\$ 306.6	\$ 445.6	\$ 387.8

Net realized capital investment gains (losses) were as follows:

	Year ended December 31,		
	2020	2019	2018
Capital gains (losses) on sales			
Fixed income securities	\$ 323.2	\$ 142.7	\$ (103.9)
Other	-	0.8	(0.3)
Other-than-temporary impairments	(16.7)	(0.8)	(13.7)
Net realized capital gains (losses)	\$ 306.5	\$ 142.7	\$ (117.9)

Impairments arise from either the Company's intent to sell the securities as part of the active management of the portfolio or the evaluation of certain securities' credit quality and expected cash flows.

**G. Assets on Deposit and Held in Trust**

At December 31, 2020 and 2019, securities with a fair value of \$750.5 and \$728.6, respectively, were on deposit with governmental authorities as required by law. At December 31, 2020 and 2019, securities with a fair value of \$126.9 and \$133.5, respectively, were held in trust under reinsurance agreements for the benefit of the ceding companies.

**H. Loans**

The Company holds investment in a senior secured fixed term loan with a U.S. infrastructure entity. The loan matures in September 2026 and the Company receives periodic interest and principal payments based on the applicable London Interbank Offered Rate ("LIBOR") rate for the period. The loan permits prepayment by the borrower. The loan receivable of \$43.4 and \$44.8 at December 31, 2020 and December 31, 2019, respectively, is included in other invested assets in the Consolidated Balance Sheet.

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**6. FAIR-VALUE MEASUREMENT**

The following table presents the carrying value and fair value of the Company's financial instruments as of December 31, 2020 and 2019:

	<b>2020</b>		<b>2019</b>	
	<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>
<b>Assets:</b>				
Fixed income securities				
Available for sale	\$ 14,661.2	\$ 14,661.2	\$ 13,496.6	\$ 13,496.6
Trading	18.7	18.7	17.4	17.4
Equity securities	166.2	166.2	161.7	161.7
Other invested assets				
Derivative assets	2.0	2.0	3.5	3.5
Other	43.4	40.7	44.8	44.6
Short term investments	246.6	246.6	164.7	164.7
Total	<u>\$ 15,138.1</u>	<u>\$ 15,135.4</u>	<u>\$ 13,888.7</u>	<u>\$ 13,888.5</u>
<b>Liabilities:</b>				
Senior notes	\$ 332.1	\$ 458.1	\$ 331.9	\$ 430.5
Derivative liabilities	1.5	1.5	1.3	1.3
Total	<u>\$ 333.6</u>	<u>\$ 459.6</u>	<u>\$ 333.2</u>	<u>\$ 431.8</u>

Other invested assets includes senior secured loans, which are carried at amortized cost and categorized as Level 3 within the fair value hierarchy. Derivative liabilities carried at fair value are categorized as Level 1 in the fair value hierarchy. Other invested assets carried under the equity method of accounting are not included in the presentation above.

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The following tables present the Company's financial instruments measured at fair value and the level of the fair value hierarchy of inputs used as of December 31, 2020 and 2019:

	<b>December 31, 2020</b>			
	<u><b>Level 1</b></u>	<u><b>Level 2</b></u>	<u><b>Level 3</b></u>	<u><b>Total</b></u>
<b>Assets:</b>				
Fixed income securities				
Available for sale investments				
U.S Treasury securities and obligations of U.S government agencies and corporations	\$ -	\$ 6,659.1	\$ -	\$ 6,659.1
Obligations of states and political subdivisions	-	13.3	-	13.3
Foreign government securities	-	790.8	-	790.8
Corporate securities	-	4,840.1	315.3	5,155.4
Asset-backed securities	-	456.5	318.9	775.4
Residential mortgage-backed securities	-	638.1	-	638.1
Commercial mortgage-backed securities	-	629.1	-	629.1
Total available for sale investment	<u>-</u>	<u>14,027.0</u>	<u>634.2</u>	<u>14,661.2</u>
Trading investments				
Foreign government securities	-	18.6	-	18.6
Corporate securities and foreign bonds	-	0.1	-	0.1
Equity securities	100.1	-	66.1	166.2
Other invested assets				
Derivative assets	2.0	-	-	2.0
Short term investments	246.6	-	-	246.6
Total investments carried at fair value	<u>\$ 348.7</u>	<u>\$ 14,045.7</u>	<u>\$ 700.3</u>	<u>\$ 15,094.7</u>
Investments carried at cost				43.4
Investments carried at equity				799.6
Cash and cash equivalents				443.1
Total investments not carried at fair value				<u>1,286.1</u>
Total investments and cash				<u>\$ 16,380.8</u>

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	<b>December 31, 2019</b>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets:</b>				
Fixed income securities				
Available for sale investments				
U.S Treasury securities and obligations of U.S				
government agencies and corporations	\$ -	\$ 6,079.6	\$ -	\$ 6,079.6
Obligations of states and political subdivisions	-	19.0	-	19.0
Foreign government securities	-	866.2	-	866.2
Corporate securities	-	4,351.1	183.7	4,534.8
Asset-backed securities	-	118.2	362.1	480.3
Residential mortgage-backed securities	-	1,033.3	-	1,033.3
Commercial mortgage-backed securities	-	483.4	-	483.4
Total available for sale investment	-	12,950.8	545.8	13,496.6
Trading investments				
Foreign government securities	-	16.2	-	16.2
Corporate securities and foreign bonds	-	1.2	-	1.2
Equity securities	94.3	-	67.4	161.7
Other invested assets				
Derivative assets	-	3.5	-	3.5
Short term investments	-	164.7	-	164.7
Total investments carried at fair value	<u>\$ 94.3</u>	<u>\$ 13,136.4</u>	<u>\$ 613.2</u>	<u>\$ 13,843.9</u>
Investments carried at cost				44.8
Investments carried at equity				582.4
Cash and cash equivalents				345.8
Total investments not carried at fair value				<u>973.0</u>
Total investments and cash				<u>\$ 14,816.9</u>

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The following table summarizes financial instruments for which the Company used significant Level 3 inputs to determine fair value measurements for the years ended December 31, 2020 and 2019.

	Balance at Jan. 1, 2020	Net investment gains (losses) In		Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance at Dec. 31, 2020	Change in earnings due to assets still held <sup>3</sup>
		earnings <sup>1</sup>	In OCI <sup>2</sup>							
Available for sale investments										
Corporate securities	\$ 183.7	\$ -	\$ 19.1	\$ 123.5	\$ (11.0)	\$ -	\$ -	\$ -	\$ 315.3	\$ 19.1
Asset-backed securities	362.1	(0.9)	0.6	85.8	-	(128.7)	-	-	318.9	0.3
Equity securities	67.4	(1.3)	-	-	-	-	-	-	66.1	(2.1)
Total	<u>\$ 613.2</u>	<u>\$ (2.2)</u>	<u>\$ 19.7</u>	<u>\$ 209.3</u>	<u>\$ (11.0)</u>	<u>\$ (128.7)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 700.3</u>	
	Balance at Jan. 1, 2019	Net investment gains (losses) In		Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance at Dec. 31, 2019	Change in earnings due to assets still held <sup>3</sup>
		earnings <sup>1</sup>	In OCI <sup>2</sup>							
Available for sale investments										
Corporate securities	\$ 125.5	\$ -	\$ 19.2	\$ 60.7	\$ (11.0)	\$ -	\$ -	\$ (10.7)	\$ 183.7	\$ 19.2
Asset-backed securities	292.7	(0.5)	3.9	116.7	-	(94.0)	43.9	(0.6)	362.1	3.6
Equity securities	72.3	(1.1)	-	-	(6.3)	2.5	-	-	67.4	(1.1)
Total	<u>\$ 490.5</u>	<u>\$ (1.6)</u>	<u>\$ 23.1</u>	<u>\$ 177.4</u>	<u>\$ (17.3)</u>	<u>\$ (91.5)</u>	<u>\$ 43.9</u>	<u>\$ (11.3)</u>	<u>\$ 613.2</u>	

(1) Includes gains and losses on sales of financial instruments and other-than-temporary impairments.

(2) "OCI" means other comprehensive income. Includes changes in market value of investments designated as "available for sale" ("AFS").

(3) Includes unrealized gains (losses) recognized in comprehensive income for assets still held at the end of the period.

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The fair value of the Company's investment in collateralized loan obligations was \$318.9 and \$362.1, at December 31, 2020 and December 31, 2019, respectively. There were no transfers of collateralized loan obligations in or out of Level 3 in the year ended December 31, 2020.

The fair value of the Company's Level 3 investment in equity securities of \$66.1, \$67.4 and \$72.3, at December 31, 2020, 2019 and 2018, respectively, is based on quarterly net asset values ("NAV"), and includes cumulative unrealized gains of \$14.1, \$16.2 and \$17.3 at December 31, 2020, 2019 and 2018, respectively, of which losses of \$2.1 and \$1.1, were recognized in the years ended December 31, 2020 and December 31, 2019, respectively. Gains of \$4.6 were recognized in the year ended December 31, 2018.

**7. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The components of accumulated other comprehensive income (loss) are as follows.

	<b>Net unrealized appreciation (depreciation) of investments</b>	<b>Defined benefit plan adjustment</b>	<b>Total</b>
Balance at January 1, 2018	\$ 13.5	\$ (165.7)	\$ (152.2)
Period change	(265.8)	21.5	(244.3)
Tax effect	57.0	(4.5)	52.5
Reclassification adjustment for losses (gains) included in operations	1.8	4.4	6.2
Tax effect	(0.4)	(0.9)	(1.3)
Cumulative-effect adjustment for accounting change	(5.3)	-	(5.3)
Tax effect	1.1	-	1.1
Balance at December 31, 2018	\$ (198.1)	\$ (145.2)	\$ (343.3)
Capital contribution	0.5	-	0.5
Period change	453.6	(11.1)	442.5
Tax effect	(97.6)	2.9	(94.7)
Reclassification adjustment for losses (gains) included in operations	97.6	4.0	101.6
Tax effect	(21.0)	(1.1)	(22.1)
Balance at December 31, 2019	\$ 235.0	\$ (150.5)	\$ 84.5
Period change	565.0	0.8	565.8
Tax effect	(122.1)	(0.1)	(122.2)
Reclassification adjustment for losses (gains) included in operations	(119.1)	4.2	(114.9)
Tax effect	25.8	(0.9)	24.9
Balance at December 31, 2020	\$ 584.6	\$ (146.5)	\$ 438.1

Amounts reclassified out of accumulated other comprehensive income from net unrealized appreciation (depreciation) of investments are included in net realized capital gains in the Consolidated Statement of Comprehensive Income. Amounts reclassified from the defined benefit plan adjustment are included in other expense.

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## **8. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES**

### **A. Reserves and Uncertainties**

The reserve for losses and LAE is based upon reports received from reinsureds supplemented with the Company's own case reserve estimates, upon which additional reserves are established for claims that are incurred but not reported ("IBNR"). These reserves are estimates, reflecting actuarial and statistical projections at a given time, of what management expects the ultimate settlement and administration of claims to cost based on facts and circumstances then known, as well as predictions of future events, estimates of future trends in claims severity and other variable factors such as inflation and new concepts of liability.

When a claim is reported to a ceding company, its claims personnel establish a "case reserve" for the estimated amount of the ultimate payment. The estimate reflects the informed judgment of such personnel based on general insurance reserving practices and on the experience and knowledge of such personnel regarding the nature and value of the specific type of claim. The Company, in turn, establishes a case reserve when it receives notice of a claim from the ceding company. Such reserves are based on an independent evaluation by the Company's claims personnel, and may take into consideration coverage, liability, severity of injury or damage, jurisdiction, the Company's assessment of the ceding company's ability to evaluate and handle the claim and the amount of reserves recommended by the ceding company. Case reserves are adjusted periodically based on subsequent developments and audits of ceding companies.

In calculating its IBNR reserves, which include future development on reported claims, the Company uses generally accepted actuarial reserving techniques that take into account quantitative loss experience data, together, where appropriate, with qualitative factors. IBNR reserves are based on loss experience of the Company and are grouped both by class of business and by contract year or accident year. IBNR reserves are also adjusted to take into account certain factors such as changes in the volume of business written, reinsurance contract terms and conditions, the mix of business, claims processing and inflation that can be expected to affect the Company's liability for losses over time.

For certain types of claims, most significantly for asbestos and environmental-related ("A&E") coverage exposures, the effects of evolving scientific, legal and social issues are potentially so significant that the Company's reserve estimate is subject to significant revision as these issues are resolved over time. For A&E liabilities, considerable judgment has been exercised by the Company in formulating its estimates. The Company's estimates will be revised as legal, judicial and factual information develops and/or is clarified. The amounts ultimately paid by the Company for these exposures likely will differ, perhaps significantly, from the Company's currently recorded reserves.

The inherent uncertainties of estimating loss reserves are exacerbated for reinsurers by the significant periods of time that often elapse between the occurrence of an insured loss, the reporting of the loss to the primary insurer and, ultimately, to the reinsurer, and the primary insurer's payment of that loss and subsequent indemnification by the reinsurer (the "tail"). As a consequence, actual losses and LAE paid may deviate, perhaps substantially, from estimates reflected in the Company's reserves in its financial statements. Any adjustments of these estimates or differences between estimates and amounts subsequently paid or collected are reflected in income as they occur. Management believes that the reserves for losses and LAE as of December 31, 2020, are adequate to cover the ultimate gross cost of losses and LAE incurred through December 31, 2020.

### **B. Reserve Methodologies**

Traditional liabilities are reviewed using standard actuarial methodologies. Through the application of the chain ladder, Bornhuetter-Ferguson, and expected loss ratio methodologies, pure mathematical indications of ultimate loss and allocated loss adjustment expenses ("ALAE") are established. The best fitting method or a blending of different methods is typically selected for each contract or accident year. In cases where the resulting estimate using these methodologies does not appear to be reasonable based on known information about the portfolio's historical performance or known market trends, the final estimate of ultimate loss and ALAE is determined using actuarial



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expertise and management's judgement. While these methods represent the most common approach to establishing ultimate loss and loss expense indications, the Company may utilize numerous other actuarial methods as developed by the global casualty actuarial profession, as may be warranted given the circumstances of a given reserving segment or year.

For events classified as "outliers", large losses exceeding certain dollar thresholds defined by Munich Re, the Company generally establishes the ultimate loss and expense based on a comprehensive evaluation of the specific characteristics associated with a particular event in conjunction with experts from claims and underwriting.

For finite risk, A&E, and other latent exposures, special models and approaches are used, and may include epidemiological studies, statistical based models or cash flow models. Additionally, industry statistics may be used; for example, survival ratios for asbestos and environmental.

**C. Catastrophe Exposure**

The Company has geographic exposure to catastrophe losses, which can be caused by a variety of events, including, among others, hurricanes, tornadoes and other windstorms, earthquakes, hail, wildfires, severe winter weather, floods, tsunamis, volcanic eruptions and other naturally-occurring events, such as solar flares. Catastrophes can also result from terrorist attacks and other intentionally destructive acts including those involving nuclear, biological, chemical, radiological, cyber-attacks, explosions and infrastructure failures. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes and earthquakes may produce significant damage in larger areas, especially those that are heavily populated. The Company generally seeks to mitigate its exposure to catastrophes through individual risk selection and the purchase of catastrophe reinsurance.

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**D. Reserve Development**

The reconciliation of loss and loss adjustment expense reserves for the years ended December 31, 2020, 2019, and 2018 is shown below:

	<b>Year ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Loss and LAE reserves at beginning of period	\$ 12,622.4	\$ 12,335.4	\$ 12,464.3
Reinsurance recoverables on unpaid losses	<u>(3,338.4)</u>	<u>(3,821.4)</u>	<u>(5,263.5)</u>
Net reserves at beginning of period	9,284.0	8,514.0	7,200.8
Contributed net loss reserves	-	0.7	-
Net incurred related to:			
Current period	3,831.5	3,554.1	3,876.4
Prior periods	<u>(38.4)</u>	<u>139.4</u>	<u>(123.0)</u>
Total net incurred	3,793.1	3,693.5	3,753.4
Net paid related to:			
Current period	(801.8)	(712.8)	(931.2)
Prior periods	<u>(2,013.8)</u>	<u>(2,292.3)</u>	<u>(1,598.0)</u>
Total net paid	(2,815.6)	(3,005.1)	(2,529.2)
Deferred underwriting gain	55.4	79.1	91.5
Foreign exchange increase (decrease) in reserves	<u>6.2</u>	<u>1.8</u>	<u>(2.5)</u>
Net reserves at end of period	10,323.1	9,284.0	8,514.0
Reinsurance recoverables on unpaid losses	2,941.2	3,338.4	3,821.4
Loss and LAE reserves at end of period	<u>\$ 13,264.3</u>	<u>\$ 12,622.4</u>	<u>\$ 12,335.4</u>

As a result of total changes in estimates of insured events in prior years, losses and LAE were reduced by \$38.4, increased by \$139.4 in 2019, and reduced by \$123.0 in 2018. This prior accident year loss development includes accretion of workers' compensation discount of \$11.2, \$12.1, and \$15.1 for 2020, 2019, and 2018, respectively.

Reflecting the indications of the Company's ongoing monitoring of loss reserves and its in-depth annual reserve review, in response to trends in both frequency and severity that deteriorated more than expected, in 2020 the Company increased loss and LAE reserves for prior accident years by \$313.5, excluding the impact of certain corporate retrocessional programs with Munich Re. The increase is predominantly attributable to increases in reserves for casualty lines of business: auto liability, general liability and professional liability.

The increased losses resulted in increased cessions to various corporate retrocessional programs with Munich Re. The reserve increase of \$313.5 was offset by the increased cessions and the recognition of previously deferred loss benefits totaling \$363.2, and resulted in an overall decrease to prior accident year losses of \$49.7, for the year ended December 31, 2020.

In 2019 the Company increased loss and LAE reserves for prior accident years by \$227.9, excluding the impact of certain corporate retrocessional programs with Munich Re. This increase is predominantly attributable to increases in reserves for casualty lines of business: auto liability, general liability and professional liability. The increased losses resulted in increased cessions to various corporate retrocessional programs with Munich Re. The reserve increase of \$227.9 was partially offset by the increased cessions and the recognition of previously deferred loss benefits totaling

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\$100.6, and resulted in an overall increase to prior accident year losses of \$127.3, for the year ended December 31, 2019.

In 2018 the Company decreased loss and LAE reserves for prior accident years by \$183.0, excluding the impact of certain corporate retrocessional programs with Munich Re. This decrease is predominantly attributable to the workers compensation line of business in response to a continued trend of favorable emergence. The decreased losses resulted in decreased cessions to various corporate retrocessional programs with Munich Re. The reserve decrease of \$183.0, coupled with the recognition of previously deferred loss benefits, were partially offset by the reduced cessions, and resulted in an overall decrease to prior accident year losses of \$138.1, excluding the accretion of workers' compensation discount, for the year ended December 31, 2018.

Munich Re provides retrocessional support to accident years 2001 and prior by means of a loss portfolio transfer agreement ("LPT"). The aggregate limit on the LPT cover of \$10.1 billion was reached, on an undiscounted loss basis, in 2012. The LPT is a retroactive reinsurance contract and, as such, loss recoveries in excess of premiums ceded are generally deferred and will be recognized in income over the settlement period of the underlying claims. This transaction does not relieve the Company of its obligation to its reinsureds for the periods covered.

In 2010 the Company purchased additional retrocessional support for accident years 2001 and prior from Munich Re, in the form of an adverse development cover ("2010 ADC"). This contract provides protection for adverse development in excess of the LPT limit. Similar to the LPT, the ADC is a retroactive reinsurance contract. The aggregate limit on the ADC of \$500.0 was reached, on an undiscounted loss basis, in 2013.

In 2013 the Company purchased a second adverse development cover from Munich Re ("2013 ADC"). The 2013 ADC provides an additional \$500.0 of limit, of which \$389.7 remains available, on an undiscounted loss basis at December 31, 2020.

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The following tables present incurred and cumulative paid losses and ALAE by segment and aggregated lines of business on a historical basis by accident year. This claim development information is undiscounted and presented net of reinsurance. The information for the years ended December 31, 2011 to 2019 is presented as supplementary information and is not audited.

IBNR amounts include expected development on reported claims. Negative IBNR may occur for a given aggregate line of business within a reporting segment in some circumstances when estimated case reserves plus cumulative paid losses exceed the ultimate expected losses. This generally occurs when initial paid loss and case reserve estimates established for individual treaties exceed the current best estimate of ultimate losses determined at a segment level.

The Company analyzes the majority of its reserves using underwriting year based data. Where specific accident year data is not available, the Company allocates incurred and paid data to an accident year basis. These allocations may, at times, result in an immaterial level of negative IBNR at the accident year level.

Assumed adverse development covers are reflected in the current accident year as negative paid losses.

**Reinsurance Division**  
**Casualty**

Accident Year	Incurred Losses and ALAE Year Ended December 31,										IBNR at December 31, 2020
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
	Unaudited										
2011	\$ 527	\$ 524	\$ 559	\$ 562	\$ 568	\$ 591	\$ 515	\$ 492	\$ 497	\$ 477	45
2012		450	471	481	503	507	515	488	496	439	55
2013			559	601	618	628	583	598	627	549	94
2014				639	637	641	612	608	651	638	124
2015					650	637	631	679	701	718	234
2016						661	676	681	700	730	231
2017							792	819	889	949	435
2018								1,237	1,291	1,470	788
2019									1,287	1,539	1,090
2020										1,204	1,128
									Total	\$ 8,713	

Accident Year	Cumulative Paid Losses and ALAE Year Ended December 31,									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Unaudited									
2011	\$ 17	\$ 74	\$ 148	\$ 231	\$ 294	\$ 344	\$ 377	\$ 389	\$ 406	\$ 413
2012		14	55	118	184	251	295	334	347	354
2013			14	67	159	253	313	369	412	422
2014				18	71	174	275	346	416	459
2015					14	18	125	222	321	401
2016						12	67	164	295	397
2017							(7)	56	178	356
2018								63	250	484
2019									75	267
2020										34
									Total	\$ 3,587
									Cumulative incurred less paid	5,126
									Oustanding reserves before 2011	834
									Discount of workers' compensation reserves	(255)
									Loss and LAE reserves	\$ 5,705

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**Reinsurance Division**  
**Property**

Accident Year	Incurred Losses and ALAE Year Ended December 31,										IBNR at December 31, 2020
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
	<b>Unaudited</b>										
2011	\$ 448	\$ 425	\$ 436	\$ 395	\$ 388	\$ 390	\$ 389	\$ 385	\$ 389	\$ 389	-
2012		534	507	477	454	431	424	426	410	407	(1)
2013			236	224	197	193	189	187	190	188	(4)
2014				300	288	259	255	252	252	249	(3)
2015					230	222	225	227	223	222	(4)
2016						256	253	246	230	230	(6)
2017							968	1,038	993	938	10
2018								1,476	1,441	1,360	23
2019									1,156	1,168	(36)
2020										1,221	762
									Total	\$ 6,372	

Accident Year	Cumulative Paid Losses and ALAE Year Ended December 31,									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	<b>Unaudited</b>									
2011	\$ 90	\$ 252	\$ 369	\$ 363	\$ 378	\$ 384	\$ 386	\$ 384	\$ 386	\$ 389
2012		84	323	371	375	379	381	396	395	398
2013			71	162	195	178	186	184	191	191
2014				98	214	236	245	249	250	250
2015					61	180	202	213	218	222
2016						50	166	208	223	230
2017							333	670	833	886
2018								475	1,106	1,256
2019									302	1,034
2020										309
									Total	\$ 5,165
									Cumulative incurred less paid	1,207
									Outstanding reserves before 2011	3
									Loss and LAE reserves	\$ 1,210

**MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Dollars in millions)

**Reinsurance Division  
Credit**

Accident Year	Incurred Losses and ALAE Year Ended December 31,										IBNR at December 31, 2020
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
	<u>Unaudited</u>										
2011	\$ 46	\$ 51	\$ 43	\$ 33	\$ 28	\$ 28	\$ 33	\$ 30	\$ 30	\$ 30	-
2012		48	67	59	57	52	44	46	45	43	-
2013			40	45	38	31	26	27	26	25	-
2014				48	52	50	39	34	33	32	(3)
2015					38	38	30	27	22	22	(4)
2016						32	42	44	33	33	(1)
2017							35	38	39	33	(7)
2018								52	46	34	(2)
2019									46	37	11
2020										36	30
	Total \$ 325										

Accident Year	Cumulative Paid Losses and ALAE Year Ended December 31,									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	<u>Unaudited</u>									
2011	\$ 5	\$ 18	\$ 30	\$ 24	\$ 27	\$ 25	\$ 28	\$ 31	\$ 29	\$ 29
2012		13	29	44	57	48	45	45	43	42
2013			4	20	31	24	24	24	23	25
2014				3	16	34	27	30	34	33
2015					4	21	26	23	25	24
2016						3	22	32	37	32
2017							2	18	28	32
2018								7	22	28
2019									4	15
2020										3
	Total \$ 263									
	Cumulative incurred less paid 62									
	Outstanding reserves before 2011 5									
	Loss and LAE reserves \$ 67									

**MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES**  
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**Reinsurance Division**  
**Ocean Marine**

Accident Year	Incurred Losses and ALAE Year Ended December 31,										IBNR at December 31, 2020
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
	<b>Unaudited</b>										
2011	\$ 54	\$ 53	\$ 56	\$ 58	\$ 61	\$ 58	\$ 60	\$ 59	\$ 61	\$ 63	-
2012		84	94	94	97	101	106	105	107	104	1
2013			43	36	34	39	39	40	43	43	-
2014				50	45	45	42	39	39	38	3
2015					12	11	17	15	16	16	3
2016						12	10	7	11	9	1
2017							42	18	18	19	4
2018								30	34	33	10
2019									32	37	20
2020										30	28
	Total \$ 392										

Accident Year	Cumulative Paid Losses and ALAE Year Ended December 31,									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	<b>Unaudited</b>									
2011	\$ 4	\$ 13	\$ 33	\$ 43	\$ 56	\$ 56	\$ 58	\$ 58	\$ 60	\$ 63
2012		10	47	66	86	95	100	101	106	104
2013			3	15	19	31	34	37	39	41
2014				13	21	29	34	35	34	35
2015					1	2	9	11	13	13
2016						1	-	2	6	7
2017							1	4	9	12
2018								6	11	17
2019									5	12
2020										1
	Total \$ 305									
	Cumulative incurred less paid 87									
	Outstanding reserves before 2011 1									
	Loss and LAE reserves \$ 88									

**MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Dollars in millions)

**Specialty Insurance  
Casualty**

Accident Year	Incurred Losses and ALAE Year Ended December 31,										IBNR at December 31, 2020
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
	<b>Unaudited</b>										
2011	\$ 256	\$ 283	\$ 277	\$ 289	\$ 293	\$ 298	\$ 302	\$ 267	\$ 266	\$ 251	14
2012		258	283	285	288	307	336	308	300	268	19
2013			309	352	366	386	395	386	379	321	33
2014				362	364	365	400	400	389	385	53
2015					377	393	448	449	451	461	84
2016						373	443	466	467	472	115
2017							470	487	509	514	175
2018								466	522	539	297
2019									420	428	318
2020										377	353
	Total									\$ 4,016	

Accident Year	Cumulative Paid Losses and ALAE Year Ended December 31,									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	<b>Unaudited</b>									
2011	\$ 10	\$ 45	\$ 90	\$ 136	\$ 179	\$ 206	\$ 216	\$ 219	\$ 230	\$ 232
2012		16	61	100	151	178	207	220	240	245
2013			12	66	126	180	228	249	273	276
2014				19	71	135	196	253	285	296
2015					26	87	180	242	308	334
2016						18	79	164	260	310
2017							17	74	152	239
2018								18	76	157
2019									14	52
2020										7
	Total									\$ 2,148
	Cumulative incurred less paid									1,868
	Outstanding reserves before 2011									196
	Discount of workers' compensation reserves									(47)
	Loss and LAE reserves									\$ 2,017



**MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Dollars in millions)

**Specialty Insurance  
Property**

Accident Year	Incurred Losses and ALAE Year Ended December 31,										IBNR at December 31, 2020
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
	<b>Unaudited</b>										
2011	\$ 148	\$ 135	\$ 135	\$ 132	\$ 133	\$ 132	\$ 132	\$ 131	\$ 131	\$ 131	-
2012		137	136	128	123	122	122	122	122	122	-
2013			102	85	78	74	69	68	68	68	-
2014				108	96	95	94	93	94	94	-
2015					93	81	78	76	74	73	-
2016						100	78	75	66	66	-
2017							142	127	118	123	4
2018								221	180	167	8
2019									144	123	6
2020										227	101
	Total \$ 1,194										

Accident Year	Cumulative Paid Losses and ALAE Year Ended December 31,									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	<b>Unaudited</b>									
2011	\$ 63	\$ 111	\$ 124	\$ 127	\$ 129	\$ 131	\$ 131	\$ 131	\$ 130	\$ 131
2012		66	105	119	122	121	122	122	123	122
2013			43	69	74	70	68	68	68	67
2014				53	85	89	92	92	94	94
2015					42	66	70	71	73	72
2016						36	62	65	65	65
2017							42	92	105	110
2018								75	129	148
2019									68	104
2020										72
	Total \$ 985									
	Cumulative incurred less paid 209									
	Outstanding reserves before 2011 2									
	Loss and LAE reserves \$ 211									

**MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Dollars in millions)

**Healthcare  
Health**

Accident Year	Incurred Losses and ALAE Year Ended December 31,										IBNR at December 31, 2020
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
	<b>Unaudited</b>										
2011	\$ 316	\$ 322	\$ 311	\$ 311	\$ 313	\$ 312	\$ 312	\$ 312	\$ 313	\$ 311	-
2012		350	382	369	375	374	374	374	373	374	-
2013			378	401	427	423	422	422	421	421	-
2014				372	382	398	393	395	392	393	-
2015					350	370	367	357	355	356	1
2016						244	296	272	261	259	4
2017							204	247	244	234	10
2018								5	7	19	14
2019									(1)	(15)	(15)
2020										-	-
	Total									\$ 2,352	

Accident Year	Cumulative Paid Losses and ALAE Year Ended December 31,									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	<b>Unaudited</b>									
2011	\$ 120	\$ 296	\$ 306	\$ 312	\$ 312	\$ 312	\$ 312	\$ 312	\$ 313	\$ 312
2012		211	358	376	376	375	374	373	373	374
2013			228	397	428	422	421	421	420	421
2014				197	352	397	393	392	392	392
2015					118	322	355	355	355	355
2016						75	234	256	255	255
2017							64	206	221	224
2018								8	3	5
2019										-
2020										-
	Total									\$ 2,338
	Cumulative incurred less paid									14
	Outstanding reserves before 2011									-
	Loss and LAE reserves									\$ 14

**MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES**  
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As a reinsurer, the Company generally writes excess of loss and pro rata reinsurance contracts. Claims information is reported to the Company via an “account rendering” or a bordereau, for those contracts respectively. An account rendering does not generally include individual claim data, unless significant individual losses are included. A bordereau would include individual claim data, but is not maintained by the Company at that level of detail. The Company’s direct, or primary, insurance claims information includes claim count information, however this business represents less than one quarter of the Company’s gross incurred losses. For these reasons, the Company considers meaningful claim frequency information to be impracticable to obtain.

The following table summarizes and reconciles the cumulative paid losses and ALAE previously presented with the Company’s gross liability for loss and LAE reserves.

	<b>December 31, 2020</b>
Net loss and LAE reserves	
Reinsurance Division	
Casualty	\$ 5,705.1
Property	1,209.6
Credit	66.9
Ocean Marine	87.7
Specialty Insurance	
Casualty	2,016.7
Property	210.6
Healthcare	14.0
Other	784.1
Net loss and LAE reserves	<u>10,094.7</u>
Reinsurance recoverables on unpaid losses	
Reinsurance Division	
Casualty	2.4
Property	0.5
Credit	-
Ocean Marine	-
Specialty Insurance	
Casualty	242.7
Property	26.1
Healthcare	17.3
Other <sup>(1)</sup>	2,652.2
Reinsurance recoverables on unpaid losses	<u>2,941.2</u>
Unallocated loss adjustment expenses	<u>228.4</u>
Gross loss and LAE reserves	<u><u>\$ 13,264.3</u></u>

- (1) Other reinsurance recoverables includes loss and LAE reserves ceded to Munich Re under the LPT and ADC agreements and retrocessions of losses incurred under reinsurance agreements with Munich Re branches or affiliates.

**MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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The following table presents average annual payout of incurred losses by age.

	Development Years (Unaudited)									
	1	2	3	4	5	6	7	8	9	10
Reinsurance Division										
Casualty	2.7 %	8.8 %	15.0 %	16.5 %	13.0 %	10.6 %	7.6 %	2.4 %	2.6 %	5.1 %
Property	29.2 %	49.3 %	15.5 %	1.7 %	2.5 %	0.6 %	0.3 %	0.3 %	0.3 %	0.3 %
Credit	11.9 %	41.3 %	29.3 %	7.1 %	3.8 %	2.4 %	0.2 %	4.0 %	- %	- %
Ocean Marine	11.1 %	16.2 %	23.9 %	19.7 %	12.5 %	1.3 %	3.1 %	3.3 %	0.8 %	8.0 %
Specialty Insurance										
Casualty	4.1 %	13.0 %	17.1 %	17.3 %	13.6 %	8.3 %	4.8 %	3.4 %	3.1 %	5.2 %
Property	50.1 %	34.7 %	8.3 %	1.4 %	0.6 %	0.8 %	0.3 %	- %	- %	0.1 %

**E. Asbestos and Environmental-Related Claims**

Reserves established for A&E exposures necessarily have reflected the uncertainty inherent in estimating the ultimate future claim amounts arising from these types of exposures. Given the latent nature of A&E exposures, evolving court decisions, wide variations in coverage terms offered over multiple policy periods, and the indefinite nature of any future tort reform, A&E liabilities are subject to significant variation. These factors are particularly challenging for casualty excess-of-loss reinsurers since primary exposure information is not consistently available. Management counterbalances these risks by monitoring claims activity on a quarterly basis and diligently following judicial and legislative decisions which may impact the Company's ultimate liabilities for these unique claims.

In 2020, the Company's reported activity for both asbestos and environmental liabilities were greater than expected. The Company continues to utilize the latest industry reports and projections for future claim and severity expectations, and complete internal assessments of industry trends. Leveraging the industry information with internal emergence data, the Company increased gross loss and LAE reserves for asbestos and environmental liabilities by \$40.0 and \$50.0, respectively, for the year ended December 31, 2020.

In 2019 and 2018, the Company's reported activity for both asbestos and environmental-related liabilities was generally as expected. The Company continues to utilize the latest industry reports and projections for future claim and severity expectations, and complete internal assessments of industry trends. Given the stability of reported losses and after comparing the industry information to internal emergence and analyses, the Company made no change to gross asbestos or environmental liabilities in 2019 or 2018.

The Company had A&E exposure loss reserves, at December 31, as follows:

	2020		2019	
	Gross	Net	Gross	Net
Asbestos	\$ 869.0	\$ 0.2	\$ 885.2	\$ -
Environmental-related liability	322.6	1.5	283.3	1.9
Total	<u>\$ 1,191.6</u>	<u>\$ 1.7</u>	<u>\$ 1,168.5</u>	<u>\$ 1.9</u>

Net loss reserves include the application of reinsurance recoveries from both specific reinsurance contracts and adverse loss development retrocessional agreements, including the LPT and ADC contracts. Loss reserves for A&E exposures at December 31, 2020 and 2019, represent best estimates drawn from a range of possible outcomes based on currently known facts, projected forward for additional claimants using assumptions and methodologies considered reasonable. There can be no assurance that future losses resulting from these exposures will not have a material adverse effect on future earnings.

**MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars in millions)**

**9. REINSURANCE**

The Company purchases reinsurance (retrocessional agreements) for certain risks. Reinsurance companies enter into retrocessional agreements for reasons similar to those that cause primary insurers to purchase reinsurance, namely to reduce net liability on individual risks, to protect against catastrophic losses, to stabilize their financial ratios and to obtain additional underwriting capacity. Changing domestic and international reinsurance markets impact the retrocessional capacity available to all companies. Core retrocessional programs are placed with Munich Re (see Note 15 – Related Party Transactions).

Historically, the retrocessional coverages purchased by the Company included (i) routine coverage for its property and casualty business, (ii) catastrophe retrocessions for its property business, (iii) quota share treaties that enhance underwriting capacity, and (iv) stop loss protection (excess of loss reinsurance that indemnifies the Company against losses that exceed a specific retention). In addition, the aforementioned LPT and ADC agreements protect the Company from additional losses related to accident years 2001 and prior. The Company continues to purchase catastrophe retrocessional coverage for its property business and specific retrocessions on certain contracts.

Munich Re (which had an A.M. Best rating of “A+” at December 31, 2020) accounted for approximately 76.2% and 79.1%, of the reinsurance recoverables on paid and unpaid losses at December 31, 2020 and 2019, respectively. National Union Fire Insurance Company (“NUFIC”) (which had an A.M. Best rating of “A” at December 31, 2020) represented approximately 8.0% of the reinsurance recoverables on paid and unpaid losses at December 31, 2020. Effective January 1, 2020, NUFIC replaced GIG Reinsurance Company Ltd. (“GIG Re”) via a novation agreement covering all reinsurance treaties between the Company and GIG Re. The reinsurance balance recoverable from NUFIC has been fully collateralized with assets held in trust and funds withheld. GIG Re accounted for approximately 7.3% of the reinsurance recoverables on paid and unpaid losses at December 31, 2019, which had also been fully collateralized. These are the only reinsurers for which the recorded recoveries were in excess of 3% of the reinsurance recoverable balance of \$2,983.4 and \$3,383.3 at December 31, 2020 and 2019, respectively.

The Company believes that it has minimized the credit risk with respect to its retrocessions to companies other than Munich Re by monitoring its retrocessionnaires and collateralizing obligations from foreign retrocessionnaires. Potential deterioration of the financial condition of retrocessional markets is carefully monitored and appropriate actions are taken to eliminate or minimize exposures. As a general rule, the Company requires that unpaid losses and LAE (including IBNR) for certain admitted and non-admitted reinsurers (unregulated by United States insurance regulatory authorities) be collateralized by letters of credit, funds withheld or pledged trust agreements. Actions such as drawdowns of letters of credit provided as collateral, cessation of relationships and commutations may be taken to reduce or eliminate exposure when necessary.

**MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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Although reinsurance agreements contractually obligate the Company's reinsurers to reimburse it for the agreed-upon portion of its gross paid losses, they do not discharge the primary liability of the Company. The income statement amounts for premiums written, premiums earned, and losses and loss adjustment expenses are net of reinsurance. Direct, assumed, ceded and net amounts for these items are as follows:

	<b>Year ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Premiums written			
Direct	\$ 957.3	\$ 1,133.8	\$ 1,218.9
Assumed	4,530.7	4,415.5	4,295.1
Ceded	(324.4)	(579.9)	(242.1)
Net	<u>\$ 5,163.6</u>	<u>\$ 4,969.4</u>	<u>\$ 5,271.9</u>
Premiums earned			
Direct	\$ 1,024.3	\$ 1,080.5	\$ 1,200.9
Assumed	4,421.7	4,546.8	4,478.5
Ceded	(448.9)	(571.1)	(613.9)
Net	<u>\$ 4,997.1</u>	<u>\$ 5,056.2</u>	<u>\$ 5,065.5</u>
Losses and LAE incurred			
Direct	\$ 787.8	\$ 701.1	\$ 845.3
Assumed	3,467.0	3,198.4	3,222.1
Ceded	(461.7)	(206.0)	(314.0)
Net	<u>\$ 3,793.1</u>	<u>\$ 3,693.5</u>	<u>\$ 3,753.4</u>

In previous years, the Company had a number of reinsurance agreements with Munich Re branches and affiliates, which were then retroceded to Munich Re or another of its affiliates. In 2018 certain of these agreements were novated or cancelled, impacting both assumed and ceded premiums and losses.

## 10. DEPOSIT ACCOUNTING

Insurance and reinsurance contracts that do not transfer insurance risk are subject to deposit accounting. Deposit accounting is applied to contracts that, 1) transfer only significant timing risk, 2) transfer only significant underwriting risk, 3) transfer neither significant timing nor underwriting risk, or 4) those contracts with indeterminate risk. Deposit accounting assets and liabilities are included in other assets and other liabilities, respectively, on the Consolidated Balance Sheet.

The deposit asset of \$80.5 and \$78.9 at December 31, 2020 and 2019, respectively, was primarily comprised of adverse loss development covers and certain retroactive reinsurance agreements, which do not meet risk transfer guidelines. Interest accretion on the deposit asset balance was income of \$1.4 for the year ended December 31, 2020, expense of \$2.5 for the year ended December 31, 2019, and income of \$1.5 for the year ended December 31, 2018.

The deposit liability of \$81.1 and \$79.6 at December 31, 2020 and 2019, respectively, was primarily comprised of adverse loss development covers and certain retroactive reinsurance agreements, which do not meet risk transfer guidelines. Interest accretion on the deposit liability balance was expense of \$1.3 for the year ended December 31, 2020, and income of \$0.3 and \$0.1 for the years ended December 31, 2019 and 2018, respectively.

**MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES**  
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**(Dollars in millions)**

**11. INCOME TAXES**

A consolidated U.S. Federal income tax return is filed pursuant to a tax sharing agreement between MAHC and its subsidiaries. Each company's annual federal income tax liability is calculated on a standalone basis. Under the provisions of the tax sharing agreement, the company is entitled to receive reimbursement for its tax attributes at the time and to the extent that the company is able to utilize such tax attributes on a standalone basis. These tax attributes are treated as non-expiring on a standalone basis to the extent that they have been utilized on the consolidated U.S. Federal income tax return.

In December 2017, the Tax Cuts and Jobs Act (the "Act" or "tax reform") was enacted into law. The Act provided for significant changes to the U.S. federal tax law, including the reduction of the corporate tax rate from 35% to 21% effective January 1, 2018. The Act also specified certain changes to the methodologies used by property and casualty insurers for computing loss reserve discounting.

In December 2018, the IRS released the discount factors for the computation of the 2017 loss reserve discount under the newly enacted methodologies and the resulting one-time transition adjustment. The transition adjustment estimated at December 31, 2017, was a deferred tax liability of \$46.1. The recalculated transition adjustment, using the factors released by the IRS, was a deferred tax asset of \$5.6. In June 2019, the IRS released amended regulations for the 2018 and 2017 accident year loss reserve discount factors. The recalculated transition adjustment using the revised factors was a deferred tax asset of \$9.6. The amended regulations also included the 2019 accident year loss reserve discounting factors. In accordance with Staff Accounting Bulletin No. 118, issued by the Securities and Exchange Commission on December 22, 2017, the changes in loss reserve discounting were treated as a change in accounting estimate.

The Act also imposed an alternative tax, the Base Erosion Anti-Abuse Tax ("BEAT"). The BEAT is a minimum tax amount imposed on applicable taxpayers that make "base erosion payments" to foreign related parties that result in tax deductions and other specified tax benefits. An applicable taxpayer is defined as having average annual gross receipts of at least \$500.0 and a base erosion percentage of 3% or higher, determined by dividing the base erosion payments by total U.S. tax deductions. The Company meets the definition of an applicable taxpayer.

In September 2020, the final BEAT regulations were amended to allow for a waiver election to apply to reinsurance premiums ceded to foreign affiliates. The intent was to allow companies that were narrowly in excess of the 3% base erosion percentage, and therefore subject to BEAT, to disallow all or a portion of their BEAT payments as regular tax deductions to get below the 3% threshold. The disallowed BEAT payments are treated as a permanent difference add back in the determination of taxable income subject to the statutory tax rate of 21%. The Company elected to utilize the waiver election in the determination of its taxable income for the 2019 tax year. The waiver election is not expected to benefit the Company in the 2020 tax return.

Under tax reform, Alternative Minimum Tax ("AMT") credit carry forwards existing at December 31, 2017, could be utilized against regular tax in future years. AMT credit balances remaining at the end of each of the years 2018 through 2020 would be refunded at 50%. Any unutilized balance at the end of 2021 would be refunded in full. In March 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES Act") was enacted and accelerated an entity's ability to recover those AMT credits as a means to obtain additional cash flow during the COVID-19 crisis. In 2020, the remaining balance of the Company's AMT refund receivable was refunded under the CARES Act.

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Current federal income taxes receivable were \$27.1 and \$39.1 at December 31, 2020 and 2019, respectively. The net deferred income taxes at December 31, 2020 and 2019, represent the net temporary differences between the tax bases of assets and liabilities and their amounts for financial reporting. The components of the net deferred income taxes, based on a tax rate of 21% at December 31, were as follows:

	<b>2020</b>	<b>2019</b>
Federal net operating loss carry-forwards	\$ 398.7	\$ 336.2
Loss reserves	122.0	107.3
Loss reserves discounting - tax reform transition	5.9	7.1
Deferred compensation	63.7	69.8
Investment impairment and capital loss carry-forwards	10.3	10.0
Foreign tax credit carry-forwards	77.6	76.0
Unearned premiums	89.8	82.8
State tax net operating loss carry-forwards	23.6	22.0
Other deferred tax assets	11.7	9.7
Gross deferred tax assets	<u>803.3</u>	<u>720.9</u>
Valuation allowance	<u>(58.6)</u>	<u>(57.3)</u>
Total deferred tax assets	<u>744.7</u>	<u>663.6</u>
Deferred policy acquisition costs	133.2	123.8
Unrealized investment gains	156.6	63.0
Other deferred liabilities	36.2	26.8
Total deferred tax liabilities	<u>326.0</u>	<u>213.6</u>
Net deferred income taxes	<u>\$ 418.7</u>	<u>\$ 450.0</u>

At December 31, 2020, the Company had net operating loss carry-forwards for federal income tax purposes of \$1,898.6, which are available to offset future taxable income of which \$89.6 expire over the period 2027 through 2033, and \$1,809.0 of which do not expire. The Company generated \$297.6, \$98.7, and \$111.3 additional net operating loss carry-forwards in 2020, 2019, and 2018, respectively.

In 2020 and 2019, the Company utilized capital loss carry forwards of \$0.3 and \$107.7, respectively, against capital gains. In 2018, the Company generated a capital loss carry forward of \$104.1. At December 31, 2020, the Company had no capital loss carry forwards.

At December 31, 2020, the Company had foreign tax credit carry-forwards of \$77.6, which expire over the period 2022 through 2029, available to offset future taxable income for federal income tax purposes.

The Company has several reinsurance contracts with Munich Re. Munich Re treats the net transaction amounts as non-deductible capital contributions for tax purposes. In order to avoid double taxation on a world-wide basis, the Company excludes the gain or loss recognized on these contracts from taxable income. The Company does not deem the exclusion of the gain or loss recognized on these contracts to be an uncertain tax position. No penalties or interest have been accrued related to uncertain tax positions. The Company has no uncertain tax positions at December 31, 2020.

The Company establishes a “valuation allowance” for any portion of the deferred tax asset that management does not believe is more likely than not realizable. In 2020, a valuation allowance of \$1.3 was recorded for State tax net operating losses. In 2019, the valuation allowance for capital losses established the previous year was fully reversed due to the utilization of capital loss carryforwards. In 2018, a valuation allowance of \$23.5 was recorded for capital losses due to the lack of projected future capital gains to offset the losses.



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	<u>2020</u>	<u>2019</u>	<u>2018</u>
Capital losses	\$ -	\$ (23.5)	\$ 23.5
State tax net operating losses	1.3	(0.9)	2.1
Total change in valuation allowance	<u>\$ 1.3</u>	<u>\$ (24.4)</u>	<u>\$ 25.6</u>

At December 31, 2020, the valuation allowance of \$58.6 was comprised of \$10.5 of state tax net operating losses, and \$48.1 of other net deferred tax assets. At December 31, 2019, the valuation allowance of \$57.3 was comprised of \$9.2 of state tax net operating losses, and \$48.1 of other net deferred tax assets.

In 2002, Munich Re contributed a common stock holding and a limited partnership interest to the Company. On the date of transfer, there was a net difference between the aggregate book and tax bases of the contributions which created a potential future tax benefit of approximately \$88.0 and potential future tax liability of approximately \$20.0. A deferred tax asset and deferred tax liability were not recorded at the time of contribution since Munich Re, not the Company, maintained discretion as to the ultimate disposition of the common stock and limited partnership interest, and thus the ability to trigger recognition of the federal income tax benefit and liability. The Company later sold the contributed stock back to Munich Re, who in turn, sold it to outside parties. This triggered an \$87.7 deferred tax benefit for federal income tax purposes, of which \$7.4 was later utilized as part of a capital loss carry-back. No federal tax benefit will be recorded until a cash tax benefit is received by the Company; as such, a valuation allowance will be maintained until such time as the cash benefit is recognizable for federal income tax purposes. In 2017 this valuation allowance was reduced from \$80.3 to \$48.1 to reflect the tax reform rate change.

Management believes that the net deferred tax asset at December 31, 2020, is more likely than not to be realized after consideration of the valuation allowance recorded and the application of tax planning strategies that include reinsurance transactions and the sale of certain investments. The Company has the intent and ability to implement these strategies, if needed, in order to generate taxable income against which deferred tax attributes would be fully realized.

Taxes on foreign income have been provided at the U.S. statutory federal income tax rate of 21% for 2020, 2019 and 2018. The difference between the U.S. and foreign tax rates is provided to account for U.S. taxation (net of applicable foreign tax credits) on the future repatriation of these foreign earnings.

Income tax expense (benefit) was as follows:

	<u>Year ended December 31, 2020</u>		
	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal income tax benefit	\$ (72.1)	\$ (66.1)	\$ (138.2)
Foreign tax	1.6	-	1.6
Federal tax expense on net realized capital gains	56.5	-	56.5
Total federal and foreign income tax benefit	<u>\$ (14.0)</u>	<u>\$ (66.1)</u>	<u>\$ (80.1)</u>

	<u>Year ended December 31, 2019</u>		
	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal income tax expense (benefit)	\$ 7.4	\$ (47.8)	\$ (40.4)
Foreign tax	3.5	-	3.5
Federal tax expense on net realized capital gains	6.3	23.3	29.6
Total federal and foreign income tax expense (benefit)	<u>\$ 17.2</u>	<u>\$ (24.5)</u>	<u>\$ (7.3)</u>

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	<b>Year ended December 31, 2018</b>		
	<b>Current</b>	<b>Deferred</b>	<b>Total</b>
Federal income tax expense (benefit)	\$ (24.7)	\$ 33.1	\$ 8.4
Foreign tax	1.0	-	1.0
Federal tax expense (benefit) on net realized capital gains	1.1	(22.7)	(21.6)
Total federal and foreign income tax expense (benefit)	<u>\$ (22.6)</u>	<u>\$ 10.4</u>	<u>\$ (12.2)</u>

Reconciliations of the differences between income taxes computed at the federal statutory tax rate and consolidated provisions for income taxes were as follows:

	<b>Year ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Income (loss) before tax	\$ (104.1)	\$ 46.8	\$ (211.9)
Income tax rate	21%	21%	21%
Tax expense (benefit) at federal statutory income tax rate	(21.9)	9.8	(44.5)
Tax effect of:			
Valuation allowance on deferred tax asset	1.3	(23.5)	25.6
Affiliate reinsurance tax benefit	(51.5)	(23.6)	(1.1)
Non taxable dividend income	0.8	0.6	0.5
Waiver election reinsurance premium	12.5	-	-
Base erosion and anti-abuse tax	(14.8)	14.0	10.8
Expiration of foreign tax credits	-	11.4	-
Other, net	(6.5)	4.0	(3.5)
Federal and foreign income tax expense (benefit)	<u>\$ (80.1)</u>	<u>\$ (7.3)</u>	<u>\$ (12.2)</u>

## 12. BENEFIT PLANS

Employees are eligible for plans that provide compensation incentives based upon operating results and that reward individuals for performance and contribution to the success of the Company. Charges to operations for such incentives were \$5.0, \$31.8, and \$38.6 for the years ended December 31, 2020, 2019, and 2018, respectively.

The Company has a participant-directed defined contribution retirement savings plan available to substantially all employees. The Plan has two components. Participants may elect to make deferral contributions to a retirement savings account of up to 50% of eligible compensation, subject to IRS limits. The Company will make matching contributions of up to 5% of the participant's compensation for each pay period. The costs of the Company's matching contributions were \$3.9, \$5.8, and \$6.2, for the years ended December 31, 2020, 2019, and 2018, respectively. Under the second component of the retirement savings plan, the Company makes age-weighted contributions to the employee's retirement savings account, ranging from 2.0% to 5.0% of eligible compensation, subject to IRS limits. No contributions are required by employees under this component of the plan. Contributions of \$3.7, \$8.8, and \$9.5 were made for this component of the plan for the years ended December 31, 2020, 2019, and 2018, respectively.

The Company provides retirement benefits to its employees hired prior to 2006 under a qualified non-contributory defined benefit pension plan. It provides additional benefits to certain employees whose retirement benefits exceed maximum amounts permitted by current tax law under an unfunded, nonqualified pension plan. Benefits under both plans are based on years of service and the average of the employee's highest consecutive five years of compensation. Accrued costs represent estimates based upon current information. Those estimates are subject to change due to changes in the underlying information supporting such estimates in the future. These defined benefit pension plans were frozen in 2011, at which time employees in the plans ceased accruing benefits under the plans and commenced participation in the Company's defined contribution retirement savings plan.

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In 2019 the Company offered eligible former employees a voluntary lump-sum payment option in lieu of future benefit payments under the qualified pension plan. Approximately 2.2%, or \$15.3, of the projected benefit obligation of the plan was settled as a result of lump-sum payments made to those who accepted the offer.

In accordance with IRS funding regulation, no minimum funding contribution was required to be made in 2020 for the 2019 plan year.

The Company also provides post-retirement health care benefits to individuals having attained the age of 55 by March 31, 2018, who also meet service eligibility requirements. The plan cost to the Company is capped at 150% of the cost as of January 1, 2009. Additional costs above the cap are paid by retiree contributions. The Company funds its obligation currently.

The following table provides a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the years ended December 31, 2020 and 2019, and the funded status at December 31.

	<b>Pension Benefits</b>		<b>Other Post-Retirement Benefits</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<i>Reconciliation of projected benefit obligation</i>				
Obligation at January 1	\$ 776.5	\$ 693.4	\$ 48.9	\$ 48.2
Interest cost	22.9	27.9	1.3	1.8
Plan participants' contributions	-	-	1.6	1.7
Actuarial loss	82.5	99.0	3.6	1.8
Benefit payments and lump sums	(32.4)	(43.8)	(5.7)	(4.6)
Obligation at December 31	<u>\$ 849.5</u>	<u>\$ 776.5</u>	<u>\$ 49.7</u>	<u>\$ 48.9</u>
<i>Reconciliation of fair value of plan assets</i>				
Fair value of plan assets at January 1	\$ 627.8	\$ 550.8	\$ -	\$ -
Actual return on plan assets	105.3	110.6	-	-
Employer contributions	4.3	10.2	4.1	2.9
Plan participants' contributions	-	-	1.6	1.7
Benefit payments and lump sums	(32.4)	(43.8)	(5.7)	(4.6)
Fair value of plan assets at December 31	<u>\$ 705.0</u>	<u>\$ 627.8</u>	<u>\$ -</u>	<u>\$ -</u>
Funded status at December 31	<u>\$ (144.5)</u>	<u>\$ (148.7)</u>	<u>\$ (49.7)</u>	<u>\$ (48.9)</u>

In 2020, the pension benefit obligation experienced a \$82.5 actuarial loss, resulting from a 82 basis point decrease in the weighted average discount rate assumption. In 2019, the pension benefit obligation experienced a \$99.0 actuarial loss, resulting from a 106 basis point decrease in the weighted average discount rate assumption.

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The amounts recognized in the consolidated balance sheets at December 31, were as follows:

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Other liabilities - accrued benefit liability	\$ 144.5	\$ 148.7	\$ 49.7	\$ 48.9
Accumulated other comprehensive income (loss), pretax				
Net loss	(194.0)	(203.8)	(15.2)	(12.2)
Prior service credit	-	-	22.3	24.1

The following information is provided for the Company's two defined benefit pension plans at December 31.

	<b>Qualified Plan</b>		<b>Nonqualified Plan</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Projected benefit obligation	\$ 736.4	\$ 673.0	\$ 113.1	\$ 103.5
Accumulated benefit obligation	736.4	673.0	113.1	103.5
Fair value of plan assets	705.0	627.8	-	-

The weighted average assumptions used in the measurement of the Company's benefit obligation at December 31, 2020 and 2019, are shown in the following table.

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Discount rate	2.20 %	3.02 %	1.77 %	2.73 %

The weighted average asset allocations for the qualified pension plan at December 31, 2020 and 2019 were as follows:

	<b>2020</b>	<b>2019</b>
Fixed income securities	89.2 %	89.7 %
Equity securities	10.4	10.0
Cash and short term money funds	0.4	0.3
Total plan assets	100.0 %	100.0 %

The overall objective of the qualified pension plan is to provide for full and timely payment of retirement benefits utilizing investment policies designed to maintain adequate funding for the plan's liability over time. The plan seeks to produce a return on investments based on levels of liquidity and investment risk that are prudent and reasonable, given prevailing market conditions, and recognizing the importance of the preservation of capital. Investment strategies and asset allocations are based on careful consideration of plan liabilities and expected cash flows, the plan's funded status and our financial condition. Investment performance and asset allocation are measured and monitored on an ongoing basis.

The plan asset portfolio is comprised of fixed income and equity securities. The goal of the fixed income investments is to generate current income and provide stable periodic returns, while the goal of the equity investments is to maintain the long term growth of the plan assets. With the goal of reducing market risk and matching asset duration with expected benefit cash flows, the target allocation of the plan asset portfolio is 90% long-term fixed income securities and 10% equity securities. Below investment-grade fixed income securities are excluded from the asset allocation.

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The pension plan assets in trust are categorized in accordance with the fair value hierarchy established by ASC 820, as of December 31 2020 and 2019, as follows.

<b>2020</b>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Fixed income securities	\$ 628.8	\$ -	\$ -	\$ 628.8
Equity securities	73.6	-	-	73.6
Total investments	<u>\$ 702.4</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 702.4</u>

  

<b>2019</b>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Fixed income securities	\$ 562.6	\$ -	\$ -	\$ 562.6
Equity securities	63.0	-	-	63.0
Total investments	<u>\$ 625.6</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 625.6</u>

The following table provides the components of net periodic benefit cost for the years ended December 31, 2020, 2019, and 2018.

	<b>Pension Benefits</b>			<b>Other Benefits</b>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Interest cost	\$ 22.9	\$ 27.9	\$ 25.7	\$ 1.3	\$ 1.8	\$ 1.6
Expected return on plan assets	(18.4)	(20.9)	(19.9)	-	-	-
Amortization of net loss	5.4	5.5	5.6	0.6	0.4	0.6
Amortization of prior service credit	-	-	-	(1.8)	(1.8)	(1.8)
Net periodic benefit cost	<u>\$ 9.9</u>	<u>\$ 12.5</u>	<u>\$ 11.4</u>	<u>\$ 0.1</u>	<u>\$ 0.4</u>	<u>\$ 0.4</u>

The components of net periodic benefit cost are included in other expense in the Consolidated Statement of Comprehensive Income.

The prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of assets are amortized over the average remaining life expectancy of active participants.

The following table provides other pre-tax changes in plan assets and liabilities recognized in other comprehensive income for the years ended December 31, 2020, 2019, and 2018.

	<b>Pension Benefits</b>			<b>Other Benefits</b>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net gain (loss) for period	\$ 4.4	\$ (9.3)	\$ 17.3	\$ (3.6)	\$ (1.8)	\$ 4.2
Amortization of net loss	5.4	5.5	5.6	0.6	0.4	0.6
Amortization of prior service credit	-	-	-	(1.8)	(1.8)	(1.8)
Total recognized in other comprehensive income (loss)	<u>\$ 9.8</u>	<u>\$ (3.8)</u>	<u>\$ 22.9</u>	<u>\$ (4.8)</u>	<u>\$ (3.2)</u>	<u>\$ 3.0</u>

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The weighted average assumptions used to determine the net periodic benefit cost for the years ended December 31, are shown in the following table:

	Pension Benefits			Other Benefits		
	2020	2019	2018	2020	2019	2018
Discount rate	3.02 %	4.08 %	3.45 %	2.73 %	3.85 %	3.18 %
Expected return on plan assets	3.00 %	3.90 %	3.40 %	N/A	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A	N/A	N/A	N/A

The Company determines the overall expected long-term rate of return on plan assets based on the assumption that the long-term historical performance of well-recognized indices, which are representative of long-term plan asset allocations, are reasonable indicators of future investment performance. Historical average annual returns for asset classes may be adjusted to reflect the impact of current and forecasted interest rate environments.

For measurement purposes, a 7.00% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2020. The rate was assumed to decrease gradually to a rate of 4.5% for 2031 and remain at that level thereafter.

Expected future benefit payments for each of the plans are as follows:

	2021	2022	2023	2024	2025	2026 - 2030
Pension Benefits	\$ 35.8	\$ 37.2	\$ 36.7	\$ 39.1	\$ 40.1	\$ 208.0
Other Benefits	\$ 4.7	\$ 4.8	\$ 4.6	\$ 4.3	\$ 4.0	\$ 14.2

### 13. LONG TERM DEBT

The Company has outstanding \$333.8 aggregate principal amount of Senior Notes due December 15, 2026 (the “Notes”). The Notes bear interest at a rate of 7.45% annually, payable on June 15 and December 15 each year. Interest expense of \$25.1, \$25.1, and \$25.1 was recognized on this obligation for each of the years ended December 31, 2020, 2019, and 2018, respectively.

The Company may, from time to time, redeem all or part of its 7.45% Senior Notes due 2026 (the “Notes”) pursuant to the terms of the indenture under which the Notes were issued (the “Indenture”), or purchase them in privately negotiated transactions, tender offers or otherwise. The indenture contains certain covenants, including, but not limited to, covenants imposing limitations on liens, and restrictions on mergers and sale of assets. There were no repurchase transactions in 2020, 2019 or 2018.

### 14. REGULATORY MATTERS

#### A. Surplus and Stockholder Dividends

Statutory surplus for the insurance subsidiaries on a combined basis at December 31, 2020 and 2019, was \$4,422.5 and \$3,962.3, respectively. This increase was primarily the result of capital contributions of \$680.0 and increased deferred income taxes of \$64.2, offset by a combined statutory net loss of \$185.8, dividends paid to the Company of \$51.5, and a change in non-admitted assets of \$37.7. This statutory net loss is different from the net loss reported in these financial statements, primarily due to differing accounting treatment for deferred federal income taxes, retroactive reinsurance contracts, and deferred acquisition costs. This statutory net loss is different from the net income reported in these financial statements, primarily due to differing accounting treatments for deferred federal income taxes, retroactive reinsurance contracts, and deferred acquisition costs. The insurance subsidiaries had a combined statutory net loss of \$25.9 and \$397.7 for the years ended December 31, 2019 and 2018, respectively.

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AAIC declared and paid dividends of \$40.7 and \$44.5 to the Company in the years ended December 31, 2020 and 2019, respectively. Princeton E&S declared and paid dividends of \$10.8 and \$8.8 to the Company in the years ended December 31, 2020 and 2019, respectively. Munich Reinsurance America, Inc. and Bridgeway did not pay dividends to the Company in 2020 or 2019.

The Company has been dependent on management service agreements and dividends from the insurance subsidiaries in order to meet its short and long term liquidity requirements, including its debt service obligations. The payment of dividends to the Company by the insurance subsidiaries is subject to limitations imposed by the Insurance Department of the State of Delaware (the “Insurance Department”), including the requirement that dividends be paid from available unassigned funds, as set forth in the most recent annual statement of the insurer. Based on these restrictions, Munich Reinsurance America, Inc. cannot pay dividends in 2021 without the prior approval of the Insurance Department. At December 31, 2020, AAIC, Princeton E&S and Bridgeway can pay dividends of up to \$25.6, \$16.4 and \$4.9 respectively, in 2020 without the prior approval of the Insurance Department.

**B. Risk Based Capital**

The Insurance Department has a risk based capital (“RBC”) standard for property and casualty insurance (and reinsurance) companies which measures the amount of capital appropriate for a property and casualty insurance company to support its overall business operations in light of its size and risk profile. An RBC ratio in excess of 200% generally requires no regulatory action. The RBC ratios of Munich Reinsurance America, Inc., AAIC, Princeton E&S, and Bridgeway were each in excess of 200% at December 31, 2020 and 2019.

**C. Statutory Financial Condition Examinations**

As part of its general regulatory oversight process, the Insurance Department usually conducts financial condition examinations of domiciled insurers and reinsurers every three to five years, or at such other times as is deemed appropriate by the Insurance Commissioner. In 2017, the Insurance Department completed the regularly scheduled financial condition examination of the Company’s insurance subsidiaries, excluding Bridgeway, for the financial period 2013 through 2016. The Insurance Department’s final examination reports were received in 2018, with no adverse findings.

**D. Permitted Statutory Accounting Practices**

The financial statements of the insurance companies are prepared in accordance with accounting practices prescribed or permitted by the Insurance Department. Insurance companies domiciled in the State of Delaware are required to prepare their statutory basis financial statements in accordance with the National Association of Insurance Commissioners (“NAIC”) Accounting Practices and Procedures manual, subject to any difference prescribed or permitted by the State of Delaware or its insurance commissioner.

The NAIC does not allow discounting of non-tabular reserves, however Munich Reinsurance America, Inc. received permission to discount its non-tabular loss reserves for statutory accounting purposes, at a rate consistent with that approved by the Insurance Department for its tabular reserves. The permitted practice of discounting non-tabular reserves resulted in a reduction in statutory net loss reserves and an increase in statutory surplus of \$260.1 and \$171.2 at December 31, 2020 and 2019, respectively.

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**15. RELATED PARTY TRANSACTIONS**

Although the Company has reduced its reliance on retrocessional coverage in recent years, historically Munich Re participated on the majority of the Company's retrocessional programs as discussed below.

Munich Re provides retrocessional support to accident years 2001 and prior by means of a loss portfolio transfer agreement. The purpose of the LPT is to further support the Company's capital position and effectively mitigate the economic risk associated with potential development that may result from these accident years. This transaction does not relieve the Company of its obligation to its reinsureds for the periods covered. The aggregate limit on the LPT cover of \$10.1 billion was reached, on an undiscounted loss basis, in 2012. There was no impact on net income at the inception of this contract. Loss recoveries of \$24.3, \$51.1, and \$42.1 were ceded to this cover for the years ended December 31, 2020, 2019, and 2018, respectively. In 2020, 2019, and 2018 the deferred gain was reduced by \$66.8, \$94.1, and \$69.8, respectively, as the recognition of previously deferred benefits exceeded the deferral of benefits from additional development ceded to the LPT during the year. Reinsurance recoverable of \$1,477.1 and \$1,582.1 was outstanding on the LPT at December 31, 2020 and 2019, respectively. The unamortized deferred gain related to changes in the amounts recoverable on this program was \$1,127.8 and \$1,194.6 at December 31, 2020 and 2019, respectively.

In 2010 the Company entered into an excess of loss adverse development cover with Munich Re. This reinsurance agreement provided the Company \$500.0 of protection for accident years 2001 and prior, for losses in excess of the \$10.1 billion limit of the Company's loss portfolio transfer agreement, also with Munich Re. The aggregate limit of this cover was reached, on an undiscounted basis, in 2013. Loss recoveries to this cover were increased by \$10.5, \$19.9 and \$6.4 for the years ended December 31, 2020, 2019, and 2018, respectively. Of the loss recoveries ceded, \$10.5, \$19.9 and \$6.4 were deferred in 2020, 2019, and 2018, respectively, to be recognized in income over the settlement period of the underlying claims. The unamortized deferred gain related to changes in the amounts recoverable on this program was \$285.1 and \$274.6 at December 31, 2020 and 2019, respectively.

In 2013 the Company entered into a second excess of loss adverse development cover with Munich Re. The terms of this contract are consistent with the 2010 ADC providing the Company with \$500.0 of protection for accident years 2001 and prior, for losses in excess of the limits of LPT and the 2010 ADC. Limit of \$389.7 remains available, on an undiscounted loss basis, on this cover at December 31, 2020. Loss recoveries to this cover were increased by \$61.3 for the year ended December 31, 2020, and reduced by \$23.1 and \$52.1 for the years ended December 31, 2019 and 2018, respectively. Loss recoveries in excess of the premiums ceded are deferred and will be recognized in income over the settlement period of the underlying claims. There is no deferred gain related to this program at December 31, 2020 and 2019.

The Company had accident year stop loss covers with Munich Re for the 2002 through 2008 accident years, with protection varying between \$410.0 and \$500.0 per annum. The reinsurance agreement attaches below expected loss ratios for the 2003 through 2005 accident years. Loss recoveries for prior accident years were reduced by \$5.8, \$1.3 and \$0.9 for the years ended December 31, 2020, 2019 and 2018, respectively. The funds held balance for these covers was \$344.2 and \$312.4 at December 31, 2020 and 2019, respectively. Interest expense on funds held was \$15.0, \$14.1, and \$13.5 for the years ended December 31, 2020, 2019, and 2018, respectively.

The Company had a variable quota share retrocessional program with Munich Re which covered the majority of the business written by the Company, net of inuring reinsurance, from 2002 to 2005. In December 2020, the Company entered into a commutation agreement with Munich Re for the variable quota share program. Reinsurance recoverables were reduced by \$239.8, funds held balances reduced by \$2,662.3, other underwriting receivables reduced by \$1,812.1, and net payments of \$375.1 were made to Munich Re to effect this transaction. Loss recoveries in excess of carried reserves of \$235.3 were recognized in income as a result of the commutation transaction, partially offset by commission and interest expenses of \$127.4. Excluding the impact of the 2020 commutation, loss recoveries increased by \$9.1 and \$11.4 for the years ended December 31, 2020 and 2019, respectively, and were reduced by \$66.0 for the year ended December 31, 2018. The funds held balances for this program was \$2,534.0 at December 31, 2019. The Company recorded a receivable for the amount of any program year's experience fund balance which the



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Company would recover at the termination of the variable quota share contract. This receivable balances was \$1,806.5 at December 31, 2019. Net interest on funds held and the payable balance, excluding the impact of the commutation transaction, was expense of \$3.9 and \$5.8 for the years ended December 31, 2020 and 2019, respectively, and income of \$10.4 for the year ended December 31, 2018.

The Company has property catastrophe reinsurance agreements with Munich Re providing coverage in excess of the Company's net retention levels for accident years 2006 through 2020. For the 2020 accident year, one layer of \$3,500.0 is provided in excess of a retention level of \$300.0 per occurrence. In 2020, the Company also purchased an aggregate excess of loss cover. This cover provides additional coverage of \$250.0 in excess of \$50.0 retained per occurrence, once an annual aggregate deductible of \$250.0 is met. Premiums of \$245.0, \$229.3, and \$135.0, were ceded to these covers for the years ended December 31, 2020, 2019, and 2018, respectively. Loss recoveries were reduced by \$47.8 and \$4.9 for the years ended December 31, 2020 and 2019, respectively, and losses of \$66.3 were ceded to these agreements for the year ended December 31, 2018.

Munich Reinsurance America, Inc. has a quota share program with American Modern Home Company ("American Modern"), a subsidiary of MAHC, to cover the property and casualty personal lines business on site-built and manufactured homes, net of inuring reinsurance. The assuming percentage on this program varies between 50% and 90% depending upon the contract year. Premiums written of \$499.0, \$463.6, and \$412.7 were assumed on this program for the years ended December 31, 2020, 2019, and 2018, respectively. Premiums earned were \$487.7, \$441.2, and \$406.6, for the years ended December 31, 2020, 2019, and 2018, respectively. Losses incurred of \$370.0, \$242.6, and \$269.1 were assumed on this program for the years ended December 31, 2020, 2019, and 2018, respectively. Commission expense of \$179.8, \$166.1, and \$153.1 was recognized on this program for the years ended December 31, 2020, 2019, and 2018, respectively.

Munich Reinsurance America, Inc. also has a 100% quota share program with American Modern reinsuring property and casualty business underwritten by the Company's Specialty Insurance division, net of inuring reinsurance. Premiums written of \$76.9, \$72.5, and \$94.5 were assumed on this program for the years ended December 31, 2020, 2019, and 2018, respectively. Premiums earned were \$76.2, \$77.8, and \$101.1 for the years ended December 31, 2020, 2019, and 2018, respectively. Losses incurred of \$69.1, \$61.1, and \$81.1 were assumed on this program for the years ended December 31, 2020, 2019, and 2018, respectively. Commission expense of \$28.0, \$26.5, and \$34.4 was recognized on this program for the years ended December 31, 2020, 2019, and 2018, respectively.

Beginning in 2019, Munich Reinsurance America, Inc. has a 100% quota share program with Munich Re Digital Partners, a subsidiary of MAHC, covering all property and casualty business written through Digital Advantage Insurance Company. Premiums written of \$159.6 and \$11.5 were assumed on this program for the years ended December 31, 2020 and 2019, respectively. Premiums earned were \$89.5 and \$4.5 for the years ended December 31, 2020 and 2019, respectively. Losses incurred of \$88.2 and \$5.0 were assumed on this program for the years ended December 31, 2020 and 2019, respectively. Commission expense of \$36.5 and \$1.7 was recognized on this program for the years ended December 31, 2020 and 2019, respectively.

Total premiums ceded to Munich Re and its affiliated companies were \$250.0 and \$246.1 for the years ended December 31, 2020 and 2019, respectively. For the year ended December 31, 2018, as a result of the novation and cancellation of several reinsurance agreements, aggregate premiums of \$167.6 were returned to the Company by Munich Re and its affiliated companies. Total losses and LAE ceded to Munich Re and its affiliated companies were \$324.9, \$26.3 and \$18.4 for the years ending December 31, 2020, 2019, and 2018, respectively. Total ceding commissions of \$50.2, \$12.4, and \$44.5 were earned on programs with Munich Re and its affiliated companies in the years ended December 31, 2020, 2019, and 2018. Total insurance reserves outstanding with Munich Re and its affiliated companies were \$2,273.0 and \$2,666.1 at December 31, 2020 and 2019, respectively. Gross premiums assumed from Munich Re and its affiliated companies were \$754.7, \$557.7, and \$184.3 for the years ended December 31, 2020, 2019, and 2018, respectively.

MEAG New York Corporation is an affiliated investment advisor responsible for the management of the majority of the Company's investment portfolio. Beginning in October 2020, MR Group Investment U.S., Inc., also an

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affiliated entity, provides oversight of the Munich Re investment managers in the U.S. Fees paid to these entities were \$9.6, \$9.2, and \$9.1 for the years ended December 31, 2020, 2019, and 2018, respectively.

MEAG Munich ERGO Asset Management GmbH (“MEAG”) is an affiliated investment advisor responsible for the management of the majority of the Company’s investments in infrastructure entities and real estate limited partnerships. Fees paid to MEAG were \$3.4, \$3.0, and \$2.8 for the years ended December 31, 2020, 2019, and 2018, respectively.

In 2019, the Company entered into an agreement to sublease office space from an affiliated entity. The operating lease liability related to this related party transaction was \$9.6 and \$10.7 at December 31, 2020 and December 31, 2019, respectively. Cash paid for amounts included in the measurement of lease liabilities included in operating cash flow related to this transaction was \$1.4 and \$0.8 for the year ended December 31, 2020 and December 31, 2019, respectively.

Munich Reinsurance America, Inc. has a revolving credit agreement with MAHC which allows MAHC to borrow up to \$225.0 from Munich Reinsurance America, Inc. Outstanding amounts under this agreement bear interest at a rate equal to the LIBOR, for a period equal in duration to the interest period, plus 25 basis points. There were no amounts outstanding under this agreement at December 31, 2020. The termination date of this agreement is December 28, 2021.

The Company also has a revolving credit agreement with MAHC, which allows MAHC to borrow up to \$225.0 from the Company. Outstanding amounts under this agreement bear interest annually at a rate equal to the LIBOR, for a period equal in duration to the interest period, plus 25 basis points. There were no amounts outstanding under this agreement at December 31, 2020. The termination date of this agreement is December 28, 2021.

## **16. COMMITMENTS AND CONTINGENT LIABILITIES**

### **A. Commitments**

As part of the common control acquisition in 2015, the Company assumed an agreement with U.S. Property Fund V GmbH & Co. KG (“USPF V”), a real estate investment partnership, to make contributions to the partnership totaling \$20.0. The Company has \$0.8 remaining on this commitment at December 31, 2020.

### **B. Surety Bonds**

The Company is contingently obligated as co-surety to certain surety bonds issued by its reinsured clients. In all such cases, an indemnification and hold harmless agreement is executed that limits the Company’s exposure to the extent provided under the reinsurance contract in the event of a claim. As co-surety, the Company would only incur a loss in excess of the limits of the reinsurance contract if a default by both the bonded principal and the co-surety occurred. Based upon internal risk modeling, which takes into consideration the financial strength and rating of the co-surety, a co-surety loss on any of these agreements is deemed to be remote. At December 31, 2020, the Company’s contingent obligation under all co-surety arrangements is \$765.8.

### **C. Financial Guarantees**

At December 31, 2020, the Company has provided guarantees in the amount of \$95.5 to certain counterparties of the weather and energy trading operations of an affiliate, Munich Re Trading, LLC (“MRTL”) pursuant to a credit support facility between the Company and MRTL (the “Guarantees”). Pursuant to the facility, the Company, may, but is not obligated to, issue credit support of up to a maximum of \$350.0 for MRTL in furtherance of MRTL’s trading business. The credit support will be in the form of guarantees wherein the Company guarantees the payment obligations of MRTL arising from certain transactions or contracts relating to the supply of energy services or weather related derivatives. The Guarantees remain in effect until the earlier of (i) the underlying transactions expire and all obligations are satisfied or (ii) the Guarantees are terminated pursuant to their terms. Upon payment of any obligations

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under the Guarantees, the Company has subrogation rights against MRTL. Based upon internal risk modeling, the current status of the payment risk on the Guarantees is deemed to be remote.

MR Jordan L.P. ("MR Jordan") is an affiliated limited partnership, whose primary holding is an equity investment in an entity that indirectly owns parking facilities throughout the U.S. The operations of that entity have been adversely impacted by the COVID-19 pandemic, specifically resulting from certain localities' stay at home directives and limited personal travel. To alleviate the going concern risks of MR Jordan, in September 2020, the Company provided a support letter indicating that it would, and has the ability to, support the operating, investing, and financial activities of MR Jordan through September 2021. Should it be needed, management does not believe this support would have a material impact on the Company's consolidated financial statements.

The American Re Management Limited Pension Plan (the "Plan") provides benefits to eligible members from Munich Re America Management Ltd., London and Great Lakes Services Limited (the "Plan Employers"), affiliates of the Company. The Plan is closed to future benefit accrual. In a valuation report dated as of June 2013, the valuation undertaken on a solvency basis revealed a deficit of £5.0 million. In return for the Trustees accepting repayment of the deficit by the Plan Employers over a ten year period of time, the Company agreed to provide a guarantee of the Plan Employers' obligations to the Plan. In the most recent valuation report as of June 2019, the valuation undertaken revealed a surplus of £7.8 million. The Plan Employers remain principally liable for the obligations of the Plan and the Company's guarantee remains in place.

## **E. Litigation**

The Company is involved in non-claim litigation incidental to its business principally related to insurance company insolvencies or liquidation proceedings in the ordinary course of business. Also, in the ordinary course of business, the Company is sometimes involved in adversarial proceedings incidental to its insurance and reinsurance business. The amounts at risk in these proceedings are taken into account in setting loss reserves. Based upon its familiarity with or review and analysis of such matters, the Company believes that none of the pending litigation matters will have a material adverse effect on the consolidated financial statements of the Company. However, no assurance can be given as to the ultimate outcome of any such litigation matters.

## **17. SEGMENT REPORTING**

Management reviews the Company's financial results focusing on its property and casualty ("P&C") business segments, comprised of its Reinsurance and Specialty Insurance. The underwriting results of the P&C segments are management's key focus in evaluating the underwriting performance of the Company. These results are reviewed on a "gross less specific retrocessions" basis. Specific retrocessions are those underwritten within the business segment and generally designed to reduce the net liability on individual risks. Other retrocessional programs underwritten on a corporate basis and designed to protect the overall surplus of the insurance subsidiaries are not included in the property and casualty underwriting results. These retrocessions, in addition to the underwriting results of health care business, other business segments in run-off, and certain business written on behalf of Munich Re and its affiliated companies, are aggregated to reconcile the P&C segments underwriting results to the consolidated statements of operations. Elements of underwriting results are **bold**.

The Company does not allocate certain items of revenues and expenses, nor are they included in the assessment of the segment results as reviewed by the Company's management. The assets and liabilities of the Company are generally not maintained on a segment or geographical basis. An allocation of such assets and liabilities is considered by the Company to be impracticable.

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**Year ended December 31, 2020**

	<u>Reinsurance</u>	<u>Specialty Insurance</u>	<u>Total P&amp;C</u>	<u>Total Corporate &amp; Other</u>	<u>Total</u>
<b><u>Revenues</u></b>					
Gross premiums written	\$ 3,544.2	\$ 883.4	\$ 4,427.6	\$ 1,060.4	\$ 5,488.0
Net premiums written	<u>3,541.9</u>	<u>857.6</u>	<u>4,399.5</u>	<u>764.1</u>	<u>5,163.6</u>
Premiums earned	3,552.9	798.4	4,351.3	645.8	4,997.1
Net investment income					306.6
Net realized capital gains					306.5
Other income					32.5
Total revenue					<u>5,642.7</u>
<b><u>Losses and Expenses</u></b>					
Losses and LAE	2,789.5	557.1	3,346.6	446.5	3,793.1
Underwriting expense	1,204.5	249.5	1,454.0	351.5	1,805.5
Interest expense					25.1
Interest on ceded funds held					93.4
Other expense					29.7
Total losses and expenses					<u>5,746.8</u>
Income before income taxes					<u>(104.1)</u>
Underwriting loss	\$ <u>(441.1)</u>	\$ <u>(8.2)</u>	\$ <u>(449.3)</u>	\$ <u>(152.2)</u>	\$ <u>(601.5)</u>
Losses and LAE Ratio	78.5 %	69.8 %	76.9 %	N/M	75.9 %
Underwriting Expense Ratio	<u>33.9</u>	<u>31.2</u>	<u>33.4</u>	<u>N/M</u>	<u>36.1</u>
Combined Ratio	<u>112.4</u> %	<u>101.0</u> %	<u>110.3</u> %	<u>N/M</u>	<u>112.0</u> %

N/M = not meaningful

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(Dollars in millions)

**Year ended December 31, 2019**

	<u>Reinsurance</u>	<u>Specialty Insurance</u>	<u>Total P&amp;C</u>	<u>Total Corporate &amp; Other</u>	<u>Total</u>
<b><u>Revenues</u></b>					
Gross premiums written	\$ 3,688.5	\$ 1,100.7	\$ 4,789.2	\$ 760.1	\$ 5,549.3
Net premiums written	<u>3,686.6</u>	<u>793.8</u>	<u>4,480.4</u>	<u>489.0</u>	<u>4,969.4</u>
Premiums earned	3,846.1	798.0	4,644.1	412.1	5,056.2
Net investment income					445.6
Net realized capital gains					142.7
Other income					30.4
Total revenue					<u>5,674.9</u>
<b><u>Losses and Expenses</u></b>					
Losses and LAE	2,735.5	586.6	3,322.1	371.4	3,693.5
Underwriting expense	1,385.6	242.1	1,627.7	231.4	1,859.1
Interest expense					25.1
Interest on ceded funds held					24.4
Other expense					26.0
Total losses and expenses					<u>5,628.1</u>
Income before income taxes					<u>46.8</u>
Underwriting loss	\$ <u>(275.0)</u>	\$ <u>(30.7)</u>	\$ <u>(305.7)</u>	\$ <u>(190.7)</u>	\$ <u>(496.4)</u>
Losses and LAE Ratio	71.1 %	73.5 %	71.5 %	N/M	73.0 %
Underwriting Expense Ratio	<u>36.0</u>	<u>30.3</u>	<u>35.1</u>	<u>N/M</u>	<u>36.8</u>
Combined Ratio	<u>107.1</u> %	<u>103.8</u> %	<u>106.6</u> %	<u>N/M</u>	<u>109.8</u> %

N/M = not meaningful

**MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES**  
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(Dollars in millions)

**Year ended December 31, 2018**

	<u>Reinsurance</u>	<u>Specialty Insurance</u>	<u>Total P&amp;C</u>	<u>Total Corporate &amp; Other</u>	<u>Total</u>
<b><u>Revenues</u></b>					
Gross premiums written	\$ 3,945.5	\$ 1,101.3	\$ 5,046.8	\$ 467.2	\$ 5,514.0
Net premiums written	<u>3,943.8</u>	<u>837.9</u>	<u>4,781.7</u>	<u>490.2</u>	<u>5,271.9</u>
Premiums earned	3,787.4	836.0	4,623.4	442.1	5,065.5
Net investment income					387.8
Net realized capital losses					(117.9)
Other income					41.7
Total revenue					<u>5,377.1</u>
<b><u>Losses and Expenses</u></b>					
Losses and LAE	2,800.6	640.9	3,441.5	311.9	3,753.4
Underwriting expense	1,350.4	242.9	1,593.3	185.0	1,778.3
Interest expense					25.2
Interest on ceded funds held					9.5
Other expense					22.6
Total losses and expenses					<u>5,589.0</u>
Loss before income taxes					<u>(211.9)</u>
Underwriting loss	\$ <u>(363.6)</u>	\$ <u>(47.8)</u>	\$ <u>(411.4)</u>	\$ <u>(54.8)</u>	\$ <u>(466.2)</u>
Losses and LAE Ratio	73.9 %	76.7 %	74.4 %	N/M	74.1 %
Underwriting Expense Ratio	<u>35.7</u>	<u>29.0</u>	<u>34.5</u>	N/M	<u>35.1</u>
Combined Ratio	<u>109.6</u> %	<u>105.7</u> %	<u>108.9</u> %	N/M	<u>109.2</u> %

N/M = not meaningful

**MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Dollars in millions)

**17. UNAUDITED QUARTERLY FINANCIAL DATA**

The following summarized quarterly financial data is unreviewed and unaudited by the Company's independent auditors.

	<b>2020</b>			
	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>
Operating Data				
Premiums written	\$ 1,264.2	\$ 1,075.3	\$ 1,543.2	\$ 1,280.9
Premiums earned	1,315.0	1,117.5	1,189.2	1,375.4
Losses and LAE	830.7	816.1	1,026.9	1,119.4
Underwriting expenses	452.4	398.7	442.6	511.8
Underwriting gain (loss)	31.9	(97.3)	(280.3)	(255.8)
Net investment income	67.3	50.1	98.2	91.0
Net realized capital gains (losses)	63.8	39.0	156.7	47.0
Interest expense	6.3	6.2	6.3	6.3
Net income (loss) to common stockholder	130.9	(13.0)	(64.4)	(77.5)
Comprehensive income (loss)	0.2	432.3	(96.2)	(6.7)

	<b>2019</b>			
	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>
Operating Data				
Premiums written	\$ 1,279.5	\$ 1,085.7	\$ 1,703.6	\$ 900.6
Premiums earned	1,222.9	1,183.2	1,336.5	1,313.6
Losses and LAE	718.5	791.6	1,013.4	1,170.0
Underwriting expenses	444.4	411.0	495.6	508.1
Underwriting gain (loss)	60.0	(19.4)	(172.5)	364.5
Net investment income	83.7	129.9	106.1	125.9
Net realized capital gains (losses)	(1.4)	22.2	86.7	35.2
Interest expense	6.3	6.2	6.3	6.3
Net income (loss) to common stockholder	134.8	102.9	(13.8)	(169.8)
Comprehensive income (loss)	374.0	276.2	42.5	(211.3)

**SCHEDULE I**

**MUNICH RE AMERICA CORPORATION  
SUMMARY OF INVESTMENTS  
OTHER THAN INVESTMENTS IN RELATED PARTIES  
AND CASH AND CASH EQUIVALENTS  
December 31, 2020  
(Dollars in millions)**

<b>Type of Investment</b>	<b>Amortized cost or cost<sup>(1)</sup></b>	<b>Fair value</b>	<b>Amount at which shown in the balance sheet</b>
<b>Fixed income securities:</b>			
Fixed income securities available for sale:			
U.S. Government and government agencies	\$ 6,300.3	\$ 6,659.1	\$ 6,659.1
States, municipalities and political subdivisions	12.6	13.3	13.3
Asset-backed securities	771.3	775.4	775.4
Residential mortgage-backed securities	611.1	638.1	638.1
Commercial mortgage-backed securities	582.7	629.1	629.1
Foreign governments	712.6	790.8	791.3
Public utilities	469.9	485.9	485.9
Corporate bonds	4,455.2	4,669.5	4,669.0
Total fixed income securities available for sale	<u>13,915.7</u>	<u>14,661.2</u>	<u>14,661.2</u>
Fixed income securities trading	<u>18.7</u>	<u>18.7</u>	<u>18.7</u>
Total fixed income securities	<u>13,934.4</u>	<u>14,679.9</u>	<u>14,679.9</u>
<b>Equity securities:</b>			
Common stock available for sale:			
Industrial and miscellaneous and all other	<u>141.8</u>	<u>166.2</u>	<u>166.2</u>
Total equity securities	<u>141.8</u>	<u>166.2</u>	<u>166.2</u>
Short term investments	246.4	246.6	246.6
Other invested assets	<u>845.0</u>	<u>1,037.5</u>	<u>845.0</u>
Total investments	<u>\$ 15,167.6</u>	<u>\$ 16,130.2</u>	<u>\$ 15,937.7</u>

(1) Amortized cost for fixed income securities available-for-sale and trading and short-term investments represents original cost reduced by repayments and impairments and adjusted for amortization of premiums and accretion of discounts. For equity securities, cost represents original cost. For other invested assets, cost represents original cost reduced for impairments or original cost adjusted for equity in earnings and distributions.

See Independent Auditors' Report on F-2.



**SCHEDULE II**

**MUNICH RE AMERICA CORPORATION  
CONDENSED FINANCIAL INFORMATION  
CONDENSED BALANCE SHEETS  
December 31, 2020 and 2019  
(Dollars in millions)**

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
Investment in subsidiaries	\$ 4,947.8	\$ 4,008.2
Short term investments	201.4	140.1
Cash and cash equivalents	1.9	0.5
Goodwill	12.9	12.9
Current federal income taxes receivable	3.5	12.4
Loans receivable	-	35.0
Miscellaneous receivables	0.1	0.2
Total assets	<u>\$ 5,167.6</u>	<u>\$ 4,209.3</u>
<b>Liabilities</b>		
Interest payable	\$ 1.0	\$ 1.0
Deferred federal income taxes	109.3	109.3
Senior notes	332.1	331.9
Other liabilities	1.3	1.3
Total liabilities	<u>443.7</u>	<u>443.5</u>
<b>Stockholder's Equity</b>		
Common stock	-	-
Additional paid in capital	6,316.3	5,636.3
Accumulated deficit	(2,030.5)	(1,955.0)
Accumulated other comprehensive income (loss)	438.1	84.5
Total stockholder's equity	<u>4,723.9</u>	<u>3,765.8</u>
Total liabilities and stockholder's equity	<u>\$ 5,167.6</u>	<u>\$ 4,209.3</u>

See accompanying note to condensed financial statements.  
See Independent Auditors' Report on F-2.

**SCHEDULE II**

**MUNICH RE AMERICA CORPORATION**  
**CONDENSED FINANCIAL INFORMATION**  
**CONDENSED STATEMENTS OF COMPREHENSIVE INCOME**  
**Years Ended December 31, 2020, 2019, and 2018**  
**(Dollars in millions)**

	Year ended December 31,		
	2020	2019	2018
<b>Revenue</b>			
Net investment income	\$ 1.4	\$ 3.5	\$ 2.9
Other income	38.9	39.1	42.4
Total	<u>40.3</u>	<u>42.6</u>	<u>45.3</u>
<b>Expenses</b>			
Interest expense	25.1	25.1	25.3
Operating expenses	<u>2.6</u>	<u>0.6</u>	<u>1.6</u>
Total expenses	<u>27.7</u>	<u>25.7</u>	<u>26.9</u>
Operating income before federal income taxes	12.6	16.9	18.4
Federal income taxes	<u>(5.9)</u>	<u>12.1</u>	<u>10.1</u>
Income before equity in undistributed net income of subsidiaries	18.5	4.8	8.3
Equity in undistributed net income (loss) of subsidiaries	<u>(42.5)</u>	<u>49.3</u>	<u>(208.0)</u>
Net income (loss) to common stockholder	<u>(24.0)</u>	<u>54.1</u>	<u>(199.7)</u>
Other comprehensive income (loss)	353.6	427.3	(186.9)
Comprehensive income (loss)	<u>\$ 329.6</u>	<u>\$ 481.4</u>	<u>\$ (386.6)</u>

See accompanying note to condensed financial statements.  
See Independent Auditors' Report on F-2.

**SCHEDULE II**

**MUNICH RE AMERICA CORPORATION  
CONDENSED FINANCIAL INFORMATION  
CONDENSED STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2020, 2019, and 2018  
(Dollars in millions)**

	<b>Year ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Cash Flows From Operating Activities:</b>			
Net income (loss) to common stockholder	\$ (24.0)	\$ 54.1	\$ (199.7)
<b>Adjustments to reconcile net income (loss) to cash provided by operating activities:</b>			
Equity in undistributed loss (income) of subsidiaries	42.5	(49.3)	208.0
Current and deferred federal income tax asset	8.9	16.7	5.9
Increase in other asset/liabilities	35.4	(34.8)	(0.3)
Other, net	(1.4)	(3.3)	(2.3)
Net cash provided by (used in) operating activities	<u>61.4</u>	<u>(16.6)</u>	<u>11.6</u>
<b>Cash Flows From Investing Activities:</b>			
Investment in subsidiary	(680.0)	(21.0)	(275.0)
Dividends received from subsidiaries	51.5	53.4	39.1
Net purchases and sales in short term investments	(60.0)	9.8	(4.6)
Net cash provided by (used in) investing activities	<u>(688.5)</u>	<u>42.2</u>	<u>(240.5)</u>
<b>Cash Flows From Financing Activities:</b>			
Capital contribution from parent company	680.0	21.0	275.0
Dividends paid to parent company	(51.5)	(53.4)	(39.1)
Net cash provided by (used in) financing activities	<u>628.5</u>	<u>(32.4)</u>	<u>235.9</u>
Net increase (decrease) in cash	1.4	(6.8)	7.0
Cash and cash equivalents, beginning of period	0.5	7.3	0.3
Cash and cash equivalents, end of period	<u>\$ 1.9</u>	<u>\$ 0.5</u>	<u>\$ 7.3</u>
<b>Supplemental Cash Flow Information:</b>			
Income taxes received (paid)	\$ 18.3	\$ (6.5)	\$ (8.7)
Interest paid	\$ (24.9)	\$ (24.9)	\$ (24.9)
<b>Supplemental Schedule of Noncash Financing Activities</b>			
Capital contribution	\$ -	\$ 14.3	\$ -

See accompanying note to condensed financial statements.  
See Independent Auditors' Report on F-2.

**SCHEDULE II—CONDENSED FINANCIAL INFORMATION**  
**MUNICH RE AMERICA CORPORATION**  
**NOTE TO CONDENSED FINANCIAL INFORMATION**

The condensed financial information of Munich Re America Corporation for the years ended December 31, 2020, 2019, and 2018, should be read in conjunction with the consolidated financial statements of Munich Re America Corporation and subsidiaries and the notes thereto. Investment in subsidiaries is recorded using the equity method of accounting.

**SCHEDULE III**

**MUNICH RE AMERICA CORPORATION**  
**SUPPLEMENTAL INSURANCE INFORMATION**  
(Dollars in millions)

Segment	Deferred policy acquisition costs	Net unpaid benefits, losses, claims and loss expenses	Unearned premiums	Earned premiums	Net investment income (1)	Claims and claim adjustment expense	Amortization of deferred policy acquisition costs	Underwriting expenses	Premiums written
<b>Year ended</b>									
<b>December 31, 2020</b>									
Reinsurance	\$ 383.2	\$ 7,177.8	\$ 1,239.1	\$ 3,552.9	\$ -	\$ 2,789.5	\$ 400.7	\$ 1,204.5	\$ 3,541.9
Insurance	83.8	2,270.6	389.1	798.4	-	557.1	58.7	249.5	857.6
Other	167.4	874.7	514.8	645.8	-	446.5	130.4	351.5	764.1
Total	<u>\$ 634.4</u>	<u>\$ 10,323.1</u>	<u>\$ 2,143.0</u>	<u>\$ 4,997.1</u>	<u>\$ -</u>	<u>\$ 3,793.1</u>	<u>\$ 589.8</u>	<u>\$ 1,805.5</u>	<u>\$ 5,163.6</u>
<b>Year ended</b>									
<b>December 31, 2019</b>									
Reinsurance	\$ 400.7	\$ 6,672.1	\$ 1,264.0	\$ 3,846.1	\$ -	\$ 2,735.5	\$ 473.4	\$ 1,385.6	\$ 3,686.6
Insurance	59.0	2,219.5	454.7	798.0	-	586.6	63.4	242.1	793.8
Other	130.1	392.4	382.2	412.1	-	371.4	108.5	231.4	489.0
Total	<u>\$ 589.8</u>	<u>\$ 9,284.0</u>	<u>\$ 2,100.9</u>	<u>\$ 5,056.2</u>	<u>\$ -</u>	<u>\$ 3,693.5</u>	<u>\$ 645.3</u>	<u>\$ 1,859.1</u>	<u>\$ 4,969.4</u>
<b>Year ended</b>									
<b>December 31, 2018</b>									
Reinsurance	\$ 473.4	\$ 5,983.6	\$ 1,423.4	\$ 3,787.5	\$ -	\$ 2,800.6	\$ 411.7	\$ 1,350.4	\$ 3,943.8
Insurance	63.4	2,237.2	436.8	835.9	-	640.9	64.3	242.9	837.9
Other	108.5	293.2	318.7	442.1	-	311.9	100.0	185.0	490.2
Total	<u>\$ 645.3</u>	<u>\$ 8,514.0</u>	<u>\$ 2,178.9</u>	<u>\$ 5,065.5</u>	<u>\$ -</u>	<u>\$ 3,753.4</u>	<u>\$ 576.0</u>	<u>\$ 1,778.3</u>	<u>\$ 5,271.9</u>

(1) The Company does not allocate net investment income by reportable segment, as it is not included in the assessment of the segment results as reviewed by the Company's management.

See Independent Auditors' Report on F-2.

**SCHEDULE IV**

**MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES**  
**REINSURANCE**  
(Dollars in millions, except percentages)

	<u>Gross amount</u>	<u>Ceded to other companies</u>	<u>Assumed from other companies</u>	<u>Net amount</u>	<u>Percentage of amount assumed to net</u>
<b>Year ended December 31, 2020</b>					
<b>Premiums:</b>					
Accident and health insurance	\$ 1.7	\$ (0.4)	\$ 151.8	\$ 153.9	98.6 %
Property-liability insurance	<u>1,022.6</u>	<u>449.3</u>	<u>4,269.9</u>	<u>4,843.2</u>	88.2
Total premiums	<u>\$ 1,024.3</u>	<u>\$ 448.9</u>	<u>\$ 4,421.7</u>	<u>\$ 4,997.1</u>	88.5 %
	<u>Gross amount</u>	<u>Ceded to other companies</u>	<u>Assumed from other companies</u>	<u>Net amount</u>	<u>Percentage of amount assumed to net</u>
<b>Year ended December 31, 2019</b>					
<b>Premiums:</b>					
Accident and health insurance	\$ 15.9	\$ 11.7	\$ 183.5	\$ 187.7	97.8 %
Property-liability insurance	<u>1,064.6</u>	<u>559.4</u>	<u>4,363.3</u>	<u>4,868.5</u>	89.6
Total premiums	<u>\$ 1,080.5</u>	<u>\$ 571.1</u>	<u>\$ 4,546.8</u>	<u>\$ 5,056.2</u>	89.9 %
	<u>Gross amount</u>	<u>Ceded to other companies</u>	<u>Assumed from other companies</u>	<u>Net amount</u>	<u>Percentage of amount assumed to net</u>
<b>Year ended December 31, 2018</b>					
<b>Premiums:</b>					
Accident and health insurance	\$ 186.2	\$ 145.7	\$ 182.9	\$ 223.4	81.9 %
Property-liability insurance	<u>1,014.7</u>	<u>468.2</u>	<u>4,295.6</u>	<u>4,842.1</u>	88.7
Total premiums	<u>\$ 1,200.9</u>	<u>\$ 613.9</u>	<u>\$ 4,478.5</u>	<u>\$ 5,065.5</u>	88.4 %

See Independent Auditors' Report on F-2.

**SCHEDULE VI**

**MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES**  
**Supplemental Information (For Property-Casualty Insurance Underwriters)**  
**(Dollars in millions)**

	Deferred policy acquisition costs	Reserves for unpaid claims and claims adjustment expenses	Discount, if any deducted in previous column	Unearned premiums	Earned premiums	Net investment income	Claims and claim adjustment expenses incurred related to:		Amortization of deferred policy acquisition costs	Paid claims and claims adjustment expenses	Premiums written
							current year	prior year			
<b>Year ended December 31, 2020</b>											
(a) Consolidated property-casualty insurance entities	\$ 634.4	\$ 13,264.3	\$ Note (1)	\$ 2,143.0	\$ 4,997.1	\$ 306.6	\$ 3,831.5	\$ (38.4)	\$ 589.8	\$ 2,815.6	\$ 5,163.6
<b>Year ended December 31, 2019</b>											
(a) Consolidated property-casualty insurance entities	\$ 589.8	\$ 12,622.4	\$ Note (1)	\$ 2,100.9	\$ 5,056.2	\$ 445.6	\$ 3,554.1	\$ 139.4	\$ 645.3	\$ 3,005.1	\$ 4,969.4
<b>Year ended December 31, 2018</b>											
(a) Consolidated property-casualty insurance entities	\$ 645.3	\$ 12,335.4	\$ Note (1)	\$ 2,178.9	\$ 5,065.5	\$ 387.8	\$ 3,876.4	\$ (123.0)	\$ 576.0	\$ 2,529.2	\$ 5,271.9

(1) Workers' compensation reserves are discounted at a rate of 4.5% for accident years prior to 2007, a rate of 3.0% for accident years 2007 through 2010, and a rate of 0.0% for accident years 2011 through 2020. The discount is \$702.2, \$742.6 and \$843.9, as of December 31, 2020, 2019, and 2018, respectively.

See Independent Auditors' Report on F-2.