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# **MUNICH RE AMERICA CORPORATION**

## **Quarterly Report For The Period Ended September 30, 2022**

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

**555 College Road East  
PRINCETON, NEW JERSEY 08543  
(609) 243-4200**



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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 10, 2022**

# 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)

	September 30, 2022	December 31, 2021
<b>Assets:</b>		
Investments		
Fixed income securities		
Available for sale, at fair value (amortized cost: September 30, 2022 and December 31, 2021 - \$15,737.7 and \$15,389.9, respectively)	\$ 13,730.9	\$ 15,554.5
Trading, at fair value	12.4	15.2
Equity securities	79.9	99.6
Other invested assets	991.4	966.2
Short term investments	223.8	386.2
Cash and cash equivalents	473.5	391.6
Total investments and cash	15,511.9	17,413.3
Accrued investment income	78.1	60.4
Premiums and other receivables	1,453.3	1,422.7
Deferred policy acquisition costs	1,015.2	921.0
Reinsurance recoverables on paid and unpaid losses	3,802.5	3,476.3
Funds held by ceding companies	2,121.9	1,713.7
Prepaid reinsurance premiums	146.4	63.9
Goodwill	237.3	237.3
Deferred federal income taxes	692.5	604.2
Other assets	827.3	362.7
Total assets	<u>\$ 25,886.4</u>	<u>\$ 26,275.5</u>
<b>Liabilities:</b>		
Loss and loss adjustment expense reserves	\$ 16,669.2	\$ 15,415.4
Unearned premium reserve	3,610.5	3,194.9
Total insurance reserves	20,279.7	18,610.3
Loss balances payable	16.5	220.2
Funds held under reinsurance treaties	476.6	492.0
Deferred underwriting revenue	1,315.5	1,378.6
Senior notes	325.1	332.3
Other liabilities	739.1	671.0
Total liabilities	<u>23,152.5</u>	<u>21,704.4</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 September 30, 2022 and December 31, 2021	-	-
Additional paid-in capital	6,941.3	6,941.3
Accumulated deficit	(2,519.3)	(2,383.5)
Accumulated other comprehensive income (loss)	(1,688.1)	13.3
Total stockholder's equity	<u>2,733.9</u>	<u>4,571.1</u>
Total liabilities and stockholder's equity	<u>\$ 25,886.4</u>	<u>\$ 26,275.5</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,	
	2022	2021	2022	2021
<b>Revenue:</b>				
Premiums written	\$ 2,235.2	\$ 2,179.0	\$ 5,581.7	\$ 5,638.9
Change in unearned premium reserve	(440.2)	(443.6)	(333.3)	(1,076.6)
Premiums earned	1,795.0	1,735.4	5,248.4	4,562.3
Net investment income	117.9	99.4	350.4	235.8
Net realized capital gains (losses)	(9.9)	84.3	(145.2)	199.0
Other income	22.7	9.4	56.6	29.3
Total revenue	<u>1,925.7</u>	<u>1,928.5</u>	<u>5,510.2</u>	<u>5,026.4</u>
<b>Losses and expenses:</b>				
Losses and loss adjustment expenses	1,491.6	1,653.6	3,859.8	3,586.0
Commission expense	549.6	564.1	1,558.5	1,408.2
Operating expense	58.2	61.6	201.5	183.7
Interest expense	6.1	6.3	18.6	18.7
Interest on ceded funds held balances	4.9	4.2	13.7	12.4
Other expense	4.2	3.3	16.2	16.8
Total losses and expenses	<u>2,114.6</u>	<u>2,293.1</u>	<u>5,668.3</u>	<u>5,225.8</u>
Loss before income taxes	(188.9)	(364.6)	(158.1)	(199.4)
Federal and foreign income taxes	(100.6)	(87.3)	(73.1)	(58.1)
<b>Net loss</b>	<u>(88.3)</u>	<u>(277.3)</u>	<u>(85.0)</u>	<u>(141.3)</u>
<b>Other comprehensive loss, net of tax:</b>				
Unrealized depreciation of investments	(493.4)	(7.4)	(1,604.9)	(167.9)
Reclassification adjustment for gains included in operations	(5.2)	(84.5)	(98.0)	(252.4)
Defined benefit plan reclassification adjustment for losses included in operations	0.6	0.7	1.5	2.2
Other comprehensive loss	<u>(498.0)</u>	<u>(91.2)</u>	<u>(1,701.4)</u>	<u>(418.1)</u>
Comprehensive loss	<u>\$ (586.3)</u>	<u>\$ (368.5)</u>	<u>\$ (1,786.4)</u>	<u>\$ (559.4)</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)

	<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 June 30, 2022	\$ -	\$ 6,941.3	\$ (2,431.0)	\$ (1,190.1)	\$ 3,320.2
Net loss	-	-	(88.3)	-	(88.3)
Other comprehensive loss	-	-	-	(498.0)	(498.0)
Balance at September 30, 2022	<u>\$ -</u>	<u>\$ 6,941.3</u>	<u>\$ (2,519.3)</u>	<u>\$ (1,688.1)</u>	<u>\$ 2,733.9</u>

	<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 June 30, 2021	\$ -	\$ 6,316.3	\$ (1,936.5)	\$ 111.2	\$ 4,491.0
Net loss	-	-	(277.3)	-	(277.3)
Other comprehensive loss	-	-	-	(91.2)	(91.2)
Balance at September 30, 2021	<u>\$ -</u>	<u>\$ 6,316.3</u>	<u>\$ (2,213.8)</u>	<u>\$ 20.0</u>	<u>\$ 4,122.5</u>

	<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, 2022	\$ -	\$ 6,941.3	\$ (2,383.5)	\$ 13.3	\$ 4,571.1
Net loss	-	-	(85.0)	-	(85.0)
Other comprehensive loss	-	-	-	(1,701.4)	(1,701.4)
Dividend to parent company	-	-	(50.8)	-	(50.8)
Balance at September 30, 2022	<u>\$ -</u>	<u>\$ 6,941.3</u>	<u>\$ (2,519.3)</u>	<u>\$ (1,688.1)</u>	<u>\$ 2,733.9</u>

	<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, 2021	\$ -	\$ 6,316.3	\$ (2,030.5)	\$ 438.1	\$ 4,723.9
Net loss	-	-	(141.3)	-	(141.3)
Other comprehensive loss	-	-	-	(418.1)	(418.1)
Dividend to parent company	-	-	(42.0)	-	(42.0)
Balance at September 30, 2021	<u>\$ -</u>	<u>\$ 6,316.3</u>	<u>\$ (2,213.8)</u>	<u>\$ 20.0</u>	<u>\$ 4,122.5</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,	
	2022	2021
<b>Cash Flows From Operating Activities:</b>		
Net loss	\$ (85.0)	\$ (141.3)
Adjustments to reconcile net income to net cash provided by operating activities:		
Accrued investment income (loss)	(17.7)	14.2
Trading securities	2.8	2.3
Premiums and other receivables	(30.6)	(462.3)
Deferred policy acquisition costs	(94.2)	(329.2)
Reinsurance recoverables on paid and unpaid losses	(326.2)	(424.5)
Funds held, net	(423.6)	(544.5)
Insurance reserves	1,669.4	2,976.2
Deferred revenue	(63.1)	(70.1)
Current and deferred federal and foreign income taxes, net	360.3	(53.5)
Other assets and liabilities, net	(653.5)	(109.2)
Depreciation expense on property and equipment	3.6	6.2
Net realized capital losses (gains)	146.0	(208.7)
Equity in losses (income) of investees	(3.3)	55.2
Other, net	(88.8)	(82.0)
Net cash provided by operating activities	<u>396.1</u>	<u>628.8</u>
<b>Cash Flows From Investing Activities:</b>		
Fixed income securities available for sale:		
Purchases	(9,323.0)	(16,065.2)
Maturities	18.5	36.4
Sales	8,905.6	15,441.6
Equity securities:		
Sales	1.6	43.2
Other invested assets:		
Purchases	(48.0)	(101.2)
Sales	25.7	96.0
Net derivative instrument settlements	2.3	2.6
Net purchases and sales of short term investments	162.2	(2.0)
Disposals (additions) of property and equipment	(1.0)	7.2
Net cash used in investing activities	<u>(256.1)</u>	<u>(541.4)</u>
<b>Cash Flows From Financing Activities:</b>		
Dividend paid to parent company	(50.8)	(42.0)
Partial extinguishment of senior notes	(7.3)	-
Net cash used in financing activities	<u>(58.1)</u>	<u>(42.0)</u>
Net increase in cash and cash equivalents	81.9	45.4
Cash and cash equivalents, beginning of period	391.6	443.1
Cash and cash equivalents, end of period	<u>\$ 473.5</u>	<u>\$ 488.5</u>

See accompanying notes to consolidated interim financial statements.

**MUNICH RE AMERICA CORPORATION**  
**Notes to Consolidated Interim Financial Statements**  
**September 30, 2022**  
**(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 eligible or approved to write surplus lines insurance in all states and the District of Columbia. (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, 2022, and 2021, 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 2021 Annual Report.

**B. Subsequent Events**

There were no subsequent events requiring adjustment to the financial statements or disclosure through November 10, 2022, the date that the Company’s financial statements were available to be issued.

**MUNICH RE AMERICA CORPORATION**  
**Notes to Consolidated Interim Financial Statements**  
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(unaudited)

**2. New Accounting Standards**

**A. 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”). The Company has assessed 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 does not believe the adoption of this guidance will have an 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.



**MUNICH RE AMERICA CORPORATION**  
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**September 30, 2022**  
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(unaudited)

**3. Investments**

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

Investments available for sale were as follows:

	<b>September 30, 2022</b>			<b>Fair value</b>
	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	
Fixed income securities:				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$ 7,189.3	\$ -	\$ 995.6	\$ 6,193.7
Obligation of states and political subdivisions	0.2	-	-	0.2
Foreign government securities	930.8	-	145.6	785.2
Corporate securities	4,915.7	0.2	642.4	4,273.5
Asset-backed securities	1,331.5	0.1	62.2	1,269.4
Residential mortgage-backed securities	777.2	0.2	106.4	671.0
Commercial mortgage-backed securities	593.0	-	55.1	537.9
Total fixed income securities	<u>15,737.7</u>	<u>0.5</u>	<u>2,007.3</u>	<u>13,730.9</u>
Short term investments	223.8	-	-	223.8
Total investments available for sale	<u>\$15,961.5</u>	<u>\$ 0.5</u>	<u>\$2,007.3</u>	<u>\$13,954.7</u>

	<b>December 31, 2021</b>			<b>Fair value</b>
	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	
Fixed income securities:				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$ 7,167.0	\$ 219.3	\$ 73.3	\$ 7,313.0
Obligation of states and political subdivisions	2.5	-	-	2.5
Foreign government securities	961.1	16.2	15.0	962.3
Corporate securities	4,832.8	46.9	49.5	4,830.2
Asset-backed securities	1,195.9	1.2	4.5	1,192.6
Residential mortgage-backed securities	741.8	9.7	4.5	747.0
Commercial mortgage-backed securities	488.8	19.6	1.5	506.9
Total fixed income securities	<u>15,389.9</u>	<u>312.9</u>	<u>148.3</u>	<u>15,554.5</u>
Short term investments	386.2	-	-	386.2
Total investments available for sale	<u>\$15,776.1</u>	<u>\$ 312.9</u>	<u>\$ 148.3</u>	<u>\$15,940.7</u>

**MUNICH RE AMERICA CORPORATION**  
**Notes to Consolidated Interim Financial Statements**  
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(unaudited)

The amortized cost and fair value of fixed income securities available for sale at September 30, 2022, 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	\$ 272.5	\$ 264.3
After one year through five years	6,725.9	6,191.5
After five years through ten years	4,501.4	3,902.9
After ten years	2,867.7	2,163.3
Residential mortgage-backed securities	777.2	671.0
Commercial mortgage-backed securities	593.0	537.9
Total fixed income securities	<u>\$15,737.7</u>	<u>\$13,730.9</u>

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

	<u>Three months ended September 30, 2022</u>		<u>Nine months ended September 30, 2021</u>	
Proceeds from sales	\$ 493.8	\$ 4,366.4	\$ 8,905.6	\$15,441.6
Gross gains realized	1.7	105.2	60.6	301.1
Gross losses realized	(6.7)	(20.9)	(173.8)	(101.7)

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.

Investments with unrealized losses at September 30, 2022, and December 31, 2021, and the period of time for which they have been in a continuous loss position, were as follows:

	<u>September 30, 2022</u>					
	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>
Fixed income securities:						
U.S Treasury securities and obligations of U.S government agencies and corporations	\$ 5,351.2	\$ 793.6	\$ 834.7	\$ 202.0	\$ 6,185.9	\$ 995.6
Foreign government securities	383.6	59.0	401.6	86.6	785.2	145.6
Corporate securities	2,626.9	383.4	1,596.6	259.0	4,223.5	642.4
Asset-backed securities	989.8	38.8	257.0	23.4	1,246.8	62.2
Residential mortgage-backed securities	411.6	52.9	239.9	53.5	651.5	106.4
Commercial mortgage-backed securities	463.6	40.9	74.2	14.2	537.8	55.1
Total temporarily impaired investments	<u>\$ 10,226.7</u>	<u>\$1,368.6</u>	<u>\$ 3,404.0</u>	<u>\$ 638.7</u>	<u>\$ 13,630.7</u>	<u>\$2,007.3</u>

**MUNICH RE AMERICA CORPORATION**  
**Notes to Consolidated Interim Financial Statements**  
**September 30, 2022**  
(Dollars in millions)  
(unaudited)

	December 31, 2021					
	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	\$ 2,688.2	\$ 18.8	\$ 858.1	\$ 54.5	\$ 3,546.3	\$ 73.3
Foreign government securities	661.8	14.0	12.4	1.0	674.2	15.0
Corporate securities	3,026.8	45.2	130.1	4.3	3,156.9	49.5
Asset-backed securities	805.2	4.5	-	-	805.2	4.5
Residential mortgage-backed securities	414.9	4.5	-	-	414.9	4.5
Commercial mortgage-backed securities	146.1	1.0	27.8	0.5	173.9	1.5
Total temporarily impaired investments	<u>\$ 7,743.0</u>	<u>\$ 88.0</u>	<u>\$ 1,028.4</u>	<u>\$ 60.3</u>	<u>\$ 8,771.4</u>	<u>\$ 148.3</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.

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 the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("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.

**MUNICH RE AMERICA CORPORATION**  
**Notes to Consolidated Interim Financial Statements**  
**September 30, 2022**  
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(unaudited)

Management obtains assessments from its investment advisor 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, 2022, fixed income securities that have been in an unrealized loss position for twelve months or longer are comprised of 515 securities with an amortized cost of \$4,042.7 and a gross unrealized loss of \$638.7. These securities mature as follows: 1.9% due in less than one year, 54.5% due in one to five years, 20.5% due in five to ten years, and 23.1% due in ten or more 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.

**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>Three months</b>		<b>Nine months</b>	
	<b>ended September 30,</b>		<b>ended September 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Net losses recognized on trading securities	\$ (1.0)	\$ (0.4)	\$ (2.5)	\$ (0.9)
Less: Net gains (losses) recognized on securities sold	-	-	(0.3)	1.0
Unrealized losses recognized on securities still held at the reporting date	<u>\$ (1.0)</u>	<u>\$ (0.4)</u>	<u>\$ (2.2)</u>	<u>\$ (1.9)</u>

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**D. Equity Securities**

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

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Net gains (losses) recognized on equity securities	\$ (3.5)	\$ 1.4	\$ (16.0)	\$ 7.3
Less: Net gains (losses) recognized on securities sold	(0.3)	6.4	(0.9)	12.3
Unrealized losses recognized on securities still held at the reporting date	<u>\$ (3.2)</u>	<u>\$ (5.0)</u>	<u>\$ (15.1)</u>	<u>\$ (5.0)</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 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.

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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 5 years. At September 30, 2022, the Company had one open CDX contract with an aggregate notional value of \$500.0, with \$1.5 cash collateral paid by the Company. The Company provided \$7.7 in the form of a fixed income security as initial deposit margin collateral to the counterparty.

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, 2022, the Company's three open foreign currency forward contracts, having an aggregate notional value of \$166.8, reflected a net unrealized gain of \$5.9, with cash collateral of \$5.6 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, 2022, the Company had five open futures positions with a notional value of \$40.2. The Company provided \$1.7 in the form of a fixed income security as initial deposit margin collateral to the counterparty.

The fair value of derivatives, by contract type, at September 30, 2022, and December 31, 2021 are as follows:

	<u>Balance Sheet location</u>	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Derivatives not designated as hedging instruments under ASC 815			
Derivative assets			
Foreign exchange forward contracts	Other invested assets	\$ 6.1	\$ -
Foreign exchange forward contracts	Other liabilities	-	0.1
Total		<u>6.1</u>	<u>0.1</u>
Derivative liabilities			
Credit default swaps and indices	Other invested assets	\$ 1.2	\$ 10.9
Foreign exchange forward contracts	Other invested assets	0.2	-
Foreign exchange forward contracts	Other liabilities	-	2.3
Total		<u>\$ 1.4</u>	<u>\$ 13.2</u>

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The following table provides information about the earnings (loss) effects of the Company's derivative investments for the three- and nine-month periods ended September 30, 2022, and 2021.

	Location in Statement of Comprehensive Income	Three months ended September 30,		Nine months ended September 30,	
		2022	2021	2022	2021
Derivatives not designated as hedging instruments under ASC 815					
Credit default swaps and indices	Net investment income	\$ (1.4)	\$ (1.4)	\$ 3.7	\$ (1.4)
Foreign exchange forward contracts	Net investment income	9.8	3.5	14.1	0.1
Fixed income futures	Net investment income	4.2	(5.3)	29.8	(0.6)
Total		<u>\$ 12.6</u>	<u>\$ (3.2)</u>	<u>\$ 47.6</u>	<u>\$ (1.9)</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 as of September 30, 2022, and December 31, 2021.

	September 30, 2022				
	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					
Credit default swaps and indices	\$ -	\$ -	\$ -	\$ 0.3	\$ 0.3
Foreign exchange forward contracts	6.1	(5.8)	0.3	-	0.3
Total	<u>\$ 6.1</u>	<u>\$ (5.8)</u>	<u>\$ 0.3</u>	<u>\$ 0.3</u>	<u>\$ 0.6</u>
Derivative liabilities					
Credit default swaps and indices	\$ (1.2)	\$ 1.2	\$ -	\$ -	\$ -
Foreign exchange forward contracts	(0.2)	0.2	-	-	-
Total	<u>\$ (1.4)</u>	<u>\$ 1.4</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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	December 31, 2021				
	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					
Credit default swaps and indices	\$ -	\$ -	\$ -	\$ 0.1	\$ 0.1
Foreign exchange forward contracts	0.1	(0.1)	-	-	-
Fixed income futures	-	-	-	1.1	1.1
Total	\$ 0.1	\$ (0.1)	\$ -	\$ 1.2	\$ 1.2
Derivative liabilities					
Credit default swaps and indices	\$ (10.9)	\$ 10.9	\$ -	\$ -	\$ -
Foreign exchange forward contracts	(2.3)	0.4	(1.9)	-	(1.9)
Total	\$ (13.2)	\$ 11.3	\$ (1.9)	\$ -	\$ (1.9)

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

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

	Three months ended September 30, 2022		Nine months ended September 30, 2022	
	2022	2021	2022	2021
Capital gains (losses) on sales				
Fixed income securities	\$ (5.7)	\$ 84.3	\$ (115.1)	\$ 199.4
Other-than-temporary impairments	(4.2)	-	(30.1)	(0.4)
Net realized capital gains (losses)	\$ (9.9)	\$ 84.3	\$ (145.2)	\$ 199.0

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. Loans**

The Company holds investments in three senior secured fixed term loans with U.S. infrastructure entities. The Bayonne Energy Center loan matures in September 2026 and the Company receives interest and principal payments quarterly based on the applicable London Interbank Offered Rate ("LIBOR") rate for the period. The Venture Global Calcasieu Pass ("Venture Global") loan matures in August 2026 and the Company receives monthly interest payments based on the LIBOR for the period. The GR Palmas De Cocalan Spa ("Grenergy") loan matures in December 2027 and the Company receives monthly interest payments based on the LIBOR for the period. All three loans permit prepayment by the borrower. The loans receivable of \$114.0 and \$70.7 at September 30, 2022, and December 31, 2021, respectively, are included in other invested assets in the Consolidated Balance Sheet.



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**4. Fair Value Measurement**

The fair value of financial instruments at September 30, 2022, and December 31, 2021, were as follows:

	<b>September 30, 2022</b>		<b>December 31, 2021</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	\$ 13,730.9	\$ 13,730.9	\$ 15,554.5	\$ 15,554.5
Trading	12.4	12.4	15.2	15.2
Equity securities	79.9	79.9	99.6	99.6
Other invested assets				
Derivative assets	0.6	0.6	1.2	1.2
Other	114.0	116.6	70.7	75.1
Short term investments	223.8	223.8	386.2	386.2
Total	<u>\$ 14,161.6</u>	<u>\$ 14,164.2</u>	<u>\$ 16,127.4</u>	<u>\$ 16,131.8</u>
<b>Liabilities:</b>				
Senior notes	\$ 325.1	\$ 353.7	\$ 332.3	\$ 420.3
Derivative liabilities	-	-	1.9	1.9
Total	<u>\$ 325.1</u>	<u>\$ 353.7</u>	<u>\$ 334.2</u>	<u>\$ 422.2</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 are carried at fair value and 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 September 30, 2022, and December 31, 2021:

	<b>September 30, 2022</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Assets:</b>				
Fixed income securities				
Available for sale investments				
U.S Treasury securities and obligations of U.S government agencies and corporations	\$ -	\$ 6,193.7	\$ -	\$ 6,193.7
Obligations of states and political subdivisions	-	0.2	-	0.2
Foreign government securities	-	785.2	-	785.2
Corporate securities	-	4,052.9	220.6	4,273.5
Asset-backed securities	-	982.7	286.7	1,269.4
Residential mortgage-backed securities	-	671.0	-	671.0
Commercial mortgage-backed securities	-	537.9	-	537.9
Total available for sale investment	-	13,223.6	507.3	13,730.9
Trading investments				
Foreign government securities	-	9.4	-	9.4
Corporate securities and foreign bonds	-	3.0	-	3.0
Equity securities	79.8	-	0.1	79.9
Other invested assets				
Derivative assets	0.6	-	-	0.6
Short term investments	223.8	-	-	223.8
Total investments carried at fair value	<u>\$ 304.2</u>	<u>\$13,236.0</u>	<u>\$ 507.4</u>	<u>\$ 14,047.6</u>
Investments carried at cost				114.0
Investments carried at equity				876.8
Cash and cash equivalents				473.5
Total investments not carried at fair value				<u>1,464.3</u>
Total investments and cash				<u>\$ 15,511.9</u>

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	December 31, 2021			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Fixed income securities				
Available for sale investments				
U.S Treasury securities and obligations of U.S government agencies and corporations	\$ -	\$ 7,313.0	\$ -	\$ 7,313.0
Obligations of states and political subdivisions	-	2.5	-	2.5
Foreign government securities	-	962.3	-	962.3
Corporate securities	-	4,545.3	284.9	4,830.2
Asset-backed securities	-	643.7	548.9	1,192.6
Residential mortgage-backed securities	-	747.0	-	747.0
Commercial mortgage-backed securities	-	506.9	-	506.9
Total available for sale investment	-	14,720.7	833.8	15,554.5
Trading investments				
Foreign government securities	-	10.6	-	10.6
Corporate securities and foreign bonds	-	4.6	-	4.6
Equity securities	98.2	-	1.4	99.6
Other invested assets				
Derivative assets	1.2	-	-	1.2
Short term investments	383.1	3.1	-	386.2
Total investments carried at fair value	<u>\$ 482.5</u>	<u>\$14,739.0</u>	<u>\$ 835.2</u>	<u>\$ 16,056.7</u>
Investments carried at cost				70.7
Investments carried at equity				894.3
Cash and cash equivalents				391.6
Total investments not carried at fair value				<u>1,356.6</u>
Total investments and cash				<u>\$ 17,413.3</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, 2022, and 2021:

	Balance at Jan. 1, 2022	Net investment gains (losses) In		Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance at September 30, 2022	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	\$ 284.9	\$ -	\$ (55.8)	\$ -	\$ (8.5)	\$ -	\$ -	\$ -	\$ 220.6	\$ (55.8)
Asset-backed securities	548.9	-	(8.8)	42.0	-	(41.7)	-	(253.7)	286.7	(15.7)
Equity securities	1.4	0.3	-	-	(1.6)	-	-	-	0.1	(0.3)
Total	<u>\$ 835.2</u>	<u>\$ 0.3</u>	<u>\$ (64.6)</u>	<u>\$ 42.0</u>	<u>\$ (10.1)</u>	<u>\$ (41.7)</u>	<u>\$ -</u>	<u>\$ (253.7)</u>	<u>\$ 507.4</u>	
	Balance at Jan. 1, 2021	Net investment gains (losses) In		Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance at September 30, 2021	Change in earnings due to assets still held <sup>3</sup>
Available for sale investments										
Corporate securities	\$ 315.3	\$ -	\$ (10.1)	\$ -	\$ (8.6)	\$ -	\$ -	\$ -	\$ 296.6	\$ (10.1)
Asset-backed securities	318.9	1.0	0.4	677.3	(318.8)	(161.0)	-	-	517.8	0.3
Equity securities	66.1	3.7	-	-	(43.2)	-	-	-	26.6	3.7
Total	<u>\$ 700.3</u>	<u>\$ 4.7</u>	<u>\$ (9.7)</u>	<u>\$ 677.3</u>	<u>\$ (370.6)</u>	<u>\$ (161.0)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 841.0</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 \$286.7 and \$548.9, at September 30, 2022, and December 31, 2021, respectively. Collateralized loan obligations of \$253.7 were transferred from Level 3 to Level 2 during 2022, 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 \$0.1 and \$1.4, at September 30, 2022, and December 31, 2021, respectively, is based on quarterly net asset values ("NAV"). Cumulative unrealized gains were nil at September 30, 2022. Net losses of \$0.1 and \$0.3 were recognized in the three- and nine-month periods then ended.

**5. 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 December 31, 2020	\$ 584.6	\$ (146.5)	\$ 438.1
Period change	(214.2)	-	(214.2)
Tax effect	46.3	-	46.3
Reclassification adjustment for			
losses (gains) included in operations	(321.9)	2.8	(319.1)
Tax effect	69.5	(0.6)	68.9
Balance at September 30, 2021	<u>\$ 164.3</u>	<u>\$ (144.3)</u>	<u>\$ 20.0</u>
Balance at December 31, 2021	\$ 129.0	\$ (115.7)	\$ 13.3
Period change	(2,046.3)	-	(2,046.3)
Tax effect	441.4	-	441.4
Reclassification adjustment for			
losses (gains) included in operations	(125.0)	1.9	(123.1)
Tax effect	27.0	(0.4)	26.6
Balance at September 30, 2022	<u>\$ (1,573.9)</u>	<u>\$ (114.2)</u>	<u>\$ (1,688.1)</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 (“LAE”) reserves for the nine months ended September 30, 2022 and 2021 is shown below:

	<b>Nine months ended September 30,</b>	
	<b>2022</b>	<b>2021</b>
Loss and LAE reserves at beginning of period	\$ 15,415.4	\$ 13,264.3
Reinsurance recoverables on unpaid losses	(3,414.1)	(2,941.2)
Net reserves at beginning of period	<u>12,001.3</u>	<u>10,323.1</u>
Net incurred related to:		
Current period	3,784.9	3,519.7
Prior periods	74.9	66.3
Total net incurred	<u>3,859.8</u>	<u>3,586.0</u>
Net paid related to:		
Current period	(632.1)	(547.4)
Prior periods	(2,378.9)	(1,754.8)
Total net paid	<u>(3,011.0)</u>	<u>(2,302.2)</u>
Deferred underwriting revenue	62.4	70.1
Foreign exchange increase in reserves	<u>(6.4)</u>	<u>(1.4)</u>
Net reserves at end of period	12,906.1	11,675.7
Reinsurance recoverables on unpaid losses	<u>3,763.1</u>	<u>3,377.8</u>
Loss and LAE reserves at end of period	<u><u>\$16,669.2</u></u>	<u><u>\$15,053.5</u></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:

	<b>Three months</b>		<b>Nine months</b>	
	<b>ended September 30,</b>		<b>ended September 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Premiums written				
Direct	\$ 546.5	\$ 430.5	\$ 1,281.1	\$ 1,016.4
Assumed	1,952.0	1,953.9	4,761.7	4,981.4
Ceded	(263.3)	(205.4)	(461.1)	(358.9)
Net	<u>2,235.2</u>	<u>2,179.0</u>	<u>5,581.7</u>	<u>5,638.9</u>
Premiums earned				
Direct	397.9	309.8	1,105.9	844.9
Assumed	1,608.8	1,586.3	4,521.1	3,966.0
Ceded	(211.7)	(160.7)	(378.6)	(248.6)
Net	<u>1,795.0</u>	<u>1,735.4</u>	<u>5,248.4</u>	<u>4,562.3</u>
Losses and LAE incurred				
Direct	409.4	287.2	824.8	637.4
Assumed	1,625.1	1,733.4	3,671.6	3,640.6
Ceded	(542.9)	(367.0)	(636.6)	(692.0)
Net	<u>\$ 1,491.6</u>	<u>\$ 1,653.6</u>	<u>\$ 3,859.8</u>	<u>\$ 3,586.0</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, 2022, and 2021.

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Interest cost	\$ 5.1	\$ 4.5	\$ 0.2	\$ 0.2
Expected return on plan assets	(3.8)	(3.5)	-	-
Amortization of net loss	1.0	1.1	0.2	0.1
Amortization of prior service credit	-	-	(0.5)	(0.4)
Net periodic benefit cost	<u>\$ 2.3</u>	<u>\$ 2.1</u>	<u>\$ (0.1)</u>	<u>\$ (0.1)</u>

The following table provides the components of net periodic benefit cost for the nine months ended September 30, 2022, and 2021:

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Interest cost	\$ 15.1	\$ 13.7	\$ 0.7	\$ 0.6
Expected return on plan assets	(11.4)	(10.3)	-	-
Amortization of net loss	2.8	3.5	0.4	0.5
Amortization of prior service credit	-	-	(1.3)	(1.3)
Net periodic benefit cost	<u>\$ 6.5</u>	<u>\$ 6.9</u>	<u>\$ (0.2)</u>	<u>\$ (0.2)</u>

**9. Commitments and Contingencies**

*Commitments*

The Company has an agreement to loan \$35.5 to Grenergy, a renewable energy infrastructure entity. The Company has \$24.7 remaining on this commitment at September 30, 2022. The Company expects to fulfill this obligation in early 2023.

*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, 2022, the Company's contingent obligation under all co-surety arrangements is \$623.9.



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*Financial Guarantees*

At September 30, 2022, the Company has provided guarantees in the amount of \$135.3 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.

*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 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, 2022**

	<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	\$ 1,526.7	\$ 555.1	\$ 2,081.8	\$ 416.7	\$ 2,498.5
Net premiums written	<u>1,526.0</u>	<u>493.0</u>	<u>2,019.0</u>	<u>216.2</u>	<u>2,235.2</u>
Premiums earned	<u>1,256.6</u>	<u>350.1</u>	<u>1,606.7</u>	<u>188.3</u>	<u>1,795.0</u>
Net investment income					117.9
Net realized capital losses					(9.9)
Other income					22.7
Total revenue					<u>1,925.7</u>
<b><u>Losses and Expenses</u></b>					
Losses and LAE	1,410.8	342.6	1,753.4	(261.8)	1,491.6
Underwriting expense	408.1	105.9	514.0	93.8	607.8
Interest expense					6.1
Interest on ceded funds held					4.9
Other expense					4.2
Total losses and expenses					<u>2,114.6</u>
Loss before income taxes					<u>(188.9)</u>
Underwriting gain (loss)	<u>\$ (562.3)</u>	<u>\$ (98.4)</u>	<u>\$ (660.7)</u>	<u>\$ 356.3</u>	<u>\$ (304.4)</u>
<b>Losses and LAE Ratio</b>	112.3 %	97.9 %	109.1 %	N/M %	83.1 %
<b>Underwriting Expense Ratio</b>	<u>32.4</u>	<u>30.2</u>	<u>32.1</u>	<u>N/M</u>	<u>33.9</u>
<b>Combined Ratio</b>	<u>144.7 %</u>	<u>128.1 %</u>	<u>141.2 %</u>	<u>N/M %</u>	<u>117.0 %</u>

N/M = not meaningful

**MUNICH RE AMERICA CORPORATION**  
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**Three months ended September 30, 2021**

	<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	\$ 1,598.8	\$ 448.9	\$ 2,047.7	\$ 336.7	\$ 2,384.4
Net premiums written	<u>1,598.4</u>	<u>392.6</u>	<u>1,991.0</u>	<u>188.0</u>	<u>2,179.0</u>
Premiums earned	1,302.1	281.0	1,583.1	152.3	1,735.4
Net investment income					99.4
Net realized capital gains					84.3
Other income					9.4
Total revenue					<u>1,928.5</u>
<b><u>Losses and Expenses</u></b>					
Losses and LAE	1,499.8	245.2	1,745.0	(91.4)	1,653.6
Underwriting expense	453.3	88.2	541.5	84.2	625.7
Interest expense					6.3
Interest on ceded funds held					4.2
Other expense					3.3
Total losses and expenses					<u>2,293.1</u>
Loss before income taxes					<u>(364.6)</u>
Underwriting gain (loss)	<u>\$ (651.0)</u>	<u>\$ (52.4)</u>	<u>\$ (703.4)</u>	<u>\$ 159.5</u>	<u>\$ (543.9)</u>
<b>Losses and LAE Ratio</b>	115.2 %	87.3 %	110.2 %	N/M %	95.3 %
<b>Underwriting Expense Ratio</b>	<u>34.8</u>	<u>31.3</u>	<u>34.3</u>	<u>N/M</u>	<u>36.0</u>
<b>Combined Ratio</b>	<u>150.0 %</u>	<u>118.6 %</u>	<u>144.5 %</u>	<u>N/M %</u>	<u>131.3 %</u>

N/M = not meaningful

**MUNICH RE AMERICA CORPORATION**  
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(unaudited)

**Nine months ended September 30, 2022**

	<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	\$ 3,722.7	\$ 1,200.1	\$ 4,922.8	\$ 1,120.0	6,042.8
Net premiums written	3,721.0	1,133.0	4,854.0	727.7	5,581.7
Premiums earned	3,486.4	1,004.9	4,491.3	757.1	5,248.4
Net investment income					350.4
Net realized capital losses					(145.2)
Other income					56.6
Total revenue					5,510.2
<b><u>Losses and Expenses</u></b>					
Losses and LAE	2,927.9	778.5	3,706.4	153.4	3,859.8
Underwriting expense	1,162.8	320.9	1,483.7	276.3	1,760.0
Interest expense					18.6
Interest on ceded funds held					13.7
Other expense					16.2
Total losses and expenses					5,668.3
Loss before income taxes					(158.1)
Underwriting gain (loss)	\$ (604.3)	\$ (94.5)	\$ (698.8)	\$ 327.4	\$ (371.4)
<b>Losses and LAE Ratio</b>	84.0 %	77.5 %	82.5 %	N/M %	73.5 %
<b>Underwriting Expense Ratio</b>	33.4	31.9	33.0	N/M	33.5
<b>Combined Ratio</b>	117.4 %	109.4 %	115.5 %	N/M %	107.0 %

N/M = not meaningful

**MUNICH RE AMERICA CORPORATION**  
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(unaudited)

**Nine months ended September 30, 2021**

	<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	\$ 4,086.5	\$ 968.6	\$ 5,055.1	\$ 942.7	\$ 5,997.8
Net premiums written	<u>4,085.8</u>	<u>905.0</u>	<u>4,990.8</u>	<u>648.1</u>	<u>5,638.9</u>
Premiums earned	3,197.8	763.6	3,961.4	600.9	4,562.3
Net investment income					235.8
Net realized capital gains					199.0
Other income					29.3
Total revenue					<u>5,026.4</u>
<b><u>Losses and Expenses</u></b>					
Losses and LAE	3,019.8	619.6	3,639.4	(53.4)	3,586.0
Underwriting expense	1,087.8	257.7	1,345.5	246.4	1,591.9
Interest expense					18.7
Interest on ceded funds held					12.4
Other expense					16.8
Total losses and expenses					<u>5,225.8</u>
Loss before income taxes					<u>(199.4)</u>
Underwriting gain (loss)	<u>\$ (909.8)</u>	<u>\$ (113.7)</u>	<u>\$ (1,023.5)</u>	<u>\$ 407.9</u>	<u>\$ (615.6)</u>
<b>Losses and LAE Ratio</b>	<b>94.4 %</b>	<b>81.1 %</b>	<b>91.9 %</b>	<b>N/M %</b>	<b>78.6 %</b>
<b>Underwriting Expense Ratio</b>	<u>34.0</u>	<u>33.8</u>	<u>33.9</u>	<u>N/M</u>	<u>34.9</u>
<b>Combined Ratio</b>	<u>128.4 %</u>	<u>114.9 %</u>	<u>125.8 %</u>	<u>N/M %</u>	<u>113.5 %</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, 2022, COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 2021

#### 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 LAE incurred and underwriting expenses, divided by net premiums earned. These ratios are relative measurements that describe the cost of losses and expenses for every dollar of net premiums earned. The combined ratio presents the total cost per dollar 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., 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, 2022, and 2021, are as follows:

	<u>2022</u>		<u>2021</u>	
	<u>(Dollars in millions)</u>			
Premiums earned	\$ 1,795.0		\$ 1,735.4	
Less: Losses and LAE	1,491.6		1,653.6	
Commission expense	549.6		564.1	
Operating expense	58.2		61.6	
Underwriting loss	<u>\$ (304.4)</u>		<u>\$ (543.9)</u>	
Loss ratio	83.1	%	95.3	%
Expense ratio	<u>33.9</u>		<u>36.0</u>	
Combined ratio	<u>117.0</u>	%	<u>131.3</u>	%

#### Financial Statement Results

The Company reported net losses to its common stockholder of \$88.3 and \$277.3 million for the three months ended September 30, 2022, and 2021, respectively.

#### *Revenues*

*Premiums.* Gross premiums written for the three months ended September 30, 2022, increased 4.8% to \$2,498.5 million from \$2,384.4 million for the same period in 2021.

Net premiums written by the Company's P&C segments, which exclude corporate retrocessional programs, increased 1.4% to \$2,019.0 million for the three months ended September 30, 2022, from \$1,991.0 million for

the same period in 2021. The Reinsurance segment experienced a 4.5% decrease in net premiums written to \$1,526.0 million for the three months ended September 30, 2022, from \$1,598.4 million in the same period in 2021. This decrease is attributable to a decrease in the property line of business partially offset by an increase in the casualty line of business, driven by strategic changes in business mix. The Specialty Insurance segment experienced a 25.6% increase in net premiums written to \$493.0 million for the three months ended September 30, 2022, from \$392.6 million in the same period in 2021. This increase was primarily the result of increases in the property, casualty, and marine lines of business resulting from planned growth of this segment. The net increase in premiums written by the P&C segments, coupled with a \$28.2 million increase in business not included in the P&C segments, resulted in a 2.6% increase in consolidated net premiums written to \$2,235.2 million for the three months ended September 30, 2022, from \$2,179.0 million for the same period in 2021.

The Company's premiums earned increased 3.4% to \$1,795.0 million for the three months ended September 30, 2022, from \$1,735.4 million for the same period in 2021. The increase in premiums earned is the result of an increase in net premiums written, coupled with the timing of the earnings of premiums in force during the respective periods.

*Investment Income.* Net investment income increased 18.6% to \$117.9 million for the three months ended September 30, 2022, from \$99.4 million for the same period in 2021. This increase is due to higher yields on fixed income investments due to rising interest rates, coupled with increased gains on derivative investments for the three months ended September 30, 2022, compared to the 2021 period. This increase was partially offset by decreased income from treasury inflation protected and equity securities for the same period.

The Company realized net capital losses on the sale of fixed income securities of \$5.8 million for the three months ended September 30, 2022, compared to net capital gains on sales of \$84.3 million for the same period in 2021. The 2022 period also included write-downs of \$4.1 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.

Other income increased to \$22.7 million for the three months ended September 30, 2022, from \$9.4 million for the same period in 2021, primarily due to increased income from assumed funds held balances in 2022 compared to the 2021 period, coupled with increased unrealized foreign currency gains on foreign currency denominated assets and liabilities.

## ***Expenses***

*Losses and Loss Adjustment Expenses.* Net losses and LAE incurred decreased 9.8% to \$1,491.6 million for the three months ended September 30, 2022, from \$1,653.6 million for the same period in 2021. Both periods were similarly impacted by third quarter hurricane activity, most notably Ian and Ida; however the 2021 period also included other large loss activity and adverse development on prior accident year loss reserves.

*Underwriting Expense.* Underwriting expense, consisting of commission expense plus operating expense, decreased 2.9% to \$607.8 million for the three months ended September 30, 2022, from \$625.7 million for the same period in 2021. This decrease was due to a 2.6% decrease in net commission expense to \$549.6 million for the three months ended September 30, 2022, from \$564.1 million for the same period in 2021. The decrease in commission expense is primarily due to a shift to more non-proportional business which generally carries lower commission rates. Operating expense decreased 5.5% to \$58.2 million for the three months ended September 30, 2022, from \$61.6 million for the three months ended September 30, 2021.

## NINE MONTHS ENDED SEPTEMBER 30, 2022, COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 2021

### Underwriting Results and Combined Ratio

The underwriting results and combined ratios for the Company for the nine months ended September 30, 2022, and 2021, are as follows:

	<u>2022</u>		<u>2021</u>
	(Dollars in millions)		
Premiums earned	\$ 5,248.4		\$ 4,562.3
Less: Losses and LAE	3,859.8		3,586.0
Commission expense	1,558.5		1,408.2
Operating expense	201.5		183.7
Underwriting loss	<u>\$ (371.4)</u>		<u>\$ (615.6)</u>
Loss ratio	73.5	%	78.6
Expense ratio	<u>33.5</u>		<u>34.9</u>
Combined ratio	<u>107.0</u>	%	<u>113.5</u>

### Financial Statement Results

The Company reported net losses to its common stockholder of \$85.0 and \$141.3 million for the nine months ended September 30, 2022, and 2021, respectively.

#### **Revenues**

*Premiums.* Gross premiums written for the nine months ended September 30, 2022, increased slightly to \$6,042.8 million from \$5,997.8 million for the same period in 2021.

Net premiums written by the Company's P&C segments, which exclude corporate retrocessional programs, decreased 2.7% to \$4,854.0 million for the nine months ended September 30, 2022, from \$4,990.8 million for the same period in 2021. The Reinsurance segment experienced a 8.9% decrease in net premiums written to \$3,721.0 million for the nine months ended September 30, 2022, from \$4,085.8 million in the same period in 2021. This decrease is primarily attributable to a decrease in the property line of business, driven by strategic changes in business mix, offset by an increase in the casualty line of business. The Specialty Insurance segment experienced a 25.2% increase in net premiums written to \$1,133.0 million for the nine months ended September 30, 2022, from \$905.0 million in the same period in 2021. This increase was primarily the result of increases in the property, casualty, and marine lines of business resulting from planned growth of this segment. The net decrease in premiums written by the P&C segments, offset by a \$79.6 million increase in business not included in the P&C segments, resulted in a 1.0% decrease in consolidated net premiums written to \$5,581.7 million for the nine months ended September 30, 2022, from \$5,638.9 million for the same period in 2021.

The Company's premiums earned increased 15.0% to \$5,248.4 million for the nine months ended September 30, 2022, from \$4,562.3 million for the same period in 2021. The increase in premiums earned is the result of the timing of the earnings of premiums in force during the respective periods partially offset by a decrease in net premiums written.

*Investment Income.* Net investment income increased 48.6% to \$350.4 million for the nine months ended September 30, 2022, from \$235.8 million for the same period in 2021. This increase is primarily due to higher income from infrastructure investments as the 2021 period included write downs of two equity ownership investments, increased gains on derivative investments, and higher yields on fixed income investments due to rising interest rates for the nine months ended September 30, 2022, compared to the 2021 period. This increase was partially offset by decreased income from equity securities for the same period.

The Company realized net capital losses on the sale of fixed income securities of \$115.1 million for the nine months ended September 30, 2022, compared to net capital gains on sales of \$199.4 million for the same period in 2021. The 2022 period also included write-downs of \$30.1 million resulting predominantly from the impairment of Russian investment holdings in the first quarter of 2022, as their decline in fair value is



considered by management to be other than temporary. The 2021 period included write-downs of \$0.4 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.

Other income increased to \$56.6 million for the nine months ended September 30, 2022, from \$29.3 million for the same period in 2021, primarily due to increased income from assumed funds held balances in 2022 compared to the 2021 period related to an increased share participation on a large quota share program, coupled with increased unrealized foreign currency gains on foreign currency denominated assets and liabilities.

### **Expenses**

*Losses and Loss Adjustment Expenses.* Net losses and LAE incurred increased 7.6% to \$3,859.8 million for the nine months ended September 30, 2022, from \$3,586.0 million for the same period in 2021. This increase is the result of increased earned premiums and greater net losses from property catastrophes in the 2022 period, most notably from Hurricane Ian. The 2021 period included property catastrophe losses from Hurricane Ida and the severe winter weather in Texas, in addition to adverse development on prior accident year losses.

*Underwriting Expense.* Underwriting expense, consisting of commission expense plus operating expense, increased 10.6% to \$1,760.0 million for the nine months ended September 30, 2022, from \$1,591.9 million for the same period in 2021. This increase was due to a 10.7% increase in net commission expense to \$1,558.5 million for the nine months ended September 30, 2022, from \$1,408.2 million for the same period in 2021. The increase in commission expense is primarily due to increased earned premiums. Operating expense increased 9.7% to \$201.5 million for the nine months ended September 30, 2022, from \$183.7 million for the nine months ended September 30, 2021, due to an increase in personnel related and information technology expenses.

### **FINANCIAL CONDITION**

Total consolidated assets decreased 1.5% to \$25,886.4 million at September 30, 2022, from \$26,275.5 million at December 31, 2021. Total consolidated liabilities increased 6.7% to \$23,152.5 million at September 30, 2022, from \$21,704.4 million at December 31, 2021.

The total financial statement value of investments and cash decreased 10.9% to \$15,511.9 million at September 30, 2022, from \$17,413.3 million at December 31, 2021, primarily resulting from a decrease of \$2,171.3 million in unrealized market valuation adjustments and \$145.2 million in net realized losses, offset by \$396.1 million of net cash flow from operating activities.

At September 30, 2022, the Company recognized a cumulative unrealized loss of \$1,573.9 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 decrease to stockholder's equity of \$1,702.9 million, from the cumulative unrealized gain on debt and equity securities of \$129.0 million recognized at December 31, 2021.

The Company may, from time to time, redeem all or part of its 7.45% Senior Notes due in 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. In June 2022, the Company repurchased, and subsequently cancelled, \$7.5 million aggregate principal of Notes through a privately negotiated transaction. At September 30, 2022, \$326.3 million aggregate principal of Notes remain outstanding.

Common stockholder's equity decreased 40.2% to \$2,733.9 million at September 30, 2022, from \$4,571.1 million at December 31, 2021. This decrease was the result of a comprehensive loss of \$1,786.4 million, coupled with a dividend paid by the Company to MAHC of \$50.8 million. The statutory surplus of the Company's insurance subsidiaries was \$4,458.5 million at September 30, 2022, compared to \$4,384.1 million at December 31, 2021.

## 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 2022 without the prior approval of the Insurance Department. In 2022, AAIC and Princeton E&S declared and paid dividends to the Company of \$21.2 million and \$29.6 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 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 \$396.1 million and \$628.8 million for the nine months ending September 30, 2022, and 2021, respectively.

Cash and cash equivalents of \$473.5 million and \$391.6 million at September 30, 2022, and December 31, 2021, respectively, are maintained for liquidity purposes and represented 3.1% and 2.2%, 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 \$13,967.1 million at September 30, 2022, 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 \$79.9 million at September 30, 2022, 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, 2022, the Company had three open foreign currency forward contracts with a notional value of \$166.8 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, 2022, the Company had one open CDX contract with an aggregate notional value of \$500.0. 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, 2022, the Company had five open futures positions with a notional value of \$40.2 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.