
MUNICH RE AMERICA CORPORATION

Quarterly Report For The Period Ended September 30, 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.

November 6, 2020

MUNICH RE AMERICA CORPORATION

FINANCIAL INFORMATION

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FINANCIAL INFORMATION

MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES Consolidated Balance Sheets

(Dollars in millions, except share amounts)

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Assets:		
Investments		
Fixed income securities		
Available for sale, at fair value (amortized cost: September 30, 2020 and December 31, 2019 - \$13,716.3 and \$13,196.8 respectively)	\$ 14,373.6	\$ 13,496.6
Trading, at fair value	17.9	17.4
Equity securities	159.0	161.7
Other invested assets	843.2	630.7
Short term investments	288.8	164.7
Cash and cash equivalents	316.2	345.8
Total investments and cash	<u>15,998.7</u>	<u>14,816.9</u>
Accrued investment income	71.4	85.7
Premiums and other receivables	2,982.7	2,844.7
Deferred policy acquisition costs	673.9	589.8
Reinsurance recoverables on paid and unpaid losses	3,161.1	3,383.3
Funds held by ceding companies	1,116.8	1,147.7
Prepaid reinsurance premiums	10.9	129.1
Goodwill	237.3	237.3
Deferred federal income taxes	318.8	450.0
Receivable for securities sold	133.1	-
Other assets	372.0	396.2
Total assets	<u>\$ 25,076.7</u>	<u>\$ 24,080.7</u>
Liabilities:		
Loss and loss adjustment expense reserves	\$ 12,757.3	\$ 12,622.4
Unearned premium reserve	2,243.7	2,100.9
Total insurance reserves	<u>15,001.0</u>	<u>14,723.3</u>
Loss balances payable	248.3	40.4
Funds held under reinsurance treaties	3,118.1	3,080.8
Deferred underwriting revenue	1,399.7	1,474.5
Senior notes	332.1	331.9
Payables for securities purchased	277.4	-
Other liabilities	649.4	664.0
Total liabilities	<u>21,026.0</u>	<u>20,314.9</u>
Stockholder's Equity:		
Common stock, par value: \$0.01 per share; authorized: 1,000 shares; issued and outstanding: 149.49712 shares at September 30, 2020 and December 31, 2019	-	-
Additional paid-in capital	5,636.3	5,636.3
Accumulated deficit	(1,952.9)	(1,955.0)
Accumulated other comprehensive income	367.3	84.5
Total stockholder's equity	<u>4,050.7</u>	<u>3,765.8</u>
Total liabilities and stockholder's equity	<u>\$ 25,076.7</u>	<u>\$ 24,080.7</u>

See accompanying notes to consolidated interim financial statements.

MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(Dollars in millions)
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Revenue:				
Premiums written	\$ 1,543.2	\$ 1,703.6	\$ 3,882.7	\$ 4,068.8
Change in unearned premium reserve	(354.0)	(367.1)	(261.0)	(326.2)
Premiums earned	<u>1,189.2</u>	<u>1,336.5</u>	<u>3,621.7</u>	<u>3,742.6</u>
Net investment income	98.2	106.1	215.6	319.7
Net realized capital gains	156.7	86.7	259.5	107.5
Other income	<u>5.5</u>	<u>9.3</u>	<u>26.1</u>	<u>29.0</u>
Total revenue	<u>1,449.6</u>	<u>1,538.6</u>	<u>4,122.9</u>	<u>4,198.8</u>
Losses and expenses:				
Losses and loss adjustment expenses	1,026.9	1,013.4	2,673.7	2,523.5
Commission expense	399.2	435.0	1,120.3	1,151.7
Operating expense	43.4	60.6	173.4	199.3
Interest expense	6.3	6.3	18.8	18.8
Interest on ceded funds held balances	5.2	6.4	15.5	13.2
Other expense	<u>5.9</u>	<u>5.9</u>	<u>20.1</u>	<u>21.4</u>
Total losses and expenses	<u>1,486.9</u>	<u>1,527.6</u>	<u>4,021.8</u>	<u>3,927.9</u>
Income (loss) before income taxes	(37.3)	11.0	101.1	270.9
Federal and foreign income taxes	<u>27.1</u>	<u>24.8</u>	<u>47.6</u>	<u>47.0</u>
Net income (loss)	<u>(64.4)</u>	<u>(13.8)</u>	<u>53.5</u>	<u>223.9</u>
Other comprehensive income, net of tax:				
Unrealized appreciation of investments	8.5	43.5	356.3	406.0
Reclassification adjustment for losses included in operations	(41.1)	12.0	(75.9)	60.5
Defined benefit plan reclassification adjustment for losses included in operations	<u>0.8</u>	<u>0.8</u>	<u>2.4</u>	<u>2.3</u>
Other comprehensive income (loss)	<u>(31.8)</u>	<u>56.3</u>	<u>282.8</u>	<u>468.8</u>
Comprehensive income (loss)	<u>\$ (96.2)</u>	<u>\$ 42.5</u>	<u>\$ 336.3</u>	<u>\$ 692.7</u>

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Net realized capital gains (losses)				
Total other-than-temporary impairments	\$ (0.1)	\$ (0.8)	\$ (16.8)	\$ (0.8)
Other than-temporary impairments recognized in other comprehensive income	-	-	-	-
Net impairment losses recognized in earnings	<u>(0.1)</u>	<u>(0.8)</u>	<u>(16.8)</u>	<u>(0.8)</u>
Other net realized capital gains	156.8	87.5	276.3	108.3
Net realized capital gains	<u>\$ 156.7</u>	<u>\$ 86.7</u>	<u>\$ 259.5</u>	<u>\$ 107.5</u>

See accompanying notes to consolidated interim financial statements.

MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholder's Equity
(Dollars in millions)
(unaudited)

	Common stock	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total
Balance at June 30, 2020	\$ -	\$ 5,636.3	\$ (1,888.5)	\$ 399.1	\$ 4,146.9
Net loss	-	-	(64.4)	-	(64.4)
Other comprehensive loss	-	-	-	(31.8)	(31.8)
Dividend to parent company	-	-	-	-	-
Balance at September 30, 2020	<u>\$ -</u>	<u>\$ 5,636.3</u>	<u>\$ (1,952.9)</u>	<u>\$ 367.3</u>	<u>\$ 4,050.7</u>

	Common stock	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total
Balance at June 30, 2019	\$ -	\$ 5,595.3	\$ (1,776.2)	\$ 69.2	\$ 3,888.3
Net loss	-	-	(13.8)	-	(13.8)
Other comprehensive income	-	-	-	56.3	56.3
Capital contribution	-	20.0	4.8	0.6	25.4
Balance at September 30, 2019	<u>\$ -</u>	<u>\$ 5,615.3</u>	<u>\$ (1,785.2)</u>	<u>\$ 126.1</u>	<u>\$ 3,956.2</u>

	Common stock	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total
Balance at January 1, 2020	\$ -	\$ 5,636.3	\$ (1,955.0)	\$ 84.5	\$ 3,765.8
Net income	-	-	53.5	-	53.5
Other comprehensive income	-	-	-	282.8	282.8
Dividend to parent company	-	-	(51.4)	-	(51.4)
Balance at September 30, 2020	<u>\$ -</u>	<u>\$ 5,636.3</u>	<u>\$ (1,952.9)</u>	<u>\$ 367.3</u>	<u>\$ 4,050.7</u>

	Common stock	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total
Balance at January 1, 2019	\$ -	\$ 5,595.3	\$ (1,959.9)	\$ (343.3)	\$ 3,292.1
Cumulative-effect adjustment for accounting change	-	-	(0.7)	-	(0.7)
Net income	-	-	223.9	-	223.9
Other comprehensive income	-	-	-	468.8	468.8
Capital contribution	-	20.0	4.8	0.6	25.4
Dividend to parent company	-	-	(53.3)	-	(53.3)
Balance at September 30, 2019	<u>\$ -</u>	<u>\$ 5,615.3</u>	<u>\$ (1,785.2)</u>	<u>\$ 126.1</u>	<u>\$ 3,956.2</u>

See accompanying notes to consolidated interim financial statements.

MUNICH RE AMERICA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Dollars in millions)

(unaudited)

	Nine months ended September 30,	
	2020	2019
Cash Flows From Operating Activities:		
Net income	\$ 53.5	\$ 223.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Accrued investment income	14.3	0.3
Trading securities	(0.5)	0.6
Premiums and other receivables	(138.0)	(322.8)
Deferred policy acquisition costs	(84.1)	(87.0)
Reinsurance recoverables on paid and unpaid losses	222.2	405.3
Funds held, net	68.2	101.7
Insurance reserves	277.7	247.6
Deferred revenue	(74.8)	(76.1)
Current and deferred federal and foreign income taxes, net	53.7	56.8
Other assets and liabilities, net	346.1	9.7
Depreciation expense on property and equipment	4.6	3.8
Net realized capital gains	(250.2)	(110.4)
Equity in income of investees	(6.4)	(18.1)
Other, net	(39.0)	(27.3)
Net cash provided by operating activities	447.3	408.0
Cash Flows From Investing Activities:		
Fixed income securities available for sale:		
Purchases	(9,250.2)	(11,257.9)
Maturities	107.7	340.2
Sales	9,026.4	10,146.5
Equity securities:		
Sales	-	13.1
Other invested assets:		
Purchases	(231.0)	(40.2)
Sales	21.5	13.7
Net derivative instrument settlements	31.7	(1.4)
Net purchases and sales of short term investments	(122.5)	408.0
Cost of additions to property and equipment	(9.1)	(8.1)
Net cash used in investing activities	(425.5)	(386.1)
Cash Flows From Financing Activities:		
Capital contribution from parent company	-	11.0
Dividend paid to parent company	(51.4)	(53.3)
Net cash used in financing activities	(51.4)	(42.3)
Effect of exchange rate changes on cash and cash equivalents	-	(0.1)
Net decrease in cash and cash equivalents	(29.6)	(20.5)
Cash and cash equivalents, beginning of period	345.8	405.6
Cash and cash equivalents, end of period	\$ 316.2	\$ 385.1
Supplemental Schedule of Noncash Financing Activities		
Capital contribution from parent company	\$ -	\$ 14.4

See accompanying notes to consolidated interim financial statements.

MUNICH RE AMERICA CORPORATION
Notes to Consolidated Interim Financial Statements
September 30, 2020
(Dollars in millions)
(unaudited)

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 currently eligible or approved to write surplus lines insurance in 45 states and territories. (Munich Reinsurance America, Inc., AAIC, Princeton E&S, and Bridgeway, together, are the “insurance subsidiaries.”). 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.

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 information for the interim periods ended September 30, 2020 and 2019, is not reviewed or audited by the Company’s independent auditors. The interim 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. These financial statements should be read in conjunction with the consolidated financial statements and related notes in the Company’s 2019 Annual Report.

B. Subsequent Events

There were no subsequent events requiring adjustment to the financial statements or disclosure through November 6, 2020, the date that the Company’s consolidated financial statements were available to be issued.

C. COVID-19

As the COVID-19 pandemic continues, the Company is actively monitoring 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 remain unknown. The extent of the impact of COVID-19 on the Company’s operational and financial performance will depend on certain 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 and cannot be predicted at this time. The Company is reviewing its business portfolios, contract coverages, and investment portfolios to assess the short- and long-term impacts this pandemic may have on the Company. To date, the impact to the Company’s investment portfolios has not been material. At September 30, 2020, the Company has recorded net loss and loss adjustment expenses of \$44.0 associated with earned exposures. This represents management’s best

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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.

2. New Accounting Standards

A. 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.

B. 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 ("SEC"). Early adoption is permitted for interim and annual periods beginning after December 15, 2018. The Company is currently assessing the impact of 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.

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.

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3. Investments

A. Fixed Income Securities Designated as Available for Sale

Investments available for sale were as follows:

	September 30, 2020			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Fixed income securities:				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$ 5,963.1	\$ 398.1	\$ 9.3	\$ 6,351.9
Obligation of states and political subdivisions	12.6	1.0	-	13.6
Foreign government securities	705.7	54.2	5.6	754.3
Corporate securities	5,260.6	185.1	38.5	5,407.2
Asset-backed securities	705.2	3.0	3.3	704.9
Residential mortgage-backed securities	504.2	26.5	-	530.7
Commercial mortgage-backed securities	564.9	47.0	0.9	611.0
Total fixed income securities	<u>13,716.3</u>	<u>714.9</u>	<u>57.6</u>	<u>14,373.6</u>
Short term investments	288.8	-	-	288.8
Total investments available for sale	<u>\$ 14,005.1</u>	<u>\$ 714.9</u>	<u>\$ 57.6</u>	<u>\$ 14,662.4</u>
	December 31, 2019			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
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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The amortized cost and fair value of fixed income securities available for sale at September 30, 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.

	<u>Amortized cost</u>	<u>Fair value</u>
Due to mature:		
One year or less	\$ 487.5	\$ 490.5
After one year through five years	5,780.5	5,979.9
After five years through ten years	4,049.9	4,219.2
After ten years	2,329.3	2,542.3
Residential mortgage-backed securities	504.2	530.7
Commercial mortgage-backed securities	564.9	611.0
Total fixed income securities	<u>\$ 13,716.3</u>	<u>\$ 14,373.6</u>

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

	Three months ended September 30,		Nine months ended September 30,	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Proceeds from sales	\$ 3,224.6	\$ 5,176.2	\$ 9,026.4	\$ 10,146.5
Gross gains realized	167.6	96.2	314.7	146.2
Gross losses realized	(10.7)	(8.7)	(38.4)	(37.9)

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.

MUNICH RE AMERICA CORPORATION
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(unaudited)

Investments with unrealized losses at September 30, 2020 and December 31, 2019, and the period of time for which they have been in a continuous loss position, were as follows:

	September 30, 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	\$ 727.4	\$ 9.3	\$ -	\$ -	\$ 727.4	\$ 9.3
Foreign government securities	127.2	5.0	4.8	0.6	132.0	5.6
Corporate securities	1,704.6	31.6	58.4	6.9	1,763.0	38.5
Asset-backed securities	303.8	3.2	17.7	0.1	321.5	3.3
Commercial mortgage-backed securities	83.2	0.5	23.1	0.4	106.3	0.9
Total temporarily impaired investments	<u>\$ 2,946.2</u>	<u>\$ 49.6</u>	<u>\$ 104.0</u>	<u>\$ 8.0</u>	<u>\$ 3,050.2</u>	<u>\$ 57.6</u>

	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	<u>\$ 1,716.1</u>	<u>\$ 24.1</u>	<u>\$ 997.5</u>	<u>\$ 10.0</u>	<u>\$ 2,713.6</u>	<u>\$ 34.1</u>

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.

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.

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(Dollars in millions)
(unaudited)

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 September 30, 2020, fixed income securities that have been in an unrealized loss position for twelve months or longer are comprised of 31 securities with an amortized cost of \$112.0 and a gross unrealized loss of \$8.0. These securities mature as follows: 2.8% due in less than one year; 8.5% due in one to five years; 22.5% due in five to ten years; and 66.2% 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:

	Three months		Nine months	
	ended September 30,		ended September 30,	
	2020	2019	2020	2019
Net gains (losses) recognized on trading securities	\$ 0.8	\$ (0.7)	\$ 0.7	\$ (0.7)
Less: Net losses recognized on securities sold	-	-	(0.2)	(0.5)
Unrealized gains (losses) recognized on securities still held at the reporting date	<u>\$ 0.8</u>	<u>\$ (0.7)</u>	<u>\$ 0.9</u>	<u>\$ (0.2)</u>

D. Equity Securities

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

	Three months		Nine months	
	ended September 30,		ended September 30,	
	2020	2019	2020	2019
Net gains recognized on trading securities	\$ 4.4	\$ 1.5	\$ 0.7	\$ 5.5
Less: Net gains recognized on securities sold	3.0	0.1	2.7	3.1
Unrealized gains (losses) recognized on securities still held at the reporting date	<u>\$ 1.4</u>	<u>\$ 1.4</u>	<u>\$ (2.0)</u>	<u>\$ 2.4</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

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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 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 September 30, 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 September 30, 2020, the Company's three open foreign currency forward contracts, having an aggregate notional value of \$153.0, reflected a net unrealized gain of \$2.0, with cash collateral of \$2.1 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 September 30, 2020, the Company had one open futures position, having an aggregate notional value of \$26.5. The Company provided \$1.8 in the form of a security as initial deposit margin collateral to the counterparty.

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The fair value of derivatives, by contract type, at September 30, 2020 and December 31, 2019 are as follows:

	<u>Balance Sheet location</u>	<u>September 30,</u>		<u>December 31,</u>	
		<u>2020</u>		<u>2019</u>	
Derivatives not designated as hedging instruments under ASC 815					
Derivative assets					
Foreign exchange forward contracts	Other invested assets	\$	2.1	\$	-
Foreign exchange forward contracts	Other liabilities		-		0.1
Fixed income futures	Other invested assets		-		3.5
Total		\$	<u>2.1</u>	\$	<u>3.6</u>
Derivative liabilities					
Foreign exchange forward contracts	Other invested assets	\$	0.1	\$	-
Foreign exchange forward contracts	Other liabilities		-		2.2
Total		\$	<u>0.1</u>	\$	<u>2.2</u>

The following table provides information about the earnings (loss) effects of the Company's derivative investments for the three months and nine months ended September 30, 2020 and 2019:

	<u>Location in Statement of Comprehensive Income</u>	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>					
		<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>				
Derivatives not designated as hedging instruments under ASC 815									
Credit default swaps and indices	Net investment income	\$	-	\$	(0.7)	\$	(12.0)	\$	(1.2)
Foreign exchange forward contracts	Net investment income		(2.8)		2.8		3.7		(1.9)
Fixed income futures	Net investment income		(1.1)		(5.3)		(38.8)		(5.3)
Total		\$	<u>(3.9)</u>	\$	<u>(3.2)</u>	\$	<u>(47.1)</u>	\$	<u>(8.4)</u>

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The following table provides the derivative asset and liability balances that are offset together in the Consolidated Balance Sheet at September 30, 2020, and December 31, 2019.

	September 30, 2020				
	Gross amounts of recognized assets (liabilities)	Gross amounts offset in Balance Sheet	Net amounts presented in Balance Sheet	Cash collateral paid (received) not offset in Balance Sheet	Net Amount
Derivative assets					
Foreign exchange forward contracts	\$ 2.1	\$ (2.1)	\$ -	\$ -	\$ -
Total	\$ 2.1	\$ (2.1)	\$ -	\$ -	\$ -
Derivative liabilities					
Foreign exchange forward contracts	\$ (0.1)	\$ 0.1	\$ -	\$ (0.1)	\$ (0.1)
Total	\$ (0.1)	\$ 0.1	\$ -	\$ (0.1)	\$ (0.1)

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

F. 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 \$43.7 and \$44.8 at September 30, 2020 and December 31, 2019, respectively, is included in other invested assets in the Consolidated Balance Sheet.

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4. Fair Value Measurement

The fair value hierarchy established by Accounting Standards Codification (“ASC”) 820, prioritizes valuation technique inputs to measure fair value into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. 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.

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. Foreign exchange forward contracts and credit default swaps are also categorized as Level 2 holdings. Credit default swaps are valued using 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.

Broker-dealer pricing is used either (i) when fair values are unavailable from independent pricing sources and, instead, non-binding quotes are obtained directly from broker-dealers who are active, and often considered the “market makers”, in the corresponding markets, or (ii) when the pricing hierarchy indicates that the broker-dealer is the best available source, even though pricing services’ values may be available. The inputs of broker-dealer pricing are both significant and unobservable as the Company does not have access to the valuation models used, nor information regarding specific inputs such as credit spreads, prepayment assumptions, or market liquidity factors.

Discounted cash flow modeling is performed for privately placed fixed income securities and loans which are not actively traded and do not have readily observable prices.

Net asset values are applied to investments in privately placed real estate limited partnerships which apply industry practice and measure investment assets at fair value. Such values are provided by the fund sponsors.

The Company utilizes a price source hierarchy to select which price source it will use to determine the fair value. The hierarchy prioritizes pricing sources based on the source’s expertise, reliability and availability. Priority is given to

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established pricing services ahead of broker-dealer price sources. The highest level price source available in the hierarchy is used to measure fair value. The majority of the Company's selected price sources are pricing vendors.

The Company relies on its third-party investment accounting service provider to analyze prices received from the pricing services and broker-dealers to ensure they represent a reasonable estimate of fair value. 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 sources, and back-testing of selected sales to determine if there were significant differences between the market price used to value the security prior to sale and the actual sales price.

The fair value of financial instruments at September 30, 2020 and December 31, 2019, were as follows:

	September 30, 2020		December 31, 2019	
	Carrying value	Fair value	Carrying value	Fair value
Assets:				
Fixed income securities				
Available for sale	\$ 14,373.6	\$ 14,373.6	\$ 13,496.6	\$ 13,496.6
Trading	17.9	17.9	17.4	17.4
Equity securities	159.0	159.0	161.7	161.7
Other invested assets				
Derivative assets	-	-	3.5	3.5
Other	43.7	38.5	44.8	44.6
Short term investments	288.8	288.8	164.7	164.7
Total	<u>\$ 14,883.0</u>	<u>\$ 14,877.8</u>	<u>\$ 13,888.7</u>	<u>\$ 13,888.5</u>
Liabilities:				
Senior notes	\$ 332.1	\$ 460.4	\$ 331.9	\$ 430.5
Derivative liabilities	-	-	1.3	1.3
Total	<u>\$ 332.1</u>	<u>\$ 460.4</u>	<u>\$ 333.2</u>	<u>\$ 431.8</u>

Other invested assets includes a senior secured loan, which is carried at amortized cost. Other invested assets carried under the equity method of accounting are not included in the presentation above as the fair value of these investments is not readily determinable.

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Investments measured at fair value on the Consolidated Balance Sheet are categorized as follows:

	September 30, 2020			
	Level 1	Level 2	Level 3	Total
Assets:				
Fixed income securities				
Available for sale investments				
U.S Treasury securities and obligations of U.S government agencies and corporations	\$ -	\$ 6,351.9	\$ -	\$ 6,351.9
Obligations of states and political subdivisions	-	13.6	-	13.6
Foreign government securities	-	754.3	-	754.3
Corporate securities	-	5,186.7	220.5	5,407.2
Asset-backed securities	-	367.0	337.9	704.9
Residential mortgage-backed securities	-	530.7	-	530.7
Commercial mortgage-backed securities	-	611.0	-	611.0
Total available for sale investment	-	13,815.2	558.4	14,373.6
Trading investments				
Foreign government securities	-	17.8	-	17.8
Corporate securities and foreign bonds	-	0.1	-	0.1
Equity securities	92.7	-	66.3	159.0
Short term investments	288.8	-	-	288.8
Total investments carried at fair value	\$ 381.5	\$ 13,833.1	\$ 624.7	\$ 14,839.3
Investments carried at cost				43.7
Investments carried at equity				799.5
Cash and cash equivalents				316.2
Total investments not carried at fair value				1,159.4
Total investments and cash				\$ 15,998.7

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	<u>December 31, 2019</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
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	<u>-</u>	<u>12,950.8</u>	<u>545.8</u>	<u>13,496.6</u>
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				<u>345.8</u>
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 nine months ended September 30, 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 September 30, 2020	Change in OCI due to assets still held ³
		earnings ¹	In OCI ²							
Available for sale investments										
Corporate securities	\$ 183.7	\$ -	\$ (6.0)	\$ 63.5	\$ (7.2)	\$ -	\$ -	\$ (13.5)	\$ 220.5	\$ (6.0)
Asset-backed securities	362.1	(0.9)	(2.0)	103.5	-	(106.8)	8.5	(26.5)	337.9	(2.5)
Equity securities	67.4	(1.1)	-	-	-	-	-	-	66.3	
Total	<u>\$ 613.2</u>	<u>\$ (2.0)</u>	<u>\$ (8.0)</u>	<u>\$ 167.0</u>	<u>\$ (7.2)</u>	<u>\$ (106.8)</u>	<u>\$ 8.5</u>	<u>\$ (40.0)</u>	<u>\$ 624.7</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 September 30, 2019	Change in OCI due to assets still held ³
		earnings ¹	In OCI ²							
Available for sale investments										
Corporate securities	\$ 125.5	\$ -	\$ 15.7	\$ 60.7	\$ (6.9)	\$ -	\$ -	\$ (0.7)	\$ 194.3	\$ 15.8
Asset-backed securities	292.7	(0.5)	3.2	55.1	-	(87.2)	43.9	(0.6)	306.6	3.0
Equity securities	72.3	0.7	-	-	(3.8)	-	-	-	69.2	0.7
Total	<u>\$ 490.5</u>	<u>\$ 0.2</u>	<u>\$ 18.9</u>	<u>\$ 115.8</u>	<u>\$ (10.7)</u>	<u>\$ (87.2)</u>	<u>\$ 43.9</u>	<u>\$ (1.3)</u>	<u>\$ 570.1</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 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 fair value of the Company's investments in private placement fixed income corporate securities of \$220.5 and \$183.7 at September 30, 2020 and December 31, 2019, respectively, is based on a discounted cash flow model and is included in Level 3. The cash flow model uses significant observable and unobservable inputs, including: a risk free rate 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 investment in collateralized loan obligations of \$337.9 and \$362.1, at September 30, 2020 and December 31, 2019, respectively, 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. Collateralized loan obligations of \$8.5 were transferred from Level 2 to Level 3 during 2020, as the fair value was determined based on a price provided by a broker-dealer pricing source. Collateralized loan obligations of \$26.5 were transferred from Level 3 to Level 2 during 2020, as the fair value was determined based on a price provided by an independent pricing service.

The fair value of the Company's Level 3 investment in equity securities of \$66.3 and \$67.4, at September 30, 2020 and December 31, 2019, respectively, is based on quarterly net asset values ("NAV") determined by the fund sponsors, and includes cumulative unrealized gains of \$14.2 at September 30, 2020, of which a \$1.9 loss and \$2.0 loss were recognized in the three- and nine-month periods then ended. These equity securities are investments in privately placed real estate limited partnerships whose industry practice is to measure investment assets at fair value. 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 does not expect such redemption to occur at an amount significantly different from the fund NAV. At September 30, 2020, the Company has not identified any investments in real estate limited partnerships which it intends to sell.

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5. Accumulated Other Comprehensive Income

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

	Net unrealized appreciation (depreciation) of investments	Defined benefit plan adjustment	Total
Balance at December 31, 2018	\$ (198.1)	\$ (145.2)	\$ (343.3)
Capital contribution	0.6	-	0.6
Period change	516.9	-	516.9
Tax effect	(110.9)	-	(110.9)
Reclassification adjustment for losses included in operations	76.8	2.9	79.7
Tax effect	(16.3)	(0.6)	(16.9)
Balance at September 30, 2019	<u>\$ 269.0</u>	<u>\$ (142.9)</u>	<u>\$ 126.1</u>
Balance at December 31, 2019	\$ 235.0	\$ (150.5)	\$ 84.5
Period change	454.3	-	454.3
Tax effect	(98.0)	-	(98.0)
Reclassification adjustment for losses included in operations	(96.8)	3.1	(93.7)
Tax effect	20.9	(0.7)	20.2
Balance at September 30, 2020	<u>\$ 515.4</u>	<u>\$ (148.1)</u>	<u>\$ 367.3</u>

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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6. Loss and Loss Adjustment Expense Reserves

The reconciliation of loss and loss adjustment expense reserves for the nine months ended September 30, 2020 and 2019 is shown below:

	Nine months ended September 30,	
	2020	2019
Loss and LAE reserves at beginning of period	\$ 12,622.4	\$ 12,335.4
Reinsurance recoverables on unpaid losses	<u>(3,338.4)</u>	<u>(3,821.4)</u>
Net reserves at beginning of period	9,284.0	8,514.0
Contributed net loss reserves	-	0.7
Net incurred related to:		
Current period	2,757.4	2,455.0
Prior periods	<u>(83.7)</u>	<u>68.5</u>
Total net incurred	2,673.7	2,523.5
Net paid related to:		
Current period	(393.4)	(417.6)
Prior periods	<u>(2,009.2)</u>	<u>(1,847.5)</u>
Total net paid	(2,402.6)	(2,265.1)
Deferred underwriting revenue	74.8	76.1
Foreign exchange increase in reserves	<u>3.2</u>	<u>0.1</u>
Net reserves at end of period	9,633.1	8,849.3
Reinsurance recoverables on unpaid losses	<u>3,124.2</u>	<u>3,387.7</u>
Loss and LAE reserves at end of period	<u>\$ 12,757.3</u>	<u>\$ 12,237.0</u>

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7. Reinsurance

The Company reinsures certain risks to limit its exposure to catastrophes and large or unusually hazardous risks. 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 ("LAE") are net of reinsurance. Direct, assumed, ceded and net amounts for these items are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Premiums written				
Direct	\$ 302.2	\$ 338.9	\$ 693.8	\$ 853.4
Assumed	1,428.9	1,581.1	3,449.7	3,609.8
Ceded	(187.9)	(216.4)	(260.8)	(394.4)
Net	<u>1,543.2</u>	<u>1,703.6</u>	<u>3,882.7</u>	<u>4,068.8</u>
Premiums earned				
Direct	245.5	264.4	771.7	800.5
Assumed	1,154.4	1,256.3	3,228.9	3,316.0
Ceded	(210.7)	(184.2)	(378.9)	(373.9)
Net	<u>1,189.2</u>	<u>1,336.5</u>	<u>3,621.7</u>	<u>3,742.6</u>
Losses incurred				
Direct	186.9	169.8	572.7	491.0
Assumed	897.0	844.9	2,237.4	2,150.9
Ceded	(57.0)	(1.3)	(136.4)	(118.4)
Net	<u>\$ 1,026.9</u>	<u>\$ 1,013.4</u>	<u>\$ 2,673.7</u>	<u>\$ 2,523.5</u>

8. Postretirement Benefits

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.

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.

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Net periodic benefit cost is included in other expense in the Consolidated Statement of Comprehensive Income. The following table provides the components of net periodic benefit cost for the three months ended September 30, 2020 and 2019:

	Pension Benefits		Other Benefits	
	2020	2019	2020	2019
Interest cost	\$ 5.7	\$ 7.1	\$ 0.3	\$ 0.4
Expected return on plan assets	(4.6)	(5.3)	-	-
Amortization of net loss	1.4	1.4	0.2	0.1
Amortization of prior service credit	-	-	(0.4)	(0.5)
Net periodic benefit cost	\$ 2.5	\$ 3.2	\$ 0.1	\$ -

The following table provides the components of net periodic benefit cost for the nine months ended September 30, 2020 and 2019:

	Pension Benefits		Other Benefits	
	2020	2019	2020	2019
Interest cost	\$ 17.2	\$ 20.9	\$ 0.9	\$ 1.3
Expected return on plan assets	(13.8)	(15.7)	-	-
Amortization of net loss	4.0	4.0	0.4	0.3
Amortization of prior service credit	-	-	(1.2)	(1.4)
Net periodic benefit cost	\$ 7.4	\$ 9.2	\$ 0.1	\$ 0.2

9. Commitments and Contingencies

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 September 30, 2020.

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 September 30, 2020, the Company's contingent obligation under all co-surety arrangements is \$822.4.

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Financial Guarantees

At September 30, 2020, the Company has provided guarantees in the amount of \$36.5 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 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.

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.

10. 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 divisions. 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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Three months ended September 30, 2020

	<u>Reinsurance</u>	<u>Specialty Insurance</u>	<u>Total P&C</u>	<u>Total Corporate & Other</u>	<u>Total</u>
<u>Revenues</u>					
Gross premiums written	\$ 1,152.3	\$ 298.2	\$ 1,450.5	\$ 280.6	\$ 1,731.1
Net premiums written	<u>1,151.6</u>	<u>297.3</u>	<u>1,448.9</u>	<u>94.3</u>	<u>1,543.2</u>
Premiums earned	930.5	199.5	1,130.0	59.2	1,189.2
Net investment income					98.2
Net realized capital gains					156.7
Other income					5.5
Total revenue					<u>1,449.6</u>
<u>Losses and Expenses</u>					
Losses and LAE	628.0	179.8	807.8	219.1	1,026.9
Underwriting expense	308.0	58.8	366.8	75.8	442.6
Interest expense					6.3
Interest on ceded funds held					5.2
Other expense					5.9
Total losses and expenses					<u>1,486.9</u>
Loss before income taxes					<u>(37.3)</u>
Underwriting loss	<u>(5.5)</u>	<u>(39.1)</u>	<u>(44.6)</u>	<u>(235.7)</u>	<u>(280.3)</u>
Losses and LAE Ratio	67.5 %	90.1 %	71.5 %	N/M	86.4 %
Underwriting Expense Ratio	<u>33.1</u>	<u>29.5</u>	<u>32.5</u>	N/M	<u>37.2</u>
Combined Ratio	<u>100.6 %</u>	<u>119.6 %</u>	<u>104.0 %</u>	N/M	<u>123.6 %</u>

N/M = not meaningful

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Three months ended September 30, 2019

	<u>Reinsurance</u>	<u>Specialty Insurance</u>	<u>Total P&C</u>	<u>Total Corporate & Other</u>	<u>Total</u>
<u>Revenues</u>					
Gross premiums written	\$ 1,402.7	\$ 332.5	\$ 1,735.2	\$ 184.8	\$ 1,920.0
Net premiums written	<u>1,402.2</u>	<u>226.1</u>	<u>1,628.3</u>	<u>75.3</u>	<u>1,703.6</u>
Premiums earned	<u>1,091.4</u>	<u>192.2</u>	<u>1,283.6</u>	<u>52.9</u>	<u>1,336.5</u>
Net investment income					106.1
Net realized capital gains					86.7
Other income					9.3
Total revenue					<u>1,538.6</u>
<u>Losses and Expenses</u>					
Losses and LAE	766.4	173.9	940.3	73.1	1,013.4
Underwriting expense	381.9	60.2	442.1	53.5	495.6
Interest expense					6.3
Interest on ceded funds held					6.4
Other expense					5.9
Total losses and expenses					<u>1,527.6</u>
Income before income taxes					<u>11.0</u>
Underwriting loss	\$ <u>(56.9)</u>	\$ <u>(41.9)</u>	\$ <u>(98.8)</u>	\$ <u>(73.7)</u>	\$ <u>(172.5)</u>
Losses and LAE Ratio	70.2 %	90.5 %	73.3 %	N/M	75.8 %
Underwriting Expense Ratio	<u>35.0</u>	<u>31.3</u>	<u>34.4</u>	N/M	<u>37.1</u>
Combined Ratio	<u>105.2 %</u>	<u>121.8 %</u>	<u>107.7 %</u>	N/M	<u>112.9 %</u>

N/M = not meaningful

MUNICH RE AMERICA CORPORATION
Notes to Consolidated Interim Financial Statements
September 30, 2020
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(unaudited)

Nine months ended September 30, 2020

	<u>Reinsurance</u>	<u>Specialty Insurance</u>	<u>Total P&C</u>	<u>Total Corporate & Other</u>	<u>Total</u>
<u>Revenues</u>					
Gross premiums written	\$ 2,754.4	\$ 640.8	\$ 3,395.2	\$ 748.3	\$ 4,143.5
Net premiums written	<u>2,752.5</u>	<u>616.9</u>	<u>3,369.4</u>	<u>513.3</u>	<u>3,882.7</u>
Premiums earned	<u>2,611.7</u>	<u>583.5</u>	<u>3,195.2</u>	<u>426.5</u>	<u>3,621.7</u>
Net investment income					215.6
Net realized capital gains					259.5
Other income					26.1
Total revenue					<u>4,122.9</u>
<u>Losses and Expenses</u>					
Losses and LAE	1,747.7	481.8	2,229.5	444.2	2,673.7
Underwriting expense	886.2	191.9	1,078.1	215.6	1,293.7
Interest expense					18.8
Interest on ceded funds held					15.5
Other expense					20.1
Total losses and expenses					<u>4,021.8</u>
Income before income taxes					<u>101.1</u>
Underwriting loss	<u>\$ (22.2)</u>	<u>\$ (90.2)</u>	<u>\$ (112.4)</u>	<u>\$ (233.3)</u>	<u>\$ (345.7)</u>
Losses and LAE Ratio	66.9 %	82.6 %	69.8 %	N/M	73.8 %
Underwriting Expense Ratio	<u>33.9</u>	<u>32.9</u>	<u>33.7</u>	N/M	<u>35.7</u>
Combined Ratio	<u>100.8 %</u>	<u>115.5 %</u>	<u>103.5 %</u>	N/M	<u>109.5 %</u>

N/M = not meaningful

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Nine months ended September 30, 2019

	<u>Reinsurance</u>	<u>Specialty Insurance</u>	<u>Total P&C</u>	<u>Total Corporate & Other</u>	<u>Total</u>
<u>Revenues</u>					
Gross premiums written	\$ 3,079.5	\$ 822.8	\$ 3,902.3	\$ 560.9	\$ 4,463.2
Net premiums written	<u>3,078.3</u>	<u>581.3</u>	<u>3,659.6</u>	<u>409.2</u>	<u>4,068.8</u>
Premiums earned	2,792.6	595.9	3,388.5	354.1	3,742.6
Net investment income					319.7
Net realized capital gains					107.5
Other income					29.0
Total revenue					<u>4,198.8</u>
<u>Losses and Expenses</u>					
Losses and LAE	1,823.9	438.5	2,262.4	261.1	2,523.5
Underwriting expense	995.1	185.5	1,180.6	170.4	1,351.0
Interest expense					18.8
Interest on ceded funds held					13.2
Other expense					21.4
Total losses and expenses					<u>3,927.9</u>
Income before income taxes					<u>270.9</u>
Underwriting loss	\$ <u>(26.4)</u>	\$ <u>(28.1)</u>	\$ <u>(54.5)</u>	\$ <u>(77.4)</u>	\$ <u>(131.9)</u>
Losses and LAE Ratio	65.3 %	73.6 %	66.8 %	N/M	67.4 %
Underwriting Expense Ratio	<u>35.6</u>	<u>31.1</u>	<u>34.8</u>	N/M	<u>36.1</u>
Combined Ratio	<u>100.9 %</u>	<u>104.7 %</u>	<u>101.6 %</u>	N/M	<u>103.5 %</u>

N/M = not meaningful

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE COMPANY'S RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2020, COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 2019

Underwriting Results and Combined Ratio

A key measure of the financial strength of a reinsurance company is a positive underwriting result, or an underwriting profit. A major goal of a 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 level, or consolidated financial statement level, management focuses on "property and casualty underwriting results" in evaluating the underwriting performance of the Company. The property and casualty ("P&C") underwriting results represent the aggregated results of the P&C business segments on a "gross less specific retrocessions" basis. 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 these P&C underwriting results.

The underwriting results and combined ratios for the Company for the three months ended September 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
	(Dollars in millions)	
Premiums earned	\$ 1,189.2	\$ 1,336.5
Less: Losses and LAE	1,026.9	1,013.4
Commission expense	399.2	435.0
Operating expense	43.4	60.6
Underwriting loss	<u>\$ (280.3)</u>	<u>\$ (172.5)</u>
Loss ratio	86.4 %	75.8 %
Expense ratio	37.2	37.1
Combined ratio	<u>123.6 %</u>	<u>112.9 %</u>

Financial Statement Results

The Company reported a net loss to its common stockholder of \$64.4 million for the three months ended September 30, 2020 compared to a net loss of \$13.8 million for the same period in 2019.

Revenues

Premiums. Gross premiums written for the three months ended September 30, 2020 decreased 9.8% to \$1,731.1 million from \$1,920.0 million for 2019.

Net premiums written by the Company's P&C segments, which exclude corporate retrocessional programs, decreased 11.0% to \$1,448.9 million for the three months ended September 30, 2020, from \$1,628.3 million for the same period in 2019. The Reinsurance segment experienced a 17.9% decrease in net premiums written to \$1,151.6

million for the three months ended September 30, 2020, from \$1,402.2 million in the same period in 2019. This decrease is generally attributable to decreases in the property and casualty lines of business. The Specialty Insurance segment experienced a 31.5% increase in net premiums written to \$297.3 million for the three months ended September 30, 2020, from \$226.1 million in the same period in 2019. This increase is the result of increases in the property, casualty, and marine lines of business. The decrease in premiums written by the P&C segments was partially offset by an increase of \$19.0 million in business not included in the P&C segments, resulting in a 9.4% decrease in consolidated net premiums written to \$1,543.2 million for the three months ended September 30, 2020, from \$1,703.6 million for the same period in 2019.

The Company's net premiums earned decreased 11.0% to \$1,189.2 million for the three months ended September 30, 2020, from \$1,336.5 million for the same period in 2019. The decrease in premiums earned is the result of the decrease in net premiums written, partially offset by the timing of the earnings of premiums in force.

Investment Income. Net investment income decreased 7.4% to \$98.2 million for the three months ended September 30, 2020, from \$106.1 million for the same period in 2019. This decrease is due to lower income from infrastructure investments, available for sale investments, and derivative investments, partially offset by higher income from treasury inflation-protected securities and increased gains from securities held for trading for the three months ended June 30, 2020, compared to the 2019 period.

The Company realized net capital gains of \$156.7 million for the three months ended September 30, 2020, compared to net capital gains of \$86.7 million for the same period in 2019. The 2020 period included net capital gains of \$156.8 million on the sale of fixed income securities. These gains were partially offset by write-downs of \$0.1 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 \$86.7 million recognized on the sale of fixed income securities and write-downs of \$0.8 million.

Other Income. Other income decreased 40.9% to \$5.5 million for the three months ended September 30, 2020, from \$9.3 million for the same period in 2019. This decrease was the result of decreased foreign exchange gains on foreign currency denominated assets and liabilities and decreased income from assumed funds held balances.

Expenses

Losses and Loss Adjustment Expenses. Net losses and LAE incurred increased 1.3% to \$1,026.9 million for the three months ended September 30, 2020, from \$1,013.4 million for the same period in 2019. The increase is primarily due to increased property catastrophe losses in the period predominantly from Gulf Coast hurricanes, West Coast wildfires, and Midwest thunderstorms for the three months ended September 30, 2020 compared to 2019.

Underwriting Expense. Underwriting expense, consisting of commission expense plus operating expense, decreased 10.7% to \$442.6 million for the three months ended September 30, 2020, from \$495.6 million for the same period in 2019. This decrease was due to a 8.2% decrease in commission expense to \$399.2 million for the three months ended September 30, 2020, from \$435.0 million for the three months ended September 30, 2019. The decrease in commission expense is primarily the result of decreased premiums earned. Operating expense decreased 28.4% to \$43.4 million for the three months ended September 30, 2020, from \$60.6 million for the same period in 2019. The decrease in operating expense is primarily the result of decreases in premium taxes and personnel related costs.

Interest Expense on Ceded Funds Held Balances. Interest expense on ceded funds held under reinsurance treaties decreased 18.8% to \$5.2 million for the three months ended September 30, 2020, from \$6.4 million for the same period in 2019. This decrease was primarily attributable to net decreases in the interest on the fund balances for the variable quota share program and other retrocessional programs with Munich Re.

NINE MONTHS ENDED SEPTEMBER 30, 2020, COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 2019

Underwriting Results and Combined Ratio

The underwriting results and combined ratios for the Company for the nine months ended September 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
	(Dollars in millions)	
Premiums earned	\$ 3,621.7	\$ 3,742.6
Less: Losses and LAE	2,673.7	2,523.5
Commission expense	1,120.3	1,151.7
Operating expense	173.4	199.3
Underwriting loss	<u>\$ (345.7)</u>	<u>\$ (131.9)</u>
Loss ratio	73.8 %	67.4 %
Expense ratio	35.7	36.1
Combined ratio	<u>109.5 %</u>	<u>103.5 %</u>

Financial Statement Results

The Company reported net income to its common stockholder of \$53.5 million for the nine months ended September 30, 2020, compared to net income of \$223.9 million for the same period in 2019.

Revenues

Premiums. Gross premiums written decreased 7.2% to \$4,143.5 million for the nine months ended September 30, 2020 from \$4,463.2 million for the same period in 2019.

Net premiums written by the Company's P&C segments, decreased 7.9% to \$3,369.4 million for the nine months ended September 30, 2020, from \$3,659.6 million for the same period in 2019. The Reinsurance segment experienced a 10.6% decrease in net premiums written to \$2,752.5 million for the nine months ended September 30, 2020, from \$3,078.3 million in the same period in 2019. This decrease is generally attributable to decreases in the casualty and property lines of business. The Specialty Insurance segment experienced a 6.1% increase in net premiums written to \$616.9 million for the nine months ended September 30, 2020, from \$581.3 million in the same period in 2019. This increase is the result of an increase in the property line of business, partially offset by a decrease in the casualty line of business. The decrease in premiums written by the P&C segments was partially offset by an increase of \$104.1 million in premiums written for business not included in the P&C segments, resulting in a 4.6% decrease in consolidated net premiums written to \$3,882.7 million for the nine months ended September 30, 2020, from \$4,068.8 million for the same period in 2019.

The Company's net premiums earned decreased 3.2% to \$3,621.7 million for the nine months ended September 30, 2020, from \$3,742.6 million for the same period in 2019. The decrease in premiums earned is the result of a decrease in net premiums written, partially offset by the timing of the earnings of premiums in force.

Investment Income. Net investment income decreased 32.6% to \$215.6 million for the nine months ended September 30, 2020, from \$319.7 million for the same period in 2019. This decrease is due to lower income from treasury inflation protected securities, losses from derivative investments, lower income from infrastructure investments and increased losses from securities held for trading for the nine months ended September 30, 2020, compared to the 2019 period.

The Company realized net capital gains of \$259.5 million for the nine months ended September 30, 2020, compared to net capital gains of \$107.5 million for the same period in 2019. The 2020 period included net capital gains of \$276.3 million on the sale of fixed income securities. These gains were offset by write-downs of \$16.8 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 2019 period included net capital gains of \$108.3 million recognized on the sale of fixed income securities and write-downs of \$0.8 million.

Other Income. Other income decreased 10.1% to \$26.1 million for the nine months ended September 30, 2020, from \$29.0 million for the same period in 2019. This decrease was the result of decreased income from assumed funds held balances.

Expenses

Losses and Loss Adjustment Expenses. Net losses and LAE incurred increased 6.0% to \$2,673.7 million for the nine months ended September 30, 2020, from \$2,523.5 million for the same period in 2019. The increase is primarily due to increased property catastrophe losses in the period, predominantly from Gulf Coast hurricanes, West Coast wildfires, and Midwest thunderstorms, and COVID-19 related losses.

Underwriting Expense. Underwriting expense, consisting of commission expense plus operating expense, decreased 4.2% to \$1,293.7 million for the nine months ended September 30, 2020, from \$1,351.0 million for the same period in 2019. This decrease was due to a 2.7% decrease in commission expense to \$1,120.3 million for the nine months ended September 30, 2020, from \$1,151.7 million for the same period in 2019 due to decreased net premiums earned. Operating expense decreased 13.0% to \$173.4 million for the nine months ended September 30, 2020, from \$199.3 million for the same period in 2019. The decrease in operating expense is primarily the result of decreases in premium taxes and personnel related costs.

Interest Expense on Ceded Funds Held Balances. Interest expense on funds held under ceded reinsurance treaties increased 17.4% to \$15.5 million for the nine months ended September 30, 2020, from \$13.2 million for the same period in 2019. This increase was primarily attributable to net increases in the interest on fund balances for a variable quota share program, and offset by other retrocessional programs with Munich Re.

Other Expenses. Other expenses decreased 5.7% to \$20.1 million for the nine months ended September 30, 2020, from \$21.4 million for the same period in 2019. This decrease was primarily attributable to a net decrease in defined benefit plan costs.

FINANCIAL CONDITION

Total consolidated assets increased 4.1% to \$25,076.7 million at September 30, 2020, from \$24,080.7 million at December 31, 2019. Total consolidated liabilities increased 3.5% to \$21,026.0 million at September 30, 2020, from \$20,314.9 million at December 31, 2019.

The total financial statement value of investments and cash increased 8.0% to \$15,998.7 million at September 30, 2020, from \$14,816.9 million at December 31, 2019, primarily resulting from \$447.3 million of net cash flows from operating activities, a \$357.4 million increase in unrealized market value appreciation, \$259.5 million of net realized gains, and a \$144.5 million increase in net payable for securities purchased.

At September 30, 2020, the Company recognized a cumulative unrealized gain of \$515.4 million due to the net adjustment to fair value on fixed income investments available for sale, after applicable income tax effects, which was reflected in stockholder's equity as a component of accumulated other comprehensive income. This represents a net increase to stockholder's equity of \$280.4 million, from the cumulative unrealized gain on debt and equity securities of \$235.0 million recognized at December 31, 2019.

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 September 30, 2020, \$333.8 aggregate principal of Notes remain outstanding.

Common stockholder's equity increased 7.6% to \$4,050.7 million at September 30, 2020 from \$3,765.8 million at December 31, 2019. This increase was the result of comprehensive income of \$336.3 million, offset by a dividend paid by the Company to MAHC of \$51.4. The statutory surplus of the Company's insurance subsidiaries was \$3,865.7 million at September 30, 2020, compared to \$3,962.3 million at December 31, 2019.

LIQUIDITY AND CAPITAL RESOURCES

The Company is an insurance holding company whose primary 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 to the Company by the insurance subsidiaries is subject to limitations imposed by the Delaware Insurance Code. Based on these restrictions, Munich Reinsurance America, Inc. cannot pay dividends in 2020 without the prior approval of the Insurance Department. In 2020, AAIC and Princeton E&S declared and paid dividends to the Company of \$40.7 million and \$10.8 million, respectively. 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 Company's cash flow from operations may be influenced by a variety of other 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 a short- and long-term basis by funds provided by operations and from the maturity and the 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 \$447.3 million and \$408.0 million for the nine months ending September 30, 2020 and 2019, respectively.

Cash and cash equivalents of \$316.2 million and \$345.8 million at September 30, 2020, and December 31, 2019, respectively, are maintained for liquidity purposes and represented 2.0% and 2.3%, respectively, of total financial statement investments and cash on such dates.

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 \$14,680.3 million at September 30, 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 security portfolio of \$159.0 million at September 30, 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 seeks to minimize its foreign exchange rate exposure by matching the currency and duration of its foreign investments with the corresponding loss reserves. Where such a match cannot be achieved, foreign currency forward contracts may be used. At September 30, 2020, the Company had three open foreign currency forward contracts with a notional value of \$153.0 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 September 30, 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 September 30, 2020, the Company had one open futures position with a notional value of \$26.5 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.

FORWARD-LOOKING INFORMATION

The Company has disclosed certain forward-looking statements 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. 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, 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 Munich Re America, Inc., 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.