

**ACE INA Overseas Insurance
Company Ltd. and its subsidiaries**

(Incorporated in Bermuda)

Condensed Consolidated General Purpose Financial
Statements

December 31, 2020 and 2019

(in thousands of dollars)



April 28, 2021

Report of Independent Auditors

To the Board of Directors of ACE INA Overseas Insurance Company Ltd.

We have audited the accompanying condensed consolidated financial statements of ACE INA Overseas Insurance Company Ltd. and its subsidiaries, which comprise the condensed consolidated balance sheets and condensed consolidated statements of capital and surplus as of December 31, 2020 and 2019, and the related condensed consolidated statements of income for the years then ended, and the related notes to the condensed consolidated financial statements.

Management’s responsibility for the condensed consolidated financial statements

Management is responsible for the preparation and fair presentation of the condensed consolidated financial statements in accordance with the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to condensed general purpose financial statements (the ‘Legislation’). Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of condensed consolidated 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 condensed consolidated 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 condensed consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the condensed consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the condensed consolidated 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 condensed consolidated 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 condensed consolidated 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 3 of the condensed consolidated financial statements, the condensed consolidated financial statements are prepared by the Company on the basis of the financial reporting provisions of the Legislation, which is a basis of accounting other than accounting principles generally accepted in the United States of America.



The effects on the condensed consolidated financial statements of the variances between the regulatory basis of accounting described in Note 3 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

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 condensed consolidated 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 and its subsidiaries as of December 31, 2020 and 2019, or the results of their operations or their cash flows for the years then ended.

Opinion on regulatory basis of accounting

In our opinion, the condensed consolidated financial statements referred to above present fairly, in all material respects, the financial position of ACE INA Overseas Insurance Company Ltd. and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations for the years then ended in accordance with the financial reporting provisions of the Legislation described in Note 3.

PricewaterhouseCoopers Ltd.
Chartered Professional Accountants

ACE INA Overseas Insurance Company Ltd. and its subsidiaries

Condensed Consolidated Balance Sheet

At December 31, 2020

CONDENSED CONSOLIDATED BALANCE SHEET

ACE INA Overseas Insurance Company Ltd. and its subsidiaries

As at December 31, 2020

expressed in
[‘000s]

United States Dollars

LINE No.		2020	2019
1.	CASH AND CASH EQUIVALENTS	371,911	337,974
2.	QUOTED INVESTMENTS:		
(a)	Bonds and Debentures		
i.	Held to maturity	-	-
ii.	Other	3,271,221	2,898,665
(b)	Total Bonds and Debentures	3,271,221	2,898,665
(c)	Equities		
i.	Common stocks	9,391	8,452
ii.	Preferred stocks	-	-
iii.	Mutual funds	-	-
(d)	Total equities	9,391	8,452
(e)	Other quoted investments	-	-
(f)	Total quoted investments	3,280,612	2,907,117
3.	UNQUOTED INVESTMENTS:		
(a)	Bonds and Debentures		
i.	Held to maturity	-	-
ii.	Other	5,549	18,952
(b)	Total Bonds and Debentures	5,549	18,952
(c)	Equities		
i.	Common stocks	878	843
ii.	Preferred stocks	-	-
iii.	Mutual funds	-	-
(d)	Total equities	878	843
(e)	Other unquoted investments	-	-
(f)	Total unquoted investments	6,427	19,795
4.	INVESTMENTS IN AND ADVANCES TO AFFILIATES		
(a)	Unregulated entities that conduct ancillary services	-	-
(b)	Unregulated non-financial operating entities	-	-
(c)	Unregulated financial operating entities	-	-
(d)	Regulated non-insurance financial operating entities	-	-
(e)	Regulated insurance financial operating entities	621,514	555,312
(f)	Total investments in affiliates	621,514	555,312
(g)	Advances to affiliates	169,734	149,991
(h)	Total investments in and advances to affiliates	791,248	705,303
5.	INVESTMENTS IN MORTGAGE LOANS ON REAL ESTATE:		
(a)	First liens	-	-
(b)	Other than first liens	-	-
(c)	Total investments in mortgage loans on real estate	-	-
6.	POLICY LOANS	-	-

The accompanying notes are an integral part of these condensed consolidated financial statements.

ACE INA Overseas Insurance Company Ltd. and its subsidiaries

Condensed Consolidated Balance Sheet ...continued

At December 31, 2020

CONDENSED CONSOLIDATED BALANCE SHEET

ACE INA Overseas Insurance Company Ltd. and its subsidiaries

December 31, 2020

As at
expressed in
['000s]

United States Dollars

LINE No.		2020	2019
7.	REAL ESTATE:		
(a)	Occupied by the company (less encumbrances)	-	-
(b)	Other properties (less encumbrances)	-	-
(c)	Total real estate	-	-
8.	COLLATERAL LOANS	-	-
9.	INVESTMENT INCOME DUE AND ACCRUED	16,022	14,345
10.	ACCOUNTS AND PREMIUMS RECEIVABLE:		
(a)	In course of collection	324,645	354,938
(b)	Deferred - not yet due	54,116	54,507
(c)	Receivables from retrocessional contracts	-	-
(d)	Total accounts and premiums receivable	378,761	409,445
11.	REINSURANCE BALANCES RECEIVABLE:		
(a)	Foreign affiliates	3,119	11,920
(b)	Domestic affiliates	9,812	11,685
(c)	Pools & associations	-	-
(d)	All other insurers	72,154	64,954
(e)	Total reinsurance balance receivable	85,085	88,559
12.	FUNDS HELD BY CEDING REINSURERS	203,205	230,052
13.	SUNDRY ASSETS:		
(a)	Derivative instruments	3,063	3,652
(b)	Segregated accounts companies - long-term business - variable annuities	-	-
(c)	Segregated accounts companies - long-term business - other	-	-
(d)	Segregated accounts companies - general business	-	-
(e)	Deposit assets	-	-
(f)	Deferred acquisition costs	566,981	471,253
(g)	Net receivables for investments sold	8	8
(h)	Other Assets	73,378	67,466
(i)	Goodwill and other intangible assets	326,142	320,507
(j)	Value of reinsurance business assumed	57,200	67,705
(k)	Total sundry assets	1,026,772	930,591
14.	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS		
(a)	Letters of credit	-	-
(b)	Guarantees	-	-
(c)	Other instruments	-	-
(e)	Total letters of credit, guarantees and other instruments	-	-
15.	TOTAL	6,160,043	5,643,181

The accompanying notes are an integral part of these condensed consolidated financial statements.

ACE INA Overseas Insurance Company Ltd. and its subsidiaries

Condensed Consolidated Balance Sheet ...continued

At December 31, 2020

CONDENSED CONSOLIDATED BALANCE SHEET

ACE INA Overseas Insurance Company Ltd. and its subsidiaries

December 31, 2020

As at
expressed in
['000s]

United States Dollars

LINE No.		2020	2019
	TOTAL INSURANCE RESERVES, OTHER LIABILITIES AND STATUTORY CAPITAL AND SURPLUS		
16.	UNEARNED PREMIUM RESERVE		
(a)	Gross unearned premium reserves	927,412	894,698
(b)	Less: Ceded unearned premium reserve		
	i. Foreign affiliates	97,062	104,684
	ii. Domestic affiliates	146,118	140,646
	iii. Pools & associations	-	-
	iv. All other insurers	276,537	267,814
(c)	Total ceded unearned premium reserve	519,717	513,144
(d)	Net unearned premium reserve	407,695	381,554
17.	LOSS AND LOSS EXPENSE PROVISIONS:		
(a)	Gross loss and loss expense provisions	3,376,098	3,061,077
(b)	Less : Reinsurance recoverable balance		
	i. Foreign affiliates	149,395	155,422
	ii. Domestic affiliates	330,675	342,253
	iii. Pools & associations	-	-
	iv. All other reinsurers	1,225,575	968,197
(c)	Total reinsurance recoverable balance	1,705,645	1,465,872
(d)	Net loss and loss expense provisions	1,670,453	1,595,205
18.	OTHER GENERAL BUSINESS INSURANCE RESERVES	-	-
19.	TOTAL GENERAL BUSINESS INSURANCE RESERVES	2,078,148	1,976,759
	LONG-TERM BUSINESS INSURANCE RESERVES		
20.	RESERVE FOR REPORTED CLAIMS	-	-
21.	RESERVE FOR UNREPORTED CLAIMS	-	-
22.	POLICY RESERVES - LIFE	-	-
23.	POLICY RESERVES - ACCIDENT AND HEALTH	-	-
24.	POLICYHOLDERS' FUNDS ON DEPOSIT	-	-
25.	LIABILITY FOR FUTURE POLICYHOLDERS' DIVIDENDS	-	-
26.	OTHER LONG-TERM BUSINESS INSURANCE RESERVES	-	-
27.	TOTAL LONG-TERM BUSINESS INSURANCE RESERVES		
(a)	Total Gross Long-Term Business Insurance Reserves	-	-
(b)	Less: Reinsurance recoverable balance on long-term business		
	(i) Foreign Affiliates	-	-
	(ii) Domestic Affiliates	-	-
	(iii) Pools and Associations	-	-

The accompanying notes are an integral part of these condensed consolidated financial statements.

ACE INA Overseas Insurance Company Ltd. and its subsidiaries

Condensed Consolidated Balance Sheet ... continued

At December 31, 2020

CONDENSED CONSOLIDATED BALANCE SHEET

ACE INA Overseas Insurance Company Ltd. and its subsidiaries

As at
expressed in
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December 31, 2020

United States Dollars

	(iv) All Other Insurers	-	-
(c)	Total Reinsurance Recoverable Balance	-	-
(d)	Total Net Long-Term Business Insurance Reserves	-	-
OTHER LIABILITIES			
28.	INSURANCE AND REINSURANCE BALANCES PAYABLE	410,665	430,912
29.	COMMISSIONS, EXPENSES, FEES AND TAXES PAYABLE	-	-
30.	LOANS AND NOTES PAYABLE	-	-
31.	(a) INCOME TAXES PAYABLE	(2,972)	(857)
	(b) DEFERRED INCOME TAXES	105,719	50,722
32.	AMOUNTS DUE TO AFFILIATES	47,699	112,963
33.	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	105,340	104,717
34.	FUNDS HELD UNDER REINSURANCE CONTRACTS:	53,670	54,005
35.	DIVIDENDS PAYABLE	-	-
36.	SUNDRY LIABILITIES:		
(a)	Derivative instruments	668	448
(b)	Segregated accounts companies	-	-
(c)	Deposit liabilities	-	-
(d)	Net payable for investments purchased	187	949
(e)	Contract Holder Deposit Funds	143,848	108,591
(f)	Lease Liability	16,200	27,985
(g)		-	-
(h)	Total sundry liabilities	160,903	137,973
37.	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS:		
(a)	Letters of credit	-	-
(b)	Guarantees	-	-
(c)	Other instruments	-	-
(d)	Total letters of credit, guarantees and other instruments	-	-
38.	TOTAL OTHER LIABILITIES	881,024	890,435
39.	TOTAL INSURANCE RESERVES AND OTHER LIABILITIES	2,959,172	2,867,194
CAPITAL AND SURPLUS			
40.	TOTAL CAPITAL AND SURPLUS	3,200,871	2,775,987
41.	TOTAL	6,160,043	5,643,181

The accompanying notes are an integral part of these condensed consolidated financial statements.

ACE INA Overseas Insurance Company Ltd. and its subsidiaries

Condensed Consolidated Statement of Income

For the years ended December 31, 2020

CONDENSED CONSOLIDATED STATEMENT OF INCOME

ACE INA Overseas Insurance Company Ltd. and its subsidiaries

As at December 31, 2020

expressed in ['000s] United States Dollars

LINE No.		2020	2019
	GENERAL BUSINESS UNDERWRITING INCOME		
1.	GROSS PREMIUMS WRITTEN		
	(a) Direct gross premiums written	783,057	781,432
	(b) Assumed gross premiums written	2,102,604	2,157,734
	(c) Total gross premiums written	2,885,661	2,939,166
2.	REINSURANCE PREMIUMS CEDED	1,571,352	1,652,586
3.	NET PREMIUMS WRITTEN	1,314,309	1,286,580
4.	INCREASE (DECREASE) IN UNEARNED PREMIUMS	(13,065)	(62,069)
5.	NET PREMIUMS EARNED	1,301,244	1,224,511
6.	OTHER INSURANCE INCOME	-	-
7.	TOTAL GENERAL BUSINESS UNDERWRITING INCOME	1,301,244	1,224,511
	GENERAL BUSINESS UNDERWRITING EXPENSES		
8.	NET LOSSES INCURRED AND NET LOSS EXPENSES INCURRED	530,453	467,563
9.	COMMISSIONS AND BROKERAGE	308,215	319,265
10.	TOTAL GENERAL BUSINESS UNDERWRITING EXPENSES	838,668	786,828
11.	NET UNDERWRITING PROFIT (LOSS) - GENERAL BUSINESS	462,576	437,683
	LONG-TERM BUSINESS INCOME		
12.	GROSS PREMIUMS AND OTHER CONSIDERATIONS:		
	(a) Direct gross premiums and other considerations	-	-
	(b) Assumed gross premiums and other considerations	-	-
	(c) Total gross premiums and other considerations	-	-
13.	PREMIUMS CEDED	-	-
14.	NET PREMIUMS AND OTHER CONSIDERATIONS:		
	(a) Life	-	-
	(b) Annuities	-	-
	(c) Accident and health	-	-
	(d) Total net premiums and other considerations	-	-
15.	OTHER INSURANCE INCOME	-	-
16.	TOTAL LONG-TERM BUSINESS INCOME	-	-
	LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES		
17.	CLAIMS - LIFE	-	-
18.	POLICYHOLDERS' DIVIDENDS	-	-

The accompanying notes are an integral part of these condensed consolidated financial statements.

ACE INA Overseas Insurance Company Ltd. and its subsidiaries

Condensed Consolidated Statement of Income ...continued

For the years ended December 31, 2020

CONDENSED CONSOLIDATED STATEMENT OF INCOME

ACE INA Overseas Insurance Company Ltd. and its subsidiaries

As at December 31, 2020

expressed in ['000s] United States Dollars

19.	SURRENDERS	-	-
20.	MATURITIES	-	-
21.	ANNUITIES	-	-
22.	ACCIDENT AND HEALTH BENEFITS	-	-
23.	COMMISSIONS	-	-
24.	OTHER	-	-
25.	TOTAL LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES	-	-
26.	INCREASE (DECREASE) IN POLICY RESERVES (ACTUARIAL LIABILITIES):		
	(a) Life	-	-
	(b) Annuities	-	-
	(c) Accident and health	-	-
	(d) Total increase (decrease) in policy reserves	-	-
27.	TOTAL LONG-TERM BUSINESS EXPENSES	-	-
28.	NET UNDERWRITING PROFIT (LOSS) - LONG-TERM BUSINESS	-	-
29.	COMBINED NET UNDERWRITING RESULTS BEFORE THE UNDERNOTED ITEMS	462,576	437,683
	UNDERNOTED ITEMS		
30.	COMBINED OPERATING EXPENSE		
	(a) General and administration	172,482	163,912
	(b) Personnel cost	95,678	91,795
	(c) Other	-	-
	(d) Total combined operating expenses	268,160	255,707
31.	COMBINED INVESTMENT INCOME - NET	72,187	73,679
32.	COMBINED OTHER INCOME (DEDUCTIONS)	70,444	97,626
33.	COMBINED INCOME BEFORE TAXES	337,047	353,281
34.	COMBINED INCOME TAXES (IF APPLICABLE):		
	(a) Current	42,887	81,073
	(b) Deferred	21,125	12,569
	(c) Total	64,012	93,642
35.	COMBINED INCOME BEFORE REALIZED GAINS (LOSSES)	273,035	259,639
36.	COMBINED REALIZED GAINS (LOSSES)	(37,461)	(14,284)
37.	COMBINED INTEREST CHARGES	-	-
38.	NET INCOME	235,574	245,355

The accompanying notes are an integral part of these condensed consolidated financial statements.

ACE INA Overseas Insurance Company Ltd. and its subsidiaries

Condensed Consolidated Statement of Capital and Surplus

For the years ended December 31, 2020

CONDENSED CONSOLIDATED STATEMENT OF CAPITAL AND SURPLUS

ACE INA Overseas Insurance Company Ltd. and its subsidiaries

As at December 31, 2020
expressed in ['000s] United States Dollars

LINE No.		2020	2019
1.	CAPITAL:		
(a)	Capital Stock		
	(i) Common Shares		
	authorized	10,000	
	value	500	
	fully paid	10,000	
		shares of par	
		each issued and	
		shares	
	(ii)		
	(A) Preferred shares:		
	authorized	10	
	value	1,000	
	fully paid	1	
		shares of par	
		each issued and	
		shares	
	aggregate liquidation value for –		
	2020	1	
	2019	1	
	(B) Preferred shares issued by a subsidiary:		
	authorized		
	value		
	fully paid		
		shares of par	
		each issued and	
		shares	
	aggregate liquidation value for –		
	2020		
	2019		
	(iii) Treasury Shares		
	repurchased		
	value		
		shares of par	
		each issued	
(b)	Contributed surplus	1,840,941	1,836,791
(c)	Any other fixed capital		
	(i) Hybrid capital instruments	-	-
	(ii) Guarantees and others	-	-
	(iii) Total any other fixed capital	-	-
(d)	Total Capital	1,845,942	1,841,792
2.	SURPLUS:		
(a)	Surplus - Beginning of Year	932,069	577,880
(b)	Add: Income for the year	235,574	245,355
(c)	Less: Dividends paid and payable	-	-
(d)	Add (Deduct) change in unrealized appreciation (depreciation) of investments	105,278	86,879
(e)	Add (Deduct) change in any other surplus	79,892	21,955
(f)	Surplus - End of Year	1,352,813	932,069
3.	MINORITY INTEREST	2,116	2,126
4.	TOTAL CAPITAL AND SURPLUS	3,200,871	2,775,987

The accompanying notes are an integral part of these condensed consolidated financial statements.

ACE INA Overseas Insurance Company Ltd. and its subsidiaries

Notes to Condensed Consolidated General Purpose Financial Statements

Matters to be set forth in General Note to the Financial Statements

December 31, 2020

1. *General*

ACE INA Overseas Insurance Company Ltd. (AIOIC or the Company) is incorporated under the laws of Bermuda as a Class 3A general insurer and a Class D long-term insurer and is a wholly-owned subsidiary of Chubb INA International Holdings, Ltd. (CIIH) which is ultimately wholly-owned by Chubb Limited (Chubb), a company incorporated in Switzerland. The Company was incorporated in May 1995 and commenced business July 1, 1995.

On January 24, 2018, Chubb INA Overseas Insurance Company Ltd. (CIOIC), a wholly owned subsidiary of AIOIC was incorporated under the laws of Bermuda. AIOIC capitalized CIOIC with \$35 million in cash. CIOIC writes property and casualty reinsurance business.

In addition to CIOIC, subsidiaries which are 100 percent owned by AIOIC at December 31, 2020 include the following:

- Chubb Insurance Japan
- Chubb Insurance Singapore Limited

2. *Nature of risks underwritten*

The Company provides property and casualty and accident and health (re)insurance (including through wholly/partially owned insurance companies in Singapore, Canada, Japan and Bermuda).

3. *Accounting standards & policies*

Basis of presentation

The condensed general purpose financial statements, which include the accounts of the Company and its subsidiaries, have been prepared in conformity with the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to Condensed General Purpose Financial Statements (the “Legislation”). The Condensed General Purpose Financial Statements are based upon accounting principles generally accepted in the United States of America (U.S. GAAP) but are in accordance with the reporting requirement of the Legislation, which varies in certain respects from U.S. GAAP. The more significant variances are as follows:

- A statement of cash flows is not included;
- A statement of comprehensive income is not included;
- The presentation and classification of financial statement line items is in accordance with Schedules IX and XI of the Insurance Account Rules 2016 and differ from the expected presentation and classification under U.S. GAAP; and
- The notes included in the condensed general purpose financial statements have been prepared in accordance with Schedule X of the Insurance Account Rules 2016 and exclude certain information required under U.S. GAAP.

The preparation of Condensed General Purpose Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Amounts included in the Condensed Financial Statements reflect the Company’s best estimates and assumptions; actual amounts could differ materially from these estimates. The Company’s principal estimates include:

ACE INA Overseas Insurance Company Ltd. and its subsidiaries

Notes to Condensed Consolidated General Purpose Financial Statements

Matters to be set forth in General Note to the Financial Statements

December 31, 2020

- unpaid loss and loss expense provisions;
- amortization of deferred acquisition costs;
- value of reinsurance business assumed;
- reinsurance recoverable, including a valuation allowance for uncollectible reinsurance
- the assessment of risk transfer for certain reinsurance contracts;
- the valuation of the investment portfolio and assessment of valuation allowance for expected credit losses
- the valuation of deferred tax assets; and
- the assessment of goodwill for impairment.

4. Significant accounting policies

(a) Investments

Bonds and Debentures (including fixed maturities and short-term investments) and equity securities

Bond and debentures are classified as available for sale (AFS) and are reported at fair value with changes in fair value recorded as change in unrealized appreciation (depreciation) of investments in Condensed Consolidated Statement of Capital and Surplus.

Short-term investments comprise securities due to mature within one year of the date of purchase and are recorded at fair value which typically approximates cost.

Equity securities are reported at fair value with changes in fair value recorded in combined realized gains (losses) on the Condensed Consolidated Statement of Income.

Interest, dividend income, amortization of fixed maturity market premiums and discounts related to these securities are recorded in combined investment income, net of investment management and custody fees, in the Condensed Consolidated Statement of Income.

For mortgage-backed securities and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any adjustments required due to the resultant change in effective yields and maturities are recognized prospectively. Prepayment fees or call premiums that are only payable when a security is called prior to its maturity are earned when received and reflected in combined investment income.

Valuation allowance for fixed income securities

Management evaluates expected credit losses (ECL) for AFS securities when fair value is below amortized cost. AFS securities are evaluated for potential credit loss on an individual security level but the evaluation may use assumptions consistent with expectations of credit losses for a group of similar securities. If management has the intent to sell or will be required to sell the security before recovery, the entire impairment loss will be recorded through income to net realized gains and losses. If management does not have the intent to sell or will not be required to sell the security before recovery, an allowance for credit losses is established and is recorded through income to net realized gains and losses, and the non-credit loss portion is recorded through other comprehensive income.

Examples of criteria that are collectively evaluated to determine if a credit loss has occurred include the following:

- The extent to which the fair value is less than amortized cost;
- Adverse conditions related to the security, industry, or geographic area;
- Downgrades in the security's credit rating by a rating agency; and
- Failure of the issuer to make scheduled principal or interest payments

AFS securities that meet any one of the criteria included above will be subject to a discounted cash flow analysis by comparing the present value of expected future cash flows with the amortized cost basis. Projected cash flows are driven primarily by assumptions regarding probability of default and the timing and amount of recoveries associated with defaults. Chubb developed the projected cash flows using market data, issuer-specific information,

ACE INA Overseas Insurance Company Ltd. and its subsidiaries

Notes to Condensed Consolidated General Purpose Financial Statements

Matters to be set forth in General Note to the Financial Statements

December 31, 2020

and credit ratings. In combination with contractual cash flows and the use of historical default and recovery data by Moody's Investors Service (Moody's) rating category we generate expected cash flows using the average cumulative issuer-weighted global default rates by letter rating.

If the present value of expected future cash flows is less than the amortized cost, a credit loss exists and an allowance for credit losses will be recognized. If the present value of expected future cash flows is equal to or greater than the amortized cost basis, management will conclude an expected credit loss does not exist.

Management reviews credit losses and the valuation allowance for expected credit losses each quarter. When all or a portion of a fixed maturity security is identified to be uncollectible and written off, the valuation allowance for expected credit losses is reduced by the same amount. In general, a security is considered uncollectible no later than when all efforts to collect contractual cash flows have been exhausted.

Below are considerations for when a security may be deemed uncollectible:

- We have sufficient information to determine that the issuer of the security is insolvent;
- We receive notice that the issuer of the security has filed for bankruptcy, and the collectability is expected to be adversely impacted by the bankruptcy;
- The issuer of a security has violated multiple debt covenants;
- Amounts have been past due for a specified period of time with no response from the issuer;
- A significant deterioration in the value of the collateral has occurred;
- We have received correspondence from the issuer of the security indicating that it doesn't intend to pay the contractual principal and interest.

We elected to not measure an allowance for accrued investment income as uncollectible balances are written off in a timely manner, typically 30 to 45 days after uncollected balances are due.

Prior to January 1, 2020, fixed income securities were evaluated individually for other-than-temporary impairment (OTTI) and a realized loss was recognized once certain criteria were met.

Investments in affiliates

Investment in affiliates includes an investment in a partially-owned insurance company in which the Company has significant influence and as such, meets the requirements for equity accounting. The Company reports its share of the net income or loss of the partially-owned insurance company in combined other income (deductions). See General Note 17 to the Condensed Financial Statements for additional information.

Derivative instruments

The Company recognizes all derivatives at fair value in the Condensed Consolidated Balance Sheet in sundry assets and liabilities. Changes in fair value are included in combined realized gains (losses) in the Condensed Consolidated Statement of Income. We did not designate any derivatives as accounting hedges during 2020 or 2019. The Company participates in derivative instruments to mitigate financial risks and manage certain investment portfolio risks and exposures, including assets and liabilities held in foreign currencies. We use derivative instruments including futures and options. Refer to General Note 8(a) to the condensed consolidated financial statements for additional information.

(b) Cash

The Company has agreements with a third party bank provider which implemented two international multi-currency notional cash pooling programs. In the program, participating Chubb entities establish deposit accounts in different currencies with the bank provider and each day the credit or debit balances in every account are notionally translated into a single currency (U.S. dollars) and then notionally pooled. The bank extends overdraft credit to any participating Chubb entity as needed, provided that the overall notionally-pooled balance of all accounts in each pool at the end of each day is at least zero. Actual cash balances are not physically converted and are not commingled between legal entities. Any overdraft balances incurred under this program by a Chubb entity would

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be guaranteed by Chubb Limited (up to \$300 million in the aggregate). The Company's syndicated letter of credit facility allows for same day drawings to fund a net pool overdraft should participating Chubb entities overdraw contributed funds from the pool. The Company is a participating Chubb entity.

Restricted cash

Restricted cash represents amounts held for the benefit of third parties and is legally or contractually restricted as to withdrawal or usage. Amounts include deposits with non-U.S. regulatory authorities and trust funds set up for the benefit of ceding companies.

(c) Reinsurance

The Company assumes and cedes reinsurance with other insurance companies to provide greater diversification of business and minimize the net loss potential arising from large risks. Ceded reinsurance contracts do not relieve the Company of its primary obligation to policyholders.

For both ceded and assumed reinsurance, risk transfer requirements must be met in order to account for a contract as reinsurance, principally resulting in the recognition of cash flows under the contract as premiums and losses. To meet risk transfer requirements, a reinsurance contract must include insurance risk, consisting of both underwriting and timing risk, and a reasonable possibility of a significant loss for the assuming entity. To assess risk transfer for certain contracts, the Company generally develops expected discounted cash flow analyses at contract inception. Deposit accounting is used for contracts that do not meet risk transfer requirements. Deposit accounting requires that consideration received or paid be recorded in the balance sheet as opposed to recording premiums written or losses incurred in the statement of income. Non-refundable fees on deposit contracts are earned based on the terms of the contract described below in Note (h).

Reinsurance balances receivable and reinsurance recoverable includes balances due from reinsurance companies for paid and unpaid losses and loss that will be recovered from reinsurers, based on contracts in force. The method for determining the reinsurance recoverable on unpaid losses and loss expenses incurred but not reported (IBNR) involves actuarial estimates consistent with those used to establish the associated liability for unpaid losses and loss expenses as well as a determination of the Company's ability to cede unpaid losses and loss expenses under the terms of the reinsurance agreement.

Reinsurance balances receivable and reinsurance recoverable is presented net of a valuation allowance for uncollectible reinsurance determined based upon a review of the financial condition of the reinsurers and other factors. The valuation allowance for uncollectible reinsurance is based on an estimate of the reinsurance recoverable balance that the Company will ultimately be unable to recover due to reinsurer insolvency, a contractual dispute, or any other reason. The valuation of this allowance includes several judgments including certain aspects of the allocation of reinsurance recoverable on IBNR claims by reinsurer and a default analysis to estimate uncollectible reinsurance. The primary components of the default analysis are reinsurance recoverable balances by reinsurer, net of collateral, and default factors used to determine the portion of a reinsurer's balance deemed uncollectible. The definition of collateral for this purpose requires some judgment and is generally limited to assets held in trust, letters of credit, and liabilities held by the Company with the same legal entity for which it believes there is a contractual right of offset. The determination of the default factor is principally based on the financial strength rating of the reinsurer. Default factors require considerable judgment and are determined using the current financial strength rating, or rating equivalent, of each reinsurer as well as other key considerations and assumptions. Changes in the valuation allowance for uncollectible reinsurance recoverables are recorded in Losses and loss expenses in the Consolidated statement of income. The evaluation of the valuation allowance at December 31, 2019 was consistent with the new accounting guidance adopted January 1, 2020, therefore, there was no material change to the valuation allowance upon adoption. Refer to footnote 4(l). The more significant considerations include, but are not necessarily limited to, the following:

- For reinsurers that maintain a financial strength rating from a major rating agency, and for which recoverable balances are considered representative of the larger population (i.e., default probabilities are consistent with similarly rated reinsurers and payment durations conform to averages), the financial rating is based on a

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published source and the default factor is based on published default statistics of a major rating agency applicable to the reinsurer's particular rating class. When a recoverable is expected to be paid in a brief period of time by a highly rated reinsurer, such as certain property catastrophe claims, a default factor may not be applied;

- For balances recoverable from reinsurers that are both unrated by a major rating agency and for which management is unable to determine a credible rating equivalent based on a parent, affiliate, or peer company, the Company determines a rating equivalent based on an analysis of the reinsurer that considers an assessment of the creditworthiness of the particular entity, industry benchmarks, or other factors as considered appropriate. The Company then applies the applicable default factor for that rating class. For balances recoverable from unrated reinsurers for which the ceded reserve is below a certain threshold, the Company generally applies a default factor of 34 percent, consistent with published statistics of a major rating agency;
- For balances recoverable from reinsurers that are either insolvent or under regulatory supervision, the Company establishes a default factor and resulting provision for uncollectible reinsurance based on reinsurer-specific facts and circumstances. Upon initial notification of insolvency, the Company generally recognizes an expense for a substantial portion of all balances outstanding, net of collateral, through a combination of write-offs of recoverable balances and increases to the provision for uncollectible reinsurance. When regulatory action is taken on a reinsurer, the Company generally recognizes a default factor by estimating an expected recovery on all balances outstanding, net of collateral. When sufficient credible information becomes available, the Company adjusts the provision for uncollectible reinsurance by establishing a default factor pursuant to information received; and
- For other recoverables, management determines the provision for uncollectible reinsurance based on the specific facts and circumstances.

The methods used to determine the reinsurance recoverable balance and related valuation allowance for uncollectible reinsurance are regularly reviewed and updated and any resulting adjustments are reflected in earnings in the period identified.

The methods used to determine the valuation allowance for uncollectible high deductible recoverable amounts are similar to the processes used to determine the provision for uncollectible reinsurance recoverable. For additional information on high deductible policies, refer to section g) Unpaid losses and loss expenses, below.

Ceded unearned premium reserves represent the portion of premiums ceded to reinsurers applicable to the unexpired coverage terms of the reinsurance contracts in force.

The value of reinsurance business assumed represents the excess of estimated ultimate value of the liabilities assumed under retroactive reinsurance contracts over consideration received. The value of reinsurance business assumed is amortized and recorded to losses and loss expenses based on the payment pattern of the losses assumed. The unamortized value is reviewed regularly to determine if it is recoverable based upon the terms of the contract, estimated losses and loss expenses, and anticipated investment income. Unrecoverable amounts are expensed in the period identified.

(d) Deferred policy acquisition costs

Policy acquisition costs consist of commissions (direct and ceded), premium taxes, and certain underwriting costs related directly to the successful acquisition of new or renewal insurance contracts. Policy acquisition costs on property and casualty (P&C) contracts are generally amortized rateably over the period in which premiums are earned. The effect of changes in estimates of expected gross profits is reflected in the period the estimates are revised. Policy acquisition costs are reviewed to determine if they are recoverable from future income, including investment income. Unrecoverable policy acquisition costs are expensed in the period identified.

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Advertising costs are expensed as incurred except for direct-response campaigns that qualify for cost deferral, principally related to Accident and Health (A&H) business, which are deferred and recognized as a component of Policy acquisition costs. For individual direct-response marketing campaigns that the Company can demonstrate have specifically resulted in incremental sales to customers and such sales have probable future economic benefits, incremental costs directly related to the marketing campaigns are capitalized as Deferred policy acquisition costs. Deferred policy acquisition costs, including deferred marketing costs are reviewed regularly for recoverability from future income, including investment income, and amortized in proportion to premium revenue recognized, primarily over a ten-year period, the expected economic future benefit period based upon the same assumptions used in estimating the liability for future policy benefits. The expected future benefit is evaluated periodically based on historical results and adjusted prospectively.

(e) **Funds held by ceding reinsurers**

Funds held consist of premium funds and deposits withheld by ceding insurance companies in accordance with the terms of underlying assumed reinsurance contracts.

(f) **Goodwill and other intangible assets**

Goodwill represents the excess of the cost of acquisitions over the fair value of net assets acquired and is not amortized. Goodwill is assigned at acquisition to the applicable reporting unit of the acquired entities giving rise to the goodwill. Goodwill impairment tests are performed annually or more frequently if circumstances indicate a possible impairment. For goodwill impairment testing, the Company uses a qualitative assessment to determine whether it is more likely than not (i.e., more than a 50 percent probability) that the fair value of a reporting unit is greater than its carrying amount. If the assessment indicates less than a 50 percent probability that fair value exceeds carrying value, the Company quantitatively estimates a reporting unit's fair value.

Indefinite lived intangible assets are not subject to amortization. Finite lived intangible assets are amortized over their useful lives, generally ranging from 1 to 30 years. Intangible assets are regularly reviewed for indicators of impairment. Impairment is recognized if the carrying amount is not recoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and fair value.

(g) **Losses and loss expense provisions**

A liability is established for the estimated unpaid losses and loss expenses under the terms of, and with respect to, the Company's policies and agreements. Similar to premiums that are recognized as revenues over the coverage period of the policy, a liability for unpaid losses and loss expenses is recognized as expense when insured events occur over the coverage period of the policy. The liability includes a provision for both reported claims (case reserves) and incurred but not reported claims (IBNR reserves). IBNR reserve estimates are generally calculated by first projecting the ultimate cost of all losses that have occurred (expected losses), and then subtracting paid losses, case reserves, and loss expenses. The methods of determining such estimates and establishing the resulting liabilities are reviewed regularly and any adjustments are reflected in the statement of income in the period in which they become known. Future developments may result in losses and loss expenses materially greater or less than the recorded amounts.

Our loss reserves are presented net of contractual deductible recoverable amounts due from policyholders. Under the terms of certain high deductible policies which we offer, such as workers' compensation and general liability, our customers are responsible to reimburse us for an agreed-upon dollar amount per claim. In nearly all cases we are required under such policies to pay covered claims first, and then seek reimbursement for amounts within the applicable deductible from our customers. We generally seek to mitigate this risk through collateral agreements.

Prior period development arises from changes to loss estimates recognized in the current year that relate to loss reserves first reported in previous calendar years and excludes the effect of losses from the development of earned premium from previous accident years.

For purposes of analysis and disclosure, management views prior period development to be changes in the nominal value of the loss estimates from period to period, net of premium and profit commission adjustments on loss

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sensitive contracts. Prior period development generally excludes changes in loss estimates that do not arise from the emergence of claims, such as those related to uncollectible reinsurance, unallocated loss adjustment expenses or foreign currency. Accordingly, specific items excluded from prior period development include the following: gains/losses related to foreign currency remeasurement; losses recognized from the early termination or commutation of reinsurance agreements that principally relate to the time value of money; changes in the value of reinsurance business assumed reflected in losses incurred but principally related to the time value of money; and losses that arise from changes in estimates of earned premiums from prior accident years. Except for foreign currency remeasurement, which is included in Combined realized gains (losses), these items are included in current year losses.

(h) **Deposit assets and liabilities**

Contract holder deposit funds represent a liability for investment contracts sold that do not meet the definition of an insurance contract and certain of these contracts are sold with a guaranteed rate of return. The liability equals accumulated policy account values, which consists of the deposit payments plus credited interest, less withdrawals and amounts assessed through end of period. Changes to the amount of the liability are generally reflected through interest expense to reflect the cumulative effect of the period the contract has been in force.

The Company uses deposit accounting for one assumed reinsurance treaty, whereby liabilities are initially recorded at the same amount as assets received. The liabilities recorded for these contracts as of December 31, 2020 and December 31, 2019 totaled \$4.6 million and \$5.1 million, respectively.

Also, the Company provides “Rent-a-Captive” services to various multinational corporations and liabilities relating to this operation totaled \$2.2 million and \$3.6 million as of December 31, 2020 and 2019, respectively.

(i) **Premiums**

Premiums are generally recorded as written upon inception of the policy. For multi-year policies for which premiums written are payable in annual installments, only the current annual premium is included as written at policy inception due to the ability of the insured/reinsured to commute or cancel coverage within the policy term. The remaining annual premiums are recorded as written at each successive anniversary date within the multi-year term.

For property and casualty (P&C) reinsurance products, premiums written are primarily earned on a pro-rata basis over the policy terms to which they relate. Unearned premium reserves represent the portion of premiums written applicable to the unexpired portion of the policies in force. For retrospectively-rated policies, written premiums are adjusted to reflect expected ultimate premiums consistent with changes to incurred losses, or other measures of exposure as stated in the policy, and earned over the policy coverage period.

Reinsurance premiums assumed are based on information provided by ceding companies supplemented by the Company’s own estimates of premium when the Company has not received ceding company reports. Estimates are reviewed and adjustments are recorded in the period in which they are determined. Premiums are earned over the coverage terms of the related reinsurance contracts and range from one to three years.

(j) **Foreign currency remeasurement and translation**

The functional currency for each of our foreign operations is generally the currency of the local operating environment. Transactions in currencies other than the operation’s functional currency are remeasured into the functional currency and the resulting foreign exchange gains and losses are reflected in combined realized gain (losses) in the Condensed Consolidated Statement of Income. Functional currency assets and liabilities are translated into the reporting currency, U.S. dollars, using period end exchange rates and the related translation adjustments are recorded as change in any other surplus in Condensed Statement of Capital and Surplus. Functional statement of operations amounts expressed in functional currencies are translated using average exchange rates.

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(k) **Income taxes**

In accordance with Internal Revenue Code Section 953(d), AIOIC has elected to be treated as a U.S. company for U.S. tax reporting purposes and included in the consolidated U.S. tax return of their ultimate U.S. shareholder-parent, Chubb Group Holdings, Inc. and subsidiaries.

In accordance with a tax sharing agreement with Chubb Group Holdings, Inc., the provision for federal income taxes is computed and paid to Chubb Group Holdings, Inc. as if the U.S. based subsidiaries of Chubb Group Holdings, Inc. were filing separate federal income tax returns. Benefits for foreign tax credits and net operating losses are allocated to the subsidiary producing such benefits. Those benefits are limited however to the extent the amounts could be used to reduce the subsidiary's separate company tax liability computed as if the entity had filed a separate federal income tax return. The foreign-based U.S. consolidated tax filings may include certain income from foreign-based subsidiaries as well as a U.S. tax credit for foreign taxes paid.

Deferred tax assets and liabilities result from temporary differences between the amounts recorded in the condensed consolidated financial statements and the tax basis of our assets and liabilities. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded if it is more likely than not that all, or some portion, of the benefits related to these deferred tax assets will not be realized. The valuation allowance assessment considers tax planning strategies, where appropriate.

The Company recognizes uncertain tax positions deemed more likely than not of being sustained upon examination. Recognized income tax positions are measured at the largest amount that is greater than 50 percent likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

(l) **New accounting pronouncements**

Adopted in 2020

Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments

Effective January 1, 2020, we adopted, on a modified retrospective basis, new guidance on the accounting for credit losses of financial instruments that are measured at amortized cost, including held to maturity securities, reinsurance recoverables, and high deductible receivables, by applying an approach based on the current expected credit losses (CECL). The estimate of expected credit losses considers historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments. In addition, the guidance also amended the current available for sale (AFS) debt security other-than-temporary impairment model by requiring an estimate of the expected credit loss (ECL) only when the fair value is below the amortized cost of the asset. The length of time the fair value of an AFS security has been below the amortized cost no longer impacts the determination of whether a potential credit loss exists. The AFS security model also requires the use of a valuation allowance as compared to the current practice of writing down the asset. During the first quarter of 2020, we established a valuation allowance for credit losses and there is no cumulative effect adjustment on the beginning retained earnings.

Adopted in 2021

Income Taxes - Simplifying the Accounting for Income Taxes

Effective January 1, 2021, we adopted ASU 2019-12 which is intended to simplify the accounting for income taxes by removing several exceptions contained in existing guidance and amending other guidance. The adoption of the new guidance did not have a material effect on our results of operations or financial condition.

Accounting guidance not yet adopted

Effects of Reference Rate Reform on Financial Reporting

In March 2020, the FASB issued guidance which provides optional expedients and exceptions for applying GAAP to investments, derivatives, or other transactions that reference the London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued because of reference rate reform. Along with the optional

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expedients, the amendments include a general principle that permits an entity to consider contract modifications due to reference reform to be an event that does not require contract re-measurement at the modification date or reassessment of a previous accounting determination. Additionally, a company may make a one-time election to sell, transfer, or both sell and transfer debt securities classified as held to maturity that reference a rate affected by reference rate reform and that were classified as held to maturity before January 1, 2020. This standard may be elected over time through December 31, 2022 as reference rate reform activities occur. Our exposure to LIBOR is limited and, accordingly, we do not expect reference rate reform to have a material impact on our consolidated financial statements.

5. *Revenue Recognition*

For revenue recognition of premium, investment and commission income, see Note 4(a), (c) and (i) in the general note to the condensed consolidated financial statements.

6. *Foreign Currency Transactions*

For foreign currency remeasurements and translations, see Note 4(j) in the general note to the condensed consolidated financial statements. Transaction gains and losses resulting from foreign currency transactions are recorded in combined realized gains (losses). There were \$(24.1) million and \$(8.6) million of foreign exchange gains (losses) during the year of 2020 and 2019, respectively.

7. *Foreign Exchange Control Restrictions*

Not applicable

8. *Commitments, Contingencies, and Guarantees*

(a) **Derivative Instruments**

The Company recognizes all derivatives at fair value in the Condensed Consolidated Balances Sheet with changes in fair value recorded as realized gains or losses in the Condensed Consolidated Statement of Income. The Company employs derivative instruments to mitigate financial risks, principally arising from investment holdings.

We did not designate any derivatives as accounting hedges during 2020 or 2019.

Included in sundry assets are futures and options contracts valued at \$3.1 million and \$3.7 million at December 31, 2020 and 2019, respectively. Sundry liabilities included futures contracts valued at \$0.7 million and \$0.5 million at December 31, 2020 and December 31, 2019, respectively. These instruments are subject to a master netting agreement. The Company realized gains (losses) on derivative instruments in the 2020 and 2019 Condensed Consolidated Statement of Income of \$(18.4) million and \$(6.1) million, respectively.

Derivative instrument objectives

Futures

Futures contracts give the holder the right and obligation to participate in market movements, determined by the index or underlying security on which the futures contract is based. Settlement is made daily in cash by an amount equal to the change in value of the futures contract times a multiplier that scales the size of the contract. Exchange-traded bond and note futures contracts are used in fixed maturity portfolios to more efficiently manage duration, as substitutes for ownership of the money market instruments, bonds and notes without significantly increasing the risk in the portfolio. Investments in futures contracts may be made only to the extent that there are assets under management not otherwise committed.

Options

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An option contract conveys to the holder the right, but not the obligation, to purchase or sell a specified amount or value of an underlying security at a fixed price. Option contracts are used in the investment portfolio as protection against unexpected shifts in interest rates, which would affect the duration of the fixed maturity portfolio. By using options in the portfolio, the overall interest rate sensitivity of the portfolio can be reduced. Option contracts may also be used as an alternative to futures contracts in the synthetic strategy as described above.

The price of an option is influenced by the underlying security, expected volatility, time to expiration, and supply and demand.

(b) Concentrations of credit risk

In accordance with industry practice, we generally pay amounts owed on claims to brokers who, in turn, remit these amounts to the insured or ceding insurer. Although the law is unsettled and depends upon the facts and circumstances of the particular case, in some jurisdictions, if a broker fails to make such a payment, we might remain liable to the insured or ceding insurer for the deficiency. Conversely, in certain jurisdictions, if the brokers do not remit premiums paid for these policies over to us, these premiums might be considered to have been paid and the insured or ceding insurer will no longer be liable to us for those amounts, whether or not we have actually received the premiums from the broker. Consequently, we assume a degree of credit risk associated with brokers with whom we transact business. However, due to the unsettled and fact-specific nature of the law, we are unable to quantify our exposure to this risk. To date, we have not experienced any material losses related to these credit risks.

Under the terms of certain high-deductible policies which we offer, such as workers' compensation and general liability, our customers are responsible to reimburse us for an agreed-upon dollar amount per claim. In nearly all cases we are required under such policies to pay covered claims first, and then seek reimbursement for amounts within the applicable deductible from our customers. This obligation subjects us to credit risk from these customers. While we generally seek to mitigate this risk through collateral agreements and maintain a provision for uncollectible accounts associated with this credit exposure, an increased inability of customers to reimburse us in this context could have an adverse effect on our financial condition and results of operations. In addition, a lack of credit available to our customers could impact our ability to collateralize this risk to our satisfaction, which in turn, could reduce the amount of high-deductible policies we could offer.

(c) Legal proceedings

The Company may be subject to arbitration proceedings involving disputed interpretations of treaty coverage. These arbitration proceedings, involving disputed interpretations of treaty coverage and/or claims on policies issued by ceding companies, are typical to the reinsurance industry in general and in the normal course of business and are considered in the Company's loss and loss expense reserves. In addition to arbitration proceedings, the Company may be subject to lawsuits and regulatory actions in the normal course of business that do not arise from or directly relate to claims on assumed reinsurance treaties. This category of business litigation could involve, amongst other things, allegations of underwriting errors or misconduct, employment claims, regulatory activity or disputes arising from business ventures. In the opinion of the Company's management, the ultimate liability for these matters could be, but we believe is not likely to be, material to the Company's consolidated financial condition and results of operations.

(d) Letters of Credit

Chubb and its participating subsidiaries (including the Company) have access to credit facility that provides for up to \$4.0 billion of availability with a sub-limit of \$1.9 billion for revolving credit. The Company's existing facility has a remaining term expiring in October 2022. At December 31, 2020, outstanding LOC's issued under this facility were \$578 million.

(e) Lease commitments

At December 31, 2020 and 2019, the right-of-use asset and lease liability were \$16.2 million and \$27.9 million recorded within sundry assets and sundry liabilities on the condensed consolidated balance sheet, respectively.

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These leases consist principally of real estate operating leases that are amortized on a straight-line basis over the term of the lease, which expire at various dates.

9. Default

Not applicable

10. Dividends on Preferred Shares

Not applicable

11. Loans

Not applicable

12. Retirement obligation

AIOIC provides pension benefits to employees through defined contribution plans. Under these plans, employees' contributions may be supplemented by company matching contributions based on the level of employee contribution. These contributions are invested at the election of each employee in one or more of several investment portfolios offered by a third-party investment advisor. Also, the Company maintains non-contributory defined benefit plans that cover certain employees. There are no material obligations in respect of these plans.

13. Fair Value Measurements

Effective January 1, 2020, we adopted new accounting guidance that requires a valuation allowance for credit losses to be established for fixed maturity securities classified as held to maturity (HTM) or available for sale (AFS). The following table presents, by valuation hierarchy, the financial instruments measured at fair value on a recurring basis:

December 31, 2020	Quoted Prices in Active Markets for Identical Assets or Liabilities Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
	(in thousands of U.S. dollars)			
Assets:				
<u>Fixed maturities available for sale</u>				
U.S. Treasury and agency	\$ 139,831	\$ 25,545	\$ -	\$ 165,376
Foreign	-	1,667,618	-	1,667,618
Corporate securities	-	732,802	5,549	738,351
Mortgage-backed securities	-	611,679	-	611,679
States, municipalities and political subdivisions	-	3,910	-	3,910
Equity securities	9,391	-	878	10,269
Short-term investments	71,975	17,861	-	89,836
Total investments at fair value	\$ 221,197	\$ 3,059,415	\$ 6,427	\$ 3,287,039

December 31, 2019	Quoted Prices in Active Markets for Identical Assets or Liabilities Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
	(in thousands of U.S. dollars)			
Assets:				
<u>Fixed maturities available for sale</u>				
U.S. Treasury and agency	\$ 216,447	\$ 23,540	\$ -	\$ 239,987

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Foreign	-	1,429,995	12,011	1,442,006
Corporate securities	-	458,378	6,941	465,319
Mortgage-backed securities	-	584,411	-	584,411
States, municipalities and political subdivisions	-	3,570	-	3,570
Equity securities	8,452	-	843	9,295
Short-term investments	140,980	41,344	-	182,324
Total investments at fair value	\$ 365,879	\$ 2,541,238	\$ 19,795	\$ 2,926,912

14. Contractual Maturity

The following table presents bonds and debentures by contractual maturity at December 31, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
	<u>Fair Value</u>	<u>Fair Value</u>
	(in thousands of U.S. Dollars)	
<u>Available for sale; maturity period</u>		
Due in 1 year or less	\$ 491,387	\$ 492,427
Due after 1 year through 5 years	1,073,314	1,201,673
Due after 5 years through 10 years	542,909	359,809
Due after 10 years	557,481	279,297
	<u>2,665,091</u>	<u>2,333,206</u>
Mortgage-backed securities	611,679	584,411
	<u>\$ 3,276,770</u>	<u>\$ 2,917,617</u>

Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

15. Related Party Transactions

The Company assumes and cedes premiums and losses and loss expenses under various quota share agreements relating to multinational business which is written by various affiliates. Balances are interest free and repayable on demand. Significant statement of income amounts and balance sheet account balances for and at the years ended December 31, 2020 and 2019 that have been affected by these intercompany reinsurance agreements are as follows:

(in thousands of U.S. dollars)	<u>2020</u>	<u>2019</u>
Assets:		
Accounts and premiums receivable	\$ 134,597	\$ 122,958
Ceded unearned premium reserves	243,180	245,330
Reinsurance balances receivable and reinsurance recoverable on loss and loss expense	493,001	521,280
Value of reinsurance business assumed	57,200	67,705
Liabilities:		

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Loss and loss expense provisions	\$ 2,817,533	\$ 2,504,998
Unearned premiums	618,854	605,115
Reinsurance balances payable	56,167	75,984

Statement of Income:

Gross premiums written	2,030,875	2,080,278
Reinsurance premiums ceded	(717,874)	(723,417)
Net premiums earned	1,307,164	1,322,475
Losses and loss expenses	701,101	544,263
Policy acquisition costs	160,769	117,174

There are amounts due from related parties of \$169.7 million and \$149.9 million and due to related parties of \$47.7 million and \$112.9 million as of December 31, 2020 and 2019, respectively.

16. Subsequent events

The Company has performed an evaluation of subsequent events through April 30, 2021, which is the date that the financial statements were issued. No significant subsequent events were identified.

17. Other Information

Included in regulated insurance financial operating entities on the Condensed Consolidated Balance Sheet is the Company's 31.5 percent investment in Chubb Canada Holding Inc. (Chubb Canada). Our investment in Chubb Canada is accounted for using the equity method.

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Matters to be set forth in the Notes to the Condensed Consolidated Statement of Capital and Surplus
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1. (a) Capital Stock

Common Shares

Authorized : 10,000 shares of \$500 par value

Issued and fully paid : 10,000 shares

Preferred Shares

Authorized : 10 shares of \$1,000 par value

Issued and fully paid : 1 share

(b) Contributed Surplus

There were no material movements during the year ended December 31, 2020 and 2019.

2. Dividends paid and Payable

No dividends were declared during the year ended December 31, 2020 and 2019.

ACE INA Overseas Insurance Company Ltd. and its subsidiaries

Notes to Condensed Consolidated General Purpose Financial Statements

Matters to be set forth in the Notes to the Condensed Consolidated Balance Sheet

December 31, 2020

1. *Cash and Cash equivalents*

At December 31, 2020 and 2019, there was cash of \$0.2 million and \$0.5 million that was restricted, respectively. Refer to General Note 4(b) to the Condensed Consolidated Financial Statements for additional information.

2. *Quoted Investments*

Refer to General Note 4(a) to the Condensed Consolidated Financial Statements for method of valuation. At December 31, 2020 and 2019, there were fixed maturities of \$1.9 billion and \$1.7 billion included that were restricted.

3. *Unquoted Investments*

Refer to General Note 4(a) to the Condensed Consolidated Financial Statements for method of valuation. At December 31, 2020 and 2019, there were fixed maturities of \$6.4 million and \$7.8 million included that were restricted.

4. *Investment in and advances to affiliates*

Refer to General Note 1, Note4(a), and Note 17 to the Condensed Consolidated Financial Statements.

5. *Investments in Mortgage loans on Real Estates*

Not applicable

6. *Policy Loans*

Not applicable

7. *Real Estate*

Not applicable

8. *Collateral Loans*

Not applicable

9. *Investment Income due and Accrued*

At December 31, 2020 and 2019, there was \$16.0 million and \$14.3 million of accrued investment income included in the Condensed Consolidated Balance Sheets.

10. *Accounts and Premiums Receivable*

At December 31, 2020 and 2019, there was \$134.6 million and \$122.9 million of accounts and premiums receivable with affiliates included in the Condensed Consolidated Balance Sheets.

ACE INA Overseas Insurance Company Ltd. and its subsidiaries

Notes to Condensed Consolidated General Purpose Financial Statements

Matters to be set forth in the Notes to the Condensed Consolidated Balance Sheet

December 31, 2020

11. Reinsurance Balances Receivable

There was \$85.1 million and \$88.6 million of reinsurance balance receivable, and \$32.1 million and \$35.8 million inward collateral At December 31, 2020 and 2019, respectively. Included in inward collateral are trust funds and letters of credit.

12. Funds Held by Ceding Reinsurers

At December 31, 2020 and 2019, there was \$198.5 million and \$225.6 million of funds held by affiliates included in the Condensed Consolidated Balance Sheets.

13. Sundry Assets

(a) Nature

The following table presents the components of the sundry assets at December 31, 2020 and 2019.

(in thousands of U.S. dollars)	<u>2020</u>	<u>2019</u>
Deferred acquisition costs	\$ 566,981	\$ 471,253
Goodwill	247,695	237,705
Other intangible assets	78,447	82,802
Value of reinsurance business assumed	57,200	67,705
Right-of-use assets	16,200	27,986
Derivative instruments	3,063	3,652
Others	57,186	39,488
	<u>\$ 1,026,772</u>	<u>\$ 930,591</u>

Refer to General Note 4(c), (d) and (f) to Condensed Financial Statements for additional information on the deferred acquisition costs, goodwill and other intangible assets, and value of reinsurance business assumed.

Also included in sundry assets are receivables for proceeds in respect of the sale of certain quoted investments (net receivables for investments sold) and other assets including deposits and other insignificant assets.

(b) Derivative Instruments

Refer to General Note 8(a) to the Condensed Consolidated Financial Statements.

14. Letters of Credit, Guarantees and other

Not applicable

16. Unearned Premium Reserve

Refer to General Note 4(i) to the Condensed Financial Statements.

ACE INA Overseas Insurance Company Ltd. and its subsidiaries

Notes to Condensed Consolidated General Purpose Financial Statements

Matters to be set forth in the Notes to the Condensed Consolidated Balance Sheet

December 31, 2020

17. Loss and loss Expense Provisions

The following table presents a reconciliation of unpaid losses and loss expense provisions for the years ended December 31, 2020 and 2019.

(in thousands of U.S. dollars)	<u>2020</u>	<u>2019</u>
Gross losses and loss expense provisions at beginning of year	\$ 3,061,077	\$ 3,097,112
Reinsurance recoverable on unpaid losses ⁽¹⁾	<u>(1,465,872)</u>	<u>(1,408,976)</u>
Net losses and loss expense provisions at beginning of year	<u>1,595,205</u>	<u>1,688,136</u>
Net losses and loss expenses incurred in respect of losses occurring in:		
Current year	584,370	544,410
Prior years	<u>(53,917)</u>	<u>(76,847)</u>
Total	<u>530,453</u>	<u>467,563</u>
Net losses and loss expenses paid in respect of losses occurring in:		
Current year	205,545	214,852
Prior years	<u>291,618</u>	<u>344,471</u>
Total	<u>497,163</u>	<u>559,323</u>
Foreign currency revaluation and Other	41,958	(1,171)
Net losses and loss expense provisions at end of year	1,670,453	1,595,205
Reinsurance recoverable on unpaid losses ⁽¹⁾	<u>1,705,645</u>	<u>1,465,872</u>
Gross losses and loss expense provisions at end of year	<u>\$ 3,376,098</u>	<u>\$ 3,061,077</u>

(1) Net of provision for uncollectible reinsurance.

Net losses and loss expenses incurred includes \$53.9 million and \$76.8 million of net favorable prior period development in the years ended December 31, 2020 and 2019, respectively. In 2020 and 2019, favorable prior period development was driven mainly by favorable experience in the Company's casualty lines. No additional premiums or return premiums were accrued as a result of prior period development in 2020 and 2019.

The Company is required to maintain assets on deposit with various regulatory authorities to support its reinsurance operations. These requirements are generally promulgated in the statutory regulations of the individual jurisdictions. The assets on deposit are available to settle reinsurance liabilities. The Company also utilizes trust funds in certain transactions where the trust funds are set up for the benefit of the ceding companies and generally take the place of letter of credit requirements. See Note 1 and 2 to the Condensed Consolidated Balance Sheet for additional information. The following table presents the components of the restricted assets at December 31, 2020 and 2019.

(in thousands of U.S. dollars)	<u>2020</u>	<u>2019</u>
Deposits with non-U.S. regulatory authorities	\$ 37,163	\$ 12,299
Trust funds	<u>1,888,495</u>	<u>1,697,038</u>
	<u>\$ 1,925,658</u>	<u>\$ 1,709,337</u>

There were \$635.4 million and \$533.9 million of inward collateral at December 31, 2020 and 2019, respectively. Included in inward collateral are trust funds and letters of credit.

ACE INA Overseas Insurance Company Ltd. and its subsidiaries

Notes to Condensed Consolidated General Purpose Financial Statements

Matters to be set forth in the Notes to the Condensed Consolidated Balance Sheet

December 31, 2020

20. Reserves for Reported Claims

Not applicable.

21. Reserves for Unreported Claims

Not applicable.

22. Policy Reserves - Life

Not applicable.

23. Policy Reserves for Accident and Health

Not applicable

24. Policyholders' funds on deposit

Not applicable

25. Liability for Future Policyholders' dividends

Not applicable

26. Other Insurance Reserves – Long term

Not applicable

27. Total Long-term Business Insurance Reserves

Not applicable

28. Insurance and Reinsurance Balance Payable

At December 31, 2020 and 2019, there were \$56.2 million and \$76.0 million of insurance and reinsurance balance payable with affiliates included in the Condensed Consolidated Balance Sheets.

29. Commissions, expenses, fees and taxes payable

Not applicable

30. Loans and Notes Payable

Not applicable

ACE INA Overseas Insurance Company Ltd. and its subsidiaries

Notes to Condensed Consolidated General Purpose Financial Statements

Matters to be set forth in the Notes to the Condensed Consolidated Balance Sheet

December 31, 2020

31. Income Taxes

(a) Income Taxes Payable

At December 31, 2020 and 2019, the current taxes payable (receivable) recorded in the Condensed Consolidated Balance Sheets were \$(3.0) million and \$(0.9) million, respectively.

(b) Deferred Income Taxes

The following table presents the components of the net deferred tax assets/liabilities.

(in thousands of U.S. dollars)	<u>2020</u>	<u>2019</u>
Deferred Tax Assets:		
Unearned Premium Reserve	\$ 8,688	\$ 8,066
Foreign Exchange	29,877	43,693
Loss Reserve Discount	11,120	11,358
Lease Liability	4,228	6,225
Other	837	3,455
Total deferred tax assets	<u>\$ 54,750</u>	<u>\$ 72,797</u>
Deferred Tax Liabilities:		
Deferred Policy Acquisition Costs	102,498	82,911
Foreign Local Deferreds	14,487	19,389
Unrealized Appreciation on Investments	36,388	14,939
Right of Use Assets	4,228	6,225
Other	2,868	56
Total deferred tax liabilities	<u>\$ 160,469</u>	<u>\$ 123,520</u>
Net Deferred Income Tax Liability	<u>\$ 105,719</u>	<u>\$ 50,723</u>

32. Amounts due to Affiliates

The amount due to affiliate is interest free and payable on demand.

33. Accounts Payable and Accrued Liabilities

At December 31, 2020 and 2019, there were \$105.3 million and \$104.7 million of accounts payable and accrued liabilities included in the Condensed Consolidated Balance Sheets.

34. Funds Held under Reinsurance Contracts

At December 31, 2020 and 2019, there were \$18.3 million and \$20.0 million of funds held under reinsurance contracts with affiliates included in the Condensed Consolidated Balance Sheets.

35. Dividends Payable

Not applicable.

ACE INA Overseas Insurance Company Ltd. and its subsidiaries

Notes to Condensed Consolidated General Purpose Financial Statements

Matters to be set forth in the Notes to the Condensed Consolidated Balance Sheet

December 31, 2020

36. *Sundry Liabilities*

The following table presents the components of the sundry liabilities at December 31, 2020 and 2019.

(in thousands of U.S. dollars)	<u>2020</u>	<u>2019</u>
Contract Holder Deposit Funds	\$ 143,848	\$ 108,591
Lease liability	16,200	27,985
Net payable for investments purchased	187	949
Derivative instruments	<u>668</u>	<u>448</u>
	\$ <u>160,903</u>	\$ <u>137,973</u>

Refer to General Note 4(h) and Note 8(a) to the Condensed Consolidated Financial Statements for additional information.

37. *Letters of Credit, Guarantees and other instruments*

Not applicable

ACE INA Overseas Insurance Company Ltd. and its subsidiaries

Notes to Condensed Consolidated General Purpose Financial Statements

Matters to be set forth in the Notes to the Condensed Consolidated Statement of Income

December 31, 2020

6. *Other Insurance Income*

Not applicable

15. *Other Insurance Income*

Not applicable

32. *Combined Other Income (Deductions)*

Other income includes policy fees earned in relations with Multinational programs and income from investment in affiliates during the year.

36. *Combined Realized Gains (Loss)*

Realized gains (losses) include foreign exchange losses, capital gains, other-than-temporary-impairment losses, and losses from derivative instruments during the year.