American Home Assurance Company
An AIG Company

NAIC Code: 19380

Statutory Basis Financial Statements
As of December 31, 2019 and 2018
and for the years ended December 31, 2019, 2018 and 2017

AMERICAN HOME ASSURANCE COMPANY

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As of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017

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Report of Independent Auditors

To the Board of Directors of American Home Assurance Company:

We have audited the accompanying statutory financial statements of American Home Assurance Company (the "Company"), which comprise the statutory statements of admitted assets and liabilities, capital and surplus as of December 31, 2019 and 2018, and the related statutory statements of operations and changes in capital and surplus, and of cash flows for each of the three years in the period ended December 31, 2019.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices prescribed or permitted by the New York State Department of Financial Services. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1B to the financial statements, the financial statements are prepared by the Company on the basis of the accounting practices prescribed or permitted by the New York State Department of Financial Services, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the statutory basis of accounting described in Notes 1B and 1D and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

PricewaterhouseCoopers LLP, PricewaterhouseCoopers Center, 300 Madison Avenue, New York, NY 10017
T: (646) 471 3000, F: (813) 286 6000, www.pwc.com/us

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2019 and 2018, or the results of its operations or its cash flows for each of the three years in the period ended December 31, 2019.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, capital and surplus of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in accordance with the accounting practices prescribed or permitted by the New York State Department of Financial Services described in Note 1B.

Emphasis of Matter

As discussed in Notes 1, 5, 6 and 7 to the financial statements, the Company has entered into significant transactions with certain affiliated entities. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
New York, NY
April 17, 2020

(Dollars in Millions)

Statements of Admitted Assets

	December 31, 2019	December 31, 2018
Cash and invested assets:		
Bonds, primarily at amortized cost (fair value: 2019 - $14,014 ; 2018 - $14,935)	**$ 13,277**	$ 14,534
Common stocks, at carrying value (cost: 2019 - $235 ; 2018 - $321)	**245**	356
Preferred stocks, at carrying value (cost: 2019 - $17; 2018 - $49)	**17**	49
Other invested assets (cost: 2019 - $2,406 ; 2018 - $2,982)	**2,663**	3,003
Mortgage loans	**2,539**	2,679
Derivative instruments	**-**	5
Short-term investments, at amortized cost (approximates fair value)	**44**	46
Cash and cash equivalents	**441**	230
Receivable for securities sold	**112**	104
Total cash and invested assets	**$ 19,338**	**$ 21,006**
Investment income due and accrued	**$ 146**	$ 166
Agents' balances or uncollected premiums:		
Premiums in course of collection	**1,278**	941
Premiums and installments booked but deferred and not yet due	**144**	241
Accrued retrospective premiums	**490**	511
High deductible policy receivables	**43**	63
Reinsurance recoverable on paid losses	**400**	365
Funds held by or deposited with reinsurers	**215**	212
Net deferred tax assets	**724**	772
Receivables from parent, subsidiaries and affiliates	**9**	284
Other assets	**223**	159
Allowance for uncollectible accounts	**(45)**	(53)
Total admitted assets	**$ 22,965**	**$ 24,667**

See Notes to Statutory Basis Financial Statements

(Dollars in Millions, Except Share Information)

Statements of Liabilities, Capital and Surplus

	December 31, 2019	December 31, 2018
Liabilities		
Reserves for losses and loss adjustment expenses	$ 9,732	$ 10,935
Unearned premium reserves	3,104	3,234
Commissions, premium taxes, and other expenses payable	135	140
Reinsurance payable on paid loss and loss adjustment expenses	541	249
Current federal taxes payable to parent	2	9
Funds held by company under reinsurance treaties	1,945	2,288
Provision for reinsurance	16	30
Ceded reinsurance premiums payable, net of ceding commissions	400	337
Collateral deposit liability	276	369
Payable for securities purchased	194	112
Payable to parent, subsidiaries and affiliates	142	565
Derivative instruments	9	-
Other liabilities	474	476
Total liabilities	**$ 16,970**	**$ 18,744**
Capital and Surplus		
Common capital stock, $20 par value, 1,758,158 shares authorized, 1,556,054 shares issued and outstanding	$ 31	$ 29
Capital in excess of par value	6,485	6,989
Unassigned surplus (deficit)	(1,381)	(2,021)
Special surplus funds from reinsurance	860	926
Total capital and surplus	**$ 5,995**	**$ 5,923**
Total liabilities, capital and surplus	**$ 22,965**	**$ 24,667**

See Notes to Statutory Basis Financial Statements

(Dollars in Millions)

Statements of Operations and Changes in Capital and Surplus

	For the Years Ended December 31,		
	2019	2018	2017
Statements of Operations			
Underwriting income:			
Premiums earned	$ 5,369	$ 5,009	$ 5,170
Underwriting deductions:			
Losses incurred	2,920	3,945	4,400
Loss adjustment expenses	814	315	577
Other underwriting expenses	1,904	1,858	1,624
Total underwriting deductions	5,638	**6,118**	**6,601**
Net underwriting loss	(269)	**(1,109)**	**(1,431)**
Investment gain:			
Net investment income earned	825	1,027	1,058
Net realized capital gain (loss) (net of capital gains tax expense: 2019 - $42 ; 2018 - $69; 2017 - $82)	127	(111)	(110)
Net investment gain	952	**916**	**948**
Net loss from agents' or premium balances charged-off	(1)	(3)	(19)
Other (expense) income	(96)	(136)	39
Net Income (loss) after capital gains taxes and before federal income taxes	586	**(332)**	**(463)**
Federal and foreign income tax (benefit) expense	(35)	(54)	(69)
Net Income (Loss)	$ 621	**$ (278)**	**$ (394)**
Change in Capital and Surplus			
Capital and surplus, as of December 31, previous year	$ 5,923	$ 6,238	$ 6,448
Adjustment to beginning surplus (Note 2)	21	71	38
Capital and surplus, as of January 1,	5,944	6,309	6,486
Cumulative effect of changes in accounting principles	(39)	-	-
Other changes in capital and surplus:			
Net Income (loss)	621	(278)	(394)
Change in net unrealized capital gain (loss) (net of capital gain (loss) tax expense (benefit): 2019 - ($1) ; 2018 - ($50); 2017 - $2	21	(137)	204
Change in net deferred income tax	(143)	31	(394)
Change in nonadmitted assets	115	(91)	410
Change in provision for reinsurance	13	(10)	17
(Return of Capital) Capital contribution	(504)	150	-
Change in par value of common stock	2	-	-
Foreign exchange translation	(12)	(20)	(54)
Change in statutory contingency reserve	(26)	(31)	(39)
Other surplus adjustments	3	-	2
Total changes in capital and surplus	51	**(386)**	**(248)**
Capital and Surplus, as of December 31,	$ 5,995	**$ 5,923**	**$ 6,238**

See Notes to Statutory Basis Financial Statements

(Dollars in Millions)

Statements of Cash Flows

	For the Years Ended December 31,		
	2019	**2018**	**2017**
Cash from Operations:			
Premiums collected, net of reinsurance	**$ 5,118**	$ 5,292	$ 5,395
Net investment income	**677**	839	920
Miscellaneous income (expense)	**9**	4	(17)
Sub-total	**5,804**	**6,135**	**6,298**
Benefit and loss related payments	**4,296**	4,832	7,209
Commission and other expense paid	**2,510**	2,599	3,407
Federal and foreign income taxes recovered	**(8)**	(1)	(98)
Net cash (used in) provided from operations	**(994)**	**(1,295)**	**(4,220)**
Cash from Investments:			
Proceeds from investments sold, matured, or repaid			
Bonds	**4,296**	3,990	7,709
Stocks	**140**	339	324
Mortgage loans	**293**	111	615
Other investments	**1,374**	1,790	1,591
Total proceeds from investments sold, matured, or repaid	**6,103**	**6,230**	**10,239**
Cost of investments acquired:			
Bonds	**3,637**	3,766	4,278
Stocks	**12**	56	454
Mortgage loans	**164**	748	763
Other investments	**914**	870	853
Total cost of investments acquired	**4,727**	**5,440**	**6,348**
Net cash provided from (used in) investing activities	**1,376**	**790**	**3,891**
Cash from Financing and Miscellaneous Sources:			
Capital contributions	**(15)**	-	-
Borrowed fund repaid	**-**	(65)	(180)
Intercompany receipts	**11**	599	577
Net deposit activity on deposit-type contracts and other insurance	**(1)**	(27)	(13)
Collateral deposit liability (payments) receipts	**(93)**	(24)	8
Other (payments) receipt	**(75)**	60	30
Net cash (used in) provided from financing and miscellaneous activities	**(173)**	**543**	**422**
Net change in cash, cash equivalents, and short-term investments	**209**	38	93
Cash, cash equivalents, and short-term investments			
Beginning of year	**276**	**238**	**145**
End of year	**$ 485**	**$ 276**	**$ 238**

Refer to Note 11D for description of non-cash items.

See Notes to Statutory Basis Financial Statements

(Dollars in Millions)

1. Organization and Summary of Significant Statutory Basis Accounting Policies

A. Basis of Organization and Presentation

Organization

American Home Assurance Company (“the Company” or “American Home”) is a direct wholly-owned subsidiary of AIG Property Casualty U.S., Inc. (“AIG PC US”), a Delaware corporation, which is in turn owned by AIG Property Casualty Inc. (“AIG PC”), a Delaware corporation. The Company’s ultimate parent is American International Group, Inc. (the "Ultimate Parent" or "AIG"). AIG conducts its property and casualty operations through multiple line companies writing substantially all commercial (casualty, property, specialty and financial liability) and consumer (accident & health and personal lines) insurance both domestically and abroad.

The Company is party to an inter-company pooling agreement (the “Combined Pooling Agreement”), among the twelve companies listed below, collectively named the Combined Pool. Effective January 1, 2017, the Combined Pooling Agreement was amended and restated among the twelve member companies.

The member companies of the Combined Pool, their National Association of Insurance Commissioners ("NAIC") company codes, inter-company pooling participation percentages under the Combined Pooling Agreement and states of domicile are as follows:

Company	NAIC Company	Pool Participation Percentage	State of Domicile
National Union *	19445	35%	Pennsylvania
American Home	19380	35%	New York
Lexington	19437	30%	Delaware
APCC	19402	0%	Illinois**
C&I	19410	0%	New York
ISOP	19429	0%	Illinois
New Hampshire	23841	0%	Illinois
Specialty	26883	0%	Illinois
Assurance	40258	0%	Illinois
Granite	23809	0%	Illinois
Illinois National	23817	0%	Illinois
AIU	19399	0%	New York

* Lead Company of the Combined Pool

** Company was redomesticated to Illinois in 2019 from Pennsylvania in 2018.

Refer to Note 6 for additional information on the Combined Pool and the effects of the changes in the intercompany pooling arrangements (the “2017 Pooling Restructure Transaction”).

The Company accepts commercial business primarily through a network of independent retail and wholesale brokers and through independent agency networks. In addition, the Company accepts consumer business primarily through agents and brokers, as well as through direct marketing and partner organizations. There were no Managing Agents or Third Party Administrators who placed direct written premium with the Company in an amount exceeding more than 5.0 percent of surplus of the Company for the years ending December 31, 2019, 2018, and 2017.

(Dollars in Millions)

The Company is diversified in terms of classes of its business, distribution network and geographic locations. The Company has direct written premium concentrations of 5.0 percent or more in the following locations:

State / Location	2019	2018	2017
California	**$ 90**	$ 103	$ 124
Florida	**62**	68	86
United Arab Emirates	**61**	66	71
New York	**32**	36	65
Texas**	**24**	26	48
Bermuda*	**57**	16	5
Thailand*	**27**	8	8

*Bermuda and Thailand were below 5% in 2018 and 2017
** Texas is below 5% in 2019

Basis of Presentation

The accompanying financial statements of the Company have been prepared in conformity with accounting practices prescribed or permitted by the New York State Department of Financial Services ("NY SAP"). Certain balances relating to prior periods have been reclassified to conform to the current year's presentation.

Additionally, the financial statements include the Company's U.S. operations, its Dubai, Caribbean, Jamaica and Argentina branch operations and its participation in the American International Overseas Association (the "Association").

The Company's financial information as of and for the years ended December 31, 2019, 2018 and 2017 have been presented in accordance with the terms of the Combined Pooling Agreement.

B. Permitted and Prescribed Practices

NY SAP recognizes only statutory accounting practices prescribed or permitted by the New York State Department of Financial Services ("NY DFS") for determining and reporting the financial position and results of operations of an insurance company and for the purpose of determining its solvency under the New York Insurance Code. The NAIC Statutory Accounting Principles included within the Accounting Practices and Procedures Manual ("NAIC SAP") have been adopted as a component of prescribed practices by the NY DFS. The Superintendent of the NY DFS (the "Superintendent") has the right to permit other specific practices that differ from prescribed practices.

NY SAP has prescribed the practice of discounting workers' compensation known case loss reserves on a non-tabular basis. This practice is not prescribed under NAIC SAP.

For the affiliated loss portfolio transfer ("LPT") agreements entered into during 2018, the Company received permitted practices to present the consideration paid in relation to statutory reserves ceded to Fortitude Reinsurance Company Limited ("Fortitude Re") and Eaglestone Reinsurance Company ("Eaglestone") within paid losses rather than as premium written and earned. The classification change has no effect on net income or surplus. Refer to Note 5 for further details.

Accounting practices prescribed by the Insurance Department of the Commonwealth of Pennsylvania ("PA SAP") provide for the availability of certain offsets in the calculation of the *Provision for reinsurance*, which offsets are not prescribed under NAIC SAP. The Company applied PA SAP with concurrence from the NY DFS to reflect the transfer of collection risk on certain of the Company's asbestos related reinsurance recoverable balances, to an authorized third party reinsurer, as another form of collateral acceptable to the Commissioner with respect to the reinsurance recoverable balance from the original reinsurers.

The Company applied a permitted practice to account for the retroactive aggregate excess of loss reinsurance arrangement entered into with National Indemnity Company ("NICO"), a subsidiary of Berkshire Hathaway, Inc., (the "ADC") as prospective reinsurance. However, any gain associated with the ADC has been reported in a segregated surplus account and does not form part of the Company's *Unassigned surplus*, subject to the applicable dividend restrictions; such amounts must be restricted in surplus until such time as payments received by NICO exceed premiums paid for the retrocession. For more information, see Note 7.

(Dollars in Millions)

The use of the aforementioned permitted and prescribed practices has not affected the Company's ability to comply with the NY DFS's risk based capital ("RBC") and surplus requirements for the 2019, 2018 or 2017 reporting periods.

A reconciliation of the net income (loss) and capital and surplus between NAIC SAP and practices prescribed or permitted by NY SAP is shown below:

December 31,	SSAP #	FS Ref	2019	2018	2017
Net Income (loss), NY SAP			$ 621	$ (278)	$ (394)
State prescribed or permitted practices - addition (charge):					
Change in non-tabular discounting	65	(a)	(60)	13	73
Adverse Development Cover	62R	(a)	-	-	-
Present the consideration received/paid in relation to the loss reserves within paid losses	62R	(b)	-	-	-
Net Income (loss) , NAIC SAP			**$ 561**	**$ (265)**	**$ (321)**
Statutory surplus, NY SAP			$ 5,995	$ 5,923	$ 6,238
State prescribed or permitted practices - addition (charge):					
Non-tabular discounting	65	(a)	(133)	(73)	(86)
Credits for collection risk on certain asbestos reinsurance recoveries	62R	(c)	(54)	(61)	(43)
Adverse Development Cover	62R	(d)	(854)	(920)	(689)
Present the consideration received/paid in relation to the loss reserves within paid losses	62R	(b)	-	-	-
Statutory surplus, NAIC SAP			**$ 4,954**	**$ 4,869**	**$ 5,420**

(a) Impacts *Reserves for losses and loss adjustment expenses* within the *Statements of Liabilities, Capital and Surplus and Losses incurred* within the *Statements of Operations and Changes in Capital and Surplus*.

(b) Impacts *Losses incurred and Premiums earned* within the *Statements of Operations and Changes in Capital and Surplus*.

(c) Impacts *Provision for reinsurance within the Statements of Liabilities, Capital and Surplus* and the change in *Provision for reinsurance within the Statements of Operations and Changes in Capital and Surplus*.

(d) Impacts *Special surplus funds from reinsurance* within the *Statements of Liabilities, Capital and Surplus*. Although the application of prospective reinsurance treatment to the ADC results in no overall changes to surplus, the permitted practice applied results in any gain being restricted and reported in segregated surplus and does not form part of the Company's *Unassigned surplus*.

C. Use of Estimates in the Preparation of the Financial Statements

The preparation of statutory financial statements in accordance with NY SAP requires the application of accounting policies that often involve a significant degree of judgment. The Company's accounting policies that are most dependent on the application of estimates and assumptions are considered critical accounting estimates and are related to the determination of:

- Reserves for losses and loss adjustment expenses ("LAE") including estimates and recoverability of the related reinsurance assets;
- Legal contingencies;;
- Other than temporary impairment ("OTTI") losses on investments;
- Fair value of certain financial assets, impacting those investments measured at fair value in the *Statements of Admitted Assets and Liabilities, Capital and Surplus*, as well as unrealized gains (losses) included in Capital and Surplus; and
- Income tax assets and liabilities, including the recoverability and admissibility of net deferred tax assets and the predictability of future tax operating profitability of the character necessary to realize the net deferred tax asset.

These accounting estimates require the use of assumptions, including some that are highly uncertain at the time of estimation. It is reasonably possible that actual experience may materially differ from the assumptions used and therefore the Company's statutory financial condition, results of operations and cash flows could be materially affected.

D. Accounting Policy Differences

NAIC SAP is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("US GAAP"). NAIC SAP varies from US GAAP in certain significant respects, including:

Transactions	NAIC SAP Treatment	US GAAP Treatment
Policy Acquisition Costs Principally brokerage commissions and premium taxes arising from the issuance of insurance contracts.	Costs are immediately expensed and are included in *Other Underwriting Expenses*, except for reinsurance ceding commissions received in excess of the cost to acquire business which are recognized as a deferred liability and amortized over the period of the reinsurance agreement.	Costs directly related to the successful acquisition of new or renewal insurance contracts are deferred and amortized over the term of the related insurance coverage.
Unearned Premiums, Unpaid Losses and Loss Expense Liabilities	Presented net of reinsurance recoverable.	Presented gross of reinsurance with corresponding reinsurance recoverable assets for ceded unearned premiums and reinsurance recoverable on unpaid losses.
Retroactive reinsurance contracts	Gains and losses are recognized in earnings immediately and surplus is segregated to the extent pretax gains are recognized. Certain retroactive affiliate or related party reinsurance contracts are accounted for as prospective reinsurance if there is no gain in surplus as a result of the transaction.	Gains are deferred and amortized over the settlement period of the ceded claim recoveries. Losses are immediately recognized in the *Statements of Operations.*
Investments in Bonds held as: 1) available for sale 2) fair value option	Investment grade securities (rated by NAIC as class 1 or 2) are carried at amortized cost. Non- investment grade securities (NAIC rated 3 to 6) are carried at the lower of amortized cost or fair value.	All available for sale investments are carried at fair value with changes in fair value, net of applicable taxes, reported in accumulated other comprehensive income within shareholder's equity. Fair value option investments are carried at fair value with changes in fair value, net of applicable projected income taxes, reported in *Net Investment Income*.
Investments in Equity Securities	Carried at fair value with unrealized gains and losses reported, net of applicable taxes, in the *Statements of Changes in Capital and Surplus*.	All equity securities that do not follow the equity method of accounting, are measured at fair value with changes in fair value recognized in earnings.
Investments in Limited Partnerships, Hedge Funds and Private Equity Interests	Carried at the underlying US GAAP equity with results from the investment's operations recorded, net of applicable taxes, as unrealized gains (losses) directly in the *Statements of Changes in Capital and Surplus*.	If aggregate interests allow the holding entity to exercise more than significant influence (typically more than 3%), the investment is recorded as an equity method investment wherein the Company's pro rata share of income or loss for the period, is recorded as net investment income and adjusted against the carrying value of the asset. Similar equity method investments in investment company entities (eg: hedge funds) is adjusted for the Company's pro rata share of income or loss for the period which is based on the Net Asset Value ("NAV") with changes in value recorded to *Net Investment Income*. Where the aggregate interests do not allow the entity to exercise significant influence (typically less than 3%), the investment is recorded at as equity investment fair valued through net investment income. Similar equity investment in investment companies (eg: hedge funds) are recorded at NAV with changes in value recorded to *Net Investment Income*.

Transactions	NAIC SAP Treatment	US GAAP Treatment
Investments in Subsidiary, Controlled and Affiliated Entities (SCAs)	Subsidiaries are not consolidated. The equity investment in SCAs are accounted for under the equity method and recorded as Common stock investments. Dividends are recorded within *Net Investment Income*.	Consolidation is required when there is a determination that the affiliated entity is a variable interest entity ("VIE") and the reporting entity has a variable interest and the power to direct the activities of the VIE. The VIE assessment would consider various factors including limited partnership (LP) status and inherent rights of equity investors. Investments in SCAs that are voting interest entities (VOE) with majority voting rights are generally consolidated. Investments in SCAs where the holding entity exercises significant influence (generally ownership of>3% voting interests for LPs and similar entities and between 20 percent and 50 percent for other entities) are recorded at equity value. The change in equity is included within operating income.
Statement of Cash Flows	Statutory *Statements of Cash Flows* must be presented using the direct method. Changes in cash, cash equivalents, and short-term investments and certain sources of cash are excluded from operational cash flows.	The *Statements of Cash Flows* can be presented using the direct or indirect methods, however are typically presented using the indirect method. Presentation is limited to changes in cash and cash equivalents (short-term investments are excluded).
Deferred Federal Income Taxes	Deferred income taxes are established for the temporary differences between tax and book assets and liabilities, subject to limitations on admissibility of tax assets. Changes in deferred income taxes are recorded within capital and surplus and have no impact on the *Statements of Operations*.	The provision for deferred income taxes is recorded as a component of income tax expense, as a component of the *Statements of Operations*, except for changes associated with items that are included within other comprehensive income where such items are recorded net of applicable income taxes.
Statutory Adjustments (applied to certain assets including goodwill, furniture and equipment, deferred taxes in excess of limitations, prepaid expenses, overdue receivable balances and unsecured reinsurance amounts)	Certain asset balances designated as nonadmitted, such as some intangible assets and certain investments in affiliated entities are excluded from the *Statements of Admitted Assets* and are reflected as deductions from capital and surplus.	All assets and liabilities are included in the financial statements. Provisions for uncollectible receivables are established as valuation allowances and are recognized as expense within the *Statements of Operations*.

The effects on the financial statements of the variances between NAIC SAP and US GAAP, although not reasonably determinable, are presumed to be material.

E. Significant Statutory Accounting Policies

Premiums

Premiums for insurance and reinsurance contracts are recorded as gross premiums written as of the effective date of the policy. Premiums are earned primarily on a pro-rata basis over the term of the related insurance coverage. Premiums collected prior to the effective date of the policy are recorded as advance premiums, reported as a liability and not considered income until due. Extended reporting endorsements are reflected as premiums written and are earned on a pro-rata basis over the stated term of the endorsement unless the term of the endorsement is indefinite in which case premiums are fully earned at inception of the endorsement along with the recognition of associated loss and LAE.

(Dollars in Millions)

Unearned premium reserves are established on an individual policy basis, reflecting the terms and conditions of the coverage being provided. Unearned premium reserves represent the portion of premiums written relating to the unexpired terms of coverage as of the date of the financial statements. For policies with coverage periods equal to or greater than thirteen months and generally not subject to cancellation or modification by the Company, premiums are earned using a prescribed percentage of completion method. Additional unearned premium reserves for policies exceeding thirteen months are established as greater of three prescribed tests.

Reinsurance premiums are typically earned over the same period as the underlying policies, or risks, covered by the contracts. As a result, the earnings pattern of a reinsurance contract generally written for a 12-month term may extend up to 24 months, reflecting the inception dates of the underlying attaching policies throughout the 12-month period of the reinsurance contract. Reinsurance premiums ceded are recognized as a reduction in revenues over the period reinsurance coverage is provided.

Insurance premiums billed and outstanding for 90 days or more are nonadmitted and charged against Unassigned surplus.

Premiums for retrospectively rated contracts are initially recorded based on the expected loss experience and are earned on a pro-rata basis over the term of the related insurance coverage. Additional or returned premium is recorded if the estimated loss experience differs from the initial estimate and is immediately recognized in earned premium. The Company records accrued retrospectively rated premiums as written premiums. Adjustments to premiums for changes in the level of exposure to insurance risk are generally determined based upon audits conducted after the policy expiration date.

Gross written premiums net of ceded written premiums (“Net written premiums”) that were subject to retrospective rating features as of December 31, 2019, 2018 and 2017 were as follows:

Years ended December 31,	**2019**	**2018**	**2017**
Net written premiums subject to retrospectively rated contracts	**$ 91**	$ 93	$ 105
Percentage of total net written premiums	**1.7%**	1.9%	2.1%

As of December 31, 2019 and 2018, the admitted portion of accrued premiums related to the Company's retrospectively rated contracts were $490 and $511, respectively, which will be billed in future periods based primarily on the payment of the underlying expected losses and LAE. Unsecured amounts associated with these accrued retrospective premiums were $41 and $60 as of December 31, 2019 and 2018, respectively. Ten percent of the amount of accrued retrospective premiums receivable not offset by retrospective return premiums or other liabilities to the same party, other than loss and LAE reserves, or collateral (collectively referred to as the unsecured amount) have been nonadmitted in the amount of $6 and $10 as of December 31, 2019 and 2018, respectively.

High Deductible

The Company establishes loss reserves for high deductible policies net of the insured’s contractual deductible (such deductibles are referred to as “reserve credits”). The Company establishes a nonadmitted asset for ten percent of paid losses recoverable in excess of collateral held on an individual insured basis, or for one hundred percent of paid losses recoverable where no collateral is held and amounts are outstanding for more than ninety days. Additionally, the Company establishes an allowance for doubtful accounts for such paid losses recoverable in excess of collateral and after nonadmitted assets. Similarly, the Company does not recognize reserve credit offsets to its estimate of loss reserves where such credits are deemed uncollectible, as the Company ultimately bears credit risk on the underlying policies’ insurance obligations.

(Dollars in Millions)

The following table shows the counterparty exposure on unpaid claims and billed recoverable on paid claims for high deductibles by line of business as of December 31, 2019 and 2018:

December 31, 2019		Gross Loss Reserves		Reserve Credits on Unpaid Claims		Recoverable on Paid Claims		Total
Allied Lines	**$**	**423**	**$**	**423**	**$**	**7**	**$**	**430**
General Liabilities		**481**		**481**		**6**		**487**
Workers Compensation		**3,352**		**3,352**		**35**		**3,387**
Total	**$**	**4,256**	**$**	**4,256**	**$**	**48**	**$**	**4,304**

As of December 31, 2019, both on-balance sheet and off-balance sheet collateral pledged to the Company related to deductible and paid recoverables was $150 and $3,013, respectively. Unsecured high deductible amounts related to unpaid claims and for paid recoverables for 2019 were $1,142, or 27% of the total high deductible. Additionally, as of December 31, 2019, the Company had recoverables on paid claims greater than 90 days overdue of $23, of which $6 have been nonadmitted.

December 31, 2018		Gross Loss Reserves		Reserve Credits on Unpaid Claims		Recoverable on Paid Claims		Total
Allied Lines	$	390	$	390	$	10	$	400
General Liabilities		464		464		9		473
Workers Compensation		3,419		3,419		51		3,470
Total	$	4,273	$	4,273	$	70	$	4,343

As of December 31, 2018, both on-balance sheet and off-balance sheet collateral pledged to the Company related to deductible and paid recoverables was $206 and $3,068, respectively. Unsecured high deductible amounts related to unpaid claims and for paid recoverables for 2018 were $1,069, or 25% of the total high deductible. Additionally, as of December 31, 2018, the Company had recoverables on paid claims greater than 90 days overdue of $72, of which $7 have been nonadmitted.

The following table shows the deductible amounts for the highest ten unsecured high deductible policies as of December 31, 2019 and 2018:

Counterparty*	Unsecured High Deductible Amounts			
December 31,		**2019**		**2018**
Counterparty 1	**$**	**142**	$	129
Counterparty 2		**89**		103
Counterparty 3		**86**		75
Counterparty 4		**74**		55
Counterparty 5		**69**		54
Counterparty 6		**54**		54
Counterparty 7		**51**		48
Counterparty 8		**35**		48
Counterparty 9		**22**		21
Counterparty 10		**21**		20

*Actual counterparty is not named and may vary year over year. Additionally, a group of entities under common control is regarded as a single counterparty.

Deposit Accounting

Direct insurance transactions where management determines there is insufficient insurance risk transfer are recorded as deposits unless the policy was issued (i) in respect of the insured’s requirement for evidence of coverage pursuant to applicable statutes (insurance statutes or otherwise), contractual terms or normal business practices, (ii) in respect of an excess insurer’s requirement for an underlying primary insurance policy in lieu of self-insurance, or (iii) in compliance with filed forms, rates and/or rating plans.

Assumed and ceded reinsurance contracts which do not transfer a sufficient amount of insurance risk are recorded as deposits with the net consideration paid or received recognized as a deposit asset or liability, respectively. Deposit assets are admitted if (i) the assuming company is licensed, accredited or qualified by the PA DOI, or (ii) the collateral (i.e., funds withheld, letters of credit or trusts) provided by the reinsurer meets all the requirements of the NY SAP, as applicable. The deposit asset or liability is adjusted by calculating the effective yield on the deposit to reflect the actual payments made or received to date and expected future payments with a corresponding credit or charge to *Other income (expense)* in the *Statements of Operations*.

Deposit assets are recorded to *Other assets* within the *Statements of Admitted Assets*, refer to Note 11A. Deposit liabilities are recorded to *Other liabilities* within the *Statements of Liabilities, Capital and Surplus*, refer to Note 11B.

Premium Deficiency

The Company periodically reviews its expected ultimate losses with respect to its unearned premium reserves. A premium deficiency loss and related liability is established if the unearned premium reserves and related future investment income are collectively not sufficient to cover the expected ultimate loss projection. For purposes of premium deficiency tests, contracts are grouped in a manner consistent with how policies are marketed, serviced, and measured for the profitability of such contracts. As of December 31, 2019 and 2018, the Company did not incur any premium deficiency losses.

Retroactive Reinsurance

Reinsurance transactions involving the transfer of loss and LAE reserves associated with loss events that occurred prior to the effective date of the transfer are recorded as retroactive reinsurance and reported separately from *Reserves for losses and loss adjustment expenses* in the *Statements of Liabilities, Capital and Surplus*. Initial pre-tax gains or losses are recorded in *Retroactive reinsurance gain* within the *Statements of Operations and Changes in Capital and Surplus* with surplus gains recorded as *Special surplus funds from reinsurance* which is a component of *Capital and Surplus* that is restricted from dividend payment. Amounts recorded in *Special surplus funds from reinsurance* are considered to be earned surplus (i.e., transferred to *Unassigned surplus*) only when, and to the extent that, cash recoveries from the assuming entity exceed the consideration paid by the ceding entity. *Special surplus funds* from retroactive reinsurance are maintained separately for each respective retroactive reinsurance agreement; Special surplus funds from retroactive reinsurance account write-in entry on the balance sheet is adjusted, upward or downward, to reflect any subsequent increase or reduction in reserves ceded. The reduction in the special surplus funds is limited to the lesser of amounts recovered by the Company in excess of consideration paid or the surplus gain in relation to such agreement.

To the extent that the transfer of loss and LAE reserves associated with loss events that occurred prior to the effective date of the transfer is between affiliated entities and neither entity records a gain or loss in surplus, the transaction qualifies as an exception in the NAIC SAP accounting guidance and is accounted for as prospective reinsurance.

Insurance Related Acquisition Costs

Commissions, premium taxes, and certain underwriting costs are expensed as incurred and are included in *Other underwriting expenses*. The Company records an unearned ceding commission accrual equal to the excess of the ceding commissions received from reinsurers compared to the anticipated acquisition cost of the business ceded. This amount is amortized as an increase to income over the effective period of the reinsurance agreement in proportion to the amount of insurance coverage provided.

Provisions for Allowances and Unauthorized or Overdue Reinsurance

The recoverability of certain assets, including insurance receivables with counterparties, is reviewed periodically by management. A minimum reserve, as required under the NAIC Annual Statement Instructions for Property and Casualty Companies for Schedule F–Provision for Overdue Reinsurance for uncollectible reinsurance is recorded with an additional reserve required if an entity's experience indicates that a higher amount should be provided. The minimum reserve is recorded as a liability and the change between years is recorded as a gain or loss directly to *Unassigned fund (surplus) in the Statement of Liabilities, Capital and Surplus.* Any reserve over the minimum amount is recorded on the statement of operations by reversing the accounts previously utilized to establish the reinsurance recoverable. Various factors are taken into consideration when assessing the recoverability of these asset balances including: the age of the related amounts due and the nature of the unpaid balance; disputed balances, historical recovery rates and any significant decline in the credit standing of the counterparty. PA SAP is applied in the determination of the Company's *Provision for reinsurance* with concurrence from the NY DFS.

(Dollars in Millions)

Reserves for Losses and Loss Adjustment Expenses

Reserves for case incurred but not reported ("IBNR") and LAE losses are determined on the basis of actuarial specialists' evaluations and other estimates, including historical loss experience. The methods of making such estimates and for establishing the resulting reserves are reviewed and updated based on available information, and any resulting adjustments are recorded in the current period. Accordingly, newly established reserves for losses and LAE, or subsequent changes, are charged to income as incurred. In the event of loss recoveries through reinsurance agreements, loss and LAE reserves are reported net of reinsurance amounts recoverable for unpaid losses and LAE. Losses and LAE ceded through reinsurance are netted against losses and LAE incurred. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsurance policy based upon the terms of the underlying contract. See Note 5 for further discussion of policies and methodologies for estimating the liabilities and losses.

Workers' compensation reserves are discounted in accordance with NY DFS statutes; see Note 5 for further details.

Salvage and subrogation recoverables are estimated using past experience adjusted for current trends, and any other factors that would modify past experience. Estimated salvage and subrogation recoveries (net of associated expenses) are deducted from the liability for unpaid claims or losses.

Structured Settlements

In the ordinary course of business, the Company enters into structured settlements to settle certain claims. Structured settlements involve the purchase of an annuity by the Company, generally from life insurers, to fund future claim obligations. In the event the life insurers providing the annuity do not meet their obligations, the Company would, in certain cases, become liable for the payments of benefits. As of December 31, 2019 there were no incurred losses, there has been no default by any of the participating life insurers and the Company has not reduced its loss reserves for any annuities purchased where it is both the owner and the payee. Management believes that based on the financial strength of the life insurers involved (mostly affiliates) the likelihood of the Company becoming liable, or incurring an incremental loss, is remote.

The estimated loss reserves eliminated by such structured settlement annuities and the unrecorded loss contingencies as of December 31, 2019 and 2018 were $1,303 and $1,328, respectively.

As of December 31, 2019, the Company had annuities with aggregate statement values in excess of one percent of its policyholders' surplus with life insurer affiliates as follows:

Life Insurance Company	State of Domicile	Licensed in New York	Statement Value
American General Life Insurance Company of Texas	Texas	No	$ 154
American General Life Insurance Company of Delaware	Delaware	No	266
The United State Life Insurance Company in the City of New York	New York	Yes	830

Fair Value of Financial Instruments

The degree of judgment used in measuring the fair value of financial instruments generally inversely correlates with the level of observable valuation inputs. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, liquidity and general market conditions.

Assets and liabilities recorded at fair value are measured and classified in accordance with a fair value hierarchy consisting of three 'levels' based upon the observability of inputs available in the marketplace as discussed below:

- Level 1: Fair value measurements that are based upon quoted prices (unadjusted) in active markets that we have the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets. The quoted price for such instruments is not subject to adjustment.

- Level 2: Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3: Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3. The circumstances for using these measurements include those in which there is little, if any, market activity for the asset or liability. Therefore, we must make certain assumptions as to the inputs a hypothetical market participant would use to value that asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The Company's policy is to recognize transfers in and out at the end of the reporting period, consistent with the date of the determination of fair value (See Note 4 for the balance and activity of financial instruments). The valuation methods and assumptions used in estimating the fair values of financial instruments are as follows:

- The fair values of bonds, mortgage loans, unaffiliated common stocks and preferred stocks are based on fair values that reflect the price at which a security would sell in an arm's length transaction between a willing buyer and seller. As such, sources of valuation include third party pricing sources, stock exchanges, brokers or custodians or the NAIC Capital Markets and Investment Analysis Office ("NAIC IAO").
- The fair value of derivatives is determined using quoted prices in active markets and other market evidence whenever possible, including market-based updates, broker or dealer quotations or alternative pricing sources.
- The carrying value of all other financial instruments approximates fair value due to the short term nature.

Cash Equivalents and Short Term Investments

Cash equivalents are short-term, highly liquid investments, with original maturities of three months or less, that are both; (a) readily convertible to known amounts of cash; and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Highly liquid debt securities with maturities of greater than three months but less than twelve months from the date of purchase are classified as short-term investments. Short-term investments are carried at amortized cost which approximates fair value.

Bonds and Loan Backed and Structured Securities

Bonds include any securities representing a creditor relationship, whereby there is a fixed schedule for one or more future payments such as US government agency securities, municipal securities, corporate and convertible bonds, and fixed income instruments. Loan-backed and structured securities ("LBaSS") include residential mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS"), and asset-backed securities ("ABS"), pass-through securities, lease-backed securities, equipment trust certificates, loan-backed securities issued by special purpose corporations or trusts, and securities where there is not direct recourse to the issuer.

Bonds and LBaSS with an NAIC IAO designation of "1" or "2" (considered to be investment grade) are carried at amortized cost. Bonds and LBaSS with an NAIC designation of "3", "4", "5", "5*", "6" or "6*" (considered to be non-investment grade) are carried at the lower of amortized cost or fair value. LBaSS fair values are primarily determined using independent pricing services and broker quotes. Bonds and LBaSS that have not been filed and have not received a designation in over a year, from the NAIC IAO, are assigned a 6* designation and carried at zero, with unrealized losses charged to surplus. Bond and LBaSS securities that have been filed and received a 6* designation can carry a value greater than zero. Bond and LBaSS securities are assigned a 5* designation when the following conditions are met: a) the documentation required for a full credit analysis did not exist, b) the issuer/obligor has made all contractual interest and principal payments, and c) an expectation of repayment of interest and principal exists. Amortization of premium or discount on bonds and LBaSS is calculated using the effective yield method.

Additionally, mortgage-backed securities ("MBS") and ABS prepayment assumptions are obtained from an outside vendor or internal estimates. The retrospective adjustment method is used to account for the effect of unscheduled payments affecting high credit quality securities, while securities with less than high credit quality and securities for which the collection of all contractual cash flows is not probable are both accounted for using the prospective adjustment method.

Mortgage Loans

Mortgage loans on real estate are carried at unpaid principal balances, net of unamortized premiums, discounts and impairments. Pre-payments of principal are recorded as a reduction in the mortgage loan balance. If a mortgage loan provides for a prepayment penalty or acceleration fee in the event the loan is liquidated prior to its scheduled termination date, such fees is reported as investment income when received. Interest income includes interest collected, the change in interest income due and accrued, the change in unearned interest income as well as amortization of premiums, discounts, and deferred fees and recorded as earned in investment income in the statement of operations.

Impaired loans are identified by management as loans in which it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The Company accrues income on impaired loans to the extent it is deemed collectible and the loan continues to perform under its original or restructured contractual terms. Non-performing loan interest income that is delinquent more than 90 days is generally recognized on a cash basis.

Mortgage loans are considered impaired when collection of all amounts due under contractual terms is not probable. Impairment is measured using either i) the present value of expected future cash flows discounted at the loan's effective interest rate, ii) the loan's observable market price, if available, or iii) the fair value of the collateral if the loan is collateral dependent. An allowance is typically established for the difference between the impaired value of the loan and its current carrying amount. Additional allowance amounts are established for incurred but not specifically identified impairments, based on statistical models primarily driven by past due status, debt service coverage, loan-to-value ratio, property occupancy, profile of the borrower and of the major property tenants, and economic trends in the market where the property is located. When all or a portion of a loan is deemed uncollectible, the uncollectible portion of the carrying amount of the loan is charged off against the allowance.

Internal credit risk ratings are assigned based on the consideration of risk factors including past due status, debt service coverage, loan-to-value ratio or the ratio of the loan balance to the estimated value of the property, property occupancy, profile of the borrower and of the major property tenants, economic trends in the market where the property is located, and condition of the property.

Preferred Stocks

Perpetual preferred stocks with an NAIC rating of "P1" or "P2", having characteristics of equity securities are carried at fair value. Redeemable preferred stocks with an NAIC rating of "RP1" or "RP2", which have characteristics of debt securities, are carried at book value. All preferred stocks with an NAIC rating of "3" through "6" are carried at the lower of book or fair value.

Unaffiliated Common Stock Securities

Unaffiliated common stock investments are carried at fair value with changes in fair value recorded as unrealized gains (losses) in *Unassigned surplus*, or as realized losses in the event a decline in value is determined to be other than temporary. For FHLB capital stock, which is only redeemable at par, the fair value shall be presumed to be par, unless considered other-than-temporarily impaired.

Investments in subsidiaries and affiliated companies

Investments in non-publicly traded affiliates are recorded based on the underlying equity of the respective entity's financial statements as presented on a basis consistent with the nature of the affiliates' operations (including any nonadmitted amounts). The Company's share of undistributed earnings and losses of affiliates is recorded as unrealized gains (losses) in *Unassigned surplus.*

Investments in joint ventures, partnerships and limited liability companies

Other invested assets include joint ventures and partnerships and are accounted for under the equity method, based on the most recent financial statements of the entity. Changes in carrying value are recorded as unrealized gains (losses). Additionally, other invested assets include investments in collateralized loans that are recorded at the lower of amortized cost and the fair value of the underlying collateral. Changes in carrying value resulting from adjustments where the fair value is less than amortized cost are recorded as unrealized gains (losses) in *Unassigned surplus*, while changes resulting from amortization are recorded as *Net investment income.*

Derivatives

Derivative financial instruments are accounted for at fair value using quoted prices in active markets and other market evidence whenever possible, including market-based inputs to valuation models, broker or dealer quotations or alternative pricing sources, reduced by the amount of collateral held or posted by the Company with respect to the derivative position. Changes in carrying value are recorded as unrealized gains (losses) in *Unassigned surplus*.

Net investment income and gain/loss

Investment income is recorded as earned and includes interest, dividends and earnings from subsidiaries, loans and joint ventures. Realized gains or losses on the disposition or impairment of investments are determined on the basis of specific identification.

Investment income due and accrued is assessed for collectability. The Company records a valuation allowance on investment income receivable when it is probable that an amount is uncollectible by recording a charge against investment income in the period such determination is made. Any amounts receivable over 90 days past due, or 180 days past due for mortgage loans, that do not have a valuation allowance are nonadmitted by the Company.

Evaluating Investments for Other-Than-Temporary Impairment

If a bond is determined to have an OTTI in value the cost basis is written down to fair value as its new cost basis, with the corresponding charge to *Net realized capital gains (losses)* as a realized loss.

For bonds, other than loan-backed and structured securities, an OTTI shall be considered to have occurred if it is probable that the Company will not be able to collect all amounts due under the original contractual terms.

For loan-backed and structured securities, an OTTI shall be considered to have occurred if the fair value of a security is below its amortized cost and management intends to sell or does not have the ability and intent to retain the security until recovery of the amortized cost (i.e., intent based impairment). When assessing the intent to sell a security, management evaluates relevant facts and circumstances including, but not limited to, decisions to rebalance the investment portfolio, sales of securities to meet cash flow needs and sales of securities to take advantage of favorable pricing.

In general, a security is considered a candidate for OTTI evaluation if it meets any of the following criteria:

- The Company may not realize a full recovery on their investment based on lack of ability or intent to hold a security to recovery;
- Fundamental credit risk of the issuer exists; and/or
- Other qualitative/quantitative factors exist indicating an OTTI has occurred.

When a credit-related OTTI is present, the amount of OTTI recognized as a realized capital loss is equal to the difference between the investment's amortized cost basis and the present value of cash flows expected to be collected regardless of management's ability or intent to hold the security.

Common and preferred stock investments whose fair value is less than their carrying value or is at a significant discount to acquisition value are considered to be potentially impaired. For securities with unrealized losses, an analysis is performed. Factors include:

- If management intends to sell a security that is in an unrealized loss position then an OTTI loss is considered to have occurred;
- If the investments are trading at a significant (25 percent or more) discount to par, amortized cost (if lower) or cost for an extended period of time based on facts and circumstances of the investment; or
- If a discrete credit event occurs resulting in: (i) the issuer defaulting on a material outstanding obligation; (ii) the issuer seeking protection from creditors under bankruptcy law or any similar laws intended for court supervised reorganization of insolvent enterprises; or, (iii) the issuer proposing a voluntary reorganization pursuant to which creditors are asked to exchange their claims for cash or securities having a fair value substantially lower than par value of their claims; or
- If there are other factors precluding a full recovery of the investment.

Limited partnership investments whose fair value is less than its book value with a significant unrealized loss are considered candidates for OTTI. OTTI factors that are periodically considered include:

- If an order of liquidation or other fundamental credit issues with the partnership exists;
- If there is a significant reduction in scheduled cash flow activities between the Company and the partnership or fund during the year;
- If there is an intent to sell, or the Company may be required to sell, the investment prior to the recovery of cost of the investment; or
- If other qualitative/quantitative factors indicating an OTTI exist based on facts and circumstances of the investment.

Equities in Pools & Associations

The Company accounts for its participation in the business pooled via the Association (see Note 6) and its deposit in the Association by recording the Company's share of:

- direct and assumed premium as gross premium,
- underwriting and net investment income results in the *Statements of Operations and Changes in Capital and Surplus,*
- insurance and reinsurance balances in the *Statements of Admitted Assets,*
- all other non-insurance assets and liabilities held by the Association, all of which are on its members' behalf, as *Equities in Underwriting Pools and Associations* in the *Statements of Admitted Assets,* and
- cashflows in the *Statements of Cash Flows*.

Foreign Currency Translation

Foreign currency denominated assets and liabilities are translated into U.S. dollars using rates of exchange prevailing at the period end date. Revenues, expenses, gains, losses and surplus adjustments, of non-U.S. operations are translated into U.S. dollars based on weighted average exchange rate for the period. All gains or losses due to translation adjustments recorded as unrealized gains (losses) within *Unassigned surplus* in the *Statements of Liabilities, Capital and Surplus*. All realized gains and losses due to exchange differences between settlement date and transaction date resulting from foreign currency transactions, not in support of foreign insurance operations, are included in *Net realized capital gains (losses)* in the *Statements of Operations and Changes in Capital and Surplus.*

Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans

The Company's employees participate in various AIG-sponsored defined benefit pension and postretirement plans. AIG, as sponsor, is ultimately responsible for the maintenance of these plans in compliance with applicable laws. The Company is not directly liable for obligations under these plans. AIG charges the Company and its insurance company affiliates pursuant to intercompany expense sharing agreements; the expenses are then shared by the pool participants in accordance with the pooling agreement.

The Company incurred employee related costs related to defined benefit and defined contribution plans during 2019, 2018 and 2017 of $7, $5 and $10, respectively.

Income Taxes

The Company files a consolidated U.S. federal income tax return with AIG. AIG has more than 300 subsidiaries which form part of this tax return. A complete listing of the participating subsidiaries is included in Note 8.

The Company is allocated U.S. federal income taxes based upon a tax sharing agreement (the "Tax Sharing Agreement") with AIG, effective January 1, 2018, and approved by the Company's Board of Directors. This agreement provides that the Company shall incur tax results that would have been paid or received by such company if it had filed a separate federal income tax return, with limited exceptions.

Additionally, while the agreement described above governs the current and deferred income tax recorded in the income tax provision, the amount of cash that will be paid or received for U.S. federal income taxes may at times be different. The terms of this agreement are based on principles consistent with the allocation of income tax expense or benefit on a separate company basis, except that:

- The sections of the Internal Revenue Code relating to the Base Erosion Anti-abuse Tax ("BEAT") are applied, but only if the AIG consolidated group is subject to BEAT in the Consolidated Tax Liability, and;
- The impact of Deferred Intercompany Transactions (as defined in Treas. Reg. §1.1502-13(b)(1), if the "intercompany items" from such transaction, as defined in Treas. Reg. §1.1502-13(b)(2), have not been taken into account pursuant to the "matching rule" of Treas. Reg. §1.1502-13(c)), are excluded from current taxation, provided however, that the Company records the appropriate deferred tax asset and/or deferred tax liability related to the gain or loss and includes such gain or loss in its separate return tax liability in the subsequent tax year when the deferred tax liability or deferred tax asset becomes current.

The Company has an enforceable right to recoup federal income taxes in the event of future net losses that it may incur or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

Under the Tax Sharing Agreement, income tax liabilities related to uncertain tax positions and tax authority audit adjustments (“TAAAs”) shall remain with the Company for which the income tax liabilities relate. Furthermore, if and when such income tax liabilities are realized or determined to no longer be necessary, the responsibility for any additional income tax liabilities, benefits or rights to any refunds due, remains with the Company.

In accordance with Circular Letter 1979-33 issued by the NY DFS, AIG shall establish and maintain an escrow account for amounts where the Company's separate return liability exceeds the AIG consolidated tax liability. As of December 31, 2019, the Company’s separate return liability did not exceed the AIG consolidated tax liability and therefore no amounts were maintained in escrow.

Deferred Taxes

The Company evaluates the recoverability of deferred tax assets and establishes a valuation allowance, if necessary, to reduce the deferred tax asset to an amount that is more likely than not to be realized (“adjusted gross deferred tax asset”). The evaluation of the recoverability of the deferred tax asset and the need for a valuation allowance requires management to weigh all positive and negative evidence to reach a conclusion that it is more likely than not that all or some portion of the deferred tax asset will not be realized. The weight given to the evidence is commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is necessary and the more difficult it would be to support a conclusion that a valuation allowance is not needed.

The Company's framework for assessing the recoverability of deferred tax assets requires it to consider all available evidence, including:

- the nature, frequency, and amount of cumulative financial reporting income and losses in recent years;
- the sustainability of recent operating profitability of our subsidiaries;
- the predictability of future operating profitability of the character necessary to realize the net deferred tax asset;
- the carryforward periods for the net operating loss, capital loss and foreign tax credit carryforwards, including the effect of reversing taxable temporary differences; and
- prudent and feasible actions and tax planning strategies that would be implemented, if necessary, to protect against the loss of the deferred tax asset.

The adjusted gross deferred tax asset is then assessed for statutory admissibility. The reversing amount eligible for loss carryback or the amount expected to be realized in three years is admissible, subject to the defined surplus limitation. The remaining adjusted gross deferred tax asset can be admitted to the extent of offsetting deferred tax liabilities.

2. Accounting Adjustments to Statutory Basis Financial Statements

A. Change in Accounting Principles

2019 Changes

In 2019, the Company revised its accounting policy of investments in hedge funds accounted for as equity method investments. These investments will no longer be accounted for using a one month lag. The cumulative impact on the Company's surplus as of December 31, 2018 was a decrease of $39 and is reflected as a *Cumulative effect of changes in accounting principles* within surplus.

In 2019, there were no significant changes or modifications in the Statements of Statutory Accounting Principles ("SSAP").

2018 and 2017 Changes

In 2018 and 2017, there were no significant changes or modifications in the Statements of Statutory Accounting Principles (“SSAP”).

(Dollars in Millions)

B. Adjustments to Surplus

During 2019, 2018 and 2017 the Company identified corrections that resulted in after-tax statutory adjustments to beginning capital and surplus of $21, $72 and $38, respectively. In accordance with SSAP No. 3, *Accounting Changes and Corrections of Errors* ("SSAP 3"), the corrections of errors have been reported in the 2019, 2018 and 2017 statutory financial statements as adjustments to *Unassigned surplus*. The impact of the 2019 corrections would have decreased the 2018 and 2017 pre-tax income by $1 and $2, respectively. Management has concluded that the effects of these errors on the previously issued financial statements were immaterial based on a quantitative and qualitative analysis. The impact to surplus, assets and liabilities as of January 1, 2019, 2018 and 2017 is presented in the following tables:

2019 Adjustments	Policyholders' Surplus	Total Admitted Assets	Total Liabilities
Balance at December 31, 2018	**$ 5,923**	**$ 24,667**	**$ 18,744**
Adjustments to beginning Capital and Surplus:			
Asset corrections	**-**	**-**	**-**
Liability corrections	**9**	**-**	**(9)**
Income tax corrections	**12**	**12**	**-**
Total adjustments to beginning Capital and Surplus	**21**	**12**	**(9)**
Balance at January 1, 2019 as adjusted	**$ 5,944**	**$ 24,679**	**$ 18,735**

An explanation for each of the adjustments for prior period corrections is described below:

Liability corrections – The decrease in total liabilities is primarily the result of a) Premium overstatement and b) foreign exchange translation correction on Japan Yen business.

Income tax corrections – The increase in the tax assets is primarily the result of a) corrections to prior period balances for adjustments to the current and deferred tax assets and liabilities and b) the tax effect of the corresponding change in asset realization and liability corrections.

2018 Adjustments	Policyholders' Surplus	Total Admitted Assets	Total Liabilities
Balance at December 31, 2017	**$ 6,238**	**$ 25,638**	**$ 19,400**
Adjustments to beginning Capital and Surplus:			
Asset corrections	56	56	-
Liability corrections	6	-	(6)
Income tax corrections	10	10	-
Total adjustments to beginning Capital and Surplus	72	66	(6)
Balance at January 1, 2018 as adjusted	**$ 6,310**	**$ 25,704**	**$ 19,394**

An explanation for each of the adjustments for prior period corrections is described below:

Asset corrections – The increase in net admitted assets is primarily the result of a) an understatement in the carrying value of an investment impacting 2017 financials; b) deposit accounting not recorded within contract terms.

Liability corrections – The decrease in total liabilities is primarily the result of a) a net decrease in unearned premium reserves on multi-year direct policies; partially offset by b) an increase due to an over-cession of premiums and losses on a specific program.

Income tax corrections – The increase in the tax assets is primarily the result of a) corrections to prior period balances for adjustments to the current and deferred tax assets and liabilities and b) the tax effect of the corresponding change in asset realization and liability corrections.

(Dollars in Millions)

2017 Adjustments	Policyholders' Surplus	Total Admitted Assets	Total Liabilities
Balance at December 31, 2016	**$ 6,448**	**$ 29,684**	**$ 23,236**
Adjustments to beginning Capital and Surplus:			
Asset corrections	27	27	-
Liability corrections	3	-	(3)
Income tax corrections	8	8	-
Total adjustments to beginning Capital and Surplus	38	35	(3)
Balance at January 1, 2017 as adjusted	**$ 6,486**	**$ 29,719**	**$ 23,233**

An explanation for each of the adjustments for prior period corrections is described below:

Asset corrections - The increase in net admitted assets is primarily the result of the recording of real estate step up gains.

Liability corrections – The decrease in total liabilities is primarily the result of a) a decrease due to an over-accrual of insurance taxes, licenses and fees; partially offset by b) an increase resulting from the understatement of losses; c) an increase due to understatement of interest expense on environmental funds held and d) an increase for direct business which was being accounted for as Deposit Accounting in error.

Income tax corrections – The increase in the tax assets is primarily the result of a) corrections to prior period balances for adjustments to the current and deferred tax assets and liabilities and b) the tax effect of the corresponding change in asset realization and liability corrections.

3. Investments

A. Bond Investments

The reconciliations from carrying value to fair value of the Company's bond investments as of December 31, 2019 and 2018 are outlined in the tables below:

December 31, 2019	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. governments	**$ 267**	**$ 3**	**$ -**	**$ 270**
All other governments	**116**	**2**	**(2)**	**116**
States, territories and possessions	**361**	**34**	**-**	**395**
Political subdivisions of states, territories and possessions	**298**	**9**	**-**	**307**
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities and their political subdivisions	**2,492**	**97**	**(2)**	**2,586**
Industrial and miscellaneous	**9,743**	**614**	**(17)**	**10,340**
Total	**$ 13,277**	**$ 759**	**$ (21)**	**$ 14,014**

(Dollars in Millions)

December 31, 2018	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. governments	$ 57	$ 1	$ -	$ 58
All other governments	258	1	(4)	255
States, territories and possessions	432	20	(3)	449
Political subdivisions of states, territories and possessions	382	13	(1)	394
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities and their political subdivisions	2,636	53	(27)	2,662
Industrial and miscellaneous	10,769	461	(113)	11,117
Total	**$ 14,534**	**$ 549**	**$ (148)**	**$ 14,935**

The carrying values and fair values of bonds at December 31, 2019, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

December 31, 2019	Carrying Value	Fair Value
Due in one year or less	**$ 388**	**$ 390**
Due after one year through five years	**2,317**	**2,385**
Due after five years through ten years	**1,529**	**1,598**
Due after ten years	**1,535**	**1,654**
Structured securities	**7,552**	**8,031**
Total	**$ 13,321**	**$ 14,058**

B. Mortgage Loan Investments

The minimum and maximum lending rates for mortgage loans during 2019 were:

Category	Minimum Lending Rate %	Maximum Lending Rate %
Office	**1.8%**	**6.6%**
Industrial	**1.5%**	**1.5%**
Multi-Family	**2.8%**	**6.0%**
Residential	**2.8%**	**4.8%**

(Dollars in Millions)

The maximum percentage of any one loan to the value of security at the time of the loan, exclusive of insured or guaranteed or purchase money mortgages was 80 percent. The Company's mortgage loan portfolio is current as to payments of principal and interest, for both periods presented. There were no significant amounts of nonperforming mortgages (defined as those loans where payment of contractual principal or interest is more than 90 days past due) during any of the periods presented. The Company did not have any advanced amounts for taxes or assessments. The following table details an analysis of mortgage loans as of December 31, 2019 and 2018:

		Residential		Commercial			
	Farm	**Insured**	**All Other**	**Insured**	**All Other**	**Mezzanine**	**Total**
2019							
Recorded Investment							
Current	**$ -**	**$ -**	**$ 398**	**$ -**	**$ 2,066**	**$ 73**	**$ 2,537**
30 - 59 days past due	**-**	**-**	**-**	**-**	**-**	**-**	**-**
60 - 89 days past due	**-**	**-**	**1**	**-**	**-**	**-**	**1**
90 - 179 days past due	**-**	**-**	**1**	**-**	**-**	**-**	**1**
Greater than 180 days past due	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**$ -**	**$ -**	**$ 400**	**$ -**	**$ 2,066**	**$ 73**	**$ 2,539**
2018							
Recorded Investment							
Current	$ -	$ -	$ 486	$ -	$ 2,191	$ -	$ 2,677
30 - 59 days past due	-	-	2	-	-	-	2
60 - 89 days past due	-	-	-	-	-	-	-
90 - 179 days past due	-	-	-	-	-	-	-
Greater than 180 days past due	-	-	-	-	-	-	-
Total	$ -	$ -	$ 488	$ -	$ 2,191	$ -	$ 2,679

C. Loan-Backed and Structured Securities

The Company did not record any non-credit OTTI losses during 2019, 2018, and 2017 for LBaSS.

As of December 31, 2019, 2018, and 2017, the Company held LBaSS for which it recognized $13, $43 and $19, respectively, of credit-related OTTI based on the present value of projected cash flows being less than the amortized cost of the securities.

The following table shows the aggregate unrealized losses and related fair value relating to those securities for which an OTTI has not been recognized as of the reporting date and the length of time that the securities have been in a continuous unrealized loss position:

Years Ended December 31,	**2019**	2018
Aggregate unrealized losses:		
Less than 12 Months	**$ 9**	$ 36
12 Months or longer	**$ 10**	$ 41
Aggregate related fair value of securities with unrealized losses:		
Less than 12 Months	**$ 1,013**	$ 1,723
12 Months or longer	**$ 511**	$ 1,376

(Dollars in Millions)

D. Unrealized losses

The fair value of the Company's bonds and stocks that had gross unrealized losses (where fair value is less than amortized cost) as of December 31, 2019 and 2018 are set forth in the tables below:

December 31, 2019	**Less than 12 Months**		**12 Months or Longer**		**Total**	
Description of Securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. governments	**$ 22**	**$ -**	**$ -**	**$ -**	**$ 22**	**$ -**
All other governments	**13**	**(7)**	**7**	**(6)**	**20**	**(13)**
States, territories and possessions	**-**	**-**	**-**	**-**	**-**	**-**
Political subdivisions of states, territories and possessions	**4**	**-**	**-**	**-**	**4**	**-**
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities and their political subdivisions	**126**	**(1)**	**149**	**(1)**	**275**	**(2)**
Industrial and miscellaneous	**1,289**	**(25)**	**444**	**(17)**	**1,733**	**(42)**
Total bonds	**$ 1,454**	**$ (33)**	**$ 600**	**$ (24)**	**$ 2,054**	**$ (57)**
Affiliated	**-**	**-**	**-**	**-**	**-**	**-**
Non-affiliated	**26**	**-**	**-**	**-**	**26**	**-**
Total common stocks	**$ 26**	**$ -**	**$ -**	**$ -**	**$ 26**	**$ -**
Total bonds and stocks	**$ 1,480**	**$ (33)**	**$ 600**	**$ (24)**	**$ 2,080**	**$ (57)**

December 31, 2018	**Less than 12 Months**		**12 Months or Longer**		**Total**	
Description of Securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. governments	$ 13	$ -	$ 22	$ -	$ 35	$ -
All other governments	67	(3)	124	(4)	191	(7)
States, territories and possessions	51	(3)	44	(1)	95	(4)
Political subdivisions of states, territories and possessions	49	(1)	52	(1)	101	(2)
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities and their political subdivisions	264	(3)	723	(24)	987	(27)
Industrial and miscellaneous	3,360	(99)	1,825	(67)	5,185	(166)
Total bonds	**$ 3,804**	**$ (109)**	**$ 2,790**	**$ (97)**	**$ 6,594**	**$ (206)**
Affiliated	-	-	10	(5)	10	(5)
Non-affiliated	9	(1)	-	-	9	(1)
Total common stocks	**$ 9**	**$ (1)**	**$ 10**	**$ (5)**	**$ 19**	**$ (6)**
Total bonds and stocks	**$ 3,813**	**$ (110)**	**$ 2,800**	**$ (102)**	**$ 6,613**	**$ (212)**

(Dollars in Millions)

E. Realized Gains Losses

Proceeds from sales and associated gross realized gains (losses) for the years ended December 31, 2019, 2018 and 2017 were as follows:

Years ended December 31	2019		2018		2017	
	Bonds	Equity Securities	Bonds	Equity Securities	Bonds	Equity Securities
Proceeds from sales	$ 2,020	$ 108	$ 1,924	$ 339	$ 5,648	$ 59
Gross realized gains	88	8	14	21	79	5
Gross realized losses	(17)	-	(27)	-	(69)	-

F. Derivative Financial Instruments

The Company holds currency as well as interest rate derivative financial instruments in the form of currency swaps, interest rate swaps, and currency forwards and futures to manage risk from currency exchange rate fluctuations, and the impact of such fluctuations to surplus and cash flows on investments or loss reserves. While not accounted for under hedge accounting, the currency derivatives are economic hedges of the Company's exposure to fluctuations in the value of receipts on certain investments held by the Company denominated in foreign currencies (primarily GBP and EUR), or of the Company's exposure to fluctuations in recorded amounts of loss reserves denominated in foreign currencies (primarily JPY). Additionally, interest rate derivatives were entered into to manage risk from fluctuating interest rates in the market, and the impact of such fluctuations to surplus and cash flows on investments or loss reserves. The interest rate derivatives are cash flow hedges of the company's exposure to fluctuations in LIBOR/EURIBOR rates on investments in collateralized loan obligations.

Market Risk

The Company is exposed under these types of contracts to fluctuations in value of the swaps and forwards and variability of cash flows due to changes in interest rates and exchange rates.

Credit Risk

The current credit exposure of the Company's derivative contracts is limited to the fair value of such contracts. Credit risk is managed by entering into transactions with creditworthy counterparties and obtaining collateral.

Cash Requirements

The Company is subject to collateral requirements on its currency and interest rate derivative contracts. Additionally, the Company is required to make currency exchanges on fixed dates and fixed amounts or fixed exchange rates, or make a payment in the amount of foreign currency physically received on certain foreign denominated investments. For interest rate swaps, the Company is required to make payments based on a floating rate (LIBOR/EURIBOR) on a fixed payment date.

The Company has determined that the currency and interest rate derivatives do not qualify for hedge accounting under the criteria set forth in SSAP No. 86, *Accounting for Derivative Instruments and Hedging Transactions* ("SSAP 86"). As a result, the Company’s currency and interest rate contracts are accounted for at fair value and the changes in fair value are recorded as unrealized gains (losses) within the *Statements of Operations and Changes in Capital and Surplus* until the contract expires, paid down or is redeemed early. In the event a contract is fully redeemed before its expiration, the related unrealized amounts will be recognized in *Net realized capital gains (losses)*. Furthermore, if the contract has periodic payments or fully matures, any related unrealized amounts are recognized in *Net investment income earned*.

The Company did not apply hedge accounting to any of its derivatives for any period in these financial statements. The following tables summarize the outstanding notional amounts, the fair values and the realized and unrealized gains or losses of the derivative financial instruments held by the Company for the years ended December 31, 2019 and 2018.

(Dollars in Millions)

	December 31, 2019		Year ended December 31, 2019	
Derivative Financial Instrument	**Outstanding Notional Amount**	**Fair Value**	**Realized capital gains/ (losses)**	**Unrealized capital gains / (losses)**
Swaps	**$ 2,075**	**$ (9)**	**$ -**	**$ (13)**
Forwards	**54**	**-**	**-**	**-**
Total	**$ 2,129**	**$ (9)**	**$ -**	**$ (13)**

	December 31, 2018		Year ended December 31, 2018	
Derivative Financial Instrument	**Outstanding Notional Amount**	**Fair Value**	**Realized Capital gains/(losses)**	**Unrealized capital gains / losses**
Swaps	$ 1,334	$ 5	$ (2)	$ 25
Forwards	-	-	-	(1)
Total	**$ 1,334**	**$ 5**	**$ (2)**	**$ 24**

G. Other Invested Assets

During 2019, 2018, and 2017, the Company recorded OTTI losses on investments in joint ventures and partnerships of $48, $91, and $81, respectively.

H. Investment Income

The Company did not have any accrued investment income receivables over 90 days past due as of December 31, 2019 and 2018. Investment expenses of $30, $36 and $42 were included in Net investment income earned for the years ended December 31, 2019, 2018 and 2017, respectively.

I. Restricted Assets

The Company had securities deposited with regulatory authorities, as required by law, with a carrying value of $1,604 and $1,676 as of December 31, 2019 and 2018, respectively.

4. Fair Value of Financial Instruments

The following tables present information about financial instruments carried at fair value on a recurring basis and indicate the level of the fair value measurement as of December 31, 2019 and 2018:

December 31, 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Bonds	**$ -**	**$ 227**	**$ 139**	**$ 366**
Common stocks	**14**	**-**	**37**	**51**
Mutual funds	**-**	**-**	**2**	**2**
Derivative assets	**-**	**29**	**-**	**29**
Derivative liabilities	**-**	**(37)**	**-**	**(37)**
Total	**$ 14**	**$ 219**	**$ 178**	**$ 411**

(Dollars in Millions)

December 31, 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Bonds	$ -	$ 578	$ 96	$ 674
Common stocks	111	-	25	136
Mutual funds	2	-	-	2
Derivative assets	-	22	-	22
Derivative liabilities	-	(17)	-	(17)
Total	**$ 113**	**$ 583**	**$ 121**	**$ 817**

A. Fair Value Measurements in Level 3 of the Fair Value Hierarchy

The following tables show the balance and activity of financial instruments classified as level 3 in the fair value hierarchy for the years ended December 31, 2019 and 2018.

	Beginning Balance at January 1, 2019	**Transfers into Level 3**	**Transfers out of Level 3**	**Total Gains (Losses) included in Net Income**	**Total Gains (Losses) Included in Surplus**	**Purchases, Sales, Issuances, Settlements, Net**	**Balance at December 31, 2019**
Bonds	**$ 96**	**$ 203**	**$ (67)**	**$ (3)**	**$ 10**	**$ (100)**	**$ 139**
Common stocks	**25**	**-**	**-**	**(2)**	**-**	**14**	**37**
Mutual Funds	**-**	**1**	**-**	**-**	**1**	**-**	**2**
Total	**$ 121**	**$ 204**	**$ (67)**	**$ (5)**	**$ 11**	**$ (86)**	**$ 178**

	Beginning Balance at January 1, 2018	**Transfers into Level 3**	**Transfers out of Level 3**	**Total Gains (Losses) included in Net Income**	**Total Gains (Losses) included in Surplus**	**Purchases, Sales, Issuances, Settlements, Net**	**Balance at December 31, 2018**
Bonds	$ 65	$ 98	$ (141)	$ (13)	$ (2)	$ 89	$ 96
Common Stocks	22	1	(26)	15	(2)	15	25
Total	**$ 87**	**$ 99**	**$ (167)**	**$ 2**	**$ (4)**	**$ 104**	**$ 121**

Assets are transferred out of Level 3 when circumstances change such that significant inputs can be corroborated with market observable data or when the asset is no longer carried at fair value. This may be due to a significant increase in market activity for the asset, a specific event, one or more significant inputs becoming observable or when a long-term interest rate significant to a valuation becomes short-term and this observable. Transfers out of Level 3 can also occur due to favorable credit migration resulting in a higher NAIC designation. Securities are generally transferred into Level 3 due to a decrease in market transparency, downward credit migration and an overall increase in price disparity for certain individual security types. The Company’s policy is to recognize transfers in and out at the end of the reporting period, consistent with the date of the determination of fair value.

(Dollars in Millions)

The table below presents information about the significant unobservable inputs used for recurring fair value measurements for certain Level 3 instruments, and includes only those instruments for which information about the inputs is reasonably available to us, such as data from independent third-party valuation service providers and from internal valuation models. Because input information from third-parties with respect to certain Level 3 instruments may not be reasonably available to the Company, balances shown below may not equal total amounts reported for such Level 3 assets.

	Fair Value at December 31, 2019	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:				
Bonds	**$ 91**	**Discounted cash flow**	**Yield**	**3.18%-3.4% (3.29%)**

B. Fair Value of all Financial Instruments

The table below details the fair value of all financial instruments except for those accounted for under the equity method as of December 31, 2019 and 2018:

December 31, 2019	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3	Not Practicable (Carry Value)
Bonds	**$ 14,014**	**$ 13,277**	**$ 2**	**$ 10,277**	**$ 3,735**	**$ -**
Cash equivalents and short term investments	**342**	**342**	**280**	**61**	**-**	**-**
Common stock	**61**	**61**	**14**	**9**	**37**	**-**
Derivative assets	**29**	**29**	**-**	**29**	**-**	**-**
Derivative liabilities	**(37)**	**(37)**	**-**	**(37)**	**-**	**-**
Mortgage loans	**2,615**	**2,539**	**-**	**-**	**2,615**	**-**
Mutual funds	**2**	**2**	**-**	**-**	**2**	**-**
Preferred stock	**71**	**17**	**-**	**71**	**-**	**-**
Total	**$ 17,097**	**$ 16,230**	**$ 296**	**$ 10,410**	**$ 6,389**	**$ -**

December 31, 2018	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3	Not Practicable (Carry Value)
Bonds	$ 14,935	$ 14,534	$ -	$ 10,809	$ 4,126	$ -
Cash equivalents and short term investments	191	191	134	57	-	-
Common stock	145	145	111	9	25	-
Derivative assets	22	22	-	22	-	-
Derivative liabilities	(17)	(17)	-	(17)	-	-
Mortgage loans	2,673	2,679	-	-	2,673	-
Mutual funds	2	2	2	-	-	-
Preferred stock	50	49	-	50	-	-
Total	**$ 18,001**	**$ 17,605**	**$ 247**	**$ 10,930**	**$ 6,824**	**$ -**

(Dollars in Millions)

5. Reserves for Losses and Loss Adjustment Expenses

A roll forward of the Company's net reserves for losses and LAE as of December 31, 2019, 2018 and 2017, is set forth in the table below:

December 31,	**2019**	**2018**	**2017**
Reserves for losses and LAE, end of prior year	**$ 10,935**	$ 12,115	$ 12,210
Incurred losses and LAE related to:			
Current accident year	**3,772**	4,000	4,700
Prior accident year	**(39)**	260	277
Total incurred losses and LAE	**$ 3,733**	$ 4,260	$ 4,977
Paid losses and LAE related to:			
Current accident year	**(1,214)**	(1,182)	(1,140)
Prior accident year	**(3,722)**	(4,258)	(3,932)
Total paid losses and LAE	**(4,936)**	(5,440)	(5,072)
Reserves for losses and LAE, end of current year	**$ 9,732**	$ **10,935**	$ **12,115**

During 2019, after applying the impact of the ADC, the Company reported net favorable incurred loss and LAE of approximately $39. This favorable incurred includes $37 favorable due to changes in discount. This results in a favorable prior year development ("PYD") of $2.

The favorable prior year development is generally a result of the following:

- Favorable development on 2017 Hurricanes and 2017 California Wildfires subrogation recoverables in Commercial Property and Personal Lines;
- Favorable development on Workers Compensation, both guaranteed cost business and large deductible and Defense Base Act business (covering government contractors serving at military bases overseas) where the Company reacted to favorable loss trends in recent accident years.

During 2018, after applying the impact of the ADC, the Company reported net unfavorable prior year development on loss and LAE reserves of approximately $260, which includes a decrease in loss reserve discount on prior accident years of $24. Under the ADC, 80 percent of the reserve risk on substantially all of the Company's commercial long-tail exposures for accident years 2015 and prior is ceded to NICO. Excluding the impact of the ADC, the Company recognized unfavorable prior year loss reserve development of $491.

The 2018 unfavorable prior year development is generally a result of the following:

- Unfavorable prior year development in excess casualty, driven by the combination of construction defect and construction wrap claims from accident years 2015 and prior where we reacted to significant increases in severity and longer claim reporting patterns, as well as higher than expected loss severity in accident years 2016 and 2017, which led to an increase in estimates for these accident years;
- Unfavorable prior year development in financial lines, primarily from directors & officers (D&O) and employment practices liability (EPLI) policies covering corporate and national insureds as well as private and not-for-profit insureds. This development was predominantly in accident years 2014-2017 and resulted largely from increases in severity as the frequency of class action lawsuits increased in those years; and
- Unfavorable prior year development in personal lines reflecting an increase in estimates in respect of the California Wildfires and Hurricane Irma.

During 2017, after applying the impact of the ADC, the Company reported net unfavorable prior year development on loss and LAE reserves of approximately $277, which includes a decrease in loss reserve discount on prior accident years of $45. Under the ADC, 80 percent of the reserve risk on substantially all of the Company's commercial long-tail exposures for accident years 2015 and prior is ceded to NICO. Excluding the impact of the ADC, the Company recognized unfavorable prior loss reserve development of $452.

The 2017 unfavorable prior year development is generally a result of the following:

(Dollars in Millions)

- Unfavorable prior year development in excess casualty and primarily general liability products within Other Liability – Occurrence line of business, driven primarily by increases in underlying severity and greater than expected loss experience in accident year 2016 as well as increased development from claims related to construction defects and construction wrap business (largely from accident years 2006 and prior);
- Unfavorable prior year development in excess casualty and directors and officers ("D&O") within Other Liability - Claims-Made line of business, covering privately owned and not-for-profit insureds. The D&O development was predominantly in accident year 2016 and resulted largely from increases in bankruptcy-related claims and fiduciary liability claims for large educational institutions; and
- Unfavorable prior year development primarily driven by commercial auto business in the program business unit. A significant portion of this development came from accident year 2016 with much of it related to programs that have been terminated over the past year.

The Company's reserves for losses and LAE have been reduced for anticipated salvage and subrogation of $310, $249 and $252 for the years ended December 31, 2019, 2018 and 2017, respectively. The Company paid $13, $9 and $32 in the reporting period to settle 148, 204 and 233 claims related to extra contractual obligations or bad faith claims stemming from lawsuits for the years ended December 31, 2019, 2018 and 2017, respectively.

A. Asbestos/Environmental Reserves

The Company has indemnity claims asserting injuries from toxic waste, hazardous substances, asbestos and other environmental pollutants and alleged damages to cover the clean-up costs of hazardous waste dump sites (environmental claims). Estimation of environmental claims loss reserves is a difficult process, as these claims, which emanate from policies written in 1986 and prior years, cannot be estimated by conventional reserving techniques. Environmental claims development is affected by factors such as inconsistent court resolutions, the broadening of the intent of policies and scope of coverage and increasing number of new claims. The Company and other industry members have and will continue to litigate the broadening judicial interpretation of policy coverage and the liability issues. If the courts continue in the future to expand the intent of the policies and the scope of the coverage, as they have in the past, additional liabilities would emerge for amounts in excess of reserves held. This emergence cannot now be reasonably estimated, but could have a material impact on the Company's future operating results or financial position.

The Company has exposure to asbestos and/or environmental losses and LAE costs arising from pre-1986 general liability, product liability, commercial multi-peril and excess liability insurance or reinsurance policies as noted below:

	Asbestos Losses			Environmental Losses		
December 31,	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
Direct						
Loss and LAE reserves, beginning of year	**$ 727**	$ 797	$ 838	**$ 285**	$ 215	$ 255
Incurred losses and LAE	**54**	(17)	2	**51**	97	1
Calendar year paid losses and LAE	**(47)**	(53)	(43)	**(29)**	(27)	(41)
Loss and LAE Reserves, end of year	**$ 734**	$ 727	$ 797	**$ 307**	$ 285	$ 215
Assumed reinsurance						
Loss and LAE reserves, beginning of year	**$ 316**	$ 258	$ 249	**$ 17**	$ 19	$ 15
Incurred losses and LAE	**4**	76	27	**2**	(1)	6
Calendar year paid losses and LAE	**(15)**	(18)	(18)	**(1)**	(1)	(2)
Loss and LAE Reserves, end of year	**$ 305**	$ 316	$ 258	**$ 18**	$ 17	$ 19
Net of reinsurance						
Loss and LAE reserves, beginning of year	**$ 1**	$ 1	$ 1	**$ -**	$ -	$ -
Incurred losses and LAE	**-**	-	-	**-**	-	-
Calendar year paid losses and LAE	**-**	-	-	**-**	-	-
Loss and LAE Reserves, end of year	**$ 1**	$ 1	$ 1	**$ -**	$ -	$ -

The Company estimates the full impact of the asbestos and environmental exposure by establishing case basis reserves on all known losses and establishes bulk reserves for IBNR losses and LAE based on management's judgment after reviewing all the available loss, exposure, and other information.

(Dollars in Millions)

Included in the above table are loss and LAE - IBNR and bulk reserves arising from pre-1986 general liability, product liability, commercial multi-peril and excess liability insurance or reinsurance policies as noted below:

Asbestos	**Loss Reserves**		**LAE Reserves**	
December 31,	**2019**	**2018**	**2019**	**2018**
Direct basis:	**$ 364**	$ 350	**$ 40**	$ 39
Assumed reinsurance basis:	**116**	125	**13**	14
Net of ceded reinsurance basis:	**-**	-	**-**	-

Environmental	**Loss Reserves**		**LAE Reserves**	
December 31,	**2019**	**2018**	**2019**	**2018**
Direct basis:	**$ 133**	$ 112	**$ 57**	$ 48
Assumed reinsurance basis:	**6**	5	**2**	2
Net of ceded reinsurance basis:	**-**	-	**-**	-

B. Loss Portfolio Transfer

On February 12, 2018, the Company and certain AIG affiliated insurers (collectively, the "Reinsureds" (as cedants), each of which is a member of the Combined Pool) commuted certain loss portfolio reinsurance agreements with Eaglestone (as reinsurer). The commuted reinsurance agreements with Eaglestone related to environmental impairment liability and related exposures, pre-1986 environmental, public entity, occupational accident exposures, miscellaneous run-off general liability and workers' compensation exposures, and selected physicians and surgeons professional liability policies. The commutation settlement was equal to the statutory balances as of the January 1, 2017 effective date.

On the same date, the Reinsureds (as cedants), Eaglestone (as original reinsurer), and Fortitude Re (as replacement reinsurer), a partially owned AIG subsidiary and registered Class 4 and Class E reinsurer in Bermuda, entered into a novation agreement whereby obligations of excess workers' compensation business previously ceded by the Reinsureds to Eaglestone were transferred to Fortitude Re. The novation consideration was equal to the total statutory reserves ceded to Eaglestone as of the January 1, 2017 effective date.

Further, and also on the same date, a book of assumed reinsurance business of the Reinsureds, which was previously embedded in one of the LPTs that was commuted, was ceded back to Eaglestone as a separate LPT ("Re-ceded Portfolio") on a fund transferred basis with settlement equal to the statutory balances as of the January 1, 2017 effective date, resulting in no gain in surplus to the Reinsureds.

Finally, the Reinsureds (as cedants) ceded substantially all commuted business as detailed above through various LPT reinsurance agreements to Fortitude Re (as replacement reinsurer). Additionally, at the same time, the Reinsureds also ceded to Fortitude Re additional business related to certain excess workers' compensation (accident years 2011 and 2012), certain pollution legal liability, buffer trucking, some healthcare primary and excess product coverages businesses. The consideration for the above reinsurance agreements is equal to the statutory book value of the ceded liabilities as of the January 1, 2017 effective date, resulting in no gain in surplus to the Reinsureds. The consideration was settled on a funds withheld basis. Interest on the funds withheld is determined by the total return of a certain earmarked portfolio of assets owned by the Reinsureds.

The recording of these transactions by the Reinsureds in the first quarter of 2018 required the reversal of interest expense on funds held due to Eaglestone on the commuted portfolios and the recognition of interest expense due to Fortitude Re on the commuted portfolios and the new cessions, in order to record the effect of the transaction as of the stated effective date of January 1, 2017.

(Dollars in Millions)

A reconciliation of change in reserves and corresponding consideration (paid) received for the above transactions between Eaglestone, Fortitude Re and the Reinsureds for the effective date of January 1, 2017 are shown below:

Company	Novation	Commutation	LPTs (Previously commuted business and 2016 Exit Portfolio)	Re-ceded Portfolio	Total
Reserves					
Eaglestone Reinsurance Company	**$ (1,577)**	**$ (2,895)**	**$ -**	**$ 41**	**$ (4,431)**
Fortitude Reinsurance Company	**1,577**	**-**	**4,013**	**-**	**5,590**
Combined Pool Companies:					
National Union Fire Ins. Co. of Pittsburgh, Pa.	-	1,013	(1,405)	(14)	(406)
American Home Assurance Company	-	1,013	(1,405)	(14)	(406)
Lexington Insurance Company	-	869	(1,203)	(13)	(347)
Total Combined Pool	**-**	**2,895**	**(4,013)**	**(41)**	**(1,159)**
Consideration (Paid) Received as Funds Held, Cash and Securities					
Eaglestone Reinsurance Company	**(1,734)**	**(2,895)**	**-**	**41**	**(4,588)**
Fortitude Reinsurance Company	**1,734**	**-**	**4,013**	**-**	**5,747**
Combined Pool Companies:					
National Union Fire Ins. Co. of Pittsburgh, Pa.	-	1,013	(1,405)	(14)	(406)
American Home Assurance Company	-	1,013	(1,405)	(14)	(406)
Lexington Insurance Company	-	869	(1,203)	(13)	(347)
Total Combined Pool	**-**	**2,895**	**(4,013)**	**(41)**	**(1,159)**

The below table presents the reserves as of December 31, 2017 that were transferred during 2018 between Eaglestone, Fortitude Re and the Reinsureds for the above transactions:

Company	Novation	Commutation	LPTs (Previously commuted business and 2016 Exit Portfolio)	Re-ceded Portfolio	Total Change in Reserves
Eaglestone Reinsurance Company	**$ (1,477)**	**$ (2,567)**	**$ -**	**$ 32**	**$ (4,012)**
Fortitude Reinsurance Company	**1,477**	**-**	**3,442**	**-**	**4,919**
Combined Pool Companies:					
National Union Fire Ins. Co. of Pittsburgh, Pa.	-	898	(1,205)	(11)	(318)
American Home Assurance Company	-	898	(1,205)	(11)	(318)
Lexington Insurance Company	-	771	(1,032)	(10)	(271)
Total Combined Pool	**-**	**2,567**	**(3,442)**	**(32)**	**(907)**

C. Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses

The Company discounts its workers' compensation (both tabular and non-tabular) reserves.

The calculation of the Company's tabular discount is based upon the mortality table used in the 2007 US Decennial Life Table, and applying a 3.5 percent interest rate. Only case basis reserves are subject to tabular discounting. The December 31, 2019 and 2018 liabilities include $570 and $569 of such discounted reserves, respectively.

(Dollars in Millions)

Tabular Reserve Discount

The table below presents the amount of tabular discount applied to the Company's reserves as of December 31, 2019, 2018 and 2017.

Lines of Business	2019	2018	2017
Workers' Compensation			
Case Reserves	**$ 124**	$ 135	$ 134

As of December 31, 2019, 2018 and 2017, the tabular case reserve discount is presented net of the ceded discount related to the ADC of $203, $184, and $162, respectively.

Non-Tabular Discount

The Company's non-tabular workers' compensation case reserves are discounted using the Company's own payout pattern and a 5 percent interest rate, as prescribed by NY SAP. The table below presents the amount of non-tabular discount applied to the Company's reserves as of December 31, 2019, 2018 and 2017.

Lines of Business	2019	2018	2017
Workers' Compensation			
Case Reserves	**$ 133**	$ 73	$ 86

As of December 31, 2019, 2018 and 2017, the non-tabular case reserve discount is presented net of the ceded discount related to the ADC of $142, $193, and $187, respectively.

6. Related Party Transactions

A. Combined Pooling Agreement

2017 Pooling Restructure Transaction

In 2017, the Combined Pooling Agreement was amended and restated among the twelve member companies. In order to rebalance the capital accounts of the companies in the Combined Pool, certain participants of the Combined Pool made distributions or received contributions of capital during March 2017. The change in the Combined Pooling Agreement had no effect on the Company's reported assets, liabilities, surplus, operations or cash flow, as the Company's participation in the pool remained the same.

B. American International Overseas Association

AIG formed the Association, a Bermuda exempted limited partnership, in 1976, as the pooling mechanism for AIG's international general insurance operations. At the time of forming the Association, the member companies thereto entered into an Inter-Reinsurance Agreement ("IRA") to govern the business pooled in the Association. Immediately prior to June 1, 2019, the participation percentages for the Association pool members companies are set forth in the table below:

Member Company	NAIC Co. Code	Participation Percent
Combined Pool Member companies, as follows:		
National Union	19445	78%
New Hampshire	23841	12%
American Home	19380	10%

Effective June 1, 2019, the IRA was commuted. Notwithstanding the commutation, all of the business at issue continues to be pooled in accordance with the Combined Pooling Agreement referenced in Note 6A.

Therefore, the commutation has no net impact to the member companies of the Combined Pool. However, the commutation, together with associated operational changes, has resulted in an increase in direct underwriting activity being reported by certain member companies of the Combined Pool.

(Dollars in Millions)

C. Significant Transactions

The following table summarizes transactions (excluding reinsurance and cost allocation transactions) that occurred during 2019, 2018 and 2017 between the Company and affiliated companies in which the value exceeded one-half of one percent of the Company's admitted assets as of December 31, 2019, 2018 and 2017:

			2019			
			Assets Received by the Company		Assets Transferred by the Company	
Date of Transaction	**Explanation of Transaction**	**Name of Affiliate**	**Statement Value**	**Description**	**Statement Value**	**Description**
01/30/19	**Purchase of securities**	**National Union**	**$ 154**	**Securities**	**$ 154**	**Cash**
02/13/19	**Return of Capital**	**AIG PC US**	**-**	**-**	**486**	**Securities**

			2018			
			Assets Received by the Company		Assets Transferred by the Company	
Date of Transaction	**Explanation of Transaction**	**Name of Affiliate**	**Statement Value**	**Description**	**Statement Value**	**Description**
12/31/18	Capital Contribution (a)	AIG PC US	$ 150	Receivables	$ -	-

(a) Refer to Note 11 and 12 for more details.

			2017			
			Assets Received by the Company		Assets Transferred by the Company	
Date of Transaction	**Explanation of Transaction**	**Name of Affiliate**	**Statement Value**	**Description**	**Statement Value**	**Description**
01/19/17	Purchase of securities	AIG, Inc.	$ 264	Securities	$ 264	Cash
10/31/17	Purchase and sale of securities	Lexington	343	Securities	359	Securities
10/31/17	Purchase of securities	Lexington	16	Cash	-	-
10/31/17	Purchase and sale of securities	National Union	499	Securities	507	Securities
10/31/17	Purchase of securities	National Union	9	Cash	-	-

Share Repurchase

On January 23, 2019, NY DFS approved American Home’s plan to distribute an amount of up to approximately $504 to its immediate parent, an increase in the par value of its common stock from $17 per share to $20 per share and a decrease in the minimum number of directors from 13 to 7. The distribution was accomplished via a share repurchase agreement with the per share repurchase price equal to the American Home’s statutory book value per share calculated as of September 30, 2018.

On February 14, 2019, American Home repurchased 139,000 shares of its issued and outstanding common stock, resulting in a distribution to its immediate parent of $502 and a reduction in its common capital stock and gross paid in and contributed surplus of $2 and $500, respectively. On that same date, American Home filed an amendment to its charter with DFS to increase the par value of the American Home’s common stock from $17 to $20 per share. The increase to the par value resulted in an increase of $5 to the American Home’s common capital stock and a reduction to its gross paid in and contributed surplus of the same amount, post share repurchase.

AIG Global Real Estate Investment Corp. (“AIGGRE”) Restructure

In 2018, the Company and several of its U.S. insurance company affiliates restructured their respective ownership interests in certain real estate equity investments previously originated by an affiliate, AIGGRE (including its investment management affiliates), by contributing such interests to three separate real estate investment funds managed by AIGGRE – AIGGRE U.S. Real Estate Fund I, LP (“U.S. Fund I”), AIGGRE U.S. Real Estate Fund II, LP (“U.S. Fund II” and, together with U.S. Fund I, the “U.S. Funds”), and AIGGRE Europe Real Estate Fund I S.C.SP (“Europe Fund I”). The U.S. Funds each closed on November 1, 2018.

(Dollars in Millions)

In connection with the closing of U.S. Fund I, the Company made a capital commitment to the fund of up to $276 (representing an approximately 23% equity interest therein), and contributed the Company's interests in certain real estate equity investments (with an aggregate fair value of approximately $209) and received a cash payment from the fund of approximately $24.

In connection with the closing of U.S. Fund II, the Company made a capital commitment to the fund of up to $621 (representing approximately 23% equity interest therein), and contributed to the fund the Company's interests in certain real estate equity investments (with an aggregate fair value of approximately $702) and received a cash payment from the fund of approximately $224.

Further, Europe Fund I closed on November 2, 2018. In connection with the closing of Europe Fund I, the Company made a capital commitment to the fund of up to $52 (representing an approximately 8% equity interest therein), and contributed cash to the fund (approximately $34).

In 2019, the Company and several of its U.S. insurance company affiliates established AIGGRE US Real Estate Fund III LP (U.S. Fund III), a real estate investment fund managed AIGGRE. At the closing of U.S. Fund III, on January 2, 2019, the Company made a capital commitment to the fund of up to $146 (representing an approximately 9.73% equity interest therein). In connection with the closing of U.S. Fund III, the Company contributed cash (approximately $23).

AIGGRE Europe Real Estate Fund II S.C.SP ("Europe II Fund") closed on March 8, 2019. In connection with the closing of Europe II Fund, the Company made a capital commitment to the fund of $43 (representing an approximate 7% equity interest therein), and contributed cash to the fund (approximately $4).

At December 31, 2018, the Company's unfunded capital commitment to U.S. Fund I, U.S. Fund II, and Europe Fund I, after certain additional capital was called, was approximately $91, $134, and $24, respectively.

At December 31, 2019, the Company's unfunded capital commitment to U.S. Fund I, U.S. Fund II, U.S. Fund III, Europe Fund I, and Europe Fund II, after certain additional capital was called, was approximately $91, $99, $97, $16, and $38, respectively.

The AIGGRE investments are presented as *Other invested assets* on the *Statement of Admitted Assets*.

D. Amounts Due to or from Related Parties

At December 31, 2019 and 2018, the Company reported the following receivables/payables balances from/to its Ultimate Parent, subsidiaries and affiliates (excluding reinsurance transactions). Intercompany agreements have defined settlement terms and related receivables are reported as nonadmitted if balances due remain outstanding more than ninety days past the due date as specified in the agreement.

As of December 31,	**2019**	**2018**
Balances with AIG PC US	**$ -**	$ 150
Balances with other affiliates	**9**	134
Receivable from parent, subsidiaries and affiliates	**$ 9**	$ 284
Balances with National Union	**$ 117**	$ 524
Balances with other member pool companies	**17**	25
Balances with other affiliates	**8**	16
Payable to parent, subsidiaries and affiliates	**$ 142**	$ 565

Current federal and foreign income taxes (payable) recoverable under the Tax Sharing Agreement at December 31, 2019 and 2018 were $(2) and $(9), respectively.

The Company did not change its methods of establishing terms regarding any transactions with its affiliates during the years ended December 31, 2019 or 2018.

(Dollars in Millions)

E. Guarantees or Contingencies for Related Parties

The Company has issued guarantees whereby it unconditionally and irrevocably guarantees all present and future obligations and liabilities arising from the policies of insurance issued by certain insurers who, as of the guarantee issue date, were members of the AIG holding company group. The guarantees were provided in order to secure or maintain the guaranteed companies' rating status issued by certain rating agencies, as disclosed in Note 10.

F. Management, Service Contract and Cost Sharing Arrangements

As an affiliated company of AIG, the Company utilizes centralized services from AIG and its affiliates. The Company is allocated a charge for these services, based on the amount of incremental expense associated with operating the Company as a separate legal entity. The amount of expense allocated to the Company each period was determined based on an analysis of services provided to the Company.

The following table summarizes fees incurred related to affiliates that exceeded one-half of one percent of the Company's admitted assets during 2019, 2018 and 2017:

Affiliates	**2019**		**2018**		**2017**	
AIG Claims Inc.	$	**172**	$	192	$	201
AIG PC Global Services, Inc.*		**124**		66		46
Total	$	**296**	**$**	**258**	**$**	**247**

*AIG PC Global Services, Inc. was below one-half of one percent in 2018 and 2017.

In 2019, 2018 and 2017 management service costs included severance expenses pertaining to an AIG-wide initiative to centralize work streams into lower cost locations and create a more streamlined organization.

G. Borrowed Money

The Company (among other affiliates) is a borrower under a Loan Agreement, with AIG, as lender, pursuant to which the Company may borrow funds from AIG from time to time (the "Loan Facility"). The aggregate amount of all loans that may be outstanding under the Loan Facility at a given time is $500. As of December 31, 2019 and 2018, the Company had no outstanding liability pursuant to this Loan Facility.

Significant debt terms and covenants include the following:

- The Company must preserve and maintain its legal existence while maintaining all rights, privileges and franchises necessary to the normal conduct of its business;
- The Company must take, or cause to be taken, all other actions reasonably necessary or desirable to preserve and defend the rights of the Lender to payment hereunder, and to assure to the Lender the benefits hereof, and;
- The Company must not merge with or into or consolidate with any other person, sell, transfer or dispose of all or substantially all of its assets or undergo any change in the control of its voting stock unless (a) such merger or consolidation is with or into a wholly-owned subsidiary of Lender, (b) such sale or transfer is to a wholly-owned subsidiary of the Lender or (c) The Company receives the prior written authorization from the Lender.

There have been no violations of the terms and covenants associated with the debt issuance.

Refer to Note 11 E regarding funds borrowed from FHLB.

7. Reinsurance

In the ordinary course of business, the Company may use both treaty and facultative reinsurance to minimize its net loss exposure to a) any single catastrophic loss event; b) an accumulation of losses from a number of smaller events; or c) provide greater risk diversification. Based on the terms of the reinsurance contracts, a portion of expected IBNR losses will be recoverable in accordance with terms of the reinsurance protection purchased. This determination is necessarily based on the estimate of IBNR and accordingly, is subject to the same uncertainties as the estimate of IBNR. Ceded amounts related to paid and unpaid losses and loss expenses with respect to these reinsurance agreements are generally substantially collateralized. The Company remains liable to the extent that the reinsurers do not meet their obligation under the reinsurance contracts after any collateral is exhausted, and as such, the financial condition of the reinsurers is regularly evaluated and monitored for concentration of credit risk. In addition, the Company assumes reinsurance from other insurance companies.

(Dollars in Millions)

The following table presents direct, assumed reinsurance and ceded reinsurance written and earned premiums for the years ended December 31, 2019, 2018 and 2017:

Years Ended December 31,	2019		2018		2017	
	Written	Earned	Written	Earned	Written	Earned
Direct premiums	$ 508	$ 631	$ 482	$ 672	$ 682	$ 592
Reinsurance premiums assumed:						
Affiliates	8,252	8,162	7,221	7,322	7,243	7,527
Non-affiliates	105	100	147	192	298	276
Gross premiums	**8,865**	**8,893**	**7,850**	**8,186**	**8,223**	**8,395**
Reinsurance premiums ceded:						
Affiliates	1,482	1,490	1,063	1,268	1,264	1,205
Non-affiliates	2,181	2,034	1,803	1,909	1,928	2,020
Net premiums	**$ 5,202**	**$ 5,369**	**$ 4,984**	**$ 5,009**	**$ 5,031**	**$ 5,170**

As of December 31, 2019 and 2018, and for the years then ended, the Company's unearned premium reserves, paid losses and LAE, and reserves for losses and LAE (including IBNR), have been reduced for reinsurance ceded as follows:

	Unearned Premium Reserves	Paid Losses and LAE	Reserves for Losses and LAE
December 31, 2019:			
Affiliates	**$ 781**	**$ 63**	**$ 8,519**
Non-affiliates	**648**	**337**	**8,374**
Total	**$ 1,429**	**$ 400**	**$ 16,893**
December 31, 2018:			
Affiliates	$ 759	$ 51	$ 9,034
Non-affiliates	501	314	8,567
Total	**$ 1,260**	**$ 365**	**$ 17,601**

A. Reinsurance Return Commission

The maximum amount of return commission which would have been due to reinsurers if all of the Company's reinsurance had been cancelled as of December 31, 2019 and 2018 with the return of the unearned premium reserve is as follows:

	Assumed Reinsurance		Ceded Reinsurance		Net	
	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity
December 31, 2019						
Affiliates	**$ 4,172**	**$ 978**	**$ 781**	**$ 163**	**$ 3,391**	**$ 815**
All Other	**122**	**29**	**648**	**135**	**(526)**	**(106)**
Total	**$ 4,294**	**$ 1,007**	**$ 1,429**	**$ 298**	**$ 2,865**	**$ 709**
December 31, 2018						
Affiliates	$ 4,007	$ 825	$ 759	$ 123	$ 3,248	$ 702
All Other	117	24	501	81	(384)	(57)
Total	**$ 4,124**	**$ 849**	**$ 1,260**	**$ 204**	**$ 2,864**	**$ 645**

(Dollars in Millions)

B. Unsecured Reinsurance Recoverable

The aggregate unsecured reinsurance balances (comprising recoverables for paid and unpaid losses and LAE and unearned premium reserves) in excess of three percent of policyholders' surplus at December 31, 2019 and 2018 with respect to an individual reinsurer, and each of such reinsurer's related group members having an unsecured aggregate reinsurance balance with the company, are as follows:

Reinsurer	2019	2018
Affiliates:		
Combined Pool*	$ 7,080	$ 7,321
Eaglestone	605	645
Other affiliates	8	16
Total affiliates	$ 7,693	$ 7,982
Berkshire Hathaway Group	81	1,062
Swiss Reinsurance Group	467	439
Total Non-affiliates	548	1,501
Total affiliates and non-affiliates	$ 8,241	$ 9,483

* Includes intercompany pooling impact of $634 related to Unearned Premium Reserve, $6,248 related to Reserves for Losses and LAE and $6 related to Paid losses and LAE as of and for the year ended December 31, 2019, and $577, $6,486, and $13, respectively, as of and for the year ended December 31, 2018.

C. Reinsurance Recoverable in Dispute

At December 31, 2019 and 2018, the aggregate of all disputed items did not exceed ten percent of capital and surplus and there were no amounts in dispute for any single reinsurer that exceeded five percent of capital and surplus. The total reinsurance recoverable balances in dispute are $37 and $46 as of December 31, 2019 and 2018, respectively.

D. Retroactive Reinsurance

On January 20, 2017, the Combined Pool entered into an adverse development reinsurance agreement with NICO under which the Combined Pool ceded to NICO eighty percent of its reserve risk above an attachment point on substantially all of its U.S. Commercial long-tail exposures for accident years 2015 and prior. Under this agreement, the Combined Pool ceded to NICO eighty percent of net paid losses on subject business on or after January 1, 2016 in excess of $25,000 of net paid losses, up to an aggregate limit of $25,000. At NICO's 80 percent share, NICO's limit of liability under the contract is $20,000. The Combined Pool paid consideration of approximately $10,188 in February 2017, including interest at 4 percent per annum from January 1, 2016 through date of payment. American Home's share of the consideration paid was $3,566. NICO placed the consideration received into a collateral trust account as security for NICO's claim payment obligations, and Berkshire Hathaway Inc. has provided a parental guarantee to secure NICO's obligations under the agreement.

American Home accounted for this transaction as prospective reinsurance, except that the surplus gain associated with the ADC has been reported in a segregated surplus account and does not form a part of the Company's *Unassigned* funds.

The total surplus gain recognized by the Combined Pool as of December 31, 2019, 2018 and 2017 was $2,176, $1,984 and $1,426, respectively. American Home's share of this gain as of December 31, 2019, 2018 and 2017 was $854, $920 and $689, respectively. The surplus gain is presented as segregated surplus and subject to the applicable dividend restrictions. This amount must be restricted in surplus until such time as the actual retroactive reinsurance recovered from NICO exceeds the consideration paid for the cession.

E. Reinsurance Agreements Qualifying for Reinsurer Aggregation

In 2011, the Combined Pool companies entered into a loss portfolio transfer reinsurance agreement with Eaglestone, an affiliate, which provides coverage up to a limit of $5,000 for the Pool's net asbestos exposures. Effective the same date, Eaglestone retroceded the majority of this exposure to NICO, an unaffiliated company. NICO provides coverage up to a limit of $3,500 for subject business covered under the agreement. NICO administers claims and pursues amounts recoverable from the Combined Pool companies' reinsurers with respect to paid losses and loss adjustment expenses. To the extent that the prior reinsurers pay, the amounts are collected and retained by NICO. NICO maintains funds in trust for the benefit of Eaglestone under the contract; as of December 31, 2019 and 2018 the amount in trust was $4,326 and $3,291, respectively. The amount of the unexhausted limit under the NICO agreement as of December 31, 2019 and 2018 was $1,201 and $1,198, respectively. The Company has accounted for its cession to Eaglestone as prospective reinsurance.

(Dollars in Millions)

8. Income Taxes

U.S. TAX REFORM OVERVIEW

On December 22, 2017, the United States enacted Public Law 115-97, known as the Tax Cuts and Jobs Act (“the Tax Act”). The Tax Act reduced the statutory rate of U.S. federal corporate income tax to 21 percent and enacted numerous other changes impacting the Company.

The Tax Act includes provisions for Global Intangible Low-Taxed Income (“GILTI”), under which taxes on foreign income are imposed on the excess of a deemed return on tangible assets of foreign corporations and for Base Erosion and Anti-Abuse Tax (“BEAT”), under which taxes are imposed on certain base eroding payments to affiliated foreign companies. While the U.S. tax authorities issued formal guidance, including recently issued proposed and final regulations for BEAT and other provisions of the Tax Act, there are still certain aspects of the Tax Act that remain unclear and subject to substantial uncertainties. Additional guidance is expected in future periods. Such guidance may result in changes to the interpretations and assumptions the Company made and actions the Company may take, which may impact amounts recorded with respect to international provisions of the Tax Act, possibly materially. Consistent with accounting guidance, the Company treats BEAT as a period tax charge in the period the tax is incurred and have made an accounting policy election to treat GILTI taxes in a similar manner.

No provision for income tax related to GILTI or BEAT was recorded as of December 31, 2019.

The components of the Company's net deferred tax assets/liabilities ("DTA"/"DTL") as of December 31, 2019 and 2018 are as follows:

	12/31/2019			12/31/2018			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross DTA	$ 892	$ 241	$ 1,133	$ 1,028	$ 227	$ 1,255	$ (136)	$ 14	$ (122)
Statutory Valuation Allowance	13	53	66	-	57	57	13	(4)	9
Adjusted Gross DTA	879	188	1,067	1,028	170	1,198	(149)	18	(131)
Nonadmitted DTA	31	-	31	127	-	127	(96)	-	(96)
Subtotal Admitted DTA	848	188	1,036	901	170	1,071	(53)	18	(35)
DTL	123	188	311	129	170	299	(6)	18	12
Net Admitted DTA/(DTL)	$ 725	$ -	$ 725	$ 772	$ -	$ 772	$ (47)	$ -	$ (47)

At December 31, 2019, the Company recorded gross deferred tax assets ("DTA") of $1,133. A valuation allowance of $13 was established on deferred tax assets related to foreign tax credits and $53 on net capital deferred tax assets, as it is management's belief that they will not be utilized in the foreseeable future. Tax planning strategies had no impact on the determination of the net admitted DTA.

The following table shows the summary of the calculation for the net admitted DTA as of December 31, 2019 and 2018:

	12/31/2019			12/31/2018			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Adjusted gross DTAs realizable within 36 months or 15 percent of statutory surplus (the lesser of 1 and 2 below)	725	-	725	772	-	772	(47)	-	(47)
1. Adjusted gross DTAs realizable within 36 months	725	-	725	774	-	774	(49)	-	(49)
2. 15 percent of statutory surplus	NA	NA	790	NA	NA	772	NA	NA	18
Adjusted gross DTAs that can be offset against DTLs	123	188	311	129	170	299	(6)	18	12
Total DTA admitted as the result of application of SSAP 101	$ 848	188	1,036	$ 901	$ 170	$ 1,071	$ (53)	$ 18	$ (35)

	2019	2018
Ratio percentage used to determine recovery period and threshold limitation amount	413%	388%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in (2) above.	$ 5,271	$ 5,151

(Dollars in Millions)

The following table shows the components of the current income tax expense (benefit) for the periods listed:

For the years ended December 31,	2019	2018	Change
Federal income tax	$ (42)	$ (63)	$ 21
Foreign income tax	7	9	(2)
Subtotal	(35)	(54)	19
Federal income tax on net capital gains	42	69	(27)
Federal and foreign income taxes incurred	$ 7	$ 15	$ (8)

The following table shows the components of the DTA split between ordinary and capital DTA as of December 31, 2019 and 2018:

	2019	2018	Change
Ordinary			
Discounting of unpaid losses	$ 128	$ 151	$ (23)
Nonadmitted assets	15	19	(4)
Unearned premium reserve	147	158	(11)
Bad debt expense	9	11	(2)
Net operating loss carry forward	406	501	(95)
Foreign tax credit carry forward	80	79	1
Investments	26	26	-
Mortgage Contingency Reserve	34	29	5
Intangible Assets	13	14	(1)
Other temporary differences	34	40	(6)
Subtotal	892	1,028	(136)
Statutory valuation allowance adjustment	13	-	13
Nonadmitted	31	127	(96)
Admitted ordinary deferred tax assets	$ 848	$ 901	$ (53)
Capital			
Investments	$ 228	$ 211	$ 17
Net capital loss carry forward	-	1	(1)
Unrealized capital losses	13	15	(2)
Subtotal	241	227	14
Statutory valuation allowance	53	57	(4)
Admitted capital deferred tax assets	188	170	18
Admitted deferred tax assets	$ 1,036	$ 1,071	$ (35)

(Dollars in Millions)

The following table shows the components of the DTL split between ordinary and capital DTL as of December 31, 2019 and 2018:

	2019	2018	Change
Ordinary			
Investments	$ 80	$ 72	$ 8
Tax Act adjustment to discounting of unpaid losses	32	47	(15)
Section 481(a) adjustment	-	3	(3)
Other temporary differences	12	7	5
Subtotal	124	129	(5)
Capital			
Investments	$ 128	$ 108	$ 20
Unrealized capital gains (losses)	59	61	(2)
Other temporary differences	1	1	-
Subtotal	188	170	18
Deferred tax liabilities	312	299	13
Net deferred tax assets/liabilities	**$ 724**	**$ 772**	**$ (48)**

The change in net deferred tax assets is comprised of the following:

	2019	2018	Change
Adjusted gross deferred tax assets	$ 1,067	$ 1,198	$ (131)
Total deferred tax liabilities	(312)	(299)	(13)
Net deferred tax assets/ (liabilities)	755	899	(144)
Tax effect of unrealized gains (losses)			1
Total change in net deferred tax			$ (145)
Change in deferred tax - current year			(146)
Change in deferred tax - current year - other surplus items			3
Change in deferred tax - current year - total			(143)
Change in deferred tax – prior period correction			(2)
Total change in deferred tax - current year			$ (145)

The following table shows the components of opening surplus adjustments on current and deferred taxes for the year ended December 31, 2019:

	Current	Deferred	Total
SSAP 3 impact:			
SSAP 3 - general items	$ 15	$ (12)	$ 3
SSAP 3 - statutory valuation allowance	-	10	10
Subtotal SSAP 3	15	(2)	13
SSAP 3 - unrealized gain/loss	-	-	-
SSAP 3 - adjusted tax assets and liabilities	15	(2)	13
SSAP 3 - nonadmitted impact	-	(1)	(1)
Total SSAP 3 impact	$ 15	$ (3)	$ 12

(Dollars in Millions)

The provision for federal and foreign income taxes is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The following table presents a reconciliation of such differences in arriving at total taxes related to the Company for the years ended December 31, 2019, 2018 and 2017:

	2019		2018		2017	
Description	**Amount**	**Tax Effect**	**Amount**	**Tax Effect**	**Amount**	**Tax Effect**
Net Income (Loss) Before Federal Income Taxes and Capital Gains Taxes	$ 628	$ 132	$ (263)	$ (55)	$ (380)	$ (133)
Book to Tax Adjustments:						
Tax Exempt Income, net of proration	(18)	(4)	(34)	(7)	(71)	(25)
Stock Options And Other Compensation	10	2	-	-	-	-
Change in Nonadmitted Assets	18	4	28	6	46	16
Change in Tax Position	-	-	-	-	-	2
Statutory Valuation Allowance	-	19	-	40	-	(5)
Return to Provision	-	(2)	-	(1)	-	(3)
Reversal of Book/Tax Difference on Share Distribution	(26)	(5)	-	-	-	-
Change in contingency reserve	-	-	(31)	(7)	(39)	(14)
Impact of Tax Act		-	-	-	-	588
Real Estate Redemption	-	-	-	-	(72)	(25)
Other	(14)	4	36	8	6	6
Total Book to Tax Adjustments	(30)	18	(1)	39	(130)	540
Total Income Tax	$ 598	$ 150	$ (264)	$ (16)	$ (510)	$ 407
Federal and Foreign Income Taxes Incurred	-	(35)	-	(54)	-	(69)
Federal Income Tax on Net Capital Gains	-	42	-	69	-	82
Change in Net Deferred Income Taxes	-	143	-	(31)	-	394
Total Income Tax	$ -	$ 150	$ -	$ (16)	$ -	$ 407

Operating loss and tax credit carry-forwards

At December 31, 2019 the Company had net operating loss carry forwards expiring through the year 2038 of:	$ 1,932
At December 31, 2019 the Company had foreign tax credits expiring through the year 2029 of:	$ 80

There were no deposits reported as admitted assets under Section 6603 of the Internal Revenue Service (IRS) Code as of December 31, 2019. The Company does not believe that the liability related to any federal or foreign tax loss contingencies will significantly change within the next 12 months. A reasonable estimate of such change cannot be made at this time.

As of December 31, 2019, there was a $15 receivable related to tax return errors and omissions and a $18 liability related to uncertain tax positions.

The U.S is the only major tax jurisdiction of the Company. The statute of limitations for all tax years prior to 2000 has expired for the consolidated federal income tax return. The Company is currently under examination for the tax years 2000 through 2013 and open to examination through 2018.

(Dollars in Millions)

The following table lists those companies that form part of the 2019 AIG consolidated federal income tax return:

Company	Company	Company	Company	Company
A.I. Credit Consumer Discount Company	A.I. Credit Corp.	AGC Life Insurance Company	AGC Life Insurance Company	AGLIC Investments Bermuda Limited
AH SLP 1094 San Lucas, LLC	AH SubGP 1000 Woodwind Lakes, LLC	AH SubGP 1007 Highland Meadow, LLC	AH SubGP 1020 Collingham, LLC	AH SubGP 1045 Montgomery, LLC
AH SubGP 1098 Green Pines, LLC	AH SubGP 1158 Flat Iron, LLC	AH SubGP 1210 Geronimo, LLC	AH SubGP 1211 Mision Del Valle, LLC	AH SubGP 1212 Painted Desert, LLC
AH SubGP 1248 North Vista, LLC	AH SubGP 1263 West Virginia, LLC	AH SubGP 1384 Woodglen, LLC	AH SubGP 1433 Magnolia, LLC	AH SubGP 1450 Timber, LLC
AH SubGP 1470 Palmetto, LLC	AH SubGP 1480 Eastmont Senior, LLC	AH SubGP 1535 Hunter's Run, LLC	AH SubGP 1548 Walnut, LLC	AH SubGP 1551 Spanish Creek, LLC
AH SubGP 1597 Broadmoor, LLC	AH SubGP 1600 Rainer, LLC	AH SubGP 1631 Broadway, LLC	AH SubGP 1694 Sonoma, LLC	AH SubGP 245 Garland, LLC
AH SubGP 479 Sunrise, LLC	AH SubGP 516 Merrilltown, LLC	AH SubGP 716 Villas of Mission Bend, LLC	AH SubGP 785 Mayfield, LLC	AH SubGP 787 North Knoll, LLC
AH SubGP 835 Whispering, LLC	AH SubGP 842 Huebner, LLC	AH SubGP 911 Mainland, LLC	AH SubGP 929 Collinwood, LLC	AH SubGP 936 Emmaus, LLC
AH SubGP 997 Maxey, LLC	AH SubGP Crestview Duplexes, LLC	AH SubGP GAG Gandolf, LLC	AH SubGP MDL, LLC	AIG Aerospace Adjustment Services, Inc.
AIG Aerospace Insurance Services, Inc.	AIG Asset Management (U.S.), LLC	AIG Assurance Company	AIG BG Holdings LLC	AIG Capital Corporation
AIG Capital Services, Inc.	AIG Century Verwaltungsgesellschaft mbH	AIG Claims, Inc.	AIG Claims, Inc.	AIG Claims, Inc.
AIG Commercial Equipment Finance Canada Branch	AIG Commercial Equipment Finance, Inc.	AIG Consumer Finance Group, Inc.	AIG Credit (Europe) Corporation	AIG Credit Corp.
AIG Direct Insurance Services, Inc.	AIG Employee Services, Inc.	AIG Europe Holdings Limited	AIG FCOE, Inc.	AIG Federal Savings Bank
AIG Financial Advisor Services, Inc.	AIG Financial Products Corp.	AIG Fund Services, Inc.	AIG G5, Inc.	AIG Global Asset Management Holdings Corp.
AIG Global Capital Markets Securities, LLC	AIG Global Real Estate Investment Corp.	AIG GLOBAL REAL ESTATE INVESTMENT CORP. [RUSS	AIG Global Real Estate Investment de Mexico,	AIG Insurance Management Services, Inc.
AIG International Inc.	AIG Kirkwood, Inc.	AIG Life Holdings, Inc.	AIG Life of Bermuda, Ltd.	AIG Life of Bermuda, Ltd.
AIG Markets, Inc.	AIG Matched Funding Corp.	AIG MEA Investments and Services, LLC	AIG Mortgage Capital, LLC	AIG North America, Inc.
AIG PC Global Services Inc.	AIG PC Global Services, Inc. United Kingdom	AIG Procurement Services, Inc.	AIG Property Casualty Company	AIG Property Casualty Europe Financing Ltd.
AIG Property Casualty International, LLC	AIG Property Casualty U.S., Inc.	AIG Property Casualty, Inc.	AIG Realty, Inc.	AIG Securities Lending Corp.
AIG Shared Services	AIG Shared Services Corporation	AIG Shared Services Corporation - Management	AIG Shared Services Corporation (Philippines)	AIG Specialty Insurance Company
AIG Spring Ridge I, Inc.	AIG Technologies, Inc.	AIG Technologies, Inc. (U.K. branch)	AIG Travel Assist, Inc.	AIG TRAVEL EMEA LIMITED
AIG TRAVEL EUROPE LIMITED	AIG Travel, Inc.	AIG UNITED GUARANTY AGENZIA DI ASSICURAZIONE	AIG United Guaranty, Sociedad Limitada	AIG Warranty Services of Florida, Inc.
AIG Warranty Services, Inc.	AIG WarrantyGuard, Inc.	AIG.COM, Inc.	AIG-FP Capital Preservation Corp.	AIG-FP Matched Funding Corp.
AIG-FP Pinestead Holdings Corp.	AIGGRE Dakota Springs Investor LLC	AIGGRE DC Ballpark Investor, LLC	AIGGRE Europe Real Estate Fund I	AIGGRE Europe Real Estate Fund I GP S.a r.l.

Company	Company	Company	Company	Company
AIGGRE Hill7 Investor LLC	AIGGRE Livermore Longfellow Investor LLC	AIGGRE Market Street II LLC	AIGGRE North Getty Investor LLC	AIGGRE TX Hotel Frisco Owner, LLC
AIGGRE TX Hotel Las Colinas Owner, LLC	AIGGRE TX Hotel Plano Owner, LLC	AIGGRE TX Hotel San Antonio Owner, LLC	AIGGRE U.S. Real Estate Fund I	AIGGRE U.S. Real Estate Fund I
AIGGRE U.S. Real Estate Fund II	AIGGRE U.S. Real Estate Fund II	AIGGRE U.S. Real Estate Fund III	AIGGRE VISTA, LLC	AIGT Inc. Hong Kong Branch
AIU Insurance Company	Akita, Inc.	Alabaster Capital LLC	AlphaCat Capital Inc.	AM Holdings LLC
American Athletic Club, Inc.	American General Annuity Service Corporation	American General Assignment	American General Assignment Corporation	American General Insurance Agency, Inc.
American General Life Ins. Co. Non-Insulated	American General Life Insurance Co. - Insulat	American General Life Insurance Company	American General Life Services Company, LLC	American General Realty
American Home Assurance Company	American International Facilities Management	American International Group, Inc.	American International Realty Corporation	American International Reinsurance
Applewood Funding Corp.	Arthur J. Glatfelter Agency, Inc.	Barnegat Funding Corp.	Blackboard Customer Care Insurance Services	Blackboard Insurance Company
Blackboard Services, LLC	Blackboard Specialty Insurance Company	Blackboard U.S. Holdings, Inc.	CAP Investor 1, LLC	CAP Investor 10, LLC
CAP Investor 2, LLC	CAP Investor 4, LLC	CAP Investor 5, LLC	CAP Investor 8, LLC	Charleston Bay SAHP Corp.
Commerce and Industry Insurance Company	Connective Mortgage Advisory Company	Covenant Credit Partners, LLC	Crop Risk Services, Inc.	Crossings SAHP Corp.
Curzon Funding Limited	Curzon Funding LLC	Curzon Street Funding Limited	Design Professionals Association	DIL/SAHP Corp.
DSA P&C Solutions, Inc.	Eaglestone Reinsurance Company	EASTCHEAP INVESTMENTS (CAYMAN) LIMITED	Eastgreen, Inc.	First Principles Capital Management, LLC
Flamebright Investment Limited	Forest SAHP Corp.	Fortitude Group Holdings, LLC	Fortitude Group Services, Inc.	Fortitude Life & Annuity Solutions, Inc.
Fortitude Reinsurance Company, Ltd.	Foundry Insurance Agency, Inc.	GIG of Missouri, Inc.	GIG Reinsurance Company, Ltd.	Glatfelter Claims Management, Inc.
Glatfelter Properties, LLC	Glatfelter Underwriting Services, Inc.	Global Loss Prevention, Inc.	Global Loss Prevention, Inc. [Canada]	Grand Savannah SAHP Corp.
Granite State Insurance Company	Health Direct, Inc.	HOSPITAL PLAN INSURANCE SERVICES	HPIS LIMITED	Illinois National Insurance Co.
Integrated Manufacturing Companies, Inc.	Knickerbocker Corporation	LBMA Equipment Services, Inc.	Lexington Insurance Company	Livetravel, Inc.
LSTREET I, LLC	LSTREET II, LLC	MG Reinsurance Limited	MIP Mezzanine, LLC	MIP PE Holdings, LLC
Morefar Marketing, Inc.	Mt. Mansfield Company, Inc.	National Union Fire Insurance	National Union Fire Insurance Company	New Hampshire Insurance Company
Pearce & Pearce, Inc.	Pine Street Real Estate Holdings Corp.	Prairie SAHP Corp.	Privilege Coventry Holdings S.a r.l.	Privilege Coventry S.a r.l.
Raptor Funding Corp.	Rialto Melbourne Investor LLC	Risk Specialists Companies	Rokland Limited	SA Affordable Housing, LLC
SA Investment Group, Inc.	SAAHP GP Corp.	SAFG Retirement Services, Inc.	SAHP GA III - SC LLC	SAI Deferred Compensation Holdings, Inc.
SCSP Corp.	Service Net Solutions of Florida, LLC	Service Net Warranty, LLC	SLP Housing GPDNAC, LLC	SNW Insurance Agency, LLC
Spruce Peak Realty, LLC	Stowe Mountain Holdings, Inc.	Stratford Insurance Company	SubGen NT, Inc.	SunAmerica Affordable Housing Partners, Inc.
SunAmerica Asset Management, LLC	SunAmerica Fund Assets 104, LLC	SunAmerica Fund Assets 110, LLC	SunAmerica Fund Assets 112, LLC	SunAmerica Fund Assets 119, LLC

(Dollars in Millions)

Company	Company	Company	Company	Company
SunAmerica Fund Assets 150, LLC	SunAmerica Fund Assets 163, LLC	SunAmerica Fund Assets, LLC	SunAmerica Life Reinsurance Company	SunAmerica Retirement Markets, Inc.
Susquehanna Agents Alliance, LLC	The Glatfelter Agency, Inc.	The Insurance Company of the	The United States Life Insurance	The United States Life Insurance Company
The Variable Annuity Life - Insulated	The Variable Annuity Life - Non-Insulated	The Variable Annuity Life Insurance Company	Travel Guard Americas LLC Sucursal Mexico	Travel Guard Americas, LLC
Travel Guard Americas, LLC [Argentina]	Travel Guard Group, Inc.	Tudor Insurance Company	U G Corporation	VALIC Financial Advisors, Inc.
VALIC Retirement Services Company	Validus America, Inc.	Validus Re Americas (New Jersey), Inc.	Validus Reaseguros, Inc.	Validus Services, Inc.
Validus Specialty Underwriting Services, Inc.	Validus Specialty, LLC	Volunteer Firemen's Insurance Services, Inc.	Webatuck Corp.	Westco Claims Management Services, Inc.
Westco Insurance Managers, Inc.	Western World Insurance Company	Western World Insurance Group, Inc.	X2 & X20 Holdings S.a r.l.	

9. Capital and Surplus and Dividend Restrictions

A. Dividend Restrictions

Under New York law, the Company may pay cash dividends only from *Unassigned surplus* determined on a statutory basis.

New York domiciled companies are restricted (on the basis of the lower of 10 percent of statutory earned surplus as defined in NY Insurance Law section 4105, adjusted for special surplus items, as of the last statement on file with the Superintendent, or 100 percent of adjusted net investment income for the preceding thirty-six month period ended as of the last statement on file with the Superintendent) as to the amount of ordinary dividends they may declare or pay in any twelve-month period without the prior approval of the NY DFS. The maximum dividend amount the Company can pay in 2020, as of December 31, 2019 is $0.

Other than the limitations above, there are no restrictions placed on the portion of Company profits that may be paid as ordinary dividends to the stockholders.

The Company did not pay any dividends in 2019 and 2018.

B. Capital & Surplus

Changes in balances of special surplus funds are due to adjustments in the amounts of reserves transferred under retroactive reinsurance agreements and when cash recoveries exceed the consideration paid.

The portion of *Unassigned surplus* at December 31, 2019 and 2018 represented or reduced by each item below is as follows:

Years Ended December 31,	2019	As Adjusted* 2018	2018
Unrealized gains and losses (net of taxes)	**$ 130**	$ 109	$ 148
Nonadmitted asset values	**(102)**	(217)	(216)
Provision for reinsurance	**(16)**	(30)	(30)

* As Adjusted includes SSAP 3 prior year adjustments

The Company exceeded minimum RBC requirements at both December 31, 2019 and 2018.

10. Contingencies

A. Legal Proceedings

In the normal course of business, AIG and its subsidiaries are, like others in the insurance and financial services industries in general, subject to regulatory and government investigations and actions, and litigation and other forms of dispute resolution in a large number of proceedings pending in various domestic and foreign jurisdictions. Certain of these matters involve potentially significant risk of loss due to potential for significant jury awards and settlements, punitive damages or other penalties. Many of these matters are also highly complex and seek recovery on behalf of a class or similarly large number of plaintiffs. It is therefore inherently difficult to predict the size or scope of potential future losses arising from these matters. In AIG's insurance and reinsurance operations, litigation and arbitration concerning the scope of coverage under insurance and reinsurance contracts, and litigation and arbitration in which its subsidiaries defend or indemnify their insureds under insurance contracts, are generally considered in the establishment of loss reserves. Separate and apart from the foregoing matters involving insurance and reinsurance coverage, AIG, its subsidiaries and their respective officers and directors are subject to a variety of additional types of legal proceedings brought by holders of AIG securities, customers, employees and others, alleging, among other things, breach of contractual or fiduciary duties, bad faith and violations of federal and state statutes and regulations. With respect to these other categories of matters not arising out of claims for insurance or reinsurance coverage, the Company establishes reserves for loss contingencies when it is probable that a loss will be incurred and the amount of the loss can be reasonably estimated. In many instances, the Company is unable to determine whether a loss is probable or to reasonably estimate the amount of such a loss and, therefore, the potential future losses arising from legal proceedings may exceed the amount of liabilities that has been recorded in its financial statements covering these matters. While such potential future charges could be material, based on information currently known to management, management does not believe, other than may be discussed below, that any such charges are likely to have a material adverse effect on the Company's financial position or results of operation.

Additionally, from time to time, various regulatory and governmental agencies review the transactions and practices of AIG and its subsidiaries in connection with industry-wide and other inquiries into, among other matters, the business practices of current and former operating insurance subsidiaries. The Company has cooperated, and will continue to cooperate, in producing documents and other information in response to such requests.

B. Leases

Lease expenses are allocated to the Company based upon the percentage of space occupied with the final share of cost based upon its percentage participation in the Combined Pool.

C. Other Commitments

As part of its hedge fund, private equity and real estate equity portfolio investments, as of December 31, 2019, the Company may be called upon for additional capital investments of up to $894.

At December 31, 2019 the Company had $247 of outstanding commitments related to various funding obligations associated with investments in commercial and residential mortgage loans.

D. Guarantees

The Company has issued guarantees whereby it unconditionally and irrevocably guaranteed all present and future obligations and liabilities arising from the policies of insurance issued by certain insurers who, as of the guarantee issue date, were members of the AIG holding company group. The guarantees were provided in order to secure or maintain the guaranteed companies' rating status issued by certain rating agencies. The Company would be required to perform under the guarantee in the event that a guaranteed entity failed to make payments due under policies of insurance issued during the period of the guarantee. The Company has not been required to perform under any of the guarantees. The Company remains contingently liable for all policyholder obligations associated with insurance policies issued by the guaranteed entity during the period in which the guarantee was in force.

Each guaranteed entity has reported total assets in excess of its liabilities and the majority have invested assets in excess of their direct (prior to reinsurance) policyholder liabilities. Additionally, the Company is party to an agreement with AIG whereby AIG has agreed to make any payments due under the guarantees in the Company's place and stead. Furthermore, for any former affiliate that has been sold, the purchaser has provided the Company with hold harmless agreements relative to the guarantee of the divested affiliate. Accordingly, management believes that the likelihood of payment under any of the guarantees is remote.

(Dollars in Millions)

The following schedule sets forth the effective and termination dates (agreements with guarantees in run off), of each guarantee, the amount of direct policyholder obligations guaranteed, the invested assets and policyholder surplus for each guaranteed entity as of December 31, 2019:

Guaranteed Company		Date Issued	Date Terminated	Policyholder Obligations @ 12/31/2019	Invested Assets @ 12/31/2019	Estimated Loss @ 12/31/2019	Policyholders' Surplus 12/31/2019
21st Century Advantage Insurance Company (f/k/a AIG Advantage Insurance Company)		12/15/1997	8/31/2009	$ -	$ 21	$ -	$ 22
21st Century North America Insurance Company (f/k/a American International Insurance Company)		11/5/1997	8/31/2009	10	600	-	599
21st Century Pinnacle Insurance Company (f/k/a American International Insurance Company of New Jersey)		12/15/1997	8/31/2009	1	19	-	20
AIG Edison Life Insurance Company (f/k/a GE Edison Life Insurance Company)		8/29/2003	3/31/2011	7,073	92,212	-	2,045
American General Life and Accident Insurance Company	*	3/3/2003	9/30/2010	1,464	187,639	-	6,289
American General Life Insurance Company	*	3/3/2003	12/29/2006	7,723	187,639	-	6,289
American International Assurance Company (Australia) Limited	**	11/1/2002	10/31/2010	443	1,799	-	574
Chartis Europe, S.A. (f/k/a AIG Europe, S.A.)	*	9/15/1998	12/31/2012	4,143	6,947	-	1,849
AIG Seguros Mexico, S.A. de C.V. (f/k/a AIG Mexico Seguros Interamericana, S.A. de C.V.)	*	12/15/1997	3/31/2015	94	108	-	115
Chartis UK (f/k/a Landmark Insurance Company, Limited (UK))	*	3/2/1998	11/30/2007	192	5,977	-	2,400
Farmers Insurance Hawaii (f/k/a AIG Hawaii Insurance Company, Inc.)		11/5/1997	8/31/2009	-	26	-	25
Lloyd's Syndicate (1414) Ascot (Ascot Underwriting Holdings Ltd.)		1/20/2005	10/31/2007	7	719	-	61
SunAmerica Annuity and Life Assurance Company (Anchor National Life Insurance Company)		1/4/1999	12/29/2006	729	187,639	-	6,289
SunAmerica Life Insurance Company		1/4/1999	12/29/2006	2,102	187,639	-	6,289
The United States Life Insurance Company in the City of New York		3/3/2003	4/30/2010	3,298	28,885	-	1,571
The Variable Annuity Life Insurance Company		3/3/2003	12/29/2006	4,268	84,752	-	2,600
Total				$ 31,547	$ 972,621	$ -	$ 37,037

* Current affiliates

**AIA was formerly as subsidiary of AIG, Inc. In previous years AIA provided the direct policyholder obligations as of each year end. However, starting in 2014 AIA declined to provide financial information related to these guarantees. The financial information reflects amounts as of December 31, 2012, at which time the guaranteed entities had invested assets in excess of direct policyholder obligations and were in a positive surplus position. Such amounts continue to remain the Company’s best estimate given available financial information. The guaranteed policyholder obligations will decline as the policies expire.

(Dollars in Millions)

E. Joint and Several Liabilities

AIUI and the Company are jointly and severally obligated to the policyholders of their Japan branches, in connection with transfers of the business of those Japan branches to Japan-domiciled affiliates in 2013 and 2014, respectively. Under the terms of the transfer agreement, the Japan affiliates have agreed to be responsible for 100% of the obligations associated with such policies, and management expects such companies to satisfy their obligation. The Company carries no reserves with respect to such liabilities. The Japanese affiliates carried $13 and $20 of loss reserves in respect of such policies as of December 31, 2019 and 2018, respectively. As of December 31, 2019, if the Japan affiliates were to fail to satisfy their obligations, the Company's share of the aggregate exposure under the pooling agreement is $8.

Each Pool member is also jointly and severally obligated to the other Pool members, in proportion to their pool share, in the event any other Pool member fails.

11. Other Significant Matters

A. Other Assets

As of December 31, 2019 and 2018, other admitted assets as reported in the accompanying *Statements of Admitted Assets* were comprised of the following balances:

Other admitted assets		**2019**		**2018**
Deposit accounting assets		**10**		11
Equities in underwriting pools and associations		**43**		(11)
Guaranty funds receivable on deposit		**9**		9
Loss funds on deposit		**74**		72
Other assets		**87**		78
Total other admitted assets	**$**	**223**	$	159

B. Other Liabilities

As of December 31, 2019 and 2018, other liabilities as reported in the accompanying *Statements of Liabilities, Capital and Surplus* were comprised of the following balances:

Other liabilities		**2019**		**2018**
Accrued retrospective premiums	**$**	**15**	$	24
Deferred commission earnings		**36**		44
Paid loss clearing contra liability (loss reserve offset for paid claims)		**(25)**		(36)
Other accrued liabilities		**152**		221
Escrow Deposit Liability		**132**		83
Retroactive reinsurance reserves - ceded		**(27)**		(29)
Statutory contingency reserve		**162**		137
Escrow funds (NICO)		**29**		32
Total other liabilities	**$**	**474**	$	476

C. Other (Expense) Income

For the years ended December 31, 2019, 2018 and 2017, other (expense) income as reported in the accompanying *Statements of Operations and Changes in Capital and Surplus* were comprised of the following balances:

Other (expense)income		**2019**		**2018**		**2017**
Fee income on deposit programs	**$**	**2**	$	1	$	4
Gain on sale of medical stop-loss business		**-**		-		91
Interest expense on reinsurance program		**(111)**		(148)		(54)
Other income(expense)		**13**		11		(2)
Total other(expense) income	**$**	**(96)**	**$**	(136)	$	39

(Dollars in Millions)

D. Non- Cash items

For the years ended December 31, 2019, 2018 and 2017, the amounts reported in the *Statements of Cash Flow* are net of the following non-cash items:

Non-cash transactions	2019	2018	2017
Capital contribution from parent:			
Return of Capital	**(486)**	-	-
Receivable	**-**	150	-
Funds Held:			
Premiums collected	**(36)**	(62)	(313)
Benefit and loss related payments	**195**	(15)	229
Interest	**(107)**	(146)	(60)
Commissions	**52**	23	114
Funds Held	**104**	200	30
Intercompany Pooling Settlement:			
Securities received	**875**	1,244	972
Securities transferred	**(1,267)**	(1,662)	(1,337)
Benefit and loss related payments	**$ (670)**	**$ (268)**	**$ (365)**

E. Federal Home Loan Bank ("FHLB") Agreements

The Company is a member of the FHLB of New York. Such membership requires ownership of stock in the FHLB. The Company owned an aggregate of $9 and $9 of stock in the FHLB at December 31, 2019 and 2018, respectively.

Through its membership, the Company has conducted business activity (borrowings) with the FHLB. The Company utilizes the FHLB facility to supplement liquidity or for other uses deemed appropriate by management. The outstanding borrowings are being used primarily for interest rate risk management purposes in connection with certain reinsurance arrangements, and the balances are expected to decline as underlying premiums are collected. The Company is required to pledge certain mortgage-backed securities, government and agency securities and other qualifying assets to secure advances obtained from the FHLB. The FHLB applies a haircut to collateral pledged to determine the amount of borrowing capacity it will provide to its member. As of December 31, 2019, the Company had an actual borrowing capacity of $1,167 based on qualified pledged collateral. At December 31, 2019, the Company had borrowings of $0 from the FHLB.

F. Insurance-Linked Securities

As of December 31, 2019 and 2018, the Company was not a ceding insurer in catastrophe bond reinsurance transactions in force.

G. Sale of Medical Stop-loss and Organ Transplant Business

On October 15, 2017, the Pool sold its medical stop-loss and organ transplant business and renewal rights to Tokio Marine HCC Life Insurance Company. The sale of the renewal rights resulted in a gain of $91 for the Company. In addition to the sale of the renewal rights, the Pool entered into a 100 percent quota share reinsurance agreement to cede the in-force liabilities of these businesses as of the transaction date, which resulted in a gain of $6.5 for the Company.

12. Subsequent Events

Subsequent events have been considered through April 17, 2020 for these Financial Statements issued on April 17, 2020.

Type I – Recognized Subsequent Events:

None.

Type II – Nonrecognized Subsequent Events:

In March 2020, the outbreak of COVID-19 caused by a novel strain of the coronavirus was recognized as a pandemic by the World Health Organization. The Coronavirus outbreak has resulted in increased economic uncertainty and volatility in both the debt and equity markets. Sufficient information is not available to adequately evaluate the short-term or long-term financial impact to the Company, however these economic conditions may adversely impact the Company's business operations and future financial condition.