AMERICAN INTERNATIONAL GROUP INC
Form 10-K
February 23, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934	
For the fiscal year ended December 31, 2016	**Commission file number 1-8787**

American International Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**13-2592361**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
175 Water Street, New York, New York	**10038**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code(212) 770-7000

Securities registered pursuant to Section 12(b) of the Act: See Exhibit 99.02

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
		(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and nonvoting common equity held by nonaffiliates of the registrant (based on the closing price of the registrant's most recently completed second fiscal quarter) was approximately $57,263,000,000.

As of February 13, 2017, there were outstanding 979,560,020 shares of Common Stock, $2.50 par value per share, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Document of the Registrant	**Form 10-K Reference Locations**
Form 10-K/A to be filed no later than 120 days after the end of the fiscal year	Part II, Item 5 and Part III, Items 10, 11, 12, 13 and 14

AMERICAN INTERNATIONAL GROUP, INC.
ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2016

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Part I

ITEM 1 | Business

American International Group, Inc. (AIG)

is a leading global insurance organization. Founded in 1919, today we provide a wide range of property casualty insurance, life insurance, retirement products, and other financial services to commercial and individual customers in more than 80 countries and jurisdictions.

Our diverse offerings include products and services that help businesses and individuals protect their assets, manage risks and provide for retirement security. AIG common stock is listed on the New York Stock Exchange and the Tokyo Stock Exchange.

On January 26, 2016, we announced several actions designed to create a leaner, more profitable and focused insurer. In this Annual Report on Form 10-K (Annual Report), we are presenting our businesses consistent with the organizational aspects of that announcement. To carry out these actions, we intend to capitalize on our industry-leading capabilities while we continue to strive to create shareholder value. We believe that these actions will allow us to leverage our key strengths and focus on our 2017 priorities as we strive to be our clients' most valued insurer.

In this Annual Report, unless otherwise mentioned or unless the context indicates otherwise, we use the terms "AIG," the "Company," "we," "us" and "our" to refer to American International Group, Inc., a Delaware corporation, and its consolidated subsidiaries. We use the term "AIG Parent" to refer solely to American International Group, Inc., and not to any of its consolidated subsidiaries.

AIG's Industry Leadership

World Class Insurance Franchises

that are among the leaders in their categories, focus on improving their operating performance as we strive to be our clients' most valued insurer.

Balance Sheet Quality and Strength

as demonstrated by over $76 billion in shareholders' equity and AIG Parent liquidity sources of $12.9 billion as of December 31, 2016.

Effective Capital Management

of the largest shareholders' equity of any insurance company in the world[a], supported by enhanced risk management.

Breadth of Customers

We serve over 87 percent of companies included in the Fortune Global 500[b] and 83 percent of the Forbes 2000[b].

A Diverse Mix of Businesses

with a presence in most international markets.

(a) At June 30, 2016, the latest date for which information was available for certain foreign insurance companies.

(b) At November 1, 2016.

AIG's Value Creation

AIG Priorities for 2017

Our primary focus is growth in intrinsic value. The following priorities for 2017 will help us to achieve AIG's value creation goals.

- Improving our return on equity (ROE)
- Providing innovative solutions to most efficiently meet our clients' needs
- Continuing to reduce general operating expenses
- Improving profitability of Commercial Insurance through underwriting actions and accident year loss ratio improvements

AIG's Execution: Accomplishments for 2015 and 2016

* Non-GAAP measure – see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) for reconciliation of Non-GAAP to GAAP measure.

OUR MODULAR MANAGEMENT FRAMEWORK

AIG's new operating model

Modules are designed to enhance transparency and accountability, which we anticipate will drive operating improvement and flexibility over time.

In the fourth quarter of 2016, we completed the reorganization of our financial results into business "modules" to enhance transparency and accountability. Additionally, we now report a Legacy Portfolio that aims to maximize shareholder value and better highlight progress on improving the ROE of our Core business. We believe that these actions will allow us to enhance efficiency and profitability and focus on our 2017 priorities by leveraging key strengths, as we strive to be our clients' most valued insurer.

Our Core businesses include Commercial Insurance and Consumer Insurance, as well as Other Operations. Commercial Insurance includes two modules – Liability and Financial Lines and Property and Special Risks. Consumer Insurance is comprised of four modules – Individual Retirement, Group Retirement, Life Insurance and Personal Insurance. As we continue to focus on operating improvement, we are exiting certain lines of business and market regions that we consider non-core and unprofitable while still maintaining a global presence for our Core businesses. The Legacy Portfolio consists of our run-off insurance lines and legacy investments.

Our multinational capabilities provide a diverse mix of businesses through our global offices and branches in more than 80 countries and jurisdictions. Accordingly, we also review and assess the performance of our Core business through the broad locations of our insurance operations across three key geographic modules: the United States, Europe, and Japan. Our disclosure of geography is based on the significant legal entity insurance companies (including branches) operating in those geographic areas. The other geography includes AIG Parent, United Guaranty, Fuji Life, our insurance operations in remaining geographies around the globe and certain legal entities not deemed significant in the key geographic areas. Geography disclosures exclude our Legacy Portfolio.

We have modified the presentation of our business segment results to reflect our new operating structure and prior periods' presentation has been revised to conform to the new structure.

See Item 7. MD&A and Note 3 to the Consolidated Financial Statements for further discussion on our business segments.

Business Modules

Commercial Insurance

Commercial Insurance is a leading provider of insurance products and services for commercial customers. It includes one of the world's most far-reaching property casualty networks. Commercial Insurance offers a broad range of products to customers through a diversified, multichannel distribution network. Customers value Commercial Insurance's strong capital position, extensive risk management and claims experience, and its ability to be a market leader in critical lines of the insurance business.

Consumer Insurance

Consumer Insurance is a unique franchise that brings together a broad portfolio of retirement, life insurance and personal insurance products offered through multiple distribution networks. It holds long-standing, leading market positions in many of its U.S. product lines, and its global footprint provides the opportunity to leverage its multinational servicing capabilities and pursue select opportunities in attractive markets. With its strong capital position, customer-focused service, innovative product development capabilities and deep distribution relationships across multiple channels, Consumer Insurance is well positioned to provide clients with valuable solutions, delivered through the channels they prefer.

Other Operations

Other Operations consists of businesses and items not attributed to our Commercial and Consumer modules or our Legacy Portfolio. It includes AIG Parent, Institutional Markets, United Guaranty Residential Insurance Company (United Guaranty), AIG Fuji Life Insurance Company, Ltd. (Fuji Life), deferred tax assets related to tax attributes and intercompany eliminations.

Legacy Portfolio

Legacy Portfolio includes Legacy Property and Casualty Run-Off Insurance Lines, Legacy Life Insurance Run-Off Lines and Legacy Investments.

Geography Modules

United States

includes the following major property and casualty and life insurance companies: National Union Fire Insurance Company of Pittsburgh, Pa. (National Union), American Home Assurance Company (American Home U.S.), Lexington Insurance Company (Lexington), American General Life Insurance Company (American General), The Variable Annuity Life Insurance Company (VALIC), and the United States Life Insurance Company in the City of New York (U.S. Life).

Europe

includes AIG Europe Limited and its branches, which are property and casualty companies.

Japan

includes the following major property and casualty insurance companies: Fuji Fire and Marine Insurance Company (Fuji Fire), AIUI Japan, and American Home Assurance Company, Ltd. (American Home Japan).

(a) Represents Operating revenues excluding revenues from our Legacy Portfolio operations of $5.3 billion. See Note 3 to the Consolidated Financial Statements for reconciliation of Operating revenues to total revenues.

(b) Other includes AIG Insurance Company of Canada, American International Reinsurance Company, Ltd., AIG Asia Pacific Insurance, Pte, Ltd., Fuji Life, United Guaranty, various non-insurance subsidiaries and AIG Parent.

Geographic Concentration

In 2016, 6.3 percent and 5.2 percent of our property casualty direct premiums were written in the states of California and New York, respectively, and 16.0 percent and 7.3 percent were written in Japan and the United Kingdom, respectively. No other state or foreign jurisdiction accounted for more than five percent of our property casualty direct premiums.

Diversified Mix of Businesses

(dollars in millions)

*   Represents Operating revenues excluding revenues from our Legacy Portfolio operations of $5.3 billion. See Note 3 to the Consolidated Financial Statements for reconciliation of Operating revenues to total revenues.

How We Generate Revenues and Profitability

We earn revenues primarily from insurance premiums, policy fees and income from investments.

Our expenses consist of policyholder benefits and losses incurred, interest credited to policyholders, commissions and other costs of selling and servicing our products, interest expense and general operating expenses.

Our profitability is dependent on our ability to properly price and manage risk on insurance and annuity products, to manage our portfolio of investments effectively and to control costs through expense discipline.

Investment Activities of Our Insurance Operations

Our insurance companies generally receive premiums and deposits well in advance of paying covered claims or benefits. In the intervening periods, we invest these premiums and deposits to generate net investment income that, along with the invested funds, is available to pay claims or benefits. As a result, we generate significant revenues from insurance investment activities.

Our worldwide insurance investment policy places primary emphasis on investments in corporate bonds, municipal bonds and government bonds in all of our portfolios, and, to a lesser extent, investments in high yield bonds, common stock, real estate, hedge funds and other alternative investments. Our fundamental strategy across all of our investment portfolios is to optimize the duration characteristics of the assets within a target range based on comparable liability characteristics, to the extent practicable.

See Item 7. MD&A — Investments for additional discussion of investment strategies.

Loss Reserve Development Process

The liability for unpaid losses and loss adjustment expenses (loss reserves) represents the accumulation of estimates for unpaid claims, including estimates for claims incurred but not reported (IBNR) for our property and casualty insurance companies, including the related expenses of settling those losses.

The process of establishing loss reserves is complex and imprecise because it must take into consideration many variables that are subject to the outcome of future events. As a result, informed subjective estimates and judgments about our ultimate exposure to losses are an integral component of our loss reserving process. Because reserve estimates are subject to the outcome of future events, changes in prior year estimates are unavoidable in the insurance industry. These changes are sometimes referred to as “prior year loss development” or “reserve development.”

See Item 7. MD&A — Critical Accounting Estimates — Insurance Liabilities — Loss Reserves, Item 7. MD&A — Insurance Reserves — Loss Reserves, and Note 13 to the Consolidated Financial Statements for further discussion on loss reserves and of prior year loss development.

Our Employees

At AIG, we believe that a major strength of ours is the quality and dedication of our people. At December 31, 2016 and 2015, we had approximately 56,400 and 66,400 employees, respectively. We believe that our relations with our employees are satisfactory.

Regulation

Our operations around the world are subject to regulation by many different types of regulatory authorities, including insurance, securities, derivatives, investment advisory and thrift regulators in the United States and abroad.

Our insurance subsidiaries are subject to regulation and supervision by the states and jurisdictions in which they do business. The insurance and financial services industries generally have been subject to heightened regulatory scrutiny and supervision in recent years.

The following summary provides a general overview of our primary regulators and related bodies and a description of their oversight with respect to us and our subsidiaries, including key regulations or initiatives that we are currently, or may in the future be, subject to. Such regulations and initiatives, both in the United States and abroad, are discussed in more detail following the summary.

U.S. FEDERAL REGULATION

Board of Governors of the Federal Reserve System (FRB): Oversees and regulates financial institutions, including nonbank systemically important financial institutions (nonbank SIFIs). We are currently subject to the FRB's examination, supervision and enforcement authority, and certain reporting requirements, as a nonbank SIFI.

Office of the Comptroller of the Currency (OCC): Charters, regulates and supervises all national banks and federal savings associations. The OCC supervises and regulates AIG Federal Savings Bank, our trust-only federal thrift subsidiary.

Securities and Exchange Commission (SEC): Oversees and regulates the U.S. securities and security-based swap markets, U.S. mutual funds, U.S. broker-dealers and U.S. investment advisors. Principal regulator of the mutual funds offered by our broker-dealer subsidiaries. The SEC is in the process of implementing rules and regulations governing reporting, clearing, execution and margin requirements for security-based swaps entered into within the U.S or by U.S. persons. Our security-based swap activities are likely to be subject to certain of these rules and regulations.

Commodities Futures Trading Commission (CFTC): Oversees and regulates the U.S. swap, commodities and futures markets. The CFTC has implemented and is continuing to implement rules and regulations governing reporting, clearing, execution, margin and other requirements for swaps entered into within the U.S. or involving U.S. persons. Our swap activities are subject to certain of these rules and regulations.

Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank): Dodd-Frank has effected comprehensive changes to financial services regulation and subjects us, or may subject us, as applicable, to additional federal regulation, including:

• enhanced prudential standards for nonbank SIFIs (including minimum leverage and risk-based capital requirements, capital planning, stress tests, liquidity requirements, corporate governance requirements, contingent capital requirements, counterparty credit limits, an early remediation regime process and resolution planning);

• limitations on proprietary trading or covered fund activities, if the FRB decides to impose certain elements of Section 619 of Dodd-Frank (referred to as the "Volcker Rule") on nonbank SIFIs;

• financial sector concentration limits; and

• increased regulation and restrictions on derivatives markets and transactions.

In an Executive Order signed on February 3, 2017, the President of the United States directed the Secretary of the Treasury, in consultation with federal financial regulators, to assess all laws, rules and policies that regulate the U.S. financial system, including requirements put into place under Dodd-Frank since 2010, with a view to producing a plan to revise them as necessary. We are closely following these developments.

U.S. STATE REGULATION

State Insurance Regulators: Our insurance subsidiaries are subject to regulation and supervision by the states and other jurisdictions in which they do business. Regulation is generally derived from statutes that delegate supervisory and regulatory powers to a state insurance regulator, and primarily relates to the insurer's financial condition, corporate conduct and market conduct activities.

NAIC Standards: The National Association of Insurance Commissioners (NAIC) is a standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. The NAIC itself is not a regulator, but, with assistance from the NAIC, state insurance regulators establish standards and best practices, conduct peer review and coordinate regulatory oversight.

FOREIGN REGULATION

Financial Stability Board (FSB): The FSB consists of representatives of national financial authorities of the G20 countries. The FSB itself is not a regulator but is focused primarily on promoting international financial stability. It does so by coordinating the work of national financial authorities and international standard-setting bodies as well as developing and promoting the implementation of regulatory, supervisory and other financial policies.

International Association of Insurance Supervisors (IAIS): The IAIS represents insurance regulators and supervisors of more than 200 jurisdictions (including regions and states) in nearly 140 countries and seeks to promote globally consistent insurance industry supervision. The IAIS itself is not a regulator, but one of its activities is to develop insurance regulatory standards for use by local authorities across the globe. The FSB has charged the IAIS with developing a framework for measuring systemic risks posed by insurance groups. Based on the IAIS' assessment methodology for identifying global systemically important insurers (G-SIIs), the FSB has identified nine G-SIIs, including us. This designation may subject us to a policy framework for G-SIIs that includes recovery and resolution planning, enhanced group-wide supervision, enhanced liquidity and systemic risk management planning, and group-wide capital standards, including higher loss absorbency (HLA) capital.

European Union (EU): The European Parliament issues Directives on a wide range of topics that impact financial services. Insurance companies operating in the EU are subject to the Solvency II framework. The Prudential Regulatory Authority (PRA), the United Kingdom's (UK's) prudential regulator, is our lead EU prudential supervisor. The UK's Financial Conduct Authority has oversight of AIG's operations for consumer protection and competition matters within the UK. In addition, financial companies that operate in the EU are subject to a range of regulations enforced by the national regulators in each member state in which that firm operates. The EU has also established a set of regulatory requirements under the European Market Infrastructure Regulation (EMIR) that include, among other things, risk mitigation, risk management, regulatory reporting and clearing requirements.

Regulation of Foreign Insurance Company Subsidiaries: Generally, our subsidiaries operating in foreign jurisdictions must satisfy local regulatory requirements. Our foreign operations are also regulated in various jurisdictions with respect to currency, policy language and terms, advertising, amount and type of security deposits, amount and type of reserves, amount and type of capital to be held, amount and type of local investment and the share of profits to be returned to policyholders on participating policies. Some foreign countries also regulate rates on various types of policies.

Federal Reserve REGULATION AND Supervision

Due to the determination of the Financial Stability Oversight Council (Council) that AIG should be regulated by the FRB as a nonbank SIFI, we have been since July 2013 subject to the FRB's examination, supervision and enforcement authority, and certain reporting requirements. Dodd-Frank requires that the Council reevaluate its determination annually. The Council's annual reevaluations to date have not resulted in a change to our nonbank SIFI status, and we remain regulated by the FRB. However, in light of the recent change in administration in the United States, there is considerable uncertainty as to the future of federal regulation of nonbank SIFIs. Depending on developments, important elements of AIG's supervision at the federal level, including those described in this section and the following section, Other Effects of Dodd-Frank, may change significantly.

As a nonbank SIFI, we anticipate we may be subject to:

- stress tests to determine whether, on a consolidated basis, we have the capital necessary to absorb losses due to adverse economic conditions;
- enhanced prudential standards, including new group-wide requirements relating to risk-based capital, leverage, liquidity and credit exposure, as well as overall risk management requirements; and
- an early remediation regime process to be administered by the FRB.

On June 3, 2016, the FRB issued for public comment a notice of proposed rulemaking (NPR) on enhanced prudential standards that would require insurer nonbank SIFIs to comply with corporate governance and risk-management standards and liquidity risk management standards. These proposed standards build on the FRB's current guidance for large financial institutions supervised by the FRB and have been tailored to insurance companies. The comment period has closed, and we anticipate that the FRB will adopt a final rule in the future after evaluating all comments received. Under the proposal, the insurer nonbank SIFIs would have at least twelve months to comply.

On June 3, 2016, the FRB released for public comment an advance notice of proposed rulemaking (ANPR) outlining two conceptual insurance group capital frameworks that could apply to insurance groups supervised by the FRB - a building block approach, proposed for insurance institutions that are savings and loan holding companies or bank holding companies by virtue of owning depository institutions, and a consolidated approach for insurer nonbank SIFIs. In general, the consolidated approach would consolidate an insurance company's assets and insurance liabilities into risk segments tailored to account for the liability structure and unique features of the insurance company, apply risk factors to each segment and then set minimum capital requirements. The ANPR does not provide details on specific risk segments, risk factors, capital adequacy ratios and other important elements that could be applied to us under the consolidated approach, and we cannot predict how such an approach would affect our business, results of operations, financial condition or capital requirements. The comment period has closed and we anticipate that the FRB will issue a NPR after evaluating all comments received.

As part of its general prudential supervisory powers, the FRB has the authority to limit our ability to conduct activities that would otherwise be permissible for us to engage in if we do not satisfy certain requirements. With regard to acquisitions, Dodd-Frank would require us to obtain the prior authorization of the FRB if we sought to acquire a stake in certain financial companies. We are also subject to management interlock prohibitions and a requirement to maintain a plan for rapid and orderly resolution in the event of severe financial distress. We cannot predict how the FRB's continuing exercise of its general supervisory authority over us as a nonbank SIFI will develop, although the FRB could, as a prudential matter, for example, limit our ability to pay dividends, repurchase shares of AIG Common Stock or to acquire or enter into other businesses. We cannot predict with certainty the requirements of the regulations ultimately adopted or how or whether Dodd-Frank and such regulations will affect the financial markets generally or impact our businesses, results of operations, cash flows or financial condition, capital adequacy position or credit ratings.

Furthermore, if the Council were to make an additional separate determination that we pose a "grave threat" to U.S. financial stability, we would be required to maintain a debt-to-equity ratio of no more than 15:1 and the FRB may impose additional restrictions.

Other Effects of Dodd-Frank

In addition, Dodd-Frank may also have the following effects on us:

- As a nonbank SIFI, we are currently required to provide on an annual basis to the FRB and Federal Deposit Insurance Corporation (FDIC) a plan for our rapid and orderly resolution in the event of material financial distress or failure, which must provide a detailed resolution strategy and analyses of our material entities, organizational structure, interconnections and interdependencies, and management information systems. In accordance with an extension of the annual deadline provided by the FRB and FDIC to 38 firms including AIG in 2016, we plan to submit our next resolution plan to regulators on December 31, 2017. If the FRB and FDIC jointly were to determine, based on their review of the plan, that it is not credible or would not facilitate our orderly resolution under Title 11 of the United States Code (the Bankruptcy Code), the FRB and FDIC may require us to re-submit an amended plan. If the re-submitted plan also were to fail to meet regulatory expectations, the FRB and FDIC may exercise their authority under Dodd-Frank to impose more stringent capital, leverage, or liquidity requirements, restrict our growth, activities, or operations, require us to divest assets and operations, or otherwise increase their level of supervision of us.

- The Council may recommend that state insurance regulators or other regulators apply new or heightened standards and safeguards for activities or practices that we and other insurers or other financial services companies engage in.

- Title II of Dodd-Frank (Orderly Liquidation Authority) provides that a financial company whose largest United States subsidiary is an insurer may be subject to a special orderly liquidation process outside the Bankruptcy Code. That process is to be administered by the FDIC upon a determination that the company is in default or in danger of default, is not likely to attract private sector alternatives to default and is not suitable for resolution under the Bankruptcy Code. Our U.S. insurance subsidiaries, however, would be subject to rehabilitation and liquidation proceedings under state insurance law.

- Title VII of Dodd-Frank provides for significantly increased regulation of and restrictions on derivatives markets and transactions that have affected and, as additional regulations come into effect, could affect various activities of AIG and its insurance and financial services subsidiaries, including (i) regulatory reporting for swaps and security-based swaps, (ii) mandated clearing through central counterparties and execution through regulated swap execution facilities for certain swaps and security-based swaps and (iii) margin and collateral requirements. Although the CFTC has finalized many of its requirements, the SEC has yet to finalize the majority of rules comprising its security-based swap regulatory regime.

- Similar regulations have been proposed or adopted outside the United States. For instance, the EU has also established a set of new regulatory requirements for EU derivatives activities under EMIR. These requirements include, among other things, various risk mitigation, risk management, margin posting and regulatory reporting requirements that have already become effective and clearing requirements that were outlined in EU delegated legislation at the end of 2015 and are phased in over three years. These requirements could result in increased administrative costs with respect to our EU derivatives activities and overlapping or inconsistent regulation depending on the ultimate application of cross-border regulatory requirements between and among U.S. and non-U.S. jurisdictions.

- Dodd-Frank mandated a study to determine whether stable value contracts should be included in the definition of "swap." If that study concludes that stable value contracts are swaps, Dodd-Frank authorizes certain federal regulators to determine whether an exemption from the definition of a swap for stable value contracts is appropriate and in the public interest. Certain of our affiliates participate in the stable value contract business. We cannot predict what regulations might emanate from the aforementioned study or be promulgated applicable to this business in the future.

- Dodd-Frank established the Federal Insurance Office (FIO) within the United States Department of the Treasury (Department of the Treasury) headed by a director appointed by the Secretary of the Treasury. The director of the FIO performs various public policy functions with respect to insurance, including serving as a non-voting member of the Council.

- On November 20, 2015, the Department of the Treasury, assisted by the FIO, and the United States Trade Representative announced their intention to negotiate an agreement between the U.S. and the EU regarding prudential measures with respect to insurance and reinsurance. On January 13, 2017, the U.S. and EU announced that they had successfully negotiated terms of such an agreement. For additional information, see Regulation – Other Regulatory Developments.

- Dodd-Frank established the Consumer Financial Protection Bureau (CFPB) within the FRB to regulate consumer financial products and services offered primarily for personal, family or household purposes. Insurance products and services are not within the CFPB's general jurisdiction. Broker-dealers and investment advisers are not subject to the CFPB's jurisdiction when acting in their registered capacity.

Dodd-Frank authorizes various assessments on financial companies, including, as applicable to us, fees for our supervision by the FRB and possible assessments to cover the costs of any special resolution of a financial company conducted under Title II.

We cannot predict whether all these actions will become effective or the effect they may have on the financial markets or on our business, results of operations, cash flows, financial condition and credit ratings. However, it is possible that such effect could be materially adverse. *See Item 1A. Risk Factors — Regulation for additional information.*

Other Regulatory Developments

In addition to the adoption of Dodd-Frank in the United States, regulators and lawmakers around the world are continuing to review the causes of the financial crisis and taking steps to avoid similar problems in the future. In the past few years, a number of jurisdictions in which our subsidiaries conduct business have implemented legislative and regulatory changes consistent with recommendations of the International Monetary Fund and the World Bank, which conduct periodic Financial Sector Assessment Program (FSAP) reviews to measure local regulatory regimes against the standards set by the IAIS. Examples include updated Insurance Company Ordinances in Hong Kong and consolidated regulation of insurance holding companies by the Financial Services Agency in Japan.

The FSB, consisting of representatives of national financial authorities of the G20 countries, has issued a series of frameworks and recommendations intended to produce significant changes in how financial companies, particularly global systemically important financial institutions, should be regulated. These frameworks and recommendations address such issues as systemic financial risk, financial group supervision, capital and solvency standards, corporate governance including compensation, and a number of related issues associated with responses to the financial crisis. The FSB has directed the IAIS to create standards relative to many of these areas, which go beyond the IAIS' basic Insurance Core Principles (ICPs). The IAIS is developing ComFrame, a Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs). ComFrame sets out qualitative and quantitative standards in order to assist supervisors in collectively addressing an IAIG's activities and risks, identifying and avoiding regulatory gaps and coordinating supervisory activities. In connection with ComFrame, the IAIS is in the process of developing a risk-based global insurance capital standard (ICS) applicable to IAIGs. We currently meet the parameters set forth to define an IAIG. ComFrame standards are expected to be finalized in 2019, and the IAIS is conducting field testing of ComFrame, including the ICS, ahead of that deadline. It is expected that the ComFrame and ICS standards finally adopted by the IAIS would be ready for adoption by implementing member jurisdictions beginning in 2020.

The IAIS intends G-SIIs to be subject to a policy framework that includes recovery and resolution planning, enhanced group-wide supervision, enhanced liquidity and systemic risk management planning; and group-wide capital standards, including HLA capital. The IAIS' basic capital requirement (BCR) was endorsed by the FSB in October 2014 and by the G20 countries in November 2014. The BCR covers all group activities, and we reported our BCR ratios to national authorities on a confidential basis in 2015 and 2016. The BCR serves as the initial foundation for the application of HLA requirements. In October 2015, the IAIS announced that it had concluded initial development of the HLA requirements, according to which we reported on a confidential basis to supervisors in 2016. HLA requirements were endorsed by the FSB in September 2015 and by the G20 countries in November 2015. Both the BCR and HLA requirements are calculated for insurance and non-insurance activities. Ultimately, the G-SII policy framework is expected to be fully implemented by the IAIS by 2019.

The standards discussed above, issued by the FSB and/or the IAIS, are not binding on the United States or other jurisdictions around the world unless and until the appropriate local governmental bodies or regulators adopt appropriate laws and regulations. At this time it is not known how the IAIS' frameworks and/or standards might be implemented in the United States and other jurisdictions around the world, or how they might apply to us.

ITEM 1 | **Business**

Legislation in the EU could also affect our international insurance operations. Solvency II reforms the insurance industry's solvency framework, including minimum capital and solvency requirements, governance requirements, risk management and public reporting standards. In accordance with Solvency II, in the absence of a decision by the European Commission on whether a supervisory regime outside of the EU is equivalent, Member States may decide either to apply relevant Solvency II requirements to a worldwide insurance group operating in the EU as if it were based in the European Economic Area, or to use "other methods".

Firms have to apply for a waiver to the appropriate EU regulator in order for the regulator to use "other methods." AIG's UK subsidiary, AIG Europe Limited, applied to the PRA and was granted a waiver for three years beginning in January 2016 (which may be renewed) to allow the PRA to use "other methods." In order to address the issue of U.S. equivalency with Solvency II as well as other (re)insurance regulatory issues, on November 20, 2015, the U.S. and the EU entered into negotiations on a "covered agreement". On January 13, 2017, the U.S. and EU announced they had successfully reached a covered agreement and the agreed text was submitted to the appropriate committees of Congress, starting a 90-day period required by Dodd-Frank after which (and after an additional 7-day notice period) with regard to the U.S. the terms become effective unless disapproved by congressional legislation during those 90 days. In the EU, the agreement is still subject to several steps before becoming effective, including approval by the European Parliament. The agreement provides that AIG will be supervised at the worldwide group level only by its relevant U.S. insurance supervisors, and that it will not have to satisfy EU group capital, reporting and governance requirements for its worldwide group. It further provides that if the summary risk reports submitted to the supervisory authority of a host jurisdiction expose any serious threat to policyholder protection or financial stability in such host state, the host supervisor may request further information from the insurance group and/or impose preventive or corrective measures with respect to the (re)insurer in its jurisdiction. The EU is applying these group supervision terms provisionally until the date of entry into full force of the agreement. The agreement also seeks to impose equal treatment of U.S. and EU-based reinsurers that meet certain qualifications. In the U.S., once fully implemented, the agreement requires U.S. states to lift reinsurance collateral requirements on qualifying EU-based reinsurers and provide them equal treatment with U.S. reinsurers or be subject to federal preemption. While this provision does not preclude AIG from continuing to request collateral from an EU reinsurer that is party to a bilateral reinsurance transaction, it is unclear how much collateral AIG will be able to obtain from EU reinsurers going forward. The reinsurance provisions of this agreement are subject to implementation timetables in the U.S. and EU that may delay or even prevent the agreement from being fully implemented. In particular, the U.S. states have been given a period of five years to comply with the reinsurance collateral provisions. After 42 months, the Federal Government must begin evaluating a potential preemption determination with respect to any state law not in compliance with the aim of assuring full compliance within the five-year timeframe. The agreement may be terminated (following mandatory consultation) by notice from one party to the other effective in 180 days, or at such time as the parties may agree. It is not known what view the new Congress and new administration may take on the termination or enforcement of the covered agreement.

On June 23, 2016, the UK held a referendum in which a majority voted for the UK to withdraw its membership in the EU, commonly referred to as Brexit. The terms of withdrawal are subject to a formal negotiation period which, as publicly stated by the UK Prime Minister, is expected to be initiated by the end of March 2017 by invoking Article 50 of the Treaty of the European Union, and could, by treaty, last up to two years. On January 24, 2017, the Supreme Court (the UK's highest court) ruled that Parliament must vote whether to approve the UK Government's plan to invoke Article 50. On January 27, 2017, the Government introduced a bill in Parliament seeking approval to notify the EU of the UK's intention to withdraw from the EU. The bill passed a vote in the lower house of Parliament on February 8, 2017 and progressed to the House of Lords. The bill may be approved by the House of Lords as written and sent for royal assent or be amended, which would result in the bill being sent back to the lower house for further consideration. It is not clear at this stage (and may not be for some time) what form the UK's future relationship with the remaining EU member states will take. We have significant operations and employees in the UK and other EU member states, including AIG Europe Ltd., which enjoys certain benefits based on the UK's membership in the EU. In order to adapt to Brexit, we may be required to reorganize our operations and legal entity structure in the UK and the EU in a manner that could be less efficient and more expensive.

ERISA Considerations

We provide products and services to certain employee benefit plans that are subject to the Employee Retirement Income Security Act of 1974, as amended (ERISA), or the Internal Revenue Code of 1986, as amended (the Internal Revenue Code). Plans subject to ERISA include pension and profit sharing plans and welfare plans, including health, life and disability plans. As a result, our activities are subject to the restrictions imposed by ERISA and the Internal Revenue Code, including the requirement under ERISA that fiduciaries must perform their duties solely in the interests of ERISA plan participants and beneficiaries, and that fiduciaries may not cause a covered plan to engage in certain prohibited transactions. ERISA also provides for civil and criminal penalties and enforcement.

On April 8, 2016, the DOL published its final fiduciary duty rule (the DOL Fiduciary Rule), substantially expanding the definition of fiduciary investment advice. As a result, the circumstances under which financial services providers and financial advisors could be deemed a fiduciary under ERISA or the Internal Revenue Code when providing investment advice with respect to ERISA plans or Individual Retirement Accounts (IRAs) are greatly expanded. The DOL Fiduciary Rule contains revisions to and adoptions of new prohibited transaction exemptions under ERISA, including revisions to a prohibited transaction exemption historically available in conjunction with the sale of fixed and variable annuity contracts to ERISA covered plans, commonly referred to as “84-24”, and the adoption of the “best interest contract exemption”. The initial compliance date of the DOL Fiduciary Rule is April 10, 2017, with full compliance required by January 1, 2018. On February 3, 2017, the new U.S. administration issued a memo requiring the DOL to review the DOL Fiduciary Rule and determine whether it will adversely impact the ability of retirement savers to access information and financial advice. Accordingly, the DOL announced that it would consider legal options for postponing the applicability date of the DOL Fiduciary Rule while the DOL considers the issues raised in the referenced memo. We are closely following the DOL’s pronouncements about further delays to the DOL Fiduciary Rule’s applicability date. *For additional information, see Item 7. MD&A — Executive Summary – AIG’s Outlook – Industry and Economic Factors- Department of Labor Fiduciary Rule and Part I, Item 1A. Risk Factors.*

We expect that the regulations applicable to us and our regulated entities will continue to evolve for the foreseeable future.

Regulation of Insurance Subsidiaries

Certain states and other jurisdictions require registration and periodic reporting by insurance companies that are licensed in such jurisdictions and are controlled by other entities. Applicable legislation typically requires periodic disclosure concerning the entity that controls the registered insurer and the other companies in the holding company system and prior approval of intercompany services and transfers of assets, including in some instances payment of dividends by the insurance subsidiary, within the holding company system. Our subsidiaries are registered under such legislation in those jurisdictions that have such requirements.

Our insurance subsidiaries are subject to regulation and supervision by the states and by other jurisdictions in which they do business. Within the United States, the method of such regulation varies but generally has its source in statutes that delegate regulatory and supervisory powers to an insurance official. The regulation and supervision relate primarily to the financial condition of the insurers and their corporate conduct and market conduct activities. This includes approval of policy forms and rates, the standards of solvency that must be met and maintained, including with respect to risk-based capital, the standards on transactions between insurance company subsidiaries and their affiliates, including restrictions and limitations on the amount of dividends or other distributions payable by insurance company subsidiaries to their parent companies, the licensing of insurers and their agents, the nature of and limitations on investments, restrictions on the size of risks that may be insured under a single policy, deposits of securities for the benefit of policyholders, requirements for acceptability of reinsurers, periodic examinations of the affairs of insurance companies, the form and content of reports of financial condition required to be filed, reserves for unearned premiums, losses and other purposes and enterprise risk management and corporate governance requirements. In general, such regulation is for the protection of policyholders rather than the creditors or equity owners of these companies.

In the U.S., the Risk-Based Capital (RBC) formula is designed to measure the adequacy of an insurer's statutory surplus in relation to the risks inherent in its business. Virtually every state has adopted, in substantial part, the RBC Model Law promulgated by the NAIC, which allows states to act upon the results of RBC calculations, and provides for four incremental levels of regulatory action regarding insurers whose RBC calculations fall below specific thresholds. Those levels of action range from the requirement to submit a plan describing how an insurer would regain a specified RBC ratio to a mandatory regulatory takeover of the company. The RBC formula computes a risk-adjusted surplus level by applying discrete factors to various asset, premium and reserve items. These factors are developed to be risk-sensitive so that higher factors are applied to items exposed to greater risk. The statutory surplus of each of our U.S. based insurance companies exceeded RBC minimum required levels as of December 31, 2016.

If any of our insurance entities fell below prescribed levels of statutory surplus, it would be our intention to provide appropriate capital or other types of support to that entity. For additional information, see *Item 7. MD&A — Liquidity and Capital Resources — Liquidity and Capital Resources of AIG Parent and Subsidiaries — Insurance Companies.*

The NAIC's Model Regulation "Valuation of Life Insurance Policies" (Regulation XXX) requires insurers to establish additional statutory reserves for term life insurance policies with long-term premium guarantees and universal life policies with secondary guarantees (ULSGs). NAIC Actuarial Guideline 38 (Guideline AXXX) clarifies the application of Regulation XXX as to these guarantees, including certain ULSGs. See Item 1A – Risk Factors and Note 18 to the Consolidated Financial Statements for risks and additional information related to these statutory reserving requirements. In December 2012, the NAIC approved a new valuation manual containing a principle-based approach to life insurance company reserves. Principle-based reserving (PBR) is designed to tailor the reserving process to specific products in an effort to create a principle-based modeling approach to reserving rather than the factor-based approach historically employed. PBR became effective on January 1, 2017, after NAIC's model Standard Valuation Law was enacted by the requisite number of states representing the required premium volume, replacing Regulation XXX and Guideline AXXX with respect to new life insurance business issued after that date. Two of our domiciliary states (Missouri and Texas) have adopted the regulations necessary to implement PBR. We have up to three years after January 1, 2017 to implement PBR, and have currently elected to defer implementation.

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The NAIC has adopted revisions to the NAIC Insurance Holding Company System Regulatory Act (the Model Holding Company Act) and the Insurance Holding Company System Model Regulation. The revised models include provisions authorizing NAIC commissioners to act as global group-wide supervisors for internationally active insurance groups, and the requirement that the ultimate controlling person of a U.S. insurer file an annual enterprise risk report with the lead state of the insurer identifying risks likely to have a material adverse effect upon the financial condition or liquidity of the insurer or its insurance holding company system as a whole. All of the states where AIG has domestic insurers have enacted a version of the revised Model Holding Company Act, including the enterprise risk reporting requirement.

A substantial portion of our business is conducted in foreign countries. The degree of regulation and supervision in foreign jurisdictions varies. Generally, our subsidiaries operating in foreign jurisdictions must satisfy local regulatory requirements; licenses issued by foreign authorities to our subsidiaries are subject to modification or revocation by such authorities, and therefore these subsidiaries could be prevented from conducting business in certain of the jurisdictions where they currently operate.

In addition to licensing requirements, our foreign operations are also regulated in various jurisdictions with respect to currency, policy language and terms, advertising, amount and type of security deposits, amount and type of reserves, amount and type of capital to be held, amount and type of local investment and the share of profits to be returned to policyholders on participating policies. Some foreign countries regulate rates on various types of policies. Certain countries have established reinsurance institutions, wholly or partially owned by the local government, to which admitted insurers are obligated to cede a portion of their business on terms that may not always allow foreign insurers, including our subsidiaries, full compensation. In some countries, regulations governing constitution of technical reserves and remittance balances may hinder remittance of profits and repatriation of assets.

See Item 7. MD&A — Liquidity and Capital Resources — Regulation and Supervision and Note 19 to the Consolidated Financial Statements.

Available Information about AIG

Our corporate website is www.aig.com. We make available free of charge, through the Investor Information section of our corporate website, the following reports (and related amendments as filed with the SEC) as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the SEC:

- Annual Reports on Form 10-K
- Quarterly Reports on Form 10-Q
- Current Reports on Form 8-K
- Proxy Statements on Schedule 14A, as well as other filings with the SEC

Also available on our corporate website:

- *Charters for Board Committees:* Audit, Nominating and Corporate Governance, Compensation and Management Resources, Risk and Capital, Regulatory, Compliance and Public Policy, and Technology Committees
- *Corporate Governance Guidelines* (*which include Director Independence Standards*)
- *Director, Executive Officer and Senior Financial Officer Code of Business Conduct and Ethics (we will post on our website any amendment or waiver to this Code within the time period required by the SEC)*
- *Employee Code of Conduct*
- *Related Party Transactions Approval Policy*

Except for the documents specifically incorporated by reference into this Annual Report on Form 10-K, information contained on our website or that can be accessed through our website is not incorporated by reference into this Annual Report on Form 10-K. Reference to our website is made as an inactive textual reference.

ITEM 1A | Risk Factors

Investing in AIG involves risk. In deciding whether to invest in AIG, you should carefully consider the following risk factors. Any of these risk factors could have a significant or material adverse effect on our businesses, results of operations, financial condition or liquidity. They could also cause significant fluctuations and volatility in the trading price of our securities. Readers should not consider any descriptions of these factors to be a complete set of all potential risks that could affect AIG. These factors should be considered carefully together with the other information contained in this report and the other reports and materials filed by us with the Securities and Exchange Commission (SEC). Further, many of these risks are interrelated and could occur under similar business and economic conditions, and the occurrence of certain of them may in turn cause the emergence or exacerbate the effect of others. Such a combination could materially increase the severity of the impact of these risks on our businesses, results of operations, financial condition and liquidity.

MARKET CONDITIONS

Difficult conditions in the global capital markets and the economy may materially and adversely affect our businesses, results of operations, financial condition and liquidity. Our businesses are highly dependent on the economic environment, both in the U.S. and around the world. Extreme market events have at times led, and could in the future lead, to a lack of liquidity, highly volatile markets, a steep depreciation in asset values across all classes, an erosion of investor and public confidence, and a widening of credit spreads. Concerns and events beyond our control, such as U.S. fiscal and monetary policy, oil prices, slowing growth in China and the Euro-Zone economies, the U.S. housing market, concerns about European sovereign debt risk and the European banking industry and declines in prices in the high yield market and the resultant impact on certain funds have in the past, and may in the future, adversely affect liquidity, increase volatility, decrease asset prices, erode confidence and lead to wider credit spreads. Difficult economic conditions could also result in increased unemployment and a severe decline in business across a wide range of industries and regions. These market and economic factors could have a material adverse effect on our businesses, results of operations, financial condition and liquidity.

Under difficult economic or market conditions, we could experience reduced demand for our products and an elevated incidence of claims, increased policy cancellations and lapses or surrenders of policies. Contract holders may choose to defer or cease paying insurance premiums. Other ways in which we could be negatively affected by economic conditions include, but are not limited to:

- declines in the valuation and performance of our investment portfolio, including declines attributable to rapid increases in interest rates;

- increased credit losses;

- declines in the value of other assets;
- impairments of goodwill and other long-lived assets;
- additional statutory capital requirements;
- limitations on our ability to recover deferred tax assets;
- a decline in new business levels and renewals;
- a decline in insured values caused by a decrease in activity at client organizations;
- an increase in liability for future policy benefits due to loss recognition on certain long-duration insurance contracts;
- higher borrowing costs and more limited availability of credit;
- an increase in policy surrenders and cancellations; and
- a write-off of deferred policy acquisition costs (DAC).

Sustained low interest rates, or rapidly increasing interest rates, may materially and adversely affect our profitability. Recent periods have been characterized by low interest rates relative to historical levels. Sustained low interest rates can negatively affect the performance of our investment securities and reduce the level of investment income earned on our investment portfolios. If a low interest rate environment persists, we may experience lower investment income growth. Due to practical and capital markets limitations, we may not be able to fully mitigate our interest rate risk by matching exposure of our assets relative to our liabilities. Continued low interest rates could also impair our ability to earn the returns assumed in the pricing and the reserving for our products at the time they were sold and issued. Changes in interest rates may be correlated with inflation trends, which would impact our loss trends.

On the other hand, in periods of rapidly increasing interest rates, we may not be able to replace, in a timely manner, the investments in our general account with higher yielding investments needed to fund the higher crediting rates necessary to keep interest rate sensitive products competitive. Therefore, we may have to accept a lower credit spread and, thus, lower profitability or face a decline in sales and greater loss of existing contracts and related assets. In addition, policy loans, surrenders and withdrawals may tend to increase as policyholders seek investments with higher perceived returns as interest rates rise. This process may result in cash outflows requiring that we sell investments at a time when the prices of those investments are adversely affected by the increase in interest rates. This may result in realized investment losses. An increase in interest rates could also have a material adverse effect on the value of our investment portfolio, for example, by decreasing the estimated fair values of the fixed income securities that comprise a substantial portion of our investment portfolio. This in turn could adversely affect our ability to realize our deferred tax assets.

Investment Portfolio, Concentration of Investments, Insurance and other Exposures

The performance and value of our investment portfolio are subject to a number of risks and uncertainties, including changes in interest rates. Our investment securities are subject to market risks and uncertainties. In particular, interest rates are highly sensitive to many factors, including monetary and fiscal policy, domestic and international economic and political issues and other factors beyond our control. Changes in monetary policy or other factors may cause interest rates to rise, which would adversely affect the value of the fixed income securities that we hold and could adversely affect our ability to sell these securities. In addition, the evaluation of available-for-sale securities for other-than-temporary impairments, which may occur if interest rates rise, is a quantitative and qualitative process that is subject to significant management judgment. For a sensitivity analysis of our exposure to certain market risk factors, see *Item 7. MD&A – Enterprise Risk Management – Market Risk Management*. Furthermore, our alternative investment portfolio includes investments for which changes in fair value are reported through operating income and are therefore subject to significant volatility. In an economic downturn or declining market, the reduction in our investment income due to decreases in the fair value of alternative investments could have a material adverse effect on operating income.

Our investment portfolio is concentrated in certain segments of the economy. Our results of operations and financial condition have in the past been, and may in the future be, adversely affected by the degree of concentration in our investment portfolio. We have significant exposure in real estate and real estate-related securities, including residential mortgage-backed, commercial mortgage-backed and other asset-backed securities and commercial mortgage loans. We also have significant exposures to financial institutions and, in particular, to money center and global banks; certain industries, such as energy and utilities; U.S. state and local government issuers and authorities; and Euro Zone financial institutions, governments and corporations. Events or developments that have a negative effect on any particular industry, asset class, group of related industries or geographic region may adversely affect our investments to the extent they are concentrated in such segments. Our ability to sell assets concentrated in such areas may be limited.

Concentration of our insurance and other risk exposures may have adverse effects. We may be exposed to risks as a result of concentrations in our insurance policies, derivatives and other obligations that we undertake for customers and counterparties. We manage these concentration risks by monitoring the accumulation of our exposures to factors such as exposure type, industry, geographic region, counterparty and other factors. We also seek to use reinsurance, hedging and other arrangements to limit or offset exposures that exceed the limits we wish to retain. In certain circumstances, however, these risk management arrangements may not be available on acceptable terms or may prove to be ineffective for certain exposures. Also, our exposure for certain single risk coverages and other coverages may be so large that adverse experience compared to our expectations may have a material adverse effect on our consolidated results of operations or result in additional statutory capital requirements for our subsidiaries. *Also see Item 7. MD&A – Business Segment Operations – Commercial Insurance – Business Strategy and – Commercial Insurance – Outlook – Industry and Economic Factors.*

Our valuation of investment securities may include methodologies, estimations and assumptions that are subject to differing interpretations and could result in changes to investment valuations that may materially adversely affect our results of operations, financial condition and liquidity. During periods of market disruption, it may be difficult to value certain of our investment securities if trading becomes less frequent and/or market data becomes less observable. There may be cases where certain assets in normally active markets with significant observable data become inactive with insufficient observable data due to the financial environment or market conditions in effect at that time. As a result, valuations may include inputs and assumptions that are less observable or require greater estimation and judgment as well as valuation methods that are more complex. These values may not be realized in a market transaction, may not reflect the value of the asset and may change very rapidly as market conditions change and valuation assumptions are modified. Decreases in value and/or an inability to realize that value in a market transaction or secured lending transaction may have a material adverse effect on our results of operations, financial condition and liquidity.

Reserves and Exposures

Insurance liabilities are difficult to predict and may exceed the related reserves for losses and loss expenses. We regularly review the adequacy of the established loss reserves and conduct extensive analyses of our reserves during the year. Our loss reserves, however, may develop adversely. Estimation of ultimate net losses, loss expenses and loss reserves is a complex process, particularly for long-tail liability lines of business. These lines include, but are not limited to, general liability, commercial automobile liability, environmental, workers' compensation, excess casualty and crisis management coverages, insurance and risk management programs for large corporate customers and other customized structured insurance products, as well as excess and umbrella liability, errors and omissions, products liability, programs and specialty. There is also greater uncertainty in establishing reserves with respect to new business, particularly new business that is generated with respect to more recently introduced product lines. In these cases, there is less historical experience or knowledge and less data upon which the actuaries can rely. Estimating reserves is further complicated by unexpected claims or unintended coverages that emerge due to changing conditions. These emerging issues may increase the size or number of claims beyond our underwriting intent and may not become apparent for many years after a policy is issued.

While we use a number of analytical reserve development techniques to project future loss development, reserves have been and may be significantly affected by changes in loss cost trends or loss development factors that were relied upon in setting the reserves. For example, in the fourth quarters of 2016 and 2015, we recorded net charges of $5.6 billion and $3.6 billion, respectively, to strengthen our Property Casualty Insurance Companies' loss reserves, reflecting adverse development in classes of business with long reporting tails, primarily in casualty, U.S. financial lines and run-off lines. These changes in loss cost trends or loss development factors could be due to changes in actual versus expected claims and losses, difficulties in predicting changes, such as changes in inflation, unemployment duration, or other social or economic factors affecting claims, including the judicial environment. Any deviation in loss cost trends or in loss development factors might not be identified for an extended period of time after we record the initial loss reserve estimates for any accident year or number of years. *For a further discussion of our loss reserves, see Item 7. MD&A — Critical Accounting Estimates — Insurance Liabilities — Loss Reserves and Insurance Reserves — Loss Reserves and Note 13 to the Consolidated Financial Statements*.

Our consolidated results of operations, liquidity, financial condition and ratings are subject to the effects of natural and man-made catastrophic events. Events such as hurricanes, windstorms, flooding, earthquakes, wildfires, solar storms, acts of terrorism, explosions and fires, cyber-crimes, product defects, pandemic and other highly contagious diseases, mass torts and other catastrophes have adversely affected our business in the past and could do so in the future. In addition, we recognize the scientific consensus that climate change is a reality of increasing concern, indicated by higher concentrations of greenhouse gases, a warming atmosphere and ocean, diminished snow and ice, and sea level rise. We understand that climate change potentially poses a serious financial threat to society as a whole, with implications for the insurance industry in areas such as catastrophe risk perception, pricing and modeling assumptions. Because there is significant variability associated with the impacts of climate change, we cannot predict how physical, legal, regulatory and social responses may impact our business.

Such catastrophic events, and any relevant regulations, could expose us to:

- widespread claim costs associated with property, workers' compensation, A&H, business interruption and mortality and morbidity claims;

- loss resulting from a decline in the value of our invested assets;

- limitations on our ability to recover deferred tax assets;

- loss resulting from actual policy experience that is adverse compared to the assumptions made in product pricing;

- declines in value and/or losses with respect to companies and other entities whose securities we hold and counterparties we transact business with and have credit exposure to, including reinsurers, and declines in the value of investments; and

- significant interruptions to our systems and operations.

Catastrophic events are generally unpredictable. Our exposure to catastrophes depends on various factors, including the frequency and severity of the catastrophes, the rate of inflation and the value and geographic or other concentrations of insured companies and individuals. Vendor models and proprietary assumptions and processes that we use to manage catastrophe exposure may prove to be ineffective due to incorrect assumptions or estimates.

In addition, legislative and regulatory initiatives and court decisions following major catastrophes could require us to pay the insured beyond the provisions of the original insurance policy and may prohibit the application of a deductible, resulting in inflated catastrophe claims.

For further details on potential catastrophic events, including a sensitivity analysis of our exposure to certain catastrophes, see Item 7. MD&A — Enterprise Risk Management — Insurance Risks.

Interest rate fluctuations, increased lapses and surrenders, declining investment returns and other events may require our subsidiaries to accelerate the amortization of deferred policy acquisition costs (DAC) and record additional liabilities for future policy benefits. We incur significant costs in connection with acquiring new and renewal insurance business. DAC represents deferred costs that are incremental and directly related to the successful acquisition of new business or renewal of existing business. The recovery of these costs is generally dependent upon the future profitability of the related business, but DAC amortization varies based on the type of contract. For long-duration traditional business, DAC is generally amortized in proportion to premium revenue and varies with lapse experience. Actual lapses in excess of expectations can result in an acceleration of DAC amortization.

DAC for investment-oriented products is generally amortized in proportion to estimated gross profits. Estimated gross profits are affected by a number of assumptions, including current and expected interest rates, net investment income and spreads, net realized capital gains and losses, fees, surrender rates, mortality experience and equity market returns and volatility. If actual and/or future estimated gross profits are less than originally expected, then the amortization of these costs would be accelerated in the period the actual experience is known and would result in a charge to income. For example, if interest rates rise rapidly and significantly, customers with policies that have interest crediting rates below the current market may seek competing products with higher returns and we may experience an increase in surrenders and withdrawals of life and annuity contracts, resulting in a decrease in future profitability and an acceleration of the amortization of DAC.

We also periodically review products for potential loss recognition events, principally insurance-oriented products. This review involves estimating the future profitability of in-force business and requires significant management judgment about assumptions including mortality, morbidity, persistency, maintenance expenses, and investment returns, including net realized capital gains (losses). If actual experience or estimates result in projected future losses, we may be required to amortize any remaining DAC and record additional liabilities through a charge to policyholder benefit expense, which could negatively affect our results of operations. *For further discussion of DAC and future policy benefits, see Item 7. MD&A — Critical Accounting Estimates and Notes 9 and 13 to the Consolidated Financial Statements*.

Reinsurance may not be available or affordable and may not be adequate to protect us against losses. Our subsidiaries are major purchasers of reinsurance and we use reinsurance as part of our overall risk management strategy. While reinsurance does not discharge our subsidiaries from their obligation to pay claims for losses insured under our policies, it does make the reinsurer liable to them for the reinsured portion of the risk. For this reason, reinsurance is an important tool to manage transaction and insurance line risk retention and to mitigate losses from catastrophes. Market conditions beyond our control determine the availability and cost of reinsurance. For example, reinsurance may be more difficult or costly to obtain after a year with a large number of major catastrophes. We may, at certain times, be forced to incur additional expenses for reinsurance or may be unable to obtain sufficient reinsurance on acceptable terms. In the latter case, we would have to accept an increase in exposure to risk, reduce the amount of business written by our subsidiaries or seek alternatives in line with our risk limits.

Additionally, we are exposed to credit risk with respect to our subsidiaries' reinsurers to the extent the reinsurance receivable is not secured by collateral or does not benefit from other credit enhancements. We also bear the risk that a reinsurer may be unwilling to pay amounts we have recorded as reinsurance recoverable for any reason, including that (i) the terms of the reinsurance contract do not reflect the intent of the parties of the contract or there is a disagreement between the parties as to their intent, (ii) the terms of the contract cannot be legally enforced, (iii) the terms of the contract are interpreted by a court or arbitration panel differently than intended, (iv) the reinsurance transaction performs differently than we anticipated due to a flawed design of the reinsurance structure, terms or conditions, or (v) a change in laws and regulations, or in the interpretation of the laws and regulations, materially impacts a reinsurance transaction. The insolvency of one or more of our reinsurers, or inability or unwillingness to make timely payments under the terms of our contracts, could have a material adverse effect on our results of operations and liquidity.

Additionally, the use of reinsurance placed in the capital markets, such as through catastrophe bonds, may not provide the same levels of protection as traditional reinsurance transactions. Any disruption, volatility and uncertainty in the catastrophe bond market, such as following a major catastrophe event, may limit our ability to access such market on terms favorable to us or at all. Also, to the extent that we intend to use catastrophe bond transactions based on an industry loss index or other non-indemnity trigger rather than on actual losses incurred by us, we could be subject to residual risk. Our inability to obtain adequate reinsurance or other protection could have a material adverse effect on our business, results of operations and financial condition.

We currently have limited reinsurance coverage for terrorist attacks. Further, the availability of private sector reinsurance for terrorism is limited. We rely heavily on the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA), which provides U.S. government risk assistance to the insurance industry to manage the exposure to terrorism incidents in the United States. TRIPRA was reauthorized in January 2015 and is scheduled to expire on December 31, 2020. Under TRIPRA, once our losses for certain acts of terrorism exceed a deductible equal to 20 percent of our commercial property and casualty insurance premiums for covered lines for the prior calendar year, the federal government will reimburse us for losses in excess of our deductible, starting at 85 percent of losses in 2015 (84 percent in 2016), and reducing by one percentage point each year, ending at 80 percent in 2020, up to a total industry program limit of $100 billion. TRIPRA does not cover losses in certain lines of business such as consumer property and consumer casualty. We also rely on the government sponsored and government arranged terrorism reinsurance programs, including pools, in force in applicable non-U.S. jurisdictions.

For additional information on our reinsurance recoverable, see Item 7. MD&A — Enterprise Risk Management — Insurance Risks — Reinsurance Recoverable.

LIQUIDITY, CAPITAL AND CREDIT

AIG Parent's ability to access funds from our subsidiaries is limited. As a holding company, AIG Parent depends on dividends, distributions and other payments from its subsidiaries to fund dividends on AIG Common Stock, to fund repurchases of AIG Common Stock and warrants and to make payments due on its obligations, including its outstanding debt. The majority of our investments are held by our regulated subsidiaries. Our subsidiaries may be limited in their ability to make dividend payments or other distributions, to AIG Parent in the future because of the need to support their own capital levels or because of regulatory limits or rating agency requirements. The inability of our subsidiaries to make payments, dividends or other distributions in an amount sufficient to enable AIG Parent to meet its cash requirements could have an adverse effect on our operations, and on our ability to pay dividends, repurchase AIG Common Stock and warrants or to meet our debt service obligations.

Our internal sources of liquidity may be insufficient to meet our needs. We need liquidity to pay our operating expenses, interest on our debt, maturing debt obligations and to meet capital needs of our subsidiaries. If our liquidity is insufficient to meet our needs, we may at the time need to have recourse to third-party financing, external capital markets or other sources of liquidity, which may not be available or could be prohibitively expensive. The availability and cost of any additional financing at any given time depends on a variety of factors, including general market conditions, the volume of trading activities, the overall availability of credit, regulatory actions and our credit ratings and credit capacity. It is also possible that, as a result of such recourse to external financing, customers, lenders or investors could develop a negative perception of our long- or short-term financial prospects. Disruptions, volatility and uncertainty in the financial markets, and downgrades in our credit ratings, may limit our ability to access external capital markets at times and on terms favorable to us to meet our capital and liquidity needs or prevent our accessing the external capital markets or other financing sources. *For a further discussion of our liquidity, see Item 7. MD&A — Liquidity and Capital Resources*.

AIG Parent's ability to support our subsidiaries is limited.AIG Parent has in the past and expects to continue to provide capital to our subsidiaries as necessary to maintain regulatory capital ratios, comply with rating agency requirements and meet unexpected cash flow obligations. If AIG Parent is unable to satisfy a capital need of a subsidiary, the credit rating agencies could downgrade the subsidiary insurer's financial strength ratings or the subsidiary could become insolvent or, in certain cases, could be seized by its regulator.

Our subsidiaries may not be able to generate cash to meet their needs due to the illiquidity of some of their investments. Our subsidiaries have investments in certain securities that may be illiquid, including certain fixed income securities and certain structured securities, private company securities, investments in private equity funds and hedge funds, mortgage loans, finance receivables and real estate. Collectively, investments in these assets had a fair value of $58 billion at December 31, 2016. Adverse real estate and capital markets, and wider credit spreads, have in the past, and may in the future, materially adversely affect the liquidity of our other securities portfolios, including our residential and commercial mortgage related securities portfolios. In the event additional liquidity is required by one or more of our subsidiaries and AIG Parent is unable to provide it, it may be difficult for these subsidiaries to generate additional liquidity by selling, pledging or otherwise monetizing these less liquid investments.

A downgrade in the Insurer Financial Strength ratings of our insurance companies could limit their ability to write or prevent them from writing new business and retaining customers and business. Insurer Financial Strength (IFS) ratings are an important factor in establishing the competitive position of insurance companies. IFS ratings measure an insurance company's ability to meet its obligations to contract holders and policyholders. High ratings help maintain public confidence in a company's products, facilitate marketing of products and enhance its competitive position. Downgrades of the IFS ratings of our insurance companies could prevent these companies from selling, or make it more difficult for them to succeed in selling, products and services, or result in increased policy cancellations, lapses and surrenders, termination of assumed reinsurance contracts, or return of premiums. Under credit rating agency policies concerning the relationship between parent and subsidiary ratings, a downgrade in AIG Parent's credit ratings could result in a downgrade of the IFS ratings of our insurance subsidiaries. Certain rating agencies recently negatively revised the outlook for our IFS ratings, primarily as a result of our reserve strengthening in the fourth quarter of 2016 and related concerns regarding our profitability outlook. We cannot predict what actions rating agencies may take, or what actions we may take in response to the actions of rating agencies, which could adversely affect our business.

A downgrade in our credit ratings could require us to post additional collateral and result in the termination of derivative transactions. Credit ratings estimate a company's ability to meet its obligations and may directly affect the cost and availability of financing. A downgrade of our long-term debt ratings by the major rating agencies would require us to post additional collateral payments related to derivative transactions to which we are a party, and could permit the termination of these derivative transactions.

This could adversely affect our business, our consolidated results of operations in a reporting period or our liquidity. In the event of further downgrades of two notches to our long-term senior debt ratings, AIG would be required to post additional collateral of $106 million, and certain of our counterparties would be permitted to elect early termination of contracts. Certain rating agencies recently negatively revised our credit ratings and ratings outlooks, primarily as a result of our reserve strengthening in the fourth quarter of 2016 and related concerns regarding our profitability outlook. We cannot predict what actions rating agencies may take, or what actions we may take in response to the actions of rating agencies, which could adversely affect our business.

Business and operations

Our restructuring initiatives may not yield our expected reductions in expenses and improvements in operational and organizational efficiency. We may not be able to fully realize the anticipated expense reductions and operational and organizational efficiency improvements we expect to result from our restructuring initiatives. Actual costs to implement these initiatives may exceed our estimates or we may be unable to fully implement these initiatives. The implementation of these initiatives may harm our relationships with customers or employees or our competitive position. The successful implementation of these initiatives has required us and will continue to require us to effect workforce reductions, business rationalizations, systems enhancements, business process outsourcing, business and asset dispositions and other actions, which depend on a number of factors, some of which are beyond our control. If we are unable to realize these anticipated expense reductions and efficiency improvements or if implementing these initiatives harms our relationships with customers or employees or our competitive position, our businesses and results of operations may be adversely affected.

Certain of our products have guarantees that may increase the volatility of our results. We have offered variable annuity and life insurance products with features that guarantee a certain level of benefits, including guaranteed minimum death benefits (GMDB), guaranteed minimum income benefits (GMIB), guaranteed minimum withdrawal benefits (GMWB), and products with guaranteed interest crediting rates tied to an index. *See Enterprise Risk Management – Life Insurance Companies Key Insurance Risks – Variable Annuity Risk Management and Hedging Program for a discussion of market risk management related to these product features*.

Differences between the change in fair value of GMWB embedded derivatives and the related hedging portfolio can be caused by extreme and unanticipated movements in the equity markets, interest rates and market volatility, policyholder behavior and our inability to purchase hedging instruments at prices consistent with the desired risk and return trade-off. While we believe that our actions have reduced the risks related to guaranteed benefits and guaranteed interest crediting, our exposure may not be fully hedged. We may be liable if counterparties are unable or unwilling to pay, although the majority of our hedging derivative instruments are exchange-traded, exchange-cleared and/or highly collateralized. We also remain exposed to the risk that policyholder behavior and mortality may differ from our assumptions. Finally, while we believe the impact of downturns in equity markets, increased equity volatility or reduced interest rates would be mitigated by our economic hedging program, the occurrence of one or more of these events could result in an increase in the liabilities associated with the guaranteed benefits that is not fully offset by the hedging program, reducing our net income and shareholders' equity. *See Notes 5 and 14 to the Consolidated Financial Statements, Item 1 – Business – Regulation, and Item 7. MD&A – Critical Accounting Estimates for more information regarding these products*.

Indemnity claims could be made against us in connection with divested businesses. We have provided financial guarantees and indemnities in connection with the businesses we have sold, as described in greater detail in Note 16 to the Consolidated Financial Statements. While we do not currently believe that claims under these indemnities will be material, it is possible that significant indemnity claims could be made against us. If such a claim or claims were successful, it could have a material adverse effect on our results of operations, cash flows and liquidity. See Note 16 to the Consolidated Financial Statements for more information on these financial guarantees and indemnities.

Our foreign operations expose us to risks that may affect our operations. We provide insurance, investment and other financial products and services to both businesses and individuals in more than 80 countries and jurisdictions. A substantial portion of our business is conducted outside the United States, and we intend to continue to grow business in strategic markets. Operations outside the United States may be affected by regional economic downturns, changes in foreign currency exchange rates, political events or upheaval, nationalization and other restrictive government actions, which could also affect our other operations.

The degree of regulation and supervision in foreign jurisdictions varies. AIG subsidiaries operating in foreign jurisdictions must satisfy local regulatory requirements and it is possible that local licenses may require AIG Parent to meet certain conditions. Licenses issued by foreign authorities to our subsidiaries are subject to modification and revocation. Consequently, our insurance subsidiaries could be prevented from conducting future business in some of the jurisdictions where they currently operate. Adverse actions from any single country could adversely affect our results of operations, depending on the magnitude of the event and our financial exposure at that time in that country.

On June 23, 2016, the UK held a referendum in which a majority voted for the UK to withdraw its membership in the EU, commonly referred to as Brexit. The terms of withdrawal are subject to a formal two-year negotiation period which, as publicly stated by the UK Prime Minister, is expected to be initiated by the end of March 2017 by invoking Article 50 of the Treaty of the European Union. It is not clear at this stage (and may not be for some time) what form the UK's future relationship with the remaining EU member states will take. We have significant operations and employees in the UK and other EU member states, including AIG Europe Ltd., which enjoys certain benefits based on the UK's membership in the EU. In order to adapt to Brexit, we may be required to reorganize our operations and legal entity structure in the UK and the EU in a manner that could be less efficient and more expensive. Brexit has also affected the U.S. dollar/British pound exchange rate, increased the volatility of exchange rates among the Major Currencies, and created volatility in the financial markets, which may continue for some time.

We may experience difficulty in marketing and distributing products through our current and future distribution channels. Although we distribute our products through a wide variety of distribution channels, we maintain relationships with certain key distributors. Distributors have in the past, and may in the future, elect to renegotiate the terms of existing relationships, or reduce or terminate their distribution relationships with us, including for such reasons as industry consolidation of distributors or other industry changes that increase the competition for access to distributors, developments in legislation or regulation that affect our business, adverse developments in our business, adverse rating agency actions or concerns about market-related risks. An interruption in certain key relationships could materially affect our ability to market our products and could have a material adverse effect on our businesses, operating results and financial condition.

In addition, when our products are distributed through unaffiliated firms, we may not be able to monitor or control the manner of their distribution, despite our training and compliance programs. If our products are distributed to customers for whom they are unsuitable or distributed in any other inappropriate manner, we may suffer reputational and other harm to our business.

Significant legal proceedings may adversely affect our results of operations or financial condition. We are party to numerous legal proceedings, including class actions and regulatory and governmental investigations. Due to the nature of these proceedings, the lack of precise damage claims and the type of claims we are subject to, we cannot currently quantify our ultimate or maximum liability for these actions. Developments in these unresolved matters could have a material adverse effect on our consolidated financial condition or consolidated results of operations for an individual reporting period. Starr International Company, Inc. (SICO) has brought suit against the United States challenging the government's assistance of AIG, pursuant to which (i) AIG entered into a credit facility with the Federal Reserve Bank of New York and (ii) the United States received an approximately 80 percent ownership interest in AIG. The United States has alleged that AIG is obligated to indemnify the United States for any recoveries in these lawsuits. A determination that the United States is liable for damages in such suits, together with a determination that AIG is obligated to indemnify the United States for any such damages, could have a material adverse effect on our business, consolidated financial condition and results of operations. *For a discussion of the SICO* *litigation and other unresolved matters, see Note 16 to the Consolidated Financial Statements.*

If we are unable to maintain the availability of our electronic data systems and safeguard the security of our data, our ability to conduct business may be compromised, which could adversely affect our consolidated financial condition or results of operations. We use computer systems to store, retrieve, evaluate and use customer, employee, and company data and information. Some of these systems, in turn, rely upon third-party systems. Our business is highly dependent on our ability to access these systems to perform necessary business functions. These functions include providing insurance quotes, processing premium payments, making changes to existing policies, filing and paying claims, administering variable annuity products and mutual funds, providing customer support and managing our investment portfolios. Systems failures or outages could compromise our ability to perform these functions in a timely manner, which could harm our ability to conduct business and hurt our relationships with our business partners and customers. In the event of a natural disaster, a computer virus, unauthorized access, a terrorist attack, cyber-attack or other disruption inside or outside the U.S., our systems may be inaccessible to our employees, customers or business partners for an extended period of time, and our employees may be unable to perform their duties for an extended period of time if our data or systems are disabled or destroyed. Our systems have in the past been, and may in the future be, subject to unauthorized access, such as physical or electronic break-ins or unauthorized tampering. Like other global companies, we have, from time to time, experienced threats to our data and systems, including malware and computer virus attacks, unauthorized access, systems failures and disruptions. There is no assurance that our security measures will provide fully effective protection from such events. AIG maintains cyber risk insurance, but this insurance may not cover all costs associated with the consequences of personal, confidential or proprietary information being compromised. In some cases, such unauthorized access may not be immediately detected. This may impede or interrupt our business operations and could adversely affect our consolidated financial condition or results of operations.

In addition, we routinely transmit, receive and store personal, confidential and proprietary information by email and other electronic means. Although we attempt to keep such information confidential, we may be unable to do so in all events, especially with clients, vendors, service providers, counterparties and other third parties who may not have or use appropriate controls to protect personal, confidential or proprietary information. Furthermore, certain of our businesses are subject to compliance with laws and regulations enacted by U.S. federal and state governments, the European Union or other jurisdictions or enacted by various regulatory organizations or exchanges relating to the privacy and security of the information of clients, employees or others. The compromise of personal, confidential or proprietary information could result in remediation costs, legal liability, regulatory action and reputational harm.

In connection with our restructuring and efficiency initiatives we are evaluating and enhancing systems and creating new systems and processes. Due to the complexity and interconnectedness of our systems and processes, these changes, as well as changes designed to update and enhance our protective measures to address new threats, increase the risk of a system or process failure or the creation of a gap in our security measures. Any such failure or gap could adversely affect our business operations and the advancement of our restructuring initiatives.

Business or asset acquisitions and dispositions may expose us to certain risks. The completion of any announced business or asset acquisition or disposition is subject to risks relating to the receipt of required regulatory approvals, the terms and conditions of regulatory approvals, the occurrence of any event, change or other circumstances that could give rise to the termination of a transaction and the risk that parties may not be willing or able to satisfy the conditions to a transaction. As a result, there can be no assurance that any announced business or asset acquisition or disposition will be completed as contemplated, or at all, or regarding the expected timing of the completion of the acquisition or disposition. Once we complete acquisitions or dispositions, there can be no assurance that we will realize the anticipated benefits of any transaction. For example, the integration of businesses we acquire may not be as successful as we anticipate. Acquisitions involve a number of risks, including operational, strategic, financial, accounting, legal and tax risks. Difficulties in integrating an acquired business may result in the acquired business performing differently than we expected or in our failure to realize anticipated expense-related efficiencies. Our existing businesses could also be negatively impacted by acquisitions. Risks resulting from future acquisitions may have a material adverse effect on our results of operations and financial condition. In connection with a business or asset disposition, we may also hold a concentrated position in securities of the acquirer as part of the consideration, which subjects us to risks related to the price of equity securities and our ability to monetize such securities.

REGULATION

Our businesses are heavily regulated and changes in regulation may affect our operations, increase our insurance subsidiary capital requirements or reduce our profitability.

Our operations generally, and our insurance subsidiaries, in particular, are subject to extensive and potentially conflicting supervision and regulation by national authorities and by the various jurisdictions in which we do business. Supervision and regulation relate to numerous aspects of our business and financial condition. State and foreign regulators also periodically review and investigate our insurance businesses, including AIG-specific and industry-wide practices. The primary purpose of insurance regulation is the protection of our insurance contract holders, and not our investors. The extent of domestic regulation varies, but generally is governed by state statutes. These statutes delegate regulatory, supervisory and administrative authority to state insurance departments.

We strive to maintain all required licenses and approvals. However, our businesses may not fully comply with the wide variety of applicable laws and regulations. The relevant authority's interpretation of the laws and regulations also may change from time to time. Regulatory authorities have relatively broad discretion to grant, renew or revoke licenses and approvals. If we do not have the required licenses and approvals or do not comply with applicable regulatory requirements, these authorities could preclude or temporarily suspend us from carrying on some or all of our activities or impose substantial fines. Further, insurance regulatory authorities have relatively broad discretion to issue orders of supervision, which permit them to supervise the business and operations of an insurance company.

In the U.S., the RBC formula is designed to measure the adequacy of an insurer's statutory surplus in relation to the risks inherent in its business. Virtually every state has adopted, in substantial part, the RBC Model Law promulgated by the NAIC, which specifies the regulatory actions the insurance regulator may take if an insurer's RBC calculations fall below specific thresholds. Those actions range from requiring an insurer to submit a plan describing how it would regain a specified RBC ratio to a mandatory regulatory takeover of the company. Regulators at the state, federal and international levels are also considering the imposition of additional group-wide capital requirements on certain insurance companies designated as systemically important, that may augment state-law RBC standards that apply at the legal entity level, and such capital calculations may be made on bases other than the statutory statements of our insurance subsidiaries. We cannot predict the effect these initiatives may have on our business, results of operations, cash flows and financial condition. *See "Our status as a nonbank systemically important financial institution, as well as the enactment of Dodd-Frank, subjects us to substantial additional federal regulation, which may materially and adversely affect our businesses, results of operations and cash flows" and "Actions by foreign governments and regulators could subject us to substantial additional regulation" below for additional information on increased capital requirements that may be imposed on us.*

The degree of regulation and supervision in foreign jurisdictions varies. AIG subsidiaries operating in foreign jurisdictions must satisfy local regulatory requirements and it is possible that local licenses may require AIG Parent to meet certain conditions. Licenses issued by foreign authorities to our subsidiaries are subject to modification and revocation. Accordingly, our insurance subsidiaries could be prevented from conducting future business in certain of the jurisdictions where they currently operate. Adverse actions from any single country could adversely affect our results of operations, liquidity and financial condition, depending on the magnitude of the event and our financial exposure at that time in that country.

See Item 1. Business – Regulation for further discussion of our regulatory environment.

Our status as a nonbank systemically important financial institution, as well as the enactment of Dodd-Frank, subjects us to substantial additional federal regulation, which may materially and adversely affect our businesses, results of operations and cash flows. On July 21, 2010, Dodd-Frank, which effects comprehensive changes to the regulation of financial services in the United States, was signed into law. Dodd-Frank directs existing and newly created government agencies and bodies to promulgate regulations implementing the law, which is an ongoing process. However, in light of the recent change in administration in the United States, there is considerable uncertainty as to the future timing and extent of the federal regulation of nonbank systemically important financial institutions and even the appropriateness of federal regulation of them in general might be questioned.

We cannot predict the requirements of the regulations ultimately adopted, the level and magnitude of supervision we may become subject to, or how Dodd-Frank and such regulations will affect the financial markets generally or our businesses, results of operations or cash flows. It is possible that the regulations adopted under Dodd-Frank and our regulation by the FRB as a nonbank SIFI could significantly alter our business practices, limit our ability to engage in capital or liability management, require us to raise additional capital, and impose burdensome and costly requirements and additional costs. Some of the regulations may also affect the perceptions of regulators, customers, counterparties, creditors or investors about our financial strength and could potentially affect our financing costs.

See Item 1. Business – Regulation for further discussion of the details of these regulations as they apply to AIG and its businesses.

Actions by foreign governments and regulators could subject us to substantial additional regulation. We cannot predict the impact laws and regulations adopted in foreign jurisdictions may have on the financial markets generally or our businesses, results of operations or cash flows. It is possible such laws and regulations, the impact of our designation as a global systemically important insurer (G-SII), our status as an Internationally Active Insurance Group (IAIG) and certain initiatives by the FSB and the IAIS, including, but not limited to, the application of HLA capital and the ongoing development of an ICS, and implementation of Solvency II in the European Union, may significantly alter our business practices. They may also limit our ability to engage in capital or liability management, require us to raise additional capital, and impose burdensome requirements and additional costs. It is possible that the laws and regulations adopted in foreign jurisdictions will differ from one another, and that they could be inconsistent with the laws and regulations of other jurisdictions including the United States.

For further details on these international regulations and their potential impact on AIG and its businesses, see Item 1. Business – Regulation — Other Regulatory Developments.

The USA PATRIOT Act, the Office of Foreign Assets Control regulations and similar laws and regulations that apply to us may expose us to significant penalties. The operations of our subsidiaries are subject to laws and regulations, including, in some cases, the USA PATRIOT Act of 2001, which require companies to know certain information about their clients and to monitor their transactions for suspicious activities. Also, the Department of the Treasury's Office of Foreign Assets Control administers regulations requiring U.S. persons to refrain from doing business, or allowing their clients to do business through them, with certain organizations or individuals on a prohibited list maintained by the U.S. government or with certain countries. The United Kingdom, the European Union and other jurisdictions maintain similar laws and regulations. Although we have instituted compliance programs to address these requirements, there are inherent risks in global transactions.

Attempts to efficiently manage the impact of Regulation XXX and Actuarial Guideline AXXX may fail in whole or in part resulting in an adverse effect on our financial condition and results of operations. The NAIC Model Regulation "Valuation of Life Insurance Policies" (Regulation XXX) requires insurers to establish additional statutory reserves for term life insurance policies with long-term premium guarantees and universal life policies with secondary guarantees. In addition, NAIC Actuarial Guideline 38 (AG 38, also referred to as Guideline AXXX) clarifies the application of Regulation XXX as to certain universal life insurance policies with secondary guarantees.

Our domestic Life Insurance Companies manage the capital impact of statutory reserve requirements under Regulation XXX and Guideline AXXX through reinsurance transactions, to maintain their ability to offer competitive pricing and successfully market such products. If regulations change with respect to our ability to manage the capital impact of certain statutory reserve requirements, our statutory reserve requirements could increase, or our ability to take reserve credit for reinsurance transactions could be reduced or eliminated. As a result, we could be required to increase prices on our products, raise capital to replace the reserve credit provided by the reinsurance transactions or incur higher expenses to obtain reinsurance, each of which could adversely affect our competitive position, financial condition or results of operations. If our actions to efficiently manage the impact of Regulation XXX or Guideline AXXX on future sales of term and universal life insurance products are not successful, we may incur higher operating costs or our sales of these products may be affected. *See Note 19 to the Consolidated Financial Statements for additional information on statutory reserving requirements under Regulation XXX and Guideline AXXX and our use of reinsurance.*

New regulations may affect our businesses, results of operations, financial condition and ability to compete effectively. Legislators and regulators may periodically consider various proposals that may affect our business practices and product designs, how we sell or service certain products we offer, or the profitability of certain of our businesses. New regulations may even affect our ability to conduct certain businesses at all, including proposals relating to restrictions on the type of activities in which financial institutions are permitted to engage and the size of financial institutions. These proposals could also impose additional taxes on a limited subset of financial institutions and insurance companies (either based on size, activities, geography, government support or other criteria). It is uncertain whether and how these and other such proposals would apply to us or our competitors or how they could impact our consolidated results of operations, financial condition and ability to compete effectively.

An "ownership change" could limit our ability to utilize tax loss and credit carryforwards to offset future taxable income. As of December 31, 2016, we had a U.S. federal net operating loss carryforward of approximately $34.6 billion and $4.9 billion in foreign tax credits (tax loss and credit carryforwards). Our ability to use these tax attributes to offset future taxable income may be significantly limited if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the Code). In general, an ownership change will occur when the percentage of AIG Parent's ownership (by value) of one or more "5-percent shareholders" (as defined in the Code) has increased by more than 50 percent over the lowest percentage owned by such shareholders at any time during the prior three years (calculated on a rolling basis). An entity that experiences an ownership change generally will be subject to an annual limitation on its pre-ownership change tax loss and credit carryforwards equal to the equity value of the corporation immediately before the ownership change, multiplied by the long-term, tax-exempt rate posted monthly by the IRS (subject to certain adjustments). The annual limitation would be increased each year to the extent that there is an unused limitation in a prior year. The limitation on our ability to utilize tax loss and credit carryforwards arising from an ownership change under Section 382 would depend on the value of our equity at the time of any ownership change. If we were to experience an "ownership change", it is possible that a significant portion of our tax loss and credit carryforwards could expire before we would be able to use them to offset future taxable income.

On March 9, 2011, our Board adopted our Tax Asset Protection Plan (the Plan) to help protect these tax loss and credit carryforwards, and on December 14, 2016, the Board adopted an amendment to the Plan, extending its expiration date to December 14, 2019. The Board intends to submit the amendment of the Plan to our shareholders for ratification at our 2017 Annual Meeting of Shareholders. At our 2011 Annual Meeting of Shareholders, shareholders adopted a protective amendment to our Restated Certificate of

Incorporation (Protective Amendment), which is designed to prevent certain transfers of AIG Common Stock that could result in an “ownership change” and currently expires on May 12, 2017. The Board intends to submit to our shareholders for approval at our 2017 Annual Meeting of Shareholders an amendment to our Amended and Restated Certificate of Incorporation to adopt a successor to the Protective Amendment that contains substantially the same terms as the Protective Amendment but would expire on the third anniversary of the date of our 2017 Annual Meeting of Shareholders.

The Plan is designed to reduce the likelihood of an “ownership change” by (i) discouraging any person or group from becoming a 4.99 percent shareholder and (ii) discouraging any existing 4.99 percent shareholder from acquiring additional shares of AIG Common Stock. The Protective Amendment generally restricts any transfer of AIG Common Stock that would (i) increase the ownership by any person to 4.99 percent or more of AIG stock then outstanding or (ii) increase the percentage of AIG stock owned by a Five Percent Stockholder (as defined in the Plan). Despite the intentions of the Plan and the Protective Amendment to deter and prevent an “ownership change”, such an event may still occur. In addition, the Plan and the Protective Amendment may make it more difficult and more expensive to acquire us, and may discourage open market purchases of AIG Common Stock or a non-negotiated tender or exchange offer for AIG Common Stock. Accordingly, the Plan and the Protective Amendment may limit a shareholder’s ability to realize a premium over the market price of AIG Common Stock in connection with any stock transaction.

Changes in tax laws could increase our corporate taxes, reduce our deferred tax assets or make some of our products less attractive to consumers. Changes in tax laws or their interpretation could negatively impact our business or results. Some proposed changes could have the effect of increasing our effective tax rate by reducing deductions or increasing income inclusions, such as denying deductions for the purchase of foreign goods and services, possibly including reinsurance, or placing restrictions on interest expense. Conversely, other changes, such as lowering the U.S. federal corporate tax rate discussed recently in the context of tax reform, could reduce the value of our deferred tax assets and reduce the value of our investments in tax-exempt securities. In addition, changes in the way foreign taxes can be credited against U.S. taxes, the ways insurance companies calculate and deduct reserves for tax purposes, and impositions of new or changed premium, value added and other indirect taxes could increase our tax expense, thereby reducing earnings.

In addition to proposing to change the taxation of corporations in general and insurance companies in particular, the U.S. Government has considered proposals that could tax income earned by customers on certain life insurance and annuity products. These changes could reduce demand in the U.S. for life insurance and annuity contracts, which would reduce our income due to lower sales of these products or potential increased surrenders of in-force business. Similarly, proposals that lower U.S. individual federal income tax rates or repeal the federal estate tax could also reduce demand in the U.S. for certain life insurance or annuity contracts.

It remains difficult to predict whether or when there will be any tax law changes having a material adverse effect on our financial condition or results of operations, as the impact of broad proposals on our business can vary substantially depending upon the specific changes made and how the changes are implemented by the authorities.

COMPETITION and employees

We face intense competition in each of our businesses. Our businesses operate in highly competitive environments, both domestically and overseas. Our principal competitors are other large multinational insurance organizations, as well as banks, investment banks and other nonbank financial institutions. The insurance industry in particular is highly competitive. Within the U.S., our Property Casualty Insurance Companies compete with other stock companies, specialty insurance organizations, mutual insurance companies and other underwriting organizations. Our Life Insurance Companies compete in the U.S. with life insurance companies and other participants in related financial services fields. Overseas, our subsidiaries compete for business with the foreign insurance operations of large U.S. insurers and with global insurance groups and local companies.

Reductions of our credit ratings or negative publicity may make it more difficult to compete to retain existing customers and to maintain our historical levels of business with existing customers and counterparties. General insurance and life insurance companies compete through a combination of risk acceptance criteria, product pricing, and terms and conditions. Retirement services companies compete through crediting rates and the issuance of guaranteed benefits. A decline in our position as to any one or more of these factors could adversely affect our profitability.

Competition for employees in our industry is intense, and we may not be able to attract and retain the highly skilled people we need to support our business. Our success depends, in large part, on our ability to attract and retain key people. Due to the intense competition in our industry for key employees with demonstrated ability, we may be unable to hire or retain such employees. In addition, we may experience higher than expected employee turnover and difficulty attracting new employees as a result of uncertainty from strategic actions and organizational and operational changes. Losing any of our key people also could have a material adverse effect on our operations given their skills, knowledge of our business, years of industry experience and the potential difficulty of promptly finding qualified replacement employees. Our results of operations and financial condition could be materially adversely affected if we are unsuccessful in attracting and retaining key employees.

Managing key employee succession and retention is critical to our success. We would be adversely affected if we fail to adequately plan for the succession of our senior management and other key employees. While we have succession plans and long-term compensation plans designed to retain our employees, our succession plans may not operate effectively and our compensation plans cannot guarantee that the services of these employees will continue to be available to us.

Employee error and misconduct may be difficult to detect and prevent and may result in significant losses. There have been a number of cases involving fraud or other misconduct by employees in the financial services industry in recent years and we run the risk that employee misconduct could occur. Instances of fraud, illegal acts, errors, failure to document transactions properly or to obtain proper internal authorization, misuse of customer or proprietary information, or failure to comply with regulatory requirements or our internal policies may result in losses and/or reputational damage. It is not always possible to deter or prevent employee misconduct, and the controls that we have in place to prevent and detect this activity may not be effective in all cases.

Third-party vendors we rely upon to provide certain business and administrative services on our behalf may not perform as anticipated, which could have an adverse effect on our business and results of operations. We have taken action to reduce coordination costs and take advantage of economies of scale by transitioning multiple functions and services to a small number of third-party providers. We periodically negotiate provisions and renewals of these relationships, and there can be no assurance that such terms will remain acceptable to us or such third parties. If such third-party providers experience disruptions or do not perform as anticipated, or we experience problems with a transition to a third-party provider, we may experience operational difficulties, an inability to meet obligations (including, but not limited to, policyholder obligations), a loss of business and increased costs, or suffer other negative consequences, all of which may have a material adverse effect on our business and results of operations.

ESTIMATES AND ASSUMPTIONS

Estimates used in the preparation of financial statements and modeled results used in various areas of our business may differ materially from actual experience. Our financial statements are prepared in conformity with U.S. Generally Accepted

Accounting Principles (U.S. GAAP), which requires the application of accounting policies that often involve a significant degree of judgment. *The accounting policies that we consider most dependent on the application of estimates and assumptions, and therefore may be viewed as critical accounting estimates, are described in Item 7. MD&A — Critical Accounting Estimates.* These accounting estimates require the use of assumptions, some of which are highly uncertain at the time of estimation. These estimates are based on judgment, current facts and circumstances, and, when applicable, internally developed models. Therefore, actual results could differ from these estimates, possibly in the near term, and could have a material effect on our consolidated financial statements.

In addition, we employ models to price products, calculate reserves and value assets, as well as evaluate risk and determine capital requirements, among other uses. These models rely on estimates and projections that are inherently uncertain, may use incomplete, outdated or incorrect data or assumptions and may not operate properly. As our businesses continue to expand and evolve, the number and complexity of models we employ has grown, increasing our exposure to error in the design, implementation or use of models, including the associated input data, controls and assumptions and the controls we have in place to mitigate their risk may not be effective in all cases.

Changes in accounting principles and financial reporting requirements could impact our reported results of operations and our reported financial position. Our financial statements are subject to the application of U.S. GAAP, which is periodically revised. Accordingly, from time to time, we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the Financial Accounting Standards Board (FASB). The impact of accounting pronouncements that have been issued but are not yet required to be implemented is disclosed in Note 2 to the Consolidated Financial Statements.

The FASB and International Accounting Standards Board (IASB) have ongoing projects to revise accounting standards for insurance contracts. The FASB has focused on disclosures for short-duration insurance contracts, which primarily relate to our property casualty products, and on targeted improvements to accounting measurements and disclosures for long-duration insurance contracts, which primarily relate to our life and annuity products. The IASB continues to contemplate significant changes to accounting measurements for both short and long-duration insurance contracts. While the final resolution of changes to U.S. GAAP and International Financial Reporting Standards pursuant to these projects remains unclear, changes to the manner in which we account for insurance products could have a significant impact on our future financial reports, operations, capital management and business. Further, the adoption of a new insurance contracts standard as well as other future accounting standards could have a material effect on our reported results of operations and reported financial condition.

Changes in our assumptions regarding the discount rate, expected rate of return, and expected compensation for our pension and other postretirement benefit plans may result in increased expenses and reduce our profitability. We determine our pension and other postretirement benefit plan costs based on assumed discount rates, expected rates of return on plan assets, expected increases in compensation levels and trends in health care costs. Changes in these assumptions, including from the impact of a sustained low interest rate environment or rapidly rising interest rates, may result in increased expenses and reduce our profitability. *See Note 21 to the Consolidated Financial Statements for further details on our pension and postretirement benefit plans.*

ITEM 1B | Unresolved Staff Comments

There are no material unresolved written comments that were received from the SEC staff 180 days or more before the end of our fiscal year relating to periodic or current reports under the Securities Exchange Act of 1934.

ITEM 2 | Properties

We operate from approximately 180 offices in the United States and approximately 500 offices in over 70 foreign countries. The following offices are located in buildings in the United States owned by us:

Property Casualty Insurance Companies: • Stevens Point, Wisconsin	**Life Insurance Companies:** • Amarillo and Houston, Texas
Other Operations: • 175 Water Street in New York, New York • Livingston, New Jersey • Stowe, Vermont • Ft. Worth, Texas	

In addition, our Property Casualty Insurance Companies own offices in approximately 20 foreign countries and jurisdictions including Argentina, Bermuda, Colombia, Ecuador, Japan, Mexico, the UK and Venezuela. The remainder of the office space we use is leased. We believe that our leases and properties are sufficient for our current purposes.

LOCATIONS OF CERTAIN ASSETS

As of December 31, 2016, approximately 11 percent of our consolidated assets were located outside the U.S. and Canada, including $532 million of cash and securities on deposit with regulatory authorities in those locations. See Note 3 to the Consolidated Financial Statements for additional geographic information. See Note 6 to the Consolidated Financial Statements for total carrying values of cash and securities deposited by our insurance subsidiaries under requirements of regulatory authorities.

Operations outside the U.S. and Canada and assets held abroad may be adversely affected by political developments in foreign countries, including tax changes, nationalization and changes in regulatory policy, as well as by consequence of hostilities and unrest. The risks of such occurrences and their overall effect upon us vary from country to country and cannot be predicted. If expropriation or nationalization does occur, our policy is to take all appropriate measures to seek recovery of any affected assets. Certain of the countries in which our business is conducted have currency restrictions that generally cause a delay in a company's ability to repatriate assets and profits. See Item 1A. Risk Factors — Business and Operations for additional information.

ITEM 3 | Legal Proceedings

For a discussion of legal proceedings, see Note 16 — Contingencies, Commitments and Guarantees to the Consolidated Financial Statements, which is incorporated herein by reference.

ITEM 4 | Mine Safety Disclosures

Not applicable.

Part II

ITEM 5 | Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

AIG's common stock, par value $2.50 per share (AIG Common Stock), is listed on the New York Stock Exchange (NYSE: AIG), as well as on the Tokyo Stock Exchange. There were approximately 27,306 stockholders of record of AIG Common Stock as of February 13, 2017.

The following table presents high and low closing sale prices of AIG Common Stock on the New York Stock Exchange Composite Tape for each quarter of 2016 and 2015, and the dividends declared per share during those periods:

	2016			2015		
	High	Low	Dividends	High	Low	Dividends
First quarter	$ 60.64	$ 50.20	$ 0.320	$ 56.42	$ 48.87	$ 0.125
Second quarter	58.32	48.79	0.320	63.32	54.81	0.125
Third quarter	59.86	51.21	0.320	64.54	55.66	0.280
Fourth quarter	66.70	57.38	0.320	64.12	56.92	0.280

Dividends

On February 14, 2017, our Board of Directors declared a cash dividend on AIG Common Stock of $0.32 per share, payable on March 29, 2017 to shareholders of record on March 15, 2017.

Any dividend payment must be approved by AIG's Board of Directors. In determining whether to pay any dividend, our Board of Directors may consider AIG's financial position, the performance of our businesses, our consolidated financial condition, results of operations, capital and liquidity positions and risk profile, our expectations for capital generation and utilization, the existence of investment opportunities, and other factors. AIG may become subject to restrictions on the payment of dividends and purchases of AIG Common Stock as a nonbank SIFI and a G-SII.

For a discussion of certain restrictions on the payment of dividends to AIG by some of its insurance subsidiaries, see Item 1A. Risk Factors — Liquidity, Capital and Credit — AIG Parent's ability to access funds from our subsidiaries is limited, and Note 19 to the Consolidated Financial Statements.

Equity Compensation Plans

Our table of equity compensation plans will be included in a Form 10-K/A that will be filed with the SEC no later than 120 days after the end of AIG's fiscal year.

ITEM 5 | **Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Purchases of Equity Securities

The following table provides information about purchases made by or on behalf of AIG or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934 (the Exchange Act)) of AIG Common Stock during the three months ended December 31, 2016:

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)
October 1 – 31	14,461,712	$ 59.89	14,461,712	$ 1,674
November 1 – 30	19,996,425	61.65	19,996,425	3,396
December 1 – 31	13,109,645	65.24	13,109,645	2,496
Total	**47,567,782**	**$ 62.10**	**47,567,782**	**$ 2,496**

Our Board of Directors has authorized the repurchase of shares of AIG Common Stock through a series of actions. On November 2, 2016, our Board of Directors authorized an additional increase to its previous repurchase authorization of AIG Common Stock of $3.0 billion.

During the three-month period ended December 31, 2016, we repurchased approximately 48 million shares of AIG Common Stock under this authorization for an aggregate purchase price of approximately $3.0 billion. Under Exchange Act Rule 10b5-1 plans, from January 1 to February 14, 2017, we repurchased approximately 18 million shares of AIG Common Stock for an aggregate purchase price of approximately $1.2 billion.

On February 14, 2017, our Board of Directors authorized an additional increase to the repurchase authorization of AIG Common Stock of $3.5 billion, resulting in a remaining authorization on such date of approximately $4.7 billion. Shares may be repurchased from time to time in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise (including through the purchase of warrants). Certain of our share repurchases have been and may from time to time be effected through Exchange Act Rule 10b5-1 repurchase plans. The timing of any future share repurchases will depend on market conditions, our financial condition, results of operations, liquidity and other factors.

See Note 17 to the Consolidated Financial Statements for additional information on our share purchases.

ITEM 5 | **Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Common Stock Performance Graph

The following Performance Graph compares the cumulative total shareholder return on AIG Common Stock for a five-year period (December 31, 2011 to December 31, 2016) with the cumulative total return of the S&P's 500 stock index (which includes AIG), the S&P Property and Casualty Insurance Index (S&P P&C Index) and the S&P Life and Health Insurance Index (S&P L&H Index).

The Performance Graph also compares the cumulative total shareholder return on AIG Common Stock to the return of a group of companies (the Former Peer Group) consisting of 14 insurance companies to which we compared our business and operations in our Annual Report on Form 10-K for the year ended December 31, 2015:

- AEGON, N.V.
- Aflac Incorporated
- Allianz Group
- AXA Group
- Chubb Limited
- CNA Financial Corporation
- The Hartford Financial Services Group, Inc.
- Lincoln National Corporation
- MetLife, Inc.
- Principal Financial Group, Inc.
- Prudential Financial, Inc.
- The Travelers Companies, Inc.
- XL Capital Ltd.
- Zurich Insurance Group

We believe using the S&P P&C Index and the S&P L&H Index is more comparable to our overall business and operations.

Value of $100 Invested on December 31, 2011

(All $ as of December 31st)

Dividend reinvestment has been assumed and returns have been weighted to reflect relative stock market capitalization.

	As of December 31,					
	2011	2012	2013	2014	2015	**2016**
AIG	$ 100.00	$ 152.16	$ 220.93	$ 244.66	$ 274.44	**$ 295.72**
S&P 500	100.00	116.00	153.57	174.60	177.01	**198.18**
S&P 500 Property & Casualty Insurance Index	100.00	120.11	166.10	192.25	210.57	**243.65**
S&P 500 Life & Health Insurance	100.00	114.59	187.33	190.98	178.93	**223.41**
Former Peer Group	100.00	128.41	190.86	193.12	202.37	**222.68**

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ITEM 6 | **Selected Financial Data**

ITEM 6 | Selected Financial Data

The Selected Consolidated Financial Data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and accompanying notes included elsewhere herein.

	Years Ended December 31,				
(in millions, except per share data)	**2016**	2015	2014	2013	2012
Revenues:					
Premiums	**$ 34,393**	$ 36,655	$ 37,254	$ 37,499	$ 38,189
Policy fees	**2,732**	2,755	2,615	2,340	2,192
Net investment income	**14,065**	14,053	16,079	15,810	20,343
Net realized capital gains (losses)	**(1,944)**	776	739	1,939	1,087
Aircraft leasing revenue	**-**	-	1,602	4,420	4,504
Other income	**3,121**	4,088	6,117	6,866	4,899
Total revenues	**52,367**	58,327	64,406	68,874	71,214
Benefits, losses and expenses:					
Policyholder benefits and losses incurred	**32,437**	31,345	28,281	29,503	32,036
Interest credited to policyholder account balances	**3,705**	3,731	3,768	3,892	4,340
Amortization of deferred policy acquisition costs	**4,521**	5,236	5,330	5,157	5,709
General operating and other expenses	**10,989**	12,686	13,138	13,564	13,013
Interest expense	**1,260**	1,281	1,718	2,142	2,319
Aircraft leasing expenses	**-**	-	1,585	4,549	4,138
Net loss on extinguishment of debt	**74**	756	2,282	651	32
Net (gain) loss on sale of properties and divested businesses	**(545)**	11	(2,197)	48	6,736
Total benefits, losses and expenses	**52,441**	55,046	53,905	59,506	68,323
Income (loss) from continuing operations before income taxes	**(74)**	3,281	10,501	9,368	2,891
Income tax expense (benefit)	**185**	1,059	2,927	360	(808)
Income (loss) from continuing operations	**(259)**	2,222	7,574	9,008	3,699
Income (loss) from discontinued operations, net of taxes	**(90)**	-	(50)	84	1
Net income (loss)	**(349)**	2,222	7,524	9,092	3,700
Net income (loss) from continuing operations attributable to noncontrolling interests	**500**	26	(5)	7	262
Net income (loss) attributable to AIG	**(849)**	2,196	7,529	9,085	3,438

Income (loss) per common share attributable to AIG common shareholders					
Basic					
Income (loss) from continuing operations	**(0.70)**	1.69	5.31	6.11	2.04
Income (loss) from discontinued operations	**(0.08)**	-	(0.04)	0.05	-
Net income (loss) attributable to AIG	**(0.78)**	1.69	5.27	6.16	2.04
Diluted					
Income (loss) from continuing operations	**(0.70)**	1.65	5.24	6.08	2.04
Income (loss) from discontinued operations	**(0.08)**	-	(0.04)	0.05	-
Net income (loss) attributable to AIG	**(0.78)**	1.65	5.20	6.13	2.04
Dividends declared per common share	**1.28**	0.81	0.50	0.20	-

ITEM 6 | **Selected Financial Data**

Year-end balance sheet data:					
Total investments	**328,175**	338,354	355,766	356,428	375,824
Total assets	**498,264**	496,842	515,500	541,221	548,451
Long-term debt[a]	**30,912**	29,249	31,136	41,585	48,318
Total liabilities[a]	**421,406**	406,632	408,228	440,110	449,448
Total AIG shareholders' equity	**76,300**	89,658	106,898	100,470	98,002
Total equity	**76,858**	90,210	107,272	101,081	98,669
Book value per common share	**76.66**	75.10	77.69	68.62	66.38
Book value per common share, excluding Accumulated other comprehensive income (loss)[b]	**73.41**	72.97	69.98	64.28	57.87
Adjusted book value per common share[b]	**58.57**	58.94	58.23	52.12	45.30
Adjusted book value per common share, including dividend growth[b]	**$ 59.79**	$ 59.26	$ 58.23	$ 52.12	$ 45.30
ROE	**(1.0)**%	2.2%	7.1%	9.2%	3.4%
Adjusted ROE[b]	**0.6**	3.7	8.8	9.0	8.9

		Years Ended December 31,			
(in millions, except per share data)	**2016**	2015	2014	2013	2012
Other data (pre-tax, from continuing operations):					
Catastrophe-related losses[c]	**$ 1,330**	$ 731	$ 728	$ 787	$ 2,652
Prior year unfavorable development	**5,788**	4,119	703	557	421
Other-than-temporary impairments	**559**	671	247	232	1,050
Adjustment to federal deferred tax valuation allowance	**$ 83**	$ 110	$ (181)	$ (3,165)	$ (1,907)

(a) Long-term debt and total liabilities include debt issuance costs of $88 million, $101 million, $81 million, $108 million, and $182 million at December 31, 2016, 2015, 2014, 2013, and 2012, respectively. See Note 2 to the Consolidated Financial Statements.

(b) Book value per common share excluding Accumulated other comprehensive income (loss) (AOCI)**,** Book value per common share excluding AOCI and DTA (Adjusted book value per common share), Adjusted book value per common share, including dividend growth, and return on equity – after-tax operating income excluding AOCI and DTA (Adjusted return on equity) are non-GAAP financial measures and the reconciliations to the relevant GAAP financial measures are below. See Item 7. MD&A — Use of Non GAAP Measures for additional information.

(c) Natural catastrophe losses are generally weather or seismic events having a net impact on AIG in excess of $10 million each. Catastrophes also include certain man-made events, such as terrorism and civil disorders that meet the $10 million threshold.

Items Affecting Comparability Between Periods

The following are significant developments that affected multiple periods and financial statement captions.

Asset Dispositions in 2014, 2015 and 2016

We completed the sale of International Lease Finance Corporation (ILFC) on May 14, 2014, and in 2015 we sold all of our ordinary shares of AerCap Holdings N.V. (AerCap) received as part of the consideration for the sale of ILFC, as further discussed in Note 1 to the Consolidated Financial Statements. We also executed multiple asset dispositions in 2016. See Item 7. MD&A — Executive Summary for further discussion.

ITEM 6 | **Selected Financial Data**

Reconciliation of Non-GAAP measures included in Selected Financial Data

The following table presents a reconciliation of Book value per common share to Book value per common share, excluding AOCI, Book value per common share, excluding AOCI and DTA (Adjusted book value per common share), and Adjusted book value per common share, including dividend growth, which are non-GAAP measures. See Item 7. MD&A — Use of Non GAAP Measures for additional information.

	At December 31,			
(in millions, except per share data)	**2016**	2015	2014	2013
Total AIG shareholders' equity	**$ 76,300**	$ 89,658	$ 106,898	$ 100,470
Accumulated other comprehensive income	**3,230**	2,537	10,617	6,360
Total AIG shareholders' equity, excluding AOCI	**73,070**	87,121	96,281	94,110
Deferred tax assets	**14,770**	16,751	16,158	17,797
Adjusted shareholders' equity	**58,300**	70,370	80,123	76,313
Add: Cumulative quarterly common stock dividends above $0.125 per share*	**1,216**	378	-	-
Adjusted shareholders' equity, including dividend growth	**$ 59,516**	$ 70,748	$ 80,123	$ 76,313
Total common shares outstanding	**995,335,841**	1,193,916,617	1,375,926,971	1,464,063,323
Book value per common share	**$ 76.66**	$ 75.10	$ 77.69	$ 68.62
Book value per common share, excluding AOCI	**73.41**	72.97	69.98	64.28
Adjusted book value per common share	**58.57**	58.94	58.23	52.12
Adjusted book value per common share, including dividend growth	**$ 59.79**	$ 59.26	$ 58.23	$ 52.12

* Prior to the third quarter of 2015, dividends per share were $0.125.

The following table presents a reconciliation of Return on equity to Adjusted Return on equity, which is a non-GAAP measure. See Item 7. MD&A — Use of Non GAAP Measures for additional information.

Years Ended December 31,					
(dollars in millions)	**2016**	2015	2014	2013	201
Net income (loss) attributable to AIG	**$ (849)**	$ 2,196	$ 7,529	$ 9,085	$ 3,43
After-tax operating income attributable to AIG	**406**	2,872	6,941	6,449	6,50
Average AIG Shareholders' equity	**86,617**	101,558	105,589	98,850	101,87
Average AOCI	**5,722**	7,598	9,781	8,865	9,71
Average AIG Shareholders' equity, excluding average AOCI	**80,895**	93,960	95,808	89,985	92,15
Average DTA	**15,905**	15,803	16,611	18,150	19,25
Average adjusted Shareholders' equity	**$ 64,990**	$ 78,157	$ 79,197	$ 71,835	$ 72,90
ROE	**(1.0)%**	2.2%	7.1%	9.2%	3

Adjusted Return on Equity	**0.6**	3.7	8.8	9.0	8

ITEM 7 | Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Regarding Forward-Looking Information

This Annual Report on Form 10-K (Annual Report) and other publicly available documents may include, and officers and representatives of American International Group, Inc. (AIG) may from time to time make, projections, goals, assumptions and statements that may constitute "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These projections, goals, assumptions and statements are not historical facts but instead represent only our belief regarding future events, many of which, by their nature, are inherently uncertain and outside our control. These projections, goals, assumptions and statements include statements preceded by, followed by or including words such as "will," "believe," "anticipate," "expect," "intend," "plan," "focused on achieving," "view," "target," "goal" or "estimate." These projections, goals, assumptions and statements may address, among other things, our:

- exposures to subprime mortgages, monoline insurers, the residential and commercial real estate markets, state and municipal bond issuers, sovereign bond issuers, the energy sector and currency exchange rates;
- exposure to European governments and European financial institutions;
- strategy for risk management;
- actual and anticipated sales of businesses or asset divestitures or monetizations;
- restructuring of business operations, including anticipated restructuring charges and annual cost savings;
- generation of deployable capital;
- strategies to increase return on equity and earnings per share;
- strategies to grow net investment income, efficiently manage capital, grow book value per common share, and reduce expenses;
- anticipated organizational and business changes;
- strategies for customer retention, growth, product development, market position, financial results and reserves; and
- segments' revenues and combined ratios.

It is possible that our actual results and financial condition will differ, possibly materially, from the results and financial condition indicated in these projections, goals, assumptions and statements. Factors that could cause our actual results to differ, possibly materially, from those in the specific projections, goals, assumptions and statements include:

- changes in market conditions;
- negative impacts on customers, business partners and other stakeholders;
- the occurrence of catastrophic events, both natural and man-made;
- significant legal proceedings;
- our ability to successfully reduce costs and expenses and make business and organizational changes without negatively impacting client relationships or our competitive position;
- our ability to successfully dispose of, or monetize, businesses or assets;

- the timing and applicable requirements of any new regulatory framework to which we are subject as a nonbank systemically important financial institution (SIFI) and as a global systemically important insurer (G SII);

- concentrations in our investment portfolios;

- actions by credit rating agencies;

- judgments concerning casualty insurance underwriting and insurance liabilities;

- our ability to successfully manage Legacy portfolios;

- judgments concerning the recognition of deferred tax assets;

- judgments concerning estimated restructuring charges and estimated cost savings; and

- such other factors discussed in:

– Part I, Item 1A. Risk Factors of this Annual Report; and

– this Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) of this Annual Report.

We are not under any obligation (and expressly disclaim any obligation) to update or alter any projections, goals, assumptions or other statements, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise.

Throughout the MD&A, we use certain terms and abbreviations, which are summarized in the Glossary and Acronyms.

We have incorporated into this discussion a number of cross-references to additional information included throughout this Annual Report to assist readers seeking additional information related to a particular subject.

Use of Non-GAAP Measures

In Item 1. Business, Item 6. Selected Financial Data and throughout this MD&A, we present our financial condition and results of operations in the way we believe will be most meaningful and representative of our business results. Some of the measurements we use are “non GAAP financial measures” under SEC rules and regulations. GAAP is the acronym for “accounting principles generally accepted in the United States.” The non GAAP financial measures we present may not be comparable to similarly named measures reported by other companies.

Book Value Per Common Share Excluding Accumulated Other Comprehensive Income (AOCI), Book Value Per Common Share Excluding AOCI and Deferred Tax Assets (DTA) (Adjusted Book Value Per Common Share) and Adjusted Book Value Per Common Share Including Dividend Growth are used to show the amount of our net worth on a per-share basis. We believe these measures are useful to investors because they eliminate items that can fluctuate significantly from period to period, including changes in fair value of our available for sale securities portfolio, foreign currency translation adjustments and U.S. tax attribute deferred tax assets. These measures also eliminate the asymmetrical impact resulting from changes in fair value of our available for sale securities portfolio wherein there is largely no offsetting impact for certain related insurance liabilities. We exclude deferred tax assets representing U.S. tax attributes related to net operating loss carryforwards and foreign tax credits as they have not yet been utilized. Amounts for interim periods are estimates based on projections of full-year attribute utilization. As net operating loss carryforwards and foreign tax credits are utilized, the portion of the DTA utilized is included in these book value per common share metrics. Book Value Per Common Share Excluding AOCI, is derived by dividing total AIG shareholders’ equity, excluding AOCI, by total common shares outstanding. Adjusted Book Value Per Common Share is derived by dividing total AIG shareholders’ equity, excluding AOCI and DTA (Adjusted Shareholders’ Equity), by total common shares outstanding. Adjusted Book Value Per Common Share including dividend growth is derived by dividing Adjusted Shareholders’ Equity, including growth in quarterly dividends above $0.125 per share to shareholders, by total common shares outstanding. The reconciliation to book value per common share, the most comparable GAAP measure, is presented in Item 6. Selected Financial Data.

Return on Equity – After-tax Operating Income Excluding AOCI and DTA (Adjusted Return on Equity) is used to show the rate of return on shareholders’ equity. We believe this measure is useful to investors because it eliminates items that can fluctuate significantly from period to period, including changes in fair value of our available for sale securities portfolio, foreign currency translation adjustments and U.S. tax attribute deferred tax assets. This measure also eliminates the asymmetrical impact resulting from changes in fair value of our available for sale securities portfolio wherein there is largely no offsetting impact for certain related insurance liabilities. We exclude deferred tax assets representing U.S. tax attributes related to net operating loss carryforwards and foreign tax credits as they have not yet been utilized. Amounts for interim periods are estimates based on projections of full-year attribute utilization. As net operating loss carryforwards and foreign tax credits are utilized, the portion of the DTA utilized is included in Adjusted Return on Equity. Adjusted Return on Equity is derived by dividing actual or annualized after-tax operating income attributable to AIG by average Adjusted Shareholders’ Equity. The reconciliation to return on equity, the most comparable GAAP measure, is presented in Item 6. Selected Financial Data.

After-tax operating income attributable to AIG is derived by excluding the tax effected pre-tax operating income (PTOI) adjustments described below and the following tax items from net income attributable to AIG.

- deferred income tax valuation allowance releases and charges; and
- uncertain tax positions and other tax items related to legacy matters having no relevance to our current businesses or operating performance.

General operating expenses, operating basis is derived by making the following adjustments to general operating and other expenses: include (i) certain loss adjustment expenses, reported as policyholder benefits and losses incurred and (ii) certain investment and other expenses reported as net investment income, and exclude (i) advisory fee expenses, (ii) non-deferrable insurance commissions, (iii) direct marketing and acquisition expenses, net of deferrals, (iv) non-operating litigation reserves and (v) other expense related to an asbestos retroactive reinsurance agreement. We use general operating expenses, operating basis, because we believe it provides a more meaningful indication of our ordinary course of business operating costs, regardless of within which financial statement line item these expenses are reported externally within our segment results. The majority of these expenses are employee-related costs. For example, other acquisition and loss adjustment expenses primarily represent employee-related costs in the underwriting and claims functions, respectively. Excluded from this measure are non-operating expenses (such as restructuring costs and litigation reserves), direct marketing expenses, insurance company assessments and non-deferrable commissions.

We use the following operating performance measures because we believe they enhance the understanding of the underlying profitability of continuing operations and trends of our business segments. We believe they also allow for more meaningful comparisons with our insurance competitors. When we use these measures, reconciliations to the most comparable GAAP measure are provided on a consolidated basis in the Results of Operations section of this MD&A.

Operating revenues exclude Net realized capital gains (losses), income from non-operating litigation settlements (included in Other income for GAAP purposes) and changes in fair value of securities used to hedge guaranteed living benefits (included in Net investment income for GAAP purposes). Operating revenues are a GAAP measure for our operating segments.

Pre-tax operating income is derived by excluding the following items from income from continuing operations before income tax. This definition is consistent across our modules (including geography). These items generally fall into one or more of the following broad categories: legacy matters having no relevance to our current businesses or operating performance; adjustments to enhance transparency to the underlying economics of transactions; and measures that we believe to be common to the industry. PTOI is a GAAP measure for our operating segments.

- changes in fair value of securities used to hedge guaranteed living benefits;
- changes in benefit reserves and deferred policy acquisition costs (DAC), value of business acquired (VOBA), and sales inducement assets (SIA) related to net realized capital gains and losses;
- other income and expense — net, related to Legacy Portfolio run-off insurance lines;
- loss (gain) on extinguishment of debt;
- net realized capital gains and losses;
- non qualifying derivative hedging activities, excluding net realized capital gains and losses;
- income or loss from discontinued operations;
- net loss reserve discount benefit (charge)
- pension expense related to a one-time lump sum payment to former employees;
- income and loss from divested businesses;
- non-operating litigation reserves and settlements;
- reserve development related to non-operating run-off insurance business; and
- restructuring and other costs related to initiatives designed to reduce operating expenses, improve efficiency and simplify our organization.

- ***Commercial Insurance: Liability and Financial Lines, Property and Special Risks; Consumer Insurance: Personal Insurance***

– **Ratios:** We, along with most property and casualty insurance companies, use the loss ratio, the expense ratio and the combined ratio as measures of underwriting performance. These ratios are relative measurements that describe, for every $100 of net premiums earned, the amount of losses and loss adjustment expenses (which for Commercial Insurance excludes net loss reserve discount), and the amount of other underwriting expenses that would be incurred. A combined ratio of less than 100 indicates underwriting income and a combined ratio of over 100 indicates an underwriting loss. Our ratios are calculated using the relevant segment information calculated under GAAP, and thus may not be comparable to similar ratios calculated for regulatory reporting purposes. The underwriting environment varies across countries and products, as does the degree of litigation activity, all of which affect such ratios. In addition, investment returns, local taxes, cost of capital, regulation, product type and competition can have an effect on pricing and consequently on profitability as reflected in underwriting income and associated ratios.

– **Accident year loss and combined ratios, as adjusted:** both the accident year loss and combined ratios, as adjusted, exclude catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting. Natural catastrophe losses are generally weather or seismic events having a net impact in excess of $10 million each. Catastrophes also include certain man-made events, such as terrorism and civil disorders that meet the $10 million threshold. We believe the as adjusted ratios are meaningful measures of our underwriting results on an on-going basis as they exclude catastrophes and the impact of reserve discounting which are outside of management’s control. We also exclude prior year development to provide transparency related to current accident year results.

• ***Consumer Insurance: Individual Retirement, Group Retirement, and Life Insurance; Other Operations: Institutional Markets***

– **Premiums and deposits:** includes direct and assumed amounts received and earned on traditional life insurance policies, group benefit policies and life contingent payout annuities, as well as deposits received on universal life, investment type annuity contracts and mutual funds.

Results from discontinued operations are excluded from all of these measures.

Critical Accounting Estimates

The preparation of financial statements in accordance with GAAP requires the application of accounting policies that often involve a significant degree of judgment.

The accounting policies that we believe are most dependent on the application of estimates and assumptions, which are critical accounting estimates, are related to the determination of:

- loss reserves;
- reinsurance assets;
- valuation of future policy benefit liabilities and timing and extent of loss recognition;
- valuation of liabilities for guaranteed benefit features of variable annuity products;
- estimated gross profits to value deferred acquisition costs for investment-oriented products;
- impairment charges, including other-than-temporary impairments on available for sale securities, impairments on other invested assets, including investments in life settlements, and goodwill impairment;
- liability for legal contingencies;
- fair value measurements of certain financial assets and liabilities; and
- income tax assets and liabilities, including recoverability of our net deferred tax asset and the predictability of future tax operating profitability of the character necessary to realize the net deferred tax assets.

These accounting estimates require the use of assumptions about matters, some of which are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, our consolidated financial condition, results of operations and cash flows could be materially affected.

Insurance Liabilities

Loss Reserves

The estimate of the loss reserves relies on several key judgments:

- the determination of the actuarial models used as the basis for these estimates;
- the relative weights given to these models by product line;
- the underlying assumptions used in these models; and

- the determination of the appropriate groupings of similar product lines and, in some cases, the groupings of dissimilar losses within a product line.

We use numerous assumptions in determining the best estimate of reserves for each line of business. The importance of any specific assumption can vary by both line of business and accident year. Because actual experience can differ from key assumptions used in establishing reserves, there is potential for significant variation in the development of loss reserves. This is particularly true for long-tail casualty classes of business.

All of our methods to calculate net reserves include assumptions about estimated reinsurance recoveries and their collectability. Reinsurance collectability is evaluated independently of the reserving process and appropriate allowances for uncollectible reinsurance are established.

Overview of Loss Reserving Process and Methods

Our loss reserves can generally be categorized into two distinct groups. Short-tail reserves consists principally of U.S. and Europe Property and Special Risks, and U.S., Europe and Japan Personal Insurance. Long-tail reserves include U.S. Workers' Compensation, U.S. Excess Casualty, U.S. Other Casualty, U.S. Financial Lines, Europe Casualty and Financial Lines, and U.S. Run-off Long Tail Insurance Lines.

Short-Tail Reserves

For our short-tail coverages, such as property, where the nature of claims is generally high frequency but with short reporting periods, with volatility arising from occasional severe events, the process for recording non-catastrophe quarterly loss reserves is geared toward maintaining IBNR based on percentages of net earned premiums for that business, rather than projecting ultimate loss ratios based on reported losses. For example, the IBNR reserve required for the latest accident quarter for a product line of property business such as Personal Lines automobile might be approximately 20 percent of the quarter's earned premiums. This level of reserve would generally be recorded regardless of the actual losses reported in the current quarter, thus allowing the recognition of severe events as they occur. The percent of premium factor reflects both our expectation of the ultimate loss costs associated with the line of business and the expectation of the percentage of ultimate loss costs that have not yet been reported. The expected ultimate loss costs generally reflect the average loss costs from a period of preceding accident quarters that have been adjusted for changes in rate and loss cost levels, mix of business, known exposure to unreported losses, or other factors affecting the particular line of business. The expected percentage of ultimate loss costs that have not yet been reported would be derived from historical loss emergence patterns. For more mature quarters, loss development methods would be used to determine the IBNR. For other product lines where the nature of claims is high frequency but low severity, methods including loss development, frequency/severity or a multiple of average monthly losses may be used to determine IBNR reserves. IBNR for claims arising from catastrophic events or events of unusual severity would be determined in close collaboration with the claims department's knowledge of known information, using alternative techniques or expected percentages of ultimate loss cost emergence based on historical loss emergence of similar claim types.

Long-Tail Reserves

Estimation of ultimate net losses and loss adjustment expenses (net losses) for our long-tail casualty lines of business is a complex process and depends on a number of factors, including the product line and volume of business, as well as estimates of the reinsurance recoverable. Experience in the more recent accident years generally provides limited statistical credibility of reported net losses on long-tail casualty lines of business. That is because in the more recent accident years, a relatively low proportion of estimated ultimate net incurred losses are reported or paid. Therefore, IBNR reserves constitute a relatively high proportion of net losses.

For our longer-tail lines, we generally make actuarial and other assumptions with respect to the following:

- **Loss cost trend factors** are used to establish expected loss ratios for subsequent accident years based on the projected loss ratios for prior accident years.

- **Expected loss ratios** are used for the latest accident year (i.e., accident year 2016 for the year-end 2016 loss reserve analysis) and, in some cases for accident years prior to the latest accident year. The expected loss ratio generally reflects the projected loss ratio from prior accident years, adjusted for the loss cost trend and the effect of rate changes and other quantifiable factors on the loss ratio. For low-frequency, high-severity lines of business such as excess casualty, expected loss ratios generally are used for at least the three most recent accident years.

- **Loss development factors** are used to project the reported losses for each accident year to an ultimate basis. Generally, the actual loss development factors observed from prior accident years would be used as a basis to determine the loss development factors for the subsequent accident years.

- **Tail Factors are development factors** used for certain longer tailed lines of business (for example, excess casualty, workers' compensation and general liability),to project future loss development for periods that extend beyond the available development data. The development of losses to the ultimate loss for a given accident year for these lines may take decades and the projection of ultimate losses for an accident year is very sensitive to the tail factors selected beyond a certain age.

We record quarterly changes in loss reserves for each product line of business. The overall change in our loss reserves is based on the sum of the changes for all product lines of business. For most long-tail product lines of business, the quarterly loss reserve changes are based on the estimated current loss ratio for each subset of coverage less any amounts paid. Also, any change in estimated ultimate losses from prior accident years deemed to be necessary based on the results of our latest detailed valuation reviews, large loss analyses, or other analytical techniques, either positive or negative, is reflected in the loss reserve for the current quarter. Differences between actual loss emergence in a given period and our expectations based on prior loss reserve estimates are used to monitor reserve adequacy between detailed valuation reviews and may also influence our judgment with respect to adjusting reserve estimates.

Details of the Loss Reserving Process

The process of determining the current loss ratio for each product line of business is based on a variety of factors. These include considerations such as: prior accident year and policy year loss ratios; rate changes; and changes in coverage, reinsurance, or mix of business. Other considerations include actual and anticipated changes in external factors such as trends in loss costs, real gross domestic product (GDP) growth, inflation, employment rates or unemployment duration, stock market volatility, corporate bond spreads, or in the legal and claims environment. The current loss ratio for each product line of business is intended to represent our best estimate after reflecting all of the relevant factors. At the close of each quarter, the assumptions and data underlying the loss ratios are reviewed to determine whether the loss ratios remain appropriate. This process includes a review of the actual loss experience in the quarter, actual rate changes achieved, actual changes in reinsurance, quantifiable changes in coverage or mix of business, and changes in other factors that may affect the loss ratio. When this review suggests that the previously determined loss ratio is no longer appropriate, the loss ratio is changed to reflect the revised estimates.

We conduct a comprehensive loss detailed valuation review at least annually for each product line of business in accordance with Actuarial Standards of Practice. These standards provide that the unpaid loss estimate may be presented in a variety of ways, such as a point estimate, a range of estimates, a point estimate based on the expected value of several reasonable estimates, or a probability distribution of the unpaid loss amount. Our actuarial central estimate for each product line of business represents an expected value generally considering a range of reasonably possible outcomes.

The reserve analysis for each product line of business is performed by a credentialed actuarial team in collaboration with claims, underwriting, business unit management, risk management and senior management. Our actuaries consider the ongoing applicability of prior data groupings and update numerous assumptions, including the analysis and selection of loss development and loss trend factors. They also determine and select the most appropriate actuarial or other methods used to estimate reserve adequacy for each business product line, and may employ multiple methods and assumptions for each product line. These data groupings, accident year weights, method selections and assumptions necessarily change over time as business mix changes, development factors mature and become more credible and loss characteristics evolve. In the course of these detailed valuation reviews an actuarial best estimate of the loss reserve is determined. The sum of these estimates for each product line of business yields an overall actuarial best estimate for that line of business.

We develop explicit ranges of reasonable estimates around the actuarial best estimate for certain product lines using multiple methodologies and varying assumptions. Where we have ranges, we use them to inform our selection of best estimates of loss reserves by major product line of business. Our range of reasonable estimates is not intended to cover all possibilities or extreme values and is based on known data and facts at the time of estimation.

We consult with third party environmental litigation and engineering specialists, third party toxic tort claims professionals, third party clinical and public health specialists, third party workers' compensation claims adjusters and third party actuarial advisors to help inform our judgments, as needed.

A critical component of our detailed valuation reviews is a peer review of our reserving analyses and conclusions, where actuaries independent of the initial review evaluate the reasonableness of assumptions used, methods selected and weightings given to different methods. In addition, each detailed valuation review is subjected to a review and challenge process by specialists in our Enterprise Risk Management group.

We consider key factors in performing detailed actuarial reviews, including:

- an assessment of economic conditions including real GDP growth, inflation, employment rates or unemployment duration, stock market volatility and changes in corporate bond spreads;
- changes in the legal, regulatory, judicial and social environment including changes in road safety, public health and cleanup standards;
- changes in medical cost trends (inflation, intensity and utilization of medical services) and wage inflation trends
- underlying policy pricing, terms and conditions including attachment points and policy limits;
- changes in claims handling philosophy, operating model, processes and related ongoing enhancements;
- third-party claims reviews that are periodically performed for key product lines such as toxic tort, environmental and other complex casualty;
- third-party actuarial reviews that are periodically performed for key product lines of business;
- input from underwriters on pricing, terms, and conditions and market trends; and
- changes in our reinsurance program, pricing and commutations.

Actuarial and Other Methods for Major Lines of Business

Our actuaries determine the most appropriate actuarial methods and segmentation. This determination is based on a variety of factors including the nature of the losses associated with the product line of business, such as the frequency or severity of the claims. In addition to determining the actuarial methods, the actuaries determine the appropriate loss reserve groupings of data. This determination is a judgmental, dynamic process and refinements to the groupings are made every year. The changes to groupings may be driven by and may change to reflect observed or emerging patterns within and across product lines, or to differentiate different risk characteristics (for example, size of deductibles and extent of third party claims specialists used by our insureds). As an example of reserve segmentation, we write many unique subsets of professional liability. For pricing or other purposes, it is appropriate to evaluate the profitability of each subset individually. However, for purposes of estimating the liability for loss reserves and loss adjustment expenses for many product lines of business, we believe it is appropriate to combine the subsets into larger groups to produce a greater degree of credibility in the loss experience. This determination of data segmentation and related actuarial methods is assessed, reviewed and updated at least annually.

The actuarial methods we use most commonly include paid and incurred loss development methods, expected loss ratio methods, including "Bornhuetter Ferguson" and "Cape Cod", and frequency/severity models. Loss development methods utilize the actual loss development patterns from prior accident years updated through the current year to project the reported losses to an ultimate basis for all accident years. We also use this information to update our current accident year loss selections. Loss development methods are generally most appropriate for classes of business that exhibit a stable pattern of loss development from one accident year to the next, and for which the components of the product line have similar development characteristics. For example, property exposures would generally not be combined into the same product line as casualty exposures, and primary casualty exposures would generally not be combined into the same product line as excess casualty exposures. We continually refine our loss reserving techniques for the domestic primary casualty product line of business and adopt further segmentations based on our analysis of differing emerging loss patterns for certain product lines. We generally use expected loss ratio methods in cases where the reported loss data lacked sufficient credibility to utilize loss development methods, such as for new product lines of business or for long-tail product lines at early stages of loss development. Frequency/severity models may be used where sufficient frequency counts are available to apply such approaches.

Expected loss ratio methods rely on the application of an expected loss ratio to the earned premium for the product line of business to determine the liability for loss reserves and loss adjustment expenses. For example, an expected loss ratio of 70 percent applied to an earned premium base of $10 million for a product line of business would generate an ultimate loss estimate of $7 million. Subtracting any paid losses and loss adjustment expenses would result in the indicated loss reserve for this product line. Under the Bornhuetter Ferguson methods, the expected loss ratio is applied only to the expected unreported portion of the losses. For example, for a long-tail product line of business for which only 10 percent of the losses are expected to be reported at the end of the accident year, the expected loss ratio would be used to represent the 90 percent of losses still unreported. The actual reported losses at the end of the accident year would be added to determine the total ultimate loss estimate for the accident year. Subtracting the reported paid losses and loss adjustment expenses would result in the indicated loss reserve. In the example above, the expected loss ratio of 70 percent would be multiplied by 90 percent. The result of 63 percent would be applied to the earned premium of $10 million resulting in an estimated unreported loss of $6.3 million. Actual reported losses would be added to arrive at the total ultimate losses. If the reported losses were $1 million, the ultimate loss estimate under the Bornhuetter Ferguson method would be $7.3 million versus the $7 million amount under the expected loss ratio method described above. Thus, the Bornhuetter Ferguson method gives partial credibility to the actual loss experience to date for the product line of business. Loss development methods generally give full credibility to the reported loss experience to date. In the example above, loss development methods would typically indicate an ultimate loss estimate of $10 million, as the reported losses of $1 million would be estimated to reflect only 10 percent of the ultimate losses.

A key advantage of loss development methods is that they respond more quickly to any actual changes in loss costs for the product line of business. Therefore, if loss experience is unexpectedly deteriorating or improving, the loss development method gives full credibility to the changing experience. Expected loss ratio methods would be slower to respond to the change, as they would continue to give more weight to a prior expected loss ratio, until enough evidence emerged to modify the expected loss ratio to reflect the changing loss experience. On the other hand, loss development methods have the disadvantage of overreacting to changes in reported losses if the loss experience is anomalous due to the various key factors described above and the inherent volatility in some of the classes. For example, the presence or absence of large losses at the early stages of loss development could cause the loss development method to overreact to the favorable or unfavorable experience by assuming it is a fundamental shift in the development pattern. In these instances, expected loss ratio methods such as Bornhuetter Ferguson have the advantage of recognizing large losses without extrapolating unusual large loss activity onto the unreported portion of the losses for the accident year.

The Cape Cod method is a hybrid between the loss development and Bornhuetter Ferguson methods, where the historic loss data and loss development factor assumptions are used to determine the expected loss ratio estimate in the Bornhuetter Ferguson method.

Frequency/severity methods generally rely on the determination of an ultimate number of claims and an average severity for each claim for each accident year. Multiplying the estimated ultimate number of claims for each accident year by the expected average severity of each claim produces the estimated ultimate loss for the accident year. Frequency/severity methods generally require a sufficient volume of claims in order for the average severity to be predictable. Average severity for subsequent accident years is generally determined by applying an estimated annual loss cost trend to the estimated average claim severity from prior accident years. In certain cases, a structural approach may also be used to predict the ultimate loss cost. Frequency/severity methods have the advantage that ultimate claim counts can generally be estimated more quickly and accurately than can ultimate losses. Thus, if the average claim severity can be accurately estimated, these methods can more quickly respond to changes in loss experience than other methods. However, for average severity to be predictable, the product line of business must consist of homogenous types of claims for which loss severity trends from one year to the next are reasonably consistent and where there are limited changes to deductible levels or limits. Generally these methods work best for high frequency, low severity product lines of business such as personal auto. However, frequency and severity metrics are also used to test the reasonability of results for other product lines of business and provide indications of underlying trends in the data. In addition, ultimate claim counts can be used as an alternative exposure measure to earned premiums in the Cape Cod method.

Structural driver analytics seek to explain the underlying drivers of frequency/severity. A structural driver analysis of frequency/severity is particularly useful for understanding the key drivers of uncertainty in the ultimate loss cost. For example, for the excess workers' compensation product line of business, we have attempted to corroborate our judgment by considering the impact on severity of the future potential for deterioration of an injured worker's medical condition, the impact of price inflation on the various categories of medical expense and cost of living adjustments on indemnity benefits, the impact of injured worker mortality and claim specific settlement and loss mitigation strategies, etc., using the following:

- Claim by claim reviews, often facilitated by third party specialists, to determine the stability and likelihood of settling an injured worker's indemnity and medical benefits;

- Analysis of the potential for future deterioration in medical condition unlikely to be picked up by a claim file review and associated with potentially costly medical procedures (i.e., increases in both utilization and intensity of medical care) over the course of the injured worker's lifetime;

- Analysis of the cost of medical price inflation for each category of medical spend (services and devices) and for cost of living adjustments in line with statutory requirements;

- Portfolio specific mortality level and mortality improvement assumptions based on a mortality study conducted for our primary and excess workers' compensation portfolios and our opinion of future longevity trends for the open reported cases;

- Ground-up consideration of the reinsurance recoveries expected for the product line of business for reported claims with extrapolation for unreported claims; and

- The effects of various run-off loss management strategies that have been developed by our run-off unit.

In recent years, we have expanded our analysis of structural drivers to additional product lines of business as a means of corroborating our judgments using traditional actuarial techniques. For example, we have explicitly used external estimates of future medical inflation and mortality in estimating the loss development tail for excess of deductible primary workers' compensation business. Using external forecasts for items such as these can improve the accuracy and stability of our estimates.

The estimation of liability for loss reserves and loss adjustment expenses relating to asbestos and environmental pollution losses on insurance policies written many years ago is typically subject to greater uncertainty than other types of losses. This is due to inconsistent court decisions, as well as judicial interpretations and legislative actions that in some cases have tended to broaden coverage beyond the original intent of such policies or have expanded theories of liability. In addition, reinsurance recoverable balances relating to asbestos and environmental loss reserves are subject to greater uncertainty due to the underlying age of the claim, underlying legal issues surrounding the nature of the coverage, and determination of proper policy period. For these reasons, these balances tend to be subject to increased levels of disputes and legal collection activity when actually billed. The insurance industry as a whole is engaged in extensive litigation over these coverage and liability issues and is thus confronted with a continuing uncertainty in its efforts to quantify these exposures.

We continue to receive claims asserting injuries and damages from toxic waste, hazardous substances, and other environmental pollutants and alleged claims to cover the cleanup costs of hazardous waste dump sites, referred to collectively as environmental claims, and indemnity claims asserting injuries from asbestos. The vast majority of these asbestos and environmental losses emanate from policies written in 1984 and prior years. Commencing in 1985, standard policies contained absolute exclusions for pollution-related damage and asbestos. The current environmental policies that we specifically price and underwrite for environmental risks on a claims-made basis have been excluded from the analysis.

The majority of our exposures for asbestos and environmental losses are related to excess casualty coverages, not primary coverages. The litigation costs are treated in the same manner as indemnity amounts, with litigation expenses included within the limits of the liability we incur. Individual significant loss reserves, where future litigation costs are reasonably determinable, are established on a case-by-case basis.

Discussion of Key Assumptions of our Actuarial Methods

Line of Business or Category	Key Assumptions
U.S. Workers' Compensation	We generally use a combination of loss development methods and expected loss ratio methods for U.S. Workers' Compensation. U.S. Workers' Compensation is a long-tail class of business, and our business reflects a very significant volume of losses, particularly in more recent accident years. The loss cost trend assumption is not believed to be material with respect to our loss reserves. This is primarily because our actuaries are generally able to use loss development projections for all but the most recent accident year's reserves, so there

is limited need to rely on loss cost trend assumptions for primary workers' compensation business.

The tail factor is typically the most critical assumption, and small changes in the selected tail factor can have a material effect on our carried reserves. For example, the tail factors beyond twenty years for guaranteed cost business could vary by one percent above or below those actually indicated in the 2016 loss reserve review. For excess of deductible business, in our judgment, it is reasonably likely that tail factors beyond twenty years could vary by five percent above or below those actually indicated in the 2016 loss reserve review.

Line of Business or Category	Key Assumptions
U.S. Excess Casualty	We utilize various loss cost trend assumptions for different segments of the portfolio. After evaluating the historical loss cost trends from prior accident years since the early 1990s, in our judgment, it is reasonably likely that actual loss cost trends applicable to the year-end 2016 loss reserve review for U.S. Excess Casualty may range five percent lower or higher than this estimated loss trend. The loss cost trend assumption is critical for the U.S. Excess Casualty class of business due to the long-tail nature of the losses, and is applied across many accident years. Thus, there is the potential for the loss reserves with respect to a number of accident years (the expected loss ratio years) to be significantly affected by changes in loss cost trends that were initially relied upon in setting the loss reserves. These changes in loss trends could be attributable to changes in inflation or in the judicial environment, or in other social or economic conditions affecting losses. U.S. Excess Casualty is a long-tail class of business and any deviation in loss development factors might not be discernible for an extended period of time subsequent to the recording of the initial loss reserve estimates for any accident year. Mass tort claims in particular may develop over a very extended period and impact multiple accident years, so we usually select a separate pattern for them. Thus, there is the potential for the loss reserves with respect to a number of accident years to be significantly affected by changes in loss development factors that were initially relied upon in setting the reserves. After evaluating the historical loss development factors from prior accident years since the early 1990s, in our judgment, it is reasonably likely that the actual loss development factors could vary by an amount equivalent to a six month shift from those actually utilized in the year-end 2016 reserve review. This would impact projections both for accident years where the selections were directly based on loss development methods as well as the a priori loss ratio assumptions for accident years with selections based on Bornhuetter-Ferguson or Cape Cod methods. Similar to loss cost trends, these changes in loss development factors could be attributable to changes in inflation or in the judicial environment, or in other social or economic conditions affecting losses.
U.S. Other Casualty	The key uncertainties for other casualty lines are similar to excess casualty, as the underlying business is long-tailed and can be subject to variability in loss cost trends and changes in loss development factors. These may differ significantly by line of business as coverages such as general liability, medical malpractice and environmental may be subject to different risk drivers.
U.S. Financial Lines	The loss cost trends for U.S. D&O business vary by year and subset, but for the most recent accident years, it is assumed to have been generally close to zero. After evaluating the historical loss cost levels from prior accident years since the early 1990s, including the potential effect of losses relating to the credit crisis, in our

judgment, it is reasonably likely that the actual variation in loss cost levels for these subsets could vary by approximately 15 percent lower or higher on a year-over-year basis than the assumptions actually utilized in the year-end 2016 reserve review. Because U.S. D&O business has exhibited highly volatile loss trends from one accident year to the next, there is the possibility of an exceptionally high deviation. In our analysis, the effects of loss cost trend assumptions affect the results through the a priori loss ratio assumptions used for the Bornhuetter-Ferguson and Cape Cod methods, which impact the projections for the two most recent two accident years.

The assumed loss development factors are also an important assumption, but are less critical than for U.S. Excess Casualty. Because these classes are written on a claims made basis, the loss reporting and development tail is much shorter than for U.S. Excess Casualty. However, the high severity nature of the losses does create the potential for significant deviations in loss development patterns from one year to the next. Similar to Excess Casualty, after evaluating the historical loss development factors from prior accident years since the early 1990s, in our judgment, it is reasonably likely that actual loss development factors could change by an amount equivalent to a shift by six months from those actually utilized in the year-end 2016 reserve review.

Europe Casualty and Financial Lines

Similar to U.S. business, European Casualty and Financial Lines can be significantly impacted by loss cost trends and changes in loss development factors. The variation in such factors can differ significantly by product and region.

U.S. and Europe Property and Special Risks

For short-tail lines such as Property and Special Risks, variance in outcomes for individual large claims or events can have a significant impact on results. These outcomes generally relate to unique characteristics of events such as catastrophes or losses with significant business interruption claims.

U.S., Europe, and Japan Personal Insurance

Personal Insurance is short –tailed in nature similar to Property and Special Risks but less volatile. Variance in estimates can result from unique events such as catastrophes. In addition, some subsets of this business, such as auto liability, can be impacted by changes in loss development factors and loss cost trends.

Line of Business or Category	Key Assumptions
U.S. Run-off Long Tail Insurance lines	We historically have used a combination of loss development methods and expected loss ratio methods for excess workers' compensation and other run-off segments. For environmental claims, we have utilized a variety of methods including traditional loss development approaches, claim department and other expert evaluations of the ultimate costs for certain claims and survival ratio metrics. U.S. Run-off Long Tail Insurance lines is an extremely long-tail class of business, with a much greater than normal uncertainty as to the appropriate loss development factors for the tail of the loss development. Specifically for excess workers' compensation, after evaluating the historical loss development factors for prior accident years since the 1980s as well as the development over the past several years of the ground up loss projections utilized to help select the loss development factors in the tail for this class of business, in our judgment, it is reasonably likely that the tail factor beyond 30 years could vary by 10 percent above or below that actually indicated in the 2016 loss reserve review.
Other Reserve Items	Loss adjustment expenses (LAE) are separated into two broad categories, allocated loss adjustment expenses (ALAE), also referred to as legal defense and cost containment or "legal" and unallocated loss adjustment expenses (ULAE), which includes certain claims adjuster fees and other internal claim management costs. We determine loss adjustment expenses reserves for legal expenses for each class of business by one or more actuarial or structural driver methods. For the majority of segments, legal costs are analyzed in conjunction with losses. For segments where they are separately analyzed the methods used generally include development methods comparable to those described for loss development methods. The development could be based on either the paid loss adjustment expenses or the ratio of paid loss adjustment expenses to paid losses, or both. Other methods include the utilization of expected ultimate ratios of paid loss expense to paid losses, based on actual experience from prior accident years or from similar product lines of business. The bulk of adjuster expenses are allocated and charged to individual claim files. For these expenses, we generally determine reserves based on calendar year ratios of adjuster expenses paid to losses paid for the particular product line of business. For other internal claim costs, which generally relate to specific claim department expenses that are not specifically allocated to claim files such as technology costs and other broad initiatives, we look at historic and expected expenditures for these items and project these into the future. The incidence of LAE are directly related to the frequency, complexity and level of underlying claims. As a result, key drivers of variability in LAE is the variability in the

overall claims, particularly for long tail lines.

The following sensitivity analysis table summarizes the effect on the loss reserve position of using certain alternative loss cost trend (for accident years where we use expected loss ratio methods) or loss development factor assumptions rather than the assumptions actually used in determining our estimates in the year-end loss reserve analyses in 2016.

December 31, 2016 *(in millions)*		Increase (Decrease) to Loss Reserves
Loss cost trends:		
U.S. Excess Casualty:		
5 percent increase	**$**	**1,300**
5 percent decrease		**(950)**
U.S. Financial Lines (D&O)		
15 percent increase		**475**
15 percent decrease		**(400)**

		Increase (Decrease) to Loss Reserves
Loss development factors:		
U.S. Excess Casualty:		
6-months slower	**$**	**1,650**
6-months faster		**(1,100)**
U.S. Financial Lines (D&O)		
6-months slower		**700**
6-months faster		**(450)**
U.S. Run-off P&C Lines (Excess Workers' Compensation):		
10% tail factor increase		**400**
10% tail factor decrease		**(400)**
U.S. Workers' Compensation:		
Tail factor increase[(a)]		**675**
Tail factor decrease[(a)]		**(675)**

(a) Reflects 1% tail factor change for guaranteed cost and 5% change for deductible business.

Future Policy Benefits for Life and Accident and Health Insurance Contracts

Long-duration traditional products include whole life insurance, term life insurance, accident and health insurance, long-term care insurance, and certain payout annuities for which the payment period is life-contingent, which include certain of our single premium immediate annuities and structured settlements.

For long-duration traditional business, a "lock-in" principle applies. The assumptions used to calculate the benefit liabilities and DAC are set when a policy is issued and do not change with changes in actual experience, unless a loss recognition event occurs. The assumptions include mortality, morbidity, persistency, maintenance expenses, and investment returns. These assumptions are typically consistent with pricing inputs. The assumptions also include margins for adverse deviation, principally for key assumptions such as mortality and interest rates used to discount cash flows, to reflect uncertainty given that actual experience might deviate from these assumptions. Establishing margins at contract inception requires management judgment. The extent of the margin for adverse deviation may vary depending on the uncertainty of the cash flows, which is affected by the volatility of the business and the extent of our experience with the product.

Loss recognition occurs if observed changes in actual experience or estimates result in projected future losses under loss recognition testing. To determine whether loss recognition exists, we determine whether a future loss is expected based on updated current assumptions. If loss recognition exists, we recognize the loss by first reducing DAC through amortization expense, and, if DAC is depleted, record additional liabilities through a charge to policyholder benefit expense. See Note 9 to the Consolidated Financial Statements for additional information on loss recognition. Because of the long-term nature of many of our liabilities subject to the "lock-in" principle, small changes in certain assumptions may cause large changes in the degree of reserve adequacy. In particular, changes in estimates of future invested asset returns have a large effect on the degree of reserve deficiency.

Groupings for loss recognition testing are consistent with our manner of acquiring, servicing, and measuring the profitability of the business and are applied by product groupings. We perform separate loss recognition tests for traditional life products, payout annuities, and long-term care insurance. Once loss recognition has been recorded for a block of business, the old assumption set is replaced and the assumption set used for the loss recognition would then be subject to the lock-in principle. Key judgments made in loss recognition testing include the following:

- To determine investment returns used in loss recognition tests, we typically segregate assets that match the duration of our liabilities with assets of comparable duration, to the extent practicable, and then project future cash flows on those assets. Assets supporting insurance liabilities are primarily comprised of a diversified portfolio of high quality fixed maturity securities, and may also include, to a lesser extent, alternative investments. Our projections include a reasonable allowance for investment expenses and expected credit losses over the projection horizon. A critical assumption in the projection of expected investment income is the assumed net rate of investment return at which excess cash flows are to be reinvested. For products in which asset and liability durations are matched relatively well, this is less of a consideration since interest on excess cash flows are not a significant component of future cash flows. For the reinvestment rate assumption, anticipated future changes to the yield curves could have a large effect. Given the interest rate environment applicable at the date of our most recent loss recognition tests, we assumed a modest and gradual increase in long-term interest rates over time.

- For mortality assumptions, key judgments include the extent of industry versus own experience to base future assumptions as well as the extent of expected mortality improvements in the future. The latter judgment is based on a combination of historical mortality trends and advice from industry, public health and demography specialists that were consulted by AIG's actuaries and published industry information.

- For surrender rates, a key judgment involves the correlation between expected increases/decreases in interest rates and increases/decreases in surrender rates. To support this judgment, we compare crediting rates on our products relative to expected rates on competing products under different interest rate scenarios.

- For in-force long-term care insurance, rate increases are allowed but must be approved by state insurance regulators. Consequently, the extent of rate increases that may be assumed requires judgment. In establishing our assumption for rate increases for long-term care insurance, we consider historical experience as to the frequency and level of rate increases approved by state regulators.

Significant unrealized appreciation on investments in a prolonged low interest rate environment may cause DAC to be adjusted and additional future policy benefit liabilities to be recorded through a charge directly to accumulated other comprehensive income ("shadow loss recognition"). These charges are included, net of tax, with the change in net unrealized appreciation of investments. See Note 9 to the Consolidated Financial Statements for additional information on shadow loss recognition. In applying shadow loss recognition, the Company overlays unrealized gains onto loss recognition tests without revising the underlying test. Accordingly, there is limited additional judgment in this process.

Guaranteed Benefit Features of Variable Annuity Products

Variable annuity products offered by our Individual Retirement and Group Retirement product lines offer guaranteed benefit features. These guaranteed features include guaranteed minimum death benefits (GMDB) that are payable in the event of death or other instances, and living benefits that are payable in the event of annuitization, or, in other instances, at specified dates during the accumulation period. Living benefits include guaranteed minimum withdrawal benefits (GMWB) and guaranteed minimum income benefits (GMIB). See Note 14 to the Consolidated Financial Statements for additional information on these features.

The liabilities for GMDB and GMIB, which are recorded in Future policyholder benefits, represent the expected value of benefits in excess of the projected account value, with the excess recognized ratably through Policyholder benefits and losses incurred over the accumulation period based on total expected fee assessments. The liabilities for GMWB, which are recorded in Policyholder contract deposits, are accounted for as embedded derivatives measured at fair value, with changes in the fair value of the liabilities recorded in Other realized capital gains (losses).

Our exposure to the guaranteed amounts is equal to the amount by which the contract holder's account balance is below the amount provided by the guaranteed feature. A variable annuity contract may include more than one type of guaranteed benefit feature; for example, it may have both a GMDB and a GMWB.

However, a policyholder can generally only receive payout from one guaranteed feature on a contract containing a death benefit and a living benefit, i.e. the features are generally mutually exclusive, so the exposure to the guaranteed amount for each feature is independent of the exposure from other features (except a surviving spouse who has a rider to potentially collect both a GMDB upon their spouse’s death and a GMWB during his or her lifetime). A policyholder cannot purchase more than one living benefit on one contract. Declines in the equity markets, increased volatility and a sustained low interest rate environment increase our exposure to potential benefits under the guaranteed features, leading to an increase in the liabilities for those benefits. See Estimated Gross Profits for Investment-Oriented Products (Life Insurance Companies) below for sensitivity analysis which includes the sensitivity of reserves for guaranteed benefit features to changes in the assumptions for interest rates, equity market returns, volatility, and mortality. For additional discussion of market risk management related to these product features, see Enterprise Risk Management – Life Insurance Companies Key Insurance Risks – Variable Annuity Risk Management and Hedging Program.

The reserving methodology and assumptions used to measure the liabilities of our two largest guaranteed benefit features are presented in the following table:

Guaranteed Benefit Feature	Reserving Methodology & Assumptions and Accounting Judgments
GMDB	We determine the GMDB liability at each balance sheet date by estimating the expected value of death benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected fee assessments. See Note 14 to the Consolidated Financial Statements for additional information on how we reserve for variable annuity products with guaranteed benefit features.
	Key assumptions include: • Interest rates, which vary by year of issuance and products • Mortality rates, which are based upon actual experience modified to allow for variations in policy form • Lapse rates, which are based upon actual experience modified to allow for variations in policy form • Investment returns, using assumptions from a randomly generated model In applying asset growth assumptions for the valuation of the GMDB liability, we use a reversion to the mean methodology, similar to that applied for DAC. For a description of this methodology, see Estimated Gross Profits for Investment-Oriented Products (Life Insurance Companies) below.
GMWB	GMWB living benefits are embedded derivatives that are required to be bifurcated from the host contract and carried at fair value. See Note 14 to the Consolidated Financial Statements for additional information on how we reserve for variable annuity products with guaranteed benefit features, and Note 5 to the Consolidated Financial Statements for information on fair value measurement of these embedded derivatives, including how we incorporate our own non-performance risk.
	The fair value of the embedded derivatives is based on actuarial and capital market assumptions related to projected cash flows over the expected lives of the contracts. Key assumptions include: • Interest rates • Equity market returns • Market volatility

	• Credit spreads • Equity / interest rate correlation • Benefits and related fees assessed, when applicable • Policyholder behavior, including mortality, lapses, withdrawals and benefit utilization. Estimates of future policyholder behavior are subjective and based primarily on our historical experience • In applying asset growth assumptions for the valuation of GMWBs, we use market-consistent assumptions consistent with fair value measurement, which are calibrated to observable interest rate and equity option prices • Allocation of fees between the embedded derivative and host contract.

Estimated Gross Profits for Investment–Oriented Products

Policy acquisition costs and policy issuance costs that are incremental and directly related to the successful acquisition of new or renewal of existing insurance contracts related to universal life and investment-type products (collectively, investment-oriented products) are generally deferred and amortized, with interest, in relation to the incidence of estimated gross profits to be realized over a period that approximates the estimated lives of the contracts, except in instances where significant negative gross profits are expected in one or more periods. Estimated gross profits include net investment income and spreads, net realized capital gains and losses, fees, surrender charges, expenses, and mortality gains and losses. In estimating future gross profits, lapse assumptions require judgment and can have a material impact on DAC amortization. For fixed deferred annuity contracts, the future spread between investment income and interest credited to policyholders is a significant judgment, particularly in a low interest rate environment.

If the assumptions used for estimated gross profits change significantly, DAC and related reserves, including VOBA, SIA, guaranteed benefit reserves and unearned revenue reserve (URR), are recalculated using the new assumptions, and any resulting adjustment is included in income. Updating such assumptions may result in acceleration of amortization in some products and deceleration of amortization in other products.

In estimating future gross profits for variable annuity products as of December 31, 2016, a long-term annual asset growth assumption of 7.5 percent (before expenses that reduce the asset base from which future fees are projected) was applied to estimate the future growth in assets and related asset-based fees. In determining the asset growth rate, the effect of short-term fluctuations in the equity markets is partially mitigated through the use of a reversion to the mean methodology, whereby short-term asset growth above or below the long-term annual rate assumption impacts the growth assumption applied to the five-year period subsequent to the current balance sheet date. The reversion to the mean methodology allows us to maintain our long-term growth assumptions, while also giving consideration to the effect of actual investment performance. When actual performance significantly deviates from the annual long-term growth assumption, as evidenced by growth assumptions for the five-year reversion to the mean period falling below a certain rate (floor) or above a certain rate (cap) for a sustained period, judgment may be applied to revise or “unlock” the growth rate assumptions to be used for both the five-year reversion to the mean period as well as the long-term annual growth assumption applied to subsequent periods. The use of a reversion to the mean assumption is common within the industry; however, the parameters used in the methodology are subject to judgment and vary within the industry. See Insurance Reserves – Life and Annuity Reserves and DAC – Reversion to the Mean for additional discussion.

The following table summarizes the sensitivity of changes in certain assumptions for DAC and SIA, embedded derivatives and other reserves related to guaranteed benefits and URR, measured as the related hypothetical impact on December 31, 2016 balances and the resulting hypothetical impact on pre-tax income, before hedging.

	Increase (decrease) in				
December 31, 2016 *(in millions)*	DAC/SIA Asset	Other Reserves Related to Guaranteed Benefits	Unearned Revenue Reserve	Embedded Derivatives Related to Guaranteed Benefits	Pre-Tax Income
Assumptions:					
Net Investment Spread					
Effect of an increase by 10 basis points	$ 131	$ (24)	$ 15	$ (6)	$ 146
Effect of a decrease by 10 basis points	(137)	24	(19)	8	(150)
Equity Return(a)					
Effect of an increase by 1%	82	(29)	-	(53)	164
Effect of a decrease by 1%	(83)	35	-	52	(170)
Volatility (b)					
Effect of an increase by 1%	(3)	23	-	(68)	42
Effect of a decrease by 1%	2	(22)	-	69	(45)
Interest Rate(c)					
Effect of an increase by 10 basis points	-	-	-	(177)	177
Effect of a decrease by 10 basis points	-	-	-	177	(177)
Mortality					
Effect of an increase by 1%	(10)	42	(1)	(29)	(22)
Effect of a decrease by 1%	9	(41)	-	29	21
Lapse					
Effect of an increase by 10%	(139)	(56)	(15)	(110)	42
Effect of an decrease by 10%	146	58	14	114	(40)

(a) Represents the net impact of a one percent increase or decrease in long-term equity returns for GMDB and GMIB reserves and negligible net impact of a one percent increase or decrease in the S&P 500 index for GMWB living benefit reserves.

(b) Represents the net impact of a one percentage point increase or decrease in equity volatility.

(c) Represents the net impact of 10 basis point parallel shift in the yield curve on the reserves for GMWB living benefit features. Does not represent interest rate spread compression on investment-oriented products.

The sensitivity ranges of 10 basis points, 1% and 10% are included for illustrative purposes only and do not reflect the changes in net investment spreads, equity return, volatility, interest rate, mortality or lapse used by AIG in its fair value analyses or estimates of future gross profits to value DAC and related reserves. Changes in excess of those illustrated may occur in any period.

The analysis of DAC, embedded derivatives and other reserves related to guaranteed benefits, and unearned revenue reserve is a dynamic process that considers all relevant factors and assumptions described above. We estimate each of the above factors individually, without the effect of any correlation among the key assumptions. An assessment of sensitivity associated with changes in any single assumption would not necessarily be an indicator of future results. The effects on pre-tax income in the sensitivity analysis table above do not reflect the related effects from our economic hedging program, which utilizes derivative and other financial instruments and is designed so that changes in value of those instruments move in the opposite direction of changes in the guaranteed benefit embedded derivative liabilities. For a further discussion on guaranteed benefit features of our variable annuities and the related hedging program, see Enterprise Risk Management – Life Insurance Companies Key Insurance Risks – Variable

Annuity Risk Management and Hedging Program, Insurance Reserves – Life and Annuity Reserves and DAC – Variable Annuity Guaranteed Benefits and Hedging Results, and Notes 5 and 14 to the Consolidated Financial Statements.

Reinsurance Assets

The estimation of reinsurance recoverable involves a significant amount of judgment, particularly for latent exposures, such as asbestos, due to their long-tail nature. Reinsurance assets include reinsurance recoverable on unpaid losses and loss adjustment expenses that are estimated as part of our loss reserving process and, consequently, are subject to similar judgments and uncertainties as the estimation of gross loss reserves.

We assess the collectability of reinsurance recoverable balances through either detailed reviews of the underlying nature of the reinsurance balance or comparisons with historical trends of disputes and credit events. We record adjustments to reflect the results of these assessments through an allowance for uncollectable reinsurance that reduces the carrying amount of reinsurance assets on the balance sheet. This estimate requires significant judgment for which key considerations include:

- paid and unpaid amounts recoverable;
- whether the balance is in dispute or subject to legal collection;
- whether the reinsurer is financially troubled (i.e., liquidated, insolvent, in receivership or otherwise subject to formal or informal regulatory restriction); and
- whether collateral and collateral arrangements exist.

At December 31, 2016, the allowance for estimated unrecoverable reinsurance was $207 million.

See Note 8 to the Consolidated Financial Statements for additional information on reinsurance.

Impairment Charges

Impairments of Investments

At each balance sheet date, we evaluate our available for sale securities holdings with unrealized losses to determine if an other-than-temporary impairment has occurred. We also evaluate our other invested assets for impairment; these include equity and cost method investments in private equity funds, hedge funds and other entities as well as investments in life settlements, aircraft and real estate.

See the discussion in Note 6 to the Consolidated Financial Statements for additional information on the methodology and significant inputs, by investment type, that we use to determine the amount of impairment.

Impairments on Investments in Life Settlements

Impairments to investments in life settlements may occur in the future due to the fact that continued payment of premiums required to maintain policies will cause the expected lifetime undiscounted cash flows for some policies to be insufficient to recover our estimated future carrying amount, even in the absence of future changes to the mortality assumptions. Impairments may also occur due to our future sale or lapse of select policies at a value that is below carrying amount.

For a discussion of impairments on investments in life settlements, see Note 6 to the Consolidated Financial Statements.

Goodwill Impairment

For a discussion of goodwill impairment, see Note 12 to the Consolidated Financial Statements. In 2016, 2015 and 2014, AIG elected to bypass the qualitative assessment of whether goodwill impairment may exist and, therefore, performed quantitative assessments that supported a conclusion that the fair value of all of the reporting units tested exceeded their book value. To determine fair value, we primarily use a discounted expected future cash flow analysis that estimates and discounts projected future distributable earnings. Such analysis is principally based on AIG's business projections that inherently include judgments regarding business trends.

Liability for Legal Contingencies

We estimate and record a liability for potential losses that may arise from litigation and regulatory proceedings to the extent such losses are probable and can be estimated. Determining a reasonable estimate of the amount of such losses requires significant management judgment. In many cases, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the matter is close to resolution. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases that are in the early stages of litigation or in which claimants seek substantial or indeterminate damages, we often cannot predict the outcome or estimate the eventual loss or range of reasonably possible losses related to such matters. Given the inherent unpredictability of litigation, the outcome of certain matters could, from time to time, have a material adverse effect on the company's consolidated financial condition, results of operations or cash flows.

For more information on legal, regulatory and litigation matters, see Note 16 to the Consolidated Financial Statements.

Fair Value Measurements of Certain Financial Assets and Financial Liabilities

See Note 5 to the Consolidated Financial Statements for additional information about the measurement of fair value of financial assets and financial liabilities and our accounting policy regarding the incorporation of credit risk in fair value measurements.

The following table presents the fair value of fixed maturity and equity securities by source of value determination:

December 31, 2016 *(in billions)*		Fair Value	Percent of Total
Fair value based on external sources[a]	**$**	**240**	**93%**
Fair value based on internal sources		**18**	**7**
Total fixed maturity and equity securities[b]	**$**	**258**	**100%**

(a) Includes $17.3 billion for which the primary source is broker quotes.

(b) Includes available for sale and other securities.

Level 3 Assets and Liabilities

Assets and liabilities recorded at fair value in the Consolidated Balance Sheets are measured and classified in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs available in the marketplace used to measure the fair value. See Note 5 to the Consolidated Financial Statements for additional information.

The following table presents the amount of assets and liabilities measured at fair value on a recurring basis and classified as Level 3:

(in billions)		**December 31, 2016**	**Percentage of Total**		December 31, 2015	Percentage of Total
Assets	**$**	**37.7**	**7.6%**	$	38.1	7.7%
Liabilities		**3.5**	**0.8**		3.1	0.8

Level 3 fair value measurements are based on valuation techniques that use at least one significant input that is unobservable. We consider unobservable inputs to be those for which market data is not available and that are developed using the best information available about the assumptions that market participants would use when valuing the asset or liability. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment.

We classify fair value measurements for certain assets and liabilities as Level 3 when they require significant unobservable inputs in their valuation, including contractual terms, prices and rates, yield curves, credit curves, measures of volatility, prepayment rates, default rates, mortality rates and correlations of such inputs.

See Note 5 to the Consolidated Financial Statements for discussion of the valuation methodologies for assets and liabilities measured at fair value, as well as a discussion of transfers of Level 3 assets and liabilities.

Income Taxes

Recoverability of Net Deferred Tax Asset

The evaluation of the recoverability of our deferred tax asset and the need for a valuation allowance requires us 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 is to support a conclusion that a valuation allowance is not needed.

We consider a number of factors to reliably estimate future taxable income so we can determine the extent of our ability to realize net operating losses (NOLs), foreign tax credits (FTCs), realized capital loss and other carryforwards. These factors include forecasts of future income for each of our businesses and actual and planned business and operational changes, both of which include assumptions about future macroeconomic and AIG specific conditions and events. We subject the forecasts to stresses of key assumptions and evaluate the effect on tax attribute utilization. We also apply stresses to our assumptions about the effectiveness of relevant prudent and feasible tax planning strategies. Our income forecasts, coupled with our tax planning strategies, all resulted in sufficient taxable income to achieve realization of the U.S. tax attributes prior to their expiration. We assess the recoverability of our net deferred tax asset related to unrealized tax capital losses in the non-life Companies' available for sale portfolio. The deferred tax asset relates to the unrealized losses for which the carryforward period has not yet begun. As of December 31, 2016, based on all available evidence, we concluded that a valuation allowance should be established on a portion of the deferred tax asset related to unrealized losses that are not more-likely-than-not to be realized.

We separately assess the recoverability of our net deferred tax asset related to unrealized tax capital losses in the U.S. Life Insurance Companies' available for sale portfolio. The deferred tax asset relates to the unrealized losses for which the carryforward period has not yet begun, as such when assessing its recoverability we consider our ability and intent to hold the underlying securities to recovery. As of December 31, 2016, based on all available evidence, we concluded that a valuation allowance should be established on a portion of the deferred tax asset related to unrealized losses that are not more-likely-than-not to be realized.

See Note 23 to the Consolidated Financial Statements for a discussion of our framework for assessing the recoverability of our deferred tax asset.

Uncertain Tax Positions

Our accounting for income taxes, including uncertain tax positions, represents management's best estimate of various events and transactions, and requires judgment. FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) (now incorporated into Accounting Standards Codification, 740, Income Taxes) prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. The standard also provides guidance on derecognition, classification, interest and penalties and additional disclosures. We determine whether it is more likely than not that a tax position will be sustained, based on technical merits, upon examination by the relevant taxing authorities before any part of the benefit can be recognized in the financial statements. A tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement.

We classify interest expense and penalties recognized on income taxes as a component of income taxes.

U.S. Income Taxes on Earnings of Certain Foreign Subsidiaries

The U.S. federal income tax laws applicable to determining the amount of income taxes related to differences between the book carrying amounts and tax bases of subsidiaries are complex. Determining the amount also requires significant judgment and reliance on reasonable assumptions and estimates.

Executive Summary

Overview

This overview of the MD&A highlights selected information and may not contain all of the information that is important to current or potential investors in our securities. You should read this Annual Report in its entirety for a more detailed description of events, trends, uncertainties, risks and critical accounting estimates affecting us.

In the fourth quarter of 2016, we completed the reorganization of our financial results into our new modular management framework. We believe our new modular management framework gives our shareholders greater transparency into our operating businesses, makes our leaders more accountable for their performance, and will increase efficiency so we can focus on profitability. See Item 1. Business for a further discussion on these actions.

Divestitures, ASset sales and Reinsurance Transaction Highlights

Since the first quarter of 2016, we have entered into or consummated the following transactions:

Completed Divestitures and Asset Sales

- In May 2016, we completed the sale of AIG Advisor Group to investment funds affiliated with Lightyear Capital LLC and PSP Investments.

- In August 2016, we entered into an agreement to sell our 100 percent interest in United Guaranty Corporation (UGC) and certain related companies to Arch Capital Group Ltd. (Arch). The sale of UGC and its subsidiaries closed on December 31, 2016, and we received proceeds of approximately $3.3 billion. Concurrent with the closing, we entered into reinsurance agreements with Arch, including an amended and restated 50 percent quota share reinsurance agreement and an aggregate excess of loss reinsurance agreement, pursuant to which we will continue to be exposed to certain UGC policies written between 2009 and 2016. We expect the results of these reinsurance arrangements to continue to be reported in Commercial Insurance.

- In August 2016, we sold our controlling interest in NSM, a managing general agent, to ABRY Partners for consideration of $201 million. We retained an equity interest in a newly formed joint venture and we continue to provide underwriting capacity to NSM.

- In September 2016, we entered into an agreement to sell our 20 percent interest in Ascot Underwriting Holdings Ltd. and our 100 percent interest in the related syndicate-funding subsidiary Ascot Corporate Name Ltd. to Canada Pension Plan Investment Board (CPPIB). Total consideration for the transaction was $1.1 billion, inclusive of CPPIB's recapitalization of Syndicate 1414's Funds at Lloyd's (FAL) capital requirements. The transaction closed on November 18, 2016, and we received approximately $244 million in net cash proceeds.

- On November 17, 2016, an AIG sponsored Fund (the Korea Fund), completed the sale of a mixed-use commercial complex in Seoul, South Korea commonly known as the Seoul International Finance Center to Brookfield Properties for a total consideration of $2.5 billion, of which $1.2 billion was used to repay the fund's debt. The remaining cash proceeds were allocated between AIG and the noncontrolling interests in accordance with the Korea Fund's partnership agreement.

- On December 30, 2016, we sold a portion of our life settlements portfolio with face value (death benefits) of approximately $4.5 billion, which was 30 percent of the face value of the life settlements portfolio. As of December 31, 2016, our life settlements portfolio carrying value was $2.5 billion, with a face value (death benefits) of $9.8 billion.

Pending Divestitures

- In October 2016, we entered into an agreement with Fairfax Financial Holdings Limited (Fairfax), as part of a strategic partnership that we believe will further focus and streamline our global insurance operations. We agreed to sell to Fairfax our country subsidiary operations in Argentina, Chile, Colombia, Uruguay, Venezuela, as well as insurance operations in Turkey. Fairfax will also acquire renewal rights for the portfolios of local business written by our operations in Bulgaria, Czech Republic, Hungary, Poland, Romania, and Slovakia, and assume certain of our operating assets and employees. Total cash consideration to us is expected to be approximately $240 million. The transactions are subject to obtaining the relevant regulatory approvals and other customary closing conditions.

- On November 14, 2016, we entered into an agreement to sell our Japan life insurance business AIG Fuji Life Insurance Company, Ltd. (AFLI) to FWD Group, the insurance arm of Pacific Century Group.

Reinsurance Transactions

- Effective January 1, 2016, we entered into a two-year reinsurance arrangement with the Swiss Reinsurance Company Ltd., under which we ceded a proportional share of our new and renewal U.S. Casualty portfolio.

- Effective July 1, 2016, we entered into a reinsurance agreement with Hannover Life Reassurance Company of America, involving certain whole life and universal life businesses of one of our domestic life insurance subsidiaries. This transaction uses deposit accounting for purposes of U.S. GAAP, reduced certain statutory reserves that were above economic requirements, which released excess statutory capital of approximately $1.0 billion that was included in 2016 dividend payments to AIG Parent.

- Effective December 31, 2016, our domestic life insurance subsidiary amended the July 1, 2016 reinsurance agreement discussed above to also cede certain statutory reserves for term and universal life products that are above economic requirements, which were previously managed through affiliated reinsurance. This transaction is expected to result in a tax sharing payment by the Life Insurance Companies to AIG Parent in 2017.

- Our catastrophe reinsurance program includes coverage for natural catastrophes and some coverage for terrorism events. It consists of a large North American occurrence cover (without reinstatement) to protect against large North America losses, and Japan covers to protect against losses in Japan. Effective January 1, 2017, the attachment point for this reinsurance program is at $1.5 billion for the North American cover ($3 billion in 2016) and varies for the Japan covers. The North American cover has reduced the U.S. Hurricane (1-in-100) OEP net of reinsurance from $3.1 billion under the 2016 reinsurance program to $2.0 billion under the 2017 program.

- In January 2017, we announced that we have entered into an adverse development reinsurance agreement with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc., under which we transferred to NICO 80 percent of reserve risk on substantially all of our U.S. Commercial long-tail exposures for accident years 2015 and prior. Under this agreement, we ceded to NICO 80 percent of net paid losses on subject business on or after January 1, 2016 in excess of $25 billion of net paid losses, up to an aggregate limit of $25 billion. At NICO's 80 percent share, NICO's limit of liability under the contract is $20 billion. We will account for this transaction as retroactive reinsurance. The consideration for this agreement is $9.8 billion plus interest at four percent per annum from January 1, 2016 to the date of payment, which was paid in full as of February 17, 2017. The consideration paid to NICO will be placed 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.

See Notes 1, 4, 6 and 26 to the Consolidated Financial Statements for additional information on these transactions.

Financial Performance Summary

Net Income (Loss) Attributable To AIG

($ in millions)

2016 and 2015 Comparison

Declined primarily due to a decrease in income from insurance operations, reflecting $5.6 billion of pre-tax prior year adverse reserve development in Commercial Insurance in 2016 compared to $3.3 billion pre-tax in 2015. In addition, we recorded net realized capital losses in 2016 compared to net realized capital gains in 2015. These decreases were partially offset by improved performance from Consumer Insurance.

2015 and 2014 Comparison

Declined primarily due to a decrease in income from insurance operations, reflecting $3.3 billion of pre-tax prior year adverse development in Commercial Insurance in 2015 compared to $503 million pre-tax in 2014, and lower net investment income.

See MD&A – Consolidated Results of Operations for further discussion.

Pre-Tax Operating Income (Loss)*

($ in millions)

2016 and 2015 Comparison

Decreased primarily due to adverse prior year loss reserve development in Commercial Insurance of $5.6 billion in 2016 compared to $3.3 billion in 2015.

This decrease was partially offset by:

- favorable adjustments to reserves and DAC in Consumer Insurance, including higher net positive adjustments from the update of actuarial assumptions in Individual Retirement and Life Insurance;
- improved underwriting results in Personal Insurance; and
- lower general operating expenses.

2015 and 2014 Comparison

Decreased primarily due to:

- adverse prior year loss reserve development in Commercial Insurance of $3.3 billion in 2015 compared to $503 million in 2014;
- lower net investment income due to lower income on alternative investments, lower reinvestment yields, and assets for which the fair value option was elected;
- less favorable adjustments to reserves and DAC in Consumer Insurance, including a lower net positive adjustment to reflect the update of actuarial assumptions in Individual Retirement and additional reserves for Life Insurance as well as higher catastrophe losses and lower net favorable prior year loss reserve development in Personal Insurance; and

- lower Other income primarily due to lower appreciation on assets for which the fair value option was elected and lower fair value income on derivative positions.

This decrease was partially offset by lower general operating expenses.

See MD&A – Business Segment Operations for further discussion.

* Non-GAAP measure – see Consolidated Results of Operations for reconciliation of Non-GAAP to GAAP measure.

General Operating and Other Expenses

($ in millions)

Declined $2.1 billion since 2014, which included a foreign exchange benefit of $0.5 billion, due to lower employee-related expenses, rationalized employee benefits and professional fee reductions related to our ongoing efficiency program.

In keeping with our broad and on-going efforts to transform for long-term competitiveness, results for 2016 included approximately $0.7 billion of pre-tax restructuring and other costs, primarily comprised of employee severance charges, asset impairments and contract termination charges. Results for 2015 included approximately $0.5 billion of pre-tax restructuring and other costs.

We continue to execute initiatives focused on organizational simplification, operational efficiency, and business rationalization, which are expected to result in aggregate pre-tax restructuring and other costs of approximately $1.3 billion (of which approximately $1.2 billion has been recognized since the third quarter of 2015) as well as generate pre-tax annualized savings of approximately $1.2 billion to $1.3 billion when fully implemented by 2018.

General Operating Expenses, Operating Basis*

($ in millions)

Declined $2.0 billion since 2014, which included a foreign exchange benefit of $0.5 billion, due to lower employee-related expenses, rationalized employee benefits and professional fee reductions related to our ongoing efficiency program.

* Non-GAAP measure – see Consolidated Results of Operations for reconciliation of Non-GAAP to GAAP measure.

Capital Returned to Shareholders

($ in billions)

We have returned $30.4 billion in capital to our shareholders through dividends and share and warrant repurchases since the beginning of 2014 as a result of our strategy to actively return capital to shareholders.

Return on Equity

Book Value Per Share

AIG's Outlook – Industry and economic factors

Our business is affected by industry and economic factors such as interest rates, currency exchange rates, credit and equity market conditions, catastrophic claims events, regulation, tax policy, competition, and general economic, market and political conditions. We continued to operate under difficult market conditions in 2016, characterized by factors such as historically low interest rates, instability in the global equity markets, volatile energy markets, slowing growth in China and Euro-Zone economies, and the United Kingdom (the UK) advisory referendum in which a majority voted for the UK to withdraw its membership in the European Union (the EU) (commonly referred to as Brexit). The Brexit vote has also affected the U.S. dollar/British pound exchange rate, increased the volatility of exchange rates among the euro, British pound and the Japanese yen (the Major Currencies), and created volatility in the financial markets, which may continue for some time.

Impact of Changes in the Interest Rate Environment

Interest rates increased late in 2016, but have remained at historically low levels. Certain markets in which we operate have experienced negative interest rates. A sustained low interest rate environment negatively affects sales of interest rate sensitive products in our industry and may negatively impact the profitability of our existing business as we reinvest cash flows from investments, including increased calls and prepayments of fixed maturity securities and mortgage loans, at rates below the average yield of our existing portfolios. We actively manage our exposure to the interest rate environment through asset-liability management including spread management strategies for our investment-oriented products and economic hedging of interest rate risk from guarantee features in our variable and fixed index annuities.

Annuity Sales and Surrenders

The sustained low interest rate environment has a significant impact on the annuity industry. Low long-term interest rates put pressure on investment returns, which may negatively affect sales of interest rate sensitive products and reduce future profits on certain existing fixed rate products. However, our disciplined rate setting has helped to mitigate some of the pressure on investment spreads. As long as the low interest rate environment continues, conditions will be challenging for the fixed annuity market. Rapidly rising interest rates could create the potential for increased sales, but may also drive higher surrenders. Customers are, however, currently buying fixed annuities with longer surrender periods in pursuit of higher returns, which may help mitigate the rate of increase in surrenders in a rapidly rising rate environment. In addition, older contracts that have higher minimum interest rates and continue to be attractive to the contract holders are driving better than expected persistency, although the reserves for such contracts have continued to decrease over time in amount and as a percentage of the total annuity portfolio. Low interest rates have also driven growth in our fixed index annuity products, which provide additional interest crediting tied to favorable performance in certain equity market indices and the availability of guaranteed living benefits. Changes in interest rates significantly impact the valuation of our liabilities for guaranteed products with income features and the value of the related hedging portfolio.

Reinvestment and Spread Management

We actively monitor fixed income markets, including the level of interest rates, credit spreads and the shape of the yield curve. We also frequently review our interest rate assumptions and actively manage the crediting rates used for new and in-force business. Business strategies continue to evolve to maintain profitability of the overall business in a historically low interest rate environment. The low interest rate environment makes it more difficult to profitably price many of our products and puts margin pressure on existing products, due to the challenge of investing recurring premiums and deposits and reinvesting investment portfolio cash flows in the low rate environment while maintaining satisfactory investment quality and liquidity. In addition, there is investment risk associated with future premium receipts from certain in force business. Specifically, the investment of these future premium receipts may be at a yield below that required to meet future policy liabilities.

The contractual provisions for renewal of crediting rates and guaranteed minimum crediting rates included in products may reduce spreads in a sustained low interest rate environment and thus reduce future profitability. Although this interest rate risk is partially mitigated through the asset liability management process, product design elements and crediting rate strategies, a sustained low interest rate environment may negatively affect future profitability.

The following table presents Fixed Annuities and Group Retirement base net investment spread:

Years Ended December 31, *(in millions)*	**2016**	2015	2014
Base net investment spread			
Fixed Annuities	**2.19%**	2.20%	2.31%

Group Retirement	**1.87**	2.01	1.99

In Fixed Annuities and Group Retirement, average interest crediting rates decreased slightly in 2016 and 2015 compared to the preceding years due to active crediting rate management. However, the decline in base investment yields, driven by investment purchases and investment of portfolio cash flows at rates below the weighted average yield of the existing portfolio in the sustained low interest rate environment, resulted in base spread compression. See Investments for additional information on our investment and asset-liability management strategies.

For investment-oriented products in our Individual Retirement, Group Retirement, Life Insurance and Institutional Markets businesses, our spread management strategies include disciplined pricing and product design for new business, modifying or limiting the sale of products that do not achieve targeted spreads, using asset-liability management to match assets to liabilities to the extent practicable, and actively managing crediting rates to help mitigate some of the pressure on investment spreads. Renewal crediting rate management is done under contractual provisions that were designed to allow crediting rates to be reset at pre-established intervals in accordance with state and federal laws and subject to minimum crediting rate guarantees. We will continue to adjust crediting rates on in-force business to mitigate the pressure on spreads from declining base yields, but our ability to lower crediting rates may be limited by the competitive environment, contractual minimum crediting rates, and provisions that allow rates to be reset only at pre-established intervals. For example, competitors including private equity-held annuity writers are currently offering higher crediting rates. As a result, the timing and extent of crediting rate decreases may differ from the corresponding declines in investment yields, which could reduce our spreads and future profitability.

As shown in the table below, 73 percent of the fixed account values of our Individual Retirement and Group Retirement annuity products in the aggregate were crediting at the contractual minimum guaranteed interest rate at December 31, 2016. As a result of disciplined pricing on new business and the run-off of older business with higher crediting rates, the percentage of fixed account values of our annuity products that are currently crediting at rates above one percent decreased to 70 percent at December 31, 2016, compared to 74 percent at December 31, 2015 and 79 percent at December 31, 2014. These businesses continue to focus on pricing discipline and strategies to reduce the minimum guaranteed interest crediting rates offered on new sales. In the Core universal life business in our Life Insurance segment, 70 percent of the account values were crediting at the contractual minimum guaranteed interest rate at December 31, 2016.

The following table presents fixed annuity and universal life account values of our Core Individual Retirement, Group Retirement and Life Insurance businesses by contractual minimum guaranteed interest rate and current crediting rates:

	Current Crediting Rates			
December 31, 2016 Contractual Minimum Guaranteed Interest Rate *(in millions)*	At Contractual Minimum Guarantee	1-50 Basis Points Above Minimum Guarantee	More than 50 Basis Points Above Minimum Guarantee	Total
Individual Retirement*				
1%	$ 5,531	$ 4,404	$ 12,350	$ 22,285
> 1% - 2%	6,866	279	1,881	9,026
> 2% - 3%	14,767	41	495	15,303
> 3% - 4%	10,753	45	7	10,805
> 4% - 5%	567	-	4	571
> 5% - 5.5%	32	-	5	37
Total Individual Retirement	$ 38,516	$ 4,769	$ 14,742	$ 58,027
Group Retirement*				
1%	$ 1,273	$ 1,642	$ 3,072	$ 5,987
> 1% - 2%	6,428	736	399	7,563
> 2% - 3%	15,024	-	382	15,406
> 3% - 4%	926	-	-	926
> 4% - 5%	7,116	-	-	7,116
> 5% - 5.5%	163	-	-	163
Total Group Retirement	$ 30,930	$ 2,378	$ 3,853	$ 37,161
Universal life insurance				
1%	$ -	$ -	$ 7	$ 7
> 1% - 2%	11	186	199	396
> 2% - 3%	503	319	1,160	1,982
> 3% - 4%	1,688	459	4	2,151
> 4% - 5%	3,440	208	-	3,648
> 5% - 5.5%	307	-	-	307
Total universal life insurance	$ 5,949	$ 1,172	$ 1,370	$ 8,491
Total	$ 75,395	$ 8,319	$ 19,965	$ 103,679
Percentage of total	73%	8%	19%	100%

* Individual Retirement and Group Retirement amounts shown include fixed options within variable annuity products.

Assumption Updates and Loss Recognition

Spreads and surrender rates are important components of the future profit assumptions that drive the rate we use to amortize DAC and related reserves for investment-oriented products. If future profit assumptions change significantly, we may be required to recalculate DAC and related reserves, and reflect any resulting adjustments in current period income. In addition to investment-oriented products, certain traditional long-duration products for which we do not have the ability to adjust interest rates, such as structured settlements and payout annuities, are exposed to reduced earnings and potential loss recognition reserve increases in a sustained low interest rate environment. See Insurance Reserves – Life and Annuity Reserves and DAC – Update of Actuarial Assumptions for discussion of such adjustments recorded in 2016, 2015 and 2014 in our Consumer Insurance and Legacy Life Insurance Run-Off Lines.

Commercial Insurance

The impact of low interest rates on our Commercial Insurance segment is primarily on our long-tail Casualty line of business. We expect limited impacts on our existing long-tail Casualty business as the duration of our assets is slightly longer than that of our liabilities. We do expect sustained low interest rates will impact new and renewal business for the long-tail Casualty line as we may not be able to adjust our future pricing consistent with our profitability objectives to fully offset the impact of investing at lower rates. However, we will continue to maintain pricing discipline and risk selection.

In addition, for our Commercial Insurance segment and run-off insurance lines reported within the Legacy Portfolio, sustained low interest rates may unfavorably affect the net loss reserve discount for workers' compensation, and to a lesser extent could favorably impact assumptions about future medical costs; the combined net effect of which could result in higher net loss reserves.

Additionally, sustained low interest rates on discounting of projected benefit cash flows for our pension plans may result in higher pension expense.

Department of Labor Fiduciary Rule

Our Individual Retirement and Group Retirement operating segments provide products and services to certain employee benefit plans that are subject to restrictions imposed by ERISA and the Internal Revenue Code, including the requirements of the DOL Fiduciary Rule. For additional information about the DOL Fiduciary Rule, see Part I, Item 1. Business – Regulation. We have been analyzing the DOL Fiduciary Rule's potential impact on our customers, distribution partners, financial advisors and our Individual Retirement and Group Retirement businesses, and preparing to implement the necessary adjustments to achieve compliance with the DOL Fiduciary Rule. Overall, the DOL Fiduciary Rule as currently promulgated would result in increased compliance costs and, as currently promulgated, may create increased exposure to legal claims under certain circumstances, including class actions. The DOL has also issued interpretive guidance on the DOL Fiduciary Rule, and we are evaluating whether or not this guidance would affect the actions we would need to take to comply with the DOL Fiduciary Rule.

On February 3, 2017, the new administration issued a memo requiring the DOL to review the DOL Fiduciary Rule and determine whether the DOL Fiduciary Rule will adversely impact the ability of retirement savers to access information and financial advice. Accordingly, the DOL announced that it would consider legal options for postponing the applicability date of the DOL Fiduciary Rule while the DOL considers the issues raised in the referenced memo. We are closely following the DOL's pronouncements about further delays to the DOL Fiduciary Rule's effective date.

Impact of Currency Volatility

Currency volatility in 2016 and 2015 was acute compared to recent years, as the British pound weakened considerably against the U.S. dollar in 2016, although the Japanese yen strengthened against the U.S. dollar. The euro also weakened modestly against the U.S. dollar. Such volatility affected line item components of income for those businesses with substantial international operations. In particular, growth trends in net premiums written reported in U.S. dollars can differ significantly from those measured in original currencies. The net effect on underwriting results, however, is significantly mitigated, as both revenues and expenses are similarly affected.

These currencies may continue to fluctuate, in either direction, especially as a result of the UK's expected exit from the EU, and such fluctuations will affect net premiums written growth trends reported in U.S. dollars, as well as financial statement line item comparability.

Liability and Financial Lines, Property and Special Risks, International Life Insurance and Personal Insurance businesses are transacted in most major foreign currencies. The following table presents the average of the quarterly weighted average exchange rates of the currencies that have the most significant impact on our businesses:

Years Ended December 31,				Percentage Change	
Rate for 1 USD	**2016**	2015	2014	2016 vs. 2015	2015 vs. 2014
Currency:					
JPY	**109.19**	120.82	104.43	(10)%	16%
EUR	**0.90**	0.89	0.75	1%	19%
GBP	**0.73**	0.65	0.61	12%	7%

Unless otherwise noted, references to the effects of foreign exchange in the Commercial Insurance and Consumer Insurance discussion of results of operations are with respect to movements in the three Major Currencies included in the preceding table.

Consolidated Results of Operations

The following section provides a comparative discussion of our Consolidated Results of Operations for the three-year period ended December 31, 2016. Factors that relate primarily to a specific business are discussed in more detail within the business segment operations section. For a discussion of the Critical Accounting Estimates that affect our results of operations, see the Critical Accounting Estimates section of this MD&A.

The following table presents our consolidated results of operations and other key financial metrics:

Years Ended December 31,				Percentage Chan	
(in millions)	**2016**	2015	2014	2016 vs. 2015	2015 vs
Revenues:					
Premiums	**$ 34,393**	$ 36,655	$ 37,254	(6)%	
Policy fees	**2,732**	2,755	2,615	(1)	
Net investment income	**14,065**	14,053	16,079	-	
Net realized capital gains (losses)	**(1,944)**	776	739	NM	
Aircraft leasing revenue	**-**	-	1,602	NM	
Other income	**3,121**	4,088	6,117	(24)	
Total revenues	**52,367**	58,327	64,406	(10)	
Benefits, losses and expenses:					
Policyholder benefits and losses incurred	**32,437**	31,345	28,281	3	
Interest credited to policyholder account balances	**3,705**	3,731	3,768	(1)	
Amortization of deferred policy acquisition costs	**4,521**	5,236	5,330	(14)	
General operating and other expenses	**10,989**	12,686	13,138	(13)	
Interest expense	**1,260**	1,281	1,718	(2)	
Aircraft leasing expenses	**-**	-	1,585	NM	
Loss on extinguishment of debt	**74**	756	2,282	(90)	
Net (gain) loss on sale of divested businesses	**(545)**	11	(2,197)	NM	
Total benefits, losses and expenses	**52,441**	55,046	53,905	(5)	
Income (loss) from continuing operations before income tax expense	**(74)**	3,281	10,501	NM	
Income tax expense	**185**	1,059	2,927	(83)	
Income (loss) from continuing operations	**(259)**	2,222	7,574	NM	
Income (loss) from discontinued operations, net of income tax expense	**(90)**	-	(50)	NM	
Net income (loss)	**(349)**	2,222	7,524	NM	
Less: Net income (loss) attributable to noncontrolling interests	**500**	26	(5)	NM	
Net income (loss) attributable to AIG	**$ (849)**	$ 2,196	$ 7,529	NM%	

Years Ended December 31,	**2016**	2015	2014

Return on equity	**(1.0)%**	2.2%	7.1%
Adjusted Return on equity	**0.6**	3.7	8.8

(in millions, except per share data)	**December 31, 2016**	December 31, 2015
Balance sheet data:		
Total assets	**$ 498,264**	$ 496,842
Long-term debt	**30,912**	29,249
Total AIG shareholders' equity	**76,300**	89,658
Book value per common share	**76.66**	75.10
Book value per common share, excluding AOCI	**73.41**	72.97
Adjusted Book value per common share	**58.57**	58.94
Adjusted Book value per common share, including dividend growth	**59.79**	59.26

The following table presents a reconciliation of General operating and other expenses to General operating expense, operating basis, which is a Non-GAAP measure:

Years Ended December 31,				Percentag
(in millions)	**2016**	2015	2014	2016 vs. 2015
General operating and other expenses	**$10,989**	$ 12,686	$ 13,138	(13)%
Restructuring and other costs	**(694)**	(496)	-	(40)
Other (income) expense related to retroactive reinsurance agreement	**18**	(233)	-	NM
Pension expense related to a one-time lump sum payment to former employees	**(147)**	-	-	NM
Non-operating litigation reserves	**(3)**	(12)	(546)	75
Total general operating and other expenses included in pre-tax operating income	**10,163**	11,945	12,592	(15)
Loss adjustment expenses, reported as policyholder benefits and losses incurred	**1,345**	1,632	1,667	(18)
Advisory fee expenses	**(645)**	(1,349)	(1,315)	52
Non-deferrable insurance commissions	**(467)**	(504)	(522)	7
Direct marketing and acquisition expenses, net of deferrals	**(501)**	(659)	(570)	24
Investment expenses reported as net investment income and other	**57**	76	88	(25)
Total general operating expenses, operating basis	**$ 9,952**	$ 11,141	$ 11,940	(11)%

The following table presents a reconciliation of pre-tax income/net income (loss) attributable to AIG to pre-tax operating income/after-tax operating income attributable to AIG:

Years Ended December 31,	**2016**			2015			20	
		Total Tax (Benefit) Charge	**After Tax**		Total Tax (Benefit) Charge	After Tax		Tota (Be C
(in millions)	**Pre-tax**			Pre-tax			Pre-tax	
Pre-tax income/net income (loss), including noncontrolling interests	**$ (74)**	**$ 185**	**$ (288)**	$3,281	$ 1,059	$2,193	$ 10,501	$
Noncontrolling interest			**(561)**			3		
Pre-tax income/net income (loss) attributable to AIG	**$ (74)**	**$ 185**	**$ (849)**	$3,281	$ 1,059	$2,196	$ 10,501	$
Uncertain tax positions and other tax adjustments		**63**	**(63)**		(112)	112		
Deferred income tax valuation allowance (releases) charges		**(83)**	**83**		(110)	110		
Changes in fair value of securities used to hedge guaranteed living benefits	**(120)**	**(42)**	**(78)**	43	15	28	(260)	
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses)	**(195)**	**(68)**	**(127)**	15	5	10	217	
Other (income) expense - net	**(42)**	**(15)**	**(27)**	233	82	151	-	
Loss on extinguishment of debt	**74**	**26**	**48**	756	265	491	2,282	

Net realized capital (gains) losses	**1,944**	**561**	**1,383**	(776)	(271)	(505)	(739)
Noncontrolling interest on net realized capital (gains) losses			**(61)**			29	
Loss from discontinued operations			**90**			-	
(Income) loss from divested businesses	**(545)**	**(309)**	**(236)**	59	43	16	(2,169)
Non-operating litigation reserves and settlements	**(41)**	**(14)**	**(27)**	(82)	(29)	(53)	(258)
Reserve development related to certain non-operating run-off insurance business	**-**	**-**	**-**	30	10	20	-
Net loss reserve discount benefit (charge)	**(427)**	**(150)**	**(277)**	(71)	(16)	(55)	478
Pension expense related to a one-time lump sum payment to former employees	**147**	**51**	**96**	-	-	-	-
Restructuring and other costs	**694**	**243**	**451**	496	174	322	-

Pre-tax operating income/After-tax operating income	**$1,415**	**$448**	**$ 406**	$3,984	$1,115	$ 2,872	$10,052	$3,126	$ 6,941
Weighted average diluted shares outstanding			**1,091.1**			1,334.5			1,447.6
Income (loss) per common share attributable to AIG (diluted)			**$ (0.78)**			$ 1.65			$ 5.20
After-tax operating income (loss) per common share attributable to AIG (diluted)*			**$ 0.36**			$ 2.15			$ 4.79

* For 2016, because we reported a net loss, all common stock equivalents are anti-dilutive and are therefore excluded from the calculation of diluted shares and diluted per share amounts. However, because we reported after-tax operating income, the calculation of after-tax operating income per diluted share includes 30,326,772 dilutive shares.

pre-tax income (LOSS) Comparison for 2016 and 2015

Pre-tax results decreased in 2016 compared to 2015 primarily due to:

- adverse prior year loss reserve development in Commercial Insurance of $5.6 billion in 2016 compared to $3.3 billion in 2015; and

- net realized losses compared to net realized gains in the prior-year period due to:

– foreign exchange losses in 2016 compared to foreign exchange gains in 2015 primarily due to $910 million of remeasurement losses for a short-term intercompany balance;

– the sale of Class B shares of Prudential Financial Inc. and common shares of Springleaf Holdings, Inc. (Springleaf, now known as OneMain Holdings, Inc.) in 2015; and

– a net decrease of $1.4 billion related to guaranteed living benefits, net of hedges, primarily due to movement in the non-performance or “own credit” risk adjustment (NPA) component of the embedded derivative fair value measurement and 2016 actuarial assumption updates to surrender and mortality assumptions (see Insurance Reserves – Life and Annuity Reserves and DAC – Variable Annuity Guaranteed Benefits and Hedging Results).

These decreases were partially offset by:

- favorable adjustments to reserves and DAC in Consumer Insurance, including higher net positive adjustments in 2016 to reflect the update of actuarial assumptions in Individual Retirement and Life

Insurance;

- improved underwriting results in Personal Insurance;
- lower general operating expenses reflecting strategic actions to reduce expenses;
- lower loss on extinguishment of debt from ongoing liability management activities; and
- higher income from divested businesses due to gains on the sales of UGC, AIG Advisor Group and NSM, partially offset by losses on the agreements to sell Fuji Life and certain assets to Fairfax.

pre-tax income Comparison for 2015 and 2014

Pre-tax income decreased in 2015 compared to 2014 primarily due to:

- adverse prior year loss reserve development in Commercial Insurance of $3.3 billion in 2015 compared to $503 million in 2014;
- lower net investment income due to lower income from alternative investments, reinvestment yields, and assets for which the fair value option was elected;
- less favorable adjustments to reserves and DAC in Consumer Insurance, including a lower net positive adjustment to reflect the update of actuarial assumptions in Individual Retirement and additional reserves for Life Insurance, as well as higher catastrophe losses and lower net favorable prior year loss reserve development in Personal Insurance;
- lower Other income primarily due to lower appreciation on assets for which the fair value option was elected and lower fair value income on derivative positions; and
- lower income from divested businesses as a result of the sale of ILFC in the second quarter of 2014.

These decreases were partially offset by:

- a lower loss on extinguishment of debt from ongoing liability management activities;
- lower general operating expenses reflecting strategic actions to reduce expenses; and

- higher net realized gains compared to prior period due to:

– a $264 million increase from the change in the fair value of GMWB embedded derivatives related to variable annuity guaranteed living benefits, net of all related economic hedges (See Insurance Reserves –Life and Annuity Reserves and DAC – Variable Annuity Guaranteed Benefits and Hedging Results for additional discussion); and

– higher net realized capital gains from sales of investments, which included realized gains on the sales of Class B shares of Prudential Financial, Inc., a portion of our holdings in People's Insurance Company (Group) of China Limited and PICC Property & Casualty Company Limited (collectively, our PICC Investment), and common shares of OneMain Holdings, Inc., mostly offset by a realized loss on the sale of ordinary shares of AerCap and an increase in other-than-temporary impairment charges.

Income Tax expense analysis

For the year ended December 31, 2016, the effective tax rate on loss from continuing operations was not meaningful. The effective tax rate on loss from continuing operations differs from the statutory tax rate of 35 percent primarily due to

- tax charges of:

– $234 million associated with effect of foreign operations,

– $216 million of tax and related interest associated with increases in uncertain tax positions related to cross border financing transactions,

– $118 million related to disposition of subsidiaries,

– $102 million related to non-deductible transfer pricing charges, and

– $83 million related to increases in the deferred tax asset valuation allowances associated with U.S. federal and certain foreign jurisdictions;

- partially offset by tax benefits of:

– $253 million related to tax exempt income,

– $164 million associated with a portion of the U.S. Life Insurance Companies capital loss carryforwards previously treated as expired that was restored and utilized,

– $116 million related to the impact of an agreement reached with the Internal Revenue Service (IRS) related to certain tax issues under audit, and

– $132 million of reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities.

Effect of foreign operations is primarily related to foreign exchange losses incurred by our foreign subsidiaries related to the weakening of the British pound following the Brexit vote taxed at a statutory tax rate lower than 35 percent.

For the year ended December 31, 2016, our repatriation assumptions with respect to certain European operations remain unchanged and related foreign earnings continue to be indefinitely reinvested. Our repatriation assumptions related to certain operations in Canada, South Africa and Asia Pacific region have changed and related foreign earnings are now considered to be indefinitely reinvested. These earnings relate to ongoing operations and have been reinvested in active non-U.S. business operations. Further, we do not intend to repatriate these earnings to fund U.S. operations. As a result, U.S. deferred taxes have not been provided on $2 billion of accumulated earnings, including accumulated other comprehensive income, of these non-U.S. affiliates. Potential U.S. income tax liabilities related to such earnings would be offset, in whole or in part, by allowable foreign tax credits resulting from foreign taxes paid to foreign jurisdictions in which such operations are located. As a result, we currently believe that any incremental U.S. income tax liabilities relating to indefinitely reinvested foreign earnings would not be significant. Deferred taxes have been provided on earnings of non-U.S. affiliates whose earnings are not indefinitely reinvested. See Note 23 to the Consolidated Financial Statements for additional information.

For the year ended December 31, 2015, the effective tax rate on income from continuing operations was 32.3 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 35 percent primarily due to tax benefits of $195 million associated with tax exempt interest income, $127 million related to reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities, $58 million associated with the effect of foreign operations, and $109 million related to the partial completion of the IRS examination covering tax year 2006, partially offset by $324 million of tax charges and related interest associated with increases in uncertain tax positions related to cross border financing transactions, and $110 million related to increases in the deferred tax asset valuation allowances associated with certain foreign jurisdictions. See Note 23 to the Consolidated Financial Statements for additional information.

For the year ended December 31, 2014, the effective tax rate on income from continuing operations was 27.9 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 35 percent primarily due to tax benefits of $236 million associated with tax exempt interest income, $209 million related to a decrease in the U.S. Life Insurance Companies' capital loss carryforward valuation allowance, $182 million of income excludible from gross income related to the global resolution of certain residential mortgage-related disputes and $68 million associated with the effect of foreign operations.

Business Segment Operations

Our business operations consist of Commercial Insurance, Consumer Insurance, Other Operations, and a Legacy Portfolio.

Commercial Insurance consists of two modules: Liability and Financial Lines and Property and Special Risks. Consumer Insurance consists of four modules: Group Retirement, Individual Retirement, Life Insurance and Personal Insurance. Other Operations consists of businesses and items not allocated to our other businesses, which are primarily AIG Parent, Institutional Markets, United Guaranty and Fuji Life. Our Legacy Portfolio consists of our Legacy Property and Casualty Run-Off Insurance Lines, Legacy Life Insurance Run-Off Lines and Legacy Investments.

We modified the presentation of our segment results in 2016 to reflect our new operating structure and prior periods' presentation has been revised to conform to the new structure.

See Note 3 to the Consolidated Financial Statements for further information on our segment changes.

The following table summarizes our business segment operations. See also Note 3 to the Consolidated Financial Statements.

Years Ended December 31, *(in millions)*	**2016**	2015	2014
Core business:			
Commercial Insurance			
Liability and Financial Lines	**$ (2,649)**	$ (661)	$ 3,044
Property and Special Risks	**(86)**	1,226	1,203
Commercial Insurance	**(2,735)**	565	4,247
Consumer Insurance			
Individual Retirement	**2,269**	1,812	2,306
Group Retirement	**931**	1,100	1,229
Life Insurance	**(37)**	(51)	290
Personal Insurance	**686**	68	381
Consumer Insurance	**3,849**	2,929	4,206
Other Operations	**(748)**	(567)	(958)
Total Core	**366**	2,927	7,495
Legacy Portfolio	**1,007**	1,133	2,576

Consolidations, eliminations and other adjustments	**42**	(76)	(19)
Pre-tax operating income	**$ 1,415**	$ 3,984	$ 10,052

Commercial Insurance	

PRODUCTS AND DISTRIBUTION

Liability: Products include general liability, environmental, commercial automobile liability, workers' compensation, excess casualty and crisis management insurance products. Casualty also includes risk- sharing and other customized structured programs for large corporate and multinational customers.

Financial Lines: Products include professional liability insurance for a range of businesses and risks, including directors and officers liability (D&O), mergers and acquisitions (M&A), fidelity, employment practices, fiduciary liability, cyber risk, kidnap and ransom, and errors and omissions insurance (E&O).

Property: Products include commercial, industrial and energy-related property insurance products and services that cover exposures to man-made and natural disasters, including business interruption.

Special Risks: Products include aerospace, political risk, trade credit, portfolio solutions, surety and marine insurance.

Distribution

Commercial Insurance products are primarily distributed through a network of independent retail and wholesale brokers.

BUSINESS STRATEGY

Customer: We provide commercial insurance solutions to the full spectrum of enterprises — from large, multinational, and mid-sized companies to small businesses, entrepreneurs, and non-profit organizations across the globe. We expect that investments in underwriting, claims services, client risk services, science and data will continue to differentiate us from our peers and drive a superior client experience.

Sharpen Commercial Focus: Create a leaner, more focused, and more profitable Commercial Insurance organization. Deliver a more competitive return on equity across our businesses primarily through improvements in our loss ratio. Optimize our business portfolio through risk selection by using enhanced data, analytics and the application of science to deliver superior risk-adjusted returns. Exit or remediate targeted sub-segments of underperforming portfolios or non-core businesses that do not meet our risk acceptance or profitability objectives. Maintain and grow profitable accounts and deliver a better client experience.

Drive Efficiency: Reorganized our operating model into "modular", business units with greater end-to-end accountability, transparency, and strategic flexibility, enhancing decision making and driving performance improvement over time; increase capital fungibility and diversification; streamline our legal entity structure; optimize reinsurance; improve tax efficiency and reduce expenses.

Invest to Grow: Grow our higher-value businesses while investing in transformative opportunities, continuing initiatives to modernize our technology and infrastructure, advancing our engineering capabilities, innovating new products and client risk services and delivering a better client experience.

COMPETITION and challenges

Operating in a highly competitive industry, Commercial Insurance competes against several hundred companies, specialty insurance organizations, mutual companies and other underwriting organizations in the U.S. In international markets, we compete for business with the foreign insurance operations of large global insurance groups and local companies in specific market areas and product types. Insurance companies compete through a combination of risk acceptance criteria, product pricing, service and terms and conditions. Commercial Insurance seeks to distinguish itself in the insurance industry primarily based on its well-established brand, global franchise, multinational capabilities, financial and capital strength, innovative products, claims expertise to handle complex claims, expertise in providing specialized coverages and customer service.

We serve our business and individual customers on a global basis — from the largest multinational corporations to local businesses and individuals. Our clients benefit from our substantial underwriting expertise.

Our challenges include:

- information technology infrastructure modernization, which puts pressure on our efforts to reduce operating expenses;
- long-tail exposures create added challenges to pricing and risk management;
- over capacity in certain lines of business creates downward market pressure on pricing;
- tort environment volatility in certain jurisdictions and lines of business; and
- volatility in claims arising from natural and man-made catastrophes.

OUTLOOK—INDUSTRY AND ECONOMIC FACTORS

Below is a discussion of the industry and economic factors impacting our specific business:

Liability and Financial Lines

We have observed an increase in frequency of severity of losses, particularly in Auto, which is impacting not only the primary books, but also having leverage impacts on excess layers. Loss cost trend rates across U.S. casualty lines in general are increasing with the exception of U.S. workers' compensation. The market is still challenging in terms of the level of capacity, which is continuing to impact the rate environment. The overall rates we have achieved have been positive across most business lines (in particular in auto where we have seen a large number of double digit increases as we have remediated underpriced business through a combination of product exits and use of reinsurance). The current accident year deterioration has seen partial offsets as a result of actions taken in 2016 to grow higher value lines such as M&A and Cyber.

Liability and Financial Lines has large international exposure within the total Commercial Insurance portfolio and will therefore remain sensitive to volatility in foreign currencies.

Property and Special Risks

In 2016, Property and Special Risks experienced growth in certain strategic high value businesses that led to positive results that met or exceeded our expectations, including U.S. middle market property, and we expect such growth to continue in 2017. The U.S. large limit property business continues to be a profitable investment area, and remains at volumes consistent with 2015. Property and Special Risks also expects that expansion in certain growth economies will continue at a faster pace than in developed countries, but at levels lower than those previously expected due to revised economic assumptions. Rates in more commoditized lines of business such as U.S. Excess and Surplus lines continue to be unsatisfactory and we intend to continue to reduce our net premiums written in these areas.

Overall, Property and Special Risks experienced rate pressure in 2016, which is expected to continue in the near term, particularly in the U.S. and Europe. Property and Special Risks continues to differentiate its underwriting capacity from its peers by leveraging its global footprint, diverse product offering, risk engineering expertise and significant underwriting experience.

Primarily due to reductions in the Property portfolio driven by actions to address accounts with inadequate price and/or terms and conditions, catastrophe exposures have declined.

COMMERCIAL INSURANCE RESULTS

Years Ended December 31,				Change	
(in millions)	**2016**	2015	2014	2016 vs. 2015	2015 vs. 2014
Revenues:					
Premiums	**$ 18,100**	$19,715	$20,407	(8)%	(3)%
Net investment income	**3,268**	3,421	4,255	(4)	(20)
Total operating revenues	**21,368**	23,136	24,662	(8)	(6)
Benefits and expenses:					
Policyholder benefits and losses incurred	**18,828**	16,660	14,226	13	17
Amortization of deferred policy acquisition costs	**2,049**	2,349	2,497	(13)	(6)
General operating and other expenses[(a)]	**3,226**	3,562	3,692	(9)	(4)
Total operating expenses	**24,103**	22,571	20,415	7	11
Pre-tax operating income (loss)	**$(2,735)**	$ 565	$ 4,247	NM%	(87)%
Loss ratio[(b)]	**104.0**	84.5	69.7	19.5	14.8
Acquisition ratio	**15.7**	16.4	16.0	(0.7)	0.4
General operating expense ratio	**13.4**	13.6	14.3	(0.2)	(0.7)
Expense ratio	**29.1**	30.0	30.3	(0.9)	(0.3)
Combined ratio[(b)]	**133.1**	114.5	100.0	18.6	14.5
Adjustments for accident year loss ratio, as adjusted and accident year combined ratio, as adjusted:					
Catastrophe losses and reinstatement premiums	**(6.5)**	(3.0)	(3.0)	(3.5)	-
Prior year development net of premium adjustments	**(30.8)**	(16.8)	(2.1)	(14.0)	(14.7)
Accident year loss ratio, as adjusted	**66.7**	64.7	64.6	2.0	0.1
Accident year combined ratio, as adjusted	**95.8**	94.7	94.9	1.1	(0.2)

(a) Includes general operating expenses, commissions and other acquisition expenses.

(b) Consistent with our definition of Pre-tax operating income, excludes loss reserve discount.

The following table presents Commercial Insurance net premiums written by module, showing change on both reported and constant dollar basis:

Years Ended December 31,				Percentage Change in U.S. dollars		Percentage Chan Original Curren	
(in millions)	**2016**	2015	2014	2016 vs. 2015	2015 vs. 2014	2016 vs. 2015	2015 v
Liability and Financial Lines	**$ 9,379**	$12,570	$12,718	(25)%	(1)%	(25)%	
Property and Special Risks	**7,549**	8,046	8,055	(6)	-	(4)	
Total net premiums written	**$16,928**	$20,616	$20,773	(18)%	(1)%	(17)%	

The following tables present Commercial accident year catastrophes and severe losses by geography[(a)] and number of events:

Catastrophes[(b)]

(in millions)	# of Events		U.S.		Japan		Europe		Other		Total
Year Ended December 31, 2016											
Flooding	**3**	**$**	**126**	**$**	**-**	**$**	**22**	**$**	**4**	**$**	**152**
Windstorms and hailstorms	**19**		**579**		**15**		**20**		**38**		**652**
Wildfire	**2**		**93**		**-**		**1**		**39**		**133**
Earthquakes	**3**		**153**		**5**		**4**		**27**		**189**
Other	**1**		**-**		**-**		**36**		**3**		**39**
Reinstatement premiums			**-**		**-**		**-**		**1**		**1**
Total catastrophe-related charges	**28**	**$**	**951**	**$**	**20**	**$**	**83**	**$**	**112**	**$**	**1,166**
Year Ended December 31, 2015											
Flooding	4	$	74	$	-	$	67	$	2	$	143
Windstorms and hailstorms	14		303		13		10		84		410
Wildfire	1		9		-		-		-		9
Tropical cyclone	1		6		6		-		-		12
Earthquakes	1		6		-		-		1		7
Total catastrophe-related charges	21	$	398	$	19	$	77	$	87	$	581
Year Ended December 31, 2014											
Flooding	1	$	16	$	-	$	-	$	-	$	16
Windstorms and hailstorms	14		336		12		14		28		390
Tropical cyclone	4		105		24		-		16		145
Earthquakes	1		48		-		-		1		49
Reinstatement premiums			-		-		-		2		2
Total catastrophe-related charges	20	$	505	$	36	$	14	$	47	$	602

(a) Geography shown in the table represents where the ultimate liability resides, after intercompany reinsurance agreements, and is not necessarily indicative of where the catastrophe or severe loss events have occurred. This presentation follows our geography modules. See Item 1. Business for further discussion on our geography modules.

(b) Natural catastrophe losses are generally weather or seismic events having a net impact on AIG in excess of $10 million each. Catastrophes also include certain man-made events, such as terrorism and civil disorders that meet the $10 million threshold.

Severe Losses[(c)]

Years Ended December 31, *(in millions)*	# of Events		U.S.		Japan		Europe		Other		Total
2016	**22**	**$**	**183**	**$**	**-**	**$**	**191**	**$**	**31**	**$**	**405**

2015	29	$	260	$	-	$	317	$	122	$	699
2014	30	$	169	$	-	$	-	$	423	$	592

(c) Severe losses are defined as non-catastrophe individual first party losses and surety losses greater than $10 million, net of related reinsurance and salvage and subrogation.

Liability and Financial Lines Results

Years Ended December 31,				Change	
(in millions)	**2016**	2015	2014	2016 vs. 2015	2015 vs. 2014
Underwriting results:					
Net premiums written	**$ 9,379**	$ 12,570	$ 12,718	(25)%	(1)
(Increase) decrease in unearned premiums	**1,191**	(704)	(116)	NM	NM
Net premiums earned	**10,570**	11,866	12,602	(11)	(6)
Losses and loss adjustment expenses incurred	**13,134**	11,946	9,278	10	29
Acquisition expenses:					
Amortization of deferred policy acquisition costs	**1,098**	1,439	1,464	(24)	(2)
Other acquisition expenses	**303**	337	464	(10)	(27)
Total acquisition expenses	**1,401**	1,776	1,928	(21)	(8)
General operating expenses	**1,384**	1,623	1,762	(15)	(8)
Underwriting loss	**(5,349)**	(3,479)	(366)	(54)	NM
Net investment income	**2,700**	2,818	3,410	(4)	(17)
Pre-tax operating income (loss)	**$ (2,649)**	$ (661)	$ 3,044	(301)%	NM
Loss ratio[(a)]	**124.2**	100.7	73.7	23.5	27.0
Acquisition ratio	**13.3**	15.0	15.3	(1.7)	(0.3)
General operating expense ratio	**13.1**	13.7	14.0	(0.6)	(0.3)
Expense ratio	**26.4**	28.7	29.3	(2.3)	(0.6)
Combined ratio[(a)]	**150.6**	129.4	103.0	21.2	26.4
Adjustments for accident year loss ratio, as adjusted, and accident year combined ratio, as adjusted:					
Catastrophe losses and reinstatement premiums	**-**	(0.1)	(0.1)	0.1	-
Prior year development net of premium adjustments	**(50.9)**	(30.4)	(5.8)	(20.5)	(24.6)
Accident year loss ratio, as adjusted	**73.3**	70.2	67.8	3.1	2.4
Accident year combined ratio, as adjusted	**99.7**	98.9	97.1	0.8	1.8

(a) Consistent with our definition of Pre-tax operating income, excludes loss reserve discount.

Business and Financial Highlights

The net premiums written decrease in 2016 was driven by the Swiss Re quota share treaty, portfolio optimization and execution on our pricing strategy, partially offset by growth in targeted lines of business. The increase in net losses was driven by net adverse prior year reserve development. The acquisition expense decrease was primarily related to the 2016 Swiss Re quota share treaty. The general operating expense decrease was driven by lower employee-related expenses and other expense savings initiatives. Lower net investment income was driven primarily by lower alternative investment returns due to weaker performance in equity markets compared to prior years.

We continue to reduce the relative size of our U.S. casualty portfolio within Liability and Financial Lines and consequently expect that net premiums written will continue to decline through 2017, in large part driven by the impact of our continued strategy on risk selection, disciplined underwriting and execution of our reinsurance strategy to further reduce risk.

As discussed in the Executive Summary, in January 2017, we entered into an adverse development reinsurance agreement with NICO, which covers 80 percent of up to $9 billion of potential future prior year development on substantially all of our U.S. Casualty and Financial Lines exposures for accident years 2015 and prior. Under U.S. GAAP, any potential future prior year development would be recognized immediately as losses are incurred; however, the related recoveries under the reinsurance agreement would be deferred and recognized over the expected recovery period.

Liability and Financial Lines Pre-Tax Operating (Loss) *(in millions)*	
	2016 and 2015 Comparison Pre-tax operating loss increased primarily due to: • higher adverse prior year reserve development (increase by $1.8 billion); • lower net premiums earned primarily driven by reinsurance and portfolio optimization; and • lower net investment income due to lower income on alternative investments and lower interest and dividends. These increases were partially offset by: • lower general operating expenses primarily due to lower employee-related expenses and other expense reduction initiatives; and • lower acquisition expenses primarily due to the ceding commissions related to the reinsurance arrangement with Swiss Re Group which became effective in the first quarter of 2016.

Liability and Financial Lines Pre-Tax Operating Income (Loss) *(in millions)*	
	2015 and 2014 Comparison Pre-tax operating income decreased primarily due to: • higher net adverse prior year loss reserve development (increase by $2.9 billion); and • lower net investment income driven by lower income on alternative investments as well as lower return on

	assets due to decreases in interest rates. These decreases were partially offset by: • lower general operating expenses primarily due to lower employee-related expenses resulting from actions to streamline our management structure and general cost containment measures commenced in 2015; and • lower total acquisition expense driven primarily by lower commission rates.

Liability and Financial Lines Net Premiums Written *(in millions)*	
	2016 and 2015 Comparison Net premiums written decreased primarily due to: • the effect of the reinsurance arrangement with the Swiss Re Group; • continued execution of our strategy to enhance risk selection and optimize our product portfolio, including non-renewals, and revising rates, terms and conditions in certain underperforming products, particularly U.S. casualty; • lower new and renewal business reflecting efforts to adhere to underwriting discipline in the current competitive environment; and • the renewal of a multi-year E&O policy in the U.S. in 2015. These decreases were partially offset by growth in certain targeted lines of business.

Liability and Financial Lines Net Premiums Written *(in millions)*	
	2015 and 2014 Comparison Net premiums written decreased primarily due to: • declines in Liability reflecting: – continued execution of our strategy to enhance our portfolio mix, including reduced production in certain underperforming products such as excess casualty; and – a decrease in loss sensitive business.

	This decrease was partially offset by: • an increase in Financial Lines reflecting: – higher renewal retention on growth products such as cyber and M&A; and – renewal of a multi-year E&O policy in the U.S. in the first quarter of 2015.

Liability and Financial Lines Combined Ratios	
	2016 and 2015 Comparison The increase in combined ratio reflects: • an increase in the loss ratio partially offset by a decrease in the expense ratio. The increase in the loss ratio reflects: • reserve strengthening mainly in U.S. Workers' compensation U.S. Other casualty and Financial lines; and • higher accident year loss ratio, as adjusted, in Liability. The decrease in the expense ratio reflects: • a decrease in general operating expense ratio due to our ongoing focus on cost efficiency; and • lower acquisition expense ratio driven by higher commission income through new reinsurance transactions.

Liability and Financial Lines Combined Ratios	
	2015 and 2014 Comparison The increase in combined ratio reflects: • an increase in the loss ratio partially offset by a decrease in the expense ratio. The increase in loss ratio reflects:

- reserve strengthening primarily in U.S. Excess casualty as well as Financial lines; and
- higher accident year loss ratio, as adjusted, driven by Casualty.

The decrease in the expense ratio reflects:

- decreases in the general operating expense ratio due to our ongoing focus on cost efficiency; and
- lower acquisition ratio driven by change in business mix.

Property and Special Risks Results

Years Ended December 31, *(in millions)*	**2016**	2015	2014	Change 2016 vs. 2015	Change 2015 vs. 2014
Underwriting results:					
Net premiums written	**$7,549**	$8,046	$8,055	(6)%	-%
Increase in unearned premiums	**(19)**	(197)	(250)	90	21
Net premiums earned	**7,530**	7,849	7,805	(4)	1
Losses and loss adjustment expenses incurred	**5,694**	4,714	4,948	21	(5)
Acquisition expenses:					
Amortization of deferred policy acquisition costs	**951**	910	1,033	5	(12)
Other acquisition expenses	**493**	542	307	(9)	77
Total acquisition expenses	**1,444**	1,452	1,340	(1)	8
General operating expenses	**1,046**	1,060	1,159	(1)	(9)
Underwriting income (loss)	**(654)**	623	358	NM	74
Net investment income	**568**	603	845	(6)	(29)
Pre-tax operating income (loss)	**$ (86)**	$1,226	$1,203	NM%	2%
Loss ratio	**75.6**	60.1	63.4	15.5	(3.3)
Acquisition ratio	**19.2**	18.5	17.2	0.7	1.3
General operating expense ratio	**13.9**	13.5	14.8	0.4	(1.3)
Expense ratio	**33.1**	32.0	32.0	1.1	-
Combined ratio	**108.7**	92.1	95.4	16.6	(3.3)
Adjustments for accident year loss ratio, as adjusted and accident year combined ratio, as adjusted:					
Catastrophe losses and reinstatement premiums	**(15.4)**	(7.3)	(7.6)	(8.1)	0.3
Prior year development net of premium adjustments	**(2.8)**	3.6	3.8	(6.4)	(0.2)
Accident year loss ratio, as adjusted	**57.4**	56.4	59.6	1.0	(3.2)
Accident year combined ratio, as adjusted	**90.5**	88.4	91.6	2.1	(3.2)

Business and Financial Highlights

The net premiums written decrease in 2016 was driven by portfolio optimization and continued challenging market conditions, coupled with a decrease of assumed premiums related to the 50 percent quota share reinsurance agreement with United Guaranty. This quota share reinsurance agreement contributed $146 million and $86 million to pre-tax operating income in 2016 and 2015, respectively. The increase in net losses and loss ratio were driven by higher catastrophes and higher net adverse prior year loss reserve development, partially offset by lower severe losses. The expense ratio increase was mainly driven by business mix shift and premium reduction, which more than offset expense reduction. Lower net investment income was driven primarily by lower alternative investment returns due to weaker performance in equity markets compared to prior years.

Our sale of the Ascot business at the end of 2016 will also lead to a decline in net premiums written in 2017.

Property and Special Risks Pre-Tax Operating Income (Loss) *(in millions)*	
	2016 and 2015 Comparison Pre-tax operating income decreased primarily due to: • higher adverse prior year development primarily due to an increase in the U.S. Programs business; • increased catastrophe losses by approximately $600 million; and • lower net investment income due to lower income on alternative investments. These declines were partially offset by: • lower severe losses; • the effect of the 50 percent quota share reinsurance agreement with UGC; and • slightly lower general operating expenses primarily due to lower employee-related expenses and other expense reduction initiatives.

Property and Special Risks Pre-Tax Operating Income *(in millions)*	
	2015 and 2014 Comparison Pre-tax operating income increased slightly primarily due to: • favorable impact of $87 million from the 50 percent quota share reinsurance agreement with UGC which became effective in the first quarter of 2015; and

	• lower attritional losses due to enhanced risk selection. This was partially offset by: • lower net investment income due to lower income on alternative investments as well as lower income on investments accounted for under the fair value option; • slightly higher general operating expenses due to the NSM acquisition, which was consolidated commencing in the second quarter of 2015; • higher acquisition other expenses due to an increase in net commission expenses in certain classes of businesses, as well as higher premium taxes and other assessments reflecting changes in the business mix; and • higher severe losses.

Property and Special Risks Net Premiums Written *(in millions)*	
	2016 and 2015 Comparison Net premiums written decreased primarily due to: • continued execution of our strategy to optimize our portfolio mix; • increases in rate pressure, significant competition and challenging market conditions; • lower new and renewal business reflecting the continued adherence to our underwriting discipline in the current competitive environment; and • lower premiums related to the 50 percent quota share reinsurance agreement with UGC. These decreases were partially offset by: • increases in target growth business in Special Risks.

Property and Special Risks Net Premiums Written *(in millions)*	
	2015 and 2014 Comparison Net premiums written decreased slightly primarily due to: • portfolio optimization and continued challenging market conditions; and • reduced production in certain products due to enhanced risk selection. These decreases were partially offset by: • the favorable impact of $392 million from the 50 percent quota share reinsurance agreement with UGC

	which became effective in the first quarter of 2015

Property and Special Risks Combined Ratios	
	2016 and 2015 Comparison The increase in combined ratio reflected: • an increase in the loss ratio and expense ratio. The increase in the loss ratio reflected: • higher accident year loss ratio, as adjusted, driven by higher attritional loss ratio in the U.S. Programs business; • higher catastrophe losses; • higher net adverse prior year development; and • partially offset by lower severe losses, as well as the effect of the 50 percent quota share reinsurance agreement with UGC. The increase in expense ratio reflected: • higher general operating expense ratio due to timing of premium reduction, which more than offset expense reduction; and • higher acquisition ratios driven by change in business mix.

Property and Special Risks Combined Ratios	
	2015 and 2014 Comparison The decrease in combined ratio reflected: • decrease in the loss ratio partially offset by an increase in the acquisition ratio. The decrease in both loss ratio and accident year loss ratio, as adjusted, reflected:

	• lower attritional loss ratio from U.S. Property; • lower attritional loss ratio in Special Risks which reflected the effect of the 50 percent quota share reinsurance agreement with UGC; and • partially offset by an increase of 1.3 points in severe losses. The expense ratio remained unchanged reflecting: • higher acquisition ratio due to an increase in net commission expenses in certain classes of businesses, as well as higher premium taxes and other assessments reflecting change in business mix; and • partially offset by lower general operating expense ratio due to lower employee-related expenses, and other expense reduction initiatives.

Consumer Insurance

PRODUCTS AND DISTRIBUTION

Variable Annuities: Products include variable annuities that offer a combination of growth potential, death benefit features and income protection features. Variable annuities are distributed primarily through banks, wirehouses, and regional and independent broker-dealers.

Index Annuities: Products include fixed index annuities that provide growth potential based in part on the performance of a market index. Certain fixed index annuity products offer optional income protection features. Fixed index annuities are distributed primarily through banks, broker dealers, independent marketing organizations and independent insurance agents.

Fixed Annuities: Products include single premium fixed annuities, immediate annuities and deferred income annuities. The Fixed Annuities product line maintains its industry-leading position in the U.S. bank distribution channel by designing products collaboratively with banks and offering an efficient and flexible administration platform.

Retail Mutual Funds: Includes our mutual fund sales and related administration and servicing operations. Retail Mutual Funds are distributed primarily through broker-dealers.

Group Retirement: Products and services include group mutual funds, group fixed annuities, group variable annuities, individual annuity and investment products, and financial planning and advisory services.

Products and services are marketed by the Variable Annuity Life Insurance Company (VALIC) under the VALIC brand and include investment offerings and plan administrative and compliance services. VALIC career financial advisors and independent financial advisors provide retirement plan participants with enrollment support and comprehensive financial planning services.

Life Insurance: In the U.S., primarily includes term life and universal life insurance. International operations include the distribution of life and health products in the UK and Ireland. Life products in the U.S. are primarily distributed through independent marketing organizations, independent insurance agents, financial advisors and direct marketing.

Individual: Products include personal auto and property in Japan and other selected international markets and insurance for high net worth individuals offered through AIG Private Client Group, including auto, homeowners, umbrella, yacht, fine art and collections insurance with a focus on the U.S. and multi-national coverage offerings. Products are distributed through various channels, including agents and brokers.

Group: Products include voluntary and sponsor-paid personal accident and supplemental health products for individuals, employees, associations and other organizations, a broad range of travel insurance products and services for leisure and business travelers as well as extended warranty insurance covering electronics, appliances, and HVAC industries. Products are distributed through various channels, including agents, brokers, affinity partners, airlines and travel agents.

BUSINESS STRATEGY

Customer: Strive to be our clients' most valued insurer through our unique franchise, which brings together a broad portfolio of retirement, life insurance and personal insurance products offered through multiple distribution networks. Consumer Insurance focuses on ease of doing business, offering valuable solutions, and expanding and deepening its distribution relationships across multiple channels.

Sharpen Consumer Focus: Invest in areas where Consumer Insurance can grow profitability and sustainably, and achieve and maintain industry leading positions. Narrow Consumer Insurance's footprint in less profitable markets with insufficient scale.

Individual Retirement will continue to capitalize on the opportunity to meet consumer demand for guaranteed income by maintaining innovative variable and index annuity products, while also managing risk from guarantee features through risk-mitigating product design and well-developed economic hedging capabilities. Our fixed annuity products provide diversity in our annuity product suite by offering stable returns for retirement savings.	**Group Retirement** continues to enhance its technology platform to improve the customer experience for plan sponsors and individual participants. VALIC's self-service tools paired with its career financial advisors provide a compelling service platform.

Life Insurance continues to invest to position itself for growth, while executing on strategies to enhance returns. Life Insurance is focused on rationalizing its product portfolio, aligning distribution with its most productive channels, consolidating systems to state-of-the-art platforms, and employing innovative underwriting enhancements.	**Personal Insurance** aims to provide clients with valuable solutions, delivered through the channels they prefer. We continue to focus and invest in the most profitable markets and segments, while narrowing our footprint where appropriate. We are also leveraging our multinational capabilities to meet the increasing demand for cross-border coverage and services. Personal Insurance will continue to use our strong risk management and market expertise to foster growth by providing innovative and competitive solutions to its customers and distributors.

Operational Effectiveness: Simplify processes and enhance operating environments to increase competitiveness, improve service and product capabilities and facilitate delivery of our target customer experience. We continue to invest in technology to improve operating efficiency and ease of doing business for our distribution partners and customers. In the U.S. Life business, we are focused on leveraging our most efficient systems and increasing automation of our underwriting process. We believe that simplifying our operating models will enhance productivity and support further profitable growth.

Balance Sheet Management: Lead a rigorous product and portfolio approach with enhanced product design and high quality investments that match our asset and liability exposures and are designed to ensure our ability to meet cash and liquidity needs under all operating scenarios.

Value Creation and Capital Management: Strive to deliver solid earnings through disciplined pricing, sustainable underwriting improvements, expense reductions, and diversification of risk, while optimizing capital allocation and efficiency within insurance entities to enhance ROE.

COMPETITION and challenges

Consumer Insurance operates in the highly competitive insurance and financial services industry in the U.S. and select international markets and competes against various financial services companies, including mutual funds, banks and other life and property casualty insurance companies. Competition is primarily based on product pricing and design, distribution, financial strength, customer service and ease of doing business.

Consumer Insurance remains competitive due to its long-standing market leading positions, innovative products, distribution relationships across multiple channels, customer-focused service, multi-national capabilities and strong financial ratings.

Our primary challenges include:

- a sustained low interest rate environment, which makes it difficult to profitably price new products and puts margin pressure on existing business due to lower reinvestment yields;

- increased competition in our primary markets, including aggressive pricing of annuities by private equity-backed annuity writers, increased competition and consolidation of employer groups in the group retirement planning market, and increased competition for auto and homeowners' insurance in Japan;

- increasingly complex new and proposed regulatory requirements have created uncertainty that is affecting industry growth; and

- investments to upgrade our technology and underwriting processes challenge our management of general operating expenses.

OUTLOOK—INDUSTRY AND ECONOMIC FACTORS

Below is a discussion of the industry and economic factors impacting our specific modules:

Individual Retirement

Increasing life expectancy and reduced expectations for traditional retirement income from defined benefit programs and fixed income securities are leading Americans to seek additional financial security as they approach retirement. The strong demand for individual variable and fixed index annuities with guaranteed income features has attracted increased competition in this product space. In response to the continued low interest rate environment, which has added pressure to profit margins, we have developed guaranteed income benefits for both variable and fixed index annuities with margins that are less sensitive to the level of interest rates.

Changes in the interest rate environment have a significant impact on sales, surrender rates, investment returns, guaranteed income features, and spreads in the annuity industry. See AIG's Outlook – Industry and Economic Factors – Changes in the Interest Rate Environment for additional discussion of the impact of market interest rate movement on our Individual Retirement business.

Individual Retirement provides products and services to certain employee benefit plans that are subject to the requirements of the DOL Fiduciary Rule. For additional information on the DOL Fiduciary Rule, including the recent decision by the new administration to request a further review of the DOL Fiduciary Rule, see Part I, Item 1. Business – Regulation.

Group Retirement

Group Retirement competes in the defined contribution market under its VALIC brand. VALIC is a leading retirement plan provider in the U.S. for K-12 schools and school districts, higher education, healthcare, government and other not-for-profit institutions. The defined contribution market is a highly efficient and competitive market that requires support for both plan sponsors and individual participants. To meet this challenge, VALIC is investing in a client-focused technology platform to support improved compliance and self-service functionality. VALIC's servicemodel pairs self-service tools with its career financial advisors who provide individual plan participants with enrollment support and comprehensive financial planning services.

Changes in the interest rate environment have a significant impact on sales, surrender rates, investment returns, guaranteed income features, and spreads in the annuity industry. See AIG's Outlook –Industry and Economic Factors - Changes in the Interest Rate Environment for additional discussion of the impact of market interest rate movement on our Group Retirement business.

Group Retirement provides products and services to certain employee benefit plans that are subject to the requirements of the DOL Fiduciary Rule. For additional information on the DOL Fiduciary Rule, including the recent decision by the new administration to request a further review of the DOL Fiduciary Rule, see Part I, Item 1. Business – Regulation.

Life Insurance

Consumers have increased needs for financial protection for beneficiaries, estate planning and wealth creation. Life Insurance addresses the need for protection against the risk of premature death through a broad spectrum of products that include both term and permanent life insurance. In addition, Life Insurance offers products and benefits that offset other risks such as chronic and critical illness.

In response to a sustained low interest rate environment, Life Insurance has been actively re-pricing products and shifting its focus away from products with long-duration interest rate guarantees by introducing new products with shorter guarantees as well as indexed universal life products. See AIG's Outlook –Industry and Economic Factors - Changes in the Interest Rate Environment for additional discussion of the impact of market interest rate movement on our Life Insurance business.

Personal Insurance

The need for full life cycle products and coverage, increases in personal wealth accumulation, and awareness of insurance protection and risk management continue to support the growth of the Personal Insurance industry. Personal Insurance focuses on group and corporate clients, together with individual customers within national markets. We expect the demand for multinational cross-border coverage and services to increase due to the internationalization of clients and customers. We believe our global presence provides Personal Insurance a distinct competitive advantage.

In Japan, the competition for auto insurance has intensified, in part driven by a decline in new car sales and the existence of fewer but larger insurers. In addition, the overall market size in homeowners insurance contracted after the duration restriction on long-term fire insurance became effective in October 2015. In the U.S., we compete in the high net worth market and will continue to expand our innovative products and services to distribution partners and clients. Outside of Japan and the U.S., our Personal Insurance module continues to invest selectively in markets, which we believe have higher potential for sustainable profitability.

CONSUMER INSURANCE RESULTS

Years Ended December 31,				Percentage Change	
(in millions)	**2016**	2015	2014	2016 vs. 2015	2015 vs. 2014
Revenues:					
Premiums	**$13,015**	$12,620	$13,444	3%	(6)%
Policy fees	**2,411**	2,450	2,347	(2)	4
Net investment income	**7,345**	7,356	7,924	-	(7)
Other income	**1,278**	2,104	1,998	(39)	5
Total operating revenue	**24,049**	24,530	25,713	(2)	(5)
Benefits and expenses:					
Policyholder benefits and losses incurred	**8,858**	8,760	8,809	1	(1)
Interest credited to policyholder account balances	**3,205**	3,207	3,246	-	(1)
Amortization of deferred policy acquisition costs	**2,681**	2,762	2,655	(3)	4
General operating and other expenses*	**5,456**	6,872	6,797	(21)	1
Total operating expenses	**20,200**	21,601	21,507	(6)	-
Pre-tax operating income	**$ 3,849**	$ 2,929	$ 4,206	31%	(30)%

* Includes general operating expenses, non-deferrable commissions, other acquisition expenses, advisory fee expenses and other expenses.

Our insurance companies generate significant revenues from investment activities. As a result, the modules in Consumer Insurance are subject to variances in net investment income on the asset portfolios that support insurance liabilities and surplus. See Investments for additional information on our investment strategy, asset-liability management process and invested asset composition.

The Individual Retirement, Group Retirement and Life Insurance modules review and update estimated gross profit assumptions used to amortize deferred policy acquisition costs (DAC) and related items for investment-oriented products, as well as other actuarial assumptions, at least annually. As a result, the pre-tax operating earnings of these businesses include adjustments to policy fees, policyholder benefits, interest credited and DAC amortization to reflect such assumption updates, which may be significant. See Insurance Reserves – Life and Annuity Reserves and DAC – Update of Actuarial Assumptions for the amount of adjustments recorded to reflect such assumption updates in 2016, 2015 and 2014 by product line and financial statement line item and for related discussion of the assumption changes that resulted in these adjustments.

Individual Retirement Results

The following table presents individual retirement results:

Years Ended December 31,				Percentage Change	
(in millions)	**2016**	2015	2014	2016 vs. 2015	2015 vs. 2014
Revenues:					
Premiums	**$ 163**	$ 137	$ 242	19%	(43)%
Policy fees	**709**	670	604	6	11
Net investment income	**3,878**	3,805	4,103	2	(7)
Advisory fee and other income	**1,008**	1,838	1,790	(45)	3
Benefits and expenses:					
Policyholder benefits and losses incurred	**173**	328	327	(47)	-
Interest credited to policyholder account balances	**1,684**	1,702	1,706	(1)	-
Amortization of deferred policy acquisition costs	**298**	431	315	(31)	37
Non deferrable insurance commissions	**226**	212	188	7	13
Advisory fee expenses	**570**	1,277	1,259	(55)	1
General operating expenses	**538**	688	638	(22)	8
Pre-tax operating income	**$ 2,269**	$ 1,812	$ 2,306	25%	(21)%

Business and Financial Highlights

A diverse product portfolio enabled Individual Retirement to maintain industry-leading positions in annuity sales despite a challenging environment, which included an industry-wide slowdown primarily driven by uncertainty about the DOL Fiduciary Rule, compared to strong Variable and Index Annuity sales growth in 2015 and 2014. Our total sales of Index Annuities slowed in 2016 but continued to outpace the industry. Fixed Annuities sales increased in 2016 as customers chose the safety of fixed returns in a period of equity volatility, but the sustained low interest rate environment, together with aggressive pricing by private equity-backed annuity writers, resulted in a modest decline in market share in 2016 and negative net flows for Fixed Annuities in 2016, 2015 and 2014. Reinvestment in the low interest rate environment contributed to spread compression in Fixed Annuities, and net investment income results included volatility from alternative investments, mortgage loan prepayments, and fair value option assets. Pre-tax operating income also included adjustments in each year to update actuarial assumptions, particularly from lower surrenders across all product lines. Excluding such adjustments, net growth in average assets for Variable and Index Annuities drove higher fee income, partially offset by increased DAC amortization. The sale of AIG Advisor Group in May 2016 resulted in decreases in advisory fee income, advisory fee expense and general operating expenses in 2016 compared to 2015, but did not result in a significant decrease in pre-tax operating income.

Individual Retirement Pre-Tax Operating Income *(in millions)*	
	2016 and 2015 Comparison Pre-tax operating income increased in 2016 compared to 2015 primarily due to: • a higher net positive adjustment from the review and update of actuarial assumptions, which was $369 million in 2016 compared to $92 million in 2015; • higher net investment income primarily due to commercial mortgage loan prepayment income, growth in average invested assets and higher gains on securities for which the fair value option was elected, partially offset by lower income on alternative investments compared to 2015; • better equity market performance which contributed to a decrease in policyholder benefit expense and DAC amortization. This was partially offset by higher DAC amortization, excluding the impact of actuarial assumption updates and equity market performance, which reflected a higher rate of amortization in Fixed Annuities and growth in Index Annuities; • higher policy fee income due to growth in annuity account values from positive net flows; and • lower general operating expenses due to decreases in employee-related expenses.

Individual Retirement Pre-Tax Operating Income *(in millions)*

2015 and 2014 Comparison

Pre-tax operating income in 2015 decreased compared to 2014 primarily due to:

- lower net investment income due to lower returns on alternative investments in hedge funds and lower base net investment income primarily due to reinvestment in the low interest rate environment;
- a lower net positive adjustment from the review and update of actuarial assumptions, which was $92 million in 2015 compared to $200 million in 2014;
- higher DAC amortization in Variable and Index Annuities due to growth in the business and lower equity market returns; and
- higher general operating expenses due in part to technology investments and higher expenses associated with continued strong sales in Variable and Index Annuities.

These decreases were partially offset by higher policy fee income due to growth in annuity account values.

Individual Retirement GAAP Premiums, Premiums and Deposits, Surrenders and Net Flows

For Individual Retirement, premiums primarily represent amounts received on life-contingent payout annuities. Premiums increased in 2016 compared to 2015, primarily due to higher rates in the first half of 2016. Premiums decreased in 2015 compared to 2014, primarily due to lower market interest rates through October 2015.

Premiums and deposits is a non GAAP financial measure that includes, in addition to direct and assumed premiums, deposits received on investment-type annuity contracts and mutual funds under administration.

Net flows for annuity products in Individual Retirement represent premiums and deposits less death, surrender and other withdrawal benefits. Net flows for mutual funds represent deposits less withdrawals.

The following table presents a reconciliation of Individual Retirement premiums and deposits to GAAP premiums:

Years Ended December 31, *(in millions)*	**2016**	2015	2014
Premiums	**$ 163**	$ 137	$ 242
Deposits	**15,898**	18,238	17,248
Other	**1**	1	(166)
Premiums and deposits	**$ 16,062**	$ 18,376	$ 17,324

Surrender Rates

The following table presents surrenders as a percentage of average reserves:

Years Ended December 31,	**2016**	2015	2014
Surrenders as a percentage of average reserves			
Fixed Annuities	**7.6%**	7.2 %	7.3 %
Variable and Index Annuities	**5.2**	6.0	7.1

The following table presents reserves for Fixed Annuities and Variable and Index Annuities by surrender charge category:

At December 31,	**2016**		2015	
(in millions)	Fixed Annuities	Variable and Index Annuities	Fixed Annuities	Variable and Index Annuities
No surrender charge	**$ 34,674**	**$ 15,338**	$ 34,317	$ 13,549
Greater than 0% - 2%	**857**	**4,558**	1,543	4,314
Greater than 2% - 4%	**2,221**	**5,741**	2,284	4,361
Greater than 4%	**12,599**	**34,966**	13,133	32,741
Non-surrenderable	**1,606**	**380**	1,342	342

Total reserves	**$ 51,957**	**$ 60,983**	$ 52,619	$ 55,307

Individual Retirement annuities are typically subject to a four- to seven-year surrender charge period, depending on the product. The increase in the amount and proportion of annuity reserves that have no surrender charge at December 31, 2016 compared to December 31, 2015 was primarily due to normal aging of this book of business, as well as lower than expected surrenders of older contracts with higher minimum interest rates on fixed account balances that have continued to be attractive to the contract holders in the low interest rate environment. For Variable and Index Annuities, the increase in reserves with higher surrender charges during these periods was due to positive net flows from these product lines during 2016. The increase in the amount of reserves within the surrender charge period, as well as uncertainty around the DOL Fiduciary Rule, drove the improvement in the surrender rate in 2016 and 2015.

A discussion of the significant variances in premiums and deposits and net flows for each product line follows:

Individual Retirement Premiums and Deposits (P&D) and Net Flows

(in millions)

2016 and 2015 Comparison

- **Fixed Annuities** deposits increased in 2016 primarily due to higher sales in the bank and broker-dealer distribution channels as a result of customers favoring the safety of fixed annuities in response to equity market volatility. Net flows were negative in 2016, but improved compared to 2015 due to higher sales.

- **Variable and Index Annuities** net flows in 2016 were significantly lower due to a decrease in premiums and deposits, primarily due to lower sales of variable annuities, which reflected a strategic decision to scale back living benefits during the period of very low interest rates, as well as an industry-wide slowdown and uncertainty around the effect of the new DOL Fiduciary Rule.

- **Retail Mutual Funds** net flows increased in 2016 due to improvement in the level of deposits, which was partially offset by higher surrenders, both driven by activity within the Focused Dividend Strategy Portfolio fund.

Individual Retirement Premiums and Deposits and Net Flows

(in millions)

2015 and 2014 Comparison

- **Fixed Annuities** premiums and deposits increased in 2015 due to new product offerings and increases in market interest rates driven by widening credit spreads in the second half of the year, while net flows continued to be negative, primarily due to the sustained relatively low interest rate environment.

- **Variable and Index Annuities** premiums and deposits and net flows reflected lower Variable Annuities sales in 2015, due to market uncertainty around the DOL Fiduciary Rule and equity market volatility, partially offset by an increase in Index Annuity sales.

- **Retail Mutual Funds** deposits increased in 2015, driven primarily by activity within the Focused Dividend Strategy Portfolio fund. In 2015, sales and withdrawals for this fund improved compared to a decline in 2014, due to a return to strong performance levels, which drove the growth in Retail Mutual Funds net flows.

Group Retirement Results

Years Ended December 31,				Percentage Change	
(in millions)	**2016**	2015	2014	2016 vs. 2015	2015 vs. 2014
Revenues:					
Premiums	**$ 27**	$ 22	$ 44	23%	(50)%
Policy fees	**383**	401	405	(4)	(1)
Net investment income	**2,146**	2,192	2,349	(2)	(7)
Advisory fee and other income	**213**	219	207	(3)	6
Benefits and expenses:					
Policyholder benefits and losses incurred	**28**	33	79	(15)	(58)
Interest credited to policyholder account balances	**1,135**	1,113	1,134	2	(2)
	129	50	31	158	61

Amortization of deferred policy acquisition costs					
Non deferrable insurance commissions	**85**	71	78	20	(9)
Advisory fee expenses	**75**	73	56	3	30
General operating expenses	**386**	394	398	(2)	(1)
Pre-tax operating income	**$ 931**	$ 1,100	$ 1,229	(15)%	(10)%

Business and Financial Highlights

Group Retirement showed significant improvement in net flows in 2016 compared to 2015 and 2014, due to lower surrenders as well as record sales, resulting in part from its investment in talent, group plan administration record-keeping capabilities and digital functionality. Pressure on investment spread from reinvestment in the low interest rate environment has been partially mitigated by effective crediting rate management. Net investment income results included volatility from alternative investments, mortgage loan prepayments and fair value option assets. Pre-tax operating income also included adjustments in each year to update actuarial assumptions.

Group Retirement Pre-Tax Operating Income *(in millions)*	
	2016 and 2015 Comparison Pre-tax operating income decreased in 2016 compared to 2015 primarily due to: • a net negative adjustment of $47 million in 2016 from the review and update of actuarial assumptions compared to a net positive adjustment of $48 million in 2015; • lower net investment income on alternative investments compared to 2015 and lower base spreads primarily due to lower investment returns, partially offset by higher commercial mortgage loan prepayments and gains on securities for which the fair value option was elected; and • lower policy fee income primarily due to a decrease in separate account assets as a result of negative net flows. These decreases were partially offset by lower general operating expenses due to reductions in employee-related expenses.

Group Retirement Pre-Tax Operating Income *(in millions)*	
	2015 and 2014 Comparison Pre-tax operating income decreased in 2015 compared to 2014 primarily due to: • lower net investment income primarily due to lower returns on alternative investments in hedge funds and lower reinvestment yields in the low interest rate environment, partially offset by additional accretion

	income, higher bond call and tender income and gains on securities for which the fair value option was elected; • higher DAC amortization (excluding adjustments to reflect assumption updates) due to higher run rate from assumptions updated in the prior year; and • lower policy fee income due to a decrease in separate account assets, which reflected negative net flows. These decreases were partially offset by: • lower interest credited due to effective crediting rate management and lower volume of fixed account values; • lower policyholder benefits due to favorable mortality on immediate annuities; and • lower general operating expenses due primarily to lower legal expenses, partially offset by higher pension costs and higher taxes, licenses and fees.

Group Retirement GAAP Premiums, Premiums and Deposits, Surrenders and Net Flows

For Group Retirement, premiums primarily represent amounts received on life-contingent payout annuities. Premiums increased in 2016 compared to 2015, as customers continued to invest in immediate annuities due to equity market volatility. Premiums decreased in 2015 compared to 2014, primarily due to lower interest rates.

Premiums and deposits is a non GAAP financial measure that includes, in addition to direct and assumed premiums, deposits received on investment-type annuity contracts and mutual funds under administration.

Net flows for annuity products included in Group Retirement represent premiums and deposits less death, surrender and other withdrawal benefits. Net flows for mutual funds represent deposits less withdrawals.

The following table presents a reconciliation of Group Retirement premiums and deposits to GAAP premiums:

Years Ended December 31, *(in millions)*	**2016**	2015	2014
Premiums	**$ 27**	$ 22	$ 44
Deposits	**7,543**	6,899	6,699
Other	**-**	(1)	-
Premiums and deposits	**$ 7,570**	$ 6,920	$ 6,743

Surrender Rates

The following table presents Group Retirement surrenders as a percentage of average reserves and mutual funds under administration:

Years Ended December 31,	**2016**	2015	2014
Surrenders as a percentage of average reserves and mutual funds	**8.8%**	10.0 %	11.7 %

The following table presents reserves for Group Retirement annuities by surrender charge category:

At December 31, *(in millions)*	**2016(a)**	2015(a)
No surrender charge(b)	**$ 64,160**	$ 60,743
Greater than 0% - 2%	**906**	1,200
Greater than 2% - 4%	**1,395**	1,364
Greater than 4%	**5,434**	5,955
Non-surrenderable	**417**	360
Total reserves	**$ 72,312**	$ 69,622

(a) Excludes mutual fund assets under administration of $16.3 billion and $14.5 billion at December 31, 2016 and 2015, respectively.

(b) Group Retirement amounts in this category include reserves of approximately $6.3 billion and $6.2 billion, at December 31, 2016 and 2015, respectively, that are subject to 20 percent annual withdrawal limitations.

Group Retirement annuities are typically subject to a five- to seven-year surrender charge period, depending on the product. The increase in the amount and proportion of Group Retirement annuity reserves that have no surrender charge at December 31, 2016 compared to December 31, 2015 was primarily due to normal aging of this book of business, as well as lower than expected surrenders of older contracts with higher minimum interest rates on fixed account balances that have continued to be attractive to the contract holders in the low interest rate environment.

A discussion of the significant variances in premiums and deposits and net flows follows:

Group Retirement Premiums and Deposits and Net Flows

(in millions)

2016 and 2015 Comparison

Net flows improved significantly due to both record deposits in 2016 and improved surrender activity, which included group plan surrenders of approximately $631 million in 2016 compared to $1.5 billion in 2015. The group plan market has been impacted by the consolidation of healthcare providers and other employers in target markets, but group plan acquisitions improved in 2016 compared to 2015, due in part to investments in talent, group plan administration record-keeping capabilities and digital functionality.

Group Retirement Premiums and Deposits and Net Flows

(in millions)

2015 and 2014 Comparison

Net flows were negative in both periods but improved in 2015, primarily due to lower surrender activity. The improvement in the surrender rate was due in part to lower group plan surrenders, which were approximately $1.5 billion in 2015, compared to $2.7 billion in 2014. Group Retirement's surrenders were impacted in both years by the consolidation of healthcare providers and other employers and increased competition in its target markets.

Life Insurance Results

Years Ended December 31,				Percentage Change	
(in millions)	**2016**	2015	2014	2016 vs. 2015	2015 vs. 2014
Revenues:					
Premiums	**$ 1,407**	$ 1,311	$ 1,191	7%	10%
Policy fees	**1,319**	1,379	1,338	(4)	3
Net investment income	**1,035**	1,034	1,100	-	(6)
Other income	**57**	47	1	21	NM
Benefits and expenses:					
Policyholder benefits and losses incurred	**2,452**	2,248	1,901	9	18
Interest credited to policyholder account balances	**386**	392	406	(2)	(3)
Amortization of deferred policy acquisition costs	**182**	311	221	(41)	41
Non deferrable insurance commissions	**155**	157	188	(1)	(16)
General operating expenses	**680**	714	624	(5)	14
Pre-tax operating income (loss)	**$ (37)**	$ (51)	$ 290	27%	NM%

Business and Financial Highlights

Life Insurance new individual life sales in 2016 continued at prior year levels despite strategic actions to exit certain group benefits distribution channels. Life Insurance is focused on selling profitable new products through strategic channels to enhance future returns. Pre-tax operating losses in 2016 and 2015 were primarily due to reserve increases from the update of actuarial assumptions and lower alternative investment income, as well as poor morbidity experience in the group business, which Life Insurance has addressed through strategic actions. We acquired AIG Life Limited in the UK in December 2014, and sales growth with early year losses in this young organization has contributed to the pre-tax operating losses in Life Insurance. Domestic general operating expenses decreased in 2016 compared to 2015, primarily due to the strategic decision to refocus the group benefits business and other reductions in staffing.

Life Insurance Pre-Tax Operating Income (Loss)

(in millions)

2016 and 2015 Comparison

Pre-tax operating loss in 2016 improved compared to 2015 primarily due to:

- a lower net negative adjustment from the review and update of actuarial assumptions, which was $92 million in

	2016 compared to $118 million in 2015, reflected in policy fees, policyholder benefits and amortization of DAC; • improved mortality experience in individual life; and • lower domestic employee-related expenses. These improvements were partially offset by: • lower net investment income on alternative investments, largely offset by higher other enhancement income, primarily bond call and tender income; • underperforming group benefits results, including reserve increases and elevated morbidity experience; • reserve increases in individual life; • increases to reserves for individual and group benefit products; • higher international general operating expenses, due in part to the acquisition in March 2015 of Laya Healthcare, an Irish healthcare distributor and administrator, and • increased DAC amortization (excluding adjustments to reflect assumption updates).

Life Insurance Pre-Tax Operating Income (Loss) *(in millions)*	
	2015 and 2014 Comparison Pre-tax operating income in 2015 decreased compared to 2014 primarily due to: • lower net investment income primarily due to lower returns on alternative investments in hedge funds and, to a lesser extent, a decrease due to lower yields on the base portfolio; • individual and group mortality experience that was less favorable than 2014; • a higher net negative adjustment to reflect updated actuarial assumptions, which was \$118 million in 2015 compared to \$32 million in 2014; and • international pre-tax operating losses in 2015, including higher general operating expenses, related to the expansion through the acquisitions of AIG Life Limited and Laya Healthcare. The increase in expenses from these acquisitions was partially offset by domestic savings from organizational changes. The increase in other income was due to commission and profit sharing revenues received by Laya Healthcare, acquired in March 2015, which was offset by related operating expenses.

Life Insurance GAAP Premiums and Premiums and Deposits

Premiums for Life Insurance represent amounts received on traditional life insurance policies, primarily term life, and group benefit policies. Premiums increased 9 percent in 2016 compared to 2015 and increased 8 percent in 2015 compared to 2014, excluding the effect of foreign exchange, primarily due to growth in international life and health, including the December 2014 acquisition of AIG Life Limited in the UK.

Premiums and deposits for Life Insurance is a non-GAAP financial measure that includes direct and assumed premiums as well as deposits received on universal life insurance.

The following table presents a reconciliation of Life Insurance premiums and deposits to GAAP premiums:

Years Ended December 31, *(in millions)*	**2016**	2015	2014
Premiums	**$ 1,407**	$ 1,311	$ 1,191
Deposits	**1,419**	1,451	1,441
Other	**693**	608	542
Premiums and deposits	**$ 3,519**	$ 3,370	$ 3,174

A discussion of the significant variances in premiums and deposits follows:

Life Insurance Premiums and Deposits

($ in millions)

Premiums and deposits grew by 5 percent in 2016 compared to 2015, and increased by 6 percent in 2015 compared to 2014, excluding the effect of foreign exchange, principally driven by growth in international life and health sales from the acquisition of AIG Life Limited and assumed premiums related to business distributed by Laya Healthcare.

Personal Insurance Results

Years Ended December 31,				Change	
(in millions)	**2016**	2015	2014	2016 vs. 2015	2015 vs. 2014
Underwriting results:					
Net premiums written	**$11,465**	$11,583	$12,408	(1)%	(7)
Increase in unearned premiums	**(47)**	(433)	(441)	89	2
Net premiums earned	**11,418**	11,150	11,967	2	(7)
Losses and loss adjustment expenses incurred	**6,205**	6,151	6,502	1	(5)
Acquisition expenses:					
Amortization of deferred policy acquisition costs	**2,072**	1,970	2,088	5	(6)
Other acquisition expenses	**936**	1,202	1,171	(22)	3
Total acquisition expenses	**3,008**	3,172	3,259	(5)	(3)
General operating expenses	**1,805**	2,084	2,197	(13)	(5)
Underwriting income (loss)	**400**	(257)	9	NM	NM
Net investment income	**286**	325	372	(12)	(13)
Pre-tax operating income	**686**	68	381	NM	(82)
Loss ratio	**54.3**	55.2	54.3	(0.9)	0.9
Acquisition ratio	**26.3**	28.4	27.2	(2.1)	1.2
General operating expense ratio	**15.8**	18.7	18.4	(2.9)	0.3
Expense ratio	**42.1**	47.1	45.6	(5.0)	1.5
Combined ratio	**96.4**	102.3	99.9	(5.9)	2.4
Adjustments for accident year loss ratio, as adjusted, and					

accident year combined ratio, as adjusted:					
Catastrophe losses and reinstatement premiums	**(1.4)**	(1.3)	(1.0)	(0.1)	(0.3)
Prior year development net of premium adjustments	**1.2**	0.1	0.6	1.1	(0.5)
Accident year loss ratio, as adjusted	**54.1**	54.0	53.9	0.1	0.1
Accident year combined ratio, as adjusted	**96.2**	101.1	99.5	(4.9)	1.6

The following table presents Personal Insurance net premiums written, showing change on both reported and constant dollar basis:

Years Ended December 31,				Percentage Change in U.S. dollars		Percentage Chang Original Curren	
(in millions)	**2016**	2015	2014	2016 vs. 2015	2015 vs. 2014	2016 vs. 2015	2015 v
Net premiums written	**$11,465**	$11,583	$12,408	(1)%	(7)%	(2)%	

The following tables present Personal Insurance accident year catastrophes and severe losses by geography[(a)] and the number of events:

Catastrophes[(b)]

(in millions)	# of Events		U.S.		Japan		Europe		Other	Total
Year Ended December 31, 2016										
Flooding	**3**	**$**	**8**	**$**	**-**	**$**	**1**	**$**	**- $**	**9**
Windstorms and hailstorms	**18**		**85**		**20**		**-**		**1**	**106**
Wildfire	**2**		**3**		**-**		**-**		**-**	**3**
Earthquakes	**2**		**12**		**22**		**-**		**7**	**41**
Other	**1**		**-**		**-**		**1**		**-**	**1**
Total catastrophe-related charges	**26**	**$**	**108**	**$**	**42**	**$**	**2**	**$**	**8 $**	**160**
Year Ended December 31, 2015										
Flooding	4	$	4	$	-	$	2	$	- $	6
Windstorms and hailstorms	13		102		15		-		2	119
Wildfire	1		1		-		-		-	1
Tropical cyclone	1		10		8		-		1	19
Total catastrophe-related charges	19	$	117	$	23	$	2	$	3 $	145
Year Ended December 31, 2014										
Windstorms and hailstorms	14	$	76	$	11	$	1	$	9 $	97
Tropical cyclone	4		9		14		-		5	28
Earthquakes	1		1		-		-		-	1
Total catastrophe-related charges	19	$	86	$	25	$	1	$	14 $	126

(a) Geography shown in the table represents where the ultimate liability resides, after intercompany reinsurance agreements, and is not necessarily indicative of where the catastrophe or severe loss events have occurred. This presentation follows our geography modules. See Item 1. Business for further discussion on our geography modules.

(b) Natural catastrophe losses are generally weather or seismic events having a net impact on AIG in excess of $10 million each. Catastrophes also include certain man-made events, such as terrorism and civil disorders that meet the $10 million threshold.

Severe Losses[(c)]

Years Ended December 31, *(in millions)*	# of Events		U.S.		Japan		Europe		Other	Total
2016	**2**	**$**	**28**	**$**	**-**	**$**	**-**	**$**	**- $**	**28**
2015	1	$	12	$	-	$	-	$	- $	12
2014	4	$	50	$	-	$	-	$	4 $	54

(c) Severe losses are defined as non-catastrophe individual first party losses and surety losses greater than $10 million, net of related reinsurance and salvage and subrogation.

Business and Financial Highlights

Personal Insurance operating results improved significantly in 2016 compared to 2015 and 2014, driven by the effective execution of strategic and portfolio actions to reduce total expenses, including refocusing direct marketing activities, while continuing underwriting actions and maintaining pricing discipline. In addition, while market competition in the personal insurance industry has intensified, the year-over-year stability of loss ratio and accident year loss ratio, as adjusted, reflected the underwriting quality, portfolio diversity, and low volatility of short-tailed risk in our Personal Insurance book.

Personal Insurance Pre-Tax Operating Income *(in millions)*	
	2016 and 2015 Comparison Pre-tax operating income increased due to: • improved underwriting results driven by: – strategic actions to reduce expenses and refocus direct marketing activities; and – higher net favorable prior year loss reserve development. These increases were partially offset by: • lower net investment income reflecting reduced income on alternative investments; and • higher catastrophe losses.

Personal Insurance Pre-Tax Operating Income *(in millions)*	
	2015 and 2014 Comparison Pre-tax operating income decreased due to: • lower underwriting results and lower net investment income reflecting reduced income on alternative investments. The lower underwriting results were driven by: – lower earned premiums; – higher catastrophe losses;

	– lower net favorable prior year loss reserve development; and – increase in other acquisition expenses, primarily related to investments to grow automobile and property businesses and higher profit share expenses related to warranty service programs, partially offset by a decrease in direct marketing expenses. These decreases were partially offset by: • lower general operating expenses reflecting an ongoing focus on cost efficiency.

Personal Insurance Net Premiums Written *(in millions)*	
	2016 and 2015 Comparison Net premiums written decreased both on a reported basis and after excluding the effect of foreign exchange. The decrease in net premiums written on a constant dollar basis was due to the following: • decreased production in Accident and Health primarily due to continued underwriting actions to strengthen our portfolio and maintain pricing discipline, with lower sales as a result of refocusing our direct marketing activities; and • decreased production in personal property primarily due to the impact of a duration restriction on long-term fire insurance put in place in the fourth quarter of 2015 in Japan, partially offset by new business growth in the AIG Private Client Group (AIG PCG) business.

Personal Insurance Net Premiums Written *(in millions)*	
	2015 and 2014 Comparison Net premiums written decreased on a reported basis. Net premiums written increased excluding the effect of foreign exchange. The increase in net premiums written on a constant dollar basis was due to the following: • increased production in Accident and Health primarily due to a sales increase in Japan, partially offset by a decrease in the U.S., due to continued underwriting discipline; • increased production in personal property attributable to new business sales and improved retention in AIG PCG;

	• increase in Japan new housing starts and heightened demand before the duration restriction on long-term fire insurance became effective in October 2015; and • retention of more favorable risks in U.S. personal property through optimization in reinsurance structure, while continuing to manage aggregate exposure.

Personal Insurance Combined Ratios	
	2016 and 2015 Comparison The decrease in combined ratio reflects: • a decrease in expense ratio due to strategic actions to reduce expenses; and • a decrease in loss ratio primarily due to higher net favorable prior year loss reserve development. The slight increase in accident year loss ratio, as adjusted, reflects: • higher severe losses and higher number of large but not severe losses in the U.S. personal property business. The decrease in acquisition ratio reflects: • lower direct marketing expenses as we refocused our activities. The decrease in general operating expense ratio reflects: • lower employee-related expenses arising from organization realignment together with lower strategic investment expenditures.

Personal Insurance Combined Ratios	
	2015 and 2014 Comparison The increase in combined ratio reflects: • higher loss ratio and expense ratio. The increase in accident year loss ratio, as adjusted, reflects:

	• higher large but not severe losses in automobile and personal property businesses, partially offset by a decrease in losses in warranty service programs and lower severe losses. The increase in acquisition ratio reflects: • higher acquisition costs in warranty service programs and in the automobile business, partially offset by lower direct marketing expenses in Accident and Health business. The increase in general operating expense ratio reflects: • higher investment in strategic initiatives and technology-related expenses, partially offset by ongoing focus on cost efficiency.

Other Operations

The following table presents Other Operations results:

Years Ended December 31,				Percentage Change	
(in millions)	**2016**	2015	2014	2016 vs. 2015	2015 vs. 20
Pre-tax operating loss by activities:					
United Guaranty	**$ 522**	$ 537	$ 592	(3)%	
Institutional Markets	**263**	259	409	2	(3
Fuji Life	**14**	(33)	(8)	NM	(31
Parent and Other:					
Corporate General operating expenses	**(666)**	(411)	(629)	(62)	
Interest expense	**(983)**	(1,030)	(1,291)	5	
Other income (expense), net	**102**	111	(31)	(8)	N
Total Parent and Other	**(1,547)**	(1,330)	(1,951)	(16)	
Pre-tax operating loss before eliminations	**(748)**	(567)	(958)	(32)	
Consolidation, eliminations and other adjustments	**42**	(76)	(19)	NM	(30
Pre-tax operating loss	**$ (706)**	$ (643)	$ (977)	(10)%	

2016 and 2015 Comparison

Pre-tax operating loss before eliminations increased primarily due to higher Parent and Other corporate general operating expenses partially offset by lower interest expense. Parent and Other general operating expenses increased in 2016 due to higher technology costs as a result of our investment in our infrastructure, offset by lower professional fees and employee related costs, consistent with our strategy to reduce expenses. In addition, 2015 included a $175 million pension curtailment credit. Parent and Other interest expense decreased primarily as a result of liability management activities.

Pre-tax operating income of United Guaranty decreased primarily as a result of the 50 percent quota share reinsurance agreement between United Guaranty and our subsidiaries for business originated from 2014 to 2016.

Pre-tax operating income of Fuji Life increased primarily as a result of increases in underwriting and net investment income. The increase in underwriting income was primarily as a result of new products launched during 2016. Net investment income increased primarily as a result of increased investment in bonds.

2015 and 2014 Comparison

Pre-tax operating loss before eliminations decreased primarily due to lower Parent and Other corporate general operating expenses and interest expense. Parent and Other general operating expenses decreased in 2015 due to a $175 million pension curtailment credit. Parent and Other interest expense decreased primarily as a result of liability management activities.

Pre-tax operating income of United Guaranty decreased primarily as a result of the 50 percent quota share reinsurance agreement between United Guaranty and our subsidiaries for business originated from 2014 to 2016.

Pre-tax operating income of Institutional Markets decreased primarily due to a reserve release in 2014 and lower net investment income, which reflected lower returns on alternative investments in hedge funds.

Legacy Portfolio

Legacy Insurance Lines represent exited or discontinued product lines, policy forms or distribution channels.

Legacy Property and Casualty Run-Off Insurance Lines — include excess workers' compensation, asbestos and environmental exposures.

Legacy Life Insurance Run-Off Lines — include whole life, long term care and exited Accident & Health product lines. Also includes certain structured settlement, terminal funding and single premium immediate annuities written prior to April 2012.

Legacy Investments — include investment classes that we have placed into run-off (life settlements, Legacy Global Real Estate, the Direct Investment book) and equity-like securities with high yield high-risk characteristics.

BUSINESS STRATEGY

For Legacy Insurance Lines, securing the interests of our policyholders and insureds is paramount. We have considered and continue to evaluate the following strategies for these lines:

- Third party and affiliated reinsurance and retrocessions to improve capital efficiency
- Commutations of assumed reinsurance and direct policy buy-backs
- Enhance insured policyholder options and claims resolution strategies
- Enhanced asset liability and expense management

For Legacy Investments, our business strategy is to maximize liquidity to AIG Parent and minimize book value impairments while sourcing for our insurance companies attractive assets for their portfolios. Where the asset is under AIG's sole control, we expect to achieve this through a combination of unaffiliated and affiliated sales and securitizations. Where the asset is not under AIG's sole control, AIG has fewer options as we may, for example, have fiduciary duty obligations to joint venture partners (such as in our Legacy Global Real Estate book).

LEGACY PORTFOLIO RESULTS

The following table presents Legacy Portfolio results:

Years Ended December 31,				Percentage Change	
(in millions)	**2016**	2015	2014	2016 vs. 2015	2015 vs. 2014
Revenues:					
Premiums	**$ 674**	$1,037	$1,083	(35)%	(4
Policy fees	**142**	133	131	7	2
Net investment income	**2,913**	2,928	3,245	(1)	(10
Other income (loss)	**1,521**	1,673	2,894	(9)	(42
Total operating revenues	**5,250**	5,771	7,353	(9)	(22
Benefits and expenses:					
Policyholder benefits and losses and loss adjustment expenses incurred	**3,084**	3,337	3,197	(8)	4
Interest credited to policyholder account balances	**267**	267	272	-	(2
Amortization of deferred policy acquisition costs	**108**	102	81	6	26
General operating and other expenses	**524**	652	837	(20)	(22
Interest expense	**260**	280	390	(7)	(28
Total benefits and expenses	**4,243**	4,638	4,777	(9)	(3
Pre-tax operating income	**$1,007**	$1,133	$2,576	(11)%	(56
Pre-tax operating income (loss) by type:					
Property and Casualty Run-Off Insurance Lines	**$ (237)**	$ (709)	$ (314)	67%	(126
Life Insurance Run-Off Lines	**(224)**	468	516	NM	(9
Legacy Investments	**1,468**	1,374	2,374	7	(42
Pre-tax operating income	**$1,007**	$1,133	$2,576	(11)%	(56

Business and Financial Highlights

In 2015 and 2016, the Legacy Portfolio executed on several transactions that monetized approximately $7.1 billion of its portfolio. Approximately $6 billion came from external sales and internal securitizations of Legacy Investments to the insurance companies. The most significant transactions in 2016 were as follows:

- On November 17, 2016, an AIG sponsored Fund (the Korea Fund) completed the sale of a mixed-use commercial complex in Seoul, South Korea commonly known as the Seoul International Finance Center, to Brookfield Properties for total consideration of $2.5 billion, of which $1.2 billion was used to repay the fund's debt. The remaining cash proceeds were allocated between AIG and the noncontrolling interests in accordance with the Korea Fund's partnership agreement.

- On December 30, 2016, we sold a portion of our life settlements portfolio with face value (death benefits) of approximately $4.5 billion.

- For certain attractive, high-yielding assets, a series of internal securitizations were completed with the insurance companies over the last two years.

In addition, the Legacy Run-Off Insurance business distributed to AIG Parent approximately $1.1 billion in the form of dividends and tax sharing payments resulting from reinsurance transactions. These transactions have helped to reduce the relative size of the Legacy portfolio.

Legacy Portfolio Pre-Tax Operating Income *(in millions)*	
	2016 and 2015 Comparison Pre-tax operating income remained relatively stable; however, there were fluctuations within the portfolios due to: • lower Legacy Life earnings in 2016 compared to 2015 primarily due to lower net investment income on investments and higher loss recognition on certain payout annuities from the update of actuarial assumptions; • lower Legacy Property and Casualty pre-tax operating loss driven primarily by lower underwriting losses due to a decrease in net adverse prior year loss reserve development; and • higher Legacy Investment pre-tax operating income driven mainly by asset sales, partially offset by fair value losses on certain investments.

Legacy Portfolio Pre-Tax Operating Income *(in millions)*	
	2015 and 2014 Comparison Pre-tax operating income decreased due to the following: • lower Legacy Life earnings in 2015 compared to 2014 primarily due to lower returns on alternative investments in hedge funds and lower bond call and tender income. This was partially offset by a $20 million reduction in the reserve for IBNR death claims related to enhanced claims practices, compared with a $104 million increase in this reserve in 2014;

	• lower Legacy Property and Casualty pre-tax operating income driven primarily by higher underwriting losses due to an increase in net adverse prior year loss reserve development; and • lower Legacy Investment pre-tax operating income driven primarily by lower appreciation on assets for which the fair value option was elected and lower fair value income on derivative positions.

Investments

Overview

Our investment strategies are tailored to the specific business needs of each operating unit. The investment objectives are driven by the respective business modules and AIG Parent. The primary objectives are generation of investment income, preservation of capital, liquidity management and growth of surplus to support the insurance products. The majority of assets backing our insurance liabilities consist of fixed maturity securities.

Investment Highlights in 2016

- Narrowing of credit spreads more than offset the rise in interest rates, resulting in a net unrealized gain position in our investment portfolio. Net unrealized gains in our available for sale portfolio increased to approximately $9.7 billion as of December 31, 2016 from approximately $8.8 billion as of December 31, 2015.

- We continued to make investments in structured securities and other fixed maturity securities and increased lending activities in mortgage loans with favorable risk versus return characteristics to improve yields and increase net investment income.

- During 2016, we reduced our hedge fund portfolio by $3.2 billion as a result of redemptions consistent with our planned reduction of exposure. Our alternative investments portfolio performance also experienced a decline in 2016 due to increased volatility in equity markets, primarily in the first quarter of 2016.

- Blended investment yields on new investments were lower than blended rates on investments that were sold, matured or called.

- Other-than-temporary impairments decreased due to lower impairments in our equity securities, available for sale.

- We recognized gains on sales of securities in 2016, primarily due to the sale of a portion of our PICC Investment.

- The U.S. election and Brexit vote have created increased volatility in credit markets and exchange rates as well as within the equity markets, which may continue for some time.

Investment Strategies

Investment strategies are based on considerations that include the local and general market conditions, liability duration and cash flow characteristics, rating agency and regulatory capital considerations, legal investment limitations, tax optimization and diversification.

Some of our key investment strategies are as follows:

- Fixed maturity securities held by the U.S. insurance companies included in Property Casualty Insurance Companies consist of a mix of instruments that meet our current risk-return, tax, liquidity, credit quality and diversification objectives.

- Outside of the U.S., fixed maturity securities held by Property Casualty Insurance Companies consist primarily of high-grade securities generally denominated in the currencies of the countries in which we operate.

- While more of a focus is placed on asset-liability management in Life Insurance Companies, our fundamental strategy across all of our investment portfolios is to optimize the duration characteristics of the assets within a target range based on comparable liability characteristics, to the extent practicable.

- AIG Parent, included in Other Operations, actively manages its assets and liabilities in terms of products, counterparties and duration. AIG Parent’s liquidity sources are held primarily in the form of cash, short-term investments and publicly traded, investment-grade rated fixed maturity securities. Based upon an assessment of its immediate and longer-term funding needs, AIG Parent purchases publicly traded, investment-grade rated fixed maturity securities that can be readily monetized through sales or repurchase agreements. These securities allow us to diversify sources of liquidity while reducing the cost of maintaining sufficient liquidity.

The following table presents the components of Net Investment Income:

Years Ended December 31, (in millions)	2016	2015	2014
Interest and dividends	$ 12,900	$ 12,856	$ 13,246
Alternative investments[a]	693	1,120	2,070
Other investment income[b]	925	605	1,280
Total investment income	14,518	14,581	16,596
Investment expenses	453	528	517
Total net investment income	$ 14,065	$ 14,053	$ 16,079

(a) Beginning in the first quarter of 2016, the presentation of income on alternative investments has been refined to include only income from hedge funds, private equity funds and affordable housing partnerships. Prior period disclosures have been reclassified to conform to this presentation. Hedge funds for which we elected the fair value option are recorded as of the balance sheet date. Other hedge funds are generally reported on a one-month lag, while private equity funds are generally reported on a one-quarter lag.

(b) Includes changes in fair value of certain fixed maturity securities where the fair value option has been elected and which are used to economically hedge interest rate and other risks related to our variable annuity guaranteed living benefits. For the years ended December 31, 2016, 2015 and 2014, the net investment income (loss) recorded on these securities was $120 million, $(43) million and $260 million, respectively.

Net investment income in 2016 was marginally higher than 2015 as lower income on alternative investments and lower reinvestment yields were approximately offset by an increase in income on life settlements and higher gains on securities for which the fair value option was elected.

Net investment income decreased for 2015 compared to 2014 due to lower income on alternative investments, primarily related to hedge fund performance, lower income on assets for which the fair value option was elected, and lower reinvestment yields.

Attribution of Net Investment Income to Product Lines

Net investment income is attributed to our businesses based on internal models consistent with the nature of the underlying businesses.

For Commercial Insurance — Liability and Financial Lines, Property and Special Risks and Consumer Insurance — Personal Insurance, we estimate investable funds based primarily on loss reserves and unearned premiums. The allocation of net investment income of the Property Casualty Insurance Companies to modules is calculated based on these estimated investable funds, consistent with the approximate duration of the liabilities and the capital allocation for each module.

For Consumer Insurance — Individual Retirement, Group Retirement, and Life Insurance, Other Operations — Institutional Markets and Legacy Life Insurance Run-Off Lines, net investment income is attributed based on invested assets from segregated product line portfolios held in our Life Insurance Companies. All invested assets of the Life Insurance Companies in excess of liabilities are allocated based on estimates of required economic capital for each product line.

Asset Liability Measurement

For the Property Casualty Insurance Companies, the duration of liabilities for long-tail casualty lines is greater than that of other lines. As a result, the investment strategy within the Property Casualty Insurance Companies focuses on growth of surplus and preservation of capital, subject to liability and other business considerations.

The Property Casualty Insurance Companies invest primarily in fixed maturity securities issued by corporations, municipalities and other governmental agencies and also invest in structured securities collateralized by, among other assets, residential and commercial real estate and commercial mortgage loans. While invested assets backing reserves of the Property Casualty Insurance Companies are primarily invested in conventional fixed maturity securities, we have continued to allocate a portion of our investment activity into asset classes that offer higher yields, particularly in the domestic operations. In addition, we continue to invest in both fixed rate and floating rate asset-backed investments for their risk-return attributes, as well as to manage our exposure to potential changes in interest rates. This asset diversification has maintained stable average yields while the overall credit ratings of our fixed maturity securities were largely unchanged. We expect to continue to pursue this investment strategy to meet the Property Casualty Insurance Companies' liquidity, duration and credit quality objectives as well as current risk return and tax objectives.

In addition, the Property Casualty Insurance Companies seek to enhance returns through selective investments in a diversified portfolio of alternative investments. Although these alternative investments are subject to periodic earnings fluctuations, they have historically achieved yields in excess of the fixed maturity portfolio yields and have provided added diversification to the broader portfolio.

Fixed maturity investments of the Property Casualty Insurance Companies domestic operations, with an average duration of 4.7 years, are currently comprised primarily of tax-exempt securities, which provide attractive risk-adjusted after-tax returns, as well as taxable municipal bonds, government and agency bonds, and corporate bonds. The majority of these high quality investments are rated A or higher based on composite ratings.

Fixed maturity investments held in the Property Casualty Insurance Companies foreign operations are of high quality, primarily rated A or higher based on composite ratings, with an average duration of 3.5 years.

The investment strategy of the Life Insurance Companies is to maximize net investment income and portfolio value, subject to liquidity requirements, capital constraints, diversification requirements, asset liability management and available investment opportunities.

The Life Insurance Companies use asset liability management as a primary tool to monitor and manage risk in their businesses. The Life Insurance Companies' fundamental investment strategy is to maintain a diversified, high quality portfolio of fixed maturity securities that, to the extent practicable, complements the characteristics of liabilities, including duration, which is a measure of sensitivity to changes in interest rates. The investment portfolio of each product line is tailored to the specific characteristics of its insurance liabilities, and as a result, certain portfolios are shorter in duration and others are longer in duration. An extended low interest rate environment may result in a lengthening of liability durations from initial estimates, primarily due to lower lapses, which may require us to further extend the duration of the investment portfolio.

The Life Insurance Companies invest primarily in fixed maturity securities issued by corporations, municipalities and other governmental agencies; structured securities collateralized by, among other assets, residential and commercial real estate; and commercial mortgage loans.

In addition, the Life Insurance Companies seek to enhance returns through investments in a diversified portfolio of alternative investments. Although these alternative investments are subject to periodic earnings fluctuations, they have historically achieved yields in excess of the fixed maturity portfolio yields. While a diversified portfolio of alternative investments remains a fundamental component of the investment strategy of the Life Insurance Companies, we intend to reduce the overall size of the hedge fund portfolio, in light of changing market conditions and perceived market opportunities, and to continue reducing the size of the private equity portfolio.

Fixed maturity investments of the Life Insurance Companies domestic operations, with an average duration of 6.8 years, are comprised primarily of taxable corporate bonds, as well as taxable municipal and government bonds, and agency and non agency structured securities. The majority of these investments are held in the available for sale portfolio and are rated investment grade based on its composite ratings.

Fixed maturity investments held in the Life Insurance Companies foreign operations are of high quality, primarily rated A or higher based on composite ratings, with an average duration of 21.2 years.

NAIC Designations of Fixed Maturity Securities

The Securities Valuation Office (SVO) of the National Association of Insurance Companies (NAIC) evaluates the investments of U.S. insurers for statutory reporting purposes and assigns fixed maturity securities to one of six categories called 'NAIC Designations.' In general, NAIC Designations of '1' highest quality, or '2' high quality, include fixed maturity securities considered investment grade, while NAIC Designations of '3' through '6' generally include fixed maturity securities referred to as below investment grade. The NAIC has adopted revised rating methodologies for certain structured securities, including non-agency RMBS and CMBS, which are intended to enable a more precise assessment of the value of such structured securities and increase the accuracy in assessing expected losses to better determine the appropriate capital requirement for such structured securities. These methodologies result in an improved NAIC Designation for such securities compared to the rating typically assigned by the three major rating agencies. The following tables summarize the ratings distribution of U.S. Insurance Companies fixed maturity security portfolio by NAIC Designation, and the distribution by composite AIG credit rating, which is generally based on ratings of the three major rating agencies. See Investments – Credit Ratings herein for a full description of the composite AIG credit ratings.

The following table presents the fixed maturity security portfolio of U.S. Insurance Companies categorized by NAIC Designation, at fair value:

December 31, 2016
(in millions)

NAIC Designation	1	2	**Total Investment Grade**	3	4	5	6	
Other fixed maturity securities	$ 80,257	$ 67,076	**$ 147,333**	$ 6,814	$ 4,143	$ 1,432	$ 103	**$**
Mortgage-backed, asset-backed and collateralized	65,767	2,956	**68,723**	244	116	84	2,650	
Total*	$ 146,024	$ 70,032	**$ 216,056**	$ 7,058	$ 4,259	$ 1,516	$ 2,753	**$**

* Excludes $23.9 billion of fixed maturity securities for which no NAIC Designation is available because they are held in legal entities within U.S. Insurance Companies that do not require a statutory filing.

The following table presents the fixed maturity security portfolio of U.S. Insurance Companies categorized by composite AIG credit rating, at fair value:

December 31, 2016
(in millions)

Composite AIG Credit Rating	AAA/AA/A	BBB	**Total Investment Grade**	BB	B	CCC and Lower	**I**
Other fixed maturity securities	$ 81,571	$ 66,364	**$ 147,935**	$ 6,151	$ 4,334	$ 1,405	**$**
Mortgage-backed, asset-backed and collateralized	42,776	5,182	**47,958**	1,443	931	21,485	
Total*	$ 124,347	$ 71,546	**$ 195,893**	$ 7,594	$ 5,265	$ 22,890	**$**

* Excludes $23.9 billion of fixed maturity securities for which no NAIC Designation is available because they are held in legal entities within U.S. Insurance Companies that do not require a statutory filing.

Credit Ratings

At December 31, 2016, approximately 92 percent of our fixed maturity securities were held by our domestic entities. Approximately 17 percent of these securities were rated AAA by one or more of the principal rating agencies, and approximately 17 percent were rated below investment grade or not rated. Our investment decision process relies primarily on internally generated fundamental analysis and internal risk ratings. Third-party rating services' ratings and opinions provide one source of independent perspective for consideration in the internal analysis.

Moody's Investors' Service Inc. (Moody's), Standard & Poor's Financial Services LLC, a subsidiary of S&P Global Inc. (S&P), or similar foreign rating services rate a significant portion of our foreign entities' fixed maturity securities portfolio. Rating services are not available for some foreign-issued securities. Our Credit Risk Management department closely reviews the credit quality of the foreign portfolio's non-rated fixed maturity securities. At December 31, 2016, approximately 19 percent of such investments were either rated AAA or, on the basis of our internal analysis, were equivalent from a credit standpoint to securities rated AAA, and approximately 8 percent were below investment grade or not rated. Approximately 36 percent of the foreign entities' fixed maturity securities portfolio is comprised of sovereign fixed maturity securities supporting policy liabilities in the country of issuance.

Composite AIG Credit Ratings

With respect to our fixed maturity investments, the credit ratings in the table below and in subsequent tables reflect: (a) a composite of the ratings of the three major rating agencies, or when agency ratings are not available, the rating assigned by the NAIC SVO (over 99 percent of total fixed maturity investments), or (b) our equivalent internal ratings when these investments have not been rated by any of the major rating agencies or the NAIC. The "Non-rated" category in those tables consists of fixed maturity securities that have not been rated by any of the major rating agencies, the NAIC or us.

See Enterprise Risk Management herein for a discussion of credit risks associated with Investments.

The following table presents the composite AIG credit ratings of our fixed maturity securities calculated on the basis of their fair value:

	Available for Sale		Other		Total	
(in millions)	**December 31, 2016**	December 31, 2015	**December 31, 2016**	December 31, 2015	**December 31, 2016**	December 31, 2015
Rating:						
Other fixed maturity securities						
AAA	**$ 11,791**	$ 12,274	**$ 2,807**	$ 3,222	**$ 14,598**	$ 15,496
AA	**33,647**	35,344	**250**	207	**33,897**	35,551
A	**45,619**	50,741	**1,612**	1,781	**47,231**	52,522
BBB	**68,700**	71,766	**76**	186	**68,776**	71,952
Below investment grade	**12,832**	12,305	**17**	133	**12,849**	12,438
Non-rated	**890**	920	**-**	-	**890**	920
Total	**$ 173,479**	$ 183,350	**$ 4,762**	$ 5,529	**$ 178,241**	$ 188,879
Mortgage-backed, asset-backed and collateralized						
AAA	**$ 28,593**	$ 26,382	**$ 1,055**	$ 1,756	**$ 29,648**	$ 28,138
AA	**6,114**	5,003	**714**	708	**6,828**	5,711
A	**8,504**	7,462	**307**	416	**8,811**	7,878
BBB	**4,996**	4,394	**303**	497	**5,299**	4,891
Below investment grade	**19,838**	21,638	**6,790**	7,771	**26,628**	29,409
Non-rated	**13**	16	**67**	105	**80**	121
Total	**$ 68,058**	$ 64,895	**$ 9,236**	$ 11,253	**$ 77,294**	$ 76,148
Total						
AAA	**$ 40,384**	$ 38,656	**$ 3,862**	$ 4,978	**$ 44,246**	$ 43,634
AA	**39,761**	40,347	**964**	915	**40,725**	41,262
A	**54,123**	58,203	**1,919**	2,197	**56,042**	60,400
BBB	**73,696**	76,160	**379**	683	**74,075**	76,843
Below investment grade	**32,670**	33,943	**6,807**	7,904	**39,477**	41,847
Non-rated	**903**	936	**67**	105	**970**	1,041
Total	**$ 241,537**	$ 248,245	**$ 13,998**	$ 16,782	**$ 255,535**	$ 265,027

Available for Sale Investments

The following table presents the fair value of our available for sale securities:

(in millions)	**Fair Value at December 31, 2016**	Fair Value at December 31, 2015

Bonds available for sale:		
U.S. government and government sponsored entities	**$ 1,992**	$ 1,844
Obligations of states, municipalities and political subdivisions	**24,772**	27,323
Non-U.S. governments	**14,535**	18,195
Corporate debt	**132,180**	135,988
Mortgage-backed, asset-backed and collateralized:		
RMBS	**37,374**	36,227
CMBS	**14,271**	13,571
CDO/ABS	**16,413**	15,097
Total mortgage-backed, asset-backed and collateralized	**68,058**	64,895
Total bonds available for sale*	**241,537**	248,245

Equity securities available for sale:		
Common stock	**1,065**	2,401
Preferred stock	**752**	22
Mutual funds	**261**	492
Total equity securities available for sale	**2,078**	2,915
Total	**$ 243,615**	$ 251,160

* At December 31, 2016 and 2015, the fair value of bonds available for sale held by us that were below investment grade or not rated totaled $33.6 billion and $34.9 billion, respectively.

The following table presents the fair value of our aggregate credit exposures to non-U.S. governments for our fixed maturity securities:

(in millions)	**December 31, 2016**	December 31, 2015
Japan*	**$ 2,140**	$ 5,416
Germany	**1,168**	832
Canada	**1,115**	1,453
United Kingdom	**815**	661
France	**667**	784
Mexico	**637**	563
Norway	**456**	503
Netherlands	**445**	511
Indonesia	**366**	260
Chile	**360**	386
Other	**6,417**	6,876
Total	**$ 14,586**	$ 18,245

* Decrease at December 31, 2016 is attributable to reclassification of AIG Fuji Life to Held for Sale.

The following table presents the fair value of our aggregate European credit exposures by major sector for our fixed maturity securities:

	December 31, 2016					
(in millions)	Sovereign	Financial Institution	Non-Financial Corporates	Structured Products	**Total**	December 31, 2015 Total
Euro-Zone countries:						
France	**$ 667**	**$ 1,034**	**$ 2,086**	**$ 1**	**$ 3,788**	$ 4,018
Germany	**1,168**	**152**	**1,906**	**1**	**3,227**	3,365
Netherlands	**445**	**778**	**1,275**	**160**	**2,658**	3,404
Ireland	**9**	**-**	**520**	**734**	**1,263**	1,274

Belgium		98		119		858		-		1,075	855
Spain		13		50		855		-		918	1,102
Italy		-		99		732		11		842	1,009
Luxembourg		-		14		415		1		430	496
Finland		79		55		64		-		198	229
Austria		79		3		13		-		95	124
Other - EuroZone		831		34		239		-		1,104	929
Total Euro-Zone	$	3,389	$	2,338	$	8,963	$	908	$	15,598	$ 16,805
Remainder of Europe											
United Kingdom	$	815	$	2,927	$	7,762	$	3,789	$	15,293	$ 15,286
Switzerland		45		1,101		1,214		-		2,360	2,519
Sweden		117		409		165		-		691	827
Norway		456		33		93		-		582	688
Russian Federation		58		13		98		-		169	122
Other - Remainder of Europe		122		91		72		-		285	443
Total - Remainder of Europe	$	1,613	$	4,574	$	9,404	$	3,789	$	19,380	$ 19,885
Total	$	5,002	$	6,912	$	18,367	$	4,697	$	34,978	$ 36,690

Investments in Municipal Bonds

At December 31, 2016, the U.S. municipal bond portfolio was composed primarily of essential service revenue bonds and high-quality tax-backed bonds with over 95 percent of the portfolio rated A or higher.

The following table presents the fair values of our available for sale U.S. municipal bond portfolio by state and municipal bond type:

	December 31, 2016				
(in millions)	State General Obligation	Local General Obligation	Revenue	Total Fair Value	December 31, 2015 Total Fair Value
State:					
New York	$ 20	$ 597	$ 3,553	$ 4,170	$ 4,613
California	683	454	2,334	3,471	3,841
Texas	275	1,512	1,500	3,287	3,415
Massachusetts	710	-	686	1,396	1,387
Illinois	102	151	918	1,171	1,486
Washington	407	90	562	1,059	1,359
Florida	129	-	887	1,016	1,135
Virginia	46	5	738	789	878
Georgia	181	213	353	747	870
Pennsylvania	280	24	415	719	676
Washington DC	180	-	491	671	705
Arizona	-	65	493	558	576
Ohio	94	-	442	536	531
All other states[(a)]	896	494	3,792	5,182	5,851
Total[(b)(c)]	$ 4,003	$ 3,605	$ 17,164	$ 24,772	$ 27,323

(a) We did not have material credit exposure to the government of Puerto Rico.

(b) Excludes certain university and not-for-profit entities that issue their bonds in the corporate debt market. Includes industrial revenue bonds.

(c) Includes $1.7 billion of pre-refunded municipal bonds.

Investments in Corporate Debt Securities

The following table presents the industry categories of our available for sale corporate debt securities:

	Fair Value at	Fair Value at

Industry Category *(in millions)*	**December 31, 2016**	December 31, 2015
Financial institutions:		
Money Center /Global Bank Groups	$ 8,892	$ 9,104
Regional banks — other	606	568
Life insurance	3,100	3,295
Securities firms and other finance companies	392	380
Insurance non-life	5,213	5,421
Regional banks — North America	6,844	6,823
Other financial institutions	8,435	7,808
Utilities	17,938	18,497
Communications	10,025	10,251
Consumer noncyclical	15,338	15,391
Capital goods	8,339	8,973
Energy	13,618	13,861
Consumer cyclical	8,606	9,767
Basic	6,582	7,512
Other	18,252	18,337
Total *	$ 132,180	$ 135,988

* At both December 31, 2016 and December 31, 2015, approximately 91 percent of these investments were rated investment grade.

Our investments in the energy category, as a percentage of total investments in available-for-sale fixed maturities, were 5.6 percent at both December 31, 2016 and December 31, 2015. While the energy investments are primarily investment grade and are actively managed, the category continues to experience volatility that could adversely affect credit quality and fair value.

Investments in RMBS

The following table presents AIG's RMBS available for sale investments by year of vintage:

(in millions)		Fair Value at December 31, 2016		Fair Value at December 31, 2015
Total RMBS				
2016	$	4,464	$	-
2015		2,667		2,273
2014		943		1,096
2013		1,842		2,178
2012		1,257		1,944
2011 and prior*		26,201		28,736
Total RMBS	$	37,374	$	36,227
Agency				
2016	$	3,651	$	-
2015		2,404		2,025
2014		825		1,000
2013		1,749		2,094
2012		1,247		1,877
2011 and prior		3,978		5,555
Total Agency	$	13,854	$	12,551
Alt-A				
2016	$	-	$	-
2015		-		-
2014		16		-
2013		-		-
2012		-		-
2011 and prior		12,371		12,831
Total Alt-A	$	12,387	$	12,831
Subprime				
2016		-		-
2015		-		-
2014		-		-
2013		-		-

2012		-		-
2011 and prior	$	2,905	$	2,376
Total Subprime	$	2,905	$	2,376
Prime non-agency				
2016	$	738	$	-
2015		12		-
2014		3		-
2013		18		8
2012		-		53
2011 and prior		6,651		7,589
Total Prime non-agency	$	7,422	$	7,650
Total Other housing related	$	806	$	819

* Includes approximately $12.9 billion and $13.2 billion at December 31, 2016, and December 31, 2015, respectively, of certain RMBS that had experienced deterioration in credit quality since their origination. See Note 6 to the Consolidated Financial Statements for additional discussion on Purchased Credit Impaired (PCI) Securities.

The following table presents our RMBS available for sale investments by credit rating:

(in millions)		Fair Value at December 31, 2016		Fair Value at December 31, 2015
Rating:				
Total RMBS				
AAA	$	16,241	$	14,884
AA		535		389
A		1,080		509
BBB		812		661
Below investment grade[(a)]		18,702		19,779
Non-rated		4		5
Total RMBS[(b)]	$	37,374	$	36,227
Agency RMBS				
AAA	$	13,850	$	12,547
AA		4		4
Total Agency	$	13,854	$	12,551
Alt-A RMBS				
AAA	$	-	$	5
AA		92		17
A		84		121
BBB		230		216
Below investment grade[(a)]		11,981		12,472
Total Alt-A	$	12,387	$	12,831
Subprime RMBS				
AAA	$	13	$	15
AA		119		68
A		152		247
BBB		334		200
Below investment grade[(a)]		2,287		1,846
Total Subprime	$	2,905	$	2,376
Prime non-agency				
AAA	$	1,972	$	1,986
AA		209		188
A		842		138
BBB		226		209
Below investment grade[(a)]		4,169		5,124
Non-rated		4		5
Total prime non-agency	$	7,422	$	7,650
Total Other housing related	$	806	$	819

(a) Includes certain RMBS that had experienced deterioration in credit quality since their origination. See Note 6 to the Consolidated Financial Statements for additional discussion on PCI Securities.

(b) The weighted average expected life was six years at both December 31, 2016 and December 31, 2015.

Our underwriting practices for investing in RMBS, other asset backed securities and CDOs take into consideration the quality of the originator, the manager, the servicer, security credit ratings, underlying characteristics of the mortgages, borrower characteristics, and the level of credit enhancement in the transaction.

Investments in CMBS

The following table presents our CMBS available for sale investments:

(in millions)		**Fair Value at December 31, 2016**		Fair Value at December 31, 2015
CMBS (traditional)	**$**	**11,782**	$	11,132
Agency		**1,737**		1,622
Other		**752**		817
Total	**$**	**14,271**	$	13,571

The following table presents the fair value of our CMBS available for sale investments by rating agency designation and by vintage year:

(in millions)	AAA	AA	A	BBB	Below Investment Grade	Non-Rated	**Total**
December 31, 2016							
Year:							
2016	**$ 1,420**	**$ 297**	**$ 87**	**$ 156**	**$ 12**	**$ -**	**$ 1,972**
2015	**1,157**	**451**	**490**	**241**	**18**	**-**	**2,357**
2014	**1,612**	**235**	**11**	**-**	**-**	**-**	**1,858**
2013	**2,527**	**399**	**69**	**22**	**-**	**-**	**3,017**
2012	**595**	**65**	**44**	**80**	**-**	**10**	**794**
2011 and prior	**1,632**	**452**	**591**	**651**	**947**	**-**	**4,273**
Total	**$ 8,943**	**$ 1,899**	**$ 1,292**	**$ 1,150**	**$ 977**	**$ 10**	**$ 14,271**
December 31, 2015							
Year:							
2015	$ 824	$ 404	$ 465	$ 240	$ -	$ -	$ 1,933
2014	1,604	183	11	-	-	-	1,798
2013	2,611	433	89	54	-	-	3,187
2012	737	60	31	83	-	10	921
2011 and prior	1,936	725	666	759	1,646	-	5,732
Total	$ 7,712	$ 1,805	$ 1,262	$ 1,136	$ 1,646	$ 10	$ 13,571

The following table presents our CMBS available for sale investments by geographic region:

(in millions)	Fair Value at December 31, 2016	Fair Value at December 31, 2015
Geographic region:		
New York	$ 3,479	$ 3,149
California	1,357	1,244
Texas	787	791
Florida	501	520
New Jersey	434	433
Virginia	356	362
Illinois	344	323
Pennsylvania	310	295
Massachusetts	245	231
Georgia	236	253
Ohio	232	194
Maryland	224	229
All Other*	5,766	5,547
Total	$ 14,271	$ 13,571

* Includes Non-U.S. locations.

The following table presents our CMBS available for sale investments by industry:

(in millions)	Fair Value at December 31, 2016	Fair Value at December 31, 2015
Industry:		
Office	$ 4,390	$ 3,896
Retail	3,853	3,978
Multi-family*	3,083	3,036
Lodging	1,017	1,005
Industrial	971	868
Other	957	788
Total	$ 14,271	$ 13,571

* Includes Agency-backed CMBS.

The fair value of CMBS holdings remained stable throughout 2016. The majority of our investments in CMBS are in tranches that contain substantial protection features through collateral subordination. The majority of CMBS holdings are traditional conduit transactions, broadly diversified across property types and geographical areas.

Investments in CDOs

The following table presents our CDO available for sale investments by collateral type:

(in millions)	**Fair value at December 31, 2016**	Fair value at December 31, 2015
Collateral Type:		
Bank loans (CLO)	**$ 8,548**	$ 7,962
Other	**129**	153
Total	**$ 8,677**	$ 8,115

The following table presents our CDO available for sale investments by credit rating:

(in millions)	Fair Value at December 31, 2016	Fair Value at December 31, 2015
Rating:		
AAA	$ 2,805	$ 2,870
AA	3,112	2,543
A	2,244	2,247
BBB	395	298
Below investment grade	121	157
Total	$ 8,677	$ 8,115

Commercial Mortgage Loans

At December 31, 2016, we had direct commercial mortgage loan exposure of $25.0 billion, of which 100 percent of the loans were current.

The following table presents the commercial mortgage loan exposure by location and class of loan based on amortized cost:

(dollars in millions)	Number of Loans	Class Apartments	Offices	Retail	Industrial	Hotel	Others	Total	Percent of Total
December 31, 2016									
State:									
New York	96	$ 1,391	$ 3,527	$ 534	$ 215	$ 163	$ 185	$ 6,015	24%
California	89	325	761	282	286	870	401	2,925	12
Texas	58	255	857	97	108	154	44	1,515	6
Florida	67	322	94	340	165	19	76	1,016	4
Massachusetts	20	415	114	408	50	-	27	1,014	4
New Jersey	39	529	47	355	-	29	33	993	4
Illinois	19	258	307	20	52	36	23	696	3
Pennsylvania	24	-	28	473	51	26	-	578	2
Ohio	29	151	17	211	165	-	5	549	2
Connecticut	19	343	67	23	80	-	-	513	2
Other states	269	1,309	1,239	1,670	481	560	199	5,458	22
Foreign	59	707	906	784	245	532	596	3,770	15
Total*	788	$ 6,005	$ 7,964	$ 5,197	$ 1,898	$ 2,389	$ 1,589	$ 25,042	100%
December 31, 2015									
State:									
New York	97	$ 823	$ 2,968	$ 516	$ 301	$ 166	$ 186	$ 4,960	22%

California	95	87	547	433	533	788	308	2,696	12
Texas	60	120	696	106	147	187	48	1,304	6
New Jersey	45	441	338	324	-	29	33	1,165	5
Florida	78	187	113	374	116	20	146	956	4
Illinois	21	174	369	21	32	36	23	655	3
Massachusetts	19	56	168	360	-	-	33	617	3
Connecticut	20	314	152	23	81	-	-	570	3
Pennsylvania	28	6	29	436	62	27	4	564	3
Ohio	37	122	28	211	67	-	5	433	2
Other states	302	1,118	1,203	1,514	414	595	229	5,073	23
Foreign	47	471	1,234	520	161	250	438	3,074	14
Total*	849	$ 3,919	$ 7,845	$ 4,838	$ 1,914	$ 2,098	$ 1,453	$ 22,067	100%

* Does not reflect allowance for credit losses.

See Note 6 to the Consolidated Financial Statements for additional discussion on commercial mortgage loans.

Impairments

The following table presents impairments by investment type:

Years Ended December 31, *(in millions)*	**2016**	2015	2014
Other-than-temporary Impairments:			
Fixed maturity securities, available for sale	**$ 480**	$ 425	$ 180
Equity securities, available for sale	**7**	166	37
Private equity funds and hedge funds	**72**	80	30
Subtotal	**559**	671	247
Other impairments:			
Investments in life settlements	**397**	540	201
Other investments	**66**	166	126
Real estate	**10**	23	8
Total	**$ 1,032**	$ 1,400	$ 582

Our investments in life settlements are monitored for impairment on a contract-by-contract basis quarterly. An investment in life settlements is considered impaired if the undiscounted cash flows resulting from the expected proceeds would not be sufficient to recover our estimated future carrying amount. This amount is defined as the current carrying amount for the investment in life settlements plus anticipated undiscounted future premiums and other capitalizable future costs, if any. Impaired investments in life settlements are written down to their estimated fair value. This is determined on a discounted cash flow basis, incorporating current market mortality assumptions and market yields.

Impairments on Life Settlements in 2016 were partially attributable to an increase in policy premiums required to keep policies in force which resulted in lower future expected net cash flows which were insufficient to recover our net investment on certain policies.

Impairments on Life Settlements in 2015 were partially attributable to an increase in policy premiums required to keep policies in force which resulted in lower future expected net cash flows which were insufficient to recover our net investment on certain policies as well as our adoption of the Society of Actuaries 2015 Valuation Basic Table (VBT) as the market mortality assumption used to measure the fair value of impaired policy.

Other-Than-Temporary Impairments

To determine other-than-temporary impairments, we use fundamental credit analyses of individual securities without regard to rating agency ratings. Based on this analysis, we expect to receive cash flows sufficient to cover the amortized cost of all below investment grade securities for which credit impairments were not recognized.

The following tables present other-than-temporary impairment charges recorded in earnings on fixed maturity securities, equity securities, private equity funds and hedge funds.

Other-than-temporary impairment charges by investment type and impairment type:

(in millions)	RMBS	CDO/ABS	CMBS	Other Fixed Maturity	Equities/Other Invested Assets*	**Total**
For the Year Ended December 31, 2016						
Impairment Type:						
Severity	**$ -**	**$ -**	**$ -**	**$ -**	**$ 15**	**$ 15**
Change in intent	**-**	**-**	**-**	**46**	**-**	**46**
Foreign currency declines	**-**	**-**	**-**	**18**	**-**	**18**
Issuer-specific credit events	**116**	**1**	**38**	**214**	**64**	**433**
Adverse projected cash flows	**47**	**-**	**-**	**-**	**-**	**47**
Total	**$ 163**	**$ 1**	**$ 38**	**$ 278**	**$ 79**	**$ 559**
For the Year Ended December 31, 2015						
Impairment Type:						
Severity	$ -	$ -	$ -	$ -	$ 13	$ 13
Change in intent	3	-	14	131	85	233
Foreign currency declines	-	-	-	57	-	57
Issuer-specific credit events	79	3	8	110	148	348
Adverse projected cash flows	20	-	-	-	-	20
Total	$ 102	$ 3	$ 22	$ 298	$ 246	$ 671
For the Year Ended December 31, 2014						
Impairment Type:						
Severity	$ -	$ -	$ -	$ -	$ 3	$ 3
Change in intent	-	-	-	27	13	40
Foreign currency declines	-	-	-	19	-	19
Issuer-specific credit events	80	9	21	8	51	169
Adverse projected cash flows	16	-	-	-	-	16
Total	$ 96	$ 9	$ 21	$ 54	$ 67	$ 247

* Includes other-than-temporary impairment charges on private equity funds, hedge funds and direct private equity investments.

Other-than-temporary impairment charges by investment type and credit rating:

(in millions)	RMBS	CDO/ABS	CMBS	Other Fixed Maturity	Equities/Other Invested Assets*	Total
For the Year Ended December 31, 2016						
Rating:						
AAA	**$ -**	**$ -**	**$ -**	**$ 5**	**$ -**	**$ 5**
AA	**4**	**-**	**-**	**7**	**-**	**11**
A	**-**	**-**	**-**	**8**	**-**	**8**
BBB	**6**	**-**	**2**	**16**	**-**	**24**
Below investment grade	**153**	**1**	**36**	**242**	**-**	**432**
Non-rated	**-**	**-**	**-**	**-**	**79**	**79**
Total	**$ 163**	**$ 1**	**$ 38**	**$ 278**	**$ 79**	**$ 559**
For the Year Ended December 31, 2015						
Rating:						
AAA	$ -	$ -	$ -	$ 12	$ -	$ 12
AA	-	-	-	12	-	12
A	-	-	-	12	-	12
BBB	2	-	-	50	-	52
Below investment grade	100	3	22	208	-	333
Non-rated	-	-	-	4	246	250
Total	$ 102	$ 3	$ 22	$ 298	$ 246	$ 671
For the Year Ended December 31, 2014						
Rating:						
AAA	$ -	$ -	$ -	$ 4	$ -	$ 4
AA	3	-	-	2	-	5
A	-	-	-	2	-	2
BBB	2	-	-	11	-	13
Below investment grade	91	5	21	35	-	152
Non-rated	-	4	-	-	67	71
Total	$ 96	$ 9	$ 21	$ 54	$ 67	$ 247

* Includes other-than-temporary impairment charges on private equity funds, hedge funds and direct private equity investments.

We recorded other-than-temporary impairment charges in the years ended December 31, 2016, 2015 and 2014 related to:

- issuer-specific credit events;

- securities that we intend to sell or for which it is more likely than not that we will be required to sell;
- declines due to foreign exchange rates;
- adverse changes in estimated cash flows on certain structured securities; and
- securities that experienced severe market valuation declines.

In addition, impairments are recorded on real estate and investments in life settlements.

In periods subsequent to the recognition of an other-than-temporary impairment charge for available for sale fixed maturity securities that is not foreign-exchange related, we generally prospectively accrete into earnings the difference between the new amortized cost and the expected undiscounted recoverable value over the remaining life of the security. The accretion that was recognized for these securities in earnings was $767 million in 2016, $735 million in 2015 and $725 million in 2014. See Note 6 to the Consolidated Financial Statements for a discussion of our other-than-temporary impairment accounting policy.

ITEM 7 | **Investments**

The following table shows the aging of the pre-tax unrealized losses of fixed maturity and equity securities, the extent to which the fair value is less than amortized cost or cost, and the number of respective items in each category:

December 31, 2016	Less Than or Equal to 20% of Cost[b]			Greater Than 20% to 50% of Cost[b]			Greater Than 50% of Cost[b]			**Total**		
Aging[a]		Unrealized			Unrealized			Unrealized			**Unrealized**	
(dollars in millions)	Cost[c]	Loss	Items[e]	Cost[c]	Loss	Items[e]	Cost[c]	Loss	Items[e]	**Cost[c]**	**Loss[d]**	**Item**[illegible]
Investment grade bonds												
0-6 months	$52,562	$1,726	7,610	$ 11	$ 2	6	$ -	$ -	-	**$ 52,573**	**$ 1,728**	**7,**[illegible]
7-11 months	2,063	57	229	-	-	-	-	-	-	**2,063**	**57**	**2**[illegible]
12 months or more	6,883	402	788	693	211	53	19	11	6	**7,595**	**624**	**8**[illegible]
Total	$61,508	$2,185	8,627	$ 704	$ 213	59	$ 19	$ 11	6	**$ 62,231**	**$ 2,409**	**8,**[illegible]
Below investment grade bonds												
0-6 months	$ 3,462	$ 73	1,386	$ 8	$ 3	19	$ 3	$ 3	1	**$ 3,473**	**$ 79**	**1,**[illegible]
7-11 months	955	40	170	63	15	5	9	9	4	**1,027**	**64**	[illegible]
12 months or more	6,393	411	883	474	150	54	20	12	11	**6,887**	**573**	[illegible]
Total	$10,810	$ 524	2,439	$ 545	$ 168	78	$ 32	$ 24	16	**$ 11,387**	**$ 716**	**2,**[illegible]
Total bonds												
0-6 months	$56,024	$1,799	8,996	$ 19	$ 5	25	$ 3	$ 3	1	**$ 56,046**	**$ 1,807**	**9,**[illegible]
7-11 months	3,018	97	399	63	15	5	9	9	4	**3,090**	**121**	[illegible]
12 months or more	13,276	813	1,671	1,167	361	107	39	23	17	**14,482**	**1,197**	**1,**[illegible]
Total[e]	$72,318	$2,709	11,066	$ 1,249	$ 381	137	$ 51	$ 35	22	**$ 73,618**	**$ 3,125**	**11,**[illegible]
Equity securities												
0-11 months	$ 194	$ 12	103	$ 10	$ 3	10	$ -	$ -	-	**$ 204**	**$ 15**	[illegible]
Total	$ 194	$ 12	103	$ 10	$ 3	10	$ -	$ -	-	**$ 204**	**$ 15**	[illegible]

(a) Represents the number of consecutive months that fair value has been less than cost by any amount.

(b) Represents the percentage by which fair value is less than cost at December 31, 2016.

(c) For bonds, represents amortized cost.

(d) The effect on Net income of unrealized losses after taxes will be mitigated upon realization because certain realized losses will result in current decreases in the amortization of certain DAC.

(e) Item count is by CUSIP by subsidiary.

Change in Unrealized Gains and Losses on Investments

The change in net unrealized gains and losses on investments in 2016 was primarily attributable to increases in the fair value of fixed maturity securities. For 2016, net unrealized gains related to fixed maturity and equity securities increased by $0.9 billion due primarily to a narrowing of credit spreads, which more than offset the rise in rates.

The change in net unrealized gains and losses on investments in 2015 was primarily attributable to decreases in the fair value of fixed maturity securities. For 2015, net unrealized gains related to fixed maturity and equity securities decreased by $10.2 billion due primarily to the rise in rates, widening of credit spreads, and the sale of equity securities.

See also Note 6, Investments to the Consolidated Financial Statements for further discussion of our investment portfolio.

Net Realized Capital Gains and Losses

The following table presents the components of Net realized capital gains (losses):

Years Ended December 31, *(in millions)*	**2016**	2015	2014
Sales of fixed maturity securities	**$ 1**	$ 94	$ 585
Sales of equity securities[(a)]	**1,057**	1,032	111
Other-than-temporary impairments:			
Severity	**(15)**	(13)	(3)
Change in intent	**(46)**	(233)	(40)
Foreign currency declines	**(18)**	(57)	(19)
Issuer-specific credit events	**(433)**	(348)	(169)
Adverse projected cash flows	**(47)**	(20)	(16)
Provision for loan losses	**10**	(58)	(1)
Foreign exchange transactions	**(1,226)**	416	598
Derivatives and hedge accounting	**(944)**	341	(177)
Impairments on investments in life settlements	**(397)**	(540)	(201)
Other[(b)]	**114**	162	71
Net realized capital gains (losses)	**$ (1,944)**	$ 776	$ 739

(a) In 2016 and 2015 includes realized gains on the sale of a portion of our holdings in People's Insurance Company (Group) of China Limited and PICC Property & Casualty Company Limited (collectively, our PICC Investment).

(b) In 2016, primarily includes $107 million of realized gains due to a purchase price adjustment on the sale of Class B shares of Prudential Financial, Inc. and losses of $253 million from the sale of a portion of our Life Settlements portfolio. In 2015, primarily includes $357 million of realized gains due to the sale of common shares of SpringLeaf Holdings (now known as OneMain Holdings, Inc.), $428 million of realized gains due to the sale of Class B shares of Prudential Financial, Inc. and $463 million of realized losses due to the sale of ordinary shares of AerCap.

Net realized capital losses in 2016 were primarily related to foreign exchange losses, derivative losses, and impairments, which were higher than the gain recognized on the sale of a portion of our PICC Investment.

Foreign exchange gains (losses) were primarily due to $910 million of remeasurement losses in 2016 for a short term intercompany balance that was matched with available for sale investments in fixed maturity securities denominated in the same foreign currencies. Unrealized gains and losses on the available for sale investments were recorded in other comprehensive income resulting in an immaterial impact on our overall equity or book value per share from this arrangement.

Derivative and hedge accounting losses were primarily a result of the fair value changes in derivative instruments used to economically hedge market risk from variable annuities with guaranteed minimum withdrawal benefits (GMWB), which were adversely impacted by rising interest rates and equity market performance late in the fourth quarter of 2016. See Enterprise Risk Management – Life Insurance Companies Key Insurance Risks – Variable Annuity Risk Management and Hedging Program for additional discussion of market risk management related to these product features and Insurance Reserves – Life and Annuity Reserves and DAC – Variable Annuity Guaranteed Benefits and Hedging Results for more information on the economic hedging target and the impact to pre-tax income of this program.

Net realized capital gains in 2015 were primarily driven by foreign exchange gains which included $243 million of gains in 2015, related to the intercompany notional cash pooling arrangement, discussed above and net gains on the sales of various securities such as the Class B shares of Prudential Financial, Inc., common shares of OneMain Holdings and sales of our PICC Investment. These realized gains were partially offset by realized losses related to the sale of ordinary shares of AerCap.

Net realized capital gains in 2014 were primarily driven by capital gains from sales of investments related to capital loss carryforward utilization and fair value losses on embedded derivatives related to variable annuity guarantee features, net of hedges.

See also Note 6 to the Consolidated Financial Statements for further discussion of our investment portfolio.

Insurance Reserves

Liability for unpaid losses and loss adjustment expenses (Loss Reserves)

The following table presents the components of our gross and net loss reserves by segment and major lines of business[(a)(b)]:

At December 31,	**2016**			**2015**		
(in millions)	Net liability for unpaid losses and loss adjustment expenses	Reinsurance recoverable on unpaid losses and loss adjustment expenses	Gross liability for unpaid losses and loss adjustment expenses	Net liability for unpaid losses and loss adjustment expenses	Reinsurance recoverable on unpaid losses and loss adjustment expenses	Gross liability for unpaid losses and loss adjustment expenses
Commercial Insurance:						
Liability and Financial Lines:						
U.S. Workers' Compensation (net of discount)	**$ 10,486**	**$ 2,879**	**$ 13,365**	$ 9,929	$ 1,462	$ 11,391
U.S. Excess Casualty	**8,749**	**1,115**	**9,864**	8,386	2,299	10,685
U.S. Other Casualty	**8,746**	**3,209**	**11,955**	7,986	2,252	10,238
U.S. Financial Lines	**6,102**	**1,195**	**7,297**	6,133	588	6,721
Europe Casualty and Financial Lines	**5,587**	**1,313**	**6,900**	5,251	1,406	6,657
Other product lines	**2,279**	**986**	**3,265**	2,398	667	3,066
Unallocated loss adjustment expenses	**2,260**	**252**	**2,512**	2,197	348	2,545
Total Liability and Financial Lines	**44,209**	**10,949**	**55,158**	42,280	9,022	51,303
Property and Special Risks:						
U.S. and Europe	**5,913**	**1,596**	**7,509**	5,417	2,394	7,811
Other product lines	**1,139**	**536**	**1,675**	1,719	460	2,179
Unallocated loss adjustment expenses	**279**	**47**	**326**	242	61	303
Total Property and Special Risks	**7,331**	**2,179**	**9,510**	7,378	2,915	10,293
Total Commercial Insurance	**51,540**	**13,128**	**64,668**	49,658	11,937	61,596
Consumer Personal Insurance:						
U.S. Europe and Japan	**3,454**	**377**	**3,831**	3,389	313	3,702
Other product lines	**744**	**184**	**928**	765	71	836
Unallocated loss adjustment expenses	**202**	**4**	**206**	170	6	176
Total Consumer Personal Insurance	**4,400**	**565**	**4,965**	4,324	390	4,714
Legacy Portfolio - Run-off Property and Casualty Insurance Lines:						
U.S. Long Tail Insurance lines (net of discount)	**4,980**	**1,679**	**6,659**	5,401	1,823	7,224
Other run-off product lines	**160**	**46**	**206**	113	42	154
Unallocated loss adjusted expenses	**347**	**114**	**461**	341	128	469
Total Legacy Portfolio - Run-off Property and Casualty Insurance Lines	**5,487**	**1,839**	**7,326**	5,855	1,993	7,847

Other Operations	**118**	**-**	**118**	766	19	785
Total	**$ 61,545**	**$ 15,532**	**$ 77,077**	$ 60,603	$ 14,339	$ 74,942

(a) Includes $1.7 billion and $1.8 billion of asbestos reinsurance recoverable under a retroactive reinsurance agreement at December 31, 2016, and December 31, 2015, respectively.

(b) Includes loss reserve discount of $3.6 billion and $3.1 billion for the years ended December 31, 2016, and 2015, respectively. See Note 13 to the Consolidated Financial Statements for discussion of loss reserve discount.

PRIOR YEAR DEVELOPMENT

The following table summarizes incurred (favorable) unfavorable prior year development net of reinsurance by segment and major lines of business:

Years Ended December 31, *(in millions)*	**2016**	2015	2014
Commercial Insurance			
Liability and Financial Lines:			
U.S. Workers' compensation	**$ 1,920**	$ 234	$ 113
U.S. Excess casualty	**1,058**	1,374	(106)
U.S. Other casualty	**1,563**	1,196	754
U.S. Financial lines	**306**	502	160
Europe Casualty and financial lines	**355**	139	24
Other product lines	**150**	133	(229)
Total Liability and Financial Lines	**5,352**	3,578	716
Property and Special Risks:			
U.S. and Europe	**402**	(128)	(82)
Other product lines	**(177)**	(157)	(131)
Total Property and Special Risks	**225**	(285)	(213)
Total Commercial Insurance	**5,577**	3,293	503
Consumer Personal Insurance			
U.S., Europe and Japan	**(114)**	(47)	(89)
Other product lines	**(21)**	29	13
Total Consumer Personal Insurance	**(135)**	(18)	(76)
Legacy Portfolio - Property and Casualty Run-off Insurance Lines:			
U.S. Long tail insurance lines	**390**	893	490
Other product lines	**12**	20	3
Total Legacy Portfolio - Property and Casualty Run off Insurance Lines	**402**	913	493
Other Operations	**(56)**	(69)	(217)
Total prior year unfavorable development	**$ 5,788**	$ 4,119	$ 703
Premium adjustments on U.S. loss sensitive business	**33**	49	(105)
Total prior year development, net of premium adjustments	**$ 5,821**	$ 4,168	$ 598

Net Loss Development

As discussed more fully below, in 2016, we recognized adverse prior year loss reserve development of $5.8 billion, primarily as a result of the following:

- Higher than expected losses emerging across several casualty classes, especially in the recent accident years (generally, 2011 to 2015) driven by increased frequency and severity of claims. This recent accident year loss emergence caused us to increase loss development factors applied across many accident years.

- Loss development factors including workers compensation tail factors, also increased due to an observed lengthening of loss reporting patterns relative to prior expectations.

- Increases in loss trend assumptions to reflect the latest observed increases in frequency and severity and the impact of these increased loss trends on expected loss ratios.

- Changes in weights we apply to the various actuarial methods to better align with updated trends.

As discussed above, we observed higher than expected loss emergence in several casualty classes as follows:

- U.S. Workers' Compensation 9 percent greater than expected

- U.S. Excess Casualty 22 percent greater than expected

- U.S. Other Casualty – Primary general liability 21 percent greater than expected

- U.S. Other Casualty – Primary Commercial Auto Liability 14 percent greater than expected

- U.S. Other Casualty – Medical Malpractice 16 percent greater than expected

Our analyses and conclusions about prior year reserves also help inform our judgments about the current accident year loss and loss adjustment expense ratios we select. In 2016, we increased our selections in the third quarter and again in the fourth quarter. The effect of these increases on year-to-date premiums resulted in a $700 million increase in net losses incurred.

In the tables below, we present prior year development in accident year groupings of 2005 and prior, 2006 – 2010 and 2011 – 2015. The grouping 2005 and prior represents the period ending with the 2005 restatement of our consolidated financial statements. The period 2006 – 2010 includes the years leading up to and immediately following the financial crisis. The period in 2011 – 2015 includes the periods during which we completed the recapitalization of AIG and began exiting U.S. Government ownership which was completed in 2012.

See Note 13 to the Consolidated Financial Statements for further details of prior year development by line of business. See also Critical Accounting Estimates for a discussion of actuarial methods employed for major classes of business.

The following graphs summarize incurred (favorable) or unfavorable prior year development net of reinsurance, by accident year groupings (in millions):

Net Loss Development by Accident Years

For 2016, the adverse prior year development was primarily driven by:

- **Accident years 2011 to 2015** – adverse development of $3.1 billion were primarily driven by U.S. Other Casualty (commercial automobile liability, general liability and medical malpractice), U.S. Excess Casualty, U.S. Workers' Compensation, and U.S. Special Risks programs business. As discussed more fully in Note 13 to the Consolidated Financial Statements these lines experienced adverse actual versus expected loss activity and higher loss trends, and we responded by increasing our expected loss development tail factors.

- **Accident years 2006 to 2010** – adverse development of $1.4 billion were driven by increases in large losses in U.S. Financial Lines and increases in U.S. Workers' Compensation loss development factors.

- **Accident years 2005 and prior** – adverse development of $1.3 billion was driven by increased loss development factors in U.S. Workers' Compensation and U.S. Other Casualty general liability.

For 2015, the adverse prior year development was primarily driven by:

- **Accident years 2011 to 2014** – adverse development of $1.6 billion was driven by significantly higher actual versus expected loss emergence. We responded by increasing expected loss ratios for U.S. Excess Casualty, U.S. Other Casualty, International Liability and Financial Lines and U.S. Workers' Compensation. In addition, our updated assumptions for bad-faith claims and unallocated loss adjustment expenses disproportionately impacted these years.

- **Accident years 2006 to 2010** – adverse development of $846 million were largely impacted by updated loss development selections in U.S. Financial Lines and revised estimates on expected future recoveries from risk-sharing policies in the U.S. Workers' Compensation business.

- **Accident years 2005 and prior** – adverse development of $1.7 billion was driven by U.S. Excess Casualty revised tail factor selections, updated loss development selections for various U.S. Run-off Casualty Insurance Lines, including updated industry experience for asbestos and revised estimates on expected future recoveries from risk-sharing policies.

For 2014, the adverse prior year development was primarily driven by:

- **Accident years 2011 to 2013** – favorable development of $305 million were driven by U.S. Financial Lines, U.S. Property and Special Risks and U.S., Europe and Japan Personal Insurance.

- **Accident years 2006 to 2010** – adverse development of $2 million were driven by U.S. Financial lines and U.S. Excess Casualty.

- **Accident years 2005 and prior** – adverse development of $1.0 billion was driven by the U.S. Excess Casualty results of the mass-tort segmentation analysis, the updated U.S. Workers' Compensation development selections (principally in California, New York and the excess of deductible segments) as well as the U.S. Run-Off Casualty Insurance Lines pollution products business (1987-2004) and the asbestos and environmental (1986 and prior) exposure.

For certain categories of claims (e.g., construction defect claims and environmental claims) and for reinsurance recoverable, losses may sometimes be reclassified to an earlier or later accident year as more information about the date of occurrence becomes available to us. These reclassifications are shown as development in the respective years in the tables above. This may affect the comparability of the data presented in our tables.

Significant New Reinsurance Agreements

Effective January 1, 2016, we entered into a two-year reinsurance arrangement with the Swiss Reinsurance Company Ltd, under which we ceded a proportional share of our new and renewal U.S. Casualty portfolio in order to reduce the concentration of casualty business in our portfolio.

On January 20, 2017, we entered into an adverse development reinsurance agreement with NICO, a subsidiary of Berkshire Hathaway Inc., under which we transferred to NICO 80 percent of the reserve risk on substantially all of our U.S. Commercial long-tail exposures for accident years 2015 and prior. Under this agreement, we ceded to NICO 80 percent of the paid losses on subject business paid on or after January 1, 2016 in excess of $25 billion of net paid losses, up to an aggregate limit of $25 billion. At NICO's 80 percent share, NICO's limit of liability under the contract is $20 billion. We will account for this transaction as retroactive reinsurance. The consideration for this agreement is $9.8 billion plus interest at 4 percent per annum from January 1, 2016 to date of payment, which was paid in full as of February 17, 2017. The consideration paid to NICO will be placed into a collateral trust account as security for NICO's claim payment obligations, and Berkshire Hathaway Inc. has provided a parental guarantee to secure the obligations of NICO under the agreement.

The following table calculates the amount of the deferred gain expected to be recorded in the first quarter of 2017, on a nominal and net basis and showing the effect of discounting of loss reserves, using the reserve position of December 31, 2016. The stated effective date of the agreement is January 1, 2016, and therefore losses paid on subject business during 2016 are included in the calculation. The deferred gain will be amortized over the settlement period of the reinsured losses.

(in billions)	Nominal	Discount	Net
Subject reserve, December 31, 2016	$ 33.5	$ (2.0)	$ 31.5
Subject losses paid in 2016	7.5	-	7.5
Total subject losses	41.0	(2.0)	39.0
Subject losses below the attachment point	25.0	(0.1)	24.9
Total subject losses above attachment point	16.0	(1.9)	14.1
Ceded reserves, December 31, 2016, at 80%	12.8	(1.5)	11.3
Consideration, including accrued interest through closing	10.2	-	10.2
Pre-tax gain at inception, deferred	$ 2.6	$ (1.5)	$ 1.1

The lines of business subject to this agreement have been the source of substantially all of the prior year adverse development charges over the past several years. The agreement is expected to result in lower capital charges for reserve risks at our U.S. insurance subsidiaries. Under U.S. GAAP, any potential future prior year development would be recognized immediately as losses are incurred; however, the related recoveries under the reinsurance agreement would be deferred and recognized over the expected recovery period. In addition, we would expect future net investment income to decline as a result of lower invested assets.

See Item 7. MD&A – Enterprise Risk Management – Insurance Operations Risks – Property Casualty Insurance Companies Key Insurance Risks – Reinsurance Recoverable for a summary of significant reinsurers.

LIFE AND ANNUITY reserves and dac

The following section provides discussion of life and annuity reserves and deferred policy acquisition costs.

Update of Actuarial Assumptions

The Life Insurance Companies review and update estimated gross profit assumptions used to amortize DAC and related items for investment-oriented products at least annually. Estimated gross profit assumptions include net investment income and spreads, net realized capital gains and losses, fees, surrender charges, expenses, and mortality gains and losses. If the assumptions used for estimated gross profits change significantly, DAC and related reserves (which may include VOBA, SIA, guaranteed benefit reserves and unearned revenue reserves) are recalculated using the new assumptions, and any resulting adjustment is included in income. Updating such assumptions may result in acceleration of amortization in some products and deceleration of amortization in other products. The update of actuarial assumptions in 2016, 2015 and 2014 also included adjustments to reserves for universal life with secondary guarantees.

The update of actuarial assumptions in 2016, 2015 and 2014 included adjustments for products now reported in the Legacy Portfolio, primarily loss recognition expense related to pre-2010 payout annuities and certain long-term care products. Assumptions related to investment yields, mortality experience and expenses for long-duration traditional products are reviewed periodically and updated as appropriate, which could result in additional loss recognition reserves.

The update of actuarial assumptions in 2016, 2015 and 2014 included adjustments to the valuation of variable annuity GMWB features that are accounted for as embedded derivatives and measured at fair value, which are primarily in Variable Annuities and Group Retirement products. Changes in the fair value of such embedded derivatives are recorded in net realized capital gains (losses) and, together with related DAC adjustments and fair value changes in the GMWB hedging portfolio, are excluded from pre-tax operating income. See Note 5 to the Consolidated Financial Statements for more information on the measurement of fair value for GMWB embedded derivatives, and Variable Annuity Guaranteed Benefit and Hedging Results for additional discussion of the assumption updates for variable annuity GMWB.

The following table presents the increase (decrease) in pre-tax operating income resulting from the update of actuarial assumptions for the domestic life insurance companies, by segment and product line:

Years Ended December 31, *(in millions)*	2016	2015	2014
Consumer Insurance:			
Individual Retirement:			
Fixed Annuities	$ 330	$ 92	$ 196
Variable and Index Annuities	39	-	4
Total Individual Retirement	369	92	200
Group Retirement	(47)	48	46
Life Insurance	(92)	(118)	(32)
Total Consumer Insurance	230	22	214
Legacy Portfolio	(614)	(28)	(85)
Total increase (decrease) in pre-tax operating income from update of assumptions	$ (384)	$ (6)	$ 129

The following table presents the increase (decrease) in pre-tax income resulting from the update of actuarial assumptions in the domestic life insurance companies, by line item as reported in Results of Operations:

Years Ended December 31, *(in millions)*	2016	2015	2014
Policy fees	$ (54)	$ 21	$ 27
Interest credited to policyholder account balances	65	74	90
Amortization of deferred policy acquisition costs	325	79	181
Policyholder benefits and losses incurred	(720)	(180)	(169)
Increase (decrease) in pre-tax operating income	(384)	(6)	129
Change in DAC related to net realized capital gains (losses)	13	11	(12)
Net realized capital gains (losses)	(56)	(2)	51
Increase (decrease) in pre-tax income	$ (427)	$ 3	$ 168

In 2016, pre-tax operating income included a net negative adjustment of $384 million, primarily driven by $622 million of loss recognition reserves for pre-2010 payout annuities in the Legacy Portfolio, and an increase in Life Insurance reserves for universal life with secondary guarantees. These negative adjustments were partially offset by positive adjustments, primarily lower surrender assumptions in Fixed Annuities.

In 2015, pre-tax operating income in the aggregate was reduced by $6 million as a result of the update of actuarial assumptions. This aggregate net adjustment of $6 million included a net negative adjustment of $118 million in Life Insurance, which was offset in large part by net positive adjustments of $92 million in Fixed Annuities and $48 million in Group Retirement.

In 2014, pre-tax operating income in the aggregate was increased by $129 million as a result of the update of assumptions, primarily due to net positive adjustments related to investment spread assumptions in the Fixed Annuities and Group Retirement businesses, partially offset by loss recognition for long-term care business in the Legacy Portfolio and additions to reserves for universal life with secondary guarantees in Life Insurance.

The adjustments related to the update of actuarial assumptions in each period are discussed by business module below.

Update of Actuarial Assumptions by Business Module

Individual Retirement

The update of actuarial assumptions resulted in net positive adjustments to pre-tax operating income of Individual Retirement of $369 million, $92 million and $200 million in 2016, 2015 and 2014, respectively.

In Fixed Annuities, the update of estimated gross profit assumptions resulted in a net positive adjustment of $330 million in 2016, which reflected lower surrender assumptions, primarily due to lower long-term interest rates, as well as updates to investment yield and crediting rate assumptions compared to those previously modeled. In 2015, the update of estimated gross profit assumptions in Fixed Annuities resulted in a net positive adjustment of $92 million, which reflected refinements to investment spread assumptions, lower terminations than previously assumed and decreases to expense assumptions. In 2014, a net positive adjustment of $196 million in Fixed Annuities was primarily due to better spreads than previously assumed.

In Variable and Index Annuities, the update of estimated gross profit assumptions resulted in a net positive adjustment of $39 million in 2016, primarily due to favorable updates to assumptions for long-term volatility, surrenders, mortality and policy expenses, partially offset by a decrease in the separate account long-term asset growth rate assumption from 8.5 percent to 7.5 percent (before expenses that reduce the asset base from which future fees are projected). The net positive adjustment in 2016 included a net negative adjustment of approximately $24 million in connection with the conversion to a more robust modeling platform for variable annuities, primarily due to refinements to assumptions for guaranteed minimum interest rates and investment fees, partially offset by the impact of other refinements identified during the conversion. In 2015, there were offsetting updates to assumed investment fees, modeled expenses, and terminations, resulting in no net adjustment to pre-tax operating income in Variable and Index Annuities compared to a $4 million net positive adjustment in 2014, which reflected the update of estimated gross profit assumptions.

Group Retirement

In Group Retirement, the update of estimated gross profit assumptions resulted in a net negative adjustment of $47 million in 2016, primarily due to refinements in surrender and partial withdrawal assumptions and a decrease in the separate account long-term asset growth rate assumption from 8.5 percent to 7.5 percent (before expenses that reduce the asset base from which future fees are projected). In 2015, a net positive adjustment from the update of estimated gross profit assumptions of $48 million in Group Retirement was primarily due to revisions to mortality and surrender assumptions, partially offset by decreased spread assumptions. In 2014, a net positive adjustment of $46 million in Group Retirement was primarily due to more favorable assumptions for investment spreads and surrenders than previously assumed.

Life Insurance

In Life Insurance, the update of actuarial assumptions resulted in a net negative adjustment of $92 million in 2016. This adjustment was primarily due to refinement to reserves for universal life insurance with secondary guarantees due to lower assumed surrender rates. The update to Life Insurance assumptions also included lower yield and interest credited assumptions.

In 2015, the net negative adjustment of $118 million related to the update of actuarial assumptions in Life Insurance was primarily due to lower assumed surrender rates for certain later-duration universal life with secondary guarantees. The net negative adjustment also reflected lower investment spread assumptions, partially offset by more favorable than expected mortality.

A net negative adjustment of $32 million in Life Insurance in 2014 was primarily due to additions to reserves for universal life with secondary guarantees, as a result of lower investment spread and mortality assumptions which, while higher than previously assumed, were still within pricing assumptions.

Legacy Portfolio

The update of actuarial assumptions resulted in $622 million of loss recognition expense in 2016 on payout annuities in the Legacy Life Insurance Run-Off Lines. The loss recognition reflected the establishment of additional reserves primarily as a result of mortality experience studies, which indicated increased longevity, particularly on injured lives on a block of structured settlements underwritten prior to 2010. The mortality assumption update did not impact reserves for structured settlements and terminal funding annuities written after April 2012, which are in the Institutional Markets business.

Legacy Life Insurance Run-Off Lines recorded loss recognition expense of $28 million and $87 million to increase reserves for certain long-term care business in 2015 and 2014, respectively, which reduced pre-tax operating income in those periods. The loss recognition for both periods was primarily a result of lower future premium increase assumptions and, in 2014, lower yield assumptions.

Variable Annuity Guaranteed Benefits and Hedging Results

Our Individual Retirement and Group Retirement businesses offer variable annuity products with GMWB riders that provide guaranteed living benefit features. The liabilities for GMWB are accounted for as embedded derivatives measured at fair value. The fair value of the embedded derivatives may fluctuate significantly based on market interest rates, equity prices, credit spreads and market volatility.

In addition to risk-mitigating features in our variable annuity product design, we have an economic hedging program designed to manage market risk from GMWB, including exposures to changes in interest rates, equity prices, credit spreads and volatilities. The hedging program utilizes derivative instruments, including but not limited to equity options, futures contracts and interest rate swap and swaption contracts, as well as fixed maturity securities with a fair value election. See Enterprise Risk Management – Life Insurance Companies Key Insurance Risks – Variable Annuity Risk Management and Hedging Program for additional discussion of market risk management related to these product features.

Differences in Valuation of Embedded Derivatives and Economic Hedge Target

The variable annuity hedging program utilizes an economic hedge target, which represents an estimate of the underlying economic risks in our GMWB riders. The economic hedge target differs from the U.S. GAAP valuation of the GMWB embedded derivatives due to the following:

- The economic hedge target includes 100 percent of rider fees in present value calculations; the U.S. GAAP valuation reflects only those fees attributed to the embedded derivative such that the initial value at contract issue equals zero;

- The economic hedge target uses best estimate actuarial assumptions and excludes explicit risk margins used for U.S. GAAP valuation, such as margins for policyholder behavior, mortality, and volatility; and

- The economic hedge target excludes the non-performance or "own credit" risk adjustment (NPA) used in the U.S. GAAP valuation, which reflects a market participant's view of our claims-paying ability by incorporating an additional spread (the NPA spread) to the swap curve used to discount projected benefit cash flows. See Note 5 to the Consolidated Financial Statements for more information on our valuation methodology for embedded derivatives within policyholder contract deposits. Because the discount rate includes the NPA spread and other explicit risk margins, the U.S. GAAP valuation is generally less sensitive to movements in interest rates and other market factors, and to changes from actuarial assumption updates, than the economic hedge target.

The market value of the hedge portfolio compared to the economic hedge target at any point in time may be different and is not expected to be fully offsetting. In addition to the derivatives held in conjunction with the variable annuity hedging program, the Life Insurance Companies have cash and invested assets available to cover future claims payable under these guarantees. The primary sources of difference between the change in the fair value of the hedging portfolio and the economic hedge target include:

- Basis risk due to the variance between expected and actual fund returns, which may be either positive or negative;

- Realized volatility versus implied volatility;

- Actual versus expected changes in the hedge target driven by assumptions not subject to hedging, particularly policyholder behavior; and

- Risk exposures that we have elected not to explicitly or fully hedge.

The following table presents a reconciliation between the fair value of the U.S. GAAP embedded derivatives and the value of our economic hedge target:

December 31, *(in millions)*	**2016**	2015
Reconciliation of embedded derivatives and economic hedge target:		
Embedded derivative liability	**$ 1,777**	$ 1,234
Exclude non-performance risk adjustment (NPA)	**(3,148)**	(3,153)
Embedded derivative liability, excluding NPA	**4,925**	4,387
Adjustments for risk margins and differences in valuation	**(2,251)**	(2,449)
Economic hedge target liability	**$ 2,674**	$ 1,938

Impact on Pre-tax Income (Loss)

The impact on our pre-tax income (loss) of the variable annuity guaranteed living benefits and related hedging results include changes in the fair value of the GMWB embedded derivatives, and changes in the fair value of related derivative hedging instruments, both of which are recorded in Other realized capital gains (losses). Realized capital gains (losses), as well as net investment income from changes in the fair value of fixed maturity securities used in the hedging program, are excluded from pre-tax operating income of Individual Retirement and Group Retirement.

The change in the fair value of the embedded derivatives and the change in the value of the hedging portfolio are not expected to be fully offsetting, primarily due to the differences in valuation between the economic hedge target, the U.S. GAAP embedded derivatives, and changes in the fair value of the hedging portfolio, as discussed above. When corporate credit spreads widen, the change in the NPA spread generally reduces the fair value of the embedded derivative liabilities, resulting in a gain, and when corporate credit spreads narrow or tighten, the change in the NPA spread generally increases the fair value of the embedded derivative liabilities, resulting in a loss. In addition to changes driven by credit market-related movements in the NPA spread, the NPA balance also reflects changes in business activity and in the net amount at risk from the underlying guaranteed living benefits.

The following table presents the net increase (decrease) to consolidated pre-tax income (loss) from changes in the fair value of the GMWB embedded derivatives and related hedges, excluding related DAC amortization:

Years Ended December 31, *(in millions)*	**2016**	2015	2014
Change in fair value of embedded derivatives, excluding NPA spread	**$ 156**	$ (435)	$ (831)
Change in fair value of variable annuity hedging portfolio:			
Fixed maturity securities	**120**	(43)	260
Interest rate derivative contracts	**(194)**	343	742
Equity derivative contracts	**(919)**	(86)	(230)
Change in fair value of variable annuity hedging portfolio	**(993)**	214	772
Change in fair value of embedded derivatives excluding NPA spread, net of hedging portfolio	**(837)**	(221)	(59)
Change in fair value of embedded derivatives due to NPA spread	**(286)**	498	72
Net impact on pre-tax income (loss)	**$ (1,123)**	$ 277	$ 13

The net impact on pre-tax income from the GMWB and related hedges in 2016 (excluding related DAC amortization) was primarily driven by actuarial assumption updates to surrender and mortality assumptions. The 2015 and 2014 net impacts were primarily driven by changes in the NPA spread. In addition, the impact of rising interest rates and equity markets late in the fourth quarter of 2016 resulted in fair value losses in the hedging portfolio, which were not offset by decreases in the embedded derivative liabilities, because risk margins and other assumptions used for U.S. GAAP valuation cause the embedded derivatives to be less sensitive to changes in market rates than the hedge portfolio. The changes in the economic hedge target and the largely offsetting changes in the fair value of the hedge portfolio were primarily driven by changes in equity markets and interest rates, as discussed below.

Change in Economic Hedge Target

The increase in the economic hedge target in 2016 was primarily due to the update of actuarial assumptions offset by reductions from positive equity markets and increases in market interest rates, particularly in the fourth quarter of 2016. A decrease in market interest rates, lower equity market performance and the update of actuarial assumptions in 2015 resulted in increases in economic hedge target, which were significantly offset by changes in the value of the hedging portfolio. The increases in the economic hedge target in 2014 were primarily due to declines in interest rates and the update of actuarial assumptions, partially offset by higher equity market returns.

Change in Fair Value of the Hedging Portfolio

The changes in the fair value of the economic hedge target and, to a lesser extent, the embedded derivatives, were offset in part by the following changes in the fair value of the variable annuity hedging portfolio:

• Changes in the fair value of fixed maturity securities, for which the fair value option has been elected, are used as a capital-efficient way to economically hedge interest rate and credit spread-related risk. Effective June 30, 2015, we discontinued our U.S. Treasury bond interest rate hedging program and initiated a corporate bond hedging program, which is intended to provide the same capital efficiency as the previous U.S. Treasury bond hedging program. The change in the fair value of the corporate bond hedging program in 2016 included gains, primarily due to credit spreads tightening and decreases in market interest rates in the first nine months of 2016, partially offset by an increase in rates in the fourth quarter of 2016. The change in the fair value of the corporate bond hedging program in 2015 reflected losses, primarily due to increases in market interest rates in the first six months of 2015 and credit spreads widening. The gains in 2014 from the change in the fair value of the fixed maturities securities were due to decreases in market interest rates in 2014. The change in the fair value of the hedging bonds, which is excluded from the pre-tax operating income of the Individual Retirement and Group Retirement segments, is reported in net investment income on the Consolidated Statements of Income (Loss).

- Changes in the fair value of interest rate derivative contracts, which included swaps, swaptions and futures, resulted in net losses in 2016 as increases in rates in the fourth quarter of 2016 more than offset the impact of interest rate declines in the first nine months of 2016. The net gains in 2015 on interest rate contracts reflected decreases in market interest rates in the latter half of 2015, partially offset by the impact of increases in rates in the first six months of 2015. In 2014, rates declined throughout the year, resulting in gains from interest rate derivative contracts.

- The change in the fair value of equity derivative contracts, which included futures and options, resulted in losses in 2016, 2015 and 2014, which varied based on the relative growth in equity market returns in the respective years.

Change in NPA Spread

In 2016, tightening of credit spreads resulted in a negative impact on pre-tax income from the change in the NPA spread. In 2015, the impact of widening credit spreads resulted in a significant gain from the change in NPA spread, which was the primary driver of the net positive impact on pre-tax income, compared to a less significant gain from the change in NPA spread in 2014.

Update of Actuarial Assumptions

The change in embedded derivatives included increases in 2016 due to the update of actuarial assumptions, which primarily reflected lower surrender and mortality assumptions, partially offset by a decrease due to updated assumptions for utilization of withdrawal benefits. The impact of these updated assumptions, which were based on experience studies, was less significant to the embedded derivative liabilities than to the economic hedge target, because the discount rates used to value the embedded derivatives include the additional adjustment for the NPA spread, as well as other explicit risk margins. In addition, the increase in the embedded derivative liabilities from the assumption updates was largely offset by a reduction due to an update of these risk margins. See Update of Actuarial Assumptions for the amount of adjustments included in net capital realized gains (losses) related to the update of actuarial assumptions for GMWB.

DAC

The following table summarizes the major components of the changes in DAC, including VOBA, within the life insurance companies, excluding DAC of Institutional Markets and Legacy Portfolio:

Years Ended December 31, *(in millions)*	**2016**	2015	2014
Balance, beginning of year	**$ 7,149**	$ 5,928	$ 5,560
Acquisition costs deferred	**1,019**	1,200	988
Amortization expense:			
Update of assumptions included in pre-tax operating income	**315**	79	181
Related to realized capital gains and losses	**276**	(2)	(56)
All other operating amortization	**(924)**	(871)	(748)
Increase (decrease) in DAC due to foreign exchange	**(40)**	(11)	-
Change related to unrealized depreciation (appreciation) of investments	**(252)**	826	(340)
Other[(a)]	**-**	-	343
Balance, end of year[(b)]	**$ 7,543**	$ 7,149	$ 5,928

(a) DAC Other in 2014 represents VOBA related to the acquisition of AIG Life Limited.

(b) DAC balance excluding the amount related to unrealized depreciation (appreciation) of investments was $8.4 billion, $7.7 billion and $7.3 billion at December 31, 2016, 2015 and 2014, respectively.

The net adjustments to DAC amortization from the update of actuarial assumptions for estimated gross profits, including those reported within change in DAC related to net realized capital gains (losses), represented four percent and one percent of the DAC balance excluding the amount related to unrealized depreciation (appreciation) of investments as of December 31, 2016 and 2015, respectively.

Reversion to the Mean

In 2016, we updated the long-term annual growth assumption applied to subsequent periods used in our reversion to the mean methodology for estimating future estimated gross profits for variable annuity products, from 8.5 percent to 7.5 percent (before expenses that reduce the asset base from which future fees are projected). The five-year reversion to the mean period has not met the criteria for adjustment in 2016, 2015 or 2014; however, sustained favorable equity market performance in excess of long-term assumptions could result in unlocking in the Individual Retirement or Group Retirement variable annuity product lines in the future, with a positive effect on pre-tax income in the period of the unlocking. See Critical Accounting Estimates – Estimated Gross Profits for Investment-Oriented Products (Life Insurance Companies) for additional discussion of assumptions related to our reversion to the mean methodology.

DAC and Reserves Related to Unrealized Appreciation of Investments

DAC for universal life and investment-type products (collectively, investment-oriented products) is adjusted at each balance sheet date to reflect the change in DAC as if securities available for sale had been sold at their stated aggregate fair value and the proceeds reinvested at current yields (shadow DAC). Shadow DAC generally moves in the opposite direction of the change in unrealized appreciation of the available for sale securities portfolio, reducing the reported DAC balance when market interest rates decline. Market interest rates as of December 31, 2016 decreased compared to December 31, 2015 as a result of narrowing spreads in 2016. As a result, the unrealized appreciation of fixed maturity securities held in the Life Insurance Companies that support the Core Portfolio businesses at December 31, 2016 increased by $2.1 billion compared to December 31, 2015, which resulted in a decrease in DAC to reflect the shadow DAC adjustment.

Reserves

The following table presents a rollforward of insurance reserves for Individual Retirement, Group Retirement and Life Insurance modules, including future policy benefits, policyholder contract deposits, other policy funds, and separate account liabilities, as well as Retail Mutual Funds and Group Retirement mutual fund assets under administration:

Years Ended December 31, *(in millions)*	**2016**	2015	2014
Individual Retirement			
Balance at beginning of year, gross	**$ 121,474**	$ 115,831	$ 106,943
Premiums and deposits	**16,062**	18,376	17,324
Surrenders and withdrawals	**(10,027)**	(9,742)	(10,500)
Death and other contract benefits	**(2,991)**	(3,016)	(2,792)
Subtotal	**3,044**	5,618	4,032
Change in fair value of underlying assets and reserve accretion, net of policy fees	**3,657**	(1,775)	3,086
Cost of funds*	**1,614**	1,613	1,644
Other reserve changes	**(468)**	187	126
Balance at end of year	**129,321**	121,474	115,831
Reserves related to unrealized appreciation of investments	**-**	-	10
Reinsurance ceded	**(371)**	(336)	(341)
Total Individual Retirement insurance reserves and mutual fund assets	**$ 128,950**	$ 121,138	$ 115,500
Group Retirement			
Balance at beginning of year, gross	**$ 84,145**	$ 85,861	$ 85,254
Premiums and deposits	**7,570**	6,920	6,743
Surrenders and withdrawals	**(7,589)**	(8,505)	(10,003)
Death and other contract benefits	**(536)**	(506)	(491)
Subtotal	**(555)**	(2,091)	(3,751)
Change in fair value of underlying assets and reserve accretion, net of policy fees	**3,923**	(657)	3,213
Cost of funds*	**1,109**	1,106	1,130
Other reserve changes	**-**	(74)	15
Balance at end of year	**88,622**	84,145	85,861
Reserves related to unrealized appreciation of investments	**-**	-	-
Reinsurance ceded	**-**	-	-
Total Group Retirement insurance reserves and mutual fund assets	**$ 88,622**	$ 84,145	$ 85,861

Life Insurance			
Balance at beginning of year, gross	**$ 18,006**	$ 17,464	$ 17,136
Premiums and deposits	**3,391**	3,353	3,157
Surrenders and withdrawals	**(650)**	(440)	(488)
Death and other contract benefits	**(522)**	(577)	(522)
Subtotal	**2,219**	2,336	2,147
Change in fair value of underlying assets and reserve accretion, net of policy fees	**(1,033)**	(1,026)	(948)
Cost of funds*	**386**	394	405
Other reserve changes	**(1,181)**	(1,162)	(1,276)
Balance at end of year	**18,397**	18,006	17,464
Reserves related to unrealized appreciation of investments	**-**	-	-
Reinsurance ceded	**(1,085)**	(1,121)	(1,000)
Total Life Insurance reserves	**$ 17,312**	$ 16,885	$ 16,464
Total insurance reserves and mutual fund assets			
Balance at beginning of year, gross	**$ 223,625**	$ 219,156	$ 209,333
Premiums and deposits	**27,023**	28,649	27,224
Surrenders and withdrawals	**(18,266)**	(18,687)	(20,991)
Death and other contract benefits	**(4,049)**	(4,099)	(3,805)
Subtotal	**4,708**	5,863	2,428
Change in fair value of underlying assets and reserve accretion, net of policy fees	**6,547**	(3,458)	5,351
Cost of funds*	**3,109**	3,113	3,179
Other reserve changes	**(1,649)**	(1,049)	(1,135)
Balance at end of year	**236,340**	223,625	219,156
Reserves related to unrealized appreciation of investments	**-**	-	10
Reinsurance ceded	**(1,456)**	(1,457)	(1,341)
Total insurance reserves and mutual fund assets	**$ 234,884**	$ 222,168	$ 217,825

* Excludes amortization of deferred sales inducements

Insurance reserves of Individual Retirement, Group Retirement and Life Insurance modules, and Retail Mutual Funds and Group Retirement mutual fund assets under administration, were comprised of the following balances:

At December 31, *(in millions)*	**2016**	2015
Future policy benefits	**$ 7,380**	$ 6,945
Policyholder contract deposits	**119,644**	115,575
Other policy funds	**378**	398
Separate account liabilities	**76,619**	72,972
Total insurance reserves	**204,021**	195,890
Mutual fund assets	**32,319**	27,735
Total insurance reserves and mutual fund assets	**$ 236,340**	$ 223,625

Liquidity and Capital Resources

Overview

Liquidity refers to the ability to generate sufficient cash resources to meet our payment obligations. It is defined as cash and unencumbered assets that can be monetized in a short period of time at a reasonable cost. We manage our liquidity prudently through various risk committees, policies and procedures, and a stress testing and liquidity risk framework established by Enterprise Risk Management (ERM). Our liquidity risk framework is designed to manage liquidity at both AIG Parent and subsidiaries to meet our financial obligations for a minimum of six-months under a liquidity stress scenario. See Enterprise Risk Management — Risk Appetite, Limits, Identification, and Measurement and Enterprise Risk Management — Liquidity Risk Management below for additional information.

Capital refers to the long-term financial resources available to support the operation of our businesses, fund business growth, and cover financial and operational needs that arise from adverse circumstances. Our primary source of ongoing capital generation is the profitability of our insurance subsidiaries. We must comply with numerous constraints on our minimum capital positions. These constraints drive the requirements for capital adequacy for both AIG and the individual businesses and are based on internally-defined risk tolerances, regulatory requirements, rating agency and creditor expectations and business needs. Actual capital levels are monitored on a regular basis, and using ERM's stress testing methodology, we evaluate the capital impact of potential macroeconomic, financial and insurance stresses in relation to the relevant capital constraints of both AIG and our insurance subsidiaries.

We believe that we have sufficient liquidity and capital resources to satisfy future requirements and meet our obligations to policyholders, customers, creditors and debt-holders, including those arising from reasonably foreseeable contingencies or events.

Nevertheless, some circumstances may cause our cash or capital needs to exceed projected liquidity or readily deployable capital resources as was the case in 2008. Additional collateral calls, deterioration in investment portfolios or reserve strengthening affecting statutory surplus, higher surrenders of annuities and other policies, downgrades in credit ratings, or catastrophic losses may result in significant additional cash or capital needs and loss of sources of liquidity and capital. In addition, regulatory and other legal restrictions could limit our ability to transfer funds freely, either to or from our subsidiaries.

Depending on market conditions, regulatory and rating agency considerations and other factors, we may take various liability and capital management actions. Liability management actions may include, but are not limited to, repurchasing or redeeming outstanding debt, issuing new debt or engaging in debt exchange offers. Capital management actions may include, but are not limited to, paying dividends to our shareholders and share repurchases.

LIQUIDITY AND CAPITAL RESOURCES ACTIVITY FOR 2016

Sources

AIG Parent Funding from Subsidiaries

During 2016, AIG Parent received $7.5 billion in dividends and loan repayments from subsidiaries. Of this amount, $2.2 billion was dividends in the form of cash and fixed maturity securities from our Property Casualty Insurance Companies, $4.7 billion was dividends and loan repayments in the form of cash and fixed maturity securities from our Life Insurance Companies and $571 million was dividends in the form of cash and fixed maturity securities from UGC.

AIG Parent also received a net amount of $1.6 billion in tax sharing payments in the form of cash and fixed maturity securities from our insurance businesses in 2016, reflecting $608 million that was reimbursed by AIG Parent to our insurance businesses during the fourth quarter of 2016 as a result of adjustments made to prior-year tax sharing payments. The tax sharing payments may continue to be subject to adjustment in future periods.

The dividends and tax sharing payments from our Property Casualty Companies and Life Insurance Companies were funded, in part, by proceeds from the sale of 740 million ordinary H shares of PICC Property & Casualty Company Limited for approximately $1.25 billion in May 2016 and by the sale of AIG Advisor Group in May 2016.

Debt Issuances

In February 2016, we issued $1.5 billion aggregate principal amount of 3.300% Notes due 2021.

In March 2016, we issued $1.5 billion aggregate principal amount of 3.900% Notes due 2026.

In June 2016, we issued €750 million aggregate principal amount of 1.500% Notes due 2023.

UGC Sale

In December 2016, we received proceeds from the sale of our 100 percent interest in UGC and certain related affiliates to Arch for total consideration of approximately $3.3 billion, consisting of $2.2 billion of cash, and approximately $1.1 billion of newly issued Arch convertible non-voting common-equivalent preferred stock.

Legacy Investments

During 2016, we generated approximately $3.6 billion in return of capital from Legacy Investments.

Uses

Debt Reduction

In March 2016, we repurchased, through a cash tender offer, approximately $736 million aggregate principal amount of certain notes and debentures issued or guaranteed by AIG for an aggregate purchase price of approximately $825 million.

We also made other repurchases and repayments of approximately $3.5 billion during 2016. AIG Parent made interest payments on our debt instruments totaling $975 million during 2016.

Dividend

We paid a cash dividend of $0.32 per share on AIG Common Stock during each quarter of 2016.

Repurchase of Common Stock*

We repurchased approximately 201 million shares of AIG Common Stock during 2016, for an aggregate purchase price of approximately $11.5 billion.

Repurchase of Warrants

We repurchased approximately 17 million warrants to purchase shares of AIG Common Stock during 2016 for an aggregate purchase price of approximately $309 million.

AIG Parent Funding to Subsidiaries

In January 2016, AIG Parent made a capital contribution of approximately $2.9 billion to our Property Casualty Insurance Companies.

* Under Exchange Act Rule 10b5-1 repurchase plans, from January 1 to February 14, 2017, we repurchased approximately $1.2 billion of additional shares of AIG Common Stock. As of February 14, 2017, approximately $4.7 billion remained under our share repurchase authorization.

Analysis of Sources and Uses of Cash

The following table presents selected data from AIG's Consolidated Statements of Cash Flows:

Years Ended December 31, *(in millions)*	2016	2015	2014*
Sources:			
Net cash provided by operating activities	$ 2,383	$ 2,877	$ 5,007
Net cash provided by changes in restricted cash	385	1,457	-
Net cash provided by other investing activities	4,359	7,005	15,731
Changes in policyholder contract balances	4,059	2,410	1,719
Issuance of long-term debt	5,954	6,867	6,687
Net cash provided by other financing activities	377	818	-
Total sources	17,517	21,434	29,144
Uses:			
Change in restricted cash	-	-	(1,447)
Change in policyholder contract balances	-	-	-
Repayments of long-term debt	(4,082)	(9,805)	(16,160)
Purchases of AIG Common Stock	(11,460)	(10,691)	(4,902)
Dividends paid	(1,372)	(1,028)	(712)
Purchases of warrants	(309)	-	-
Net cash provided by other financing activities	-	-	(6,420)
Total uses	(17,223)	(21,524)	(29,641)
Effect of exchange rate changes on cash	52	(39)	(74)
Increase (decrease) in cash	$ 346	$ (129)	$ (571)

* For 2014, cash decreased by $162 million due to reclassification of $289 million to restricted cash presented in Other assets, partially offset by a $127 million reclassification from Short-term investments, to correct prior period presentation.

The following table presents a summary of AIG's Consolidated Statement of Cash Flows:

Years Ended December 31, *(in millions)*	2016	2015	2014
Summary:			
Net cash provided by operating activities	$ 2,383	$ 2,877	$ 5,007
Net cash provided by investing activities	4,744	8,462	14,284
Net cash used in financing activities	(6,833)	(11,429)	(19,788)
Effect of exchange rate changes on cash	52	(39)	(74)
Increase (decrease) in cash	346	(129)	(571)
Cash at beginning of year	1,629	1,758	2,241
Change in cash of businesses held for sale	(107)	-	88
Cash at end of year	$ 1,868	$ 1,629	$ 1,758

Operating Cash Flow Activities

Insurance companies generally receive most premiums in advance of the payment of claims or policy benefits. The ability of insurance companies to generate positive cash flow is affected by the frequency and severity of losses under their insurance policies, policy retention rates and operating expenses.

Interest payments totaled $1.3 billion in 2016 compared to $1.4 billion in 2015 and $3.4 billion in 2014. Excluding interest payments, AIG generated positive operating cash flow of $3.7 billion in 2016 compared to $4.2 billion and $8.4 billion in 2015 and 2014, respectively.

Investing Cash Flow Activities

Net cash provided by investing activities in 2016 included approximately $2.8 billion of net cash proceeds from the sale of UGC, Ascot and AIG Advisor Group. Net cash provided by investing activities for 2015 included approximately $4.2 billion of net cash proceeds from the sale of ordinary shares of AerCap. Net cash provided by investing activities in 2014 included a reduction in net investment purchase activity and approximately $2.4 billion of net cash proceeds from the sale of ILFC.

Financing Cash Flow Activities

Net cash used in financing activities in 2016 included:

- approximately $1.4 billion in the aggregate to pay a dividend of $0.32 per share on AIG Common Stock in each quarter of 2016;
- approximately $11.5 billion to repurchase approximately 201 million shares of AIG Common Stock;
- approximately $309 million to repurchase approximately 17 million warrants to purchase shares of AIG Common Stock; and
- approximately $4.1 billion to repay long-term debt.

These items were partially offset by approximately $6.0 billion in proceeds from the issuance of long-term debt.

Net cash used in financing activities in 2015 included:

- approximately $1.0 billion in the aggregate to pay a dividend of $0.125 per share on AIG Common Stock in each of the first and second quarters of 2015 and $0.28 per share on AIG Common Stock in each of the third and fourth quarters of 2015;
- approximately $10.7 billion to repurchase approximately 182 million shares of AIG Common Stock; and
- approximately $9.9 billion to repay long-term debt.

These items were partially offset by approximately $6.9 billion in proceeds from the issuance of long-term debt.

Net cash used in financing activities for 2014 included:

- approximately $712 million in the aggregate to pay dividends of $0.125 per share on AIG Common Stock in each quarter of 2014;

- approximately $4.9 billion to repurchase approximately 88 million shares of AIG Common Stock;
- approximately $271 million to repay long-term debt of business held-for-sale; and
- approximately $16.2 billion to repay long-term debt.

Liquidity and Capital Resources of AIG Parent and Subsidiaries

AIG Parent

As of December 31, 2016, AIG Parent had approximately $12.9 billion in liquidity sources. AIG Parent's liquidity sources are primarily held in the form of cash, short-term investments and publicly traded, investment grade rated fixed maturity securities. Fixed maturity securities primarily include U.S. government and government sponsored entity securities, U.S. agency mortgage-backed securities, corporate and municipal bonds and certain other highly rated securities. AIG Parent actively manages its assets and liabilities in terms of products, counterparties and duration. Based upon an assessment of funding needs, the liquidity sources can be readily monetized through sales, repurchase agreements or contributed as admitted assets to regulated insurance companies. AIG Parent liquidity is monitored through the use of various internal liquidity risk measures. AIG Parent's primary sources of liquidity are dividends, distributions, loans and other payments from subsidiaries and credit facilities. AIG Parent's primary uses of liquidity are for debt service, capital and liability management, and operating expenses.

We believe that we have sufficient liquidity and capital resources to satisfy our reasonably foreseeable future requirements and meet our obligations to our creditors, debt-holders and insurance company subsidiaries. We expect to access the debt markets from time to time to meet funding requirements as needed.

We utilize our capital resources to support our businesses, with the majority of capital allocated to our insurance operations. Should we have or generate more capital than is needed to support our business strategies (including organic growth or acquisition opportunities) or mitigate risks inherent to our business, we may develop plans to distribute such capital to shareholders via dividends or share repurchase authorizations or deploy such capital towards liability management.

In the normal course, it is expected that a portion of the capital released by our insurance operations or through the utilization of AIG's deferred tax assets may be available for distribution to shareholders. Additionally, it is expected that a portion of the capital associated with businesses or investments that do not directly support our insurance operations may be available for distribution to shareholders or deployment towards liability management upon its monetization.

In developing plans to distribute capital, AIG considers a number of factors, including, but not limited to: AIG's business and strategic plans, expectations for capital generation and utilization, AIG's funding capacity and capital resources in comparison to internal benchmarks, as well as rating agency expectations, regulatory standards and internal stress tests for capital.

In January 2016, AIG Parent made a capital contribution of approximately $2.9 billion to our Property Casualty Insurance Companies as a result of our fourth quarter 2015 reserve strengthening.

The following table presents AIG Parent's liquidity sources:

(In millions)	**As of December 31, 2016**	As of December 31, 2015
Cash and short-term investments[(a)]	**$ 3,950**	$ 3,497
Unencumbered fixed maturity securities[(b)]	**4,470**	5,723
Total AIG Parent liquidity	**8,420**	9,220
Available capacity under syndicated credit facility[(c)]	**4,500**	4,500
Total AIG Parent liquidity sources	**$ 12,920**	$ 13,720

(a) Cash and short-term investments include reverse repurchase agreements totaling $1.0 billion and $1.5 billion as of December 31, 2016 and 2015, respectively.

(b) Unencumbered securities consist of publicly traded, investment grade rated fixed maturity securities. Fixed maturity securities primarily include U.S. government and government sponsored entity securities, U.S. agency mortgage-backed securities, corporate and municipal bonds and certain other highly rated securities.

(c) For additional information relating to this syndicated credit facility, see Credit Facilities below.

Insurance Companies

We expect that our insurance companies will be able to continue to satisfy reasonably foreseeable future liquidity requirements and meet their obligations, including those arising from reasonably foreseeable contingencies or events, through cash from operations and, to the extent necessary, monetization of invested assets. Our insurance companies' liquidity resources are primarily held in the form of cash, short-term investments and publicly traded, investment grade rated fixed maturity securities.

Each of our material insurance companies' liquidity is monitored through various internal liquidity risk measures. The primary sources of liquidity are premiums, fees, reinsurance recoverables and investment income. The primary uses of liquidity are paid losses, reinsurance payments, benefit claims, surrenders, withdrawals, interest payments, dividends, expenses, investments and collateral requirements.

Our Property Casualty Insurance Companies may require additional funding to meet capital or liquidity needs under certain circumstances. Large catastrophes may require us to provide additional support to our affected operations. Downgrades in our credit ratings could put pressure on the insurer financial strength ratings of our subsidiaries, which could result in non renewals or cancellations by policyholders and adversely affect the subsidiary's ability to meet its own obligations. Increases in market interest rates may adversely affect the financial strength ratings of our subsidiaries, as rating agency capital models may reduce the amount of available capital relative to required capital. Other potential events that could cause a liquidity strain include an economic collapse of a nation or region significant to our operations, nationalization, catastrophic terrorist acts, pandemics or other events causing economic or political upheaval.

AIG Parent and Ascot Corporate Name Limited (ACNL) were previously parties to a $725 million letter of credit facility. The letter of credit facility was released at the closing of AIG's sale of its interest in Ascot Underwriting Holdings Ltd. and ACNL in November 2016.

Management believes that because of the size and liquidity of our Life Insurance Companies' investment portfolios, normal deviations from projected claim or surrender experience would not create significant liquidity risk. Furthermore, our Life Insurance Companies' products contain certain features that mitigate surrender risk, including surrender charges. However, as we saw in 2008, in times of extreme capital markets disruption, liquidity needs could outpace resources. As part of their risk management framework, our Life Insurance Companies continue to evaluate and, where appropriate, pursue strategies and programs to improve their liquidity position and facilitate their ability to maintain a fully invested asset portfolio.

Certain of our U.S. insurance companies are members of the Federal Home Loan Banks (FHLBs) in their respective districts. Borrowings from the FHLBs are used to supplement liquidity or for other uses deemed appropriate by management. Our U.S. Property Casualty Insurance Companies had outstanding borrowings from the FHLBs in an aggregate amount of approximately $733 million and zero at December 31, 2016 and 2015, respectively. 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. Our U.S. Life Insurance Companies had outstanding borrowings from the FHLBs in an aggregate amount of approximately $2 million at both December 31, 2016 and 2015. In addition to these borrowings outstanding at December 31, 2016, $429 million was due to the FHLB of Dallas under funding agreements issued by our Institutional Markets business in 2016, which were reported in Policyholder contract deposits.

Certain of our U.S. Life Insurance Companies have programs, which began in 2012, that lend securities from their investment portfolio to supplement liquidity or for other uses as deemed appropriate by management. Under these programs, these U.S. Life Insurance Companies lend securities to financial institutions and receive cash as collateral equal to 102 percent of the fair value of the loaned securities. Cash collateral received is invested in short-term investments. Additionally, the aggregate amount of securities that a Life Insurance Company is able to lend under its program at any time is limited to five percent of its general account statutory-basis admitted assets. At December 31, 2016 and 2015, our U.S. Life Insurance Companies had $2.4 billion and $1.1 billion, respectively, of securities subject to these agreements and $2.5 billion and $1.1 billion, respectively, of liabilities to borrowers for collateral received.

AIG generally manages capital between AIG Parent and our insurance companies through internal, Board-approved policies and limits, as well as management standards. In addition, AIG Parent has unconditional capital maintenance agreements (CMAs) in place with certain subsidiaries. Nevertheless, regulatory and other legal restrictions could limit our ability to transfer capital freely, either to or from our subsidiaries.

AIG Parent is party to a CMA with AGC Life Insurance Company. Among other things, the CMA provides that AIG Parent will maintain the total adjusted capital of AGC Life Insurance Company at or above a specified minimum percentage of its projected NAIC Company Action Level Risk-Based Capital (RBC). As of December 31, 2016, the specified minimum percentage under this CMA was 250 percent. AIG Parent terminated the CMA with United Guaranty Residential Insurance Company in connection with the December 2016 closing of the sale of UGC.

During 2016, we created a new Switzerland-domiciled international holding company, AIG International Holdings, GmbH (AIGIH), that is intended to be the ultimate holding company for all of our international entities. This new international holding company structure is part of our ongoing efforts to simplify our organizational structure, and is expected to facilitate the optimization of our international capital strategy from both a regulatory and tax perspective. Through February 14, 2017, the following international operations have been transferred to AIGIH: Europe, Canada, Asia Pacific (excluding Japan) and Latin America/Caribbean.

In 2016, our Property Casualty Insurance Companies paid approximately $2.2 billion in dividends in the form of cash and fixed maturity securities to AIG Parent. The fixed maturity securities primarily included U.S. government and government-sponsored entity securities, U.S. agency mortgage-backed securities, corporate and municipal bonds and certain other highly rated securities.

In 2016, our U.S. Life Insurance Companies paid approximately $4.7 billion of dividends and loan repayments in the form of cash and fixed maturity securities to AIG Parent, which included the release of approximately $1.0 billion of excess statutory capital resulting from a reinsurance agreement entered into by one of the Life Insurance Companies involving certain of its whole life and universal life businesses, effective July 1, 2016. The fixed maturity securities primarily included U.S. government and government sponsored entity securities, U.S. agency mortgage-backed securities, corporate and municipal bonds and certain other highly rated securities. The reinsurance agreement also resulted in a $49 million tax payment to AIG Parent. Effective December 31, 2016, the same life subsidiary recaptured certain term and universal life reserves previously ceded to an affiliate and ceded approximately $14 billion of such statutory reserves to an unaffiliated reinsurer under an amendment to the July 1, 2016 agreement, which is expected to result in a tax payment to AIG Parent of approximately $2.3 billion in 2017.

In 2016, UGC paid approximately $571 million in dividends in the form of cash and fixed maturity securities to AIG Parent. The fixed maturity securities primarily included U.S. government and government-sponsored entity securities, U.S. agency mortgage-backed securities, corporate and municipal bonds and certain other highly rated securities.

Credit Facilities

We maintain a committed, revolving syndicated credit facility (the Facility) as a potential source of liquidity for general corporate purposes. The Facility provides for aggregate commitments by the bank syndicate to provide unsecured revolving loans and/or standby letters of credit of up to $4.5 billion without any limits on the type of borrowings and is scheduled to expire in November 2020.

As of December 31, 2016, a total of $4.5 billion remains available under the Facility. Our ability to borrow under the Facility is not contingent on our credit ratings. However, our ability to borrow under the Facility is conditioned on the satisfaction of certain legal, operating, administrative and financial covenants and other requirements contained in the Facility. These include covenants relating to our maintenance of a specified total consolidated net worth and total consolidated debt to total consolidated capitalization. Failure to satisfy these and other requirements contained in the Facility would restrict our access to the Facility and could have a material adverse effect on our financial condition, results of operations and liquidity. We expect to borrow under the Facility from time to time, and may use the proceeds for general corporate purposes.

Contractual Obligations

The following table summarizes contractual obligations in total, and by remaining maturity:

December 31, 2016			Payments due by Period		
(in millions)	Total Payments	2017	2018 - 2019	2020 - 2021	Thereafter
Insurance operations					
Loss reserves	**$ 80,647**	$ 18,297	$ 23,150	$ 12,938	$ 26,262
Insurance and investment contract liabilities	**238,343**	15,638	27,474	25,936	169,295
Borrowings	**972**	-	-	330	642
Interest payments on borrowings	**951**	50	99	99	703
Operating leases	**960**	251	345	210	154
Other long-term obligations	**10**	3	4	2	1
Total	**$ 321,883**	$ 34,239	$ 51,072	$ 39,515	$ 197,057
Other					
Borrowings	**$ 24,834**	$ 1,426	$ 3,151	$ 3,110	$ 17,147
Interest payments on borrowings	**15,373**	1,087	1,965	1,741	10,580
Operating leases	**138**	44	44	19	31
Other long-term obligations	**201**	38	78	41	44
Total	**$ 40,546**	$ 2,595	$ 5,238	$ 4,911	$ 27,802
Consolidated					
Loss reserves	**$ 80,647**	$ 18,297	$ 23,150	$ 12,938	$ 26,262
Insurance and investment contract liabilities	**238,343**	15,638	27,474	25,936	169,295
Borrowings	**25,806**	1,426	3,151	3,440	17,789
Interest payments on borrowings	**16,324**	1,137	2,064	1,840	11,283
Operating leases	**1,098**	295	389	229	185
Other long-term obligations[a]	**211**	41	82	43	45
Total[b]	**$ 362,429**	$ 36,834	$ 56,310	$ 44,426	$ 224,859

(a) Primarily includes contracts to purchase future services and other capital expenditures.

(b) Does not reflect unrecognized tax benefits of $4.5 billion, the timing of which is uncertain.

Loss Reserves

Loss reserves relate to our Property Casualty Insurance Companies and represent estimates of future loss and loss adjustment expense payments estimated based on historical loss development payment patterns. Due to the significance of the assumptions used, the payments by period presented above could be materially different from actual required payments. We believe that our Property Casualty Insurance Companies maintain adequate financial resources to meet the actual required payments under these obligations.

Insurance and Investment Contract Liabilities

Insurance and investment contract liabilities, including GIC liabilities, relate to our Life Insurance Companies. These liabilities include various investment-type products with contractually scheduled maturities, including periodic payments. These liabilities also include benefit and claim liabilities, of which a significant portion represents policies and contracts that do not have stated contractual maturity dates and may not result in any future payment obligations. For these policies and contracts (i) we are not currently making payments until the occurrence of an insurable event, such as death or disability, (ii) payments are conditional on survivorship or (iii) payment may occur due to a surrender or other non-scheduled event beyond our control.

We have made significant assumptions to determine the estimated undiscounted cash flows of these contractual policy benefits. These assumptions include mortality, morbidity, future lapse rates, expenses, investment returns and interest crediting rates, offset by expected future deposits and premiums on in-force policies. Due to the significance of the assumptions, the periodic amounts presented could be materially different from actual required payments. The amounts presented in this table are undiscounted and exceed the future policy benefits and policyholder contract deposits included in the Consolidated Balance Sheets.

We believe that our Life Insurance Companies have adequate financial resources to meet the payments actually required under these obligations. These subsidiaries have substantial liquidity in the form of cash and short-term investments. In addition, our Life Insurance Companies maintain significant levels of investment grade rated fixed maturity securities, including substantial holdings in government and corporate bonds, and could seek to monetize those holdings in the event operating cash flows are insufficient. We expect liquidity needs related to GIC liabilities to be funded through cash flows generated from maturities and sales of invested assets.

Borrowings

Our borrowings exclude those incurred by consolidated investments and include hybrid financial instrument liabilities recorded at fair value. We expect to repay the long-term debt maturities and interest accrued on borrowings by AIG through maturing investments and dispositions of invested assets, future cash flows from operations, cash flows generated from invested assets, future debt issuance and other financing arrangements. Borrowings supported by assets of AIG include various notes and bonds payable as well as GIAs that are supported by cash and investments held by AIG Parent and certain non-insurance subsidiaries for the repayment of those obligations.

Off-Balance Sheet Arrangements and Commercial Commitments

The following table summarizes Off-Balance Sheet Arrangements and Commercial Commitments in total, and by remaining maturity:

December 31, 2016			Amount of Commitment Expiring						
(in millions)		Total Amounts Committed		2017		2018 - 2019		2020 - 2021	Thereafter
Insurance operations									
Guarantees:									
Standby letters of credit	**$**	**148**	$	144	$	-	$	-	$ 4
Guarantees of indebtedness		**107**		80		27		-	-
All other guarantees[(a)]		**2**		-		-		2	-
Commitments:									
Investment commitments[(b)]		**3,055**		2,020		766		237	32
Commitments to extend credit		**2,729**		1,519		869		335	6
Letters of credit		**5**		5		-		-	-
Total[(c)]	**$**	**6,046**	$	3,768	$	1,662	$	574	$ 42
Other									
Guarantees:									
Liquidity facilities[(d)]	**$**	**74**	$	-	$	-	$	-	$ 74
Standby letters of credit		**140**		140		-		-	-
All other guarantees		**172**		88		21		28	35
Commitments:									
Investment commitments[(b)]		**176**		32		14		35	95
Commitments to extend credit[(e)]		**500**		-		500		-	-
Letters of credit		**24**		24		-		-	-
Total[(c)(f)]	**$**	**1,086**	$	284	$	535	$	63	$ 204
Consolidated									
Guarantees:									

Liquidity facilities[d]	**$ 74**	$ -	$ -	$ -	$ 74
Standby letters of credit	**288**	284	-	-	4
Guarantees of indebtedness	**107**	80	27	-	-
All other guarantees[a]	**174**	88	21	30	35
Commitments:					
Investment commitments[b]	**3,231**	2,052	780	272	127
Commitments to extend credit[e]	**3,229**	1,519	1,369	335	6
Letters of credit	**29**	29	-	-	-
Total[c](f)	**$ 7,132**	$ 4,052	$ 2,197	$ 637	$ 246

(a) Includes construction guarantees connected to affordable housing investments by our Life Insurance Companies. Excludes potential amounts for indemnification obligations included in asset sales agreements. See Note 10 to the Consolidated Financial Statements for further information on indemnification obligations.

(b) Includes commitments to invest in private equity funds, hedge funds and other funds and commitments to purchase and develop real estate in the United States and abroad. The commitments to invest in private equity funds, hedge funds and other funds are called at the discretion of each fund, as needed for funding new investments or expenses of the fund. The expiration of these commitments is estimated in the table above based on the expected life cycle of the related fund, consistent with past trends of requirements for funding. Investors under these commitments are primarily insurance and real estate subsidiaries.

(c) Does not include guarantees, CMAs or other support arrangements among AIG consolidated entities.

(d) Primarily represents liquidity facilities provided in connection with certain municipal swap transactions and collateralized bond obligations.

(e) Includes a five-year senior unsecured revolving credit facility of up to $500 million between AerCap Ireland Capital Limited, as borrower, and AIG Parent, as lender (the AerCap Credit Facility) scheduled to mature in May 2019. The AerCap Credit Facility permits loans for general corporate purposes. At December 31, 2016, no amounts were outstanding under the AerCap Credit Facility.

(f) Excludes commitments with respect to pension plans. The annual pension contribution for 2017 is expected to be approximately $70 million for U.S. and non-U.S. plans.

Arrangements with Variable Interest Entities

We enter into various arrangements with variable interest entities (VIEs) in the normal course of business, and we consolidate a VIE when we are the primary beneficiary of the entity. For a further discussion of our involvement with VIEs, see Note 10 to the Consolidated Financial Statements.

Indemnification Agreements

We are subject to financial guarantees and indemnity arrangements in connection with our sales of businesses. These arrangements may be triggered by declines in asset values, specified business contingencies, the realization of contingent liabilities, litigation developments, or breaches of representations, warranties or covenants provided by us. These arrangements are typically subject to time limitations, defined by contract or by operation of law, such as by prevailing statutes of limitation. Depending on the specific terms of the arrangements, the maximum potential obligation may or may not be subject to contractual limitations. For additional information regarding our indemnification agreements, see Note 16 to the Consolidated Financial Statements.

We have recorded liabilities for certain of these arrangements where it is possible to estimate them. These liabilities are not material in the aggregate. We are unable to develop a reasonable estimate of the maximum potential payout under some of these arrangements. Overall, we believe that it is unlikely we will have to make any material payments under these arrangements.

Debt

The following table provides the rollforward of AIG's total debt outstanding:

Year Ended December 31, 2016 *(in millions)*	Balance at December 31, 2015	Issuances	Maturities and Repayments	Effect of Foreign Exchange	Other Changes
Debt issued or guaranteed by AIG:					
AIG general borrowings:					

Notes and bonds payable	$ 17,047	$ 3,831	$ (1,268)	$ (180)	$ 2
Junior subordinated debt	1,327	-	(461)	(28)	5
AIG Japan Holdings Kabushiki Kaisha	106	222	-	2	-
AIGLH notes and bonds payable	284	-	(3)	-	-
AIGLH junior subordinated debt	420	-	(60)	-	1
Total AIG general borrowings	19,184	4,053	(1,792)	(206)	8
AIG borrowings supported by assets:[(a)]					
MIP notes payable	1,372	-	(267)	(1)	(5)
Series AIGFP matched notes and bonds payable	34	-	-	-	(2)
GIAs, at fair value	3,276	191	(542)	-	9[(b)]
Notes and bonds payable, at fair value	394	368	(268)	-	-[(b)]
Total AIG borrowings supported by assets	5,076	559	(1,077)	(1)	2
Total debt issued or guaranteed by AIG	24,260	4,612	(2,869)	(207)	10
Debt not guaranteed by AIG:					
Other subsidiaries' notes, bonds, loans and mortgages payable[(c)]	2	730	-	-	3
Debt of consolidated investments[(d)]	4,987	612	(1,352)[(e)]	(28)	152[(f)]
Total debt not guaranteed by AIG	4,989	1,342	(1,352)	(28)	155
Total debt[(g)]	$ 29,249	$ 5,954	$ (4,221)	$ (235)	$ 165

(a) AIG Parent guarantees all such debt, except for MIP notes payable and Series AIGFP matched notes and bonds payable, which are direct obligations of AIG Parent. Collateral posted to third parties was $2.2 billion and $2.4 billion at December 31, 2016 and 2015, respectively. This collateral primarily consists of securities of the U.S. government and government sponsored entities and generally cannot be repledged or resold by the counterparties.

(b) Primarily represents adjustments to the fair value of debt.

(c) Includes primarily borrowings with Federal Home Loan Banks by our U.S. insurance companies. These borrowings are short term in nature and related activity is presented net of issuances and maturities and repayments.

(d) At December 31, 2016, includes debt of consolidated investment vehicles related to real estate investments of $1.9 billion, affordable housing partnership investments of $1.7 billion and other securitization vehicles of $771 million. At December 31, 2015, includes debt of consolidated investment vehicles related to real estate investments of $2.4 billion, affordable housing partnership investments of $1.5 billion and other securitization vehicles of $1.0 billion.

(e) Includes $1.1 billion related to certain real estate investments that were sold during 2016.

(f) Includes the effect of consolidating previously unconsolidated partnerships.

(g) Includes debt issuance costs of $88 million and $101 million at December 31, 2016 and 2015, respectively. See Note 2 to the Consolidated Financial Statements.

TOTAL DEBT OUTSTANDING

(in millions)

Debt Maturities

The following table summarizes maturing debt at December 31, 2016 of AIG (excluding $4.4 billion of borrowings of consolidated investments) for the next four quarters:

	First	Second	Third	Fourth

(in millions)		Quarter 2017		Quarter 2017		Quarter 2017		Quarter 2017		Total
AIG general borrowings	$	-	$	-	$	-	$	167	**$**	**167**
AIG borrowings supported by assets		341		623		75		220		**1,259**
Other subsidiaries' notes, bonds, loans and mortgages payable		315		315		105		-		**735**
Total	$	656	$	938	$	180	$	387	**$**	**2,161**

See Note 15 to the Consolidated Financial Statements for additional details on debt outstanding.

Credit Ratings

Credit ratings estimate a company's ability to meet its obligations and may directly affect the cost and availability of financing to that company. The following table presents the credit ratings of AIG and certain of its subsidiaries as of February 14, 2017. Figures in parentheses indicate the relative ranking of the ratings within the agency's rating categories; that ranking refers only to the major rating category and not to the modifiers assigned by the rating agencies.

	Short-Term Debt		Senior Long-Term Debt		
	Moody's	S&P	Moody's[a]	S&P[b]	Fitch[c]
AIG	**P-2 (2nd of 3)** ***Stable Outlook***	**A-2 (2nd of 8)**	**Baa 1 (4th of 9)** ***Stable Outlook***	**BBB+ (4th of 9)** ***Stable Outlook***	**BBB+ (4th o** ***Negative Ou***
AIG Financial Products Corp.[d]	**P-2** ***Stable Outlook***	**A-2**	**Baa 1** ***Stable Outlook***	**BBB+** ***Stable Outlook***	**-**

(a) Moody's appends numerical modifiers 1, 2 and 3 to the generic rating categories to show relative position within the rating categories.

(b) S&P ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

(c) Fitch ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

(d) AIG guarantees all obligations of AIG Financial Products Corp.

These credit ratings are current opinions of the rating agencies. They may be changed, suspended or withdrawn at any time by the rating agencies as a result of changes in, or unavailability of, information or based on other circumstances. Ratings may also be withdrawn at our request.

We are party to some agreements that contain "ratings triggers." Depending on the ratings maintained by one or more rating agencies, these triggers could result in (i) the termination or limitation of credit availability or a requirement for accelerated repayment, (ii) the termination of business contracts or (iii) a requirement to post collateral for the benefit of counterparties.

In the event of adverse actions on our long-term debt ratings by the major rating agencies, AIGFP and certain other AIG entities would be required to post additional collateral under some derivative transactions or could experience termination of the transactions. Such requirements and terminations could adversely affect our business, our consolidated results of operations in a reporting period or our liquidity. In the event of a further downgrade of AIG's long-term senior debt ratings, AIGFP and certain other AIG entities would be required to post additional collateral, and certain of the counterparties of AIGFP or of such other AIG entities would be permitted to terminate their contracts early.

The actual amount of collateral that we would be required to post to counterparties in the event of such downgrades, or the aggregate amount of payments that we could be required to make, depends on market conditions, the fair value of outstanding affected transactions and other factors prevailing at the time of the downgrade.

For a discussion of the effects of downgrades in our credit ratings, see Note 11 to the Consolidated Financial Statements herein and Part I, Item 1A. Risk Factors – Liquidity, Capital and Credit.

FINANCIAL STRENGTH Ratings

Financial Strength ratings estimate an insurance company's ability to pay its obligations under an insurance policy. The following table presents the ratings of our significant insurance subsidiaries as of February 14, 2017.

	A.M. Best	S&P	Fitch	Moody's
National Union Fire Insurance Company of Pittsburgh, Pa.	A	A+ / A-1+	A	A2
Lexington Insurance Company	A	A+	A	A2
American Home Assurance Company (US)	A	A+	A	A2
American General Life Insurance Company	A	A+	A+	A2
The Variable Annuity Life Insurance Company	A	A+	A+	A2
United States Life Insurance Company in the City of New York	A	A+	A+	A2
AIG Europe Limited	A	A+	A	A2
Fuji Fire and Marine Insurance Company	NR	A+	NR	NR
AIU Insurance Company, Ltd.	NR	A+	NR	NR

These financial strength ratings are current opinions of the rating agencies. They may be changed, suspended or withdrawn at any time by the rating agencies as a result of changes in, or unavailability of, information or based on other circumstances.

For a discussion of the effects of downgrades in the financial strength ratings of our insurance companies, see Note 11 to the Consolidated Financial Statements herein and Part I, Item 1A. Risk Factors – Liquidity, Capital and Credit.

Regulation and Supervision

For a discussion of our regulation and supervision by different regulatory authorities in the United States and abroad, including with respect to our liquidity and capital resources, see Item 1. Business — Regulation and Item 1A. Risk Factors — Regulation.

Dividends and Repurchases of AIG Common Stock

On February 11, 2016, our Board of Directors declared a cash dividend on AIG Common Stock of $0.32 per share, payable on March 28, 2016 to shareholders of record on March 14, 2016. On May 2, 2016, our Board of Directors declared a cash dividend on AIG Common Stock of $0.32 per share, payable on June 27, 2016 to shareholders of record on June 13, 2016. On August 2, 2016, our Board of Directors declared a cash dividend on AIG Common Stock of $0.32 per share, payable on September 29, 2016 to shareholders of record on September 15, 2016. On November 2, 2016, our Board of Directors declared a cash dividend on AIG Common Stock of $0.32 per share, payable on December 22, 2016 to shareholders of record on December 8, 2016.

On February 14, 2017, our Board of Directors declared a cash dividend on AIG Common Stock of $0.32 per share, payable on March 29, 2017 to shareholders of record on March 15, 2017. The payment of any future dividends will be at the discretion of our Board of Directors and will depend on various factors, including the regulatory framework applicable to us, as discussed further in Note 17 to the Consolidated Financial Statements.

Our Board of Directors has authorized the repurchase of shares of AIG Common Stock through a series of actions. On November 2, 2016, our Board of Directors authorized an additional increase of $3.0 billion to the share repurchase authorization.

During 2016, we repurchased approximately 201 million shares of AIG Common Stock for an aggregate purchase price of approximately $11.5 billion pursuant to this authorization, and we repurchased 17 million warrants to purchase shares of AIG Common Stock, for an aggregate purchase price of $309 million pursuant to this authorization. Under Exchange Act Rule 10b5-1 repurchase plans, from January 1 to February 14, 2017, we repurchased approximately $1.2 billion of additional shares of AIG Common Stock.

On February 14, 2017, our Board of Directors authorized an additional increase of $3.5 billion to the share repurchase authorization, resulting in a remaining authorization on such date of approximately $4.7 billion. Shares may be repurchased from time to time in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise (including through the purchase of warrants). Certain of our share repurchases have been and may from time to time be effected through Exchange Act Rule 10b5-1 repurchase plans. The timing of any future share repurchases will depend on market conditions, our financial condition, results of operations, liquidity and other factors, including the regulatory framework applicable to us.

Dividend Restrictions

Payments of dividends to AIG by its insurance subsidiaries are subject to certain restrictions imposed by regulatory authorities. See Note 19 to the Consolidated Financial Statements for a discussion of restrictions on payments of dividends by our subsidiaries.

Enterprise Risk Management

Risk management includes the identification and measurement of various forms of risk, the establishment of risk thresholds and the creation of processes intended to maintain risks within these thresholds while optimizing returns. We consider risk management an integral part of managing our core businesses and a key element of our approach to corporate governance.

Overview

We have an integrated process for managing risks throughout our organization in accordance with our firm wide risk appetite. Our Board of Directors has oversight responsibility for the management of risk. Our Enterprise Risk Management (ERM) Department supervises and integrates the risk management functions in each of our business units, providing senior management with a consolidated view of AIG's major risk positions. Within each business unit, senior leaders and executives approve risk taking policies and targeted risk tolerance within the framework provided by ERM. ERM supports our businesses and management in the embedding of risk management in our key day-to-day business processes and in identifying, assessing, quantifying, managing, monitoring and reporting, and mitigating the risks taken by us and our businesses. Nevertheless, our risk management efforts may not always be successful and material adverse effects on our business, results of operations, cash flows, liquidity or financial condition may occur.

Risk Governance Structure

Our risk governance structure fosters the development and maintenance of a risk and control culture that encompasses all significant risk categories. Accountability for the implementation and oversight of risk policies is aligned with individual corporate executives, with the risk committees receiving regular reports regarding compliance with each policy to support risk governance at our corporate level as well as in each business unit. We review our governance and committee structure on a regular basis and make changes as appropriate to continue to effectively manage and govern our risks and risk-taking.

Our Board of Directors oversees the management of risk through its Risk and Capital Committee (RCC) and Audit Committee. Those committees regularly interact with other committees of the Board of Directors. Our Chief Risk Officer (CRO) reports to both the RCC and our Chief Executive Officer (CEO).

The Group Risk Committee (GRC): The GRC is the senior management group responsible for assessing all significant risk issues on a global basis to protect our financial strength, optimize our intrinsic value, and protect our reputation. The GRC is chaired by our CRO. Its membership includes our CEO, Chief Financial Officer (CFO), and other executives from across our corporate functions and business units. Our CRO reports periodically on behalf of the GRC to both the RCC and the Audit Committee of the Board of Directors. Our CRO is also a member of the Executive Leadership Team (ELT) providing ERM the opportunity to contribute to, review, monitor and consider the impact of changes in strategy.

Management committees that support the GRC are described below. These committees are comprised of senior executives and experienced business representatives from a range of functions and business units throughout AIG and its subsidiaries. These committees are charged with identifying, analyzing and reviewing specific risk matters within their respective mandates.

Financial Risk Group (FRG): The FRG is responsible for the oversight of financial risks taken by AIG and our subsidiaries. Its mandate includes overseeing our aggregate credit, market, interest rate, capital, liquidity and model risks, as well as asset-liability management, derivatives activity, and foreign exchange transactions. It provides the primary corporate-level review function for all proposed transactions and business practices that are significant in size, complex in scope, or that present heightened legal, reputational, accounting or regulatory risks. The FRG is chaired by our CRO. Membership of the FRG also includes our CFO, Chief Investment Officer (CIO) and Treasurer.

Technology, Operational Risk & Control Committee (TORCC): This committee oversees technology and operational risk management and control issues and activities across our businesses, functions, and geographic locations. The TORCC reviews our risk management practices and monitors current and emerging technology and operational risks, as well as management actions taken to reduce risks to acceptable levels. It primarily focuses on establishing the firm-wide framework for identifying, measuring, quantifying, and managing and mitigating technology and operational risks, and monitoring our controls. The TORCC addresses firm-wide, rather than business-specific issues and is mandated to prioritize technology and operational improvements that are significant and transformational. The TORCC also provides a forum for senior management to assess our technology and operational risk profiles that may affect our strategic objectives.

The scope of the TORCC includes, but is not limited to, Operational Risk Management, Technology Risk Management, Information Security, Compliance, Sarbanes Oxley, Disaster Recovery, Project Risk Management and Vendor Risk Management.

The TORCC is an authorized sub-committee of our GRC and supports the GRC in its risk management oversight role. The TORCC is co-chaired by our CIO, Chief Operating Officer, and our CRO. Membership of the TORCC also includes Owners of the Control Agenda, Business Information Officers, and members of the various control functions.

In addition, the TORCC may form, and delegate authority to, sub-committees or working groups which oversee Technology and Operational risk related matters on behalf of us with periodic reporting to the TORCC.

Business Unit Risk Committees: Each of our major insurance businesses has established a risk committee that serves as the senior management committee responsible for risk oversight at the individual business unit level. The risk committees are responsible for the identification, assessment and monitoring of all sources of risk within their respective portfolios. Specific responsibilities include setting risk tolerances, reviewing the capital allocation framework, insurance portfolio optimization, and providing oversight of risk-adjusted metrics. In addition, each business unit has established subordinate committees at the legal entity level and working groups in place that support these committees in executing their duties, such as ensuring policies are adhered to, and transactions are completed with risk appetite in mind. Together, these committees provide comprehensive risk oversight throughout the organization.

Risk Appetite, Limits, Identification, and Measurement

Risk Appetite Framework

Our Risk Appetite Framework integrates stakeholder interests, strategic business goals and available financial resources. We balance these by seeking to take measured risks that are expected to generate repeatable, sustainable earnings and create long-term value for our shareholders. The framework includes our risk appetite statement approved by the Board of Directors or a committee thereof and a set of supporting tools, including risk tolerances, risk limits and policies, which we use to manage our risk profile and financial resources.

We articulate our aggregate risk-taking by setting risk tolerances and thresholds on capital and liquidity measures. These measures are set at the AIG Parent level as well as the legal entity level and cover consolidated and insurance company capital and liquidity ratios. We must comply with standards for capital adequacy and maintain sufficient liquidity to meet all our obligations as they come due in accordance with our internal capital management and liquidity policies. Our risk tolerances take into consideration regulatory requirements, rating agency expectations, and business needs. The GRC routinely reviews the level of risk taken by the consolidated organization in relation to the established risk tolerances. A consolidated risk report is also presented periodically, as required, to the RCC by our CRO.

Risk Limits

A key component of our Risk Appetite Framework is having a process in place that establishes and maintains appropriate limits on the material risks identified for our core businesses and facilitates monitoring and meeting of both internal and external stakeholder expectations. Our objectives include:

- Establishing risk monitoring, provide early warning indicators, and ensure timely oversight and enforceability of limits;
- Defining a consistent and transparent approach to limits governance; and
- Aligning our business activities with our risk appetite statement.

To support the monitoring and management of AIG's and its business units' material risks, ERM has an established limits framework that employs a three-tiered hierarchy:

- **Board level risk tolerances** are AIG's aggregate capital and liquidity limits. They define the minimum level of capital and liquidity that we should maintain. These board level risk tolerances require our RCC approval.
- **AIG management level limits** are risk type specific limits at the AIG consolidated level. These limits are defined and calibrated to constrain our concentration in specific risk types, and to protect against taking risks that exceed the amount of overall capital AIG has available. These limits are approved by our CRO with consultation from the GRC.
- **BU level limits** are set to address key risks identified by ERM for the business unit/module and/or meet business unit/module specific requirements by regulators and rating agencies. These limits are defined by the business unit risk officers.

All limits are reviewed by the FRG, GRC or relevant business unit risk committees on a periodic basis and revisions, if applicable, are approved by those committees.

The business units are responsible for measuring and monitoring their risk exposures. ERM is responsible for monitoring compliance with limits and providing regular, timely reporting to our senior management and risk committees. Limit breaches are required to be reported in a timely manner and are documented and escalated in accordance with their level of severity or materiality.

Risk Identification and Measurement

One tool we use to inform our Risk Appetite Framework is risk identification. We conduct risk identification through a number of processes at the business unit and corporate level focused on capturing our material risks and key areas of focus for follow-up risk management actions. A key initiative is our integrated bottom-up risk identification and assessment process down to the product-line level. These processes are used as a critical input to enhance and develop our analytics for measuring and assessing risks across the organization.

We employ various approaches to measure, monitor, and manage risk exposures, including the utilization of a variety of metrics and early warning indicators. We use a proprietary stress testing framework to measure our quantifiable risks. This framework is built on our existing ERM stress testing methodology for both insurance and non-insurance operations.

The framework measures risk over multiple time horizons and under different levels of stress. We develop a range of stress scenarios based both on internal experience and regulatory guidance. The stress tests are intended to ensure that sufficient resources are available under both idiosyncratic and systemic market stress conditions.

The stress testing framework assesses our aggregate exposure to our most significant financial and insurance risks, including the risk in each of our key insurance company subsidiaries in relation to its capital needs under stress, risks inherent in our non-insurance company subsidiaries, and risks to AIG consolidated capital. We use this information to determine the resources needed at the AIG Parent level to support our subsidiaries and capital resources required to maintain consolidated company target capitalization levels.

We evaluate and manage risk in material topics as shown below. These topics are discussed in more detail in the following pages:

- Credit Risk Management
- Market Risk Management
- Liquidity Risk Management
- Operational Risk Management
- Insurance Risks
- Other Business Risks

Credit Risk Management

Overview

Credit risk is defined as the risk that our customers or counterparties are unable or unwilling to repay their contractual obligations when they become due. Credit risk may also result from a downgrade of a counterparty's credit ratings or a widening of its credit spreads.

We devote considerable resources to managing our direct and indirect credit exposures. These exposures may arise from, but are not limited to, fixed income investments, equity securities, deposits, commercial paper investments, reverse repurchase agreements and repurchase agreements, corporate and consumer loans, leases, reinsurance recoverables, counterparty risk arising from derivatives activities, collateral extended to counterparties, insurance risk cessions to third parties, financial guarantees and letters of credit.

Governance

Our credit risks are managed by a team of investment professionals, subject to ERM oversight and various control processes. ERM is assisted by credit functions headed by highly experienced credit professionals. Their primary role is to assure appropriate credit risk management in accordance with our credit policies and procedures relative to our credit risk parameters. Our Chief Credit Officer (CCO) and credit executives are primarily responsible for the development, implementation and maintenance of a risk management framework, which includes the following elements related to our credit risks:

- developing and implementing our company-wide credit policies and procedures;
- approving delegated credit authorities to our credit executives and qualified investment professionals;
- developing methodologies for quantification and assessment of credit risks, including the establishment and maintenance of our internal risk rating process;
- managing a system of credit and program limits, as well as the approval process for credit transactions, above limit exposures, and concentrations of risk that may exist or be incurred;
- evaluating, monitoring, reviewing and reporting of credit risks and concentrations regularly with senior management; and
- approving appropriate credit reserves, credit-related other-than-temporary impairments and corresponding methodologies for all credit portfolios.

We monitor and control our company-wide credit risk concentrations and attempt to avoid unwanted or excessive risk accumulations, whether funded or unfunded. To minimize the level of credit risk in some circumstances, we may require mitigants, such as third party guarantees, reinsurance or collateral, including commercial bank-issued letters of credit and trust collateral accounts. We treat these guarantees, reinsurance recoverables, and letters of credit as credit exposure and include them in our risk concentration exposure data. We also monitor closely the quality of any trust collateral accounts.

See Investments – Available for Sale Investments herein for further information on our credit concentrations and credit exposures.

Market Risk Management

Market risk is defined as the risk of adverse impact due to systemic movements in one or more of the following market risk drivers: equity and commodity prices, residential and commercial real estate values, interest rates, credit spreads, foreign exchange, inflation, and their levels of volatility.

We are engaged in a variety of insurance, investment and other financial services businesses that generate market risk, directly and indirectly. We are exposed to market risks primarily within our insurance and capital markets activities, on both the asset and liability side of our balance sheet through on and off-balance sheet exposures. The chief risk officer within each business is responsible for creating a framework to properly identify these risks, then ensuring that they are appropriately measured, monitored and managed in accordance with the risk governance framework established by the Chief Market Risk Officer (CMRO).

The scope and magnitude of our market risk exposures is managed under a robust framework that contains defined risk limits and minimum standards for managing market risk in a manner consistent with our risk appetite statement. Our market risk management framework focuses on quantifying the financial repercussions of changes in these broad market observables, as opposed to from the idiosyncratic risks associated with individual assets that are addressed through our credit risk management function.

Risk Identification

Market risk focuses on quantifying the financial repercussions of changes in broad, external, predominantly market observable risks. Financial repercussions can include an adverse impact on results of operations, financial condition, liquidity and capital.

Each of the following systemic risks is considered a market risk:

Equity prices. We are exposed to changes in equity market prices affecting a variety of instruments. Changes in equity prices can affect the valuation of publicly-traded equity shares, investments in private equity, hedge funds and mutual funds, exchange-traded funds, and other equity-linked capital market instruments as well as equity-linked insurance products, including but not limited to index annuities, variable annuities, universal life insurance and variable universal life insurance.

Residential and commercial real estate values. Our investment portfolios are exposed to the risk of changing values in a variety of residential and commercial real estate investments. Changes in residential/commercial real estate prices can affect the valuation of residential/commercial mortgages, residential/commercial mortgage backed securities and other structured securities with underlying assets that include residential/commercial mortgages, trusts that include residential/commercial real estate and/or mortgages, residential mortgage insurance contracts and commercial real estate investments.

Interest rates. Interest rate risk can arise from a mismatch in the interest rate exposure of assets versus liabilities. Lower interest rates generally result in lower investment income and make certain of our product offerings less attractive to investors. Conversely, higher interest rates are typically beneficial for the opposite reasons. However, when rates rise quickly, there can be a temporary asymmetric GAAP accounting effect where the existing securities lose market value, which is largely reported in Other comprehensive income, and the offsetting decrease in the value of related liabilities may not be recognized. Changes in interest rates can affect the valuation of fixed maturity securities, financial liabilities, insurance contracts including but not limited to fixed rate annuities, variable annuities and derivative contracts.

Credit spreads. Credit spreads measure an instrument’s risk premium or yield relative to that of a comparable duration, default free instrument. Changes in credit spreads can affect the valuation of fixed maturity securities, including but not limited to corporate bonds, ABS, mortgage-backed securities, AIG-issued debt obligations, credit derivatives and derivative credit valuation adjustments. Much like higher interest rates, wider credit spreads with unchanged default losses mean more investment income in the long term. In the short term, quickly rising spreads will cause a loss in the value of existing fixed maturity securities, which is largely reported in Other comprehensive income. A precipitous widening of credit spreads may also signal a fundamental weakness in the credit worthiness of bond obligors, potentially resulting in default losses.

Foreign exchange (FX) rates. We are a globally diversified enterprise with income, assets and liabilities denominated in, and capital deployed in, a variety of currencies. Changes in FX rates can affect the valuation of a broad range of balance sheet and income statement items as well as the settlement of cash flows exchanged in specific transactions.

Commodity Prices. Changes in commodity prices (the value of commodities) can affect the valuation of publicly traded commodities, commodity indices and derivatives on commodities and commodity indices. We are exposed to commodity prices primarily through their impact on the prices and credit quality of commodity producers' debt and equity securities in our investment portfolio.

Inflation. Changes in inflation can affect the valuation of fixed maturity securities, including AIG-issued debt obligations, derivatives and other contracts explicitly linked to inflation indices, and insurance contracts where the claims are linked to inflation either explicitly, via indexing, or implicitly, through medical costs or wage levels.

Governance

Market risk is overseen at the corporate level within ERM through the CMRO, who reports directly to the AIG CRO. The CMRO is supported by a dedicated team of professionals within ERM. Market Risk is managed by our finance, treasury and investment management corporate functions, collectively, and in partnership with ERM. The CMRO is primarily responsible for the development and maintenance of a risk management framework that includes the following key components:

- written policies that define the rules for our market risk-taking activities and provide clear guidance regarding their execution and management;
- a limit framework that aligns with our Board-approved risk appetite statement;
- independent measurement, monitoring and reporting for line of business, business unit and enterprise-wide market risks; and
- clearly defined authorities for all individuals and committee roles and responsibilities related to market risk management.
- These components facilitate the CMRO's identification, measurement, monitoring, reporting and management of our market risks.

Risk Measurement

Our market risk measurement framework was developed with the main objective of communicating the range and scale of our market risk exposures. At the firm wide level market risk is measured in a manner that is consistent with AIG's risk appetite statement. This is designed to ensure that we remain within our stated risk tolerance levels and can determine how much additional market risk taking capacity is available within our framework. Our risk appetite is currently defined in terms of capital and liquidity levels. At the market risk level, the framework measures our overall exposure to each systemic market risk change on an economic basis.

In addition, we continue to use enhanced economic, GAAP accounting and statutory capital based risk measures at the market risk level, business unit level and firm wide levels. This process aims to ensure that we have a comprehensive view of the impact of our market risk exposures.

We use a number of approaches to measure our market risk exposure, including:

Sensitivity analysis. Sensitivity analysis measures the impact from a unit change in a market risk input. Examples of such sensitivities include a one basis point increase in yield on fixed maturity securities, a one basis point increase in credit spreads of fixed maturity securities, and a one percent increase in prices of equity securities.

Scenario analysis. Scenario analysis uses historical, hypothetical, or forward looking macroeconomic scenarios to assess and report exposures. Examples of hypothetical scenarios include a 100 basis point parallel shift in the yield curve or a 20 percent immediate and simultaneous decrease in world wide equity markets. Scenarios may also utilize a stochastic framework to arrive at a probability distribution of losses.

Stress testing. Stress testing is a special form of scenario analysis in which the scenarios are designed to lead to a material adverse outcome. Examples of such scenarios include the stock market crash of October 1987 or the widening of yields or spreads of RMBS or CMBS during 2008.

Market Risk Sensitivities

The following table provides estimates of our sensitivity to changes in yield curves, equity prices and foreign currency exchange rates:

	Balance Sheet Exposure		Balance Sheet Effect	
(dollars in millions)	**December 31, 2016**	December 31, 2015	**December 31, 2016**	December 31, 2015
Sensitivity factor			**100 bps parallel increase in all yield curves**	
Interest rate sensitive assets:				
Fixed maturity securities	**251,784**	260,689	**(14,745)**	(14,549)
Mortgage and other loans receivable	**25,113**	18,878	**(1,352)**	(1,092)
Preferred stock	**17**	20	**(1)**	(1)
Total interest rate sensitive assets	**$ 276,914**(a)	$ 279,587(a)	**$ (16,098)**	$ (15,642)
Sensitivity factor			**20% decline in stock prices and value of alternative investments**	
Equity and alternative investments exposure:				
Hedge funds	**7,249**	10,917	**(1,450)**	(2,183)
Private equity	**6,130**	7,233	**(1,226)**	(1,447)
Real estate investments	**6,900**	6,579	**(1,380)**	(1,316)
PICC Investment	**439**	2,239	**(88)**	(448)
Common equity	**1,369**	1,574	**(274)**	(315)
Aircraft asset investments	**321**	477	**(64)**	(95)
Other investments	**946**	472	**(189)**	(94)
Total equity and alternative investments exposure	**$ 23,354**	$ 29,491	**$ (4,671)**	$ (5,898)
Sensitivity factor			**10% depreciation of all foreign currency exchange rates against the U.S. dollar**	
Foreign currency-denominated net asset position:				
Japanese yen	**2,345**	1,745	**(235)**	(174)
Great Britain pound	**2,274**	2,158	**(227)**	(216)
Euro	**2,000**	2,053	**(200)**	(205)
All other foreign currencies	**3,210**	4,703	**(321)**	(471)
Total foreign currency-denominated net asset position[b]	**$ 9,829**	$ 10,659	**$ (983)**	$ (1,066)

(a) At December 31, 2016, the analysis covered $276.9 billion of $292.5 billion interest-rate sensitive assets. Excluded were $8.1 billion of loans and $2.5 billion of investments in life settlements. In addition, $5.0 billion of assets across various asset categories were excluded due to modeling limitations. At December 31, 2015, the analysis covered $279.6 billion of $298.7 billion interest-rate sensitive assets. Excluded were $10.7 billion of loans and $3.6 billion of investments in life settlements. In addition, $4.8 billion of assets across various asset categories were excluded due to modeling limitations.

(b) The majority of the foreign currency exposure is reported on a one quarter lag.

Foreign currency-denominated net asset position reflects our consolidated non U.S. dollar assets less our consolidated non U.S dollar liabilities on a GAAP basis, with certain adjustments. We use a bottom-up approach in managing our foreign currency exchange rate exposures with the objective of protecting statutory capital at the regulated insurance entity level. At the AIG Parent level, we monitor our single foreign currency exposures and limit the risk of the aggregate currency portfolio.

Our foreign currency-denominated net asset position at December 31, 2016, decreased by $830 million compared to December 31, 2015. The decrease was mostly due to a $1.6 billion decrease in our Hong Kong dollar position, primarily resulting from the sale of our Property Casualty Insurance Companies' PICC Investment, partially offset by a $600 million increase in our Japanese yen position primarily due to hedging activities, unrealized appreciation, and strengthening of the yen against the U.S. dollar.

For illustrative purposes, we modeled our sensitivities based on a 100 basis point increase in yield curves, a 20 percent decline in equities and alternative assets, and a 10 percent depreciation of all foreign currency exchange rates against the U.S. dollar. The estimated results presented in the table above should not be taken as a prediction, but only as a demonstration of the potential effects of such events.

The sensitivity factors utilized for 2016 and presented above were selected based on historical data from 1996 to 2016, as follows (see the table below):

- a 100 basis point parallel shift in the yield curve is consistent with a one standard deviation movement of the benchmark ten-year treasury yield;

- a 20 percent drop for equity and alternative investments is broadly consistent with a one standard deviation movement in the S&P 500; and

- a 10 percent depreciation of foreign currency exchange rates is consistent with a one standard deviation movement in the U.S. dollar (USD)/Japanese yen (JPY) exchange rate.

	Period	Standard Deviation	Suggested 2016 Scenario	2016 Scenario as a Multiple of Standard Deviation	2016 Change/ Return	2016 as a Multiple of Standard Deviation	Original 2015 Scenar on Standard Dev 1995-201
10-Year Treasury	1996-2016	0.01	0.01	0.99	-	0.18	
S&P 500	1996-2016	0.18	0.20	1.10	0.10	0.53	
USD/JPY	1996-2016	0.12	0.10	0.86	0.03	0.24	

Risk Monitoring and Limits

The risk monitoring responsibilities, owned by the business units, include ensuring compliance with market risk limits and escalation and remediation of limit breaches. Such activities must be reported to the ERM Market Risk team by the relevant business unit. This monitoring approach is aligned with our overall risk limits framework.

To control our exposure to market risk, we rely on a three-tiered hierarchy of limits that the CMRO closely monitors and reports to our CRO, senior management and risk committees.

See Risk Appetite, Limits, Identification, and Measurement – Risk Limits herein for further information on our three-tiered hierarchy of limits.

Liquidity Risk Management

Liquidity risk is defined as the risk that our financial condition will be adversely affected by the inability or perceived inability to meet our short-term cash, collateral or other financial obligations. Failure to appropriately manage liquidity risk can result in insolvency, reduced operating flexibility, increased costs, reputational harm and regulatory action.

AIG and its legal entities seek to maintain sufficient liquidity during both the normal course of business and under defined liquidity stress scenarios to ensure that sufficient cash will be available to meet the obligations as they come due.

AIG Parent liquidity risk tolerance levels are designed to allow it to meet our financial obligations for a minimum of six- months under a liquidity stress scenario. We maintain liquidity limits and minimum coverage ratios designed to ensure that funding needs are met under varying market conditions. If we project that we will breach these tolerances, we will assess and determine appropriate liquidity management actions. However, the market conditions in effect at that time may not permit us to achieve an increase in liquidity sources or a reduction in liquidity requirements.

Risk Identification

The following sources of liquidity and funding risks could impact our ability to meet short-term financial obligations as they come due.

- **Market/Monetization Risk:** Assets may not be readily transformed into cash due to unfavorable market conditions. Market liquidity risk may limit our ability to sell assets at reasonable values to meet liquidity needs.

- **Cash Flow Mismatch Risk:** Discrete and cumulative cash flow mismatches or gaps over short-term horizons under both expected and adverse business conditions may create future liquidity shortfalls.

- **Event Funding Risk:** Additional funding may be required as the result of a trigger event. Event funding risk comes in many forms and may result from a downgrade in credit ratings, a market event, or some other event that creates a funding obligation or limits existing funding options.

- **Financing Risk:** We may be unable to raise additional cash on a secured or unsecured basis due to unfavorable market conditions, AIG-specific issues, or any other issue that impedes access to additional funding.

Governance

Liquidity risk is overseen at the corporate level within ERM. The AIG CRO has responsibility for the oversight of the Liquidity Risk Management Framework and delegates the day-to-day implementation of this framework to the AIG Treasurer. Our corporate treasury function manages liquidity risk, subject to ERM oversight and various control processes.

The Liquidity Risk Management Framework is guided by the liquidity risk tolerance as set forth in the Board-approved risk appetite statement. The principal objective of this framework is to establish minimum liquidity requirements that protect our long-term viability and ability to fund our ongoing business, and to meet short-term financial obligations in a timely manner in both normal and stressed conditions.

Our Liquidity Risk Management Framework includes a number of liquidity and funding policies and monitoring tools to address AIG-specific, broader industry and market related liquidity events.

Risk Measurement

Comprehensive cash flow projections under normal conditions are the primary component for identifying and measuring liquidity risk. We produce comprehensive liquidity projections over varying time horizons that incorporate all relevant liquidity sources and uses and include known and likely cash inflows and outflows. In addition, we perform stress testing by identifying liquidity stress scenarios and assessing the effects of these scenarios on our cash flow and liquidity.

We use a number of approaches to measure our liquidity risk exposure, including:

Minimum Liquidity Limits: Minimum Liquidity Limits specify the amount of assets required to be maintained in specific liquidity portfolios to meet obligations as they arise over a specified time horizon under stressed liquidity conditions.

Coverage Ratios: Coverage Ratios measure the adequacy of available liquidity sources, including the ability to monetize assets to meet the forecasted cash flows over a specified time horizon. The portfolio of assets is selected based on our ability to convert those assets into cash under the assumed market conditions and within the specified time horizon.

Cash Flow Forecasts: Cash Flow Forecasts measure the liquidity needed for a specific legal entity over a specified time horizon.

Stress Testing: Asset liquidity and Coverage Ratios are re-measured under defined liquidity stress scenarios that will impact net cash flows, liquid assets and/or other funding sources.
Relevant liquidity reporting is produced and reported regularly to AIG Parent and business unit risk committees. The frequency, content, and nature of reporting will vary for each business unit and legal entity, based on its complexity, risk profile, activities and size.

Operational Risk Management

Operational risk is defined as the risk of loss, or other adverse consequences, resulting from inadequate or failed internal processes, people, systems, or from external events. Operational risk includes legal, regulatory and compliance risks, and excludes business and strategy risks.

Operational risk is inherent in each of our business units. Operational risks can have many impacts, including but not limited to: unexpected economic losses or gains, reputational harm due to negative publicity, regulatory action from supervisory agencies, operational and business disruptions, and/or damage to customer relationships.

ORM oversees the Operational Risk policy and framework, which includes risk identification, assessment, prioritization, measurement, monitoring, and reporting of operational risk. As part of the framework, we deploy a series of operational risk programs to support our business units with the identification, monitoring and reporting of operational risks. The ORM programs include, but are not limited to, several key components as outlined below:

- The Risk Event Capture process enables each employee to identify, document, and escalate operational risk impacts, with a view to enhancing, processes and promoting lessons learned.

- The Vulnerability Identification (VID) process identifies emerging risks, which we consider to be risks that have not yet fully manifested themselves but could become significant over time.

- The Ordinal Risk Ranking effort provides an ordinal ranking of AIG’s most significant operational risks at the Enterprise, Segment or Regional levels, with the goal of prioritizing assessment and remediation activity.

- The Risk and Control Self-Assessments (RCSAs) allow for the identification and assessment of the key operational risks within our respective business units and a determination as to whether the related controls are effective.

- Scenario Analyses are executed to identify the remote, but plausible, potential risks that could result in severe financial losses.

ORM, working together with other second lines of defense functions (e.g., Model Validation and the Technology Risk office, as well as Compliance, Sarbanes Oxley, and Global Business Continuity), provides an independent view of Operational Risk for each business, and works with the business to facilitate implementation of the above programs. This includes coverage of operational risks related to core insurance activities, investing, model risk, technology (including cyber security, access, data privacy and data security), third-party providers, as well as compliance and regulatory matters. Based on the results of the risk identification and assessment efforts above, business leaders are accountable for tracking and remediating identified issues in line with our risk monitoring procedures. Governance committees support these efforts and promote transparency and management decision making.

An integrated risk and control framework facilitates the identification and mitigation of operational risk issues. To accomplish this, our integrated risk and control framework is designed to:

- ensure first line accountability and ownership of risks and controls;

- promote role clarity among the business and risk and control functions;

- enhance transparency, risk management governance and culture;

- foster greater consistency in identifying and ranking material risks;

- pro-actively address potential risk issues and assign clear ownership and accountability for addressing identified risk issues; and

- accelerate the development of technology solutions that support the objectives above.

Insurance Risks

Except as described above, we manage our business risk oversight activities through our insurance operations. A primary goal in managing our insurance operations is to achieve an acceptable risk-adjusted return on equity. To achieve this goal, we must be disciplined in risk selection, premium adequacy, and appropriate terms and conditions to cover the risk accepted.

We operate our insurance businesses on a global basis, and we are exposed to a wide variety of risks with different time horizons. We manage these risks throughout the organization, both centrally and locally, through a number of procedures:

- pre-launch approval of product design, development and distribution;
- underwriting approval processes and authorities;
- exposure limits with ongoing monitoring;
- management of relationship between assets and liabilities, including hedging;
- enhanced pricing models;
- modeling and reporting of aggregations and limit concentrations at multiple levels (policy, line of business, product group, country, individual/group, correlation and catastrophic risk events);
- compliance with financial reporting and capital and solvency targets;
- use of reinsurance, both internal and third-party; and
- review and challenge of reserves to ensure comprehensive analysis with established escalation procedures to provide appropriate transparency in reserving decisions and judgments made in the establishment of reserves.

We closely manage insurance risk by monitoring and controlling the nature and geographic location of the risks in each line of business underwritten, the terms and conditions of the underwriting and the premiums we charge for taking on the risk. We analyze concentrations of risk using various modeling techniques, including both probability distributions (stochastic) and/or single-point estimates (deterministic) approaches.

Risk Identification

- **Property Casualty Insurance Companies —** risks covered include property, casualty, fidelity/surety, accident and health, aviation, and management liability. We manage risks in the general insurance business through aggregations and limitations of concentrations at multiple levels: policy, line of business, geography, industry and legal entity.

- **Life Insurance Companies** – risks include mortality and morbidity in the insurance-oriented products and insufficient cash flows to cover contract liabilities and longevity risk in the retirement savings-oriented products. We manage risks through product design, sound medical and non-medical underwriting, and external reinsurance programs.

We purchase reinsurance for our insurance operations. Reinsurance facilitates insurance risk management (retention, volatility, concentrations) and capital planning. We may purchase reinsurance on a pooled basis. Pooling of our reinsurance risks enables us to purchase reinsurance more efficiently at a consolidated level, manage global counterparty risk and relationships and manage global catastrophe risks.

Governance

Insurance risks are monitored at the business unit level within ERM and overseen by the business unit chief risk officer, who reports directly to our CRO. The framework includes the following key components:

- written policies that define the rules for our insurance risk-taking activities;

- a limit framework focused on key insurance risks that aligns with our Board-approved risk appetite statement; and

- clearly defined authorities for all individuals and committee roles and responsibilities related to insurance risk management.

Risk Measurement, Monitoring and Limits

We use a number of approaches to measure our insurance risk exposure, including:
Stochastic methods. Stochastic methods are used to measure and monitor risks including natural catastrophe, reserve and premium risk. We develop probabilistic estimates of risk based on our exposures, historical observed volatility or industry-recognized models in the case of catastrophe risk.

Scenario analysis. Scenario or deterministic analysis is used to measure and monitor risks such as terrorism or to estimate losses due to man-made catastrophic scenarios.
In addition, we monitor concentrations of exposure through insurance limits aggregated along dimensions such as geography, industry, or counterparty.

The risk monitoring responsibilities of the business units include ensuring compliance with insurance risk limits and escalation and remediation of limit breaches. Such activities are reported to management by the relevant business unit for informative decision-making on a regular basis. This monitoring approach is aligned with our overall risk limits framework.

Risk limits have a consistent framework used across AIG, its business units, and legal entities. This includes escalation thresholds in cases where measurement is particularly challenging.

See Risk Appetite, Limits, Identification, and Measurement – Risk Limits herein for further information on our three-tiered hierarchy of limits

Property Casualty Insurance Companies Key Insurance Risks

We manage insurance risks through risk review and selection processes, exposure limitations, exclusions, deductibles, self-insured retentions, coverage limits, attachment points, and reinsurance. This management is supported by sound underwriting practices, pricing procedures and the use of actuarial analysis to help determine overall adequacy of provisions for insurance. Underwriting practices and pricing procedures incorporate historical experience, changes in underlying exposure, current regulation and judicial decisions as well as proposed or anticipated regulatory changes.

For Property Casualty Insurance Companies, insurance risks primarily include the following:

- **Loss Reserves –** The potential inadequacy of the liabilities we establish for unpaid losses and loss adjustment expenses is a key risk faced by the Property Casualty Insurance Companies. There is significant uncertainty in factors that may drive the ultimate development of losses compared to our estimates of losses and loss adjustment expenses. We manage this uncertainty through internal controls and oversight of the loss reserve setting process, as well as reviews by external experts. See Item 7. MD&A – Critical Accounting Estimates – Insurance Liabilities – Loss Reserves herein for further information.

- **Underwriting –** The potential inadequacy of premiums charged for future risk periods on risks underwritten in our portfolios can impact the Property Casualty Insurance Companies’ ability to achieve an underwriting profit. We develop pricing based on our estimates of losses and expenses, but factors such as market pressures and the inherent uncertainty and complexity in estimating losses may result in premiums that are inadequate to generate underwriting profit. This may be driven by adverse economic conditions, unanticipated emergence of risks or increase in frequency of claims, worse than expected prepayment of policies, investment results, or unexpected or increased costs or expenses.

- **Catastrophe Exposure –** Our business is exposed to various catastrophic events in which multiple losses can occur and affect multiple lines of business in any calendar year. Natural disasters, such as hurricanes, earthquakes and other catastrophes, have the potential to adversely affect our operating results. Other risks, such as man-made catastrophes or pandemic disease, could also adversely affect our business and operating results to the extent they are covered by our insurance products. Concentration of exposure in certain industries or geographies may cause us to suffer disproportionate losses.

- **Single Risk Loss Exposure –** Our business is exposed to loss events that have the potential to generate losses from a single insured client. Events such as fires or explosions can result in loss activity for our clients. The net risk to us is managed to acceptable limits established by our GRC through a combination of internal underwriting standards and external reinsurance. Furthermore, single risk loss exposure is managed and monitored on both a segregated and aggregated basis.

- **Reinsurance –** Since we use reinsurance to limit our losses, we are exposed to risks associated with reinsurance including the unrecoverability of expected payments from reinsurers either due to an inability or unwillingness to pay, contracts that do not respond properly to the event, or that actual reinsurance coverage is different than anticipated. The inability or unwillingness to pay is considered credit risk and is monitored through our credit risk management framework.

Natural Catastrophe Risk

We manage catastrophe exposure with multiple approaches such as setting risk limits based on aggregate Probable Maximum Loss (PML) modeling, monitoring overall exposures and risk accumulations, and purchasing catastrophe reinsurance through both the traditional reinsurance and capital markets in addition to other reinsurance protections.

We use third-party catastrophe risk models and other tools to evaluate and simulate frequency and severity of catastrophic events and associated losses to our portfolios of exposures. We apply a proprietary multi-model approach to account for relative strengths and weaknesses of vendor models, and make adjustments to modeled losses to account for loss adjustment expenses, model biases, data quality and non-modeled risks.

We perform post-catastrophe event studies to identify model weaknesses, underwriting gaps, and improvement opportunities. Lessons learned from post-catastrophe event studies are incorporated into the modeling and underwriting processes of risk pricing and selection. The majority of policies exposed to catastrophic risks are one-year contracts that allow us to adjust our underwriting guidelines, pricing and exposure accumulation in a relatively short period.

We recognize that climate change has implications for insurance industry exposure to natural catastrophe risk. With multiple levels of risk management processes in place, we actively analyze the latest climate science and policy to anticipate potential changes to our risk profile, pricing models and strategic planning. For example, we continually consider changes in climate and weather patterns as an integral part of the underwriting process. In addition, we are committed to providing innovative insurance products and services to help our clients be proactive against the threat of climate change, including expanding natural disaster resilience, promoting adaptation, and reducing greenhouse gas emissions. Our internal product development, underwriting, modeling, and sustainability practices will continue to adapt to and evolve with the developing risk exposures attributed to climate change.

Our natural catastrophe exposure is primarily driven by the U.S. and Japan, though our overall exposure is diversified across multiple countries. For example, we have exposures to additional perils such as European windstorms and floods and seismic events across the Pacific Rim. Within the U.S., we have significant hurricane exposure in Florida, the Gulf of Mexico, Northeast U.S. and mid-Atlantic regions. Events impacting the Northeast U.S. and the mid-Atlantic may result in a higher share of industry losses than other regions primarily due to our relative share of exposure in those regions. Within the U.S., we have significant earthquake exposure in California, the Pacific Northwest and New Madrid regions. Earthquakes impacting the Pacific Northwest and New Madrid regions may result in a higher share of industry losses than other regions primarily due to our relative share of exposure in these regions.

The estimates below are the Occurrence Exceedance Probability (OEP) losses, which reflect losses that may occur in any single event due to the defined peril. The 1-in-100 and 1-in-250 PMLs are the probable maximum losses from a single natural catastrophe event with probability of 1 percent and 0.4 percent in a year, respectively.

The following table presents an overview of OEP modeled losses for top perils and countries:

At December 31, 2016 *(in millions)*	Gross	Net of 2017 Reinsurance	Net of 2017 Reinsurance, After Tax	Percent of Total Shareholder Equity
Exposures:				
U.S. Hurricane (1-in-100)[(a)]	$ 5,105	$ 1,963	$ 1,276	1.7%
U.S. Earthquake (1-in-250)[(b)]	7,065	3,423	2,225	2.9
Japanese Wind (1-in-100)	1,147	643	418	0.5
Japanese Earthquake (1-in-250)[(c)]	$ 1,009	$ 715	$ 465	0.6%

(a) The U.S. hurricane amount includes losses to Property from hurricane hazards of wind and storm surge.

(b) U.S. earthquake loss estimates represent exposure to Property, Workers' Compensation (U.S.) and A&H business lines.

(c) Japan Earthquake represents exposure to Property and A&H business lines.

The OEP estimates provided above reflect our in-force portfolios at September 30, 2016, for both U.S. and Japan exposures. The catastrophe reinsurance program is as of January 1, 2017.

AIG, along with other property casualty insurance and reinsurance companies, uses industry-recognized catastrophe models and applies proprietary modeling processes and assumptions to arrive at loss estimates. The use of different methodologies and assumptions could materially change the projected losses. Since there is no industry standard for assumptions and preparation of insured data for use in these models, our modeled losses may not be comparable to estimates made by other companies.

Also, the modeled results are based on the assumption that all reinsurers fulfill their obligations to us under the terms of the reinsurance arrangements and all catastrophe bonds attach and pay as modeled. However, reinsurance recoverable may not be fully collectible. In particular, the use of catastrophe bonds may not provide commensurate levels of protection compared to traditional reinsurance transactions. Therefore, these estimates are inherently uncertain and may not accurately reflect our exposure to these events.

Our 2017 catastrophe reinsurance program includes coverage for natural catastrophes and some coverage for terrorism events. It consists of a large North American occurrence cover (without reinstatement) to protect against large North America losses, and Japan covers to protect against losses in Japan. The attachment point for this reinsurance program is at $1.5 billion for the North American cover ($3 billion in 2016) and varies for the Japan covers. The North American cover has reduced the U.S. Hurricane (1-in-100) OEP net of reinsurance from $3.1 billion under the 2016 reinsurance program to $2.0 billion under the 2017 program.

Actual results in any period are likely to vary, perhaps materially, from the modeled scenarios. The occurrence of one or more severe events could have a material adverse effect on our financial condition, results of operations and liquidity. See also Item 1A. Risk Factors — Reserves and Exposures for additional information.

Terrorism Risk

We actively monitor terrorism risk and manage exposures to losses from terrorist attacks. We have set risk limits based on modeled losses from certain terrorism attack scenarios. Terrorism risks are modeled using a third-party vendor model and various terrorism attack modes and scenarios. Adjustments are made to account for vendor model gaps and the nature of the Property Casualty Insurance Companies exposures. Examples of modeled scenarios are conventional bombs of different sizes, anthrax attacks and nuclear attacks.

Our largest terrorism exposures are in New York City, and estimated losses are largely driven by the Property and Workers' Compensation lines of business. At our largest exposure location, modeled losses for a five-ton bomb attack net of the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) and reinsurance recoveries are estimated to be $2.8 billion as of September 30, 2016.

Our exposure to terrorism risk in the U.S. is mitigated by TRIPRA in addition to limited private reinsurance protections. TRIPRA covers terrorist attacks within the United States or U.S. missions and against certain U.S. carriers or vessels and excludes certain lines of business as specified by applicable law. In 2017, TRIPRA covers 83 percent of insured losses above a deductible, decreasing by one percent each year to 80 percent in 2020. The current estimate of our deductible is approximately $2.5 billion for 2016.

We offer terrorism coverage in many other countries through various insurance products and participate in country terrorism pools when applicable. International terrorism exposure is estimated using scenario-based modeling and exposure concentration is monitored routinely. Targeted reinsurance purchases are made for some lines of business to cover potential losses due to terrorist attacks. We also rely on the government sponsored and government arranged terrorism reinsurance programs, including pools, in force in applicable non-U.S. jurisdictions.

Reinsurance Activities

Reinsurance is used primarily to manage overall capital adequacy and mitigate the insurance loss exposure related to certain events such as natural and man-made catastrophes. Our subsidiaries operate worldwide primarily by underwriting and accepting risks for their direct account on a gross basis and reinsuring a portion of the exposure on either an individual risk or an aggregate basis to the extent those risks exceed the desired retention level. In addition, as a condition of certain direct underwriting transactions, we may be required by clients, agents or regulation to cede all or a portion of risks to specified reinsurance entities, such as captives, other insurers, local reinsurers and compulsory pools.

Reinsurance markets include:

- Traditional local and global reinsurance markets including those in the United States, Bermuda, London and Europe, accessed directly and through reinsurance intermediaries;
- Capital markets through insurance-linked securities and collateralized reinsurance transactions, such as catastrophe bonds, sidecars and similar vehicles; and
- Other insurers that engage in both direct and assumed reinsurance.

The form of reinsurance we may choose from time to time will generally depend on whether we are seeking:

- proportional reinsurance, whereby we cede a specified percentage of premiums and losses to reinsurers;
- non-proportional or excess of loss reinsurance, whereby we cede all or a specified portion of losses in excess of a specified amount on a per risk, per occurrence (including catastrophe reinsurance) or aggregate basis; or
- facultative contracts that reinsure individual policies.

We continually evaluate the relative attractiveness of different forms of reinsurance contracts and different markets that may be used to achieve our risk and profitability objectives.

Reinsurance contracts do not relieve our subsidiaries from their direct obligations to insureds. However, an effective reinsurance program substantially mitigates our exposure to potentially significant losses.

In certain markets, we are required to participate on a proportional basis in reinsurance pools based on our relative share of direct writings in those markets. Such mandatory reinsurance generally covers higher-risk consumer exposures such as assigned-risk automobile and earthquake, as well as certain commercial exposures such as workers' compensation.

Reinsurance Recoverable

AIG's reinsurance recoverable assets are comprised of:

- Paid losses recoverable – balances due from reinsurers for losses and loss adjustment expenses paid by our subsidiaries and billed, but not yet collected.

- Ceded loss reserves – ultimate ceded reserves for losses and loss adjustment expenses, including reserves for claims reported but not yet paid and estimates for IBNR.

- Ceded reserves for unearned premiums.

At December 31, 2016, total reinsurance recoverable assets were $21.9 billion. These assets include general reinsurance paid losses recoverable of $1.1 billion, ceded loss reserves of $15.7 billion including reserves for IBNR, and ceded reserves for unearned premiums of $3.4 billion, as well as life reinsurance recoverables of $1.7 billion. The methods used to estimate IBNR and to establish the resulting ultimate losses involve projecting the frequency and severity of losses over multiple years. These methods are continually reviewed and updated by management. Any adjustments are reflected in income. We believe that the amount recorded for ceded loss reserves at December 31, 2016 reflects a reasonable estimate of the ultimate losses recoverable. Actual losses may, however, differ, perhaps materially, from the reserves currently ceded.

The Reinsurance Credit Department (RCD) conducts periodic detailed assessments of the financial strength and condition of current and potential reinsurers, both foreign and domestic. The RCD monitors the financial condition of reinsurers as well as the total reinsurance recoverable ceded to reinsurers, and sets limits with regard to the amount and type of exposure we are willing to cede to reinsurers. As part of these assessments, the RCD assesses the financial capacity and liquidity of reinsurers; and evaluates the local economic and financial environment in which foreign reinsurers operate. The RCD reviews the nature of the risks ceded and the need for measures, including collateral to mitigate credit risk. For example, in our treaty reinsurance contracts, we frequently include provisions that allow us to require a reinsurer to post collateral or use other measures to reduce exposure when a referenced event occurs. Furthermore, we limit our unsecured exposure to reinsurers through the use of credit triggers such as insurer financial strength rating downgrades, declines in regulatory capital, or specified declines in risk-based capital (RBC) ratios. We also set maximum limits for reinsurance recoverable exposure, which in some cases is the recoverable amount plus an estimate of the maximum potential exposure from unexpected loss events that could be ceded to a reinsurer. In addition, credit executives within ERM review reinsurer exposures and credit limits and approve reinsurer credit limits above specified levels. Finally, even where we conclude that uncollateralized credit risk is acceptable, we require collateral from active reinsurance counterparties where it is necessary for our subsidiaries to recognize the reinsurance recoverable assets for statutory accounting purposes. At December 31, 2016, we held $8.1 billion of collateral, in the form of funds withheld, securities in reinsurance trust accounts and/or evergreen letters of credit, in support of reinsurance recoverable assets from unaffiliated reinsurers. We believe that no exposure to a single reinsurer represents an inappropriate concentration of risk to us.

The following table presents information for each reinsurer representing in excess of five percent of our total reinsurance recoverable assets:

At December 31, 2016 *(in millions)*	S&P Rating[(a)]	A.M. Best Rating[(a)]	Gross Reinsurance Assets	Percent of Reinsurance Assets[(b)]	Collateral Held[(c)]	Uncollateralized Reinsurance Assets
Reinsurer:						
Swiss Reinsurance Group of Companies	**AA-**	**A+**	**$ 4,101**	**18.7%**	**$ 1,480**	**$ 2,621**
Berkshire Hathaway Group of Companies	**AA+**	**A++**	**$ 2,165**(d)	**9.9%**	**$ 1,595**	**$ 570**
Munich Reinsurance Group of Companies	**AA-**	**A+**	**$ 1,961**	**9.0%**	**$ 734**	**$ 1,227**

(a) The financial strength ratings reflect the ratings of the various reinsurance subsidiaries of the companies listed as of January 3, 2017.

(b) Total reinsurance assets include both the Property Casualty Insurance Companies and the Life Insurance Companies reinsurance recoverable.

(c) Excludes collateral held in excess of applicable balances.

(d) Includes $1.8 billion recoverable under the 2011 retroactive reinsurance transaction pursuant to which a large portion of the Property Casualty Insurance Companies net domestic asbestos liabilities were transferred to NICO. Does not include reinsurance assets ceded to other reinsurers for which NICO has assumed the collection risk. We entered into an adverse development reinsurance agreement with NICO, discussed in Item 7. MD&A — Insurance Reserves — Reinsurance Activities. Based on reserves as of December 31, 2016, this agreement will increase the gross reinsurance assets and collateral held from the Berkshire Hathaway Group of Companies by approximately $12.8 billion and $10.2 billion, respectively.

At December 31, 2016, we had no significant general reinsurance recoverable due from any individual reinsurer that was financially troubled. Reinsurer capital levels remained stable in 2016, and the industry’s robust underwriting capacity resulted in continued competition and attractive rates for 2017 renewals. Reduced profitability associated with lower rates could potentially result in reduced capacity or rating downgrades for some reinsurers. The RCD, in conjunction with the credit executives within ERM, reviews these developments, monitors credit triggers that may require the reinsurer to post collateral, and seeks to use other appropriate means to mitigate any material risks arising from these developments.

See Item 7. MD&A – Critical Accounting Estimates – Reinsurance Assets for further discussion of reinsurance recoverable.

Life Insurance Companies Key Insurance Risks

Our Individual Retirement, Group Retirement, Life Insurance and Institutional Markets businesses manage risk through product design, experience monitoring, pricing actions, risk limitations, reinsurance and active monitoring and management of the relationships between assets and liabilities, including hedging.

For our Individual and Group Retirement and Life Insurance products offered by the Life Insurance Companies, key insurance risks include the following:

- **Mortality risk** – represents the risk of loss arising from actual mortality rates being higher than expected mortality rates. This risk could arise from pandemics or other events, including longer-term societal changes that cause higher than expected mortality. This risk exists in a number of our product lines, but is most significant for our life insurance products.

- **Longevity risk** – represents the risk of a change in value of a policy or benefit as a result of actual mortality rates being lower than the expected mortality rates. This risk could arise from longer-term societal health changes as well as other factors. This risk exists in a number of our product lines but is most significant for our retirement, institutional and annuity products.

- **Policyholder behavior risk including surrender/lapse risk** – represents the risk that actual policyholder behavior differs from expected behavior in a manner that has an adverse effect on our results of operations. There are many assumptions made when products are sold, including how long the contracts will persist. Actual experience can vary significantly from these assumptions. This risk is impacted by a number of factors including changes in market conditions, especially interest rate and equity market changes, tax law, regulations and policyholder preferences. This risk exists in the majority of our product lines.

- **Interest rate risk** – represents the potential for loss due to a change in interest rates. Interest rate risk is measured with respect to assets, liabilities (both insurance-related and financial) and derivatives. This risk manifests itself when interest rates move significantly in a short period of time. Rapidly rising interest rates create the potential for increased surrenders. Interest rate risk can also manifest itself over a longer period of time, such as in a persistent low interest rate environment. Low long-term interest rates put pressure on investment returns, which may negatively affect sales of interest rate sensitive products and reduce, or eliminate future profits on certain existing fixed rate products.

- **Equity risk** – represents the potential for loss due to changes in equity prices. It affects equity-linked insurance products, including but not limited to index annuities, variable annuities (and associated guaranteed living and death benefits, as discussed below), universal life insurance and variable universal life insurance. In addition, changes in the volatility of equity prices can affect the valuation of insurance features that are accounted for as embedded derivatives and the related economic hedges.

The emergence of significant adverse experience compared to the initial assumptions at policy issuance or updated assumption would require an adjustment to DAC and benefit reserves, which could have a material adverse effect on our consolidated results of operations for a particular period. For additional discussion of the impact of actual and expected experience on DAC and benefit reserves, see Critical Accounting Estimates – Future Policy Benefits for Life and Accident and Health (Life Insurance Companies) and Critical Accounting Estimates – Guaranteed Benefit Features of Variable Annuity Products (Life Insurance Companies). For additional discussion of business risks, see Item 1A. Risk Factors — Business and Operations.

Variable Annuity Risk Management and Hedging Programs

Our Individual and Group Retirement businesses offer variable annuity products with GMWB riders that guarantee a certain level of benefits. GMWB guaranteed living benefits are accounted for as embedded derivatives measured at fair value, with changes in the fair value recorded in Other realized capital gains (losses). GMWB features subject the Life Insurance Companies to market risk, including exposure to changes in interest rates, equity prices, credit spreads and market volatility.

Variable annuity product design is the first step in managing our exposure to these market risks. Risk mitigation features of our variable annuity product design include GMWB rider fees indexed to an equity market volatility index, which can provide additional fee assessments in periods of increased market volatility, required minimum allocations to fixed accounts to reduce overall equity exposure, and the utilization of volatility control funds, which reduce equity exposure in the funds in response to changes in market volatility, even under sudden or extreme market movements.

After reflecting our product risk-mitigating features, we hedge our remaining economic exposure to market risk within GMWB features through our variable annuity hedging program, which is designed to offset certain changes in the economic value of these GMWB embedded derivatives, within established thresholds. The hedging program is designed to provide additional protection against large and combined movements in interest rates, equity prices, credit spreads and market volatility under multiple scenarios.

Our hedging program utilizes an economic hedge target, which represents our estimate of the underlying economic risks in our GMWB riders, based on the present value of the future expected benefit payments for the GMWB, less the present value of future rider fees, over numerous stochastic scenarios. This stochastic projection method uses best estimate assumptions for policyholder behavior (including mortality, lapses, withdrawals and benefit utilization) in conjunction with market scenarios calibrated to observable equity and interest rate option prices. Policyholder behaviors are regularly evaluated to compare current assumptions to actual experience and, if appropriate, changes are made to the policyholder behavior assumptions. The risk of changes in policyholder behavior is not explicitly hedged and such differences between expected and actual policyholder behaviors may result in hedge ineffectiveness.

Due to differences between the calculation of the economic hedge target and U.S. GAAP valuation of the embedded derivative, which include differences in the treatment of rider fees and exclusion of certain risk margins and other differences in discount rates, we expect relative movements in the economic hedge target and the U.S. GAAP embedded derivative valuation will vary over time with changes in equity markets, interest rates and credit spreads. See Insurance Reserves – Life and Annuity Reserves and DAC – Variable Annuity Guaranteed Benefits and Hedging Results for information on the impact on our consolidated pre-tax income from the change in fair value of the embedded derivatives and the hedging portfolio, as well as additional discussion of differences between the economic hedge target and the valuation of the embedded derivatives.

In designing our hedging portfolio for our variable annuity hedging program, we make assumptions and projections about the future performance of the underlying contract holder funds. To project future account value changes, we make assumptions about how each of the underlying funds will perform. We map the contract holder funds to a set of publicly traded indices that we believe best represent the liability to be hedged. Basis risk exists due to the variance between these assumptions and actual fund returns, which may result in variances between changes in the hedging portfolio and changes in the economic hedge target. Net hedge results and the cost of hedging are also impacted by differences between realized volatility and implied volatility.

For index annuity and universal life products, we have a hedging program designed to manage the index crediting strategies associated with index annuity and index life products. This hedging program is designed to offset the economic risk with respect to the index returns for the current crediting rate reset period, and utilizes derivative instruments, including but not limited to equity index options and futures contracts. Similarly as with the variable annuities, there are differences between the calculation of the economic hedge target and U.S. GAAP valuation of the index annuity and index life embedded derivatives, which can lead to variances in their relative movements.

To manage the capital market exposures embedded within the economic hedge target, we identify and hedge market sensitivities to changes in equity markets, interest rates, volatility and for variable annuities, credit spreads. Each hedge program purchases derivative instruments or securities having sensitivities that offset those in the economic hedge target, within internally defined threshold levels. Since the relative movements of the hedging portfolio and the economic hedge target vary over time or with market changes, the net exposure can be outside the threshold limits, and adjustments to the hedging portfolio are made periodically to return the net exposure to within threshold limits.

Our hedging programs utilize various derivative instruments, including but not limited to equity options, futures contracts, interest rate swaps and swaption contracts, as well as other hedging instruments. In addition, for variable annuities, we purchase certain fixed income securities and elect the fair value option as a capital efficient way to manage interest rate and credit spread exposures. To minimize counterparty credit risk, the majority of our derivative instrument hedges are implemented using exchange-traded futures and options, cleared through global exchanges. Over the counter derivatives are highly collateralized.

The hedging programs are monitored on a daily basis to ensure that the economic hedge target and derivative portfolio are within the threshold limits, pursuant to the approved hedge strategy. Daily risk monitoring verifies that the net risk exposures, as measured through sensitivities to a large set of market shocks, are within the approved net risk exposure threshold limits. In addition, monthly stress tests are performed to determine the program's effectiveness relative to the applicable limits, under an array of combined severe market stresses in equity prices, interest rates, volatility and credit spreads. Finally, hedge strategies are reviewed regularly to gauge their effectiveness in managing our market exposures in the context of our overall risk appetite.

Other BUSINESS Risks

Derivative Transactions

We utilize derivatives principally to enable us to hedge exposure to interest rates, currencies, credit, commodities, equities and other risks. Credit risk associated with derivative counterparties exists for a derivative contract when that contract has a positive fair value to us. The maximum potential exposure will increase or decrease during the life of the derivative commitments as a function of maturity and market conditions. All derivative transactions must be transacted within counterparty limits that have been approved by ERM.

We evaluate counterparty credit quality by internal analysis consistent with the AIG Credit Policy. We utilize various credit enhancements, including letters of credit, guarantees, collateral, credit triggers, credit derivatives, margin agreements and subordination to reduce the credit risk relating to outstanding financial derivative transactions. We require credit enhancements in connection with specific transactions based on, among other things, the creditworthiness of the counterparties, and transaction size and maturity. Furthermore, we enter into certain agreements that have the benefit of set-off and close-out netting provisions, such as ISDA Master Agreements. These provisions provide that, in the case of an early termination of a transaction, we can set off receivables from a counterparty against payables to the same counterparty arising out of all covered transactions. As a result, where a legally enforceable netting agreement exists, the fair value of the transaction with the counterparty represents the net sum of estimated fair values.

The fair value of our interest rate, currency, credit, commodity and equity swaps, options, swaptions, and forward commitments, futures, and forward contracts reported as a component of Other Assets, was approximately $1.8 billion at December 31, 2016 and $1.3 billion at December 31, 2015. Where applicable, these amounts have been determined in accordance with the respective master netting agreements.

The following table presents the fair value of our derivatives portfolios in asset positions by internal counterparty credit rating:

At December 31, *(in millions)*	2016	2015
Rating:		
AAA	**$ 68**	$ 56
AA	**12**	103
A	**163**	256
BBB	**1,338**	767
Below investment grade	**228**	127
Total	**$ 1,809**	$ 1,309

See Note 11 to the Consolidated Financial Statements for additional discussion related to derivative transactions.

LIFE SETTLEMENTS

The major risk for investments in life settlements is longevity risk, which represents the risk of a change in the carrying value of the contracts arising from actual mortality rates being lower than the expected mortality rates. This risk could arise from longer term societal health changes as well as other factors.

Glossary

Accident year The annual calendar accounting period in which loss events occurred, regardless of when the losses are actually reported, booked or paid.

Accident year combined ratio, as adjusted The combined ratio excluding catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting.

Accident year loss ratio, as adjusted The loss ratio excluding catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting.

Acquisition ratio Acquisition costs divided by net premiums earned. Acquisition costs are those costs incurred to acquire new and renewal insurance contracts and also include the amortization of VOBA and DAC. Acquisition costs vary with sales and include, but are not limited to, commissions, premium taxes, direct marketing costs and certain costs of personnel engaged in sales support activities such as underwriting.

Base Spread Net investment income excluding income from alternative investments and other enhancements, less interest credited excluding amortization of sales inducement assets.

Base Yield Net investment income excluding income from alternative investments and other enhancements, as a percentage of average base invested asset portfolio, which excludes alternative investments, other bond securities and certain other investments for which the fair value option has been elected.

Book Value Per Common Share Excluding Accumulated Other Comprehensive Income (AOCI), Book Value Per Common Share Excluding AOCI and Deferred Tax Assets (DTA) (Adjusted Book Value Per Common Share) and Adjusted Book Value Per Common Share Including Dividend Growth are non-GAAP measures and are used to show the amount of our net worth on a per-share basis. Book Value Per Common Share Excluding AOCI is derived by dividing total AIG shareholders’ equity, excluding AOCI, by total common shares outstanding. Adjusted Book Value Per Common Share is derived by dividing total AIG shareholders’ equity, excluding AOCI and DTA (Adjusted Shareholders’ Equity), by total common shares outstanding. Adjusted Book Value Per Common Share including Dividend Growth is derived by dividing Adjusted Shareholders’ Equity, including growth in quarterly dividends above $0.125 per share to shareholders, by total common shares outstanding.

Casualty insurance Insurance that is primarily associated with the losses caused by injuries to third persons, i.e., not the insured, and the legal liability imposed on the insured as a result.

Combined ratio Sum of the loss ratio and the acquisition and general operating expense ratios.

CSA *Credit Support Annex* A legal document generally associated with an ISDA Master Agreement that provides for collateral postings which could vary depending on ratings and threshold levels.

CVA *Credit Valuation Adjustment* The CVA adjusts the valuation of derivatives to account for nonperformance risk of our counterparty with respect to all net derivative assets positions. Also, the CVA reflects the fair value movement in AIGFP's asset portfolio that is attributable to credit movements only, without the impact of other market factors such as interest rates and foreign exchange rates. Finally, the CVA also accounts for our own credit risk in the fair value measurement of all derivative net liability positions and liabilities where AIG has elected the fair value option, when appropriate.

DAC *Deferred Policy Acquisition Costs* Deferred costs that are incremental and directly related to the successful acquisition of new business or renewal of existing business.

DAC Related to Unrealized Appreciation (Depreciation) of Investments An adjustment to DAC for investment-oriented products, equal to the change in DAC amortization that would have been recorded if fixed maturity and equity securities available for sale had been sold at their stated aggregate fair value and the proceeds reinvested at current yields (also referred to as “shadow DAC”).

Deferred Gain on Retroactive Reinsurance Retroactive reinsurance is a reinsurance contract in which an assuming entity agrees to reimburse a ceding entity for liabilities incurred as a result of past insurable events. If the amount of premium paid by the ceding reinsurer is less than the related ceded loss reserves, the resulting gain is deferred and amortized over the settlement period of the reserves. Any related development on the ceded loss reserves recoverable under the contract would increase the deferred gain if unfavorable, or decrease the deferred gain if favorable.

Expense ratio Sum of acquisition expenses and general operating expenses, divided by net premiums earned.

Glossary

General operating expense ratio General operating expenses divided by net premiums earned. General operating expenses are those costs that are generally attributed to the support infrastructure of the organization and include but are not limited to personnel costs, projects and bad debt expenses. General operating expenses exclude losses and loss adjustment expenses incurred, acquisition expenses, and investment expenses.

GIC/GIA *Guaranteed Investment Contract/Guaranteed Investment Agreement* A contract whereby the seller provides a guaranteed repayment of principal and a fixed or floating interest rate for a predetermined period of time.

G-SII *Global Systemically Important Insurer* An insurer that is deemed globally systemically important (that is, of such size, market importance and global interconnectedness that the distress or failure of the insurer would cause significant dislocation in the global financial system and adverse economic consequences across a range of countries) by the Financial Stability Board, in consultation with and based on a methodology developed by the International Association of Insurance Supervisors.

IBNR *Incurred But Not Reported* Estimates of claims that have been incurred but not reported to us.

ISDA Master Agreement An agreement between two counterparties, which may have multiple derivative transactions with each other governed by such agreement, that generally provides for the net settlement of all or a specified group of these derivative transactions, as well as pledged collateral, through a single payment, in a single currency, in the event of a default on, or affecting any, one derivative transaction or a termination event affecting all, or a specified group of, derivative transactions.

LAE *Loss Adjustment Expenses* The expenses directly attributed to settling and paying claims of insureds and include, but are not limited to, legal fees, adjuster's fees and the portion of general expenses allocated to claim settlement costs.

Life Insurance Companies include the following major operating companies: American General Life Insurance Company (American General Life), The Variable Annuity Life Insurance Company (VALIC) and The United States Life Insurance Company in the City of New York (U.S. Life).

Loss Ratio Losses and loss adjustment expenses incurred divided by net premiums earned.

Loss reserve development The increase or decrease in incurred losses and loss adjustment expenses related to prior years as a result of the re-estimation of loss reserves at successive valuation dates for a given group of claims.

Loss reserves Liability for unpaid losses and loss adjustment expenses. The estimated ultimate cost of settling claims relating to insured events that have occurred on or before the balance sheet date, whether or not reported to the insurer at that date.

LTV *Loan-to-Value Ratio* Principal amount of loan amount divided by appraised value of collateral securing the loan.

Master netting agreement An agreement between two counterparties who have multiple derivative contracts with each other that provides for the net settlement of all contracts covered by such agreement, as well as pledged collateral, through a single payment, in a single currency, in the event of default on or upon termination of any one such contract.

Natural catastrophe losses are generally weather or seismic events having a net impact on AIG in excess of $10 million each. Catastrophes also include certain man-made events, such as terrorism and civil disorders that meet the $10 million threshold.

Net premiums written Represent the sales of an insurer, adjusted for reinsurance premiums assumed and ceded, during a given period. Net premiums earned are the revenue of an insurer for covering risk during a given period. Net premiums written are a measure of performance for a sales period, while Net premiums earned are a measure of performance for a coverage period.

Nonbank SIFI *Nonbank Systemically Important Financial Institutions* Financial institutions are deemed nonbank systemically important (that is, the failure of the financial institution could pose a threat to the financial stability of the United States) by the Financial Stability Oversight Council based on a three-stage analytical process.

Noncontrolling interest The portion of equity ownership in a consolidated subsidiary not attributable to the controlling parent company.

Operating revenue excludes Net realized capital gains (losses), income from non-operating litigation settlements (included in Other income for GAAP purposes) and changes in fair value of securities used to hedge guaranteed living benefits (included in Net investment income for GAAP purposes).

Policy fees An amount added to a policy premium, or deducted from a policy cash value or contract holder account, to reflect the cost of issuing a policy, establishing the required records, sending premium notices and other related expenses.

Pool A reinsurance arrangement whereby all of the underwriting results of the pool members are combined and then shared by each member in accordance with its pool participation percentage.

Premiums and deposits – Institutional Markets include direct and assumed amounts received and earned on group benefit policies and life-contingent payout annuities, and deposits received on investment-type annuity contracts, including GICs.

Premiums and deposits – Individual Retirement and Group Retirement and – Life Insurance include direct and assumed amounts received on traditional life insurance policies and group benefit policies, and deposits on life-contingent payout annuities, as well as deposits received on universal life, investment-type annuity contracts and mutual funds.

Prior year development See Loss reserve development.

Property Casualty Insurance Companies include the following major operating companies: National Union Fire Insurance Company of Pittsburgh, Pa. (National Union); American Home Assurance Company (American Home); Lexington Insurance Company (Lexington); Fuji Fire and Marine Insurance Company Limited (Fuji Fire); American Home Assurance Company, Ltd. (American Home Japan); AIU Insurance Company, Ltd. (AIUI Japan); AIG Asia Pacific Insurance, Pte, Ltd.; and AIG Europe Limited.

RBC *Risk-Based Capital* A formula designed to measure the adequacy of an insurer's statutory surplus compared to the risks inherent in its business.

Reinstatement premium Additional premiums payable to reinsurers to restore coverage limits that have been exhausted as a result of reinsured losses under certain excess of loss reinsurance treaties.

Reinsurance The practice whereby one insurer, the reinsurer, in consideration of a premium paid to that insurer, agrees to indemnify another insurer, the ceding company, for part or all of the liability of the ceding company under one or more policies or contracts of insurance which it has issued.

Retroactive Reinsurance See Deferred Gain on Retroactive Reinsurance.

Return on Equity – After-tax Operating Income Excluding AOCI and DTA (Adjusted Return on Equity) is a non-GAAP measure and is used to show the rate of return on shareholders' equity. Adjusted Return on Equity is derived by dividing actual or annualized after-tax operating income attributable to AIG by average Adjusted Shareholders' Equity.

Salvage The amount that can be recovered by an insurer for the sale of damaged goods for which a policyholder has been indemnified (and to which title was transferred).

Severe losses Individual non-catastrophe first party losses and surety losses greater than $10 million, net of related reinsurance and salvage and subrogation. Severe losses include claims related to satellite explosions, plane crashes, and shipwrecks.

SIA *Sales Inducement Asset* Represents enhanced crediting rates or bonus payments to contract holders on certain annuity and investment contract products that meet the criteria to be deferred and amortized over the life of the contract.

Solvency II Legislation in the European Union which reforms the insurance industry's solvency framework, including minimum capital and solvency requirements, governance requirements, risk management and public reporting standards. The Solvency II Directive (2009/138/EEC) was adopted on November 25, 2009 and became effective on January 1, 2016.

Subrogation The amount of recovery for claims we have paid our policyholders, generally from a negligent third party or such party's insurer.

Surrender charge A charge levied against an investor for the early withdrawal of funds from a life insurance or annuity contract, or for the cancellation of the agreement.

Surrender rate represents annualized surrenders and withdrawals as a percentage of average reserves and Group Retirement mutual fund assets under administration.

Unearned premium reserve Liabilities established by insurers and reinsurers to reflect unearned premiums, which are usually refundable to policyholders if an insurance or reinsurance contract is canceled prior to expiration of the contract term.

VOBA Value of Business Acquired Present value of projected future gross profits from in-force policies of acquired businesses.

Acronyms

A&H Accident and Health Insurance
ABS Asset-Backed Securities

CDO Collateralized Debt Obligations
CDS Credit Default Swap

CMA Capital Maintenance Agreement
CMBS Commercial Mortgage-Backed Securities
EGPs Estimated gross profits
FASB Financial Accounting Standards Board
FRBNY Federal Reserve Bank of New York
GAAP Accounting principles generally accepted in the United States of America
GMDB Guaranteed Minimum Death Benefits
GMIB Guaranteed Minimum Income Benefits
GMWB Guaranteed Minimum Withdrawal Benefits
ISDA International Swaps and Derivatives Association, Inc.
Moody's Moody's Investors' Service Inc.
NAIC National Association of Insurance Commissioners
NM Not Meaningful
OTC Over-the-Counter
OTTI Other-Than-Temporary Impairment
RMBS Residential Mortgage-Backed Securities
S&P Standard & Poor's Financial Services LLC
SEC Securities and Exchange Commission

URR Unearned revenue reserve
VIE Variable Interest Entity

ITEM 7A | Quantitative and Qualitative Disclosures about Market Risk

The information required by this item is set forth in the Enterprise Risk Management section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and is incorporated herein by reference.

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Part II

ITEM 8 | Financial Statements and Supplementary Data

American International Group, Inc.

Reference to Financial Statements and Schedules

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of American International Group, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of American International Group, Inc. and its subsidiaries (AIG) at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, AIG maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in the *Internal Control — Integrated Framework 2013* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). AIG's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A in the Annual Report on Form 10-K. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on AIG's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

New York, New York

February 23, 2017

American International Group, Inc.

Consolidated Balance Sheets

(in millions, except for share data)

Assets:

Investments:

Fixed maturity securities:

Bonds available for sale, at fair value (amortized cost: 2016 - $232,241; 2015 - $240,968)

Other bond securities, at fair value (See Note 6)

Equity Securities:

Common and preferred stock available for sale, at fair value (cost: 2016 - $1,697; 2015 - $1,379)

Other common and preferred stock, at fair value (See Note 6)

Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2016 - $11; 2015 - $11)

Other invested assets (portion measured at fair value: 2016 - $6,946; 2015 - $8,912)

Short-term investments (portion measured at fair value: 2016 - $3,341; 2015 - $2,591)

Total investments

Cash

Accrued investment income

Premiums and other receivables, net of allowance

Reinsurance assets, net of allowance

Deferred income taxes

Deferred policy acquisition costs

Other assets, including restricted cash of $193 in 2016 and $170 in 2015
(portion measured at fair value: 2016 - $1,809; 2015 - $1,309)

Separate account assets, at fair value

Assets held for sale

Total assets

Liabilities:

Liability for unpaid losses and loss adjustment expenses

Unearned premiums

Future policy benefits for life and accident and health insurance contracts

Policyholder contract deposits (portion measured at fair value: 2016 - $3,058; 2015 - $2,325)

Other policyholder funds (portion measured at fair value: 2016 - $5; 2015 - $6)

Other liabilities (portion measured at fair value: 2016 - $2,016; 2015 - $2,082)

Long-term debt (portion measured at fair value: 2016 - $3,428; 2015 - $3,670)

Separate account liabilities

Liabilities held for sale

Total liabilities

Contingencies, commitments and guarantees (see Note 16)

AIG shareholders' equity:

Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued: 2016 - 1,906,671,492 and 2015 - 1,906,671,492

Treasury stock, at cost; 2016 - 911,335,651; 2015 - 712,754,875 shares of common stock

Additional paid-in capital

Retained earnings
Accumulated other comprehensive income
Total AIG shareholders' equity
Non-redeemable noncontrolling interests
Total equity
Total liabilities and equity

See accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc.

Consolidated Statements of Income

(dollars in millions, except per share data)	Years Ended December 31, 2016	2015	2014
Revenues:			
Premiums	$ 34,393	$ 36,655	$ 37,254
Policy fees	2,732	2,755	2,615
Net investment income	14,065	14,053	16,079
Net realized capital gains (losses):			
Total other-than-temporary impairments on available for sale securities	(458)	(556)	(182)
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income (loss)	(29)	(35)	(35)
Net other-than-temporary impairments on available for sale securities recognized in net income (loss)	(487)	(591)	(217)
Other realized capital gains (losses)	(1,457)	1,367	956
Total net realized capital gains (losses)	(1,944)	776	739
Aircraft leasing revenue	-	-	1,602
Other income	3,121	4,088	6,117
Total revenues	52,367	58,327	64,406
Benefits, losses and expenses:			
Policyholder benefits and losses incurred	32,437	31,345	28,281
Interest credited to policyholder account balances	3,705	3,731	3,768
Amortization of deferred policy acquisition costs	4,521	5,236	5,330
General operating and other expenses	10,989	12,686	13,138
Interest expense	1,260	1,281	1,718
Aircraft leasing expenses	-	-	1,585
Loss on extinguishment of debt	74	756	2,282
Net (gain) loss on sale of properties and divested businesses	(545)	11	(2,197)
Total benefits, losses and expenses	52,441	55,046	53,905
Income (loss) from continuing operations before income tax expense	(74)	3,281	10,501
Income tax expense:			
Current	576	820	588
Deferred	(391)	239	2,339
Income tax expense	185	1,059	2,927
Income (loss) from continuing operations	(259)	2,222	7,574
Income (loss) from discontinued operations, net of income tax expense	(90)	-	(50)
Net income (loss)	(349)	2,222	7,524
Less:			
Net income (loss) from continuing operations attributable to noncontrolling interests	500	26	(5)
Net income (loss) attributable to AIG	$ (849)	$ 2,196	$ 7,529
Net income (loss) attributable to AIG common shareholders	$ (849)	$ 2,196	$ 7,529

Income (loss) per common share attributable to AIG:			
Basic:			
Income (loss) from continuing operations	**$ (0.70)**	$ 1.69	$ 5.31
Loss from discontinued operations	**$ (0.08)**	$ -	$ (0.04)
Net income (loss) attributable to AIG	**$ (0.78)**	$ 1.69	$ 5.27
Diluted:			
Income (loss) from continuing operations	**$ (0.70)**	$ 1.65	$ 5.24
Loss from discontinued operations	**$ (0.08)**	$ -	$ (0.04)
Net income (loss) attributable to AIG	**$ (0.78)**	$ 1.65	$ 5.20
Weighted average shares outstanding:			
Basic	**1,091,085,131**	1,299,825,350	1,427,959,799
Diluted	**1,091,085,131**	1,334,464,883	1,447,553,652
Dividends declared per common share	**$ 1.28**	$ 0.81	$ 0.50

See accompanying Notes to Consolidated Financial Statements.

American International Group, Inc.

Consolidated Statements of Comprehensive Income (Loss)

	Years Ended December 31,		
(in millions)	**2016**	2015	2014
Net income (loss)	**$(349)**	$ 2,222	$ 7,524
Other comprehensive income (loss), net of tax			
Change in unrealized appreciation (depreciation) of fixed maturity securities on which other-than-temporary credit impairments were recognized	**(270)**	(347)	107
Change in unrealized appreciation (depreciation) of all other investments	**839**	(6,762)	5,538
Change in foreign currency translation adjustments	**250**	(1,100)	(832)
Change in retirement plan liabilities adjustment	**(126)**	123	(556)
Other comprehensive income (loss)	**693**	(8,086)	4,257
Comprehensive income (loss)	**344**	(5,864)	11,781
Comprehensive income (loss) attributable to noncontrolling interests	**500**	20	(5)
Comprehensive income (loss) attributable to AIG	**$(156)**	$(5,884)	$11,786

See accompanying Notes to Consolidated Financial Statements.

American International Group, Inc.

Consolidated Statements of Equity

(in millions)	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income
Balance, January 1, 2014	$ 4,766	$ (14,520)	$ 80,899	$ 22,965	$ 6,360
Purchase of common stock	-	(4,698)	-	-	-
Net income (loss) attributable to AIG or other noncontrolling interests	-	-	-	7,529	-
Dividends	-	-	-	(712)	-
Other comprehensive income (loss)	-	-	-	-	4,257
Deferred income taxes	-	-	(10)	-	-
Net decrease due to deconsolidation	-	-	-	-	-
Contributions from noncontrolling interests	-	-	-	-	-
Distributions to noncontrolling interests	-	-	-	-	-
Other	-	-	69	(7)	-
Balance, December 31, 2014	$ 4,766	$ (19,218)	$ 80,958	$ 29,775	$ 10,617
Common stock issued under stock plans	-	13	(13)	-	-
Purchase of common stock	-	(10,895)	-	-	-
Net income attributable to AIG or other noncontrolling interests	-	-	-	2,196	-
Dividends	-	-	-	(1,028)	-
Other comprehensive loss	-	-	-	-	(8,080)
Deferred income taxes	-	-	(9)	-	-
Net increase due to acquisition and consolidations	-	-	-	-	-
Contributions from noncontrolling interests	-	-	-	-	-
Distributions to noncontrolling interests	-	-	-	-	-
Other	-	2	574	-	-
Balance, December 31, 2015	$ 4,766	$ (30,098)	$ 81,510	$ 30,943	$ 2,537
Common stock issued under stock plans	**-**	**86**	**(175)**	**-**	**-**
Purchase of common stock	**-**	**(11,460)**	**-**	**-**	**-**
Net income (loss) attributable to AIG or noncontrolling interests	**-**	**-**	**-**	**(849)**	**-**
Dividends	**-**	**-**	**-**	**(1,372)**	**-**
Other comprehensive income (loss)	**-**	**-**	**-**	**-**	**693**
Current and deferred income taxes	**-**	**-**	**(208)**	**-**	**-**
Net increase due to acquisitions and consolidations	**-**	**-**	**-**	**-**	**-**
Contributions from noncontrolling interests	**-**	**-**	**-**	**-**	**-**
Distributions to noncontrolling interests	**-**	**-**	**-**	**-**	**-**
Other	**-**	**1**	**(63)**	**(11)**	**-**
Balance, December 31, 2016	**$ 4,766**	**$ (41,471)**	**$ 81,064**	**$ 28,711**	**$ 3,230**

See accompanying Notes to Consolidated Financial Statements.

American International Group, Inc.

Consolidated Statements of Cash Flows

(in millions)	Years Ended D 2016	2
Cash flows from operating activities:		
Net income (loss)	**$ (349)**	$ 2
(Income) loss from discontinued operations	**90**	
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Noncash revenues, expenses, gains and losses included in income (loss):		
Net gains on sales of securities available for sale and other assets	**(2,033)**	(1,
Net (gains) losses on sales of divested businesses	**(545)**	
Losses on extinguishment of debt	**74**	
Unrealized (gains) losses in earnings – net	**1,465**	(
Equity in income from equity method investments, net of dividends or distributions	**(54)**	(
Depreciation and other amortization	**4,090**	4
Impairments of assets	**1,116**	1
Changes in operating assets and liabilities:		
Insurance reserves	**5,325**	1
Premiums and other receivables and payables – net	**536**	
Reinsurance assets and funds held under reinsurance treaties	**(1,804)**	1
Capitalization of deferred policy acquisition costs	**(5,216)**	(5,
Current and deferred income taxes – net	**(308)**	
Other, net	**(4)**	(1,
Total adjustments	**2,642**	
Net cash provided by operating activities	**2,383**	2
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales or distribution of:		
Available for sale investments	**30,103**	28
Other securities	**4,164**	6
Other invested assets	**9,554**	8
Divested businesses, net	**2,809**	
Maturities of fixed maturity securities available for sale	**25,749**	24
Principal payments received on and sales of mortgage and other loans receivable	**6,074**	5
Purchases of:		
Available for sale investments	**(54,978)**	(48,
Other securities	**(935)**	(2,
Other invested assets	**(3,421)**	(3,
Mortgage and other loans receivable	**(10,651)**	(10,
Net change in restricted cash	**385**	1
Net change in short-term investments	**(3,089)**	1
Other, net	**(1,020)**	(1,
Net cash provided by investing activities	**4,744**	8
Cash flows from financing activities:		
Proceeds from (payments for)		
Policyholder contract deposits	**18,100**	17
Policyholder contract withdrawals	**(14,041)**	(14,

Issuance of long-term debt	**5,954**	6
Repayments of long-term debt	**(4,082)**	(9,8
Purchase of Common Stock	**(11,460)**	(10,0
Dividends paid	**(1,372)**	(1,0
Other, net	**68**	
Net cash used in financing activities	**(6,833)**	(11,4
Effect of exchange rate changes on cash	**52**	
Net increase (decrease) in cash	**346**	(
Cash at beginning of year	**1,629**	1
Change in cash of businesses held for sale	**(107)**	
Cash at end of year	**$ 1,868**	$ 1

American International Group, Inc.

Consolidated Statements of Cash Flows

Supplementary Disclosure of Consolidated Cash Flow Information

	Years Ended December 31,		
(in millions)	**2016**	2015	2014
Cash paid during the period for:			
Interest	**$ 1,331**	$ 1,368	$ 3,367
Taxes	**$ 493**	$ 511	$ 737
Non-cash investing/financing activities:			
Interest credited to policyholder contract deposits included in financing activities	**$ 3,430**	$ 3,676	$ 3,904
Non-cash consideration received from sale of ILFC	**$ -**	$ -	$ 4,586
Non-cash consideration received from sale of AerCap	**$ -**	$ 500	$ -
Non-cash consideration received from sale of UGC	**$ 1,101**	$ -	$ -

See accompanying Notes to Consolidated Financial Statements.

1. Basis of Presentation

American International Group, Inc. (AIG) is a leading global insurance organization serving customers in more than 80 countries and jurisdictions. AIG companies serve commercial and individual customers through one of the most extensive worldwide property casualty networks of any insurer. In addition, AIG companies are leading providers of life insurance and retirement services in the United States. AIG Common Stock, par value $2.50 per share (AIG Common Stock), is listed on the New York Stock Exchange (NYSE: AIG) and the Tokyo Stock Exchange. Unless the context indicates otherwise, the terms "AIG," "we," "us" or "our" mean American International Group, Inc. and its consolidated subsidiaries and the term "AIG Parent" means American International Group, Inc. and not any of its consolidated subsidiaries.

The consolidated financial statements include the accounts of AIG Parent, our controlled subsidiaries (generally through a greater than 50 percent ownership of voting rights and voting interests), and variable interest entities (VIEs) of which we are the primary beneficiary. Equity investments in entities that we do not consolidate, including corporate entities in which we have significant influence and partnership and partnership-like entities in which we have more than minor influence over the operating and financial policies, are accounted for under the equity method unless we have elected the fair value option.

Certain of our foreign subsidiaries included in the Consolidated Financial Statements report on different fiscal-period bases. The effect on our consolidated financial condition and results of operations of all material events occurring at these subsidiaries through the date of each of the periods presented in these Consolidated Financial Statements has been considered for adjustment and/or disclosure.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). All material intercompany accounts and transactions have been eliminated.

Sales of Businesses

NSM

On August 31, 2016, we sold our controlling interest in NSM Insurance Group (NSM), a managing general agent to ABRY Partners, a private equity firm, for consideration of $201 million resulting in a pre-tax gain of approximately $105 million in the third quarter of 2016. We retained an equity interest in a newly formed joint venture and will continue to provide underwriting capacity to NSM. We also retained exclusive renewal rights for certain business written through NSM.

Ascot

On September 16, 2016, we entered into an agreement to sell our 20 percent interest in Ascot Underwriting Holdings Ltd. and our 100 percent interest in the related syndicate-funding subsidiary Ascot Corporate Name Ltd. to Canada Pension Plan Investment Board (CPPIB). Total consideration for the transaction was $1.1 billion resulting in a pre-tax gain of approximately $162 million attributable to AIG's controlling interest, inclusive of CPPIB's recapitalization of Syndicate 1414's Funds at Lloyd's (FAL) capital requirements. The transaction closed on November 18, 2016, and we received approximately $244 million in net cash proceeds.

Korea Fund

On November 17, 2016, an AIG sponsored Fund (the Korea Fund), completed the sale of mixed-use commercial complex in Seoul, South Korea commonly known as the Seoul International Finance Center to Brookfield Properties for a total consideration of $2.5 billion, of which $1.2 billion was used to repay the fund's debt.The sale resulted in a pre-tax gain f $1.1 billi n included in Other Income, of which $464 million was attributable to AIG's controlling interest.

United Guaranty

On December 31, 2016, we sold our 100 percent interest in United Guaranty Corporation (UGC) and certain related affiliates to Arch Capital Group Ltd. (Arch) for total consideration of $3.3 billion, consisting of $2.2 billion of cash and approximately $1.1 billion of newly issued Arch convertible non-voting common-equivalent preferred stock and reported a pre-tax gain of approximately $697 million. We also received $261 million in pre-closing dividends from UGC in the fourth quarter of 2016.

Concurrent with the closing, we entered into reinsurance agreements with Arch, including an amended and restated 50 percent quota share reinsurance agreement and an aggregate excess of loss reinsurance agreement, pursuant to which we will continue to be exposed to certain UGC policies written between 2009 and 2016.

In addition, see Note 4 to the Consolidated Financial Statements for information regarding expected sales of businesses that are classified as held-for-sale.

ILFC

On May 14, 2014, we completed the sale of 100 percent of the common stock of International Lease Finance Corporation (ILFC) to AerCap Ireland Limited, a wholly owned subsidiary of AerCap Holdings N.V. (AerCap), in exchange for total consideration of approximately $7.6 billion, including cash and 97.6 million newly issued AerCap common shares (the AerCap Transaction). The total value of the consideration was based in part on AerCap's closing price per share of $47.01 on May 13, 2014. ILFC's results of operations are reflected in Aircraft leasing revenue and Aircraft leasing expenses in the Consolidated Statements of Income (Loss) through the date of the completion of the sale.

In June 2015, we sold 86.9 million ordinary shares of AerCap by means of an underwritten public offering of 71.2 million ordinary shares and a private sale of 15.7 million ordinary shares to AerCap. We received cash proceeds of approximately $3.7 billion, reflecting proceeds of approximately $3.4 billion from the underwritten offering and cash proceeds of $250 million from the private sale of shares to AerCap. In connection with the closing of the private sale of shares to AerCap, we also received $500 million of 6.50% fixed-to-floating rate junior subordinated notes issued by AerCap Global Aviation Trust and guaranteed by AerCap and certain of its subsidiaries. These notes, included in Bonds available for sale, mature in 2045 and are callable beginning in 2025. We accounted for our interest in AerCap using the equity method of accounting through the date of the June 2015 sale, and as available for sale thereafter. In August 2015, we sold our remaining 10.7 million ordinary shares of AerCap by means of an underwritten public offering and received proceeds of approximately $500 million.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires the application of accounting policies that often involve a significant degree of judgment. Accounting policies that we believe are most dependent on the application of estimates and assumptions are considered our critical accounting estimates and are related to the determination of:

- income tax assets and liabilities, including recoverability of our net deferred tax asset and the predictability of future tax operating profitability of the character necessary to realize the net deferred tax asset;
- liability for unpaid losses and loss adjustment expenses (loss reserves);
- reinsurance assets;
- valuation of future policy benefit liabilities and timing and extent of loss recognition;
- valuation of liabilities for guaranteed benefit features of variable annuity products;

- estimated gross profits to value deferred policy acquisition costs for investment-oriented products;
- impairment charges, including other-than-temporary impairments on available for sale securities, impairments on other invested assets, including investments in life settlements, and goodwill impairment;
- liability for legal contingencies; and
- fair value measurements of certain financial assets and liabilities.

These accounting estimates require the use of assumptions about matters, some of which are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, our consolidated financial condition, results of operations and cash flows could be materially affected.

Out of Period Adjustments

For the year ended December 31, 2016, we recorded out of period adjustments relating to prior years that increased Net loss attributable to AIG by $174 million, increased Loss from continuing operations before income taxes by $57 million and decreased pre-tax operating income by $6 million. The out of period adjustments are primarily related to income tax liabilities and ceded loss adjustment expenses. Had these adjustments, which were determined not to be material, been recorded in their appropriate periods, Net Income attributable to AIG for the years ended December 31, 2015 and 2014 would have decreased by $67 million and $12 million, respectively.

For the year ended December 31, 2015, we recorded out of period adjustments relating to prior years that decreased Net income attributable to AIG by $156 million, decreased Income from continuing operations before income taxes by $376 million and decreased pre-tax operating income by $235 million. The out of period adjustments are primarily related to impairments of Other invested assets and changes in loss reserves and income tax liabilities. Had these adjustments, which were determined not to be material, been recorded in their appropriate periods, Net income attributable to AIG for the year ended December 31, 2014 would have decreased by $51 million.

2. Summary of Significant Accounting Policies

The following table identifies our significant accounting policies presented in other Notes to these Consolidated Financial Statements, with a reference to the Note where a detailed description can be found:

Note 6. Investments

- Fixed maturity and equity securities
- Other invested assets
- Short-term investments
- Net investment income
- Net realized capital gains (losses)
- Other-than-temporary impairments

Note 7. Lending Activities

- Mortgage and other loans receivable – net of allowance

Note 8. Reinsurance

- Reinsurance assets – net of allowance

Note 9. Deferred Policy Acquisition Costs

- Deferred policy acquisition costs
- Amortization of deferred policy acquisition costs

Note 10. Variable Interest Entities

Note 11. Derivatives and Hedge Accounting

- Derivative assets and liabilities, at fair value

Note 12. Goodwill

Note 13. Insurance Liabilities

- Liability for unpaid losses and loss adjustment expenses
- Discounting of reserves
- Future policy benefits
- Policyholder contract deposits
- Other policyholder funds

Note 14. Variable Life and Annuity Contracts

Note 15. **Debt**

- Long-term debt

Note 16. Contingencies, Commitments and Guarantees

- Legal contingencies

Note 18. Earnings Per Share

Note 23. Income Taxes

Other significant accounting policies

Premiums for short-duration contracts are recorded as written on the inception date of the policy. Premiums are earned primarily on a pro rata basis over the term of the related coverage. Sales of extended services contracts are reflected as premiums written and earned on a pro rata basis over the term of the related coverage. In addition, certain miscellaneous income is included as premiums written and earned. The reserve for unearned premiums includes the portion of premiums written relating to the unexpired terms of coverage. Reinsurance premiums are typically earned over the same period as the underlying policies or risks covered by the contract. As a result, the earnings pattern of a reinsurance contract may extend up to 24 months, reflecting the inception dates of the underlying policies throughout the year.

Reinsurance premiums ceded are recognized as a reduction in revenues over the period the reinsurance coverage is provided in proportion to the risks to which the premiums relate.

Premiums for long-duration insurance products and life contingent annuities are recognized as revenues when due. Estimates for premiums due but not yet collected are accrued.

Policy fees represent fees recognized from universal life and investment-type products consisting of policy charges for the cost of insurance, policy administration charges, surrender charges and amortization of unearned revenue reserves. Policy fees are recognized as revenues in the period in which they are assessed against policyholders, unless the fees are designed to compensate AIG for services to be provided in the future. Fees deferred as unearned revenue are amortized in relation to the incidence of expected gross profits to be realized over the estimated lives of the contracts, similar to DAC.

Aircraft leasing revenue from flight equipment under operating leases, through May 14, 2014, the date of disposal of ILFC, was recognized over the life of the leases as rental payments became receivable under the provisions of the leases or, in the case of leases with varying payments, under the straight-line method over the noncancelable term of the leases. In certain cases, leases provided for additional payments contingent on usage. In those cases, rental revenue was recognized at the time such usage occurred, net of estimated future contractual aircraft maintenance reimbursements. Gains on sales of flight equipment were recognized when flight equipment was sold and the risk of ownership of the equipment passed to the new owner.

Other income includes advisory fee income from the Consumer Insurance broker dealer business, as well as legal recoveries of $44 million, $94 million and $804 million from legacy crisis and other matters in 2016, 2015 and 2014, respectively.

Other income from our Other Operations category consists of the following:

- Changes in fair value relating to financial assets and liabilities for which the fair value option has been elected.
- Interest income and related expenses, including amortization of premiums and accretion of discounts on bonds with changes in the timing and the amount of expected principal and interest cash flows reflected in the yield, as applicable.
- Dividend income from common and preferred stock and earnings distributions from other investments.
- Changes in the fair value of other securities sold but not yet purchased, futures, hybrid financial instruments, securities purchased under agreements to resell, and securities sold under agreements to repurchase.
- Income earned on real estate based investments and related realized gains and losses from sales, property level impairments and financing costs.
- Exchange gains and losses resulting from foreign currency transactions.

- Earnings from private equity funds and hedge fund investments accounted for under the equity method.

- Changes in the fair value of derivatives at AIG Financial Products Corp. and related subsidiaries (collectively AIGFP).

Aircraft leasing expenses through May 14, 2014, the date of disposal of ILFC, consisted of ILFC interest expense, depreciation expense, impairment charges, fair value adjustments and lease-related charges on aircraft as well as selling, general and administrative expenses and other expenses incurred by ILFC.

Cash represents cash on hand and non-interest-bearing demand deposits.

Short-term investments consist of interest bearing cash equivalents, time deposits, securities purchased under agreements to resell, and investments, such as commercial paper, with original maturities within one year from the date of purchase.

Premiums and other receivables – net of allowance include premium balances receivable, amounts due from agents and brokers and policyholders, trade receivables for the Direct Investment book (DIB) and Global Capital Markets (GCM) and other receivables. Trade receivables for GCM include cash collateral posted to derivative counterparties that is not eligible to be netted against derivative liabilities. The allowance for doubtful accounts on premiums and other receivables was $279 million and $333 million at December 31, 2016 and 2015, respectively.

Other assets consist of sales inducement assets, prepaid expenses, deposits, other deferred charges, real estate, other fixed assets, capitalized software costs, goodwill, intangible assets other than goodwill, restricted cash and derivative assets.

We offer sales inducements which include enhanced crediting rates or bonus payments to contract holders (bonus interest) on certain annuity and investment contract products. Sales inducements provided to the contract holder are recognized in Policyholder contract deposits in the Consolidated Balance Sheets. Such amounts are deferred and amortized over the life of the contract using the same methodology and assumptions used to amortize DAC (see Note 9 herein). To qualify for such accounting treatment, the bonus interest must be explicitly identified in the contract at inception. We must also demonstrate that such amounts are incremental to amounts we credit on similar contracts without bonus interest, and are higher than the contract's expected ongoing crediting rates for periods after the bonus period. The deferred bonus interest and other deferred sales inducement assets totaled $808 million and $845 million at December 31, 2016 and 2015, respectively. The amortization expense associated with these assets is reported within Interest credited to policyholder account balances in the Consolidated Statements of Income. Such amortization expense totaled $77 million, $88 million and $63 million for the years ended December 31, 2016, 2015 and 2014, respectively.

The cost of buildings and furniture and equipment is depreciated principally on the straight-line basis over their estimated useful lives (maximum of 40 years for buildings and 10 years for furniture and equipment). Expenditures for maintenance and repairs are charged to income as incurred and expenditures for improvements are capitalized and depreciated. We periodically assess the carrying amount of our real estate for purposes of determining any asset impairment. Capitalized software costs, which represent costs directly related to obtaining, developing or upgrading internal use software, are capitalized and amortized using the straight-line method over a period generally not exceeding five years. Real estate, fixed assets and other long-lived assets are assessed for impairment when impairment indicators exist.

Separate accounts represent funds for which investment income and investment gains and losses accrue directly to the policyholders who bear the investment risk. Each account has specific investment objectives and the assets are carried at fair value. The assets of each account are legally segregated and are not subject to claims that arise from any of our other businesses. The liabilities for these accounts are equal to the account assets. Separate accounts may also include deposits for funds held under stable value wrap funding agreements, although the majority of stable value wrap sales are measured based on the notional amount included in assets under management and do not include the receipt of funds. For a more detailed discussion of separate accounts, see Note 14 herein.

Other liabilities consist of other funds on deposit, other payables, securities sold under agreements to repurchase, securities sold but not yet purchased and derivative liabilities. We have entered into certain insurance and reinsurance contracts, primarily in our Property Casualty Insurance Companies, that do not contain sufficient insurance risk to be accounted for as insurance or reinsurance. Accordingly, the premiums received on such contracts, after deduction for certain related expenses, are recorded as deposits within Other liabilities in the Consolidated Balance Sheets. Net proceeds of these deposits are invested and generate Net investment income. As amounts are paid, consistent with the underlying contracts, the deposit liability is reduced. Also included in Other liabilities are trade payables for the DIB and GCM, which include option premiums received and payables to counterparties that relate to unrealized gains and losses on futures, forwards, and options and balances due to clearing brokers and exchanges. Trade payables for GCM also include cash collateral received from derivative counterparties that contractually cannot be netted against derivative assets.

Securities sold but not yet purchased represent sales of securities not owned at the time of sale. The obligations arising from such transactions are recorded on a trade-date basis and carried at fair value. Fair values of securities sold but not yet purchased are based on current market prices.

Foreign currency: Financial statement accounts expressed in foreign currencies are translated into U.S. dollars. Functional currency assets and liabilities are translated into U.S. dollars generally using rates of exchange prevailing at the balance sheet date of each respective subsidiary and the related translation adjustments are recorded as a separate component of Accumulated other comprehensive income, net of any related taxes, in Total AIG shareholders’ equity. Income statement accounts expressed in functional currencies are translated using average exchange rates during the period. Functional currencies are generally the currencies of the local operating environment. Financial statement accounts expressed in currencies other than the functional currency of a consolidated entity are remeasured into that entity's functional currency resulting in exchange gains or losses recorded in income. The adjustments resulting from translation of financial statements of foreign entities operating in highly inflationary economies are recorded in income.

Non-redeemable noncontrolling interest is the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent.

Accounting Standards Adopted During 2016

Accounting for Share-Based Payments with Performance Targets

In June 2014, the FASB issued an accounting standard that clarifies the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The standard requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition.

We adopted the standard prospectively on its required effective date of January 1, 2016. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity

In August 2014, the FASB issued an accounting standard that allows a reporting entity to measure the financial assets and financial liabilities of a qualifying consolidated collateralized financing entity using the fair value of either its financial assets or financial liabilities, whichever is more observable.

We adopted the standard retrospectively on its required effective date of January 1, 2016. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

Amendments to the Consolidation Analysis

In February 2015, the FASB issued an accounting standard that affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; eliminate the presumption that a general partner should consolidate a limited partnership; affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds.

We adopted the standard prospectively on its required effective date of January 1, 2016. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB issued an accounting standard that provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance does not change generally accepted accounting principles applicable to a customer's accounting for service contracts. Consequently, all software licenses will be accounted for consistent with other licenses of intangible assets.

We adopted the standard prospectively on its required effective date of January 1, 2016. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued an accounting standard that amends the guidance for debt issuance costs by requiring such costs to be presented as a deduction to the corresponding debt liability, rather than as an asset, and for the amortization of such costs to be reported as interest expense. The amendments are intended to simplify the presentation of debt issuance costs and make it consistent with the presentation of debt discounts or premiums. The amendments, however, do not change the recognition and measurement guidance applicable to debt issuance costs.

We adopted the standard retrospectively on its required effective date of January 1, 2016. Because the new standard did not affect accounting recognition or measurement of debt issuance costs, the adoption of the standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)

In May 2015, the FASB amended standard on fair value disclosures for investments for which fair value is measured using the net asset value (NAV) per share (or its equivalent) as a practical expedient. The amendments in this update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. In addition, the amendment removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share as a practical expedient.

We adopted the standard retrospectively on its required effective date of January 1, 2016. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

Short Duration Insurance Contracts

In May 2015, the FASB issued an accounting standard that requires additional disclosures for short-duration insurance contracts. New disclosures about the liability for unpaid losses and loss adjustment expenses and net incurred losses and loss adjustment expenses are now required (including accident year information). The annual disclosures by accident year include: disaggregated net incurred and paid claims development tables segregated by business type (not required to exceed 10 years), reconciliation of total net reserves included in development tables to the reported liability for unpaid losses and loss adjustment expenses, incurred but not reported (IBNR) information, quantitative information and a qualitative description about claim frequency, and the average annual percentage payout of incurred claims. Further, the new standard requires, when applicable, disclosures about discounting liabilities for unpaid losses and loss adjustment expenses and significant changes and reasons for changes in methodologies and assumptions used to determine unpaid losses and loss adjustment expenses.

We adopted this standard on its required effective date of December 31, 2016. The required disclosures, reflected in Note 13, did not have any effect on our consolidated financial condition, results of operations or cash flows. In addition, the roll forward of the liability for unpaid losses and loss adjustment expenses currently disclosed in the annual financial statements will be disclosed as required for interim periods beginning in the first quarter of 2017.

Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued an accounting standard that requires management to evaluate and disclose if there are conditions or events that raise substantial doubt about an entity's ability to continue as a going concern even if the entity's liquidation is not imminent. In those situations, financial statements should continue to be prepared under the going concern basis of accounting, but this new standard requires an evaluation to determine whether to disclose information about the relevant conditions and events. Currently under U.S. GAAP there is no guidance about management's responsibility under this standard. U.S. auditing standards and federal securities law require that an auditor evaluate whether there is substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time not to exceed one year beyond the date of the financial statements being audited.

We adopted the standard on its required effective date of December 31, 2016. The adoption of this standard did not have an effect on our consolidated financial condition, results of operations or cash flows.

Improvements to Employee Share-Based Payment Accounting

In March 2016, the FASB issued a standard that simplifies several aspects of the accounting for share-based compensation, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification on the statement of cash flows. The standard is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted.

We elected early-adoption of the Standard, effective January 1, 2016. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

Future Application of Accounting Standards

Revenue Recognition

In May 2014, the FASB issued an accounting standard that supersedes most existing revenue recognition guidance. The standard excludes from its scope the accounting for insurance contracts, leases, financial instruments, and certain other agreements that are governed under other GAAP guidance, but could affect the revenue recognition for certain of our other activities.

The standard is effective on January 1, 2018 and may be applied retrospectively or through a cumulative effect adjustment to retained earnings at the date of adoption. Early adoption is permitted as of January 1, 2017, including interim periods. We are currently evaluating the impact to our revenue sources that are in scope of the standard. However, as the majority of our revenue sources are not in scope of the standard, we do not expect the adoption of the standard to have a material effect on our reported consolidated financial condition, results of operations or cash flows.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued an accounting standard that will require equity investments that do not follow the equity method of accounting or are not subject to consolidation to be measured at fair value with changes in fair value recognized in earnings, while financial liabilities for which fair value option accounting has been elected, changes in fair value due to instrument-specific credit risk will be presented separately in other comprehensive income. The standard allows the election to record equity investments without readily determinable fair values at cost, less impairment, adjusted for subsequent observable price changes with changes in the carrying value of the equity investments recorded in earnings. The standard also updates certain fair value disclosure requirements for financial instruments carried at amortized cost.

The standard is effective on January 1, 2018, with early adoption of certain provisions permitted. We are assessing the impact of the standard on our reported consolidated financial condition, results of operations and cash flows.

Leases

In February 2016, the FASB issued an accounting standard that will require lessees with lease terms of more than 12 months to recognize a right of use asset and a corresponding lease liability on their balance sheets. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating leases or finance leases.

The standard is effective on January 1, 2019, with early adoption permitted using a modified retrospective approach. We are assessing the impact of the standard on our reported consolidated financial condition, results of operations and cash flows. We are currently quantifying the expected gross up of our balance sheet for a right to use asset and a lease liability as required by the standard.

Derivative Contract Novations

In March 2016, the FASB issued an accounting standard that clarifies that a change in the counterparty (novation) to a derivative instrument that has been designated as a hedging instrument does not, in and of itself, require de-designation of that hedging relationship provided that all other hedge accounting criteria continue to be met.

We will adopt the standard on its January 1, 2017 effective date, and do not expect the adoption of the standard will have a material effect on our reported consolidated financial condition, results of operations or cash flows.

Contingent Put and Call Options in Debt Instruments

In March 2016, the FASB issued an accounting standard that clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. The standard requires an evaluation of embedded call (put) options solely on a four-step decision sequence that requires an entity to consider whether (1) the amount paid upon settlement is adjusted based on changes in an index, (2) the amount paid upon settlement is indexed to an underlying other than interest rates or credit risk, (3) the debt involves a substantial premium or discount and (4) the put or call option is contingently exercisable.

We will adopt the standard on its January 1, 2017 effective date, and do not expect the adoption of the standard to have a material effect on our reported consolidated financial condition, results of operations or cash flows.

Simplifying the Transition to the Equity Method of Accounting

In March 2016, the FASB issued an accounting standard that eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods during which the investment had been held.

We will adopt the standard on its January 1, 2017 effective date, and do not expect the adoption of the standard to have a material effect on our reported consolidated financial condition, results of operations or cash flows.

Financial Instruments - Credit Losses

In June 2016, the FASB issued an accounting standard that will change how entities account for credit losses for most financial assets. The standard will replace the existing incurred loss impairment model with a new "current expected credit loss model" and will apply to financial assets subject to credit losses, those measured at amortized cost and certain off-balance sheet credit exposures. The impairment for available-for-sale debt securities will be measured in a similar manner, except that losses will be recognized as allowances rather than reductions in the amortized cost of the securities. The standard will also require additional information to be disclosed in the footnotes.

The standard is effective on January 1, 2020, with early adoption permitted on January 1, 2019. We are assessing the impact of the standard on our reported consolidated financial condition, results of operations and cash flows, but we expect an increase in our allowances for credit losses. The amount of the increase will be impacted by our portfolio composition and quality at the adoption date as well as economic conditions and forecasts at that time.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued an accounting standard that addresses diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide clarity on the treatment of eight specifically defined types of cash inflows and outflows. The standard is effective on January 1, 2018, with early adoption permitted as long as all amendments are included in the same period.

The standard addresses presentation in the Statement of Cash Flows only and will have no effect on our reported consolidated financial condition or results of operations.

Intra-Entity Transfers of Assets Other than Inventory

In October 2016, the FASB issued an accounting standard that will require an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than when the asset is sold to a third party.

The standard is effective on January 1, 2018, with early adoption permitted. We are assessing the impact of the standard on our reported consolidated financial condition, results of operations and cash flows.

Interest Held through Related Parties that are under Common Control

In October 2016, the FASB issued an accounting standard that amends the consolidation analysis for a reporting entity that is the single decision maker of a VIE. The new guidance will require the decision maker's evaluation of its interests held through related parties that are under common control on a proportionate basis (rather than in their entirety) when determining whether it is the primary beneficiary of that VIE. The amendment does not change the characteristics of a primary beneficiary.

We will adopt the standard on its January 1, 2017 effective date, and do not expect the impact of the standard to have a material effect on our reported consolidated financial condition, results of operations or cash flows.

Restricted Cash

In November 2016, the FASB issued an accounting standard that provides guidance on the presentation of restricted cash in the Statement of Cash Flows. Entities will be required to explain the changes during a reporting period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents in the statement of cash flows.

The standard is effective on January 1, 2018, with early adoption permitted. The standard addresses presentation of restricted cash in the Statement of Cash Flows only and will have no effect on our reported consolidated financial condition or results of operations.

Clarifying the Definition of a Business

In January 2017, the FASB issued an accounting standard that changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business. The new standard will require an entity to evaluate if substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar assets; if so, the set of transferred assets and activities is not a business. At a minimum, a set must include an input and a substantive process that together significantly contribute to the ability to create output.

The standard is effective on January 1, 2018, with early adoption permitted. We are assessing the impact of early-adopting the standard on our reported consolidated financial condition, results of operations and cash flows. Because the standard requires prospective adoption, the impact is dependent on future acquisitions and dispositions.

3. Segment Information

We report our results of operations consistent with the manner in which our chief operating decision makers review the business to assess performance and allocate resources.

In the fourth quarter of 2016, we finalized our plan to reorganize our operating model into "modular", more self-contained business units. Prior to the fourth quarter of 2016, we reported our results as follows:

- Commercial Insurance business included our Property Casualty operating segment;
- Consumer Insurance business included our Retirement, Life and Personal Insurance operating segments
- Corporate and Other category consisted of businesses and items not allocated to our operating segments, including United Guaranty and Institutional Markets.

We now report our results of operations as follows:

Commercial Insurance

Commercial Insurance business is presented as two operating segments:

- **Liability and Financial Lines** — Liability products include general liability, environmental, commercial automobile liability, workers' compensation, excess casualty and crisis management insurance products. Liability also includes risk-sharing and other customized structured programs for large corporate and multinational customers. Financial Lines products include professional liability insurance for a range of businesses and risks, including directors and officers liability (D&O), fidelity, employment practices, fiduciary liability, cybersecurity risk, kidnap and ransom, and errors and omissions insurance (E&O).
- **Property and Special Risks** — Property products include commercial, industrial and energy-related property insurance products and services that cover exposures to man-made and natural disasters, including business interruption. Specialty products include aerospace, political risk, trade credit, surety and marine insurance, and various small and medium sized enterprises insurance lines.

Consumer Insurance

Consumer Insurance business is presented as four operating segments:

- **Individual Retirement** — consists of fixed annuities, fixed index annuities, variable annuities and retail mutual funds.
- **Group Retirement** — consists of group mutual funds, group fixed annuities, group variable annuities, individual annuity and investment products, financial planning and advisory services.

- **Life Insurance** — primary products in the U.S. include term life and universal life insurance.

- **Personal Insurance** — consists of personal auto and property insurance, voluntary and sponsor-paid personal accident and supplemental health products for individuals, employees, associations and other organizations, a broad range of travel insurance products and services for leisure and business travelers as well as extended warranty insurance covering electronics, appliances, and HVAC industries.

Other Operations

The Other Operations category consists of:

- **Institutional Markets** — consists of stable value wrap products, structured settlement and terminal funding annuities, corporate- and bank-owned life insurance and guaranteed investment contracts (GICs).

- Income from assets held by AIG Parent and other corporate subsidiaries.

- General operating expenses not attributable to specific reporting segments.

- Interest expense.

- **United Guaranty** — Mortgage insurance protects mortgage lenders and investors against the increased risk of borrower default related to high loan-to-value mortgages. The sale of this business was completed on December 31, 2016.

- **Fuji Life** — consists of term insurance, life insurance, endowment policies and annuities. On November 14, 2016, we entered into an agreement to sell our Japan life insurance business, AIG Fuji Life Insurance Company, Ltd. (AFLI), to FWD Group, the insurance arm of Pacific Century Group.

Legacy Portfolio

The Legacy Portfolio segment consists of:

Legacy Insurance Lines represent exited or discontinued product lines, policy forms or distribution channels.

- **Legacy Property and Casualty Run-Off Insurance Lines** — include excess workers' compensation, asbestos and environmental exposures.

- **Legacy Life Insurance Run-Off Lines** — include whole life, long term care and exited Accident & Health product lines. Also includes certain structured settlement, terminal funding and single premium immediate annuities written prior to April 2012.

- **Legacy Investments** — include investment classes that AIG has placed into run-off (life settlements, Legacy Global Real Estate, the Direct Investment book) and equity-like securities with high yield/ high-risk characteristics.

On December 31, 2016, we completed the sale of UGC to Arch. See Note 1 for a further discussion.

In the second quarter of 2015, a United Guaranty subsidiary and certain of our property casualty companies entered into a 50 percent quota share reinsurance agreement whereby the United Guaranty subsidiary (1) ceded 50 percent of the risk relating to policies written in 2014 that were current as of January 1, 2015 and (2) ceded 50 percent of the risk relating to all policies written in 2015 and 2016, each in exchange for a 30 percent ceding commission and reimbursements of 50 percent of the losses and loss adjustment expenses incurred on covered policies. Beginning in the third quarter of 2016, the effect of this intercompany reinsurance arrangements is included in the results of Property and Special Risks and Other Operations for all periods presented. Previously, this arrangement was eliminated for purposes of segment reporting. Concurrent with the closing of the sale of UGC, we amended and restated this arrangement and expect the results of this arrangement to continue to be reported in Property and Special Risks.

Investment income of the Property Casualty Insurance Companies is attributed to the Liability and Financial Lines, Property and Special Risks and Personal Insurance operating segments based on an internal investment income allocation model. The model estimates investable funds based primarily on loss reserves and unearned premiums. Investment income of the Life Insurance Companies is attributed to the Individual Retirement, Group Retirement and Life Insurance operating segments as well as the Institutional Markets business and the Legacy Life Insurance Run-Off Lines based on invested assets in segregated product line portfolios; income from invested assets in excess of liabilities is allocated to product lines based on internal capital estimates.

We evaluate segment performance based on operating revenues and pre-tax operating income (loss). Operating revenues and pre-tax operating income (loss) is derived by excluding certain items from total revenues and net income (loss) attributable to AIG, respectively. See the table below for the items excluded from operating revenues and pre-tax operating income (loss).

Legal Entities

Certain of our management activities, such as investment management, enterprise risk management, liquidity management and capital management are conducted on a legal entity basis. We group our insurance-related legal entities into two categories: Property Casualty Insurance Companies, and Life Insurance Companies.

Property Casualty Insurance Companies include the following major operating companies: National Union Fire Insurance Company of Pittsburgh, Pa. (National Union); American Home Assurance Company (American Home); Lexington Insurance Company (Lexington); Fuji Fire and Marine Insurance Company Limited (Fuji Fire); American Home Assurance Company, Ltd. (American Home Japan); AIU Insurance Company, Ltd. (AIUI Japan); AIG Asia Pacific Insurance, Pte, Ltd.; and AIG Europe Limited.

Life Insurance Companies include the following major operating companies: American General Life Insurance Company (American General Life), The Variable Annuity Life Insurance Company (VALIC) and The United States Life Insurance Company in the City of New York (U.S. Life).

The following table presents AIG's continuing operations by operating segment:

(in millions)	Total Revenues	Net Investment Income	Interest	Amortization	Pre-Tax Operating