

AMERICAN INTERNATIONAL GROUP INC  
Form 10-K  
February 19, 2016

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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**FORM 10-K**

<b>ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934</b>	
<b>For the fiscal year ended December 31, 2015</b>	<b>Commission file number 1-8787</b>

**American International Group, Inc.**

**(Exact name of registrant as specified in its charter)**

**Delaware**

**13-2592361**

(I.R.S. Employer  
Identification No.)

(State or other jurisdiction of  
incorporation or organization)

**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**

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**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

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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 \$80,826,000,000.

As of February 11, 2016, there were outstanding 1,149,448,256 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

Portions of the registrant's definitive proxy statement for Part II, Item 5 and Part III, Items 10, 11, 12, 13 and the 2016 Annual Meeting of Shareholders 14

# AMERICAN INTERNATIONAL GROUP, INC. ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2015

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## Part I

### Item 1 / Business

AIG's key strengths include:

**World class insurance franchises** that are among the leaders in their categories and are focused on improving their operating performance;

**A diverse mix of businesses** with a presence in most international markets;

**Effective capital management** of the largest shareholders' equity of any insurance company in the world, supported by enhanced risk management;

**Breadth of customers**, serving over 89 percent of companies included in the Fortune Global 500; and

**Balance sheet quality and strength**, as demonstrated by over \$89 billion in shareholders' equity and AIG Parent liquidity of \$13.7 billion.

\* At June 30, 2015, the latest date for which information was available for certain foreign insurance companies.

*In this Annual Report on Form 10-K, 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.*

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### **Item 1 / BUSINESS / AIG**

We report our results of operations through two reportable segments: Commercial Insurance and Consumer Insurance, as well as a Corporate and Other category. Commercial Insurance has three operating segments: Property Casualty, Mortgage Guaranty and Institutional Markets. Consumer Insurance also has three operating segments: Retirement, Life and Personal Insurance. The Corporate and Other category consists of businesses and items not allocated to our reportable segments.

Certain of our management activities, such as investment management, enterprise risk management, liquidity management and capital management, and our balance sheet reporting, are conducted on a legal entity basis. We group our insurance-related legal entities into two categories: Non-Life Insurance Companies, and Life Insurance Companies.

Non-Life Insurance Companies include the following major property casualty and mortgage guaranty 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); AIG Asia Pacific Insurance, Pte, Ltd.; AIG Europe Limited; United Guaranty Residential Insurance Company (UGRIC)

Life Insurance Companies include the following major operating companies: American General Life Insurance Company (American General Life); The Variable Annuity Life Insurance Company (VALIC); The United States Life Insurance Company in the City of New York (U.S. Life); AIG Fuji Life Insurance Company Limited (Fuji Life).

On January 26, 2016, we announced several actions designed to create a leaner, more profitable and focused insurer. These actions included a plan to reorganize our operating model into “modular”, more self-contained business units to enhance transparency and accountability. Additionally, we are introducing a new Legacy Portfolio that aims to maximize value and release capital of certain run-off non-strategic assets and highlight progress on improving the return on equity (ROE) of our Operating Portfolio. When the new operating structure is finalized, the presentation of our segment results may be modified and prior periods’ presentation may be revised to conform to the new structure. Based on this strategy, we have updated our priorities for 2016.

AIG is focused on the following priorities for 2016:

- Improving our ROE
- Creating a leaner, more profitable and focused insurer by reorganizing our operating model into “modular”, more self-contained business units to enhance transparency and

accountability, including the introduction of a new Legacy Portfolio that aims to maximize value and release capital from run-off of non-strategic assets

- Reducing general operating expenses
- Improving the Commercial Insurance Property Casualty accident year loss ratio
- Returning excess capital to shareholders
- Growing book value per common share





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(a) Total consideration of approximately \$7.6 billion, includes net cash proceeds of \$2.4 billion and 97.6 million newly issued AerCap common shares. Based in part on AerCap's closing price per share of \$47.01 on May 13, 2014, the date the sale of ILFC to AerCap was completed.

(b) Book value per common share excluding AOCI is a non-GAAP measure. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) —Use of Non-GAAP Measures for additional information.

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**Item 1 / BUSINESS / AIG**

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**How we Generate Revenues and Profitability**

**We earn revenues** primarily from insurance premiums, policy fees from universal life insurance and investment products, and income from investments and advisory fees.

**Our expenses** consist of policyholder benefits and losses incurred, interest credited to policyholders, commissions and other costs of selling and servicing our products, 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 Non-Life Insurance Companies and Life 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.	<i>We generate significant revenues in our insurance operations from investment activities.</i>
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.	

The majority of assets backing our insurance liabilities consist of intermediate and long duration fixed maturity securities.

**Non-Life Insurance Companies** — Fixed maturity securities held by the insurance companies included in the Non-Life Insurance Companies' domestic operations have historically consisted primarily of corporate bonds, municipal bonds and government bonds. These investments provided attractive returns and limited credit risk. To meet our domestic operations' current risk return and business objectives, our domestic Non-Life Insurance Companies have been shifting investment allocations to a broader array of investments, including structured securities, mortgage loans, equity related opportunities and other investments that offer attractive risk-adjusted returns. Our fixed maturity securities must meet our liquidity, duration and quality objectives as well as current capital, risk return and business objectives. Fixed maturity securities held by the Non-Life Insurance Companies' international operations consist primarily of intermediate duration high-grade securities, primarily in the markets being served. In addition, the Non-Life Insurance Companies have redeployed cash in excess of operating needs into investments consistent with the asset classes described above.

**Life Insurance Companies** — The investment strategy for the portfolios of the Life Insurance Companies is largely to match our liabilities with assets of comparable duration, to the extent practicable. The Life Insurance Companies primarily invest in a diversified portfolio of fixed maturity securities, which include corporate bonds and structured securities. To further diversify the portfolio, investments are selectively made in alternative investments, including private equity funds, hedge funds and affordable housing partnerships. See Item 7. MD&A — Investments for additional discussion of investment strategies.



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**Commercial Insurance** is a leading provider of insurance products and services for commercial and institutional customers. It includes one of the world's most far-reaching property casualty networks, a leading mortgage guaranty insurer and an institutional retirement and savings business. 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 insurance business.

**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 strong distribution relationships across multiple channels, Consumer Insurance is well positioned to provide clients with the products and services they desire, delivered through the channels they prefer.

Corporate and Other includes AIG Parent as well as certain legacy assets and run-off insurance businesses.

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### **Item 1 / BUSINESS / AIG**

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We have a significant international presence in both developed markets and growth economy nations, specifically in Asia Pacific, Central Europe, the Middle East, Africa and South America. We distribute our products through three major geographic regions:

- **Americas:** Includes the United States, Canada, Mexico, South America, the Caribbean and Bermuda.
- **Asia Pacific:** Includes Japan, China, Korea, Singapore, Malaysia, Thailand, Australia, Indonesia and other Asia Pacific nations.

- **EMEA (Europe, Middle East and Africa):** Includes the United Kingdom, Continental Europe, the Russian Federation, India, the Middle East and Africa.

In 2015, 6.3 percent and 5.1 percent of our property casualty direct premiums were written in the states of California and New York, respectively, and 14.3 percent and 7.2 percent were written in Japan and the United Kingdom, respectively. No other state or foreign jurisdiction accounted for more than five percent of such premiums.

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\* Represents revenues from insurance operations. Revenues for Property Casualty, Mortgage Guaranty, and Personal Insurance include net premiums earned and net investment income. Revenues for Institutional Markets, Retirement and Life include premiums, policy fees, net investment income and advisory fees.

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### **Item 1 / BUSINESS / commercial insurance**

**Customer:** Strive to be our clients' most valued insurer by offering innovative products, superior service and access to an extensive global network.

**Sharpen Commercial Focus:** Achieve ROE in excess of target across our businesses primarily through improvements in our loss ratio. Improve 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 that do not meet our risk acceptance or profitability objectives.

**Drive Efficiency:** Reorganize our operating model into “modular”, more self-contained business units to enhance decision making, transparency and accountability, driving performance improvement and strategic flexibility 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.

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### **Item 1 / BUSINESS / commercial insurance**

Commercial Insurance is a global franchise committed to delivering value to our clients through innovative solutions, market-leading expertise and superior service.

#### **Our competitive strengths include:**

**Global franchise** – long global history, extensive multinational network and leading positions and infrastructures in North America, Europe and Asia

**Underwriting and claims expertise** – industry-leading professionals with deep expertise handling large, complex and emerging risks

**Innovation** – a culture of innovation driven by risk management expertise and a focus on customer needs

**Information and science capabilities** – decades of unique proprietary data on wide range of client risks, underwriting results and analytical capabilities to generate valuable client insights

**Service** – extensive client risk service teams to partner with clients to mitigate their most critical risks

**Financial strength and market leadership** – a well-capitalized, strong balance sheet highly valued by customers that allows us to be a market leader in many lines of business

**Scale** – size and scope of business facilitates risk diversification to optimize returns on capital

**Diversification** – breadth of customers served, products underwritten and distribution channels

#### **Our challenges include:**

**Information technology infrastructure** requires modernization, which puts pressure on our efforts to reduce operating expenses

**Long-tail exposures** create an added challenge to pricing and risk management

**Over capacity** in certain lines of business creates downward pressure on market pricing

**Tort environment** volatility in certain jurisdictions and lines of business

**Volatility** from natural and man-made catastrophes from a property casualty perspective



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Property Casualty conducts its business primarily through our Non-Life Insurance Companies.

Mortgage Guaranty conducts its business primarily through United Guaranty Residential Insurance Company.

Institutional Markets conducts its business primarily through our Life Insurance Companies.

Commercial Insurance's current operating segments consist of *Property Casualty*, *Mortgage Guaranty* and *Institutional Markets*.

**Casualty:** Products include general liability, 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.

**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, environmental, political risk, trade credit, surety and marine insurance, and various small and medium sized enterprises insurance lines.

**Financial:** 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 Casualty products are primarily distributed through a network of independent retail and wholesale brokers, and through a newly acquired leading U.S. managing general agent and insurance program administrator.

Mortgage insurance (MI) protects mortgage lenders and investors against the increased risk of borrower default related to high loan-to-value (LTV) mortgages.

Mortgage Guaranty products and services are directly distributed to a comprehensive range of mortgage originators including national mortgage, community and money center banks, as well as through builder-owned, regional mortgage and internet-sourced lender and credit unions.

Products primarily include stable value wrap products, structured settlement and terminal funding annuities, high net worth products, corporate- and bank-owned life insurance and guaranteed investment contracts (GICs).

Institutional Markets products are primarily distributed through specialized marketing and consulting firms and structured settlement brokers.

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### **Item 1 / BUSINESS / commercial insurance**

Operating in a highly competitive industry, Property Casualty competes against several hundred stock companies, specialty insurance organizations, mutual companies and other underwriting organizations in the U.S. In international markets, Property Casualty competes for business with the foreign insurance operations of large global insurance groups and local companies in specific market areas and product types. Mortgage Guaranty competes with several private providers of mortgage insurance, both well-established and new entrants to the industry, and the Federal Housing Administration, which is the largest provider of mortgage insurance in the United States. Institutional Markets competes with large domestic (both stock and mutual) life companies, as well as international life companies.

Insurance companies compete through a combination of risk acceptance criteria, product pricing, service and terms and conditions. Commercial Insurance distinguishes itself in the insurance industry primarily based on its well-established brand, global franchise, financial and capital strength, innovative products, 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 and long-term commitment to the markets we serve.

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### **Item 1 / BUSINESS / consumer insurance**

Consumer Insurance is focused on achieving improved returns by investing in markets where we can grow profitably and sustainably. Our strategic plan is aligned with our vision to be our clients' most valued insurer. We intend to enhance our operational effectiveness and use of analytics to reduce expenses, increase profitability, and facilitate delivery of our target customer experience.

**Customer:** 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 aims to provide customers with the products and services they desire, delivered through the channels they prefer.

**Information-Driven Strategy:** Utilize customer insight, analytics and the application of science to optimize customer acquisition, product profitability, product mix, channel performance and risk management capabilities.

**Sharpen Consumer Focus:** Invest in areas where Consumer Insurance can grow profitably and sustainably. Target growth in select markets according to market size, growth potential, market maturity and customer demographics, and narrow our footprint in less profitable markets with insufficient scale.

**Operational Effectiveness:** Simplify processes and enhance operating environments to increase competitiveness, improve service and product capabilities and facilitate delivery of our target customer experience.

**Investment Strategy:** Maintain a diversified, high quality portfolio of fixed maturity securities that largely matches the duration characteristics of related insurance liabilities with assets of comparable duration, and pursue selective yield-enhancement opportunities that meet liquidity, risk and return objectives.

**Profitability and Capital Management:** Deliver solid earnings through disciplined pricing, sustainable underwriting improvements, expense reductions and diversification of risk, and increase capital efficiency within insurance entities to enhance ROE.



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### **Item 1 / BUSINESS / consumer insurance**

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Our competitive strengths include:

**Unique franchise** – broad portfolio of retirement, life insurance and personal insurance products offered through multiple distribution networks

**Market leader** – long-standing, leading positions in many of our product lines and key distribution channels

**Global business** – ability to leverage multinational servicing capabilities

**Strong distribution relationships across multiple channels** – opportunity to expand on distribution relationships to effectively market diverse product offerings

**Information and science capabilities** – used to build decision tools, transform processes and optimize performance

**Customer-focused service** – investments in technology and operating platforms provide the foundation to deliver our target customer experience

**Risk diversification and scale** – breadth of product offerings and scale advantage in key product lines

**Capital strength** – capacity to drive growth in attractive markets and product lines

Our challenges include:

**Highly competitive environment** where products are differentiated by pricing, terms, customer service and ease of doing business

**Regulatory requirements** in recent years have created an increasingly complex environment that is affecting industry growth and profitability

**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 in a low rate environment

The Retirement and Life operating segments conduct their business primarily through our Life Insurance Companies.

The Personal Insurance operating segment conducts its business primarily through our Non-Life Insurance Companies.



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### **Item 1 / BUSINESS / consumer insurance**

Consumer Insurance's current operating segments consist of *Retirement, Life, and Personal Insurance*.

**Fixed Annuities:** Products include single and flexible premium fixed annuities and single premium immediate 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.

**Retirement Income Solutions:** Primary products include variable and fixed index annuities that provide both asset accumulation and lifetime income benefits, as well as investment-focused variable annuities. Variable annuities are distributed primarily through banks, wirehouses, and regional and independent broker dealers. Fixed index annuities are distributed primarily through banks, broker dealers, independent marketing organizations and independent insurance agents.

**Group Retirement:** Products are marketed under the VALIC brand and include fixed and variable annuities, mutual funds, 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.

**Retail Mutual Funds:** Includes our mutual fund sales and related administration and servicing operations.

**Life** products in the U.S. primarily include term life and universal life insurance. International products include term and whole life insurance, supplemental health, cancer and critical illness insurance. Life products are primarily distributed through independent marketing organizations, independent insurance agents, financial advisors and direct marketing. The Life operating segment also offers group products distributed through employers (both employer-paid and voluntary) and sponsored organizations, with the key products being basic and supplemental term life, universal life and disability insurance.

**Accident and Health:** Products include voluntary and sponsor-paid personal accident and supplemental health products for individuals, employees, associations and other organizations as well as a broad range of travel insurance products and services for leisure and business

travelers. Accident and Health (A&H) products are distributed through various channels, including agents, brokers, affinity partners, airlines and travel agents.

**Personal Lines:** Products include automobile and homeowners insurance, extended warranty, and consumer specialty products, such as identity theft and credit card protection. Products are distributed through various channels, including agents, brokers and direct marketing. Personal Insurance also provides insurance for high net worth individuals offered through AIG Private Client Group, including auto, homeowners, umbrella, yacht, fine art and collections insurance.

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### **Item 1 / BUSINESS / consumer insurance**

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 competes based on its long standing market leading positions, innovative products, distribution relationships across multiple channels, customer-focused service and strong financial ratings.

**Corporate and Other** consists of assets and income from assets held by AIG Parent and other corporate subsidiaries, general operating expenses not attributable to specific reportable segments and interest expense. It also includes run-off lines of insurance business, including excess workers' compensation, asbestos and environmental (1986 and prior), certain environmental liability businesses, certain healthcare coverage, certain casualty and specialty coverages reported in Eaglestone Reinsurance Company, and certain long-duration business, primarily in Japan and the U.S.

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### **OUR EMPLOYEES**

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\* Includes employees in Finance; Enterprise Risk Management; Legal, Regulatory and Compliance; Human Resources and Administration; and Internal Audit.

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### **Item 1 / BUSINESS**

#### **A Review of Liability for Unpaid LOSSES and loss Adjustment Expenses**

The liability for unpaid losses and loss adjustment expenses (also referred to as loss reserves) represents the accumulation of estimates for unpaid reported losses (case reserves) and losses that have been incurred but not reported (IBNR) for the Non-Life Insurance Companies and Eaglestone Reinsurance Company, including the related expenses of settling those losses.

We recognize as assets the portion of this liability that is expected to be recovered from reinsurers. Loss reserves are discounted, where permitted, in accordance with U.S. GAAP.

The process of establishing the liability for unpaid losses and loss adjustment expenses 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.

We use a number of techniques to analyze the adequacy of the established net liability for unpaid losses and loss adjustment expenses (net loss reserves). Using these analytical techniques, we monitor the adequacy of our established reserves and determine appropriate assumptions for inflation and other factors influencing loss costs. Our analyses also take into account emerging specific development patterns, such as case reserve redundancies or deficiencies and IBNR emergence. We also consider specific factors that may impact losses, such as changing trends in medical costs, unemployment levels and other economic indicators, as well as changes in legislation and social attitudes that may affect decisions to file claims or the magnitude of court awards. See Item 7. MD&A — Critical Accounting Estimates for a description 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 in estimates are sometimes referred to as “prior year loss development” or “reserve development.”*

A significant portion of the Non-Life Insurance Companies’ reserves are for the U.S. commercial casualty class, including excess casualty, asbestos and environmental, which tends to involve longer periods of time for the reporting and settlement of claims than other types of insurance and therefore may increase the inherent risk and uncertainty with respect to our loss reserve development.

The “Analysis of Consolidated Loss Reserve Development” table presents the development of prior year net loss reserves for calendar years 2005 through 2015 for each balance sheet in that period. The information in the table is presented in accordance with reporting requirements of the Securities and Exchange Commission (SEC). This table should be interpreted with care by those not familiar with its format or those who are familiar with other loss development analyses arranged in an accident year or underwriting year basis rather than the balance sheet, as shown below. See Note 12 to the Consolidated Financial Statements.

*The top row of the table shows **Net Reserves Held** (the net liability for unpaid losses and loss adjustment expenses) at each balance sheet date, net of discount. This liability represents the estimated amount of losses and loss adjustment expenses for claims arising in all years prior to the balance sheet date that were unpaid as of that balance sheet date, including estimates for IBNR claims, net of estimated reinsurance recoverable and loss reserve discount. The estimated reinsurance recoverable is shown near the bottom of the table. The amount of loss reserve discount included in the net reserves at each date is shown immediately below the net reserves held. The undiscounted reserve at each date is equal to the sum of the discount and the net reserves held. For example, **Net Reserves Held (Undiscounted)** was \$59.6 billion at December 31, 2005.*



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The next section of the table shows the original **Net Undiscounted Reserves re-estimated** over 10 years. This re-estimation takes into consideration a number of factors, including changes in the estimated frequency of reported claims, effects of significant judgments, the emergence of latent exposures, and changes in medical cost trends. For example, the original undiscounted reserve of \$59.6 billion at December 31, 2005, was re-estimated to \$71.7 billion at December 31, 2015. The amount of the development related to losses settled or re-estimated in 2015, but incurred in 2012, is included in the cumulative development amount for years 2012, 2013 and 2014. Any increase or decrease in the estimate is reflected in operating results in the period in which the estimate is changed.

The middle of the table shows **Net Deficiency**. This is the aggregate change in estimates over the period of years covered by the table. For example, the net loss reserve deficiency of \$12.1 billion for 2005 is the difference between the original undiscounted reserve of \$59.6 billion at December 31, 2005 and the \$71.7 billion of re-estimated reserves at December 31, 2015. The net deficiency amounts are cumulative; in other words, the amount shown in the 2014 column includes the amount shown in the 2013 column, and so on. Conditions and trends that have affected development of the liability in the past may not necessarily occur in the future. Accordingly, it generally is not appropriate to extrapolate future development based on this table.

The bottom portion of the table shows the **Paid (Cumulative)** amounts during successive years related to the undiscounted loss reserves. For example, as of December 31, 2015, AIG had paid a total of \$58.7 billion of the \$71.7 billion in re-estimated reserves for 2005, resulting in Remaining Reserves (Undiscounted) of \$13.0 billion for 2005. Also included in this section are the **Remaining Reserves (Undiscounted)** and the **Remaining Discount** for each year.

As discussed in footnotes (a) and (b) below, the calendar year distribution of these Paid (Cumulative) amounts are estimates that are affected by certain transactions, such as deconsolidations resulting from dispositions. These payment amounts may differ from the actual losses paid for a given accident year.

The following table presents loss reserves and the related loss development for 2005 through 2015 and consolidated gross liability (before discount), reinsurance recoverable and net liability recorded for each calendar year, and the re-estimation of these amounts as of December 31, 2015<sup>(a)</sup>

<i>(in millions)</i>	2005	2006	2007	2008	2009	2010	2011	2012
Net Reserves Held <sup>(b)</sup>	\$ 57,476	\$ 62,630	\$ 69,288	\$ 72,455	\$ 67,899	\$ 71,507	\$ 70,825	\$ 68,750
Discount (in Reserves Held)	2,110	2,264	2,429	2,574	2,655	3,217	3,183	3,240
<b>Net Reserves Held (Undiscounted)</b>	<b>59,586</b>	<b>64,894</b>	<b>71,717</b>	<b>75,029</b>	<b>70,554</b>	<b>74,724</b>	<b>74,008</b>	<b>72,590</b>
<b>Net undiscounted Reserve re-estimated as of:</b>								
One year later	59,533	64,238	71,836	77,800	74,736	74,919	74,429	72,590

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Two years later	60,126	64,764	74,318	82,043	74,529	75,502	75,167	73,5
Three years later	61,242	67,303	78,275	81,719	75,187	76,023	76,212	76,8
Four years later	63,872	70,733	78,245	82,422	76,058	77,031	79,050	
Five years later	67,102	70,876	79,098	83,135	77,054	79,573		
Six years later	67,518	71,572	79,813	84,100	79,319			
Seven years later	68,233	72,286	80,770	86,177				
Eight years later	69,023	73,356	82,616					
Nine years later	70,029	75,154						
Ten years later	71,724							
Net Deficiency on net reserves held	(12,138)	(10,260)	(10,899)	(11,148)	(8,765)	(4,849)	(5,042)	(4,8
Net Deficiency related to asbestos								
and environmental (A&E)	(2,798)	(2,296)	(2,278)	(2,229)	(2,076)	(575)	(545)	(4
Net Deficiency excluding A&E	(9,340)	(7,964)	(8,621)	(8,919)	(6,689)	(4,274)	(4,497)	(4,4
<b>Paid (Cumulative) as of:</b>								
One year later	15,326	14,862	16,531	24,267	15,919	17,661	19,235	18,7
Two years later	25,152	24,388	31,791	36,164	28,428	30,620	31,766	31,2
Three years later	32,295	34,647	40,401	46,856	38,183	40,091	41,464	41,3
Four years later	40,380	40,447	48,520	53,616	45,382	47,379	49,197	
Five years later	44,473	46,474	53,593	58,513	51,104	53,449		
Six years later	49,552	50,391	57,686	62,734	56,030			
Seven years later	52,243	53,545	61,221	66,558				

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Eight years later	54,332	56,424	64,517						
Nine years later	56,516	59,208							
Ten years later	58,703								
Remaining Reserves (Undiscounted)	13,021	15,946	18,099	19,619	23,289	26,124	29,853	35,521	
Remaining Discount	1,454	1,610	1,776	1,942	2,091	2,257	2,429	2,591	
<b>Remaining Reserves</b>	<b>\$ 11,567</b>	<b>\$ 14,336</b>	<b>\$ 16,323</b>	<b>\$ 17,677</b>	<b>\$ 21,198</b>	<b>\$ 23,867</b>	<b>\$ 27,424</b>	<b>\$ 32,930</b>	
Net Liability, End of Year	\$ 59,586	\$ 64,894	\$ 71,717	\$ 75,029	\$ 70,554	\$ 74,724	\$ 74,008	\$ 72,021	
Reinsurance Recoverable, End of Year	19,693	17,369	16,212	16,803	17,487	19,644	20,320	19,200	
<b>Gross Liability, End of Year</b>	<b>79,279</b>	<b>82,263</b>	<b>87,929</b>	<b>91,832</b>	<b>88,041</b>	<b>94,368</b>	<b>94,328</b>	<b>91,221</b>	
Re-estimated Net Liability	71,724	75,154	82,616	86,177	79,319	79,573	79,050	76,891	
Re-estimated Reinsurance Recoverable	24,800	20,981	19,392	18,850	18,633	16,758	18,403	18,891	
<b>Re-estimated Gross Liability</b>	<b>96,524</b>	<b>96,135</b>	<b>102,008</b>	<b>105,027</b>	<b>97,952</b>	<b>96,331</b>	<b>97,453</b>	<b>95,782</b>	

**Cumulative Gross**

**Redundancy (Deficiency)** \$(17,245) \$(13,872) \$(14,079) \$(13,195) \$(9,911) \$(1,963) \$(3,125) \$(4,551)

(a) During 2009, we deconsolidated Transatlantic Holdings, Inc. and sold 21st Century Insurance Group and HSB Group, Inc. The sales and deconsolidation are reflected in the table above as a reduction in December 31, 2009 net reserves of \$9.7 billion and as an \$8.6 billion increase in paid losses for the years 2000 through 2008 to remove the reserves for these divested entities from the ending balance.

(b) The increase in Net Reserves Held from 2009 to 2010 is partially due to the \$1.7 billion in Net Reserves Held by Fuji Fire, which was acquired in 2010. The decrease in 2011 is due to the cession of asbestos reserves described in Item 7. MD&A — Insurance Reserves – Non-Life Insurance Companies— Asbestos and Environmental (1986 and prior).

The Liability for unpaid losses and loss adjustment expenses as reported in our Consolidated Balance Sheet at December 31, 2015 differs from the total reserves reported in the annual statements filed with state insurance departments and, when applicable, with foreign regulatory authorities primarily for the following reasons:

- Reserves for certain foreign operations are not required or permitted to be reported in the United States for statutory reporting purposes, including contingency reserves for catastrophic events;
- Statutory practices in the United States require reserves to be shown net of applicable reinsurance recoverable; and

- Unlike statutory financial statements, our consolidated liability for unpaid losses and loss adjustment expenses excludes the effect of intercompany transactions.

Gross loss reserves are calculated without reduction for reinsurance recoverable and represent the accumulation of estimates for reported losses and IBNR, net of estimated salvage and subrogation. We review the adequacy of established gross loss reserves in the manner previously described for net loss reserves. A reconciliation of activity in the Liability for unpaid losses and loss adjustment expenses is included in Note 12 to the Consolidated Financial Statements.

For further discussion of asbestos and environmental reserves, see Item 7. MD&A — Insurance Reserves — Non-Life Insurance Companies— Asbestos and Environmental (1986 and prior).

### 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 are 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.

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Over the last several years, the Non-Life Insurance Companies revised the ceded reinsurance framework and strategy to improve capital management and support our global product line risk and profitability objectives. As a result of adopting the revised framework and strategy, many individual reinsurance contracts were consolidated into more efficient global programs and therefore, reinsurance ceded to third parties in support of risk and capital management objectives has remained stable in 2015 compared to 2014. 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 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 that 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.

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.

See Item 7. MD&A – Enterprise Risk Management – Insurance Operations Risks – Non-Life Insurance Companies Key Insurance Risks – Reinsurance Recoverable for a summary of significant reinsurers.

## 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.

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The following summary provides a general overview of our primary regulators and related bodies and a brief 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.

**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 begun implementing 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.

**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 through the NAIC, state insurance regulators establish standards and best practices, conduct peer review and coordinate regulatory oversight.



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**Financial Stability Board (FSB):** Consists of representatives of national financial authorities of the G20 nations. 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):** Represents insurance regulators and supervisors of more than 200 jurisdictions 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, such as the IAIS' Insurance Core Principles (ICPs). The FSB has directed the IAIS to develop additional standards in areas such as financial group supervision, capital and solvency standards, systemic financial risk and corporate governance in order to reinforce international financial stability. The FSB also 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 AIG, which 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. The IAIS is also 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. AIG currently meets the parameters set forth to define an IAIG. Standards issued by the FSB and/or 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.

**European Union (EU):** Financial companies that operate in the EU are subject to regulation by the national regulator of each member state in which that firm operates. Groups that are categorized as financial conglomerates are also subject to supplementary supervision. This seeks to enable supervisors to perform consolidated insurance group supervision at the level of the ultimate parent entity. The objective of supplementary supervision is to detect, monitor, manage and control group risks and ensure that capital is not accounted for twice or more within the conglomerate. The Prudential Regulatory Authority (PRA), the United Kingdom's prudential regulator, is AIG's EU lead supervisor. The Financial Conduct Authority has oversight of AIG's European operations for consumer protection and competition matters within the UK. 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.



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The European Parliament issues Directives which member states have to implement into legislation. Once implemented into country legislation, financial companies operating in Europe must adhere to these. Examples include:

1. The Insurance Distribution Directive (IDD), which updates the Insurance Mediation Directive, extending its scope to all sellers of insurance products, including direct selling to customers, any person involved in administering policies and ancillary insurance intermediaries. The main provisions include remuneration disclosure, cross-selling limitations and professional training requirements. The IDD is expected to be finalized in February 2016 and require implementation by 2018.
2. The Solvency II Directive (2009/138/EEC) (Solvency II), which became effective on January 1, 2016, includes minimum capital and solvency requirements, governance requirements, risk management and public reporting standards.

**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 Supervision**

Due to the determination of the Financial Stability Oversight Council (Council) that we should be regulated by the FRB as a nonbank SIFI pursuant to Section 113 of Dodd-Frank, we have been since July 2013 subject to the FRB's examination, supervision and enforcement authority, and certain reporting requirements as a nonbank SIFI. Dodd-Frank requires that the Council reevaluate its determination annually; however, the Council's 2014 and 2015 annual reevaluations did not result in a change to our nonbank SIFI status, and we remain regulated by the FRB.

Dodd-Frank has effected comprehensive changes to the regulation of financial services in the United States and subjects us to substantial additional federal regulation. Dodd-Frank directs existing and newly created government agencies and oversight bodies to promulgate regulations implementing the law, an ongoing process that is under way and is anticipated to continue over the next few years.

As required by Dodd-Frank, the FRB has adopted enhanced prudential standards (including minimum leverage and risk-based capital requirements, requirements to submit annual capital plans to the FRB

demonstrating the ability to satisfy the required capital ratios under baseline and stressed conditions, and stress-testing requirements) for bank holding companies with \$50 billion (and in some cases, \$10 billion) or more in total consolidated assets and certain foreign banking organizations. The FRB has also adopted liquidity coverage ratio and supplemental leverage ratio requirements for a subset of large banking organizations. These requirements do not apply to nonbank SIFIs that are predominantly insurers, such as AIG. Dodd-Frank authorizes the FRB to tailor its application of enhanced prudential standards to different companies on an individual basis or by category, and the FRB has indicated that it intends to assess the business model, capital structure and risk profile of nonbank SIFIs to determine how enhanced prudential standards should apply to them, and, if appropriate, to tailor the application of these standards for nonbank SIFIs by order or regulation. We cannot predict what enhanced prudential standards the FRB will promulgate for nonbank SIFIs, either generally or as applicable to insurance businesses. The FRB has exercised general examination, supervision and enforcement authority over us as a nonbank SIFI since July 2013. 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 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, impact our businesses, results of operations, cash flows or financial condition, or require us to raise additional capital or result in a downgrade of our credit ratings. Congress also clarified that the FRB has the flexibility to tailor capital rules specifically for certain insurance activities

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and is not bound to impose capital standards and quantitative requirements generally applicable to insured depository institutions and bank holding companies. We cannot predict with certainty, however, what capital rules the FRB may impose on insurers designated as nonbank SIFIs.

As a nonbank SIFI, we anticipate we will 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;
- management interlock prohibitions and a requirement to maintain a plan for rapid and orderly resolution in the event of severe financial distress (requirements that we are already subject to); and
- an early remediation regime process to be administered by the FRB.

Furthermore, if the Council were to make an additional separate determination that AIG poses 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.

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. In addition, if we were to seek to acquire a stake in certain financial companies, Dodd-Frank would require us to obtain the prior authorization of the FRB.

### **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 (or more frequently, if required) to the FRB and FDIC a plan for our rapid and orderly resolution in the event of material financial distress or failure, which must, among other things, provide a detailed resolution strategy and analyses of our material entities, organizational structure, interconnections and interdependencies, and management information systems. Our original resolution plan was submitted to regulators on July 1, 2014, and our second resolution plan on December 31, 2015. We continue to refine and update our resolution plan, which is next required to be submitted to regulators on December 31, 2016. If the FRB and FDIC jointly 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), they may require us to re-submit an amended plan. If the re-submitted plan also fails 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 provides that a financial company whose largest United States subsidiary is an insurer (such as us) may be subject to a special resolution process outside the Bankruptcy Code. That process is to be administered by the FDIC upon a determination of the Secretary of the Treasury (the Secretary), in consultation with the President, and upon the written recommendation of the director of the Federal Insurance Office and the FRB, that, among other things, it is in default or in danger of default, that the insurer is not likely to attract private sector alternatives to default, and is not suitable for resolution under the Bankruptcy Code.
- Title VII of Dodd-Frank provides for significantly increased regulation of and restrictions on derivatives markets and transactions that could affect various activities of AIG and its insurance and financial services subsidiaries, including (i) regulatory reporting for swaps (which are regulated by the CFTC) and security-based swaps (which are regulated by the SEC), (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. The CFTC has finalized many of its

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requirements, including swap reporting, the mandatory clearing of certain interest rate swaps and credit default swaps, margin requirements for uncleared swaps, and the mandatory trading of certain swaps on swap execution facilities. The SEC has proposed certain rules with respect to certain of the regulations and restrictions noted above governing security-based swaps but has yet to finalize the majority of rules comprising its security-based swap regulatory regime. These regulations have affected and may further affect various activities of AIG and its insurance and financial services subsidiaries as further rules are finalized to implement additional elements of the 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 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 a 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. While not having a general supervisory or regulatory authority over the business of insurance, the director of this office performs various functions with respect to insurance (other than health insurance), including serving as a non-voting member of the Council. On December 12, 2013, the FIO released a Dodd-Frank mandated study on how to modernize and improve the system of insurance regulation in the United States. The report listed several actions that states could take to improve the uniformity and efficiency of the current state based regulatory system and highlighted certain areas in which Federal involvement is recommended. The FIO recommended that the states undertake reforms regarding capital adequacy, reform of insurer resolution practices, and marketplace regulation. On November 20, 2015, the Department of Treasury 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.
- Dodd-Frank established the Consumer Financial Protection Bureau (CFPB) as an independent bureau 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, although the U.S. Department of Housing and Urban Development has since transferred authority to the CFPB to investigate mortgage insurance practices. Broker-dealers and investment advisers are not subject to the CFPB's jurisdiction when acting in their registered capacity.

- Title XIV of Dodd-Frank also restricts certain terms for mortgage loans, such as loan fees, prepayment fees and other charges, and imposes certain duties on a lender to ensure that a borrower can afford to repay the loan.

Dodd-Frank imposes various assessments on financial companies, including, as applicable to us, fees for our supervision by the FRB and assessments to cover the costs of any special resolution of a financial company conducted under Title II (although the regulatory authority would have to take account of the amounts paid by us into state guaranty funds).

We cannot predict whether 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

As described below, AIG has been designated as a Global Systemically Important Insurer (G-SII).

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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. The FSB, consisting of representatives of national financial authorities of the G20 nations, 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 financial group supervision, capital and solvency standards, systemic financial risk, 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. These new measures go beyond IAIS' existing set of insurance core principles (ICPs). The ICPs form the baseline threshold against which countries' financial services regulatory regimes specific to the insurance sector are measured. That measurement is made by periodic Financial Sector Assessment Program (FSAP) reviews conducted by the International Monetary Fund and the World Bank and the reports thereon spur the development of country-specific additional or amended regulatory changes. Lawmakers and regulatory authorities in a number of jurisdictions in which our subsidiaries conduct business have, in the past few years, implemented legislative and regulatory changes consistent with these recommendations, including, for example, updated Insurance Company Ordinances in Hong Kong and consolidated regulation of insurance holding companies by the Financial Services Agency in Japan.

The FSB has charged the IAIS with developing a framework for measuring systemic risks posed by insurer groups. The IAIS has requested data from selected insurers around the world to determine which elements of the insurance sector, if any, could materially and adversely impact other parts of the global financial services sector (e.g., commercial and investment banking, securities trading, etc.). Based on the IAIS' assessment methodology for identifying G-SIIs, on July 18, 2013, the FSB, in consultation with the IAIS and national authorities, identified an initial list of nine G-SIIs, which included AIG. G-SIIs are designated on an annual basis, and AIG was re-designated as a G-SII by the FSB on November 6, 2014, and again on November 3, 2015. The IAIS released a public consultation document in November 2015, outlining proposed revisions to the 2013 methodology for identifying G-SIIs. 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), which it finalized in October 2014, was endorsed by the FSB in October 2014 and by the G20 nations in November 2014. The BCR covers all group activities, with AIG reporting its BCR ratios to national authorities on a confidential basis beginning in 2015. The BCR serves as the initial foundation for the application of HLA. In October 2015, the IAIS announced that it had concluded initial development of the HLA requirements for G-SIIs, which will be reported on a confidential basis to group-wide supervisors beginning in 2016. HLA was endorsed by the FSB in September 2015 and by the G20 nations in November 2015. Both the BCR and HLA are calculated for insurance and non-insurance activities. In particular, the IAIS released another public consultation in November 2015 on "Non-traditional Non-insurance Activities and Products." The notion of non-traditional non-insurance activities and products plays a significant role in the assessment methodology for designating G-SIIs and in

the determination of the BCR and the HLA. Ultimately, the G-SII policy framework is expected to be fully implemented by the IAIS by 2019.

The IAIS is also developing ComFrame, a Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs), which sets out qualitative and quantitative standards designed 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 ICS applicable to IAIGs. As currently defined under ComFrame, AIG meets 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 implementation of ComFrame and the ICS would begin in 2020.

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's frameworks and/or standards might be implemented in the United States and other jurisdictions around the world, or how they might apply to AIG.

Legislation in the European Union could also affect our international insurance operations. Solvency II, which became effective on January 1, 2016, 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 decision by the European Commission on whether a supervisory regime outside of the EU is equivalent,

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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, has applied to the PRA and been granted a waiver to allow the PRA to use “other methods.” Over the long-term, the impact on us will depend on whether the U.S. insurance regulatory regime is deemed “equivalent” to Solvency II; if the U.S. insurance regulatory regime is not equivalent and no other agreement addressing these differences is reached with the EU, we, along with other U.S.-based insurance companies, could be required to be supervised under Solvency II standards. On November 20, 2015, the Department of the Treasury and the United States Trade Representative announced their intention to negotiate an agreement between the U.S. and the EU, and that in these negotiations they would seek to obtain, among other things, treatment of the U.S. insurance regulatory system as “equivalent” for purposes of Solvency II. The European Commission has granted “provisional equivalence” with respect to the “solvency calculation” area of Solvency II to the insurance regulation regime of several countries, including the United States. The provisional equivalence, granted for a period of 10 years, will allow EU insurers with subsidiaries operating in these countries to use local rules, rather than Solvency II rules, to carry out their EU prudential reporting for these subsidiaries, and as such is not applicable to U.S. insurers such as AIG. This decision will take effect following the review by the European Parliament and the European Council. Whether the U.S. insurance regulatory regime will be deemed “equivalent” as relating to U.S. insurers such as AIG is still under consideration by European authorities and remains uncertain, so we are not currently able to predict the impact of Solvency II.

### **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. The prohibited transaction rules of ERISA and the Internal Revenue Code generally restrict the provision of investment advice to ERISA plans and participants and Individual Retirement Account (IRA) holders if the investment recommendation results in fees paid to the individual advisor, his or her firm or their affiliates that vary according to the investment recommendation chosen. ERISA also provides for civil and criminal penalties and enforcement.

The U.S. Department of Labor (DOL) proposed a new regulation in April 2015 that would, if enacted, substantially expand the definition of “investment advice,” which would substantially expand the range of activities considered to be fiduciary investment advice under ERISA and the Internal Revenue Code. In connection with the proposed regulation, the DOL also proposed amendments to its prohibited transaction

exemption under ERISA that would, among other things, apply more extensive disclosure and contract requirements, and increased fiduciary requirements, for transactions involving ERISA plans, plan participants and IRA holders. On January 28, 2016, the DOL submitted its final version of the proposed regulation to the Office of Management and Budget for review. The proposed regulation is subject to potential modification before the final rule, if any, is issued. It is unknown at this time whether or how any final regulation may be different from that proposed, and what the timing for implementation of compliance requirements would be, if adopted. For additional information, see Item 7. MD&A — Executive Overview - Consumer Insurance Strategic Initiatives and Outlook.

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.

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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 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, 2015.

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 — Non-Life Insurance Companies and — Life 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. Additionally, the NAIC has adopted a Principle-Based Reserving (PBR) approach for life insurance products, which will become operational once adopted in 42 U.S. jurisdictions accounting for at least 75 percent of U.S. insurance premiums combined.

Once it becomes operational, PBR would replace Regulation XXX and Guidelines AXXX with respect to new life insurance business issued. Two of our domiciliary states (Missouri and Texas) have adopted regulations necessary to implement PBR once the required number of jurisdictions and insurance premiums threshold have been satisfied.

The NAIC has undertaken the Solvency Modernization Initiative (SMI) which focuses on a review of insurance solvency regulations throughout the U.S. financial regulatory system and is expected to lead to a set of long-term solvency modernization goals. SMI is broad in scope, but the NAIC has stated that its focus will include the U.S. solvency framework, group solvency issues, capital requirements, international accounting and regulatory standards, reinsurance and corporate governance.

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. To date, a majority 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.

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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 18 to the Consolidated Financial Statements.

### **AVAILABLE INFORMATION ABOUT AIG**

Our corporate website is [www.aig.com](http://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.



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### **ITEM 1A / RISK FACTORS**

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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**

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**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, such as the global financial crisis during 2008 and 2009, 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, the U.S. housing market, oil prices, slowing growth in China and the Euro-Zone economies, 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 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

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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.

**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 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 concentrations 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; PICC Group and PICC P&C, as a result of our strategic investments; 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 – Executive Overview – Commercial Insurance Outlook and Strategic Initiatives.

**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

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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 liability for unpaid losses and loss adjustment expenses 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 casualty 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, Directors and Officers and products liability.

While we use a number of analytical reserve development techniques to project future loss development, reserves 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 quarter of 2015, we recorded a net charge of \$3.6 billion to strengthen our Non-Life Insurance Companies' loss reserves, reflecting adverse development in classes of business with long reporting tails, primarily in U.S. & Canada casualty, U.S. & Canada financial lines and run-off lines. These changes in loss cost trends or loss development factors could be due to 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 — Insurance Reserves — Non-Life Insurance Companies and Critical Accounting Estimates — Insurance Liabilities — Liability for Unpaid Losses and Loss Adjustment Expenses (Non-Life Insurance Companies).

**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, 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 concentration of insured property

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and people. 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 Operations Risks.

**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. As a result, 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 that case, we would have to accept an increase in exposure 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 and 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 utilize 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. As a result, 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, 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.

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



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## **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 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 advance funds 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 distributions in an amount sufficient to enable AIG Parent to meet its cash requirements could have an adverse effect on our operations, our ability to pay dividends or our ability 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 any statutory capital requirements 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 \$59 billion at December 31, 2015. 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 revised our IFS ratings and ratings outlooks, primarily as a result of our reserve strengthening in the fourth quarter of 2015 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.

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**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 \$95 million, and certain of our counterparties would be permitted to elect early termination of contracts. Certain rating agencies recently revised the outlook for our credit ratings, primarily as a result of our reserve strengthening in the fourth quarter of 2015 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**

**Interest rate fluctuations, increased lapses and surrenders, declining investment returns and other events may require our subsidiaries to accelerate the amortization of 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 DAC 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 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 DAC 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 8 and 12 to the Consolidated Financial Statements.

**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, and 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.

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**Certain of our products have guarantees that may increase the volatility of our results.** We offer 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), guaranteed minimum accumulation benefits (GMAB), and products with guaranteed interest crediting rates tied to an index. 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 and GMAB, including exposures to changes in equity prices, interest rates, credit spreads and volatilities. The hedging program utilizes derivative instruments, including but not limited to equity options, futures contracts, 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. Nevertheless, differences between the change in fair value of GMWB and GMAB 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, and 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 4 and 13 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 15 to the Consolidated Financial Statements. While we do not currently believe the 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 15 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 100 countries and jurisdictions. A substantial portion of our business is conducted outside the United States, and we intend to continue to grow this business. Operations outside the United States may be affected by regional economic downturns, changes in foreign currency exchange rates, political 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.

**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.

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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 15 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 utilize 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, including 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 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.

**The integration of companies we acquire from time to time 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 company may result in the acquired company 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.



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### **REGULATION**

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**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 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. See "Our status as a nonbank systemically important financial institution, as well as the enactment of Dodd-Frank, will subject 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. We cannot predict the effect these initiatives may have on our business, results of operations, cash flows and financial condition.

We provide products and services to certain employee benefit plans that are subject to 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. The DOL has proposed a new regulation that could, if enacted as originally proposed, materially affect our ability to sell and service certain types of annuities and other investment products. If the new DOL proposals are finalized as originally proposed, the investment-related information and support that our advisors and employees could provide to ERISA-covered plan sponsors, participants and IRA holders on a non-fiduciary basis could be substantially limited compared to what is allowed under current law, and these changes could have a material impact on the types and levels of and compensation structures associated with the investment products and services we provide. For additional information, see Item 1 – Business – Regulation and Item 7 – MD&A – Executive Overview – Consumer Insurance Strategic Initiatives and Outlook.

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.

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**Our status as a nonbank systemically important financial institution, as well as the enactment of Dodd-Frank, will subject 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, an ongoing process anticipated to continue over the next few years.

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 the aforementioned regulations to which AIG and its businesses are subject.

**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, 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 and similar laws 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 affiliated reinsurance transactions, to maintain their ability to offer competitive pricing and successfully market such products. See Note 18 to the Consolidated Financial Statements for additional information on statutory reserving requirements under Regulation XXX and Guideline AXXX and our use of affiliated reinsurance. The NAIC and other state and federal regulators continue to focus on life insurers’ affiliated reinsurance transactions used to satisfy certain reserve requirements or to manage the capital impact of certain statutory reserve requirements, particularly transactions using captive insurance companies or special purpose vehicles. While our domestic Life Insurance Companies do

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not use captive or special purpose vehicle structures for this purpose, we cannot predict whether any applicable insurance laws or regulations will be changed in a way that prohibits or adversely impacts the use of affiliated reinsurance. If regulations change, our statutory reserve requirements could increase, and we could be required to increase prices on our products or incur higher expenses to obtain reinsurance, 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.

**New regulations promulgated from time to time 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 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, 2015, we had a U.S. federal net operating loss carryforward of approximately \$34.9 billion and \$6.9 billion in foreign tax credits (tax loss and credit carryforwards). Our ability to use such 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 January 8, 2014, the Board adopted an amendment to the Plan, extending its expiration date to January 8, 2017. The amendment of the Plan was ratified by our shareholders at our 2014 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.” At our 2014 Annual Meeting of Shareholders, our shareholders approved an amendment to our Restated Certificate of Incorporation to adopt a successor to the Protective Amendment that contains substantially the same terms as the Protective Amendment and that expires on May 12, 2017, the third anniversary of the date of our 2014 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.

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**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 by limiting rules allowing deferral of tax on certain foreign insurance income. 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. In addition, changes in the way foreign taxes can be credited against U.S. taxes, methods for allocating interest expense, 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 Executive Branch of the U.S. Government and Congress have considered proposals that could increase taxes on owners of insurance products. For example, there have been proposals that would have limited the deferral of tax on income from life and annuity contracts relative to other investment products. These changes could reduce demand in the U.S. for life insurance and annuity contracts, or cause consumers to shift from these contracts to other investments, which would reduce our income due to lower sales of these products or potential increased surrenders of in-force business.

The need for governments to seek additional revenue makes it likely that there will be continued proposals to change tax rules in ways that would reduce our earnings. However, 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.

### **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 Non-Life 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.

The past reduction of our credit ratings and past negative publicity have made, and may continue to 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.



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**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.

### **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, may result in increased expenses and reduce our profitability. See Note 20 to the Consolidated Financial Statements for further details on our pension and postretirement benefit plans.

**TABLE OF CONTENTS****ITEM 1B / UNRESOLVED STAFF COMMENTS**

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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**

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We operate from approximately 350 offices in the United States and approximately 500 offices in over 75 foreign countries. The following offices are located in buildings in the United States owned by us:

<b>Non-Life Insurance Companies:</b> <ul style="list-style-type: none"> <li>• Wilmington, Delaware</li> <li>• Stevens Point, Wisconsin</li> <li>• Greensboro and Winston-Salem, North Carolina</li> </ul>	<b>Life Insurance Companies:</b> <ul style="list-style-type: none"> <li>• Amarillo and Houston, Texas</li> </ul>
<b>Corporate and Other:</b> <ul style="list-style-type: none"> <li>• 175 Water Street in New York, New York</li> <li>• Livingston, New Jersey</li> <li>• Stowe, Vermont</li> <li>• Ft. Worth, Texas</li> </ul>	

In addition, Non-Life Insurance Companies own offices in approximately 20 foreign countries and jurisdictions including Argentina, Bermuda, Colombia, Ecuador, Japan, Mexico, the U.K., Taiwan, and Venezuela. The remainder of the office space we utilize is leased. We believe that our leases and properties are sufficient for our current purposes.

**LOCATIONS OF CERTAIN ASSETS**

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As of December 31, 2015, approximately 10 percent of our consolidated assets were located outside the U.S. and Canada, including \$659 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 5 to the Consolidated Financial Statements for total carrying amounts 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 also Item 1A. Risk Factors — Business and Operations for additional information.

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**ITEM 3 / LEGAL PROCEEDINGS**

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For a discussion of legal proceedings, see Note 15 — Contingencies, Commitments and Guarantees to the Consolidated Financial Statements, which is incorporated herein by reference.

**ITEM 4 / MINE SAFETY DISCLOSURES**

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Not applicable.

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**TABLE OF CONTENTS****Item 5 / market for registrant's common equity, related stockholder matters and issuer purchases of equity securities****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 29,245 stockholders of record of AIG Common Stock as of February 11, 2016.

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 2015 and 2014, and the dividends declared per share during those periods:

		2015				2014		
		High	Low	Dividends	High	Low	Dividends	
First quarter	\$	56.42	\$ 48.87	\$ 0.125	\$ 52.22	\$ 46.88	\$ 0.125	
Second quarter		63.32	54.81	0.125	55.72	49.40	0.125	
Third quarter		64.54	55.66	0.280	56.33	51.98	0.125	
Fourth quarter		64.12	56.92	0.280	56.51	49.40	0.125	
<b>Dividends</b>								

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.

Any payment of dividends 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 and liquidity, available capital, 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. See Item 1. Business — Regulation and Item 1A. Risk Factors — Regulation for further discussion.

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 18 to the Consolidated Financial Statements.

**EQUITY COMPENSATION PLANS**

Our table of equity compensation plans will be included in the definitive proxy statement for AIG's 2016 Annual Meeting of Shareholders. The definitive proxy statement will be filed with the SEC no later than 120 days after the end of AIG's fiscal year pursuant to Regulation 14A.

**TABLE OF CONTENTS****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 the information with respect to 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, 2015:

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	10,363,200\$	58.06	10,363,200\$	2,92
November 1 - 30	10,964,737	61.45	10,964,737	2,25
December 1 - 31	31,566,100	61.53	31,566,100	3,31
Total	52,894,037\$	60.83	52,894,037\$	3,31

Our Board of Directors has authorized the repurchase of shares of AIG Common Stock through a series of actions. On December 16, 2015, 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, 2015, we repurchased approximately 53 million shares of AIG Common Stock under this authorization for an aggregate purchase price of approximately \$3.2 billion. Pursuant to an Exchange Act Rule 10b5-1 plan, from January 1 to February 11, 2016, we have repurchased approximately 44 million shares of AIG Common Stock for an approximate purchase price of \$2.5 billion.

On February 11, 2016, our Board of Directors authorized an additional increase to the repurchase authorization of AIG Common Stock of \$5.0 billion, resulting in a remaining authorization on such date of approximately \$5.8 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 16 to the Consolidated Financial Statements for additional information on our share purchases.



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### **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, 2010 to December 31, 2015) with the cumulative total return of the S&P's 500 stock index (which includes AIG) and a peer group of companies consisting of 15 insurance companies to which we compare our business and operations:

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

\* In January 2016, ACE Limited acquired The Chubb Corporation. The combined organization now operates as Chubb Limited.

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**Item 5 / market for registrant's common equity, related stockholder matters and issuer purchases of equity securities**



**Value of \$100 Invested on December 31, 2010**



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

	<b>As of December 31,</b>					
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
AIG	\$ 100.00	\$ 49.05	\$ 74.64	\$ 108.38	\$ 120.02	\$ 134.63
S&P 500	100.00	102.11	118.45	156.82	178.29	180.75
Peer Group	100.00	86.72	111.36	165.52	167.48	175.50
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**TABLE OF CONTENTS****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.

<i>(in millions, except per share data)</i>	<b>Years Ended December 31,</b>				
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Revenues:</b>					
Premiums	\$ 36,655	\$ 37,254	\$ 37,499	\$ 38,189	\$ 39,026
Policy fees	2,755	2,615	2,340	2,192	2,197
Net investment income	14,053	16,079	15,810	20,343	14,755
Net realized capital gains	776	739	1,939	1,087	803
Aircraft leasing revenue	-	1,602	4,420	4,504	4,508
Other income	4,088	6,117	6,866	4,899	3,861
<b>Total revenues</b>	<b>58,327</b>	<b>64,406</b>	<b>68,874</b>	<b>71,214</b>	<b>65,150</b>
<b>Benefits, losses and expenses:</b>					
Policyholder benefits and losses incurred	31,345	28,281	29,503	32,036	33,523
Interest credited to policyholder account balances	3,731	3,768	3,892	4,340	4,432
Amortization of deferred policy acquisition costs	5,236	5,330	5,157	5,709	5,486
General operating and other expenses	12,686	13,138	13,564	13,013	11,783
Interest expense	1,281	1,718	2,142	2,319	2,444
Net loss on extinguishment of debt	756	2,282	651	32	2,908
Aircraft leasing expenses	-	1,585	4,549	4,138	5,401
Net (gain) loss on sale of properties and divested businesses	11	(2,197)	48	6,736	74
<b>Total benefits, losses and expenses</b>	<b>55,046</b>	<b>53,905</b>	<b>59,506</b>	<b>68,323</b>	<b>66,051</b>
Income (loss) from continuing operations before income taxes	3,281	10,501	9,368	2,891	(901)
Income tax expense (benefit)	1,059	2,927	360	(808)	(19,764)
Income from continuing operations	2,222	7,574	9,008	3,699	18,863
Income (loss) from discontinued operations, net of taxes	-	(50)	84	1	2,467
<b>Net income</b>	<b>2,222</b>	<b>7,524</b>	<b>9,092</b>	<b>3,700</b>	<b>21,330</b>
<b>Net income (loss) from continuing operations attributable</b>					

<b>to noncontrolling interests:</b>	<b>26</b>	(5)	7	262	708
<b>Net income attributable to AIG</b>	<b>2,196</b>	7,529	9,085	3,438	20,622
<b>Income per common share attributable to AIG common shareholders</b>					
Basic					
Income from continuing operations	<b>1.69</b>	5.31	6.11	2.04	9.65
Income (loss) from discontinued operations	-	(0.04)	0.05	-	1.36
Net income attributable to AIG	<b>1.69</b>	5.27	6.16	2.04	11.01
Diluted					
Income from continuing operations	<b>1.65</b>	5.24	6.08	2.04	9.65
Income (loss) from discontinued operations	-	(0.04)	0.05	-	1.36
Net income attributable to AIG	<b>1.65</b>	5.20	6.13	2.04	11.01
Dividends declared per common share	<b>0.81</b>	0.50	0.20	-	-
<b>Year-end balance sheet data:</b>					
Total investments	<b>338,354</b>	355,766	356,428	375,824	410,438
Total assets	<b>496,943</b>	515,581	541,329	548,633	553,054
Long-term debt	<b>29,350</b>	31,217	41,693	48,500	75,253
Total liabilities	<b>406,733</b>	408,309	440,218	449,630	442,138
Total AIG shareholders' equity	<b>89,658</b>	106,898	100,470	98,002	101,538
Total equity	<b>90,210</b>	107,272	101,081	98,669	102,393

**TABLE OF CONTENTS****Item 6 / Selected financial data**

Book value per common share	<b>75.10</b>	77.69	68.62	66.38	53.53
Book value per common share, excluding Accumulated other comprehensive income (loss) <sup>(a)</sup>	<b>72.97</b>	69.98	64.28	57.87	50.11
Book value per common share, excluding Accumulated other comprehensive income (loss) and Deferred tax assets <sup>(a)</sup>	<b>\$ 58.94</b>	\$ 58.23	\$ 52.12	\$ 45.30	\$ 39.57
ROE	<b>2.2%</b>	7.1%	9.2%	3.4%	24.1%
ROE - after-tax operating income, excluding AOCI <sup>(a)</sup>	<b>3.1</b>	6.9	7.4	7.1	2.6
ROE - after-tax operating income, excluding AOCI and DTA <sup>(a)</sup>	<b>3.7</b>	8.4	9.3	9.0	2.7

	<b>Years Ended December 31,</b>				
<i>(in millions, except per share data)</i>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Other data (from continuing operations):</b>					
Other-than-temporary impairments	<b>\$ 671</b>	\$ 247	\$ 232	\$ 1,050	\$ 1,142
Adjustment to federal deferred tax valuation allowance	<b>110</b>	(181)	(3,165)	(1,907)	(18,307)
Catastrophe-related losses <sup>(b)</sup>	<b>\$ 731</b>	\$ 728	\$ 787	\$ 2,652	\$ 3,307

(a) Book value per common share excluding Accumulated other comprehensive income (loss), Book value per common share excluding AOCI and Deferred Tax Assets (DTA), return on equity – after-tax operating income excluding AOCI and return on equity – after-tax operating income excluding AOCI and DTA are non-GAAP measures and the reconciliations are below. See Item 7. MD&A — Use of Non GAAP Measures for additional information.

(b) Catastrophe-related losses are generally weather or seismic events having a net impact on our property casualty businesses in excess of \$10 million each.

The following are significant developments that affected multiple periods and financial statement captions. Other items that affected comparability are included in the footnotes to the table presented immediately above.

**Adjustments to Federal Deferred Tax Valuation Allowance**

We concluded that \$18.4 billion of the deferred tax asset valuation allowance for the U.S. consolidated income tax group should be released through the Consolidated Statements of Income in 2011. The valuation allowance resulted primarily from losses subject to U.S. income taxes recorded from 2008 through 2010. See Note 22 to the Consolidated Financial Statements for further discussion.

### Capitalization and Book Value Per Common Share

On January 14, 2011, we completed a series of integrated transactions to recapitalize AIG (the Recapitalization) with the Department of the Treasury, the Federal Reserve Bank of New York (FRBNY) and AIG Credit Facility Trust, including the repayment of all amounts owed under the Credit Facility with the FRBNY (the FRBNY Credit Facility). As a result of the closing of the Recapitalization on January 14, 2011, the remaining preferred interests (the SPV Preferred Interests) in the special purpose vehicles that held remaining AIA Group Limited (AIA) shares and the proceeds of the AIA initial public offering and the American Life Insurance Company (ALICO) sale (the AIA SPV and ALICO SPV, respectively) held by the FRBNY of approximately \$26.4 billion were purchased by AIG and transferred to the Department of the Treasury. The SPV Preferred Interests were no longer considered permanent equity on AIG's Consolidated Balance Sheets, and were classified as redeemable noncontrolling interests.

**TABLE OF CONTENTS****Item 6 / Selected financial data****Asset Dispositions in 2011, 2014 and 2015**

We completed the sale of 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 2011.

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

	<b>At December 31,</b>				
<i>(in millions, except per share data)</i>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Total AIG shareholders' equity	<b>\$ 89,658</b>	106,898	100,470	98,002	101,530
Accumulated other comprehensive income	<b>2,537</b>	10,617	6,360	12,574	6,480
Total AIG shareholders' equity, excluding AOCI	<b>87,121</b>	96,281	94,110	85,428	95,050
Deferred tax assets	<b>16,751</b>	16,158	17,797	18,549	20,000
Total AIG shareholders' equity, excluding AOCI and DTA	<b>\$ 70,370</b>	80,123	76,313	66,879	75,050
Total common shares outstanding	<b>1,193,916,617</b>	1,375,926,971	1,464,063,323	1,476,321,935	1,896,821,480
Book value per common share	<b>\$ 75.10</b>	77.69	68.62	66.38	53.50
Book value per common share, excluding AOCI	<b>72.97</b>	69.98	64.28	57.87	50.10
Book value per common share, excluding AOCI and DTA	<b>\$ 58.94</b>	58.23	52.12	45.30	39.50

The following table presents a reconciliation of Return on equity to Return on equity, after-tax operating income, excluding AOCI, and Return on equity, after-tax operating income, excluding AOCI and DTA, which are non-GAAP measures. See Item 7. MD&A — Use of Non GAAP Measures for additional information.

<b>Years Ended December 31,</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<i>(dollars in millions)</i>				
Net income (loss) attributable to AIG	<b>\$ 2,196</b>	\$ 7,529	\$ 9,085	\$ 3,430
After-tax operating income attributable to AIG	<b>2,927</b>	6,630	6,650	6,540



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Average AIG Shareholders' equity	101,558	105,589	98,850	101,87
Average AOCI	7,598	9,781	8,865	9,71
Average AIG Shareholders' equity, excluding average AOCI	93,960	95,808	89,985	92,15
Average DTA	15,803	16,611	18,150	19,25
Average AIG Shareholders' equity, excluding average AOCI and DTA	\$ 78,157	\$ 79,197	\$ 71,835	\$ 72,90
ROE	2.2%	7.1%	9.2%	3.
ROE - after-tax operating income, excluding AOCI	3.1	6.9	7.4	7.
ROE - after-tax operating income, excluding AOCI and DTA	3.7	8.4	9.3	9.

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**TABLE OF CONTENTS****ITEM 7 / MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This Annual Report on Form 10-K 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;
- sales of businesses;
- restructuring of business operations;
- 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 restructuring charges and annual cost savings;
- anticipated business or asset divestitures or monetizations;
- anticipated organizational and business changes;
- strategies for customer retention, growth, product development, market position, financial results and reserves; and
- subsidiaries' revenues and combined ratios.

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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;
- 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 run-off insurance portfolios;
- 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;
- 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 on Form 10 K; and
- this Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) of this Annual Report on Form 10-K.

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.

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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 on Form 10-K to assist readers seeking additional information related to a particular subject.

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### [Item 7 / use of non-gaap measures](#)

In 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) and Book Value Per Common Share Excluding AOCI and Deferred Tax Assets (DTA)** 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 the effect of non-cash 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. Deferred tax assets represent U.S. tax attributes related to net operating loss carryforwards and foreign tax credits. Amounts for interim periods are estimates based on projections of full-year attribute utilization. Book Value Per Common Share Excluding AOCI is derived by dividing Total AIG shareholders’ equity, excluding AOCI, by Total common shares outstanding. Book Value Per Common Share Excluding AOCI and DTA is derived by dividing Total AIG shareholders’ equity, excluding AOCI and DTA, 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 Return on Equity – After-tax Operating Income Excluding AOCI and DTA** are used to show the rate of return on shareholders’ equity. We believe these measures are useful to investors because they eliminate the effect of non-cash 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. Deferred tax assets represent U.S. tax attributes related to net operating loss carryforwards and foreign tax credits. Amounts for interim periods are estimates based on projections of full-year attribute utilization. Return on Equity – After-tax Operating Income Excluding AOCI is derived by dividing actual or annualized after-tax operating income attributable to AIG by average AIG shareholders’ equity, excluding average AOCI. Return on Equity – After-tax Operating Income Excluding AOCI and DTA is derived by dividing actual or annualized after-tax operating income attributable to AIG by average AIG shareholders’ equity, excluding average AOCI and DTA. The reconciliation to return on equity, the most comparable GAAP measure, is presented in Item 6. Selected Financial Data.

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 in the Results of Operations section of this MD&A on a consolidated basis.





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### Item 7 / use of non-gaap measures

**After-tax operating income attributable to AIG** is derived by excluding the following items from net income attributable to AIG:

<ul style="list-style-type: none"> <li>• deferred income tax valuation allowance releases and charges;</li> <li>• changes in fair value of securities used to hedge guaranteed living benefits;</li> <li>• 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;</li> <li>• other income and expense — net, related to Corporate and Other run-off insurance lines;</li> <li>• loss on extinguishment of debt;</li> <li>• net realized capital gains and losses;</li> <li>• non-qualifying derivative hedging activities, excluding net realized capital gains and losses;</li> </ul>	<ul style="list-style-type: none"> <li>• income or loss from discontinued operations;</li> <li>• income and loss from divested businesses, including: <ul style="list-style-type: none"> <li>• gain on the sale of International Lease Finance Corporation (ILFC); and</li> <li>• certain post-acquisition transaction expenses incurred by AerCap Holdings N.V. (AerCap) in connection with its acquisition of ILFC and the difference between expensing AerCap's maintenance rights assets over the remaining lease term as compared to the remaining economic life of the related aircraft and related tax effects;</li> </ul> </li> <li>• legacy tax adjustments primarily related to certain changes in uncertain tax positions and other tax adjustments;</li> <li>• non-operating litigation reserves and settlements;</li> <li>• reserve development related to non-operating run-off insurance business; and</li> <li>• restructuring and other costs related to initiatives designed to reduce operating expenses, improve efficiency and simplify our organization.</li> </ul>
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We use the following operating performance measures within our Commercial Insurance and Consumer Insurance reportable segments as well as Corporate and Other.

• **Commercial Insurance: Property Casualty and Mortgage Guaranty; Consumer Insurance: Personal Insurance**

• **Pre tax operating income** includes both underwriting income and loss and net investment income, but excludes net realized capital gains and losses, other income and expense — net, and non-operating litigation reserves and settlements. Underwriting income and loss is derived by reducing net premiums earned by losses and loss adjustment expenses incurred, acquisition expenses and general operating expenses.

- **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, 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. 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. Catastrophe losses are generally weather or seismic events having a net impact in excess of \$10 million each.

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- **Commercial Insurance: Institutional Markets; Consumer Insurance: Retirement and Life**

- **Pre tax operating incomes** derived by excluding the following items from pre tax income:

<ul style="list-style-type: none"> <li>• changes in fair value of securities used to hedge guaranteed living benefits;</li> </ul>	<ul style="list-style-type: none"> <li>• changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains and losses; and</li> </ul>
<ul style="list-style-type: none"> <li>• net realized capital gains and losses;</li> </ul>	<ul style="list-style-type: none"> <li>• non-operating litigation reserves and settlements.</li> </ul>

- **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.

- **Corporate and Other — Pre tax operating income and loss** is derived by excluding the following items from pre tax income and loss:

<ul style="list-style-type: none"> <li>• loss on extinguishment of debt;</li> <li>• net realized capital gains and losses;</li> <li>• changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains and losses;</li> <li>• income and loss from divested businesses, including Aircraft Leasing;</li> </ul>	<ul style="list-style-type: none"> <li>• net gain or loss on sale of divested businesses, including:</li> <li>• gain on the sale of ILFC; and</li> <li>• certain post-acquisition transaction expenses incurred by AerCap in connection with its acquisition of ILFC and the difference between expensing AerCap's maintenance rights assets over the remaining lease term as compared to the remaining economic life of the related aircraft and our share of AerCap's income taxes;</li> <li>• non-operating litigation reserves and settlements;</li> <li>• reserve development related to non-operating run-off insurance business; and</li> <li>• restructuring and other costs related to initiatives designed to reduce operating expenses, improve efficiency and simplify our organization.</li> </ul>
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Results from discontinued operations are excluded from all of these measures.



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### **Item 7 / EXECUTIVE 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 AIG's securities. You should read this Annual Report on Form 10-K in its entirety for a complete description of events, trends, uncertainties, risks and critical accounting estimates affecting us.

As a result of the progress of the wind down and de-risking activities of the Direct Investment book (DIB) and the derivative portfolio of AIG Financial Products Corp. and related subsidiaries (collectively, AIGFP) included within Global Capital Markets (GCM), AIG has discontinued separate reporting of the DIB and GCM. Their results are reported within Income from other assets, net, beginning in 2015. This reporting aligns with the manner in which AIG manages its financial resources. Prior periods are presented in the historical format for informational purposes. AIG borrowings supported by assets continue to be managed as such with assets allocated to support the timely repayment of those liabilities. Assets previously held in the DIB and GCM that are otherwise not required to meet the obligations and capital requirements of the DIB and GCM have been made available to AIG Parent.

As part of our broad and on-going efforts to transform AIG for long-term competitiveness, in the third quarter of 2015 we finalized a series of initiatives focused on organizational simplification, operational efficiency, and business rationalization, which are expected to result in pre-tax restructuring and other costs of approximately \$0.7 billion, as well as generate pre-tax annualized savings of approximately \$0.7 billion to \$0.8 billion when fully implemented. Results for 2015 include approximately \$0.5 billion of pre-tax restructuring and other costs, composed of \$0.3 billion of employee severance and one-time termination benefits, approximately \$0.1 billion associated with the modernization of information technology platforms, and the balance relating to costs associated with consolidation of legal entities and exiting lower return lines of business. We expect the remaining \$0.2 billion to be recognized through 2017, as well as approximately \$0.3 billion of the aggregate pre-tax costs to result in cash expenditures.

On January 26, 2016, we announced several actions designed to create a leaner, more profitable and focused insurer. These actions include a plan to reorganize our operating model into "modular", more self-contained business units to enhance transparency and accountability. Additionally, we are introducing a new Legacy Portfolio that aims to maximize value and release capital of certain run-off non-strategic assets and highlight progress on improving the ROE of our Operating Portfolio. When the new operating structure is finalized, the presentation of our segment results may be modified and prior periods' presentation may be revised to conform to the new structure.

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### **Item 7 / EXECUTIVE OVERVIEW**

#### **Financial Performance**

**Commercial Insurance** pre-tax operating income decreased in 2015, compared to 2014 primarily due to a higher underwriting loss in Property Casualty due to an increase in net adverse prior year loss reserve development. In addition net investment income in Property Casualty and Institutional Markets decreased in 2015 compared to 2014.

**Consumer Insurance** pre-tax operating income decreased in 2015, compared to 2014, reflecting lower net investment income, less favorable adjustments related to the update of actuarial assumptions, less favorable mortality experience in Life, and an underwriting loss in Personal Insurance in 2015. These decreases were partially offset by higher policy and advisory fees in 2015 compared to 2014, driven by growth in separate account assets under management in Retirement.

**Our investment portfolio performance** declined in 2015, compared to 2014 due to lower income on alternative investments, primarily related to hedge fund performance, lower income on investments for which the fair value option was elected, and lower reinvestment yields.

**Net realized capital gains** increased slightly in 2015, compared to 2014, due to higher net realized capital gains from sales of equity securities and fair value gains on embedded derivatives related to variable annuity guarantee features, net of hedges, compared to fair value losses in the prior year, mostly offset by an increase in other-than-temporary impairment charges and impairments on investments in life settlements.

**TABLE OF CONTENTS****Item 7 / EXECUTIVE OVERVIEW****Our Performance – Selected Indicators****Years Ended December 31,***(in millions, except per share data and ratios)***Results of operations data:**

	2015	2014	2013
Total revenues	\$ 58,327	\$ 64,406	\$ 68,874
Income from continuing operations	2,222	7,574	9,008
Net income attributable to AIG	2,196	7,529	9,085
Net income per common share attributable to AIG (diluted)	1.65	5.20	6.13
After-tax operating income attributable to AIG	\$ 2,927	\$ 6,630	\$ 6,650
After-tax operating income per common share attributable to AIG (diluted)	2.19	4.58	4.49

**Key metrics:****Commercial Insurance**

Pre-tax operating income	\$ 1,652	\$ 5,510	\$ 4,980
Property Casualty combined ratio	115.0	100.2	101.6
Property Casualty accident year combined ratio, as adjusted	95.0	94.2	95.1
Property Casualty net premiums written	\$ 20,436	\$ 21,020	\$ 20,880
Mortgage Guaranty domestic first-lien new insurance written	50,842	42,038	49,356
Institutional Markets premiums and deposits	1,782	3,797	991

**Consumer Insurance**

Pre-tax operating income	\$ 3,378	\$ 4,474	\$ 4,564
Personal Insurance combined ratio	101.3	99.9	101.5
Personal Insurance accident year combined ratio, as adjusted	100.2	99.5	102.1
Personal Insurance net premiums written	\$ 11,580	\$ 12,412	\$ 12,700
Retirement premiums and deposits	25,241	24,023	23,729
Life premiums and deposits	4,974	4,806	4,862

**Life Insurance Companies assets under management**

338,032 332,847 317,977

**December****31, 2015** **December 31, 2014***(in millions, except per share data)***Balance sheet data:**

Total assets	\$ 496,943	\$ 515,581
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Long-term debt	<b>29,350</b>	31,217
Total AIG shareholders' equity	<b>89,658</b>	106,898
Book value per common share	<b>75.10</b>	77.69
Book value per common share, excluding AOCI	<b>72.97</b>	69.98
Book value per common share, excluding AOCI and DTA	<b>58.94</b>	58.23

Years Ended December 31,	<b>2015</b>	<b>2014</b>	<b>2013</b>
Return on equity	<b>2.2%</b>	7.1%	9.2%
Return on equity - after-tax operating income, excluding AOCI	<b>3.1</b>	6.9	7.4
Return on equity - after-tax operating income, excluding AOCI and DTA	<b>3.7</b>	8.4	9.3

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<b>Total revenues</b> <i>(in millions)</i>	<b>Income from continuing operations</b> <i>(in millions)</i>
<b>Net income ATTRIBUTABLE TO AIG</b> <i>(in millions)</i>	<b>Net INCOME PER COMMON SHARE ATTRIBUTABLE TO AIG (DILUTED)</b>

After-tax operating income attributable to aig (excludes net realized capital gains and certain other items)  <i>(in millions)</i>	Pre-tax operating income (loss) by segment  <i>(in millions)</i>

\* Includes a gain of \$1.4 billion associated with the completion of the sale of ILFC.

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\* Includes operating borrowings of other subsidiaries and consolidated investments and hybrid debt securities.



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### **Item 7 / EXECUTIVE OVERVIEW**

#### **Investment Highlights**

Net investment income decreased to \$14.1 billion in 2015 compared to \$16.1 billion in 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. While corporate debt securities represented the core of new investment allocations, we continued to make investments in structured securities, mortgage loans and other fixed income investments with favorable risk versus return characteristics to improve yields and increase net investment income.

Net unrealized gains in our available for sale portfolio decreased to approximately \$8.8 billion as of December 31, 2015, from approximately \$19.0 billion as of December 31, 2014, primarily due to a rise in rates, widening of credit spreads and sale of equity securities.

The overall credit rating of our fixed maturity securities portfolio remains largely unchanged from December 31, 2014.

#### **Liquidity and Capital Resources Highlights**

**We reduced our debt** by \$1.9 billion in 2015, primarily as a result of maturities, repayments and repurchases of \$10.0 billion, offset in part by new debt issuances of \$6.9 billion. We reduced the average cost of our financial debt from 5.34 percent per annum in 2014 to 4.92 percent per annum in 2015 and extended the maturity profile of our debt in 2015.

**We maintained financial flexibility at AIG Parent in 2015** through \$3.2 billion in dividends in the form of cash and fixed maturity securities from our Non-Life Insurance Companies and \$4.6 billion in dividends and loan repayments in the form of cash and fixed maturity securities from our Life Insurance Companies. The dividends that AIG Parent received in 2015 included \$2.8 billion of dividends that were declared during the fourth quarter of 2014.

**Our Board of Directors increased our previous share repurchase authorization of AIG Common Stock, par value \$2.50 per share (AIG Common Stock), by an additional \$5.0 billion on February 11, 2016**, resulting in a remaining authorization on such date of approximately \$5.8 billion. During 2015, we repurchased approximately 182 million shares of AIG Common Stock for an aggregate purchase price of approximately \$10.7 billion. The total number of shares of AIG Common Stock repurchased in 2015 includes (but the aggregate purchase price does not include) approximately 3.5 million shares of AIG Common Stock received in January 2015 upon the settlement of an ASR agreement executed in the fourth quarter of 2014. Pursuant to a Securities and Exchange Act of 1934 (Exchange Act) Rule 10b5-1 plan, from January 1 to February 11, 2016, we have repurchased approximately \$2.5 billion of additional shares of AIG Common Stock.

**We paid a cash dividend on AIG Common Stock** of \$0.125 per share on each of March 26, 2015 and June 25, 2015, and \$0.28 per share on each of September 28, 2015 and December 21, 2015.

**Our Board of Directors declared a cash dividend on AIG Common Stock on February 11, 2016** of \$0.32 per share, payable on March 28, 2016 to shareholders of record on March 14, 2016.

**We received net cash proceeds** of approximately \$4.2 billion in the aggregate from the sale of approximately 97.6 million ordinary shares of AerCap in June and September 2015.

**We received gross cash proceeds** of approximately \$1.3 billion from our sale of 617 million ordinary H shares of PICC P&C by means of a placement to certain institutional investors.

Additional discussion and other liquidity and capital resources developments are included in Note 16 to the Consolidated Financial Statements and Liquidity and Capital Resources herein.

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#### **Industry Trends**

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 2015, characterized by factors such as historically low interest rates, instability in the global equity markets, volatile energy markets and slowing growth in emerging markets, China and Euro-Zone economies.

Interest rates remain low relative to historical levels, which has affected our industry by reducing investment returns and unfavorably affecting loss reserve discounting, primarily related to our workers' compensation reserves. In addition, current market conditions may not necessarily permit insurance companies to increase pricing across all our product lines.

Currency volatility in 2015 was particularly acute compared to recent years, as the three major foreign currencies (Japanese yen, euro, and British pound) that we transact in weakened considerably 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, and such fluctuations will affect net premiums written growth trends reported in U.S. dollars, as well as financial statement line item comparability.

See Results of Operations – Foreign Currency Impact; Results of Operations – Segment Results – Pre-Tax Income Comparison for 2015 and 2014; Results of Operations – Commercial Insurance – Property Casualty Net Premiums Written by Region; and Results of Operations – Consumer Insurance – Personal Insurance Net Premiums Written by Region.

AIG is focused on the following priorities for 2016:

- Improving our Return on Equity (ROE)
- Creating a leaner, more profitable and focused insurer by reorganizing our operating model into “modular”, more self-contained business units to enhance transparency and accountability, including through the introduction of a new Legacy Portfolio that aims to maximize value and release capital from run-off of

non-strategic assets

- Reducing general operating expenses
- Improving the Commercial Insurance Property Casualty accident year loss ratio
- Returning excess capital to shareholders
- Growing book value per common share

The outlook for each of our businesses and management initiatives to improve growth and performance in 2016 and over the longer term is summarized below.

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### **Item 7 / EXECUTIVE OVERVIEW**

#### **Commercial insurance Outlook AND Strategic initiatives**

#### **Market Conditions and Industry Trends**

Commercial Insurance expects the current low interest rate environment relative to historical levels, currency volatility, and ongoing uncertainty in global economic conditions will continue to limit growth and profitability in some markets and challenge growth of net investment income. Due to these conditions and overcapacity in the property casualty insurance industry, Commercial Insurance has continued to diversify its business focusing on growing profitable segments and geographies, exiting unprofitable lines and developing advanced data and analytics to improve profitability.

#### **Property Casualty**

Property Casualty has observed improving trends in certain key indicators that may partially offset the effect of current economic challenges. In 2015, the property casualty insurance industry experienced modest growth and an increase in overall exposures in certain markets, although this growth may be leveling off. Property Casualty 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. As a result of its ongoing strategy to optimize its portfolio and maintain underwriting discipline, Property Casualty expects that net premiums written for the U.S. Casualty line will continue to decline through 2016.

Overall, Property Casualty experienced a modest increase in rate pressure in 2015 compared to 2014. Property Casualty expects that trend to continue in the near term, particularly in certain lines including in the U.S. Property Excess and Surplus market. Property Casualty continues to differentiate its underwriting capacity from its peers by leveraging its global footprint, diverse product offering, risk engineering expertise and significant underwriting experience.

In the U.S., Property Casualty's exposure to terrorism risk is mitigated by TRIPRA in addition to limited private reinsurance protections. For additional information on TRIPRA, see Item 1A. Risk Factors — Reserves and Exposures and Item 7. MD&A — Enterprise Risk Management — Insurance Operations Risks — Non-Life Insurance Companies Key Insurance Risks — Terrorism Risk.

#### **Mortgage Guaranty**

During 2015, the U.S. market experienced an increase in mortgage loan originations driven by a decrease in residential mortgage interest rates in the latter part of 2014 that persisted throughout most of 2015, and experienced increased purchase volume that was favorably impacted by a drop in unemployment, improving housing prices, and lower down payment requirements. In addition, the current economic environment has favorably impacted incurred losses through fewer delinquencies and higher cure rates. If the current economic environment persists, Mortgage Guaranty expects to benefit through increased purchase volume and, for policies originated in the higher interest rate environment prior to 2012, increased refinancing activity. Mortgage Guaranty also expects current interest rates to have a favorable impact on the persistency of business written during 2012 and the first half of 2013, since refinancing would be unattractive to homeowners who originated mortgages at the lower residential mortgage interest rates prevalent in that time period.

Mortgage Guaranty also expects that the delinquency rate and cure rate will remain close to 2015 levels during 2016. Mortgage Guaranty believes the combination of the factors described above will result in favorable operating results for 2016.

On December 31, 2015, the Private Mortgage Insurer Eligibility Requirements (PMIERs) issued by Fannie Mae and Freddie Mac (collectively, the GSEs) became effective. Mortgage Guaranty met the PMIERs requirements as of December 31, 2015. Subject to interpretation and the prospective amendment of the new requirements by the GSEs, Mortgage Guaranty's minimum required assets under PMIERs was \$3.0 billion as of December 31, 2015, and its estimated available assets were \$3.6 billion, exceeding the required assets by \$600 million.

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#### **Institutional Markets**

Institutional Markets is expected to continue growing its assets under management from the structured settlement business and the stable value wrap business, as well as from disciplined growth through the pursuit of select opportunities related to pension buyouts. Volatility in the earnings of our alternative investment portfolio will continue to affect Institutional Markets' results.

#### **Strategic Initiatives**

**Customer** — Strive to be our clients' most valued insurer by offering innovative products, superior service and access to an extensive global network.

**Sharpen Commercial Focus** — Achieve ROE in excess of target across our businesses primarily through improvements in our loss ratio. Improve 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 that do not meet our risk acceptance or profitability objectives.

**Drive Efficiency** — Reorganize our operating model into "modular", more self-contained business units to enhance decision making, transparency and accountability, driving performance improvement and strategic flexibility 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.

#### **Customer**

Our vision is to be our clients' most valued insurer. 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. For example, during the fourth quarter, AIG increased global commercial property limits to \$2.5 billion per occurrence from \$1.5 billion, in response to increased demand for capacity and services from clients managing complex global risks and increasing property values. This increase was the result of recent investments in engineering and analytical capabilities, which in turn allowed us to secure meaningful support from a panel of long-standing reinsurers.

#### **Sharpen Commercial Focus**

*Exit or remediate targeted underperforming portfolios*

Commercial Insurance is focused on the products where we have the most potential to deliver value. Experience and emerging data indicate that there are consistently under-performing sub-segments of our business. We will grow where we see opportunity and we will exit or remediate underperforming portfolios. We will continue to further enhance our risk selection process and refine technical pricing through enhanced tools and analytics to achieve this goal.

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#### **Drive Efficiency**

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*Narrow geographic footprint while continuing to maintain and improve multinational capabilities*

Commercial Insurance, along with our other businesses, continues to evaluate the markets and geographies that provide the greatest opportunities, while maintaining the global footprint that our multinational clients greatly value. Additionally, we will continue to leverage our various off-shore centers, taking advantage of opportunities to centralize and standardize processes and platforms. We believe there is great opportunity to further streamline our operating model.

*Expand and optimize the use of reinsurance and other risk mitigating strategies*

Commercial Insurance continues to execute capital management initiatives by enhancing broad based risk tolerance guidelines for its operating units, implementing underwriting strategies to increase ROE by line of business and reducing exposure to businesses with inadequate pricing and increased loss trends. Commercial Insurance remains focused on enhancing its global reinsurance strategy to improve overall capital efficiency, although this strategy may lead to periodic income statement volatility.

*Accelerate micro-segmentation of risks using internal and external data*

Property Casualty continues to improve decision-making, risk acceptance and pricing based on its ongoing efforts to refine segmentation by customer, industry and geography. For example, after enhancing the segmentation of workers' compensation, Property Casualty has observed different experience and trends, which helps inform its risk appetite, pricing and loss mitigation decisions.

#### **Invest to Grow**

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*Grow most profitable lines*

As part of our strategic goal of diversifying product offerings and providing customers with greater access to unique insurance programs, on March 31, 2015, we paid approximately \$239 million to acquire a controlling stake in NSM Insurance Group (NSM), a leading U.S. managing general agent and insurance program administrator. NSM is known for its unique development and implementation of programs for a broad range of niche customer segments. We expect the acquisition of NSM to facilitate closer strategic coordination and provide us with access to new, attractive markets including programs, specialty small commercial insurance solutions, and complementary distribution networks.

Mortgage Guaranty expects to continue as a leading provider of mortgage insurance and seeks to differentiate itself from its competitors by utilizing its proprietary risk-based pricing strategy. This pricing

strategy provides Mortgage Guaranty's customers with mortgage insurance products that are priced commensurate with the underwriting risk, which we believe will result in an appropriately priced, high-quality book of business. As announced on January 26, 2016, we plan to conduct an initial public offering of up to 19.9 percent of Mortgage Guaranty, subject to regulatory and GSE approval, as a first step towards a full separation.

Institutional Markets is expected to continue growing the structured settlement business and continue contributing to growth in assets under management with stable value wraps and utilizing a disciplined approach to growth and diversification of our business by pursuing select opportunities in areas such as the pension buyout business.

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### **consumer insurance Outlook AND STRATEGIC INITIATIVES**

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#### **Market Conditions and Industry Trends**

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#### **Retirement**

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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 addition, higher tax rates and a desire for better investment returns have prompted less risk-averse investors to seek products without guaranteed living benefits, providing the opportunity to further diversify our product portfolio by offering investment-focused variable annuities.

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. In addition, more highly leveraged competitors have entered the market offering higher crediting rates. 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 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. Low interest rates have also driven strong sales growth of our fixed index annuity products, which provide additional interest crediting tied to favorable performance in certain equity market indices.

Consumer Insurance provides products and services to certain employee benefit plans that are subject to restrictions imposed by ERISA and the Internal Revenue Code, including rules that generally restrict the provision of investment advice to ERISA plans and participants and IRA holders if the investment recommendation results in fees paid to the individual advisor, his or her firm or their affiliates that vary according to the investment recommendation chosen. In April 2015, the DOL issued a proposed regulation that would, if enacted, expand the definition of "investment advice," which would substantially expand the range of activities considered to be fiduciary investment advice under ERISA and the Internal Revenue Code. For additional information on the DOL proposed regulation, see Item 1 – Business – Regulation – Other Regulatory Developments - ERISA Considerations. The DOL proposed regulation has generated substantial attention in our industry. If the final DOL regulation and related guidance were to be finalized as originally proposed, it may be necessary for us, and our competitors, to materially modify product design,

marketing, and compensation arrangements with distribution partners and financial advisors for certain products and services. It could also impose additional requirements and/or limitations on certain services that our advisors and employees could provide to ERISA plan sponsors, ERISA plan participants, and IRA holders. These changes could materially affect our ability to sell or service certain types of annuities and other investment products. Once we have fully evaluated the impact of the final rule, we intend to strategically invest in the most attractive post-DOL opportunities across the market.

## Life

Populations are living longer and have increased needs for financial protection for beneficiaries, estate planning and wealth creation. The Life operating segment addresses these needs with a broad spectrum of products, ranging from the pure protection focus of term life to indexed universal life and investment-oriented products such as variable universal life. Market factors, primarily low interest rates and regulatory changes, have caused the universal life market to shift its focus from guaranteed universal life to indexed universal life products that offer cash accumulation and living benefit options.



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### **Item 7 / EXECUTIVE OVERVIEW**

#### **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. Our Personal Insurance operations focus on group and corporate clients, together with individual customers within national markets. We expect the demand for multinational cross-boundary coverage and services to increase due to the internationalization of clients and customers. AIG's 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 major insurers. Growth in property insurance generally reflects increases in new housing starts and heightened demand before 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 take advantage of market consolidation and expand our innovative products and services to distribution partners and clients. Outside of Japan and the U.S., our Personal Insurance operating segment continues to invest selectively in markets where we believe higher potential for sustainable profitability exists.

#### **Strategic Initiatives**

**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 aims to provide customers with the products and services they desire, delivered through the channels they prefer.

**Information-driven Strategy** — Utilize customer insight, analytics and the application of science to optimize customer acquisition, product profitability, product mix, channel performance and risk management capabilities.

**Sharpen Consumer Focus** — Invest in areas where Consumer Insurance can grow profitably and sustainably. Target growth in select markets according to market size, growth potential, market maturity and customer demographics and narrow our footprint in less profitable markets with insufficient scale.

**Operational Effectiveness** — Simplify processes and enhance operating environments to increase competitiveness, improve service and product capabilities and facilitate delivery of our target customer experience.

**Investment Strategy** — Maintain a diversified, high quality portfolio of fixed maturity securities that largely matches the duration characteristics of the related insurance liabilities, and pursue selective yield-enhancement opportunities that meet liquidity, risk and return objectives.

**Profitability and Capital Management** — Deliver solid earnings through disciplined pricing, sustainable underwriting improvements, expense reductions and diversification of risk, and increase capital efficiency within insurance entities to enhance return on equity.

Customer

In striving to be our clients' most valued insurer, we have implemented initiatives to better serve our target segments. Our focus on ease of doing business for consumers and producers includes enhancements to our platforms and services. We are working to expand relationships with key distribution partners to offer our products across multiple distribution channels.

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### **Item 7 / EXECUTIVE OVERVIEW**

#### **Information-driven Strategy**

We believe that strengthening our information-driven decision making and marketing capabilities through the use of enhanced analytics, stronger platforms and tools, a well-designed product portfolio and expanded relationships may allow us to bring more effective product solutions to our chosen markets.

We focus on rate adequacy through our global underwriting practices and tools and analytics, and seek to optimize the value of our business lines through product and portfolio management and refined technical pricing. We strive to deliver leading customer experience and efficiency through claims best practices, deployment of enhanced operating structures and standardized processes and systems, while managing claims-handling efficiency.

#### **Sharpen Consumer Focus**

**Retirement Income Solutions** intends to continue capitalizing on the opportunity to meet consumer demand for guaranteed income by maintaining competitive variable annuity product offerings, while managing risk from guarantee features through risk-mitigating product design and well-developed economic hedging capabilities. Retirement Income Solutions continues to invest in hedging and market risk management capabilities. Retirement Income Solutions is also focused on diversifying its product portfolio by growing sales of fixed index annuities with guarantee features, which provide additional income solutions for consumers approaching retirement, and introducing new investment-focused variable annuities, which offer various investment options, including alternative asset classes, to investors seeking higher returns.

**Fixed Annuities** sales will continue to be challenged by the low interest rate environment. Sales of fixed annuities could improve if interest rates rise and the yield curve steepens, as these market conditions make fixed annuity products more attractive compared to alternatives such as bank deposits. The growing market for immediate and deferred income products, driven by customers seeking guaranteed income products, provides an opportunity for Fixed Annuities to increase the diversification of its product portfolio.

**Life** will continue to invest to position itself for growth, serve its customers more effectively, and maintain pricing discipline in its overall strategy. Life's organization has been aligned to serve its customers in the Americas, Asia Pacific and EMEA regions with a focus on the demographic, governmental and socioeconomic trends unique to each region. As part of this initiative, our Group Benefits business recently merged with our U.S. Life, Health and Disability business to focus on strong existing relationships with multi-line and specialty producers. In 2016, we announced a plan to improve capital efficiency by using reinsurance to reduce certain statutory reserves that are above economic requirements in our domestic Life business.

**Personal Insurance** aims to provide clients with the products and services they desire, 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 utilize its strong risk management and market expertise to foster growth by providing innovative and competitive solutions to its customers and distributors.

### Operational Effectiveness

We are continuing to invest in initiatives that we believe will make our operating platforms simpler and more agile, enabling us to provide superior service and accommodate future growth. In Japan, 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.

### Investment Strategy

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### **Item 7 / EXECUTIVE OVERVIEW**

Our investment objective is to maintain a diversified, high quality portfolio of fixed maturity securities having weighted average durations that are matched to the duration and cash flow profile of our liabilities, to the extent practicable. Our investment strategy is to maximize net investment income and portfolio value, subject to liquidity requirements, capital constraints, diversification requirements, asset-liability matching and available investment opportunities. While a 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. See Investments for additional discussion of investment strategies. If these reductions were to include the sale of alternative investments that support certain payout annuities, we could incur additional loss recognition expense on such products, due to updating assumptions to reflect reinvestment at lower future yields. See Critical Accounting Estimates – Insurance Liabilities - Future Policy Benefits for Life and Accident and Health Insurance Contracts (Life Insurance Companies) for discussion of assumptions related to loss recognition testing.

### **Profitability and Capital Management**

We are focused on enhancing profitability and capital efficiency within our insurance entities through disciplined pricing, in-force profitability management, effective management of risk and expense reductions. For product lines where we have significant equity market risk and exposure to changes in interest rates, we use risk management tools, such as the risk mitigation product features and hedging program in our Retirement Income Solutions and Group Retirement annuity businesses. Additionally, our scale and the breadth of our product offerings provide diversification of risk. Within our Non-Life Insurance Companies, we continue to increase capital efficiency.

In conjunction with our strategic active divestiture program, we announced on January 26, 2016 that we have agreed to sell AIG Advisor Group, our network of independent broker-dealers, to investment funds affiliated with Lightyear Capital LLC and PSP Investments. The transaction is expected to close in the second quarter of 2016, subject to regulatory approvals.

See Results of Operations — Consumer Insurance and Insurance Reserves for additional information about our Consumer Insurance businesses.

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The following section provides a comparative discussion of our Results of Operations on a reported basis for the three-year period ended December 31, 2015. Factors that relate primarily to a specific business segment are discussed in more detail within that business segment discussion. For a discussion of the Critical Accounting Estimates that affect the Results of Operations, see the Critical Accounting Estimates section of this MD&A.

The following table presents our consolidated results of operations:

<b>Years Ended December 31,</b> <i>(in millions)</i>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>Percentage Change</b> <b>2015 vs. 2014</b>	<b>2014 vs. 2013</b>
<b>Revenues:</b>					
Premiums	\$36,655	\$37,254	\$37,499	(2)%	
Policy fees	2,755	2,615	2,340	5	
Net investment income	14,053	16,079	15,810	(13)	
Net realized capital gains	776	739	1,939	5	
Aircraft leasing revenue	-	1,602	4,420	NM	
Other income	4,088	6,117	6,866	(33)	
<b>Total revenues</b>	<b>58,327</b>	<b>64,406</b>	<b>68,874</b>	<b>(9)</b>	
<b>Benefits, losses and expenses:</b>					
Policyholder benefits and losses incurred	31,345	28,281	29,503	11	
Interest credited to policyholder account balances	3,731	3,768	3,892	(1)	
Amortization of deferred policy acquisition costs	5,236	5,330	5,157	(2)	
General operating and other expenses	12,686	13,138	13,564	(3)	
Interest expense	1,281	1,718	2,142	(25)	
Loss on extinguishment of debt	756	2,282	651	(67)	
Aircraft leasing expenses	-	1,585	4,549	NM	
Net (gain) loss on sale of divested businesses	11	(2,197)	48	NM	
<b>Total benefits, losses and expenses</b>	<b>55,046</b>	<b>53,905</b>	<b>59,506</b>	<b>2</b>	
<b>Income from continuing operations before income tax expense</b>	<b>3,281</b>	<b>10,501</b>	<b>9,368</b>	<b>(69)</b>	
<b>Income tax expense</b>	<b>1,059</b>	<b>2,927</b>	<b>360</b>	<b>(64)</b>	
<b>Income from continuing operations</b>	<b>2,222</b>	<b>7,574</b>	<b>9,008</b>	<b>(71)</b>	
<b>Income (loss) from discontinued operations, net of income tax expense</b>	<b>-</b>	<b>(50)</b>	<b>84</b>	<b>NM</b>	
<b>Net income</b>	<b>2,222</b>	<b>7,524</b>	<b>9,092</b>	<b>(70)</b>	
<b>Less: Net income (loss) attributable to noncontrolling interests</b>	<b>26</b>	<b>(5)</b>	<b>7</b>	<b>NM</b>	
<b>Net income attributable to AIG</b>	<b>\$ 2,196</b>	<b>\$ 7,529</b>	<b>\$ 9,085</b>	<b>(71)%</b>	

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 Internal Revenue Service 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 22 to the Consolidated Financial Statements for additional information.

For the year ended December 31, 2015, our repatriation assumptions related to certain European operations 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 \$1.8 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

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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.

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. See Note 22 to the Consolidated Financial Statements for additional information.

For the year ended December 31, 2013, the effective tax rate on income from continuing operations was 3.8 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 \$2.8 billion related to a decrease in the U.S. Life Insurance Companies' capital loss carryforward valuation allowance, \$396 million related to a decrease in certain other valuation allowances associated with foreign jurisdictions and \$298 million associated with tax exempt interest income. These items were partially offset by charges of \$632 million related to uncertain tax positions.

**The following table presents a reconciliation of net income attributable to AIG to after-tax operating income attributable to AIG:**

**Years Ended December 31,**  
(in millions)

		<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Net income attributable to AIG</b>	<b>\$</b>	<b>2,196</b>	<b>\$ 7,529</b>	<b>\$ 9,085</b>
Uncertain tax positions and other tax adjustments		<b>112</b>	59	79
Deferred income tax valuation allowance (releases) charges		<b>110</b>	(181)	(3,237)
Changes in fair value of securities used to hedge guaranteed living benefits		<b>28</b>	(169)	105
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses)		<b>10</b>	141	1,148
Other (income) expense - net		<b>151</b>	-	47
Loss on extinguishment of debt		<b>491</b>	1,483	423
Net realized capital gains		<b>(476)</b>	(470)	(1,285)
(Income) loss from discontinued operations		-	50	(84)
(Income) loss from divested businesses		<b>16</b>	(1,462)	117
Non-operating litigation reserves and settlements		<b>(53)</b>	(350)	(460)
Reserve development related to non-operating run-off insurance business		<b>20</b>	-	-
Restructuring and other costs		<b>322</b>	-	-
<b>After-tax operating income attributable to AIG</b>	<b>\$</b>	<b>2,927</b>	<b>\$ 6,630</b>	<b>\$ 6,650</b>



Weighted average diluted shares outstanding	<b>1,334,464,883</b>	1,447,553,652	1,481,206,797
Income per common share attributable to AIG (diluted)	<b>\$ 1.65</b>	\$ 5.20	\$ 6.13
After-tax operating income per common share attributable to AIG (diluted)	<b>\$ 2.19</b>	\$ 4.58	\$ 4.49

After-tax operating income attributable to AIG for 2015 decreased compared to 2014 primarily due to a decrease in income from insurance operations, reflecting adverse prior year loss reserve development in Commercial Property Casualty, decreased net investment income, and lower income on assets held by AIG Parent.

After-tax operating income attributable to AIG for 2014 was essentially flat compared to 2013, primarily due to higher income tax expense, partially offset by an increase in income from insurance operations.

For the year ended December 31, 2015, the effective tax rate on pre-tax operating income was 28.0 percent. The significant factors that contributed to the difference from the statutory rate included tax benefits resulting from tax-exempt interest income,

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the effect of foreign operations and other permanent tax items, certain tax benefits associated with the partial completion of the Internal Revenue Service examination covering tax year 2006 and the impact of other discrete tax benefits.

For the year ended December 31, 2014, the effective tax rate on pre-tax operating income was 30.9 percent. The significant factors that contributed to the difference from the statutory rate included tax benefits resulting from tax exempt interest income and other permanent tax items, and the impact of discrete tax benefits.

For the year ended December 31, 2013, the effective tax rate on pre-tax operating income was 28.8 percent. The significant factors that contributed to the difference from the statutory rate included tax benefits resulting from tax exempt interest income and other permanent tax items, and the impact of discrete tax benefits.

**Segment Results**

We report the results of our operations through two reportable segments: Commercial Insurance and Consumer Insurance. The Corporate and Other category consists of businesses and items not allocated to our reportable segments.

**The following table summarizes the operations of each reportable segment and Corporate and Other. See also Note 3 to the Consolidated Financial Statements.**

**Years Ended December 31,**  
(in millions)

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Commercial Insurance*	<b>\$ 1,652</b>	\$ 5,510	\$ 4,980
Consumer Insurance*	<b>3,378</b>	4,474	4,564
Corporate and Other	<b>(883)</b>	(379)	(265)
Consolidations, eliminations and other adjustments	<b>(92)</b>	(31)	111
Pre-tax operating income	<b>\$ 4,055</b>	\$ 9,574	\$ 9,390
Changes in fair value of securities used to hedge guaranteed living benefits	<b>(43)</b>	260	(161)
Changes in benefit reserves and DAC, VOBA, and SIA related to net realized capital gains (losses)	<b>(15)</b>	(217)	(1,608)
Other income (expense) – net	<b>(233)</b>	-	(72)
Loss on extinguishment of debt	<b>(756)</b>	(2,282)	(651)
Net realized capital gains	<b>776</b>	739	1,939
Income (loss) from divested businesses	<b>(59)</b>	2,169	(177)
Non-operating litigation reserves and settlements	<b>82</b>	258	708
Reserve development related to non-operating run-off insurance business	<b>(30)</b>	-	-

Restructuring and other costs	(496)	-	-
Pre-tax income	\$ 3,281	\$ 10,501	\$ 9,368

\* Certain 2013 severance expenses for Commercial Insurance and Consumer Insurance are included in Corporate & Other. As these expenses, which totaled \$263 million, were related to an overall AIG initiative to centralize work streams into lower cost locations, and create a more streamlined organization, they have not been allocated to the operating segments.

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pre-tax operating INCOME	
(in millions)	
commercial insurance	consumer insurance

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

- a decrease in Commercial Insurance pre-tax operating income, reflecting an underwriting loss in 2015 compared to underwriting income in 2014 driven by adverse prior year loss reserve development from Property Casualty of \$3.5 billion in 2015 compared to \$655 million in 2014 and lower net investment income;
- a decrease in Consumer Insurance pre-tax operating income, reflecting lower net investment income, less favorable adjustments related to the update of actuarial assumptions, less favorable mortality experience in Life, and an underwriting loss in Personal Insurance in 2015, partially offset by higher policy and advisory fees;
- restructuring and other costs; 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;

- a \$264 million increase from the change in the fair value of GMWB and GMAB embedded derivatives related to variable annuity guaranteed living benefits, net of all related economic hedges (See Insurance Reserves – Life Insurance Companies DAC and Reserves – Variable Annuity Guaranteed Features and Hedging Program 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 PICC P&C shares and common shares of Springleaf Holdings Inc. (Springleaf), mostly offset by a realized loss on the sale of ordinary shares of AerCap and an increase in other-than-temporary impairment charges.

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#### **Pre-tax Income Comparison for 2014 and 2013**

Pre-tax income increased in 2014 compared to 2013 primarily due to:

- an increase in pre-tax operating income for Commercial Insurance;
- a \$2.3 billion increase in income from divested businesses associated with the gain recognized upon completion of the sale of ILFC in 2014; and
- lower changes in benefit reserves and DAC, VOBA, and SIA related to net realized capital gains, which were primarily affected by loss recognition expense in the Life Insurance Companies of \$30 million in 2014 compared to \$1.5 billion in 2013. The loss recognition in 2013 was primarily attributable to investment sales in the Institutional Markets and Retirement operating segments related to capital loss carryforward utilization, with reinvestment of the sales proceeds at lower yields. Loss recognition expense in Corporate and Other was \$140 million in 2014 and \$98 million in 2013.

These increases were partially offset by decreases from:

- higher loss on extinguishment of debt from on-going debt management activities;
- a decrease in net realized capital gains driven by lower gains from sales of investments related to capital loss carryforward utilization in 2013;
- a decrease in legal settlements with financial institutions that participated in the creation, offering and sale of RMBS from which we realized losses during the financial crisis, which is reflected in Non-operating litigation reserves and settlements; and
- a \$149 million change in the fair value of GMWB and GMAB embedded derivatives related to variable annuity guaranteed living benefits, net of the change in fair value of all related economic hedges.

#### **Net Investment Income**

Net investment income is attributed to the operating segments of Commercial Insurance and Consumer Insurance based on internal models consistent with the nature of the underlying businesses.

For Commercial Insurance — Property Casualty and Consumer Insurance — Personal Insurance, we estimate investable funds based primarily on loss reserves, unearned premiums and a capital allocation for each operating segment. The net investment income allocation is calculated based on the estimated investable funds and risk-free yields (plus a liquidity premium) consistent with the approximate duration of the liabilities, and excludes net investment income associated with the run-off insurance lines reported in

Corporate and Other. The remaining excess is attributed to Commercial Insurance — Property Casualty and Consumer Insurance — Personal Insurance based on the relative net investment income previously allocated.

For Commercial Insurance — Institutional Markets, Consumer Insurance — Retirement and Consumer Insurance — Life, net investment income is attributed based on invested assets from segregated product line portfolios. Invested assets in excess of liabilities are allocated to product lines based on internal capital estimates.

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Property Casualty, International Life 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, Rate for 1 USD	2015	2014	2013	Percentage Change	
Currency:				2015 vs. 2014	2014 vs. 2013
JPY	<b>120.82</b>	104.43	95.86	16%	9%
EUR	<b>0.89</b>	0.75	0.76	19%	(1)%
GBP	<b>0.65</b>	0.61	0.64	7%	(5)%

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 currencies included in the preceding table (the Major Currencies).

**Commercial insurance****Commercial Insurance Results**

The following table presents Commercial Insurance results:

Years Ended December 31, (in millions)	2015	2014	2013	Percentage Change	
				2015 vs. 2014	2014 vs. 2013
Revenues:					
Premiums	<b>\$22,521</b>	\$22,221	\$22,096	1%	1%
Policy fees	<b>199</b>	187	113	6	65
Net investment income	<b>5,474</b>	6,393	6,653	(14)	(4)
Benefits and expenses:					
Policyholder benefits and losses incurred	<b>20,017</b>	16,575	17,002	21	(3)
Interest credited to policyholder account balances	<b>408</b>	410	413	-	(1)
Amortization of deferred policy acquisition costs	<b>2,342</b>	2,512	2,418	(7)	4
General operating and other expenses*	<b>3,775</b>	3,794	4,049	(1)	(6)
Pre-tax operating income	<b>\$ 1,652</b>	\$ 5,510	\$ 4,980	(70)%	11%



\* Includes general operating expenses, commissions and other acquisition expenses.

#### Commercial Insurance Results by Operating Segment

Commercial Insurance presents its financial information in three operating segments – Property Casualty, Mortgage Guaranty and Institutional Markets. The following section provides a comparative discussion of Commercial Insurance Results of Operations for 2015, 2014 and 2013 by operating segment.

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The following table presents Property Casualty results:

<b>Years Ended December 31,</b> <i>(in millions)</i>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>Percentage Change</b>	
				<b>2015 vs. 2014</b>	<b>2014 vs. 2013</b>
Underwriting results:					
Net premiums written	<b>\$ 20,436</b>	\$21,020	\$20,880	(3)%	1%
Increase in unearned premiums	<b>(407)</b>	(135)	(203)	(201)	33
Net premiums earned	<b>20,029</b>	20,885	20,677	(4)	1
Losses and loss adjustment expenses incurred	<b>17,274</b>	14,956	14,872	15	1
Acquisition expenses:					
Amortization of deferred policy acquisition costs	<b>2,309</b>	2,486	2,394	(7)	4
Other acquisition expenses	<b>907</b>	796	937	14	(15)
Total acquisition expenses	<b>3,216</b>	3,282	3,331	(2)	(1)
General operating expenses	<b>2,542</b>	2,697	2,810	(6)	(4)
Underwriting loss	<b>(3,003)</b>	(50)	(336)	NM	85
Net investment income	<b>3,596</b>	4,298	4,431	(16)	(3)
Pre-tax operating income	<b>\$ 593</b>	\$ 4,248	\$ 4,095	(86)%	4%

<b>NET PREMIUMS WRITTEN</b>	<b>Pre-Tax oPERATING INCOME</b>
<i>(in millions)</i>	<i>(in millions)</i>

**2015 and 2014 Comparison**

**Pre tax operating income** decreased in 2015 compared to 2014 primarily due to an increase in net adverse prior year loss reserve development and lower net investment income. Net adverse prior year loss reserve development, including related premium adjustments, was \$3.5 billion in 2015 compared to \$550 million in 2014. The increase in net adverse prior year loss reserve development primarily reflected the loss reserve strengthening of \$3.0 billion in the fourth quarter of 2015, in classes of business with long reporting tails, primarily excess and primary casualty and financial lines. Premium adjustments consisted of return premiums of \$49 million in 2015 compared to additional premiums of \$105 million in 2014. See Insurance Reserves – Non-Life Insurance Companies— Net Loss Development for further discussion. Current accident year loss ratio, as adjusted, increased due to higher casualty and severe losses, which were mostly offset by improvement in attritional losses in Property and Specialty. Net loss reserve discount benefit was \$68 million in 2015 compared to a net loss reserve discount charge of \$71

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### **Item 7 / results of operations / commercial insurance**

million in 2014. See Insurance Reserves — Non-Life Insurance Companies – Discounting of Reserves for further discussion. Catastrophe losses were \$581 million in 2015 compared to \$602 million in 2014.

**Acquisition expenses** decreased slightly in 2015 compared to 2014, primarily due to the strengthening of the U.S. dollar against the Major Currencies, as discussed above. Excluding the effect of foreign exchange, acquisition expenses increased primarily due to an increase in commission expenses in certain classes of business in Property and Specialty and higher premium taxes and other assessments reflecting a change in business mix.

**General operating expenses** decreased in 2015 compared to 2014, primarily due to the strengthening of the U.S. dollar against the Major Currencies, as well as lower employee-related expenses, partially offset by increased technology-related costs, and the acquisition of NSM, whose expenses were consolidated commencing in the second quarter of 2015.

**Net investment income** decreased in 2015 compared to 2014, primarily due to lower income on alternative investments and a decrease in net investment income related to assets accounted for under the fair value option.

See MD&A — Investments for additional information on the Non-Life Insurance Companies invested assets, investment strategy, and asset-liability management process.

### **2014 and 2013 Comparison**

**Pre-tax operating income** increased in 2014 compared to 2013 due to decreases in underwriting loss, partially offset by a decrease in net investment income. The decrease in underwriting loss was primarily due to an increase in production, lower charges due to changes in discount for workers' compensation reserves as discussed further under Insurance Reserves – Non-Life Insurance Companies- Discounting of Reserves, lower catastrophe losses and lower general operating expenses. The loss reserve discount charge decreased to \$71 million in 2014 from \$322 million in 2013. Catastrophe losses decreased to \$602 million in 2014 from \$710 million in 2013. These decreases were partially offset by higher net adverse prior year loss reserve development in all lines of business except for Property, and an increase in current accident year losses reflecting higher frequency of non-severe losses in the Property and Specialty businesses. The current accident year losses for 2014 included 30 severe losses totaling \$592 million compared to 27 severe losses totaling \$569 million in the prior year. Net adverse prior year loss reserve development, including related premium adjustments, was \$550 million and \$294 million in 2014 and 2013, respectively, as discussed further under Insurance Reserves – Non-Life Insurance Companies – Net Loss Development.

**Acquisition expenses** decreased in 2014 compared to 2013 primarily due to a reduction in expenses related to personnel engaged in sales support activities, and lower premium taxes and guaranty fund and other assessments reflecting a change in business mix.

**General operating expenses** decreased in 2014 compared to 2013, primarily due to efficiencies from organizational realignment initiatives, partially offset by higher technology-related expenses and an increase in bad debt expense. In 2013, general operating expenses benefitted from an unusually low bad debt expense.

**Net investment income** decreased in 2014 compared to 2013, primarily due to a decrease in interest rates during 2014, as yields on new purchases were lower than the weighted average yield of the overall portfolio, lower income on alternative investments, and lower income associated with investments accounted for under the fair value option, as the increase related to the PICC P&C rights offerings was more than offset by a decrease from fixed maturity investments accounted for under the fair value option. These were partially offset by the effect of continued portfolio diversification. The decrease in allocated net investment income is also due to a reduction in net loss reserves.

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**Property Casualty Net Premiums Written**

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The following table presents Property Casualty's net premiums written by major line of business:

Years Ended December 31,				Percentage Change in U.S. dollars		Percentage Change in Original Currency
(in millions)	2015	2014	2013	2015 vs. 2014	2014 vs. 2013	2015 vs. 2014
Casualty	\$ 6,957	\$ 7,649	\$ 8,154	(9)%	(6)%	(6)%
Property	5,160	5,136	4,718	-	9	6
Specialty	3,653	3,714	3,737	(2)	(1)	3
Financial lines	4,666	4,521	4,271	3	6	9
Total Property Casualty net premiums written	\$20,436	\$21,020	\$20,880	(3)%	1%	2%

**Property Casualty NET PREMIUMS WRITTEN by Line of Business**

(in millions)

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**2015 and 2014 Comparison**

Property Casualty net premiums written decreased in 2015 compared to 2014, primarily due to strengthening of the U.S. dollar against the Major Currencies. Excluding the effect of foreign exchange, net premiums written increased in 2015 from 2014, primarily due to new business growth across all regions in all lines except for U.S. Casualty. Additionally, the increase in net premiums written in U.S. Financial lines reflected higher renewal in certain targeted growth products. The following paragraphs discuss the changes within our lines of business exclusive of the effect of foreign exchange.

**Casualty** net premiums written decreased in 2015 compared to 2014, reflecting continued execution of our strategy to enhance the portfolio mix, particularly in the U.S., and rate pressure. Additionally, net premiums written included return premiums related to the loss sensitive businesses of \$49 million for 2015 compared to additional premiums of \$105 million in 2014. An increase in new business in targeted growth products in 2015, particularly in EMEA, was more than offset by the declines in the U.S.

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**Property** net premiums written increased in 2015 compared to 2014, primarily due to strong growth in new business across all regions.

**Specialty** net premiums written increased in 2015 compared to 2014, primarily due to new business increases related to targeted growth products across all regions, partially offset by a decrease in certain classes of business, particularly in the U.S. as a result of the effect of our strategy to enhance risk selection.

**Financial lines** net premiums written increased in 2015 compared to 2014 primarily due to strong growth in new business and higher retention related to targeted growth products across all regions. Additionally, 2015 reflected the first quarter renewal of a multi-year E&O policy in the U.S.

**2014 and 2013 Comparison**

Property Casualty net premiums written increased in 2014 compared to 2013, reflecting increases in new business related to targeted growth products in Property and Financial lines. The following paragraphs discuss the changes within our lines of business exclusive of the effect of foreign exchange.

**Casualty** net premiums written decreased in 2014 compared to 2013 primarily due to the effect on renewals from our strategy to enhance risk selection, particularly in the Americas. Strong growth and new writings in certain lines of business, particularly in EMEA, were more than offset by the declines in the Americas.

**Property** net premiums written increased in 2014 compared to 2013 primarily due to new business increases in targeted growth products, and optimization of Property Casualty's reinsurance structure as part of its decision to retain more favorable risks while continuing to manage aggregate exposure.

**Specialty** net premiums written decreased slightly in 2014, compared to 2013 primarily reflecting lower retention and rate decline in the EMEA region. This decline was largely offset by new business increases related to targeted growth products, including growth in small and medium sized enterprise markets in the Americas region.

**Financial lines** net premiums written increased in 2014, compared to 2013 reflecting growth in new business related to targeted growth products across all regions, as well as a favorable rate environment in the U.S.

***Property Casualty Net Premiums Written by Region***

The following table presents Property Casualty's net premiums written by region:

**Years Ended December 31,**

**Percentage Change in**

**Percentage Change**

Property Casualty Net Premiums Written by Region

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<i>(in millions)</i>				U.S. dollars		Original Curren
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013	2015 vs. 2014
<b>Property Casualty:</b>						
Americas	<b>\$13,572</b>	\$13,799	\$14,050	(2)%	(2)%	(1)%
Asia Pacific	<b>1,936</b>	2,029	2,035	(5)	-	7
EMEA	<b>4,928</b>	5,192	4,795	(5)	8	6
Total net premiums written	<b>\$20,436</b>	\$21,020	\$20,880	(3)%	1%	2%

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### **Item 7 / results of operations / commercial insurance**

#### **property casualty NET PREMIUMS WRITTEN by Region**

*(in millions)*

The following paragraphs discuss the changes in net premiums written on a constant dollar basis, which exclude the effect of foreign exchange.

#### **2015 and 2014 Comparison**

**The Americas** net premiums written decreased in 2015 compared to 2014, primarily due to continued execution of our strategy to enhance risk selection and optimize our product portfolio in Casualty, largely offset by strong growth in new business related to targeted growth products in Property, Specialty and Financial lines. Additionally, for 2015, net premiums written reflected the renewal of a multi-year E&O policy in the U.S.

**Asia Pacific** net premiums written increased in 2015 compared to 2014, primarily due to new business and higher retention in all lines of business.

**EMEA** net premiums written increased in 2015 compared to 2014, primarily due to new business growth in targeted growth products across all lines of business.

#### **2014 and 2013 Comparison**

**The Americas** net premiums written decreased in 2014 compared to 2013, primarily due to declines in new business growth and rate pressure, particularly in the Casualty business. However, for 2014, the decrease

in net premiums written was partially offset by lower ceded premiums from catastrophe reinsurance transactions described above in 2014 compared to 2013.

**Asia Pacific** net premiums written increased slightly in 2014 compared to 2013, primarily due to increases in targeted growth products, and changes to optimize our reinsurance structure as part of our decision to retain more favorable risks while continuing to manage aggregate exposure, particularly in Japan.

**EMEA** net premiums written increased in 2014 compared to 2013, due to new business growth across all lines of businesses, except for Specialty.

**TABLE OF CONTENTS****Item 7 / results of operations / commercial insurance****Property Casualty Underwriting Ratios**

The following tables present the Property Casualty combined ratios based on GAAP data and reconciliation to the accident year combined ratio, as adjusted:

Years Ended December 31,	Increase (Decrease)				
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
Loss ratio	<b>86.2</b>	71.6	71.9	14.6	(0.3)
Catastrophe losses and reinstatement premiums	<b>(2.9)</b>	(2.9)	(3.4)	-	0.5
Prior year development net of premium adjustments	<b>(17.5)</b>	(2.8)	(1.5)	(14.7)	(1.3)
Net reserve discount benefit (charge)	<b>0.4</b>	(0.3)	(1.6)	0.7	1.3
Accident year loss ratio, as adjusted	<b>66.2</b>	65.6	65.4	0.6	0.2
Acquisition ratio	<b>16.1</b>	15.7	16.1	0.4	(0.4)
General operating expense ratio	<b>12.7</b>	12.9	13.6	(0.2)	(0.7)
Expense ratio	<b>28.8</b>	28.6	29.7	0.2	(1.1)
Combined ratio	<b>115.0</b>	100.2	101.6	14.8	(1.4)
Catastrophe losses and reinstatement premiums	<b>(2.9)</b>	(2.9)	(3.4)	-	0.5
Prior year development net of premium adjustments	<b>(17.5)</b>	(2.8)	(1.5)	(14.7)	(1.3)
Net reserve discount benefit (charge)	<b>0.4</b>	(0.3)	(1.6)	0.7	1.3
Accident year combined ratio, as adjusted	<b>95.0</b>	94.2	95.1	0.8	(0.9)

**property casualty ratios**

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See Insurance Reserves – Non-Life Insurance Companies for further discussion of discounting of reserves and prior year development.

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The following tables present Property Casualty's accident year catastrophe and severe losses by region and number of events:

**Catastrophes<sup>(a)</sup>**

<i>(in millions)</i>	# of Events	Americas	Asia Pacific	EMEA	Total
<b>Year Ended December 31, 2015</b>					
Flooding	4	\$ 74	\$ -	\$ 69	\$ 143
Windstorms and hailstorms	14	274	121	15	410
Wildfire	1	9	-	-	9
Tropical cyclone	1	-	12	-	12
Earthquakes	1	7	-	-	7
<b>Total catastrophe-related charges</b>	<b>21</b>	<b>\$ 364</b>	<b>\$ 133</b>	<b>\$ 84</b>	<b>\$ 581</b>
<b>Year Ended December 31, 2014</b>					
Flooding	1	\$ 16	\$ -	\$ -	\$ 16
Windstorms and hailstorms	14	306	63	21	390
Tropical cyclone	4	96	34	15	145
Earthquakes	1	48	-	1	49
Reinstatement premiums		-	-	2	2
<b>Total catastrophe-related charges</b>	<b>20</b>	<b>\$ 466</b>	<b>\$ 97</b>	<b>\$ 39</b>	<b>\$ 602</b>
<b>Year Ended December 31, 2013</b>					
Flooding	8	\$ 195	\$ 8	\$ 114	\$ 317
Windstorms and hailstorms	10	205	-	78	283
Wildfire	1	40	-	-	40
Tropical cyclone	3	4	66	-	70
<b>Total catastrophe-related charges</b>	<b>22</b>	<b>\$ 444</b>	<b>\$ 74</b>	<b>\$ 192</b>	<b>\$ 710</b>

(a) Catastrophes are generally weather or seismic events having a net impact on AIG in excess of \$10 million each.

**Severe Losses<sup>(b)</sup>**

<b>Years Ended December 31,</b> <i>(in millions)</i>	# of Events	Americas	Asia Pacific	EMEA	Total
<b>2015</b>	<b>29</b>	<b>\$ 378</b>	<b>\$ 27</b>	<b>\$ 294</b>	<b>\$ 699</b>
<b>2014</b>	<b>30</b>	<b>\$ 169</b>	<b>\$ 73</b>	<b>\$ 350</b>	<b>\$ 592</b>
<b>2013</b>	<b>27</b>	<b>\$ 139</b>	<b>\$ 184</b>	<b>\$ 246</b>	<b>\$ 569</b>

(b) 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.

**2015 and 2014 Comparison**

The loss ratio and combined ratio increased by 14.6 points and 14.8 points, respectively, in 2015 compared to 2014, primarily due to higher net adverse prior year loss development.

The accident year combined ratio, as adjusted, increased by 0.8 points in 2015 compared to 2014 primarily due to a higher accident year loss ratio, as adjusted, and an increase in the acquisition ratio.

The accident year loss ratio, as adjusted, increased by 0.6 points in 2015 compared to 2014, primarily due to higher casualty and severe losses, partially offset by lower attritional losses in U.S. Property, and Specialty, particularly in the U.S. and EMEA. Severe losses represented approximately 3.5 points and 2.8 points of the accident year loss ratio, as adjusted, respectively, in 2015 and 2014.

The acquisition ratio increased by 0.4 points in 2015 compared to 2014 primarily due to higher commission expenses in certain classes of business in Property and Specialty and higher premium taxes and other assessments reflecting a change in business mix.

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The general operating expense ratio decreased by 0.2 points in 2015 compared to 2014, primarily due to lower employee-related expenses partially offset by additional expense resulting from the NSM acquisition and higher technology-related expenses.

**2014 and 2013 Comparison**

The combined ratio decreased by 1.4 points in 2014 compared to 2013 reflecting decreases in the expense ratio and the loss ratio.

The accident year combined ratio, as adjusted, decreased by 0.9 points in 2014 compared 2013, primarily due to lower expense ratio which was partially offset by a higher accident year loss ratio, as adjusted.

The accident year loss ratio, as adjusted, increased by 0.2 points in 2014, compared to 2013, primarily due to higher frequency of non-severe losses, particularly in Property and Specialty businesses. This was partially offset by an improvement in Financial lines, particularly in the U.S., reflecting enhanced risk selection and pricing discipline. Severe losses represented approximately 2.8 points of the accident year loss ratio, as adjusted, in both 2014 and 2013.

The acquisition ratio decreased by 0.4 points in 2014 compared to 2013, primarily due to a reduction in expenses of personnel engaged in sales support activities and lower premium taxes and guaranty fund and other assessments.

The general operating expense ratio decreased by 0.7 points in 2014 compared to 2013, primarily due to efficiencies from organizational realignment initiatives, partially offset by higher technology-related expenses and an increase in bad debt expense. In 2013, general operating expenses benefitted from an unusually low bad debt expense.

**Mortgage Guaranty Results**

The following table presents Mortgage Guaranty results:

<b>Years Ended December 31,</b> <i>(dollars in millions)</i>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>Percentage Change</b>	
				<b>2015 vs. 2014</b>	<b>2014 vs. 2013</b>
Underwriting results:					
Net premiums written	\$ 1,050	\$ 1,024	\$ 1,048	3%	(2)
Increase in unearned premiums	(138)	(120)	(239)	(15)	50
Net premiums earned	912	904	809	1	12
Losses and loss adjustment expenses incurred	160	223	514	(28)	(57)
Acquisition expenses:					
Amortization of deferred policy acquisition costs	30	22	20	36	10



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Other acquisition expenses	51	49	60	4	(18)
Total acquisition expenses	81	71	80	14	(11)
General operating expenses	166	156	142	6	10
Underwriting income	505	454	73	11	NM
Net investment income	139	138	132	1	5
Pre-tax operating income	644	592	205	9	189

**Key metrics:**

Prior year loss reserve development (favorable)/ unfavorable	\$ (69)	\$ (104)	\$ 30	(34)%	NM
Domestic first-lien:					
New insurance written	\$50,842	\$42,038	\$49,356	21	(15)
Combined ratio	44.6	52.6	91.1		
Risk in force	\$47,442	\$42,106	\$36,367	13	16
60+ day delinquency ratio on primary loans <sup>(a)</sup>	3.4%	4.4%	5.9%		
Domestic second-lien:					
Risk in force <sup>(b)</sup>	\$ 399	\$ 446	\$ 1,026	(11)	(57)

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(a) Based on number of policies.

(b) Represents the full amount of second-lien loans insured reduced for contractual aggregate loss limits on certain pools of loans, which is usually 10 percent of the full amount of loans insured in each pool. Certain second-lien pools have reinstatement provisions, which will expire as the loan balances are repaid.

**Pre-Tax oPERATING INCOME**

*(in millions)*

**domestic first-lien new insurance written on mortgage loans**

*(in millions)*

The following table presents Mortgage Guaranty first-lien results:

<b>Years Ended December 31,</b> <i>(dollars in millions)</i>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>Percentage Change</b> <b>2015 vs. 2014</b>	<b>2014 vs. 2013</b>
Underwriting results:					
Net premiums written	<b>\$ 990</b>	\$ 929	\$ 950	7%	(2)%
Increase in unearned premiums	<b>(137)</b>	(117)	(256)	(17)	54
Net premiums earned	<b>853</b>	812	694	5	17
Losses and loss adjustment expenses incurred	<b>174</b>	233	462	(25)	(50)

## Acquisition expenses:

Amortization of deferred policy acquisition costs	29	21	16	38	31
Other acquisition expenses	52	49	60	6	(18)
Total acquisition expenses	81	70	76	16	(8)
General operating expenses	150	124	95	21	31
Underwriting income	448	385	61	16	NM
Net investment income	127	124	116	2	7
Pre-tax operating income	\$ 575	\$ 509	\$ 177	13%	188%

**2015 and 2014 Comparison**

**Pre-tax operating income** increased in 2015 compared to 2014 due to an increase in first-lien net premiums earned as a result of higher new insurance written increasing the amount of insurance in-force, an acceleration of earnings on the cancellations of single premium business for which a return premium is generally not required, and a decline in incurred losses from lower delinquency rates and higher cure rates. Offsetting these increases in operating income was a reduction in favorable prior year loss development of \$35 million primarily related to a settlement with a large lender which resulted in \$64 million of favorable prior year loss development in 2014.

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#### **First-Lien Results**

**First-lien pre-tax operating income** increased \$66 million in 2015 compared to 2014, primarily due to improved underwriting income as a result of a \$41 million increase in first-lien net premiums earned in 2015 compared to 2014, largely from growth in the book of business and the acceleration of premiums earned as a result of cancellations of single premium business. Additionally, there was a \$72 million decrease in accident year losses offset in part by a \$13 million reduction in prior year loss development, which was driven primarily by \$57 million of favorable prior year loss development from a settlement with a large lender in 2014. The increases in operating income were offset in part by a \$37 million increase in acquisition and general operating expenses. The combined ratio was 47.5 points in 2015, compared to 52.6 points in 2014, reflecting a decrease in the loss ratio, partially offset by an increase in the expense ratio.

**Acquisition expenses** increased in 2015 compared to 2014, primarily as a result of sales support solicitation activities, which generated new insurance written.

**General operating expenses** increased in 2015 compared to 2014, primarily due to an increase in costs related to servicing the growth of the in-force business, technology-related and customer service initiatives expenses and severance.

#### **Other Business Results**

Other business results include international mortgage insurance operations and the run-off portfolios of second-lien insurance and student loan insurance.

**The Other business' pre-tax operating income** for 2015 was \$69 million compared to \$82 million in 2014. The decrease in pre-tax operating income was due to a decrease in net premiums earned and net investment income offset by the decrease in general operating expenses and losses and loss adjustment expenses, which included \$35 million of favorable prior year loss development largely attributable to recoveries on previously paid claims.

#### **2014 and 2013 Comparison**

**Pre-tax operating income** increased in 2014 compared to 2013 due to a decline in incurred losses from lower delinquency rates, higher cure rates and an increase in first-lien net premiums earned reflecting higher persistency.

#### **First Lien Results**

**First-lien pre-tax operating income** increased in 2014 compared to 2013, primarily due to improved underwriting income as a result of a \$229 million decrease in first-lien losses and loss adjustment expenses incurred reflecting fewer new delinquencies, favorable prior year loss reserve development, and higher cure rates. In addition, first-lien pre-tax operating income increased due to a \$119 million increase in first-lien net

premiums earned in 2014 compared to 2013, largely from growth in the book of business, higher persistency, and, to a lesser extent, the acceleration of premiums earned as the result of the recognition of a shorter expected coverage period on certain single premium business. The decrease in first-lien losses and loss adjustment expenses incurred combined with the increase in earned premiums resulted in an improved combined ratio of 52.6 points in 2014 compared to 91.1 points in 2013.

**Acquisition expenses** decreased in 2014 compared to 2013, primarily as a result of the decrease in new insurance written related to the decline in mortgage originations.

**General operating expenses** increased in 2014 compared to 2013 due to increased technology expenses and an impairment charge on certain capitalized technology costs.

#### Other Business Results

**The Other business' pre-tax operating income** for 2014 was \$82 million compared to \$27 million in 2013. The increase in pre-tax operating income is due to a decline in losses and loss adjustment expenses incurred of \$62 million and a \$17 million reduction in underwriting expenses, partially offset by a decline in net premiums earned of \$22 million and a decline in net investment income of \$2 million.

**TABLE OF CONTENTS****Item 7 / results of operations / commercial insurance***New Insurance Written*

Domestic first-lien new insurance written increased to a record level of \$50.8 billion in 2015 compared to \$42.0 billion in 2014, driven by an increase in refinancing, improvements in existing home sales due to lower down payment requirements and new purchase volume.

The decline in domestic first-lien new insurance written to \$42.0 billion in 2014 from \$49.4 billion in 2013 was primarily due to the contraction in the mortgage originations market and an increase in competition.

*Delinquency Inventory*

The delinquency inventory for domestic first-lien business declined during 2015 as a result of cures and paid claims exceeding the number of newly reported delinquencies. Mortgage Guaranty's first-lien primary delinquency ratio at December 31, 2015 was 3.4 percent compared to 4.4 percent at December 31, 2014. Over the last several years, Mortgage Guaranty has experienced a decline in newly reported defaults and an increase in cure rates.

The delinquency inventory for domestic first lien business declined during 2014 as a result of cures and paid claims exceeding the number of newly reported delinquencies. Mortgage Guaranty's first lien primary delinquency ratio at December 31, 2014 was 4.4 percent compared to 5.9 percent at December 31, 2013.

**The following table provides a summary of activity in Mortgage Guaranty's domestic first lien delinquency inventory:**

**Years Ended December 31,***(number of policies)*

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Number of delinquencies at the beginning of the year	<b>38,357</b>	47,518	62,832
Newly reported	<b>39,619</b>	47,239	56,194
Cures	<b>(36,279)</b>	(42,680)	(51,283)
Claims paid	<b>(8,451)</b>	(11,601)	(19,862)
Other	<b>(1,961)</b>	(2,119)	(363)
Number of delinquencies at the end of the year	<b>31,285</b>	38,357	47,518

*Mortgage Guaranty Underwriting Ratios*

**The following tables present the Mortgage Guaranty combined ratios based on GAAP data:**

**Years Ended December 31,**

				<b>Increase (Decrease)</b>	
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2015 vs. 2014</b>	<b>2014 vs. 2013</b>

Loss ratio	17.5	24.7	63.5	(7.2)	(38.8)
Acquisition ratio	8.9	7.8	9.9	1.1	(2.1)
General operating expense ratio	18.2	17.3	17.5	0.9	(0.2)
Expense ratio	27.1	25.1	27.4	2.0	(2.3)
Combined ratio	44.6	49.8	90.9	(5.2)	(41.1)

**2015 and 2014 Comparison**

The combined ratio decreased by 5.2 points in 2015 compared to 2014. The decrease in the ratio in 2015 was driven primarily by a reduction in the loss ratio due to a decrease in incurred losses driven by lower delinquencies and higher cure rates, partially offset by a reduction in favorable prior year loss development.

The acquisition ratio increased by 1.1 points in 2015 compared to 2014, primarily due to the increases in sales-related activities supporting the \$8.8 billion increase in new insurance written.

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The general operating expense ratio increased by 0.9 points in 2015 compared to 2014, primarily due to an increase in technology-related expenses, customer service initiatives and severance.

**2014 and 2013 Comparison**

The combined ratio decreased by 41.1 points in 2014 compared to 2013. The decrease was driven primarily by a reduction in the loss ratio due to lower losses and loss adjustment expenses incurred from fewer new delinquencies, favorable prior year loss reserve development, and higher cure rates.

The acquisition ratio decreased by 2.1 points in 2014 compared to 2013. Acquisition expenses decreased compared to an increase in net premiums earned, driven by the decreases in new insurance written in 2014 due to lower mortgage originations.

The general operating expense ratio decreased by 0.2 points in 2014 compared to 2013. The decrease was driven primarily by growth in net premiums earned.

**Institutional Markets Results**

The following table presents Institutional Markets results:

<b>Years Ended December 31,</b> <i>(in millions)</i>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>Percentage Change</b> <b>2015 vs. 2014</b>	<b>2014 vs. 2013</b>
Revenues:					
Premiums	\$ 1,580	\$ 432	\$ 610	266%	(29)%
Policy fees	199	187	113	6	65
Net investment income	1,739	1,957	2,090	(11)	(6)
Benefits and expenses:					
Policyholder benefits and losses incurred	2,583	1,396	1,616	85	(14)
Interest credited to policyholder account balances	408	410	413	-	(1)
Amortization of deferred policy acquisition costs	3	4	4	(25)	-
Other acquisition expenses	32	30	36	7	(17)
General operating expenses	77	66	64	17	3
Pre-tax operating income	\$ 415	\$ 670	\$ 680	(38)	(1)





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**Pre-tax operating income** in 2015 decreased compared to 2014, primarily due to a decrease in net investment income. Fee income increased in 2015 compared to 2014, driven by growth in reserves and assets under management, primarily from continued development of the stable value wrap business. The notional amount of stable value wrap assets under management at December 31, 2015 grew by \$3.0 billion or nine percent from December 31, 2014. The increases in premiums and benefit expense in 2015 compared to 2014 were primarily due to the premiums received and establishment of future policy benefit reserves for terminal funding annuities issued in 2015.

**Net investment income** in 2015 decreased compared to 2014, primarily due to lower returns on alternative investments in hedge funds and lower yield enhancements from bond call and tender income. See MD&A – Investments – Life Insurance Companies for additional information on the investment strategy, asset-liability management process and invested assets of our Life Insurance Companies, which include the invested assets of the Institutional Markets business.

**General operating expenses** in 2015 increased compared to 2014, primarily due to higher state guaranty fund assessment expenses, technology investments and higher interest expense.

**2014 and 2013 Comparison**

**Pre-tax operating income** for 2014 decreased slightly compared to 2013, as a decrease in net investment income was only partially offset by an increase in fee income. The increase in fee income was driven by growth in reserves and assets under management, primarily from strong development of the stable value wrap business. The notional amount of stable value wrap assets under management at December 31, 2014

grew by \$7.8 billion or 32 percent from December 31, 2013, which excluded a \$2.5 billion deposit to the separate accounts for a stable value funding agreement. Growth in reserves also reflected a GIC deposit of \$450 million in the fourth quarter of 2014 under a funding agreement-backed notes issuance program, in which an unaffiliated, non-consolidated statutory trust issues to investors medium-term notes, which are secured by GICs issued by one of the Life Insurance Companies. Under the funding agreement-backed notes program, issuances will be made opportunistically based upon pricing and demand available in the marketplace.

**Net investment income** for 2014 decreased compared to 2013, primarily due to lower net investment income from alternative investments and from the base portfolio. The 2014 decrease in alternative investment income of \$41 million compared to 2013 primarily reflected high hedge fund income in 2013 due to favorable equity market conditions. The decrease in base net investment income in 2014 compared to 2013 primarily reflected lower base portfolio yield as a result of reinvestment in the

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low interest rate environment, partially offset by growth in average assets. See MD&A – Investments – Life Insurance Companies for additional information on the investment strategy, asset-liability management process and invested assets of our Life Insurance Companies, which include the invested assets of the Institutional Markets business.

**General operating expenses** in 2014 increased slightly compared to 2013, primarily due to investments in technology.

**Institutional Markets Premiums, Deposits and Net Flows**

For Institutional Markets, premiums represent amounts received on traditional life insurance policies and life-contingent payout annuities or structured settlements. Premiums and deposits is a non GAAP financial measure that includes direct and assumed premiums as well as deposits received on universal life insurance and investment-type annuity contracts, including GICs and stable value wrap funding agreements.

**The following table presents a reconciliation of Institutional Markets premiums and deposits to GAAP premiums:**

**Years Ended December 31,***(in millions)*

	2015	2014	2013
Premiums and deposits	\$ 1,782	\$ 3,797	\$ 991
Deposits	(169)	(3,344)	(354)
Other	(33)	(21)	(27)
Premiums	\$ 1,580	\$ 432	\$ 610

Premiums and deposits for 2015 decreased compared to 2014, primarily due to a \$2.5 billion deposit to the separate accounts of one of the Life Insurance Companies for a stable value wrap funding agreement that was reflected in 2014. Excluding the \$2.5 billion deposit in the prior year period, premiums and deposits for 2015 increased compared to 2014, primarily due to higher premiums, which reflected increased sales of terminal funding annuities in 2015.

The decrease in premiums in 2014 compared to 2013 was primarily due to a high volume of single-premium products sold in 2013, including life-contingent payout annuities. Sales of these products decreased in 2014 compared to 2013 due to a more competitive environment as well as continued low interest rates. The increase in deposits in 2014 compared to 2013 included a \$2.5 billion deposit to the separate accounts of one of the Life Insurance Companies for a stable value wrap funding agreement. The majority of stable value wrap sales are measured based on the notional amount included in assets under management, but do not include the receipt of funds that would be included in premiums and deposits. The increase in deposits in 2014 compared to 2013 also reflected a \$450 million GIC issued in 2014.

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The following table presents Consumer Insurance results:

<b>Years Ended December 31,</b> <i>(in millions)</i>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>Percentage Change</b>	
				<b>2015 vs. 2014</b>	<b>2014 vs. 2013</b>
Revenues:					
Premiums	<b>\$14,085</b>	\$14,936	\$15,302	(6)%	(2)%
Policy fees	<b>2,557</b>	2,453	2,252	4	9
Net investment income	<b>8,322</b>	9,082	9,352	(8)	(3)
Other income	<b>2,105</b>	1,998	1,754	5	14
Benefits and expenses:					
Policyholder benefits and losses incurred	<b>10,475</b>	10,796	10,957	(3)	(1)
Interest credited to policyholder account balances	<b>3,316</b>	3,353	3,477	(1)	(4)
Amortization of deferred policy acquisition costs	<b>2,887</b>	2,759	2,836	5	(3)
General operating and other expenses*	<b>7,013</b>	7,087	6,826	(1)	4
Pre-tax operating income	<b>\$ 3,378</b>	\$ 4,474	\$ 4,564	(24)%	(2)%

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

**Consumer Insurance Results by Operating Segment**

Consumer Insurance presents its operating results in three operating segments – Retirement, Life and Personal Insurance. The following section provides a comparative discussion of Consumer Insurance Results of Operations for 2015, 2014 and 2013 by operating segment.

**Retirement Results**

The following table presents Retirement results:

<b>Years Ended December 31,</b> <i>(in millions)</i>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>Percentage Change</b>	
				<b>2015 vs. 2014</b>	<b>2014 vs. 2013</b>
Revenues:					
Premiums	<b>\$ 168</b>	\$ 287	\$ 188	(41)%	53%
Policy fees	<b>1,072</b>	1,010	861	6	17

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Net investment income	<b>6,002</b>	6,489	6,628	(8)	(2)
Advisory fee and other income	<b>2,056</b>	1,998	1,754	3	14
Benefits and expenses:					
Policyholder benefits and losses incurred	<b>511</b>	537	364	(5)	48
Interest credited to policyholder account balances	<b>2,823</b>	2,846	2,935	(1)	(3)
Amortization of deferred policy acquisition costs	<b>480</b>	346	273	39	27
Non deferrable insurance commissions	<b>282</b>	265	249	6	6
Advisory fee expenses	<b>1,349</b>	1,315	1,175	3	12
General operating expenses	<b>1,014</b>	980	945	3	4
Pre-tax operating income	<b>\$ 2,839</b>	\$ 3,495	\$ 3,490	(19)%	-%

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**RETIREMENT pre-tax OPERATING INCOME** *(in millions)*

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**2015 and 2014 Comparison**

**Pre-tax operating income** in 2015 decreased compared to 2014, primarily due to lower net investment income and a lower net positive adjustment to reflect the update of actuarial assumptions, partially offset by growth in fee income. In addition, DAC amortization in Retirement Income Solutions increased in 2015 due to growth in the business and lower equity market returns compared to 2014. Base net investment income decreased in 2015, which resulted in base spreads compression, but this decrease was partially offset by higher policy fees due to growth in variable annuity separate account assets under management, principally driven by positive net flows.

Pre-tax operating income in both years included a net positive impact from the update of certain estimated gross profit assumptions used to amortize DAC and related items in the investment-oriented product lines, which resulted in a \$140 million net increase in pre-tax operating income in 2015, compared to a \$246 million net increase in pre-tax operating income in 2014. See Insurance Reserves - Life Insurance Companies DAC and Reserves – Update of Actuarial Assumptions for amounts by product line and financial statement line item and additional discussion.

**Net investment income** for 2015 decreased compared to 2014, primarily due to lower returns on alternative investments in hedge funds and lower base net investment income.

Base net investment income for 2015 decreased compared to 2014, primarily due to the effect of lower base yields from reinvestment at rates below the weighted average yield of the overall portfolio. See Investments – Life Insurance Companies for additional information on the investment strategy, asset-liability management process and invested assets of our Life Insurance Companies, which include the invested assets of the Retirement business.

Overall, Retirement fixed maturity portfolio yields in 2015 declined compared to 2014, primarily as a result of investment purchases and investment of portfolio cash flows at rates below the weighted average yield of the existing portfolio given the sustained low interest rate environment. While average interest crediting rates were down slightly due to active rate management, the decline in base yield resulted in spread compression in Fixed Annuities base spreads compared to 2014. Group Retirement base spread was flat compared to 2014, due to slightly lower average crediting rates as well as additional accretion income in 2015, which helped offset the decline in yield on the base portfolio. See Spread Management below for additional discussion.

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**General operating expenses** increased in 2015 compared to 2014, due in part to technology investments and higher expenses associated with continued strong sales in the Retirement Income Solutions product line.

### **2014 and 2013 Comparison**

**Pre-tax operating income** for Retirement in 2014 was comparable to 2013, as higher policy fees and the higher positive impact of actuarial assumption updates were offset by lower net investment income from alternative investments. The increase in policy fees was driven by growth in variable annuity separate account assets from positive net flows and favorable equity markets. A higher volume of commissions and advisory fees included in Other income, net of related expenses, was driven by increased assets under management.

Pre-tax operating income in both years included a net positive impact from the update of certain estimated gross profit assumptions used to amortize DAC and related items in the investment-oriented product lines, which resulted in a \$246 million net increase in pre-tax operating income in 2014, compared to a \$233 million net increase in pre-tax operating income in 2013. See Insurance Reserves - Life Insurance Companies DAC and Reserves – Update of Actuarial Assumptions for amounts by product line and financial statement line item and additional discussion.

**Net investment income** for 2014 decreased compared to 2013, primarily due to a \$158 million decrease in income from alternative investments, including lower hedge fund income, which in 2013 had benefited from favorable equity market conditions and several large hedge fund redemptions. The decrease in hedge fund income in 2014 compared to 2013 was partially offset by an increase in private equity fund income.

Base net investment income for 2014 increased slightly compared to 2013, as participation income on a commercial mortgage loan and income from the redemption of an invested asset in 2014 more than offset the effect of lower base yields from reinvestment at rates below the weighted average yield of the overall portfolio. See Investments – Life Insurance Companies for additional information on the investment strategy, asset-liability management process and invested assets of our Life Insurance Companies, which include the invested assets of the Retirement business.

Overall, Retirement fixed maturity portfolio yields in 2014 declined compared to 2013, primarily as a result of investment purchases and investment of portfolio cash flows at rates below the weighted average yield of the existing portfolio in the historically low interest rate environment. The Fixed Annuities and Group Retirement product lines were able to maintain base spreads in 2014 at a level comparable to 2013, and Retirement Income Solutions base spread increased, as a result of active crediting rate management. See Spread Management below for additional discussion.

**General operating expenses** increased in 2014 compared to 2013, due in part to technology investments and the volume of continued sales growth of annuities in the Retirement Income Solutions and Fixed Annuities product lines.

## Spread Management

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 Life Insurance Companies' asset liability management process, product design elements and crediting rate strategies, a sustained low interest rate environment may negatively affect future profitability.

Disciplined pricing on new business and active crediting rate management are used in the Fixed Annuities and Group Retirement product lines to partially offset the impact of a continued decline in base yields resulting from investment of available cash flows in the low interest rate environment.

**Disciplined pricing on new business** is used to pursue new sales of annuity products at targeted net investment spreads in the current rate environment. Retirement has an active product management process to ensure that new business offerings appropriately reflect the current interest rate environment. To the extent that Retirement cannot achieve targeted net investment spreads on new business, products are re-priced or no longer sold. Additionally, where appropriate, existing products that had higher minimum rate guarantees have been re-filed with lower crediting rates as permitted under state

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insurance laws for new sales. As a result, new sales of fixed annuity products generally have minimum interest rate guarantees of one percent.

**Renewal crediting rate management** is done under contractual provisions in annuity products 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. Retirement will continue to adjust crediting rates on in-force business to mitigate the pressure on spreads from declining base yields. In addition to deferred annuity products, certain traditional long-duration products for which Retirement does not have the ability to adjust interest rates, such as payout annuities, are exposed to reduced earnings and potential loss recognition reserve increases in a sustained low interest rate environment.

As of December 31, 2015, Retirement's fixed annuity reserves, which include fixed options offered within variable annuities sold in the Group Retirement and Retirement Income Solutions product lines as well as reserves of the Fixed Annuities product line, had minimum guaranteed interest rates ranging from one percent to 5.5 percent, with the higher rates representing guarantees on older in-force products. As indicated in the table below, approximately 73 percent of annuity account values were at their minimum crediting rates as of December 31, 2015, compared to 71 percent at December 31, 2014. As a result of disciplined pricing on new business and the run-off of older business with higher minimum crediting rates, fixed annuity account values having contractual minimum guaranteed rates above one percent decreased to 74 percent of total fixed annuity reserves at December 31, 2015 from 79 percent at December 31, 2014.

**The following table presents fixed annuity account values by contractual minimum guaranteed interest rate and current crediting rates:**

<b>December 31, 2015</b>	<b>Current Crediting Rates</b>			<b>Total</b>
	<b>At Contractual Minimum Guarantee</b>	<b>1-50 Basis Points Above Minimum Guarantee</b>	<b>More than 50 Basis Points Above Minimum Guarantee</b>	
<b>Contractual Minimum Guaranteed Interest Rate (in millions)</b>				
Fixed annuities *				
1%	\$ 5,896	\$ 6,340	\$ 12,635	\$ 24,871
> 1% - 2%	12,659	2,341	2,974	17,974
> 2% - 3%	30,611	473	1,067	32,151
> 3% - 4%	12,231	50	10	12,291
> 4% - 5%	7,671	-	4	7,675
> 5% - 5.5%	202	-	5	207
<b>Total</b>	<b>\$ 69,270</b>	<b>\$ 9,204</b>	<b>\$ 16,695</b>	<b>\$ 95,169</b>
<b>Percentage of total</b>	<b>73%</b>	<b>10%</b>	<b>17%</b>	<b>100%</b>

\* Fixed annuities shown include fixed options within variable annuities sold in Group Retirement and Retirement Income Solutions product lines.

**Retirement Premiums and Deposits, Surrenders and Net Flows**

## Premiums

For Retirement, premiums primarily represent amounts received on life-contingent payout annuities. 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.

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

**Years Ended December 31,**  
*(in millions)*

	2015	2014	2013
Premiums and deposits*	\$ 25,241	\$ 24,023	\$ 23,729
Deposits	(25,078)	(23,903)	(23,690)
Other	5	167	149
Premiums	\$ 168	\$ 287	\$ 188

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\* Excludes activity related to closed blocks of fixed and variable annuities.

**Premiums** have fluctuated since 2013 primarily due to changes in immediate annuity premiums in the Fixed Annuities product line.

**Premiums and Deposits and Net Flows**

The following table presents Retirement premiums and deposits and net flows by product line:

<i>(in millions)</i>	Percentage Change					
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013	
Fixed Annuities	\$ 3,702	\$ 3,578	\$ 2,914	3%	23%	
Retirement Income Solutions	10,828	10,325	8,608	5	20	
Retail Mutual Funds	3,791	3,377	4,956	12	(32)	
Group Retirement	6,920	6,743	7,251	3	(7)	
Total Retirement premiums and deposits*	\$ 25,241	\$ 24,023	\$ 23,729	5%	1%	

**Years Ended December 31,**

<i>(in millions)</i>	2015	2014	2013
Net flows			
Fixed Annuities	\$ (2,188)	\$ (2,313)	\$ (2,820)
Retirement Income Solutions	7,010	6,566	5,092
Retail Mutual Funds	1,026	(1)	2,780
Group Retirement	(2,135)	(3,797)	(492)
Total Retirement net flows*	\$ 3,713	\$ 455	\$ 4,560

\* Excludes activity related to closed blocks of fixed and variable annuities, which had reserves of approximately \$5.0 billion and \$5.4 billion at December 31, 2015 and 2014, respectively.

**RETIREMENT PREMIUMS AND DEPOSITS by Product Line *(in millions)***





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**Premiums and deposits** increased in 2015 compared to 2014, primarily due to growth in Retirement Income Solutions and Retail Mutual Funds. Premiums and deposits increased in 2014 compared to 2013, primarily in Retirement Income Solutions product lines and in Fixed Annuities, partially offset by lower deposits in Retail Mutual Funds and Group Retirement.

**Net flows** for annuity products included in the Fixed Annuities, Retirement Income Solutions and Group Retirement product lines represent premiums and deposits less death, surrender and other withdrawal benefits. Net flows from mutual funds, which are included in both the Retail Mutual Funds and Group Retirement product lines, represent deposits less withdrawals.

Total net flows for Retirement increased in 2015 compared to 2014, primarily due to lower surrenders in Group Retirement, improvement in both sales and the level of withdrawals in Retail Mutual Funds, and continued growth in Retirement Income Solutions.

Total net flows for Retirement decreased in 2014 compared to 2013, primarily due to higher surrenders and withdrawals in 2014, primarily in the Group Retirement and Retail Mutual Funds product lines, which resulted in a significant decrease in net flows compared to 2013.

### **Premiums and Deposits and Net Flows by Product Line**

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

**Fixed Annuities** premiums and deposits increased in 2015 compared to 2014, due to new product offerings and increases in market interest rates driven by widening credit spreads in the second half of the year, but net flows continued to be negative, primarily due to the sustained relatively low interest rate environment. The increase in Fixed Annuities deposits in 2014 compared to 2013 was due to modest increases in interest rates and steepening of the yield curve in the first half of 2014, compared to lower rates in the prior year, particularly in the first half of 2013. Fixed Annuities net flows in 2014 were negative, but improved compared to 2013, primarily due to the increased deposits.

**Retirement Income Solutions** premiums and deposits and net flows increased in 2015 compared to 2014, reflecting an increase in index annuity sales. Premiums and deposits and net flows increased significantly in 2014 compared to 2013, reflecting a high volume of variable and index annuity sales, which benefitted from consumer demand for retirement products with guaranteed benefit features, product enhancements, expanded distribution and a more favorable competitive environment. The improvement in surrender rates in 2015 and 2014 compared to the prior years (see Surrender Rates below) was primarily due to the significant growth in account value driven by the high volume of sales, which has increased the proportion of business that is within the surrender charge period.

**Retail Mutual Funds** deposits and net flows increased in 2015 compared to 2014, and decreased in 2014 compared to 2013, driven primarily by activity within the Focused Dividend Strategy Portfolio. After record

sales in 2013, the Focused Dividend Strategy Portfolio experienced relatively less favorable performance in 2014, putting pressure on 2014 sales and withdrawal activity. In 2015, sales and withdrawals for this portfolio improved, due to a return to strong performance levels, resulting in overall growth in Retail Mutual Funds net flows compared to 2014.

**Group Retirement** net flows increased in 2015 compared to 2014, primarily due to lower surrender activity. The improvement in the surrender rate in 2015 compared to 2014 was due in part to lower large group surrenders, which were approximately \$1.5 billion in 2015, compared to \$2.7 billion in 2014. Group Retirement net flows decreased in 2014 compared to 2013, primarily due to higher group surrender activity, as well as lower premiums and deposits. The large group market has become increasingly competitive and has been impacted by the consolidation of healthcare providers and other employers in our target markets. This trend of heightened competition is expected to continue in 2016 as plan sponsors perform reviews of existing retirement plan relationships.

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The following table presents reserves for annuity product lines by surrender charge category:

At December 31,	2015			2014		
(in millions)	Group Retirement <sup>(a)</sup>	Fixed Annuities	Retirement Income Solutions	Group Retirement <sup>(a)</sup>	Fixed Annuities	Retirement Income Solutions
No surrender charge <sup>(b)(c)</sup>	\$ 60,720	\$ 34,331	\$ 14,184	\$ 61,751	\$ 34,255	\$ 14,429
Greater than 0% - 2%	1,199	1,543	4,517	1,648	2,736	4,512
Greater than 2% - 4%	1,363	2,285	4,565	1,657	2,842	4,254
Greater than 4%	5,952	13,138	31,683	5,793	12,754	26,165
Non-surrenderable	676	3,723	358	770	3,605	151
Total reserves	\$ 69,910	\$ 55,020	\$ 55,307	\$ 71,619	\$ 56,192	\$ 49,511

(a) Excludes mutual fund assets under management of \$14.5 billion and \$14.6 billion at December 31, 2015 and 2014, respectively.

(b) Group Retirement amounts in this category include reserves of approximately \$6.2 billion, at both December 31, 2015 and 2014, which are subject to 20 percent annual withdrawal limitations.

(c) Retirement Income Solutions amounts in this category for 2014 include \$12.5 billion of reserves with zero surrender charge that were previously reported within "Greater than 0% - 2%".

The following table presents surrender rates for deferred annuities by product line:

Years Ended December 31,	2015	2014	2013
Surrenders as a percentage of average account value			
Fixed Annuities	6.9 %	7.0 %	6.6 %
Retirement Income Solutions	6.0	7.1	8.7
Group Retirement	10.0	11.6	9.0

**Life Results**

The following table presents Life results:

Years Ended December 31,				Percentage Change	
(in millions)	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
Revenues:					
Premiums	\$ 2,759	\$ 2,679	\$ 2,737	3%	(2)%
Policy fees	1,485	1,443	1,391	3	4

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Net investment income	<b>2,100</b>	2,199	2,269	(5)	(3)
Other income	<b>49</b>	-	-	NM	NM
Benefits and expenses:					
Policyholder benefits and losses incurred	<b>3,812</b>	3,771	3,568	1	6
Interest credited to policyholder account balances	<b>493</b>	507	542	(3)	(6)
Amortization of deferred policy acquisition costs	<b>433</b>	321	360	35	(11)
Non deferrable insurance commissions	<b>222</b>	257	272	(14)	(6)
General operating expenses	<b>968</b>	885	849	9	4
Pre-tax operating income	<b>\$ 465</b>	<b>\$ 580</b>	<b>\$ 806</b>	(20)	(28)
		<b>100</b>			

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**Pre-tax operating income** decreased in 2015 compared to 2014, primarily due to lower net investment income, mortality experience that was within pricing expectations but less favorable than the prior year, and a higher net negative adjustment to reflect updated actuarial assumptions. These decreases were partially offset by a \$20 million reduction in the reserve for IBNR death claims related to enhanced claims practices, due to updated estimates in 2015, compared to a \$104 million increase in this reserve in 2014, which was primarily related to a legacy block of small policies for which personal data elements were unavailable or incomplete.

Other income in 2015 was primarily related to commission and profit sharing revenues received by Laya Healthcare for the distribution of insurance products. Laya Healthcare, which we acquired on March 31, 2015, is Ireland's second largest primary health insurance provider. Laya Healthcare distributes and administers primary healthcare for approximately 550,000 customers, and also offers other coverage including life, dental and travel insurance.

The net negative adjustment of \$146 million related to an update of actuarial assumptions in 2015 was primarily due to lower assumed surrender rates for certain later-duration universal life with secondary guarantees, which represent approximately eight percent of the Life Insurance Companies' total U.S. life reserves. The net negative adjustment also reflected lower investment spread assumptions, partially offset by more favorable than expected assumptions for mortality, as well as loss recognition expense of \$28 million for certain discontinued long-term care products primarily due to lower future premium assumptions. These negative adjustments were partially offset by a decrease in certain Group Benefit claim reserves

based on updated experience data. See Insurance Reserves - Life Insurance Companies DAC and Reserves – Update of Actuarial Assumptions for amounts by financial statement line item and additional discussion of loss recognition.

**Net investment income** for 2015 decreased compared to 2014, 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. See Investments – Life Insurance Companies for additional discussion of the investment strategy, asset-liability management process and invested assets of our Life Insurance Companies, which include the invested assets of the Life business.

**General operating expenses** increased in 2015 compared to 2014, primarily related to the expansion of the international Life business through the acquisitions of AIG Life Limited and Laya Healthcare. Higher expenses from the international acquisitions were partially offset by domestic savings from organizational changes.

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**Pre-tax operating income** decreased in 2014 compared to 2013, primarily due to increases in policyholder benefit reserves, lower net investment income and higher general operating expenses. Updates of actuarial assumptions also decreased pre-tax operating income by \$119 million in 2014 compared to \$80 million in 2013. These decreases were partially offset by a \$28 million increase in pre-tax operating income in 2014 compared to 2013, due to a 2013 increase in equity-indexed universal life reserves, which was reflected in Interest credited to policyholder account balances.

Overall, mortality experience for 2014 was similar to 2013 and within pricing assumptions. Policyholder benefit expense in 2014 included an increase of approximately \$104 million to the estimated reserves for IBNR death claims, which reflected continuing efforts to identify deceased insureds and their beneficiaries who have not presented a valid claim, pursuant to the 2012 resolution of a multi-state audit and market conduct examination. The 2014 increase in the IBNR reserve was related primarily to a legacy block of in-force and lapsed small face amount policies, for which certain personal data elements were unavailable or incomplete. In 2014, in the process of reviewing these policies as required under the terms of the regulatory agreement, we refined our estimate of the ultimate cost of these claims. The reserve increase in 2014 was in addition to amounts previously provided for IBNR claims in 2011 and 2012, which totaled \$259 million.

**Net investment income** decreased in 2014 compared to 2013, primarily due to lower income from alternative investments and lower yields on the base portfolio due to investment of portfolio cash flows at rates below the weighted average yield of the existing portfolio. See Investments – Life Insurance Companies for additional discussion of the investment strategy, asset-liability management process and invested assets of our Life Insurance Companies, which include the invested assets of the Life business.

**General operating expenses** increased in 2014 compared to 2013 primarily due to strategic investments in technology and service platforms in the U.S. and Japan.

***Spread Management***

**Disciplined pricing on new business** is used to pursue new sales of life products at targeted net investment spreads in the current interest rate environment. Life has an active product management process to ensure that new business offerings appropriately reflect the current interest rate environment. To the extent that Life cannot achieve targeted net investment spreads on new business, products are re-priced or no longer sold. Additionally, where appropriate, existing products with higher minimum rate guarantees have been re-filed with lower crediting rates, as permitted under state insurance laws for new sales. Universal life insurance interest rate guarantees are generally two to three percent on new non-indexed products and zero to two percent on new indexed products, and are designed to meet targeted net investment spreads.

**In-force Management.** Crediting rates for in-force policies are adjusted in accordance with contractual provisions that were designed to allow crediting rates to be reset subject to minimum crediting rate guarantees.

The following table presents universal life account values by contractual minimum guaranteed interest rate and current crediting rates:

December 31, 2015		Current Crediting Rates		Total
		1-50 Basis Points Above Minimum Guarantee	More than 50 Basis Points Above Minimum Guarantee	
Contractual Minimum Guaranteed Interest Rate (in millions)	At Contractual Minimum Guarantee			
Universal life insurance				
1%	\$ -	\$ -	\$ 7	\$ 7
> 1% - 2%	32	164	212	408
> 2% - 3%	552	304	1,452	2,308
> 3% - 4%	2,066	495	1,090	3,651
> 4% - 5%	3,939	204	-	4,143
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> 5% - 5.5%		327	-	-	327
Total	\$	6,916	\$ 1,167	\$ 2,761	\$ 10,844
Percentage of total		64%	11%	25%	100%
<b>Life Premiums and Deposits</b>					

Premiums for Life represent amounts received on traditional life insurance policies and group benefit policies. Premiums and deposits for Life 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 premiums and deposits to GAAP premiums:**

**Years Ended December 31,**  
(in millions)

	2015	2014	2013
Premiums and deposits	\$ 4,974	\$ 4,806	\$ 4,862
Deposits	(1,540)	(1,532)	(1,541)
Other	(675)	(595)	(584)
Premiums	\$ 2,759	\$ 2,679	\$ 2,737

Excluding the effect of foreign exchange, Life premiums and deposits increased six percent in 2015 compared to 2014, and premiums increased eight percent, principally driven by growth in Japan and the acquisition of AIG Life Limited in the U.K.

The decrease in Life premiums in 2014 compared to 2013 was primarily due to the non-renewal of certain group benefit accounts and the strengthening of the U.S. dollar against the Japanese yen, partially offset by solid growth in Japan premiums excluding the effect of foreign exchange. As a result of the decrease in premiums, premiums and deposits also decreased in 2014 compared to 2013.

**Personal Insurance Results**

**The following table presents Personal Insurance results:**

Years Ended December 31, (in millions)	2015	2014	2013	Percentage Change 2015 vs. 2014	2014 vs. 2013
Underwriting results:					
Net premiums written	\$11,580	\$12,412	\$12,700	(7)%	(2)
Increase in unearned premiums	(422)	(442)	(323)	5	(37)
Net premiums earned	11,158	11,970	12,377	(7)	(3)
Losses and loss adjustment expenses incurred	6,152	6,488	7,025	(5)	(8)

## Acquisition expenses:

Amortization of deferred policy acquisition costs	<b>1,974</b>	2,092	2,203	(6)	(5)
Other acquisition expenses	<b>1,183</b>	1,165	1,044	2	12
Total acquisition expenses	<b>3,157</b>	3,257	3,247	(3)	-
General operating expenses	<b>1,995</b>	2,220	2,292	(10)	(3)
Underwriting income (loss)	<b>(146)</b>	5	(187)	NM	NM
Net investment income	<b>220</b>	394	455	(44)	(13)
Pre-tax operating income	<b>\$ 74</b>	<b>\$ 399</b>	<b>\$ 268</b>	<b>(81)%</b>	<b>49</b>

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<b>NET PREMIUMS WRITTEN</b>	<b>Pre-Tax oPERATING INCOME</b>
<i>(in millions)</i>	<i>(in millions)</i>

**2015 and 2014 Comparison**

**Pre tax operating income** decreased in 2015, compared to 2014, primarily due to a decrease in net investment income and underwriting results. Catastrophe losses were \$145 million in 2015 compared to \$126 million in 2014. In 2015, net favorable prior year loss reserve development was \$19 million compared to \$77 million in 2014.

**Acquisition expenses** decreased in 2015 compared to 2014. Excluding the effect of foreign exchange, acquisition expenses increased due to higher acquisition costs, primarily in automobile and property businesses, and higher profit share expenses related to warranty service programs, partially offset by a decrease in non-deferred direct marketing expenses. The non-deferred direct marketing expenses, excluding commissions, for 2015 were approximately \$292 million, and, excluding the impact of foreign exchange, decreased by approximately \$71 million from 2014.

**General operating expenses** decreased in 2015 compared to 2014, primarily due to the effect of foreign exchange and reflected an ongoing focus on cost efficiency.

**Net investment income** decreased in 2015 compared to 2014, primarily due to the continued impact of low interest rates resulting in yields on new purchases that were lower than the weighted average yield of the overall portfolio, negative performance of alternative investments in hedge funds, the strengthening of the U.S. dollar against most major foreign currencies, and lower allocation of net investment income.

See MD&A — Investments for additional information on the Non-Life Insurance Companies invested assets, investment strategy, and asset-liability management process.

## 2014 and 2013 Comparison

**Pre tax operating income** increased in 2014 compared to 2013, primarily due to a decrease in current accident year losses and lower general operating expenses, partially offset by higher catastrophe losses and lower net favorable prior year loss reserve development, higher acquisition expenses and a decrease in net investment income. Catastrophe losses were \$126 million in 2014, compared to \$77 million in 2013. The accident year losses include severe losses of approximately \$54 million in 2014 compared to \$17 million in 2013. Net favorable loss reserve development was \$77 million in 2014 compared to \$155 million in 2013, and included approximately \$7 million of favorable loss reserve development from Storm Sandy compared to \$41 million in 2013. Foreign exchange did not have a significant impact on the pre-tax operating income compared to 2013.

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**Acquisition expenses** increased in 2014 compared to 2013, primarily due to the change in business mix and higher costs in growth-targeted lines of business, partially offset by the effect of foreign exchange as a result of the strengthening of the U.S. dollar against the Japanese yen. Direct marketing expenses, excluding commissions, for 2014 were \$392 million, compared to \$440 million in 2013. Excluding the impact of foreign exchange, direct marketing expenses decreased by approximately \$24 million in 2014 compared to 2013. Direct marketing accounted for approximately 17 percent of net premiums written in both 2014 and 2013.

**General operating expenses** decreased in 2014 compared to 2013. Excluding the effect of foreign exchange, general operating expenses remained flat, as efficiencies from organizational realignment initiatives were offset by increased technology-related expenses.

**Net investment income** decreased in 2014 compared to 2013, primarily due to a decrease in interest rates during 2014, as yields on new purchases were lower than the weighted average yield of the overall portfolio, lower income on alternative investments, and lower income associated with investments accounted for under the fair value option method as an increase related to the PICC P&C rights offerings was more than offset by a decrease from fixed maturity investments accounted for under the fair value option. These were partially offset by the effect of continued portfolio diversification. The decrease in allocated net investment income was also due to a reduction in net loss reserves.

See MD&A — Investments for additional information on the Non-Life Insurance Companies invested assets, investment strategy, and asset-liability management process.

**Personal Insurance Net Premiums Written**

The following table presents Personal Insurance net premiums written by major line of business:

Years Ended December 31, (in millions)				Percentage Change in U.S. dollars		Percentage Change in Original Currency	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013	2015 vs. 2014	2014 vs. 2013
Accident & Health	\$ 4,990	\$ 5,441	\$ 5,714	(8)%	(5)%	1%	
Personal Lines	6,590	6,971	6,986	(5)	-	4	
Total Personal Insurance net premiums written	\$ 11,580	\$ 12,412	\$ 12,700	(7)%	(2)%	3%	

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**Personal Insurance***(in millions)*

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**2015 and 2014 Comparison**

Personal Insurance net premiums written decreased in 2015 compared to 2014 due to the strengthening of the U.S. dollar against the Major Currencies. Excluding the effect of foreign exchange, net premiums written increased in 2015 compared to 2014, as the business continued to grow through multiple product and distribution channels. The following paragraphs discuss the changes in net premiums written on a constant dollar basis, which exclude the effect of foreign exchange.

**Accident & Health** net premiums written increased in 2015 compared to 2014, primarily due to production increases in Accident and Health in Japan, partially offset by the decrease in Accident and Health in the U.S., due to continued underwriting discipline.

**Personal Lines** net premiums written increased in 2015 compared to 2014. These increases were primarily due to increased production in personal property business in the U.S. and Japan and in the automobile business in all regions, partially offset by decreased production of warranty service programs. The increase in the U.S. personal property business in 2015 was attributable to new business sales and improved retention in the AIG Private Client Group, whereas in Japan the increase was due to new business sales as a result of the recent increase in new housing starts and heightened demand before the duration restriction on long-term fire insurance became effective in October 2015. In addition, the increase in U.S. personal property business in 2015 reflected changes to optimize our reinsurance structure to retain more favorable risks, while continuing to manage aggregate exposure.

### 2014 and 2013 Comparison

Personal Insurance net premiums written decreased in 2014 compared to 2013, primarily due to the impact of foreign exchange as the U.S. dollar strengthened against the Japanese yen. Excluding the effect of foreign exchange, net premiums written increased in 2014 compared to 2013 as the business continued to grow through multiple product and distribution channels, including direct marketing. The following paragraphs discuss the changes in net premiums written on a constant dollar basis, which exclude the effect of foreign exchange.

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**Accident & Health** net premiums written decreased in 2014 compared to 2013. The decrease was primarily due to our focus on maintaining underwriting discipline in certain classes of business in the U.S., partially offset by growth in Japan and Latin America.

**Personal Lines** net premiums written increased in 2014 compared to 2013. The increase was primarily due to increased rates and improved retention in AIG Private Client Group and continued growth of automobile business outside of Japan, partially offset by declines in the U.S. warranty service programs.

***Personal Insurance Net Premiums Written by Region***

The following table presents Personal Insurance net premiums written by region:

Years Ended December 31,				Percentage Change in U.S. dollars		Percentage Change in Original Currency
<i>(in millions)</i>	2015	2014	2013	2015 vs. 2014	2014 vs. 2013	2015 vs. 2014
Americas	\$ 3,810	\$ 3,824	\$ 3,794	-%	1%	2%
Asia Pacific	5,916	6,516	6,893	(9)	(5)	3
EMEA	1,854	2,072	2,013	(11)	3	3
Total net premiums written	\$11,580	\$12,412	\$12,700	(7)%	(2)%	3%

**Personal insurance NET PREMIUMS WRITTEN by Region**

*(in millions)*



The following paragraphs discuss the changes in net premiums written on a constant dollar basis, which exclude the effect of foreign exchange.

### 2015 and 2014 Comparison

**Americas** net premiums written in 2015 increased compared to 2014 due to growth in personal property and automobile businesses, offset by decreases in warranty service programs and Accident and Health businesses in the U.S. The growth in personal property business is primarily driven by new business sales and improved retention in AIG Private Client Group in the U.S., as well as the changes in the reinsurance structure discussed above.

**Asia Pacific** net premiums written increased in 2015 compared to 2014, primarily due to increased production in personal property, Accident and Health and automobile businesses.

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**EMEA** net premiums written increased in 2015 compared to 2014, primarily in automobile and in warranty service programs, partially offset by decreases in Accident and Health.

**2014 and 2013 Comparison**

**Americas** net premiums written increased in 2014 compared to 2013, primarily due to an increase in all product lines in our Latin America operations and growth in U.S. personal property and automobile businesses. These were partially offset by a decrease in U.S. Accident and Health due to our continued focus on maintaining underwriting discipline.

**Asia Pacific** net premiums written increased in 2014 compared to 2013, primarily due to production increases in Japan Accident and Health and in property and automobile business outside of Japan.

**EMEA** net premiums written increased in 2014 compared to 2013, due to growth in the automobile business and warranty service programs, partially offset by a decrease in the Accident and Health business.

**Personal Insurance Underwriting Ratios**

The following tables present the Personal Insurance combined ratios based on GAAP data and reconciliation to the accident year combined ratio, as adjusted:

Years Ended December 31,	Increase (Decrease)				
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
Loss ratio	55.1	54.2	56.8	0.9	(2.6)
Catastrophe losses and reinstatement premiums	(1.3)	(1.1)	(0.7)	(0.2)	(0.4)
Prior year development net of premium adjustments	0.2	0.7	1.3	(0.5)	(0.6)
Accident year loss ratio, as adjusted	54.0	53.8	57.4	0.2	(3.6)
Acquisition ratio	28.3	27.2	26.2	1.1	1.0
General operating expense ratio	17.9	18.5	18.5	(0.6)	-
Expense ratio	46.2	45.7	44.7	0.5	1.0
Combined ratio	101.3	99.9	101.5	1.4	(1.6)
Catastrophe losses and reinstatement premiums	(1.3)	(1.1)	(0.7)	(0.2)	(0.4)
Prior year development net of premium adjustments	0.2	0.7	1.3	(0.5)	(0.6)
Accident year combined ratio, as adjusted	100.2	99.5	102.1	0.7	(2.6)

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<b>Personal Insurance ratios</b>	

The following tables present Personal Insurance accident year catastrophe and severe losses by region and the number of events:

**Catastrophes<sup>(a)</sup>**

<i>(in millions)</i>	# of Events	Americas	Asia Pacific	EMEA	Total
<b>Year Ended December 31, 2015</b>					
Flooding	4	\$ 4	\$ -	\$ 2	\$ 6
Windstorms and hailstorms	13	82	37	-	119
Wildfire	1	1	-	-	1
Tropical cyclone	1	-	19	-	19
<b>Total catastrophe-related charges</b>	<b>19</b>	<b>\$ 87</b>	<b>\$ 56</b>	<b>\$ 2</b>	<b>\$ 145</b>
<b>Year Ended December 31, 2014</b>					
Windstorms and hailstorms	14	51	46	-	97
Tropical cyclone	4	9	19	-	28
Earthquakes	1	1	-	-	1
<b>Total catastrophe-related charges</b>	<b>19</b>	<b>\$ 61</b>	<b>\$ 65</b>	<b>\$ -</b>	<b>\$ 126</b>
<b>Year Ended December 31, 2013</b>					
Flooding	7	\$ 26	\$ -	\$ 2	\$ 28
Windstorms and hailstorms	2	11	-	5	16
Tropical cyclone	-	-	33	-	33
<b>Total catastrophe-related charges</b>	<b>9</b>	<b>\$ 37</b>	<b>\$ 33</b>	<b>\$ 7</b>	<b>\$ 77</b>

(a) Catastrophes are generally weather or seismic events having a net impact on AIG in excess of \$10 million each.

### Severe Losses<sup>(b)</sup>

Years Ended December 31, (in millions)	# of Events	Americas	Asia Pacific	EMEA	Total
2015	1	\$ 12	\$ -	\$ -	12
2014	4	\$ 50	\$ 4	\$ -	54
2013	1	\$ 17	\$ -	\$ -	17
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\* 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.

#### **2015 and 2014 Comparison**

The combined ratio increased by 1.4 points in 2015 compared to 2014, reflecting an increase in the loss ratio and acquisition ratio, partially offset by a decrease in the general operating expense ratio. The accident year combined ratio, as adjusted, increased by 0.7 points in 2015 compared to 2014.

The accident year loss ratio, as adjusted, increased by 0.2 points in 2015, compared to 2014, due to 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 loss ratio improvement in warranty service programs was offset by an increase in the acquisition ratio due to a related profit sharing arrangement.

The acquisition ratio increased by 1.1 points in 2015 compared to 2014, primarily due to increases in acquisition costs in warranty service programs and in the automobile business, partially offset by lower direct marketing expenses in the Accident and Health business.

The general operating expense ratio decreased by 0.6 points in 2015 compared to 2014, reflecting an ongoing focus on cost efficiency.

#### **2014 and 2013 Comparison**

The combined ratio decreased by 1.6 points in 2014 compared to 2013, primarily due to a lower loss ratio, partially offset by a higher acquisition ratio as discussed below.

The accident year combined ratio, as adjusted, decreased by 2.6 points in 2014 compared to 2013, primarily due to an improved accident year loss ratio, as adjusted.

The accident year loss ratio, as adjusted, decreased by 3.6 points in 2014 compared to 2013, as a result of improvements across all lines of business. The lower losses associated with a warranty retail program were largely offset by an increase in the related profit sharing arrangement, which increased the acquisition ratio in 2014 compared to 2013. The severe losses of \$54 million, resulting largely from four fire claims, accounted for 0.5 points of the accident year loss ratio, as adjusted, in 2014.

The general operating expense ratio remained unchanged in 2014 compared to 2013, reflecting the impact of efficiencies from organizational realignment initiatives, offset by increased technology-related expenses.

## Corporate and Other

## Corporate and Other Results

The following table presents AIG's Corporate and Other results:

Years Ended December 31, (in millions)	Percentage Change				
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
Corporate and Other pre-tax operating loss:					
Equity in pre-tax operating earnings of AerCap <sup>(a)</sup>	\$ 255	\$ 434	\$ -	(41)%	NM
Fair value of PICC investments <sup>(b)</sup>	33	37	-	(11)	NM
Income from other assets, net <sup>(c)</sup>	1,382	373	47	271	NM
Corporate general operating expenses	(985)	(1,146)	(1,115)	14	(1)
Severance expense <sup>(d)</sup>	-	-	(265)	NM	NM
Interest expense	(1,101)	(1,233)	(1,412)	11	1
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Direct Investment book	-	1,241	1,448	NM	(14)
Global Capital Markets	-	359	625	NM	(43)
Run-off insurance Lines	(488)	(445)	403	(10)	NM
Consolidation and eliminations	21	1	4	NM	(75)
Total Corporate and Other pre-tax operating loss	\$ (883)	\$ (379)	\$ (265)	(133)%	(43)%

(a) Represents our share of AerCap's pre-tax operating income, which excludes certain post-acquisition transaction expenses incurred by AerCap in connection with its acquisition of ILFC and the difference between expensing AerCap's maintenance rights assets over the remaining lease term as compared to the remaining economic life of the related aircraft.

(b) During the first quarter of 2015, Non-Life Insurance Companies sold a portion of their investment in PICC P&C to AIG Parent. During 2014, the Life Insurance Companies sold their investment in PICC Group to AIG Parent.

(c) Consists of the results of investments held by AIG Parent to support various corporate needs as well as the remaining positions of AIGFP, life settlements, real estate, equipment leasing and lending and other secured lending investments held by AIG Parent and certain subsidiaries. As a result of the progress of the wind down and de-risking activities of the DIB and the derivative portfolio of AIGFP included within GCM, AIG has discontinued separate reporting of the DIB and GCM. Their results have been reported within Income from other assets, net, beginning with the first quarter of 2015. This reporting aligns with the manner in which AIG manages its financial resources. Prior periods are presented in historical format for informational purposes. Interest expense for 2015 includes \$70 million of interest expense previously reported in DIB results.

(d) Includes \$263 million of severance expense attributable to the Property Casualty and Personal Insurance operating segments.

**Corporate and Other Results****2015 and 2014 Comparison**

Corporate and Other pre-tax operating losses increased in 2015 compared to 2014 primarily due to lower fair value appreciation on ABS CDOs, lower credit valuation adjustments on assets for which the fair value option was elected, and lower mark-to-market income on CDS positions as a result of portfolio wind down and more significant spread tightening in 2014, all of which are reflected in Income from other assets, net. Partially offsetting these declines were lower corporate general operating expenses resulting from a pension curtailment credit and lower interest expense from ongoing liability management activities.

Run-off insurance lines reported an increase in pre-tax operating loss in 2015 primarily due to higher net adverse prior year loss reserve development reflecting the loss reserve strengthening in classes of

business with long reporting tails and transfers of certain casualty lines, including environmental liability and healthcare coverage that were no longer offered by Commercial Insurance to Run-off insurance lines. See Insurance Reserves – Non-Life Insurance Companies – Net Loss Development for further discussion. These increases in net adverse prior year loss reserve development were partially offset by excess workers' compensation net loss reserve discount benefit, primarily reflecting an increase in Treasury rates in 2015. See Insurance Reserves – Non-Life Insurance Companies – Discounting of Reserves for further discussion.

## 2014 and 2013 Comparison

Corporate and Other pre-tax operating losses increased in 2014 compared to 2013 primarily due to an increase in general operating expenses as a result of centralizing processes to lower-cost locations and increased costs related to investments in technology, lower fair value appreciation on ABS CDOs driven primarily by improved collateral pricing due to more significant improvements in home price indices and amortization of the underlying collateral in 2013, lower credit valuation adjustments on assets for which the fair value option was elected, and lower mark-to-market income on CDS positions as a result of portfolio wind down and spread widening, partially offset by our share of AerCap's pre-tax operating income, which was accounted for under the equity method, and lower interest expense from ongoing debt management activities described in Liquidity and Capital Resources.

Run-off insurance lines reported a pre-tax operating loss of \$445 million in 2014 compared to income of \$403 million in 2013, primarily as a result of a \$407 million charge from a decrease in reserve discount in 2014 compared to a \$631 million benefit from an increase in discount in 2013. This discounting-related charge was partially offset by a \$98 million decrease in net adverse prior year loss reserve development and an improvement in current accident year loss experience, particularly in the environmental liability business (2004 and prior). The discount charge was primarily due to the decline in risk free rates during



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2014 used under Pennsylvania and Delaware prescribed or permitted practices, change in payout pattern assumptions, including the effect of commutations and accelerated settlements for the certain Excess Workers' Compensation reserves, as well as accretion. See Insurance Reserves - Discounting of Reserves for additional information.

### **Overview**

Our investment strategies are tailored to the specific business needs of each operating unit. The investment objectives are driven by the respective business models for Non-Life Insurance Companies, Life Insurance Companies 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 intermediate and long duration fixed maturity securities.

- A rise in rates, widening of credit spreads and sales of equity securities resulted in a decrease in our net unrealized gain position in our investment portfolio. Net unrealized gains in our available for sale portfolio decreased to approximately \$8.8 billion as of December 31, 2015 from approximately \$19.0 billion as of December 31, 2014.
- 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.
- Our alternative investments portfolio performance experienced a significant drop off in the second half of 2015 due to increased volatility in equity markets, which affected the performance of our hedge fund portfolio.
- Blended investment yields on new investments were lower than blended rates on investments that were sold, matured or called.
- Other-than-temporary impairments increased due to impairments within the energy and emerging markets sectors, driven primarily by slowing growth in China and weakness in commodity markets.

- We experienced an increase in gains of sales of securities in 2015 versus 2014 due to a partial divestiture of our PICC equity interests.

## 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 Non-Life Insurance Companies consist of a mix of instruments that meet our current risk-return, tax, liquidity, credit quality and diversification objectives.

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- Outside of the U.S., fixed maturity securities held by Non-Life Insurance Companies consist primarily of intermediate duration 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 actively manages its assets and liabilities in terms of products, counterparties and duration. AIG Parent's liquidity sources are held in the form of cash, short-term investments and publicly traded, intermediate term investment-grade rated fixed maturity securities. Based upon an assessment of its immediate and longer-term funding needs, AIG Parent purchases publicly traded, intermediate term, 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.

**Investments by Legal Entity Category**

The following tables summarize the composition of AIG's investments:

<i>(in millions)</i>	Non-Life Insurance Companies	Life Insurance Companies	Corporate and Other <sup>(a)</sup>	Total
<b>December 31, 2015</b>				
Fixed maturity securities:				
Bonds available for sale, at fair value	\$ 84,849	\$ 157,150	6,246	\$248,245
Other bond securities, at fair value	1,463	3,589	11,730	16,782
Equity securities:				
Common and preferred stock available for sale, at fair value	2,821	144	(50)	2,915
Other Common and preferred stock, at fair value	355	-	566	921
Mortgage and other loans receivable, net of allowance	8,278	23,979	(2,692)	29,565
Other invested assets	10,571	12,398	6,825	29,794
Short-term investments	3,189	2,877	4,066	10,132
Total investments <sup>(b)</sup>	111,526	200,137	26,691	338,354
Cash	1,011	557	61	1,629
Total invested assets	\$ 112,537	\$ 200,694	26,752	\$339,983
<b>December 31, 2014</b>				
Fixed maturity securities:				
Bonds available for sale, at fair value	\$ 92,942	\$ 164,527	2,390	\$259,859
Other bond securities, at fair value	1,733	2,785	15,194	19,712

## Equity securities:

Common and preferred stock available for sale, at fair value	4,241	150	4	4,395
Other Common and preferred stock, at fair value	495	-	554	1,049
Mortgage and other loans receivable, net of allowance	6,686	20,874	(2,570)	24,990
Other invested assets	10,372	11,916	12,230	34,518
Short-term investments	4,154	2,131	4,958	11,243
Total investments <sup>(b)</sup>	120,623	202,383	32,760	355,766
Cash	1,191	451	116	1,758
Total invested assets	\$ 121,814	\$ 202,834	\$ 32,876	\$ 357,524

(a) Beginning in the fourth quarter of 2015, Eaglestone Reinsurance Company is reported in Corporate and Other.

(b) At December 31, 2015, approximately 90 percent and 10 percent of investments were held by domestic and foreign entities, respectively, compared to approximately 90 percent and 10 percent, respectively, at December 31, 2014.

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The following table presents the components of Net Investment Income:

**Years Ended December 31,***(in millions)*

		<b>2015</b>	<b>2014</b>	<b>2013</b>
Interest and dividends	\$	<b>12,856</b>	\$ 13,246	\$ 13,199
Alternative investments		<b>1,476</b>	2,624	2,803
Other investment income*		<b>249</b>	726	356
Total investment income		<b>14,581</b>	16,596	16,358
Investment expenses		<b>528</b>	517	548
Total net investment income	\$	<b>14,053</b>	\$ 16,079	\$ 15,810

\* 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 the interest rate risk in GMWB embedded derivatives. For the years ended December 31, 2015, 2014 and 2013, the net investment income (loss) recorded on these securities was \$(43) million, \$260 million and \$(161) million, respectively.

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.

Net investment income for 2014 increased compared to 2013 primarily due to positive performance on bonds where we elected the fair value option, driven by movements in interest rates, partially offset by lower income on alternative investments due to equity market performance and lower reinvestment yields on our fixed maturity securities portfolio due to the low interest rate environment.

**Non-Life Insurance Companies**

For the Non-Life 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 Non-Life Insurance Companies focuses on growth of surplus and preservation of capital, subject to liability and other business considerations.

The Non-Life 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 Non-Life 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 Non-Life Insurance

Companies' liquidity, duration and credit quality objectives as well as current risk return and tax objectives.

In addition, the Non-Life 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. The Non-Life Insurance Companies' investment portfolio also includes, to a lesser extent, equity securities.

With respect to non-affiliate over the counter derivatives, the Non-Life Insurance Companies conduct business with highly rated counterparties and do not expect the counterparties to fail to meet their obligations under the contracts. The Non-Life Insurance Companies have controls in place to monitor credit exposures by limiting transactions with specific counterparties within specified dollar limits and assessing the creditworthiness of counterparties periodically. The Non-Life Insurance Companies generally use ISDA Master Agreements and Credit Support Annexes (CSAs) with bilateral collateral provisions to reduce counterparty credit exposures.

Fixed maturity investments of the Non-Life Insurance Companies domestic operations, with an intermediate duration of 4.7 years, are currently comprised primarily of tax-exempt securities, which provide attractive risk-adjusted after-tax returns, as

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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 Non-Life Insurance Companies foreign operations are of high quality, primarily rated A or higher based on composite ratings, and short to intermediate duration, averaging 3.2 years.

#### **Life Insurance Companies**

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 possible, 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.

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. The Life Insurance Companies investment portfolio also includes, to a lesser extent, equity securities and yield enhancing investments.

The Life Insurance Companies monitor fixed income markets, including the level of interest rates, credit spreads and the shape of the yield curve. The Life Insurance Companies frequently review their interest rate assumptions and actively manage the crediting rates used for their 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.

Fixed maturity investments of the Life Insurance Companies domestic operations, with an intermediate duration of 6.6 years, are comprised 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, and intermediate to long duration, averaging 13.7 years.



**TABLE OF CONTENTS****Item 7 / INVESTMENTS****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 Life 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 Life Insurance Companies categorized by NAIC Designation, at fair value:**

**December 31, 2015**

*(in millions)*

NAIC Designation	1	2	Total Investment Grade	3	4	5	6	Investment
Other fixed maturity securities	\$44,714	\$58,029	\$102,743	\$4,801	\$2,739	\$413	\$133	
Mortgage-backed, asset-backed and collateralized	42,411	2,091	44,502	239	181	29	471	
Total*	\$87,125	\$60,120	\$147,245	\$5,040	\$2,920	\$442	\$604	

\* Excludes \$4.5 billion of fixed maturity securities for which no NAIC Designation is available because they are not held in legal entities within Life Insurance Companies that require a statutory filing.

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

**December 31, 2015**

*(in millions)*

	Total Investment	CCC and
--	---------------------	---------

Composite AIG Credit Rating	AAA/AA/A	BBB	Grade	BB	B	Lower
Other fixed maturity securities	\$ 44,758	\$ 58,156	\$ 102,914	\$ 4,692	\$ 2,808	\$ 415
Mortgage-backed, asset-backed and collateralized	26,312	3,352	29,664	1,266	1,033	13,459
Total*	\$ 71,070	\$ 61,508	\$ 132,578	\$ 5,958	\$ 3,841	\$ 13,874

\* Excludes \$4.5 billion of fixed maturity securities for which no NAIC Designation is available because they are not held in legal entities within Life Insurance Companies that require a statutory filing.

## Credit Ratings

At December 31, 2015, approximately 90 percent of our fixed maturity securities were held by our domestic entities. Approximately 16 percent of such 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.

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A significant portion of our foreign entities' fixed maturity securities portfolio is rated by Moody's Investors' Service Inc. (Moody's), Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. (S&P), or similar foreign rating services. 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, 2015, approximately 16 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 5 percent were below investment grade or not rated. Approximately 44 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	
	December	December	December	December	December	December
	31,	31,	31,	31,	31,	31,
	2015	2014	2015	2014	2015	2014
<i>(in millions)</i>						
<b>Rating:</b>						
<b>Other fixed maturity securities</b>						
AAA	\$ 12,274	\$ 15,463	\$ 3,222	\$ 5,322	\$ 15,496	\$ 20,785
AA	35,344	36,730	207	224	35,551	36,954
A	50,741	56,693	1,781	242	52,522	56,935
BBB	71,766	75,607	186	250	71,952	75,857
Below investment grade	12,305	10,651	133	303	12,438	10,954
Non-rated	920	1,035	-	-	920	1,035
Total	\$ 183,350	\$ 196,179	\$ 5,529	\$ 6,341	\$ 188,879	\$ 202,520
<b>Mortgage-backed, asset-backed and collateralized</b>						

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AAA	\$	26,382	\$	24,783	\$	1,756	\$	2,313	\$	28,138	\$	27,096
AA		5,003		4,078		708		1,549		5,711		5,627
A		7,462		7,606		416		494		7,878		8,100
BBB		4,394		3,813		497		620		4,891		4,433
Below investment grade		21,638		23,376		7,771		8,314		29,409		31,690
Non-rated		16		24		105		81		121		105
Total	\$	64,895	\$	63,680	\$	11,253	\$	13,371	\$	76,148	\$	77,051
<b>Total</b>												
AAA	\$	38,656	\$	40,246	\$	4,978	\$	7,635	\$	43,634	\$	47,881
AA		40,347		40,808		915		1,773		41,262		42,581
A		58,203		64,299		2,197		736		60,400		65,035
BBB		76,160		79,420		683		870		76,843		80,290
Below investment grade		33,943		34,027		7,904		8,617		41,847		42,644
Non-rated		936		1,059		105		81		1,041		1,140
Total	\$	248,245	\$	259,859	\$	16,782	\$	19,712	\$	265,027	\$	279,571

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

<i>(in millions)</i>	Fair Value at December 31, 2015	Fair Value at December 31, 2014
Bonds available for sale:		
U.S. government and government sponsored entities	\$ 1,844	\$ 2,992
Obligations of states, municipalities and political subdivisions	27,323	27,659
Non-U.S. governments	18,195	21,095
Corporate debt	135,988	144,433
Mortgage-backed, asset-backed and collateralized:		
RMBS	36,227	37,520
CMBS	13,571	12,885
CDO/ABS	15,097	13,275
Total mortgage-backed, asset-backed and collateralized	64,895	63,680
<b>Total bonds available for sale*</b>	<b>248,245</b>	<b>259,859</b>
Equity securities available for sale:		
Common stock	2,401	3,629
Preferred stock	22	25
Mutual funds	492	741
<b>Total equity securities available for sale</b>	<b>2,915</b>	<b>4,395</b>
<b>Total</b>	<b>\$ 251,160</b>	<b>\$ 264,254</b>

\* At December 31, 2015 and 2014, the fair value of bonds available for sale held by us that were below investment grade or not rated totaled \$34.9 billion and \$35.1 billion, respectively.

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

<i>(in millions)</i>	December 31, 2015	December 31, 2014
Japan	\$ 5,416	\$ 5,728
Canada	1,453	2,181
Germany	832	1,315
France	784	614
United Kingdom	661	648
Mexico	563	661

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Netherlands	511	639
Norway	503	619
Singapore	426	545
Chile	386	395
Other	6,710	7,752
Total	\$ 18,245	\$ 21,097

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

	December 31, 2015					December 31, 2014
<i>(in millions)</i>	Sovereign	Financial Institution	Non-Financial Corporates	Structured Products	Total	Total
Euro-Zone countries:						
France	\$ 784	\$ 1,215	\$ 2,019	\$ -	\$ 4,018	\$ 4,498
Netherlands	511	991	1,505	397	3,404	4,276
Germany	832	285	2,227	21	3,365	4,155
Ireland	2	-	598	674	1,274	850
Spain	29	90	968	15	1,102	1,557
Italy	19	115	863	12	1,009	1,245
Belgium	219	120	516	-	855	973
Luxembourg	-	18	448	30	496	243
Finland	65	34	130	-	229	235
Austria	104	3	17	-	124	155
Other - EuroZone	680	48	200	1	929	1,022
Total Euro-Zone	\$ 3,245	\$ 2,919	\$ 9,491	\$ 1,150	\$ 16,805	\$ 19,209
Remainder of Europe						
United Kingdom	\$ 661	\$ 2,968	\$ 8,015	\$ 3,642	\$ 15,286	\$ 16,076
Switzerland	49	1,195	1,275	-	2,519	2,941
Sweden	144	488	195	-	827	1,135
Norway	503	43	142	-	688	846
Russian Federation	36	8	78	-	122	311
Other - Remainder of Europe	198	119	111	15	443	494
Total - Remainder of Europe	\$ 1,591	\$ 4,821	\$ 9,816	\$ 3,657	\$ 19,885	\$ 21,803
Total	\$ 4,836	\$ 7,740	\$ 19,307	\$ 4,807	\$ 36,690	\$ 41,012

**Investments in Municipal Bonds**

At December 31, 2015, 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.

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

<i>(in millions)</i>	December 31, 2015			Total Fair Value	December 31, 2014 Total Fair Value
	State General Obligation	Local General Obligation	Revenue		
<b>State:</b>					
New York	\$ 35	\$ 620	\$ 3,958	\$ 4,613	\$ 4,116
California	663	610	2,568	3,841	4,707
Texas	328	1,534	1,553	3,415	3,356
Illinois	111	367	1,008	1,486	1,364
Massachusetts	693	-	694	1,387	1,417
Washington	530	144	685	1,359	1,278
Florida	155	-	980	1,135	1,052
Virginia	65	5	808	878	918
Georgia	280	243	347	870	819
Washington DC	156	1	548	705	607
Pennsylvania	269	23	384	676	537
Arizona	-	94	482	576	734
Ohio	128	8	395	531	604
All other states <sup>(a)</sup>	1,061	547	4,243	5,851	6,150
<b>Total<sup>(b)(c)</sup></b>	<b>\$ 4,474</b>	<b>\$ 4,196</b>	<b>\$ 18,653</b>	<b>\$ 27,323</b>	<b>\$ 27,659</b>

(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 \$2.9 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:

Industry Category	Fair Value at December 31, 2015	Fair Value at December 31, 2014
<i>(in millions)</i>		
Financial institutions:		
Money Center /Global Bank Groups	\$ 9,104	\$ 10,682



Regional banks — other	<b>568</b>	543
Life insurance	<b>3,295</b>	3,575
Securities firms and other finance companies	<b>380</b>	422
Insurance non-life	<b>5,421</b>	5,625
Regional banks — North America	<b>6,823</b>	6,636
Other financial institutions	<b>7,808</b>	8,169
Utilities <sup>(a)</sup>	<b>18,497</b>	19,249
Communications	<b>10,251</b>	10,316
Consumer noncyclical	<b>15,391</b>	16,792
Capital goods	<b>8,973</b>	8,594
Energy <sup>(a)</sup>	<b>13,861</b>	16,494
Consumer cyclical	<b>9,767</b>	11,197
Basic	<b>7,512</b>	9,187
Other	<b>18,337</b>	16,952
Total <sup>(b)</sup>	<b>\$ 135,988</b>	<b>\$ 144,433</b>

(a) The Utilities and Energy amounts at December 31, 2014, have been revised from \$23.7 billion and \$12.0 billion to \$19.2 billion and \$16.5 billion, respectively, to conform to current industry classification, which are not considered material to previously issued financial statements.

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(b) At December 31, 2015 and December 31, 2014, approximately 91 percent and 93 percent, respectively, 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 and 6.4 percent at December 31, 2015 and 2014, respectively. The decline in energy exposure from December 31, 2014 resulted from unrealized losses due to reduction in the energy sector pricing, sales of securities and other-than-temporary impairments. 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:

<i>(in millions)</i>	Fair Value at December 31, 2015	Fair Value at December 31, 2014
<b>Total RMBS</b>		
2015	\$ 2,273	\$ -
2014	1,096	871
2013	2,178	2,724
2012	1,944	2,382
2011	4,800	5,310
2010 and prior*	23,936	26,233
<b>Total RMBS</b>	<b>\$ 36,227</b>	<b>\$ 37,520</b>
<b>Agency</b>		
2015	\$ 2,025	\$ -
2014	1,000	799
2013	2,094	2,625
2012	1,877	2,234
2011	2,927	3,428
2010 and prior	2,628	3,324
<b>Total Agency</b>	<b>\$ 12,551</b>	<b>\$ 12,410</b>
<b>Alt-A</b>		
2015	-	-
2014	-	-
2013	-	-
2012	-	-
2011	\$ -	\$ -
2010 and prior	12,831	13,001

<b>Total Alt-A Subprime</b>	<b>\$</b>	<b>12,831</b>	<b>\$</b>	13,001
2015		-		-
2014		-		-
2013		-		-
2012		-		-
2011		-		-
2010 and prior	<b>\$</b>	<b>2,376</b>	<b>\$</b>	2,423
<b>Total Subprime</b>	<b>\$</b>	<b>2,376</b>	<b>\$</b>	2,423

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2015	\$	-	\$	-
2014		-		-
2013		8		8
2012		53		126
2011		1,873		1,882
2010 and prior		5,716		7,047
<b>Total Prime non-agency</b>	\$	<b>7,650</b>	\$	<b>9,063</b>
<b>Total Other housing related</b>	\$	<b>819</b>	\$	<b>623</b>

\* Includes approximately \$13.2 billion and \$13.5 billion at December 31, 2015, and December 31, 2014, respectively, of certain RMBS that had experienced deterioration in credit quality since their origination. See Note 5 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:

<i>(in millions)</i>		Fair Value at December 31, 2015	Fair Value at December 31, 2014
<b>Rating:</b>			
<b>Total RMBS</b>			
AAA	\$	14,884	\$ 14,699
AA		389	418
A		509	546
BBB		661	911
Below investment grade <sup>(a)</sup>		19,779	20,937
Non-rated		5	9
<b>Total RMBS<sup>(b)</sup></b>	\$	<b>36,227</b>	\$ 37,520
<b>Agency RMBS</b>			
AAA	\$	12,547	\$ 12,405
AA		4	5
<b>Total Agency</b>	\$	<b>12,551</b>	\$ 12,410
<b>Alt-A RMBS</b>			
AAA	\$	5	\$ 7
AA		17	33
A		121	85
BBB		216	317
Below investment grade <sup>(a)</sup>		12,472	12,559
<b>Total Alt-A</b>	\$	<b>12,831</b>	\$ 13,001
<b>Subprime RMBS</b>			
AAA	\$	15	\$ 18
AA		68	117

Property Casualty Net Premiums Written by Region

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A		247		252
BBB		200		207
Below investment grade <sup>(a)</sup>		1,846		1,829
<b>Total Subprime</b>	\$	<b>2,376</b>	\$	2,423
<b>Prime non-agency</b>				
AAA	\$	1,986	\$	2,076
AA		188		253
A		138		205
BBB		209		351
Below investment grade <sup>(a)</sup>		5,124		6,169
Non-rated		5		9
<b>Total prime non-agency</b>	\$	<b>7,650</b>	\$	9,063
<b>Total Other housing related</b>	\$	<b>819</b>	\$	623

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(a) Includes certain RMBS that had experienced deterioration in credit quality since their origination. See Note 5 to the Consolidated Financial Statements for additional discussion on PCI Securities.

(b) The weighted average expected life was six years at both December 31, 2015 and December 31, 2014.

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:

<i>(in millions)</i>	<b>Fair Value at December 31, 2015</b>	<b>Fair Value at December 31, 2014</b>
CMBS (traditional)	\$ 11,132	\$ 11,265
Agency	1,622	1,372
Other	817	248
Total	\$ 13,571	\$ 12,885

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

<i>(in millions)</i>	AAA	AA	A	BBB	Below Investment Grade	Non-Rated	Total
<b>December 31, 2015</b>							
<b>Year:</b>							
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	1,015	25	31	21	-	-	1,092
2010 and prior	921	700	635	738	1,646	-	4,640
Total	\$ 7,712	\$ 1,805	\$ 1,262	\$ 1,136	\$ 1,646	\$ 10	\$ 13,571
<b>December 31, 2014</b>							
<b>Year:</b>							
2014	\$ 1,570	\$ 183	\$ 11	\$ -	\$ -	\$ -	\$ 1,764
2013	2,684	442	91	58	-	-	3,275

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2012	1,158	61	28	92	-	12	1,351
2011	1,022	20	37	21	-	-	1,100
2010 and prior	1,119	626	814	843	1,993	-	5,395
Total	\$ 7,553	\$ 1,332	\$ 981	\$ 1,014	\$ 1,993	\$ 12	\$ 12,885
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The following table presents our CMBS available for sale investments by geographic region:

<i>(in millions)</i>	Fair Value at December 31, 2015	Fair Value at December 31, 2014
<b>Geographic region:</b>		
New York	\$ 3,149	\$ 2,759
California	1,244	1,305
Texas	791	831
Florida	520	562
New Jersey	433	457
Virginia	362	389
Illinois	323	344
Pennsylvania	295	291
Georgia	253	286
Massachusetts	231	247
Maryland	229	222
North Carolina	218	222
All Other*	5,523	4,970
<b>Total</b>	<b>\$ 13,571</b>	<b>\$ 12,885</b>

\* Includes Non-U.S. locations.

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

<i>(in millions)</i>	Fair Value at December 31, 2015	Fair Value at December 31, 2014
<b>Industry:</b>		
Retail	\$ 3,978	\$ 3,700
Office	3,896	3,652
Multi-family*	3,036	2,889
Lodging	1,005	1,127
Industrial	868	679
Other	788	838
<b>Total</b>	<b>\$ 13,571</b>	<b>\$ 12,885</b>

\* Includes Agency-backed CMBS.

The fair value of CMBS holdings remained stable throughout 2015. 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.





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

<i>(in millions)</i>		<b>Fair value at December 31, 2015</b>	<b>Fair value at December 31, 2014</b>
<b>Collateral Type:</b>			
Bank loans (CLO)	\$	<b>7,962</b>	\$ 6,683
Other		<b>153</b>	388
<b>Total</b>	\$	<b>8,115</b>	\$ 7,071

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

<i>(in millions)</i>		<b>Fair Value at December 31, 2015</b>	<b>Fair Value at December 31, 2014</b>
<b>Rating:</b>			
AAA	\$	<b>2,870</b>	\$ 1,922
AA		<b>2,543</b>	2,135
A		<b>2,247</b>	2,317
BBB		<b>298</b>	366
Below investment grade		<b>157</b>	331
<b>Total</b>	\$	<b>8,115</b>	\$ 7,071

**Commercial Mortgage Loans**

At December 31, 2015, we had direct commercial mortgage loan exposure of \$22.1 billion of which, approximately 99 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:

<i>(dollars in millions)</i>													
	Number of Loans	Apartment	Offices	Class Retail	Industrial	Hotel	Others	Total	Percent of Total				
<b>December 31, 2015</b>													
<b>State:</b>													
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				

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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
<b>Foreign</b>	47	471	1,234	520	161	250	438	3,074	14
<b>Total*</b>	849	\$ 3,919	\$ 7,845	\$ 4,838	\$ 1,914	\$ 2,098	\$ 1,453	\$ 22,067	100%

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December 31, 2014

**State:**

New York	90	\$	545	\$	2,111	\$	285	\$	148	\$	68	\$	215	\$	3,372	18%
California	115		29		635		389		472		597		469		2,591	14
New Jersey	48		490		353		308		-		30		74		1,255	7
Florida	89		141		192		335		118		137		161		1,084	6
Texas	58		62		482		121		171		187		54		1,077	6
Illinois	24		175		327		26		73		36		-		637	3
Massachusetts	19		-		198		321		-		-		34		553	3
Colorado	18		62		158		48		-		120		101		489	2
Connecticut	23		279		155		5		43		-		-		482	2
Pennsylvania	49		45		89		170		107		16		5		432	2
Other states	349		920		1,140		1,738		494		310		281		4,883	26
<b>Foreign</b>	142		636		678		78		63		176		423		2,054	11
<b>Total*</b>	1,024	\$	3,384	\$	6,518	\$	3,824	\$	1,689	\$	1,677	\$	1,817	\$	18,909	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)

	2015	2014	2013
Other-than-temporary Impairments:			
Fixed maturity securities, available for sale	\$ 425	\$ 180	\$ 173
Equity securities, available for sale	166	37	14
Private equity funds and hedge funds	80	30	45
Subtotal	671	247	232
Other impairments:			
Investments in life settlements	540	201	971
Other investments	166	126	112
Real estate	23	8	19
<b>Total</b>	<b>\$ 1,400</b>	<b>\$ 582</b>	<b>\$ 1,334</b>

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, which is 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 which is determined on a discounted cash flow basis, incorporating current market mortality assumptions and market yields.

In late 2015, several insurance providers gave notice of increases in policy premiums related to our investments in life settlements. The increase in premiums required to keep policies in force results in lower future expected net cash flows which are insufficient to recover our net investment on certain policies.

#### 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.

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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 reportable segment and impairment type:**

	Non-Life Insurance Companies		Life Insurance Companies		Corporate and Other Operations		Total
<i>(in millions)</i>							
<b>For the Year Ended December 31, 2015</b>							
Impairment Type:							
Severity	\$	13	\$	-	\$	-	13
Change in intent		7		145		81	233
Foreign currency declines		33		24		-	57
Issuer-specific credit events		178		168		2	348
Adverse projected cash flows		7		13		-	20
Total	\$	238	\$	350	\$	83	671
<b>For the Year Ended December 31, 2014</b>							
Impairment Type:							
Severity	\$	3	\$	-	\$	-	3
Change in intent		8		32		-	40
Foreign currency declines		9		10		-	19
Issuer-specific credit events		60		109		-	169
Adverse projected cash flows		5		11		-	16
Total	\$	85	\$	162	\$	-	247
<b>For the Year Ended December 31, 2013</b>							
Impairment Type:							
Severity	\$	6	\$	-	\$	-	6
Change in intent		1		45		2	48
Foreign currency declines		1		-		-	1
Issuer-specific credit events		43		127		-	170
Adverse projected cash flows		1		6		-	7
Total	\$	52	\$	178	\$	2	232

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

<i>(in millions)</i>	RMBSCDO/ABS		CMBS		Maturity		Other Fixed Equities/Other Invested Assets*		Total
<b>For the Year Ended December 31, 2015</b>									
Impairment Type:									
Severity	\$	-	\$	-	\$	-	\$	13	\$ 13
Change in intent		3		-		14		85	233

Property Casualty Net Premiums Written by Region

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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

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## 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

**For the Year Ended December 31, 2013**

## Impairment Type:

Severity	\$	-	\$	-	\$	-	\$	-	\$	6	\$	6
Change in intent		1		-		-		46		1		48
Foreign currency declines		-		-		-		1		-		1
Issuer-specific credit events		36		5		50		27		52		170
Adverse projected cash flows		7		-		-		-		-		7
Total	\$	44	\$	5	\$	50	\$	74	\$	59	\$	232

\* 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:**

	RMB		USD		DO/ABS	CMBS	Maturity	Other Fixed Equities/Other Invested Assets*	Total
(in millions)									
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

Property Casualty Net Premiums Written by Region

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Total	\$	96	\$	9	\$	21	\$	54	\$	67	\$	247
For the Year Ended December 31, 2013												
Rating:												
AAA	\$	1	\$	-	\$	-	\$	-	\$	-	\$	1
AA		2		-		-		-		-		2
A		1		-		-		-		-		1
BBB		1		-		-		44		-		45
Below investment grade		39		5		50		29		-		123
Non-rated		-		-		-		1		59		60
Total	\$	44	\$	5	\$	50	\$	74	\$	59	\$	232

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

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We recorded other-than-temporary impairment charges in the years ended December 31, 2015, 2014 and 2013 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 \$735 million in 2015, \$725 million in 2014 and \$774 million in 2013. See Note 6 to the Consolidated Financial Statements for a discussion of our other-than-temporary impairment accounting policy.

**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:**

<b>December 31, 2015</b>	Less Than or Equal to 20% of Cost <sup>(b)</sup>			Greater Than 20% to 50% of Cost <sup>(b)</sup>			Greater Than 50% of Cost <sup>(b)</sup>			Total		
	Unrealized			Unrealized			Unrealized			Unrealized		
<b>Aging<sup>(a)</sup></b> <i>(dollars in millions)</i>	Cost <sup>(c)</sup>	Loss	Items <sup>(e)</sup>	Cost <sup>(c)</sup>	Loss	Items <sup>(e)</sup>	Cost <sup>(c)</sup>	Loss	Items <sup>(e)</sup>	Cost <sup>(c)</sup>	Loss <sup>(d)</sup>	Items
Investment grade bonds												
0-6 months	\$35,961	\$ 815	5,516	\$ 408	\$ 115	82	\$ -	-	-	\$36,369	\$ 930	5,5
7-11 months	23,134	1,342	3,594	1,061	275	201	-	-	-	24,195	1,617	3,7
12 months or more	6,883	501	938	2,363	733	183	21	13	6	9,267	1,247	1,1
Total	\$65,978	\$2,658	10,048	\$ 3,832	\$1,123	466	\$ 21	\$ 13	\$ 6	\$69,831	\$ 3,794	10,5
Below investment grade bonds												
0-6 months	\$ 6,024	\$ 199	2,341	\$ 567	\$ 168	100	\$ 17	\$ 11	\$ 13	\$ 6,608	\$ 378	2,4
7-11 months	2,706	168	814	199	59	132	7	6	3	2,912	233	9
12 months or more	5,164	324	766	871	278	200	385	243	83	6,420	845	1,0
Total	\$13,894	\$ 691	3,921	\$ 1,637	\$ 505	432	\$ 409	\$ 260	\$ 99	\$15,940	\$ 1,456	4,4

Total bonds														
0-6 months	\$41,985	\$1,014	7,857	\$ 975	\$ 283	182	\$ 17	11	13	\$42,977	\$ 1,308	8,000		
7-11 months	25,840	1,510	4,408	1,260	334	333	7	6	3	27,107	1,850	4,700		
12 months or more	12,047	825	1,704	3,234	1,011	383	406	256	89	15,687	2,092	2,100		
Total <sup>(e)</sup>	\$79,872	\$3,349	13,969	\$ 5,469	\$1,628	898	\$ 430	273	105	\$85,771	\$ 5,250	14,900		
Equity securities														
0-11 months	\$ 280	\$ 13	124	\$ 35	\$ 11	50	\$ -	-	-	\$ 315	\$ 24	1		
Total	\$ 280	\$ 13	124	\$ 35	\$ 11	50	\$ -	-	-	\$ 315	\$ 24	1		

(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, 2015.

(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.

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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.

The change in net unrealized gains and losses on investments in 2014 was primarily attributable to increases in the fair value of fixed maturity securities. For 2014, net unrealized gains related to fixed maturity and equity securities increased by \$7.3 billion due to a decrease in interest rates on investment grade fixed maturity securities, partially offset by the widening of spreads.

See also Note 5, Investments to the Consolidated Financial Statements for further discussion of our investment portfolio.

The following section provides discussion of insurance reserves for both the Non-Life Insurance Companies and the Life Insurance Companies, including Eaglestone Reinsurance Company, which is reported in Corporate and Other.

**Non-Life Insurance Companies**

The following section provides discussion of the consolidated liability for unpaid losses and loss adjustment expenses for the Non-Life Insurance Companies.

**The following table presents the components of AIG's gross loss reserves by major lines of business on a U.S. statutory basis<sup>(a)</sup>:**

**At December 31,**  
*(in millions)*

	<b>2015</b>		<b>2014<sup>(b)</sup></b>
Other liability occurrence (including asbestos and environmental)	<b>\$ 24,856</b>	\$	24,988
Workers' compensation (net of discount)	<b>14,978</b>		16,014
Other liability claims made	<b>14,006</b>		13,632
Property	<b>5,823</b>		6,350
Auto liability	<b>4,692</b>		4,814
Accident and health	<b>1,783</b>		1,972

Products liability	<b>1,681</b>	1,678
Medical malpractice	<b>1,603</b>	1,520
Aircraft	<b>1,286</b>	1,340
Mortgage guaranty / credit	<b>733</b>	1,008
Other	<b>3,501</b>	3,944
Total	<b>\$ 74,942</b>	<b>\$ 77,260</b>
Total U.S. & Canada	<b>\$ 58,890</b>	<b>\$ 58,729</b>
Total International <sup>(c)</sup>	<b>\$ 16,052</b>	<b>\$ 18,531</b>

(a) Presented by lines of business pursuant to statutory reporting requirements as prescribed by the NAIC.

(b) 2014 reflects the reclassification of International reserves to major lines of business.

(c) The decrease was primarily the effect of foreign exchange on gross reserves, a payment on a large loss, and the net of other claim payments and reserve movements.

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Gross loss reserves represent the accumulation of estimates of ultimate losses, including estimates for IBNR and loss expenses, less estimated salvage and subrogation and applicable discount. The Non-Life Insurance Companies regularly review and update the methods and assumptions used to determine loss reserve estimates and to establish the resulting reserves. Any adjustments resulting from this review are reflected in pre-tax operating income. Because loss reserve estimates are subject to the outcome of future events, changes in estimates are unavoidable given that loss trends vary and time is often required for changes in trends to be recognized and confirmed. Reserve changes that increase prior years' estimates of ultimate cost are referred to as unfavorable or adverse development or reserve strengthening. Reserve changes that decrease prior years' estimates of ultimate cost are referred to as favorable development. See MD&A Critical Accounting Estimates – Details of the Loss Reserving Process.

Net loss reserves represent gross loss reserves reduced by reinsurance recoverable, net of an allowance for unrecoverable reinsurance.

**The following table presents the components of net loss reserves:**

**December 31,**  
*(in millions)*

	<b>2015</b>	<b>2014</b>
Gross loss reserves before reinsurance and discount	\$ <b>78,090</b>	\$ 80,337
Less: discount	<b>(3,148)</b>	(3,077)
Gross loss reserves, net of discount, before reinsurance	<b>74,942</b>	77,260
Less: reinsurance recoverable*	<b>(14,339)</b>	(15,648)
Net liability for unpaid losses and loss adjustment expenses	\$ <b>60,603</b>	\$ 61,612

\* Includes \$1.8 billion and \$1.5 billion of reinsurance recoverable under a retroactive reinsurance agreement at December 31, 2015, and December 31, 2014, respectively.

Gross loss reserves before reinsurance and discount are net of contractual deductible recoverable amounts due from policyholders of approximately \$12.6 billion and \$12.4 billion at December 31, 2015 and 2014, respectively. These recoverable amounts are related to certain policies with high deductibles (meaning, the policy attachment point is above high dollar amounts retained by the insured through self-insured retentions, deductibles, retrospective programs, or captive arrangements; each referred to generically as "deductibles"), primarily for U.S. commercial casualty business. With respect to deductible portion of the claim the Non-Life Insurance Companies manage and pay the entire claim on behalf of the insured and are reimbursed by the insured for the deductible portion of the claim. At December 31, 2015 and 2014, the Non-Life Insurance Companies held collateral of approximately \$9.6 billion and \$9.4 billion, respectively, for these deductible recoverable amounts, consisting primarily of letters of credit and assets in trusts.

**The following table classifies the components of net loss reserves by business unit:**

**December 31,**

*(in millions)*

	2015	2014
Commercial Property Casualty:		
Casualty	\$ 32,620	\$ 33,065
Financial lines	9,265	9,538
Specialty	5,197	5,786
Property	4,013	4,079
Total Commercial Property Casualty	51,095	52,468
Commercial Mortgage Guaranty	713	977
Consumer Personal Insurance		
Personal lines	2,661	2,763
Accident and health	1,662	1,878
Total Consumer Personal Insurance	4,323	4,641
Other run-off insurance lines*	4,472	3,526
Net liability for unpaid losses and loss adjustment expenses	\$ 60,603	\$ 61,612

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\* In 2015, \$1.2 billion of loss reserves for certain environmental liability, healthcare, casualty, and specialty coverages, previously reported in Commercial Casualty and Specialty lines of business, were transferred to other run-off insurance lines.

**Discounting of Reserves**

The following table presents the components of loss reserve discount included above:

December 31,	2015			2014		
	Property	Run-off	Total	Property	Run-off	Total
(in millions)	Casualty	Insurance Lines		Casualty	Insurance Lines	
U.S. workers' compensation:						
Tabular	\$ 635	\$ 218	\$ 853	\$ 623	\$ 229	\$ 852
Non-tabular	1,542	746	2,288	1,525	689	2,214
Asbestos	-	7	7	-	11	11
Total reserve discount	\$ 2,177	\$ 971	\$ 3,148	\$ 2,148	\$ 929	\$ 3,077

The following table presents the net reserve discount benefit (charge):

Years Ended December 31,	2015			2014			2013		
	Property	Run-off	Total	Property	Run-off	Total	Property	Run-off	Total
(in millions)	Casualty	Insurance Lines		Casualty	Insurance Lines		Casualty	Insurance Lines	
Current accident year	\$ 182	-\$ 182	\$ 189	-\$ 189	\$ 175	-\$ 189	-\$ 175	-\$ 189	-\$ 175
Accretion and other adjustments to prior year discount	(262)	(74)	(336)	(145)	(235)	(380)	(225)	102	102
Effect of interest rate changes	148	77	225	(225)	(172)	(397)	(272)	529	529
Effect of re-pooling	-	-	110	-	110	-	-	-	-
Net reserve discount benefit (charge)	68	3	71	(71)	(407)	(478)	(322)	631	631
Amount transferred to run-off insurance lines	(39)	39	-	-	-	-	-	-	-
Net change in total reserve discount	\$ 29	42	71	-\$ (71)	-\$ (407)	-\$ (478)	-\$ (322)	631	631
Comprised of:									
U.S. Workers' compensation	\$ 29	46	75	-\$ (71)	-\$ (385)	-\$ (456)	-\$ (322)	649	649
Asbestos	-\$	(4)	(4)	-\$	(22)	(22)	-\$	(18)	(18)



## U.S. Workers' Compensation

The Non-Life Insurance Companies discount certain workers' compensation reserves in accordance with practices prescribed or permitted by New York, Pennsylvania and Delaware. New York rules generally do not permit non-tabular discounting on IBNR and prescribe a fixed 5 percent discount rate for application to case reserves. Pennsylvania permits non-tabular discounting of IBNR and, commencing in 2013, approved variable discount rates determined using risk-free rates based on the U.S. Treasury forward yield curve plus a liquidity margin, applicable to IBNR and case reserves. Delaware has permitted discounting on the same basis as the Pennsylvania domiciled companies.

The net increase in workers' compensation discount in 2015 of \$75 million was partially due to the increase in forward yield curve rates used for discounting under the prescribed or permitted practices. The increase in the forward yield curve component of the discount rates resulted in a \$225 million increase in the loss reserve discount, as Treasury rates generally increased along the payout pattern horizon in 2015. In addition, the effects of the discount attributable to newly established

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reserves for accident year 2015 increased the discount by \$182 million in 2015. These increases were partially offset by a \$332 million reduction for accident years 2014 and prior, primarily from accretion of discount on reserves during 2015.

On January 1, 2014, the Non-Life Insurance Companies merged their two internal pooling arrangements into one pool, and changed the participation percentages of the pool members resulting in a reallocation of reserves from New York domiciled companies to those domiciled in Pennsylvania and Delaware. As a result of these changes in the participation percentages and domiciliary states of the participants of the combined pool, the Non-Life Insurance Companies recognized a discount benefit of \$110 million in the first quarter of 2014.

**Annual Reserving Conclusion**

AIG net loss reserves represent our best estimate of the liability for net losses and loss adjustment expenses as of December 31, 2015. While we regularly review the adequacy of established loss reserves, there can be no assurance that our recorded loss reserves will not develop adversely in future years and materially exceed our loss reserves as of December 31, 2015. In our opinion, such adverse development and resulting increase in reserves are not likely to have a material adverse effect on our consolidated financial condition, although such events could have a material adverse effect on our consolidated results of operations for an individual reporting period.

The following table presents the rollforward of net loss reserves:

**Years Ended December 31,***(in millions)*

	2015	2014	2013
Net liability for unpaid losses and loss adjustment expenses			
at beginning of year	\$ 61,612	\$ 64,316	\$ 68,782
Foreign exchange effect	(1,429)	(1,061)	(617)
Other, including dispositions	-	-	(79)
Change due to retroactive asbestos reinsurance	20	141	22
Losses and loss adjustment expenses incurred:			
Current year, undiscounted	20,308	21,279	22,171
Prior years unfavorable development, undiscounted*	4,119	703	557
Change in discount	(71)	478	(309)
Losses and loss adjustment expenses incurred	24,356	22,460	22,419
Losses and loss adjustment expenses paid:			
Current year	5,751	6,358	7,431
Prior years	18,205	17,886	18,780
Losses and loss adjustment expenses paid	23,956	24,244	26,211
Net liability for unpaid losses and loss adjustment expenses			

at end of year \$ 60,603 \$ 61,612 \$ 64,316  
\* See tables below for details of prior year development by business unit, accident year and major class of business.

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The following table summarizes development, (favorable) or unfavorable, of incurred losses and loss expenses for prior years, net of reinsurance, by business unit and major class of business:

**Years Ended December 31,***(in millions)*

	2015	2014	2013
Prior accident year development by major class of business:			
<b>Commercial Property Casualty - U.S. &amp; Canada:</b>			
Excess casualty	\$ 1,529	\$ (36)	\$ (144)
Financial lines including professional liability	579	(47)	(113)
On-going Environmental	108	137	151
Primary casualty:			
Loss-sensitive (offset by premium adjustments below) <sup>(a)</sup>	(49)	105	89
Other	1,175	445	409
Healthcare	207	109	(54)
Property excluding natural catastrophes	(117)	50	(80)
Natural catastrophes	(52)	(102)	179
All other, net	6	72	23
<b>Total Commercial Property Casualty - U.S. &amp; Canada</b>	<b>3,386</b>	<b>733</b>	<b>460</b>
<b>Commercial Property Casualty International:</b>			
Excess casualty	71	(62)	(15)
Primary casualty	89	(5)	(25)
Financial lines	47	182	74
Specialty	(5)	(30)	(51)
Property excluding natural catastrophes	(64)	(82)	(3)
Natural catastrophes	(44)	(77)	(71)
All other, net	-	(4)	(14)
<b>Total Commercial Property Casualty - International</b>	<b>94</b>	<b>(78)</b>	<b>(105)</b>
<b>Total Commercial Property Casualty</b>	<b>3,480</b>	<b>655</b>	<b>355</b>
<b>Commercial Mortgage Guaranty</b>	<b>(69)</b>	<b>(104)</b>	<b>30</b>
<b>Consumer Personal Insurance - U.S. &amp; Canada:</b>			
Natural catastrophes	(12)	(8)	(69)
All other, net	(54)	(44)	(46)
<b>Total Consumer Personal Insurance - U.S. &amp; Canada</b>	<b>(66)</b>	<b>(52)</b>	<b>(115)</b>
<b>Consumer Personal Insurance - International:</b>			
Natural catastrophes	2	(8)	-
All other, net	45	(17)	(40)
<b>Total Consumer Personal Insurance - International</b>	<b>47</b>	<b>(25)</b>	<b>(40)</b>
<b>Total Consumer Personal Insurance</b>	<b>(19)</b>	<b>(77)</b>	<b>(155)</b>
<b>Run-off Insurance Lines</b>			
Asbestos and environmental (1986 and prior)	281	124	67
Run-off environmental	132	120	238
Run-off healthcare <sup>(b)</sup>	50	-	-

Property Casualty Net Premiums Written by Region

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Other run-off	272	-	-
All other, net	(8)	(15)	22
<b>Total Run-off Insurance Lines</b>	<b>727</b>	<b>229</b>	<b>327</b>
<b>Total prior year unfavorable development</b>	<b>\$ 4,119</b>	<b>\$ 703</b>	<b>\$ 557</b>

Premium adjustments on primary casualty loss sensitive business 49 (105) (89)

**Total prior year development, net of premium adjustments** **\$ 4,168** **\$ 598** **\$ 468**

(a) Represents prior year development on active retrospectively rated components of risk-sharing policies.

(b) In 2015, includes \$30 million of non-operating adverse prior year development.

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#### *Net Loss Development*

In determining the loss development from prior accident years, we consider and evaluate inputs from many sources, including actual claims data, the performance of prior reserve estimates, observed industry trends, our internal peer review processes (including challenges and recommendations from our Enterprise Risk Management group) as well as the views of third party actuarial firms. We use these inputs to improve our evaluation techniques, and to analyze and assess the change in estimated ultimate loss for each accident year by class of business. Our analyses produce a range of indications from various methods, from which we select our best estimate.

We analyze and evaluate the change in estimated ultimate loss for each accident year by class of business. For example, if loss emergence for a class of business is different than expected for certain accident years, we examine the indicated effect such emergence would have on the reserves of that class of business. In some cases, the lower or higher than expected emergence may result in no clear change in the ultimate loss estimate for the accident years in question, and no adjustment would be made to the reserves for the class of business. In other cases, the lower or higher than expected emergence may result in a change, either favorable or unfavorable. As appropriate, we make adjustments in response to the difference between the actual and expected loss emergence for each accident year. As part of our reserving process, we also consider notices of claims received with respect to emerging and/or evolving issues, in particular those related to complex, claims-related class action litigation and latent exposure claims. Our analyses and conclusions about prior year reserves also help inform our judgments about the current accident year loss and loss adjustment expense ratio selected (Commercial: 66.2 points; Consumer: 54.0 points; Mortgage Guaranty: 25.1 points) and the current year's addition to reserves.

In 2015 and 2014, we recognized \$4.1 billion and \$703 million of adverse development, respectively, driven in each period by adverse loss development in Commercial Property Casualty and Run-off Insurance Lines partially offset by Consumer Personal Insurance and Mortgage Guaranty business. In 2013, we recognized \$557 million of adverse development primarily due to the adverse prior year loss reserve development in Commercial Property Casualty, Mortgage Guaranty business and Run-off Insurance Lines, partially offset by Consumer Personal Insurance.

See Results of Operations — Commercial Insurance and Results of Operations — Consumer Personal Insurance Results herein for further discussion of net loss development.

The following is a discussion of the primary reasons for the development in 2015, 2014 and 2013 of those classes of business that experienced significant prior accident year development during the three-year period. See MD&A — Critical Accounting Estimates for a description of our loss reserving process, basis for selections and sensitivities to certain assumptions.

#### *Commercial Property Casualty*

In 2015, the Commercial Property Casualty adverse prior year loss reserve development of \$3.5 billion was driven by Excess Casualty, Primary Casualty, Environmental, Financial Lines, Healthcare and International Excess Casualty, partially offset by Property excluding natural catastrophes and Natural catastrophes.

In 2014, the Commercial Property Casualty adverse prior year loss reserve development of \$655 million was driven by Primary Casualty, Environmental, International Financial Lines, and Healthcare, partially offset by Natural catastrophes, International Primary Casualty and International Commercial Property.

In 2013, the Commercial Property Casualty adverse prior year loss reserve development of \$355 million was driven by Primary Casualty, International Financial Lines, Environmental, and Healthcare, partially offset by Excess Casualty, Financial Lines, and Natural catastrophes.

### **Excess Casualty – U.S. & Canada**

The excess casualty class presents unique challenges for estimating the liability for unpaid losses. Our policies tend to attach at a high layer above underlying policies, usually issued by other insurance companies, which can limit our access to relevant information to help inform our judgments. Our insureds are generally required to provide us with notice of claims that exceed a

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threshold, either expressed as a proportion of our coverage attachment point (e.g., 50 percent of the attachment) or for particular types of claims (e.g., death, quadriplegia). This threshold is generally established well below our attachment point, to provide us with a precautionary notice of claims that could potentially reach our excess layer of coverage. This means that the majority of claims reported to us are closed without payment by us because the claims never reach our layer, while the claims that reach our layer and close with payment by us can be large and highly variable. Thus, estimates of unpaid losses carry significant uncertainty.

During 2015, Excess Casualty experienced \$1.5 billion of adverse development largely driven by worse than expected loss emergence reported in 2015, including \$1.2 billion (primarily for U.S. risks) in the fourth quarter when we completed our scheduled detail valuation review for this class. This increase was largely driven by adverse emergence in both general liability and umbrella auto liability, reflecting worsening trends in the number and nature of high severity losses. Approximately \$411 million of the adverse development is related to auto liability. We reacted to the adverse emergence by updating our assumptions about loss severity, loss development patterns and expected loss ratios for the most recent accident years. We have seen an increasing trend in the frequency of high severity claims, especially in the umbrella auto liability portfolio. We also observed deterioration in certain class action claims that have complex coverage uncertainties and high limits characterized by increases in new claims and/or demands reported in 2015 and progress towards potential settlements, which have further informed our actuarial projections of ultimate losses for these types of claims. These types of claim classes have the longest emergence period within the excess casualty class and can impact multiple accident years, and are therefore inherently more volatile. In addition, we also increased losses associated with bad-faith claims by approximately \$120 million reflecting an increase in recent settlements. These types of claims have the longest emergence period within the excess casualty class and can impact multiple accident years, and are therefore inherently more volatile.

During 2014, Excess Casualty experienced \$36 million of favorable development largely driven by savings on a few large claims. In our Excess Umbrella analysis in 2014, our revised segmentation led to lower 2005 and subsequent accident year estimates for non-mass tort claims where we expect underwriting actions and reductions in policy limits to have a favorable effect on ultimate losses from accident years 2007 to 2013 in particular. This was entirely offset by higher selected ultimate losses for accident years 2004 and prior as a result of updated loss development patterns for mass tort claims which we segmented separately from the non-mass tort claims.

During 2013, Excess Casualty experienced \$144 million of favorable development due to favorable outcomes on some large cases from 2010 and lower than expected emergence in high layer Catastrophic Casualty business.

**Primary Casualty – U.S. and Canada**

Primary Casualty includes Workers' Compensation, General Liability and Auto Liability lines of business. The business is segmented by industry and where relevant, by geography.



Many of our primary casualty policies contain risk-sharing features, including high deductibles, self-insured retentions or retrospective rating features, in addition to a traditional insurance component. These risk-sharing programs generally are large and complex, comprising multiple products, years and structures, and are subject to amendment over time. As part of the year end reserve review related to these policies, in addition to reviewing normal development we enhanced our segmentation to better reflect the specified policy features. Based on the analysis, we increased our reserves by \$540 million, primarily for accident years 2012 and prior and in the workers' compensation class, to reflect estimated increased losses and reduced expectations of future recoveries from our insureds through these risk-sharing features.

We also recognized \$100 million of adverse prior year development in Workers' Compensation coverages sold to government contractors in U.S and non-U.S. military installations as a result of adverse loss emergence from several large accounts in the recent accident years. In addition, we reacted to the adverse emergence by increasing our expected loss ratios in recent accident years.

For the remainder of the primary workers' compensation portfolio our analysis was based on the refined segmentation from 2014, which indicated that prior year loss reserve development was flat after taking into account the initiatives that our claim function had undertaken to manage high risk claims.

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For Primary General Liability, we increased our ultimate loss estimates for prior accident years by \$146 million largely related to coverage sold to the Construction sectors as we reacted to noteworthy adverse loss emergence throughout the year, by changing our assumptions about loss development and expected loss ratios. For construction, the adverse development was driven by construction defect claims. The construction class is being re-underwritten to reduce New York and U.S. residential exposures.

For Primary Auto liability, we have observed increases in both the frequency and severity of claims occurring since the recovery from the recent U.S. economic downturn, which have significantly outpaced the pricing rate increases implemented during the same period. As a result, we recognized \$144 million of adverse development during 2015 as we increased the expected loss ratios for recent accident years to reflect the deteriorating trends.

We also-reassessed the reasonableness of our liability for future claim handling expenses related to existing loss reserves and updated our estimates to reflect the costs from recent investments in claims systems, processes and people with the objective of improving our ability to better manage total loss costs. We increased our reserve estimates by \$214 million based on refined analyses, \$100 million of which was attributable to U.S. & Canada primary casualty. The balance was distributed among other classes.

During 2014, we continued to refine our segmentation of primary workers' compensation into guaranteed cost and excess of large deductible business by deductible size group. The net result of the analysis was adverse development of \$137 million for the primary workers' compensation class of business. The key drivers of the adverse development in this class of business were increases for guaranteed cost business in California and New York, and increases for excess of large deductible business, as well as adverse experience in the Construction class. Each of these segments appears to have been impacted by specific structural changes in the portfolio. For California business, our tail factor increases were in response to changing long-term medical development patterns. In New York, there has been a lengthening of the period between the date of accident and the classification of non-scheduled permanent partial injuries. We completed a review of claim emergence and payouts for our top six states in workers' compensation and concluded that California and New York were the main states where the loss development patterns had materially changed since our last review. For excess of large deductible business across all states, we updated our analyses to consider the impact of changes in the mix of retentions that has occurred over time as the data by retention band was becoming more credible. For the Construction class, we note that the construction sector has experienced a comparatively slow recovery in payroll employment. As a result of the diminished employment opportunities in this industry sector, injured workers may experience limited return-to-work opportunities, which moderate the shortening of claim duration that normally accompanies a labor market recovery. For all other states combined excluding California and New York, we saw favorable emergence in our middle market Specialty Workers' Compensation segment. The net effect of these revised selections had the greatest adverse effect on the Construction class of business (\$140 million adverse development) and the National Accounts class of business (\$125 million adverse development). The most significant favorable effect was in the Specialty Workers' Compensation class of business (\$155 million favorable development). Our analysis considers our best estimate expectations of medical inflation and loss costs trends and also reflects the impacts of enhancements in our claim management and loss

mitigation activities, such as opioid management, fraud investigation and medical management.

For primary general liability in 2014, we increased our ultimate loss estimates for prior years by \$182 million. This was largely driven by the construction segment as a result of several large construction defect claims and increases in the costs of claims in New York associated with New York Labor Law. The construction results in California and New York continue to be the main sources of adverse development in our guaranteed cost primary general liability books although we did experience adverse development from construction defect claims in other states in 2014. Our large account primary non-construction general liability business was adversely impacted by claim activity in the layers excess of large insured retentions and we increased our loss development patterns for these layers to reflect the changes.

For commercial auto in 2014, we reacted to an increase in frequency of large claims in the accident years 2010 to 2013, where the economic recovery has contributed to increased frequency and severity, especially for those claims in excess of a client deductible of \$500,000, which generally take several years to emerge and settle. This led to adverse prior year loss reserve development of \$156 million for the automobile subset of primary casualty.

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During 2013, we continued to refine the segmentation of our analyses of primary workers' compensation, which indicated that prior year loss reserve development was flat after taking into account the initiatives that our claim function had undertaken to manage high risk claims.

During 2013, for primary general liability, we increased our reserves for prior years by approximately \$355 million. Most of the increase was driven by construction related primary general liability claims, especially construction defect claims where we increased our ultimate loss estimates by \$219 million to reflect the higher than expected frequency and severity of these claims especially in states that experienced heavy increases in construction activity after the 2004 and 2005 hurricanes and during the housing boom prior to 2007. Due to the subsequent home price declines observed in many of these states, the frequency of reported losses has increased as the losses subsequently represented a larger percentage of the equity values of the affected homes, and homeowners increasingly looked to insurance recoveries as a way to recoup some of that lost value.

#### **Financial Lines – U.S. and Canada**

Financial Lines business includes Director and Officer (D&O) and Related Management Liability, various Professional Liability classes of business as well as the Fidelity book of business. The Financial Lines book consists mostly of the D&O class of business.

During 2015, we recognized \$579 million of adverse development, primarily as a result of our scheduled annual detailed valuation review conducted in the fourth quarter, driven largely by the adverse loss emergence that we have seen over the last year, especially in D&O and Professional Liability. In particular, we have observed greater than expected loss costs for several claims from accident years 2006 through 2010, driven by unfavorable settlements and deterioration in known claims. We responded to this adverse emergence by updating our loss development factors and expected loss ratio assumptions for all accident years. In addition, we recognized losses associated with bad-faith claims primarily based on actual settlements in the fourth quarter.

During 2014, we recognized \$47 million of favorable development driven by the Professional Liability and D&O and Related Management Liability classes of business, somewhat offset by adverse development on the Fidelity book in recent accident years due to the changing economic cycle.

During 2013, we recognized \$113 million of favorable development driven somewhat evenly among the Professional Liability, Fidelity and D&O and Related Management Liability classes of business. The year-end 2013 Professional Liability loss reserve actuarial review adopted a refined segmentation for this class of business with the selection of differentiated frequency and severity trends for various Professional Liability classes of business which appear to be behaving differently in the post financial crisis years than when reviewed in total.

#### **Healthcare**

During 2015, we recognized \$207 million of adverse development driven by deteriorating loss experience in accident years 2008 and subsequent characterized by large claims in various segments including hospitals, nursing homes, and pharmaceutical and medical products liability. We reacted to these large claims by increasing our expected loss ratios for recent accident years and putting physicians and surgeons and pharmaceutical and medical products classes into runoff.

During 2014, we recognized \$109 million of adverse development in this class largely driven by three large and relatively unusual claims of \$25 million each in relatively recent accident years. While there have not been any significant structural changes to the portfolio, there can be material volatility in loss experience in this class of business where individual claims can be of high severity.

During 2013, this class recognized \$54 million of favorable prior year development due to lower than expected loss emergence in many classes such as Excess Hospital Liability.

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#### **International Casualty (Excess and Primary Casualty) and Specialty**

During 2015, we recognized \$155 million of adverse prior year development, primarily due to three large product liability claims in our Casualty and Specialty lines totaling approximately \$115 million. Two of these claims arose in Japan, which is unusual for our portfolio in that market.

During 2014 and 2013, we had \$97 million and \$91 million of favorable development, respectively. The favorable development in each year was due to lower than expected loss emergence in many classes and countries outside the U.S., with the majority from various countries in the EMEA region.

#### **Financial Lines – International**

During 2014 we implemented an enhanced claims operating model in Europe and Australasia which has provided our actuaries with more detailed case reserve data and analysis, enabling AIG's actuaries to react sooner to case development than in prior years.

During 2015, we recognized \$47 million of adverse prior year development, driven by increased claims emergence and related updates to the assumptions for loss development factors and expected loss ratios used in the annual detailed valuation review for these reserves, primarily related to Europe and Australasia risks.

During 2014, we recognized \$182 million of adverse development in the international Financial Lines segments, driven by large claims emergence in the U.K., Australasia and Europe. Multiple accident years contributed to this total, but it was concentrated most heavily in accident years 2008-2011. The Australasia emergence was due to a number of specific large losses in the Australia and New Zealand D&O business. In Europe, adverse prior year loss reserve development was concentrated in the D&O class of business, where we have observed a greater incidence of severe claims compared with prior years, and the Professional class of business, with large losses from one insured.

During 2013, we recognized \$74 million of adverse development, all of which stemmed from losses in the D&O books in Europe, UK and Australasia, with the other segments showing modest favorable development. The development we recognized can be directly linked to a small number of specific claims booked throughout the year.

#### **Natural Catastrophes**

During 2015 and 2014, we experienced favorable property catastrophe prior year development of \$52 million and \$102 million, respectively, in our U.S. and Canada business, primarily due to favorable development from several U.S. events in accident year 2013. We also experienced favorable property catastrophe prior year loss reserve development of \$44 million and \$77 million from our international property class of business for 2015 and 2014, respectively.

During 2013, we experienced adverse development from Storm Sandy totaling \$108 million, or 5.4 percent of the 2012 estimate. This development resulted from higher severities on a small number of large and complex commercial claims driven by a number of factors including the extensive damage caused to properties in the downtown New York metropolitan area.

### *Mortgage Guaranty*

Mortgage Guaranty business includes domestic first liens (96 percent of total reserves) and run-off books in second liens, student loans and international.

During 2015, we recognized \$69 million of favorable prior year loss reserve development driven by lower than expected frequency due to improving cure rates. Post-claim recoveries also contributed to favorable prior year development.

During 2014, we recognized \$104 million of favorable prior year loss reserve development driven primarily by the benefit of a settlement with a mortgage lender, steady increases in year-over-year first lien cure rates, a reflection of the improved

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economic environment, and in part by favorable frequency trends and recoveries in second lien claims. Partially offsetting these improvements were upward trends in severity, particularly for older (pre-2012) accident periods.

During 2013, we recognized \$30 million of adverse prior year loss reserve development due to unfavorable emergence of overturns of prior claim cancellations and increased severity estimates in first liens, partially offset by favorable frequency in student loans and a reduction in the unallocated loss adjustment expense reserve.

#### *Consumer Personal Insurance*

During 2015, 2014 and 2013, we recognized \$19 million, \$77 million, and \$155 million of favorable development, respectively.

During 2015 and 2014, we experienced favorable loss reserve development of \$10 million and \$16 million, respectively, from Natural Catastrophes.

The remaining \$61 million of favorable development in 2014 was primarily from Homeowners, International Accident & Health and U.S. Warranty.

#### *Run-Off Insurance Lines*

The following is a discussion of the primary reasons for the Run-Off Insurance Lines development in 2015, 2014 and 2013 of those classes of business that experienced significant prior accident year development during the three-year period.

#### **Asbestos and Environmental (1986 and prior)**

Asbestos coverage has been excluded from AIG policies commencing in 1985. Most of AIG's asbestos reserves are ceded to National Indemnity Company (NICO) under a retrospective reinsurance arrangement entered into in 2011. However, certain asbestos-related exposures are not subject to the NICO agreement, including asbestos exposures for which we have negotiated fixed payment schedules, and third party reinsurance assumed policies. The reported claim activity on the assumed claims has increased in the last year. As a result, we modified certain of our loss-reserve-related assumptions to better reflect this AIG-specific experience as well as consideration of recent industry-wide trends regarding expanding coverage theories for liability. As a result, we increased our 2015 reserves by \$164 million and by \$117 million for Asbestos and Environmental, respectively.

#### **Other Run-Off Insurance**

During 2015, we transferred approximately \$1.2 billion of loss reserves, largely representing coverages we have not written for at least five years, from Commercial Insurance into Run-off insurance lines. We



increased the reserves for these coverages by \$272 million to reflect updated assumptions about future loss development.

### **Excess Workers' Compensation – U.S.**

This class of business, which is reported in our run-off unit, has an extremely long tail and is one of the most challenging classes of business from a reserving perspective, particularly when the excess coverage is provided above a self-insured retention layer. The class is highly sensitive to small changes in assumptions, e.g. — in the rate of medical inflation or the longevity of injured workers, which can have a significant effect on the ultimate reserve estimate.

During 2015, this class of business did not experience significant development in loss reserves. The proactive management of settlement negotiations and other claims mitigation strategies minimized the volatility observed during 2015. The nominal reduction in reserves as a result of commutations and individual claims settlement strategies amounted to \$222 million in 2015 compared to \$242 million in 2014 and \$25 million in 2013.

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During 2014, we updated our analyses of Excess Workers compensation using a range of scenarios and methodologies and determined that our carried reserves were adequate after recognizing \$20 million of favorable prior year development as a result of claim settlements and commutations of assumed reinsurance business, as well as reflecting changes in estimates in our loss mitigation strategies. We commuted several large assumed reinsurance agreements in 2014 and reduced the reserves faster than was previously expected as a result of our proactive management by the run-off unit.

During 2013, we updated our analysis of Excess Workers' Compensation reserves and determined that no changes to our carried reserves were needed. We also updated our analysis of underlying claims cost drivers used in 2012 through accident year 2004, discussed in more detail below.

As noted above, we write loss sensitive business within our primary casualty portfolio. We recognized (return) additional premiums on loss sensitive business of \$(49) million, \$105 million and \$89 million in 2015, 2014 and 2013, respectively, which entirely offset development in that business.

For the year ended December 31, 2015, we incurred reinsurance reinstatement premiums of \$(4) million, compared to \$(2) million and \$27 million for 2014 and 2013, respectively.

See MD&A — Critical Accounting Estimates — Liability for Unpaid Losses and Loss Adjustment Expenses for further discussion of our loss reserving process.

See Commercial Insurance and Consumer Personal Insurance Results herein for further discussion of net loss development.

**The following table summarizes development, (favorable) or unfavorable, of incurred losses and loss adjustment expenses for prior years, net of reinsurance, by accident year:**

**Years Ended December 31,***(in millions)*

Prior accident year development by accident year:

**Accident Year**

	2015	2014	2013
2014	\$ 397	\$ -	-
2013	396	(283)	-
2012	488	(59)	(181)
2011	296	37	217
2010	277	12	(350)
2009	188	31	157
2008	231	8	(1)
2007	48	(113)	-
2006	103	64	(75)
2005	90	105	61
2004 and prior (see table below)	1,605	901	729

Property Casualty Net Premiums Written by Region

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Total prior year unfavorable development	\$	4,119	\$	703	\$	557
<i>Net Loss Development by Accident Year</i>						

For 2015, the adverse development in accident years 2011 through 2014 was driven by significantly greater actual versus expected loss emergence for primary and excess Auto Liability, Financial Lines and Healthcare. Individual large claims in the non-Auto Excess Casualty and International Casualty books along with deterioration in specific large accounts in the government contractors workers' compensation portfolio were concentrated in these most recent accident years. The impact of revised loss expectations based on emergence in earlier accident years also contributed to the adverse development for Excess Casualty and Financial Lines in this period. In addition, our updated assumptions for bad-faith claims and unallocated loss adjustment expenses disproportionately impacted these years. Accident years 2005 through 2010 were largely impacted by updated loss development selections in Financial Lines and revised estimates on expected future recoveries from risk-sharing policies in the Primary Casualty portfolio. For accident years 2004 and prior, the adverse development was driven by

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Excess Casualty revised tail factor selections, updated loss development selections for various run-off portfolios, updated industry experience for asbestos and revised estimates on expected future recoveries from risk-sharing policies.

For 2014, the favorable development in accident years 2013 and 2012 was driven by Financial Lines, Commercial Property and other short tailed lines, like Personal Lines. For accident year 2007, the favorable development was driven by U.S. and Canada Financial lines and Excess Casualty. For accident years 2004 and prior, the adverse development was driven by the Excess Casualty results of the a mass-tort resegmentation analysis, the updated primary workers' compensation loss development selections (principally in California, New York and the excess of deductible segments) as well as the run-off pollution products business (1987-2004) and the asbestos and environmental (1986 and prior) exposure.

For 2013, the favorable development from accident year 2012 was driven primarily by consumer lines and lower losses in domestic commercial property, while the favorable development from accident year 2010 was primarily the result of favorable claims emergence from domestic excess casualty and from liability and financial lines coverage policies that are on a claims-made basis. The adverse development from accident year 2011 was driven by large losses in financial lines and adverse development in primary casualty, including the loss-sensitive business. The adverse development from accident year 2009 was driven by large losses in financial lines and adverse development in primary casualty including loss-sensitive business. The adverse development from accident years 2003 and prior was primarily driven by loss development on toxic tort claims, construction general liability claims and pollution product claims.

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 AIG. These reclassifications are shown as development in the respective years in the tables above.

**The following table summarizes development, (favorable) or unfavorable, of incurred losses and loss adjustment expenses for accident year 2004 and prior by major class of business and driver of development:**

**Years Ended December 31,***(in millions)*

	2015	2014	2013
2004 and prior accident year development by major class of business and driver of development:			
Excess Casualty - primarily mass torts <sup>(a)</sup>	\$ 388	\$ 301	\$ -
Excess Casualty - all other	104	53	251
Primary Casualty - loss sensitive business	1	37	(24)
Primary Casualty - all other <sup>(b)</sup>	362	196	102
Run-off environmental (1987 to 2004) <sup>(c)</sup>	74	97	214
Asbestos and Environmental (1986 and prior)	281	124	67
Commutations and Arbitrations <sup>(d)</sup>	62	63	21
Property Casualty Net Premiums Written by Region			268

All Other		333	30	98
Total prior year unfavorable development	\$	1,605	\$	901
(a) Updates of mass tort loss development patterns.				729

(b) Includes loss development on excess of deductible exposures in workers' compensation, general liability and commercial auto.

(c) Includes results of comprehensive specific large claim file reviews initiated in 2012 and updated in 2013 and 2014.

(d) The effects of commutations are shown separately from the related classes of business, primarily excess workers' compensation. Commutations are reflected for the years in which they were contractually binding.

The main sources of unfavorable prior year development for accident years 2004 and prior recorded in 2013 through 2015 are as follows:

- Update of the mass tort loss development patterns and segmentation used for U.S. Excess Casualty, which accounted for \$689 million and other loss emergence including specific large loss development totaling \$408 million across the three years;
- Loss sensitive business that is entirely offset by premium adjustments accounted for \$14 million;

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- Update of the loss development patterns used for U.S. Primary Casualty including loss development patterns used in guaranteed cost workers' compensation for NY and CA construction class of business and updates to the loss development patterns for business written on excess of deductible exposures in workers' compensation, general liability and the commercial auto classes of business which collectively accounted for approximately \$660 million across the three years;
- Update of the Environmental run-off portfolio's losses following the 2012 comprehensive claims review that provided a more refined approach for the development of actuarial estimates for toxic tort claims (which were found to have a distinctly lengthier loss development pattern than other general liability claims in the environmental portfolio) as well as a more appropriate methodology for incorporating case reserving based estimates of ultimate loss costs for complex claims involving environmental remediation and/or from policies with high policy limits (greater than \$5 million per policy). These updates which commenced in 2012 and have been applied in each subsequent year, accounted for approximately \$385 million;
- Update of our net retained asbestos and environmental exposure from 1986 and prior which accounted for approximately \$472 million (\$238 million environmental and \$234 million asbestos) across the three years;
- Commutations in the three-year period ending December 31, 2015, accounted for approximately \$146 million. These commutations serve to reduce the uncertainty in AIG's required reserves; and
- Update of the assumptions for future loss development for the run-off insurance lines, primarily for coverages we have not written in at least five years, accounted for approximately \$272 million of the All Other total amount of \$461 million across the three years.

During the period 2013 to 2015, we completed refinements of our reserving methodologies for U.S. mass tort, toxic tort, retained asbestos, environmental and other specific large losses. We also conducted extensive additional studies to corroborate our judgments for our U.S. primary workers compensation and excess workers' compensation classes of business. Further, we refined our loss reserving methodologies for our U.S. Excess Casualty class of business and our U.S. Primary Casualty class of business written over excess of deductible exposures where loss development patterns may lengthen if client retentions increase over time. Collectively, the reserves for the aforementioned classes of business or loss exposures account for the majority of the remaining net loss reserves for accident years 2004 and prior.

### **Asbestos and Environmental Reserves**

#### ***Loss Reserve Estimates - Asbestos and Environmental***

We consider a number of factors and recent experience, in addition to the results of both external and

internal analyses, to estimate asbestos and environmental loss reserves. Nonetheless, we believe that significant uncertainty remains as to our ultimate liability for asbestos and environmental claims, which is due to several factors, including:

- the long latency period between asbestos exposure and disease manifestation, leading to the potential for involvement of multiple policy periods for individual claims;
- claims filed under the non aggregate premises or operations section of general liability policies;
- the number of insureds seeking bankruptcy protection and the effect of prepackaged bankruptcies;
- diverging legal interpretations; and
- the difficulty in estimating the allocation of remediation cost among various parties with respect to environmental claims.

In 2015, as in prior years, both the retained accounts and retroceded accounts ground-up reviews for asbestos were updated. As a result, we increased gross undiscounted asbestos incurred losses by \$13 million and increased net undiscounted asbestos incurred losses by \$164 million. The net undiscounted change reflects an increase primarily due to third party assumed reinsurance exposures. With the gross incurred loss increase less than the net incurred loss increase, the resulting ceded incurred losses were reduced. For environmental, we increased gross environmental incurred losses by \$214 million and net environmental incurred losses by \$117 million as a result of top down actuarial analyses performed during the year, as well as development on a large sediment site.

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In 2014, both the retained accounts and retroceded accounts ground-up reviews for asbestos were updated. As a result, we decreased gross undiscounted asbestos incurred losses by \$6 million and increased net undiscounted asbestos incurred losses by \$64 million. The net undiscounted increase reflects a buyout settlement on a retained account as well as a reduction in estimated ceded loss reserves (prior to the retroactive reinsurance retrocession). For environmental, we increased gross environmental incurred losses by \$140 million and net environmental incurred losses by \$60 million as a result of top down actuarial analyses performed during the year as well as development on a number of large accounts.

In 2013, we completed a ground up review of all our remaining retained accounts for asbestos. In addition, a subsidiary of the retrocessionaire for our retroactive reinsurance contract completed a ground up asbestos study for the largest accounts it assumed. As a result, we increased gross asbestos incurred losses by \$169 million and net asbestos incurred losses by \$6 million. For environmental, we increased gross environmental incurred losses by \$98 million and net environmental incurred losses by \$61 million as a result of top down actuarial analyses performed during the year as well as development on a number of large accounts.

In addition to the U.S. asbestos and environmental reserve amounts shown in the tables below, the Non - Life Insurance Companies also have asbestos reserves relating to foreign risks written by non U.S. entities of \$121 million gross and \$93 million net as of December 31, 2015. The asbestos reserves relating to non U.S. risks written by non U.S. entities were \$132 million gross and \$105 million net as of December 31, 2014.

**The following table provides a summary of reserve activity, including estimates for applicable IBNR, relating to asbestos and environmental claims:**

<b>As of or for the Years Ended December 31,</b> <i>(in millions)</i>	<b>2015</b>		<b>2014</b>		<b>2013</b>	
	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>
Asbestos:						
Liability for unpaid losses and loss adjustment expenses at beginning of year	<b>\$ 4,117</b>	<b>\$ 388</b>	\$ 4,720	\$ 529	\$ 4,896	\$ 427
Change in net loss reserves due to retroactive reinsurance	-	<b>20</b>	-	141	-	22
Dispositions	-	-	-	-	(12)	(12)
Losses and loss adjustment expenses incurred:						
Undiscounted	<b>13</b>	<b>164</b>	(6)	64	169	6
Change in discount	<b>9</b>	<b>4</b>	39	22	51	18
Losses and loss adjustment expenses incurred*	<b>22</b>	<b>168</b>	33	86	220	24
Losses and loss adjustment expenses paid*	<b>(544)</b>	<b>(130)</b>	(636)	(368)	(444)	(59)
Other changes	-	-	-	-	60	127
Liability for unpaid losses and loss adjustment expenses at end of year	<b>\$ 3,595</b>	<b>\$ 446</b>	\$ 4,117	\$ 388	\$ 4,720	\$ 529
Environmental:						
Liability for unpaid losses and loss adjustment expenses						



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at beginning of year	\$ 368	\$ 185	\$ 313	\$ 163	\$ 309	\$ 163
Dispositions	-	-	-	-	(1)	(1)
Losses and loss adjustment expenses incurred	214	117	140	60	98	61
Losses and loss adjustment expenses paid	(37)	(32)	(85)	(38)	(93)	(60)
Other changes	-	6	-	-	-	-
Liability for unpaid losses and loss adjustment expenses at end of year	\$ 545	\$ 276	\$ 368	\$ 185	\$ 313	\$ 163
Combined:						
Liability for unpaid losses and loss adjustment expenses at beginning of year	\$ 4,485	\$ 573	\$ 5,033	\$ 692	\$ 5,205	\$ 590
Change in net loss reserves due to retroactive reinsurance	-	20	-	141	-	22
Dispositions	-	-	-	-	(13)	(13)

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Losses and loss adjustment expenses incurred:

Undiscounted	227	281	134	124	267	67
Change in discount	9	4	39	22	51	18
Losses and loss adjustment expenses incurred	236	285	173	146	318	85
Losses and loss adjustment expenses paid	(581)	(162)	(721)	(406)	(537)	(119)
Other changes	-	6	-	-	60	127
Liability for unpaid losses and loss adjustment expenses at end of year	\$ 4,140	\$ 722	\$ 4,485	\$ 573	\$ 5,033	\$ 692

\* These amounts exclude benefit from retroactive reinsurance.

On June 17, 2011, we completed a transaction under which the bulk of AIG Property Casualty's net domestic asbestos liabilities were transferred to National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway, Inc. This was part of our ongoing strategy to reduce our overall loss reserve development risk. This transaction covers potentially volatile U.S.-related asbestos exposures. It does not, however, cover asbestos accounts that we believe have already been reserved to their limit of liability or certain other ancillary asbestos exposure assumed by AIG Property Casualty subsidiaries.

Upon the closing of this transaction, but effective as of January 1, 2011, we ceded the bulk of AIG Property Casualty's net domestic asbestos liabilities to NICO under a retroactive reinsurance agreement with an aggregate limit of \$3.5 billion. Within this aggregate limit, NICO assumed collection risk for existing third-party reinsurance recoverable associated with these liabilities. AIG Property Casualty paid NICO approximately \$1.67 billion as consideration for this cession and NICO assumed approximately \$1.82 billion of net U.S. asbestos liabilities. As a result of this transaction, AIG Property Casualty recorded a deferred gain of \$150 million in the second quarter of 2011, which is being amortized into income over the settlement period of the underlying claims.

Under retroactive reinsurance arrangements any recoveries for development associated with the ceded losses are not recognized immediately; rather this development increases or decreases the deferred gain, which is amortized into income as described above. During 2015, 2014 and 2013, we recognized approximately \$233 million, \$0 and \$72 million, respectively, of adverse loss development that was ceded under this reinsurance arrangement. This development, which is net of the deferred gain amortization, is being reported in Other income/expense, consistent with the way we manage the business and assess performance and is therefore excluded from net losses incurred and our loss ratios to avoid distortion of our ongoing insurance business.

**IBNR Loss Reserve Estimates — Asbestos and Environmental**

The following table presents the estimate of the gross and net IBNR included in the Liability for unpaid losses and loss adjustment expenses, relating to asbestos and environmental claims:

December 31, (in millions)	2015		2014		2013	
	Gross	Net*	Gross	Net*	Gross	Net*
Property Casualty Net Premiums Written by Region						274

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Asbestos	\$	1,680	\$	162	\$	2,363	\$	79	\$	3,190	\$	16
Environmental		331		171		157		87		94		51
Combined	\$	2,011	\$	333	\$	2,520	\$	166	\$	3,284	\$	67

\* Net IBNR includes the reduction due to the NICO reinsurance transaction of \$912 million, \$803 million and \$1,284 million as of December 31, 2015, 2014 and 2013, respectively.

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The following table presents a summary of asbestos and environmental claims count activity:

As of or for the Years Ended December 31,	2015			2014			2013
	Asbestos	Environmental	Combined	Asbestos	Environmental	Combined	Asbestos
Claims at beginning of year	4,049	1,240	5,289	4,680	1,517	6,197	5,230
Claims during year:							
Opened	279	209	488	130	126	256	83
Settled	(310)	(182)	(492)	(216)	(163)	(379)	(194)
Dismissed or otherwise resolved	(509)	(350)	(859)	(545)	(240)	(785)	(439)
Other	-	-	-	-	-	-	-
Claims at end of year	3,509	917	4,426	4,049	1,240	5,289	4,680

*Survival Ratios — Asbestos and Environmental*

The following table presents AIG's survival ratios for asbestos and environmental claims at December 31, 2015, 2014 and 2013. The survival ratio is derived by dividing the current carried loss reserve by the average payments for the three most recent calendar years for these claims. Therefore, the survival ratio is a simplistic measure estimating the number of years it would take before the current ending loss reserves for these claims would be paid off using recent year average payments.

Many factors, such as aggressive settlement procedures, reinsurance commutations, mix of business and level of coverage provided, have a significant effect on the amount of asbestos and environmental reserves and payments and the resulting survival ratio. Additionally, we primarily base our determination of these reserves based on ground-up and top-down analyses, and not on survival ratios. The net Asbestos survival ratio for 2015 was significantly impacted by both the increase in net loss reserves as a result of our ground-up review, as well as the by the large ceded reinsurance commutation executed in the fourth quarter of 2015, the proceeds of which were booked a negative paid loss.

The following table presents survival ratios for asbestos and environmental claims, separately and combined, which were based upon a three-year average payment:

Years Ended December 31,	2015		2014		2013	
	Gross	Net*	Gross	Net*	Gross	Net*
Survival ratios:						
Asbestos	6.6	15.0	8.3	7.6	10.6	10.5
Environmental	7.6	6.4	5.0	4.3	4.6	3.9
Combined	6.8	13.1	7.9	7.1	9.8	9.4

\* Survival ratios are calculated consistent with the basis on historical reserve excluding the effects of the NICO reinsurance transaction.

## Life Insurance Companies DAC and Reserves

The following section provides discussion of deferred policy acquisition costs and insurance reserves for Life Insurance Companies.

### 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 reserve) are recalculated using the new assumptions, and any resulting

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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 addition to estimated gross profit assumptions, the update of actuarial assumptions in 2015, 2014 and 2013 included adjustments to reserves for universal life with secondary guarantees, group benefit claim reserves and loss recognition for certain long-term care products. The update of assumptions also included adjustments to the valuation of variable annuity GMWB features that are accounted for as embedded derivatives. Changes in the fair value of such embedded derivatives are recorded in net realized capital gains (losses) and, together with related DAC adjustments, are excluded from pre-tax operating income.

The net increases (decreases) to pre-tax operating income and pre-tax income as a result of the update of actuarial assumptions in 2015, 2014 and 2013 are shown in the following tables.

**The following table presents the increase (decrease) in pre-tax operating income resulting from the update of actuarial assumptions for the U.S. Life Insurance Companies, by product line:**

<b>Years Ended December 31,</b> <i>(in millions)</i>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Consumer Insurance:</b>			
Retirement			
Fixed Annuities	\$ 92	\$ 196	\$ 306
Retirement Income Solutions	-	4	(28)
Group Retirement	48	46	(45)
Total Retirement	140	246	233
Life	(146)	(119)	(80)
Total Consumer Insurance	(6)	127	153
<b>Commercial Insurance:</b>			
Institutional Markets	-	2	-
Total increase (decrease) in pre-tax operating income from update of assumptions	(6)	129	153

**The following table presents the increase (decrease) in pre-tax income resulting from the update of actuarial assumptions of the U.S. Life Insurance Companies, by line item as reported in Results of Operations:**

<b>Years Ended December 31,</b> <i>(in millions)</i>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Policy fees	\$ 21	\$ 27	\$ 28
Interest credited to policyholder account balances	74	90	63
Amortization of deferred policy acquisition costs	79	181	129
Policyholder benefits and losses incurred	(180)	(169)	(67)
Property Casualty Net Premiums Written by Region			278

Increase (decrease) in pre-tax operating income	(6)	129	153
Change in DAC related to net realized capital gains (losses)	11	(12)	(21)
Net realized capital gains (losses)	(2)	51	82
Increase in pre-tax income	\$ 3	\$ 168	\$ 214

In 2015, pre-tax operating income of the Life Insurance Companies 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 \$146 million in the Life operating segment, which was offset in large part by net positive adjustments in the Retirement operating segment of \$92 million in Fixed Annuities and \$48 million in Group Retirement. See Update of Actuarial Assumptions by Operating Segment for additional discussion of the adjustments for each segment.

In 2014, pre-tax operating income of the Life Insurance Companies 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 Retirement operating segment from the update of estimated gross profit assumptions in Fixed Annuities and Group Retirement, partially offset by loss recognition for certain long-term care business and additions to reserves for universal life with secondary guarantees in the Life operating segment.

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In 2013, pre-tax operating income of the Life Insurance Companies in the aggregate increased by a net positive adjustment of \$153 million as a result of the update of assumptions, primarily due to a net positive adjustment in Fixed Annuities, partially offset by net negative adjustments in Retirement Income Solutions and Group Retirement and a negative adjustment in Life from the update of mortality assumptions. In Group Retirement, the negative adjustments were partially offset by an increase in the assumption for separate account asset long-term growth rates.

Adjustments related to the update of assumptions for the valuation of variable annuity GMWB features accounted for as embedded derivatives and measured at fair value, which are primarily in the Retirement Income Solutions and Group Retirement product lines, are recorded in net realized capital gains (losses) and excluded from pre-tax operating income. The update of GMWB valuation assumptions in 2015, which included improved mortality, lapse and withdrawal assumptions, resulted in a net decrease in the GMWB liability. After offsets for related adjustments to DAC, this update of GMWB valuation assumptions resulted in a net increase to 2015 pre-tax income of \$9 million.

In 2014, improved mortality, lapse and withdrawal assumptions for GMWB embedded derivative liabilities resulted in a net increase to pre-tax income of \$39 million, net of DAC. In 2013, the update of GMWB valuation assumptions resulted in a net increase to pre-tax income of \$61 million, net of DAC, primarily due to updated mortality assumptions.

A discussion of the adjustments to reflect the update of assumptions for the Retirement and Life operating segments follows.

### **Update of Actuarial Assumptions by Operating Segment**

#### **Retirement**

The update of actuarial assumptions resulted in net positive adjustments to pre-tax operating income of the Retirement operating segment of \$140 million, \$246 million and \$233 million in 2015, 2014 and 2013, respectively.

In Fixed Annuities, the update of estimated gross profit assumptions resulted in a net positive adjustment of \$92 million in 2015, 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 2013, a net positive adjustment of \$306 million in the Fixed Annuities product line was the result of active spread management of crediting rates and higher future investment yields than those previously assumed.

In Retirement Income Solutions, there were offsetting changes to assumed investment fees, modeled expenses, and terminations resulting in no adjustment to pre-tax operating income in 2015, compared to a \$4 million net positive adjustment in 2014, due to the update of estimated gross profit assumptions. A net negative adjustment of \$28 million in Retirement Income Solutions in 2013 resulted primarily from the



update of variable annuity spreads and surrender rates. Adjustments related to the update of assumptions for the valuation of variable annuity GMWB features accounted for as embedded derivatives and measured at fair value, which primarily relate to the Retirement Income Solutions product line, are recorded in net realized capital gains (losses) and excluded from pre-tax operating income. See Update of Actuarial Assumptions above for discussion of these adjustments.

In Group Retirement, a net positive adjustment from the update of estimated gross profit assumptions of \$48 million in 2015 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. A net negative adjustment of \$45 million in Group Retirement in 2013 resulted primarily from the update of variable annuity spreads and surrender rates, partially offset by an increase in the assumption for separate account asset long-term growth rates under our reversion to the mean methodology.

## Life

The net negative adjustment of \$146 million related to the update of actuarial assumptions, which reduced pre-tax operating income of the Life operating segment in 2015, included additions to reserves for universal life with secondary guarantees due to lower surrender rates (partially offset by better mortality than previously assumed), loss recognition expense for certain long-

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term care products primarily due to updated future premium assumptions, and an additional net negative adjustment from the update of estimated gross profit assumptions primarily due to lower investment spread assumptions. These negative adjustments were partially offset by a decrease in certain Group Benefit claim reserves based on updated experience data.

A net negative adjustment of \$119 million in the Life operating segment in 2014 was primarily due to loss recognition expense, as discussed below, and also included additions to reserves for universal life with secondary guarantees, primarily due to lower investment spread and mortality assumptions which, while higher than previously assumed, were still within pricing assumptions.

A negative adjustment of \$80 million in the Life operating segment in 2013 resulted primarily from the update of mortality assumptions.

The Life operating segment 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. Loss recognition expense is included in Other reserve changes in the rollforward table presented in Life Insurance Companies Reserves. The Life loss recognition for both periods was primarily a result of lower future premium increase assumptions and, in 2014, lower yield assumptions. Assumptions related to investment yields, mortality experience and expenses are reviewed periodically and updated as appropriate, which could result in additional loss recognition reserves. While the U.S. Life Insurance Companies do not currently offer standalone long-term care products, these needs are addressed with various benefits and riders in the existing portfolio, such as chronic illness riders.

### **Variable Annuity Guaranteed Benefit Features and Hedging Program**

Our Retirement Income Solutions and Group Retirement businesses offer variable annuity products with riders that provide guaranteed living benefit features, which include GMWB and GMAB. The liabilities for GMWB and GMAB 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 and GMAB, 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.

### **Impact on Pre-tax Income**

Changes in the fair value of the GMWB and GMAB embedded derivatives, and changes in the fair value of related derivative hedging instruments, 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 the fixed maturity securities used in the variable annuity hedging program, for which the fair value option has been elected, are excluded from pre-tax operating income of the Retirement operating segment.

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The following table presents the net increase (decrease) to consolidated pre-tax income from changes in the fair value of the GMWB and GMAB embedded derivatives and related hedges:

**Years Ended December 31,***(in millions)*

	2015	2014	2013
Change in fair value of GMWB and GMAB embedded derivatives	\$ 63	\$ (759)	\$ 1,252
Change in fair value of variable annuity hedging portfolio:			
Fixed maturity securities	(43)	260	(161)
Interest rate derivative contracts	343	742	(468)
Equity derivative contracts	(86)	(230)	(461)
Net impact on pre-tax income	\$ 277	\$ 13	\$ 162

The effect of the changes in the fair value of the GMWB and GMAB embedded derivatives and the related hedging portfolio had a net positive impact on consolidated pre-tax income in 2015, 2014 and 2013. 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 differences between the U.S. GAAP valuation of the embedded derivatives and the economic hedge target, which include a non-performance or “own credit” spread adjustment (NPA) to the rate used to discount projected benefit cash flows. When corporate credit spreads widen, as they did in 2015, the change in the NPA 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 generally increases the fair value of the embedded derivative liabilities, resulting in a loss. See Note 4 to the Consolidated Financial Statements for additional discussion of the fair value measurement of the embedded derivatives under U.S. GAAP and the estimation of the NPA, and see Differences in Valuation of Embedded Derivatives and Economic Hedge Target, below.

In 2015, there was a slight gain from a decline in the fair value of the embedded derivative liabilities, as losses from the decrease in market interest rates were more than offset by gains from a higher NPA, related to widening corporate credit spreads. The losses from the decrease in market interest rates in 2015 were largely offset by interest rate hedges. In 2014, the decrease in market interest rates resulted in losses from a significant increase in the fair value of the embedded derivative liabilities, which was only partially offset by higher equity markets. Since the change in NPA was relatively small in 2014, the loss on the embedded derivatives was primarily offset by hedging. In 2013, there was a significant decline in the embedded derivative liabilities, driven by both higher interest rates and higher equity markets, which was only partially offset by a decline in NPA from spread tightening. The embedded derivative gains due to higher interest rates were offset by interest rate hedging to a lesser extent in 2013, as we had not elected to fully hedge interest rate risk until the second half of 2014.

These changes in the fair value of 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, that are used as a capital-efficient way to economically hedge interest rate risk. In 2012, we began to use U.S. Treasury bonds in this hedging program to reduce our interest rate risk exposure over time. Effective June 30, 2015, we discontinued the 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 2015 losses from the change in the fair value of fixed maturity securities were primarily due to the impact on the U.S. Treasury position in the first half of the year from increasing market interest rates. The gains in 2014 and losses in 2013 from the change in the fair value of the fixed maturities securities were due to market interest rates, which decreased in 2014 and increased 2013.
- Changes in the fair value of interest rate derivative contracts, which included swaps, swaptions, futures and options, resulted in gains in 2015 and 2014 due to decreasing market interest rates, and losses in 2013 driven by increasing interest rates. Prior to 2014, we had elected to only partially hedge GMWB and GMAB interest rate risk.
- Losses from the change in the fair value of equity derivative contracts, which included futures and options, were relatively smaller in 2015 compared to 2014 and 2013, due to higher equity market returns in those years.

**TABLE OF CONTENTS****Item 7 / Insurance reserves / Life Insurance companies****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 drivers of the embedded derivatives. The economic hedge target differs from the U.S. GAAP valuation of the GMWB and GMAB embedded derivatives due to the following:

- Rider fees are 100 percent included in the economic hedge target present value calculations; the U.S. GAAP valuation reflects those collected fees attributed to the embedded derivative such that the initial value at contract issue equals zero;
- Actuarial assumptions for U.S. GAAP are adjusted to remove explicit risk margins, including margins for policyholder behavior and fund basis risk, and use best estimate assumptions for the economic hedge target; and
- Non-performance adjustment (NPA or “own credit” risk) is excluded from the discount rates used for 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 related to items not subject to hedging, particularly policyholder behavior; and
- Risk exposures that we have elected not to explicitly or fully hedge, which in 2014 and 2013 included a portion of the interest rate risk.

**DAC**

**The following table summarizes the major components of the changes in Life Insurance Companies DAC, including VOBA:**

**Years Ended December 31,**  
*(in millions)*

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Balance, beginning of year	<b>\$ 7,258</b>	<b>\$ 6,920</b>	<b>\$ 5,815</b>
Property Casualty Net Premiums Written by Region			286

Acquisition costs deferred	<b>1,288</b>	1,114	1,034
Amortization expense:			
Update of assumptions included in pre-tax operating income	<b>79</b>	183	129
Related to realized capital gains and losses	<b>(1)</b>	(23)	(23)
All other operating amortization	<b>(994)</b>	(887)	(780)
Increase (decrease) in DAC due to foreign exchange	<b>(34)</b>	(32)	(39)
Other change in DAC	<b>23</b>	343	-
Change related to unrealized depreciation (appreciation) of investments	<b>848</b>	(360)	784
Balance, end of year*	<b>\$ 8,467</b>	\$ 7,258	\$ 6,920

\* DAC balance excluding the amount related to unrealized depreciation (appreciation) of investments was \$9.1 billion, \$8.7 billion, and \$8.0 billion at December 31, 2015, 2014 and 2013, respectively.

The net adjustments to DAC amortization from the update of actuarial assumptions for estimated gross profits in 2015 and 2014, including those reported within change in DAC related to net realized capital gains (losses), represented one percent and two percent of the DAC balance excluding the amount related to unrealized depreciation (appreciation) of investments as of December 31, 2015 and 2014, respectively.

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In 2013, we revised the growth rate assumptions for the five-year reversion to the mean period for the Group Retirement product line in our Retirement segment, because annual growth assumptions indicated for that period had fallen below our floor of zero percent due to the favorable performance of equity markets. This adjustment increased Retirement pre-tax operating income by \$35 million in 2013. For variable annuities in the Retirement Income Solutions product line, the assumed annual growth rate has remained above zero percent for the five-year reversion to the mean period and therefore has not met the criteria for adjustment in 2015, 2014 or 2013; however, additional favorable equity market performance in excess of long-term assumptions could result in unlocking in this product line 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 fixed maturity and equity securities available for sale had been sold at their stated aggregate fair value and the proceeds reinvested at current yields (shadow DAC). The change in shadow DAC generally moves in the opposite direction of the change in unrealized appreciation of the available for sale securities portfolio. In addition, significant unrealized appreciation of investments in a prolonged low interest rate environment may cause additional future policy benefit liabilities to be recorded (shadow loss reserves). Market interest rates increased as a result of widening spreads in 2015. As a result, the Life Insurance Companies' unrealized appreciation of investments at December 31, 2015 decreased by \$7.4 billion compared to December 31, 2014, which resulted in an increase in shadow DAC and a decrease in shadow loss reserves. Shadow loss reserves decreased to \$18 million at December 31, 2015 compared to \$1.2 billion at December 31, 2014.

**Life Insurance Companies Reserves**

**The following table presents a rollforward of Life Insurance Companies' insurance reserves, including separate accounts and mutual fund assets under management, by operating segment:**

**Years Ended December 31,**  
*(in millions)*

**Institutional Markets:**

	2015	2014	2013
Balance at beginning of year, gross	\$ 35,080	\$ 32,100	\$ 32,242
Premiums and deposits	1,782	3,797	991
Surrenders and withdrawals	(674)	(766)	(2,620)
Death and other contract benefits	(1,628)	(1,530)	(1,371)
Subtotal	(520)	1,501	(3,000)

Property Casualty Net Premiums Written by Region

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Change in fair value of underlying assets and reserve accretion, net of policy fees	982	1,130	1,156
Cost of funds	408	410	413
Other reserve changes	(127)	(61)	1,289
Balance at end of year	35,823	35,080	32,100
Reserves related to unrealized appreciation of investments	-	1,054	-
Reinsurance ceded	(5)	(5)	(5)
Total insurance reserves	\$ 35,818	\$ 36,129	\$ 32,095
<b>Retirement:</b>			
Balance at beginning of year, gross	\$ 204,627	\$ 195,493	\$ 173,281
Premiums and deposits	25,297	24,077	23,788
Surrenders and withdrawals	(18,251)	(20,504)	(16,459)
Death and other contract benefits	(3,894)	(3,690)	(3,353)
Subtotal	3,152	(117)	3,976
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Change in fair value of underlying assets and reserve accretion, net of policy fees	(2,255)	6,390	14,482
Cost of funds	2,724	2,781	2,837
Other reserve changes	85	80	917
Balance at end of year	208,333	204,627	195,493
Reserves related to unrealized appreciation of investments	-	100	-
Reinsurance ceded	(361)	(353)	(366)
Total insurance reserves and mutual fund assets under management	\$ 207,972	\$ 204,374	\$ 195,127
<b>Life:</b>			
Balance at beginning of year, gross	\$ 33,536	\$ 32,810	\$ 32,176
Premiums and deposits	4,974	4,806	4,862
Surrenders and withdrawals	(759)	(853)	(896)
Death and other contract benefits	(954)	(812)	(772)
Subtotal	3,261	3,141	3,194
Change in fair value of underlying assets and reserve accretion, net of policy fees	(802)	(691)	(673)
Cost of funds	493	507	541
Other reserve changes	(2,318)	(2,231)	(2,428)
Balance at end of year	34,170	33,536	32,810
Reserves related to unrealized appreciation of investments	-	-	-
Reinsurance ceded	(1,395)	(1,315)	(1,354)
Total insurance reserves	\$ 32,775	\$ 32,221	\$ 31,456
<b>Total Life Insurance Companies:</b>			
Balance at beginning of year, gross	\$ 273,243	\$ 260,403	\$ 237,699
Premiums and deposits	32,053	32,680	29,641
Surrenders and withdrawals	(19,684)	(22,123)	(19,975)
Death and other contract benefits	(6,476)	(6,032)	(5,496)
Subtotal	5,893	4,525	4,170
Change in fair value of underlying assets and reserve accretion, net of policy fees	(2,075)	6,829	14,965
Cost of funds	3,625	3,698	3,791
Other reserve changes	(2,360)	(2,212)	(222)
Balance at end of year	278,326	273,243	260,403
Reserves related to unrealized appreciation of investments	-	1,154	-
Reinsurance ceded	(1,761)	(1,673)	(1,725)
Total insurance reserves and mutual fund assets under management	\$ 276,565	\$ 272,724	\$ 258,678
<b>Life Insurance Companies insurance reserves including separate accounts and mutual fund assets under management were comprised of the following balances:</b>			

**At December 31,**

*(in millions)*

		<b>2015</b>	<b>2014</b>
Future policy benefits*	\$	<b>41,562</b>	\$ 40,931
Policyholder contract deposits		<b>127,704</b>	124,716
Separate account liabilities		<b>79,564</b>	80,025
Total insurance reserves		<b>248,830</b>	245,672
Mutual fund assets under management		<b>27,735</b>	27,052
Total insurance reserves and mutual fund assets under management	\$	<b>276,565</b>	\$ 272,724

\* Excludes certain intercompany assumed reinsurance.

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### **Item 7 / 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 over a twelve-month period 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.



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### **Item 7 / LIQUIDITY AND CAPITAL RESOURCES**

#### **Sources**

- ***AIG Parent Funding from Subsidiaries***

During 2015, AIG Parent received \$7.8 billion<sup>(a)</sup> in dividends and loan repayments from subsidiaries. Of this amount, \$3.2 billion was dividends in the form of cash and fixed maturity securities from our Non-Life Insurance Companies and \$4.6 billion<sup>(a)</sup> was dividends and loan repayments in the form of cash and fixed maturity securities from our Life Insurance Companies. The \$7.8 billion in dividends and loan repayments included \$2.8 billion of dividends that were declared during the fourth quarter of 2014.

AIG Parent also received a net amount of \$1.4 billion<sup>(a)</sup> in tax sharing payments from our insurance businesses in 2015, reflecting \$102 million<sup>(a)</sup> that was reimbursed from AIG Parent to our insurance businesses during the fourth quarter of 2015 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.

- ***Debt Issuances***

In January 2015, we issued \$1.2 billion aggregate principal amount of 3.875% Notes due 2035 and \$800 million aggregate principal amount of 4.375% Notes due 2055.

In March 2015, we issued \$350 million aggregate principal amount of 4.35% Callable Notes due 2045.

In July 2015, we issued \$1.25 billion aggregate principal amount of 3.750% Notes due 2025, \$500 million aggregate principal amount of 4.700% Notes due 2035 and \$750 million aggregate principal amount of 4.800% Notes due 2045. In addition, in July 2015, we issued \$290 million aggregate principal amount of 4.90% Callable Notes due 2045.

In September 2015, we issued \$420 million aggregate principal amount of 4.90% Callable Notes due 2045.

- ***PICC P&C and Springleaf***

In April 2015, AIG Parent received gross proceeds of approximately \$500 million from our sale of 256 million ordinary H shares of PICC P&C by means of a placement to certain institutional investors.

In May 2015, AIG Parent received net proceeds of approximately \$410 million from the sale of approximately 8.4 million shares of common stock of Springleaf.

In December 2015, AIG Parent received gross proceeds of approximately \$381 million from our sale of 184 million ordinary H shares of PICC P&C by means of a placement to certain institutional investors.

- ***AerCap***

In June 2015, AIG Parent received net proceeds of approximately \$3.7 billion from the sale of approximately 86.9 million ordinary shares of AerCap by means of an underwritten public offering of approximately 71.2 million ordinary shares and a private sale of approximately 15.7 million ordinary shares to AerCap.

In August 2015, AIG Parent received net proceeds of approximately \$500 million from the sale of our remaining approximately 10.7 million ordinary shares of AerCap by means of an underwritten public offering.

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### **Item 7 / LIQUIDITY AND CAPITAL RESOURCES**

#### **Uses<sup>(b)</sup>**

- ***Debt Reduction***

In March 2015, we repurchased, through cash tender offers, approximately \$1.0 billion aggregate principal amount of certain senior notes issued or guaranteed by AIG for an aggregate purchase price of approximately \$1.1 billion.

In April 2015, we repurchased, through cash tender offers, (i) approximately \$22 million aggregate principal amount of certain senior notes issued or guaranteed by AIG for an aggregate purchase price of approximately \$24 million, and (ii) approximately \$915 million aggregate principal amount of certain junior subordinated debentures issued or guaranteed by AIG for an aggregate purchase price of approximately \$1.25 billion.

In July 2015, we repurchased, through cash tender offers, (i) approximately \$142 million aggregate principal amount of certain senior notes issued by AIG for an aggregate purchase price of approximately \$153 million, and (ii) approximately \$3.3 billion aggregate principal amount of certain senior notes and junior subordinated notes issued or guaranteed by AIG for an aggregate purchase price of approximately \$3.6 billion.

We also made other repurchases and repayments of approximately \$4.6 billion during 2015. AIG Parent made interest payments on our debt instruments totaling \$1.0 billion during 2015.

- ***Dividend***

We paid a cash dividend of \$0.125 per share on AIG Common Stock during each of the first and second quarters of 2015, and a cash dividend of \$0.28 per share during each of the third and fourth quarters of 2015.

- ***Repurchase of Common Stock<sup>(c)</sup>***

We repurchased approximately 182 million shares of AIG Common Stock during 2015, for an aggregate purchase price of approximately \$10.7 billion. The total number of shares of AIG Common Stock repurchased in 2015 includes (but the aggregate purchase price does not include) approximately 3.5 million shares of AIG Common Stock received in January 2015 upon the settlement of an ASR agreement executed in the fourth quarter of 2014.

- ***PICC P&C***

During 2015, AIG Parent purchased 440 million ordinary H shares of PICC P&C from our Non-Life Insurance Companies for approximately \$864 million.



(a) Presented net of \$818 million of tax payments to the Life Insurance Companies, which were returned in the form of dividends.

(b) In January 2016, AIG Parent made a capital contribution of approximately \$2.9 billion to our Non-Life Insurance Companies.

(c) Pursuant to Exchange Act Rule 10b5-1 repurchase plans, from January 1 to February 11, 2016, we have repurchased approximately \$2.5 billion of additional shares of AIG Common Stock. As of February 11, 2016, approximately \$5.8 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)

Sources:

	2015	2014*	2013
Net cash provided by operating activities	\$ 2,877	\$ 5,007	\$ 5,865
Net cash provided by changes in restricted cash	1,457	-	1,244
Net cash provided by other investing activities	7,005	15,731	5,855
Changes in policyholder contract balances	2,410	1,719	-
Issuance of long-term debt	6,867	6,687	5,235
Total sources	20,616	29,144	18,199

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## Uses:

Change in restricted cash	-	(1,447)	-
Change in policyholder contract balances	-	-	(547)
Repayments of long-term debt	(9,805)	(16,160)	(14,197)
Purchases of AIG Common Stock	(10,691)	(4,902)	(597)
Net cash used in other financing activities	(210)	(7,132)	(1,652)
Total uses	(20,706)	(29,641)	(16,993)
Effect of exchange rate changes on cash	(39)	(74)	(92)
Increase (decrease) in cash	\$ (129)	\$ (571)	\$ 1,114

\* 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)*

## Summary:

	2015	2014	2013
Net cash provided by operating activities	\$ 2,877	\$ 5,007	\$ 5,865
Net cash provided by investing activities	8,462	14,284	7,099
Net cash used in financing activities	(11,429)	(19,788)	(11,758)
Effect of exchange rate changes on cash	(39)	(74)	(92)
Increase (decrease) in cash	(129)	(571)	1,114
Cash at beginning of year	1,758	2,241	1,151
Change in cash of businesses held for sale	-	88	(24)
Cash at end of year	\$ 1,629	\$ 1,758	\$ 2,241

**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 \$1.4 billion in 2015, compared to \$3.4 billion in 2014 and \$3.9 billion in 2013.

Excluding interest payments, AIG generated positive operating cash flow of \$4.2 billion, \$8.3 billion and \$9.7 billion in 2015, 2014 and 2013, respectively.

Cash provided by operating activities of our Non-Life Insurance Companies was \$1.0 billion in 2015, compared to \$0.9 billion in 2014 and \$0.4 billion in 2013. The increase in 2014 compared to 2013 was primarily due to the timing of the payments related to catastrophe losses for 2013.

Cash provided by operating activities of our Life Insurance Companies was \$3.8 billion in 2015, compared to \$4.4 billion in 2014 and \$4.3 billion in 2013. The decline in 2015 compared to 2014 was primarily due to a greater increase in other assets and liabilities, net.

Cash provided by operating activities of businesses held for sale was \$2.9 billion for 2013.

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#### **Investing Cash Flow Activities**

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Net cash provided by investing activities in 2015 included:

- approximately \$1.8 billion of cash collateral received in connection with our Life Insurance Companies' securities lending program; and
- 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.

Net cash provided by investing activities for 2013 included an increase in net investment purchase activity.

#### **Financing Cash Flow Activities**

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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 of the four quarters 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.

Net cash used in financing activities for 2013 included:

- approximately \$294 million in the aggregate to pay dividends of \$0.10 per share on AIG Common Stock in each of the third and fourth quarters of 2013;
- approximately \$597 million to repurchase approximately 12 million shares of AIG Common Stock;
- approximately \$9.3 billion to repay long term debt; and

approximately \$4.9 billion in repayments of long term debt of business held-for-sale.

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### **Item 7 / LIQUIDITY AND CAPITAL RESOURCES**

#### **Liquidity and Capital Resources of AIG Parent and Subsidiaries**

##### **AIG Parent**

As of December 31, 2015, AIG Parent had approximately \$13.7 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, operating expenses and subsidiary capital needs.

We generally manage capital flows between AIG Parent and its subsidiaries through internal, Board approved policies and 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.

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 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: the capital resources available to support our insurance operations and business strategies, AIG's funding capacity and capital resources in comparison to internal benchmarks, expectations for capital generation, rating agency expectations for capital, as well as regulatory standards for capital and capital distributions.

In January 2016, AIG Parent made a capital contribution of approximately \$2.9 billion to our Non-Life Insurance Companies as a result of our fourth quarter reserve strengthening.

**The following table presents AIG Parent's liquidity sources:**

	<b>As of December 31, 2015</b>	<b>As of December 31, 2014</b>
<i>(In millions)</i>		
Cash and short-term investments <sup>(a)</sup>	\$ 3,497	\$ 5,085
Unencumbered fixed maturity securities <sup>(b)</sup>	5,723	4,727
Total AIG Parent liquidity	9,220	9,812
Available capacity under syndicated credit facility <sup>(c)</sup>	4,500	4,000
Available capacity under contingent liquidity facility <sup>(d)</sup>	-	500
Total AIG Parent liquidity sources	\$ 13,720	\$ 14,312
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(a) Cash and short-term investments include reverse repurchase agreements totaling \$1.5 billion and \$1.6 billion as of December 31, 2015 and 2014, 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.

(d) The contingent liquidity facility expired by its terms on December 15, 2015. For additional information relating to the contingent liquidity facility, see Contingent Liquidity Facilities below.

### **Non-Life Insurance Companies**

We expect that our Non-Life 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 Non-Life 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 Non-Life Insurance Companies' liquidity is monitored through the use of 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, dividends, expenses, investments and collateral requirements.

Our Non-Life 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.

Certain Non-Life Insurance Companies are members of the Federal Home Loan Banks (FHLBs) in their respective districts. Borrowings from the FHLBs may be used to supplement liquidity. As of December 31, 2015 and 2014, none of our Non-Life Insurance Companies had FHLB borrowings outstanding.



In April 2015, AIG Parent and Ascot Corporate Name Limited (ACNL), a Non-Life Insurance Company, entered into a new \$725 million letter of credit facility, which replaced the prior \$625 million letter of credit facility. ACNL, as a member of the Lloyd's of London insurance syndicate (Lloyd's), is required to hold capital at Lloyd's, known as Funds at Lloyds (FAL). Under the new facility, the entire FAL capital requirement of \$625 million as of December 31, 2015, which supports the 2015, 2016 and 2017 years of account, was satisfied with a letter of credit in that amount issued under the facility.

AIG generally manages capital between AIG Parent and our Non-Life Insurance Companies through internal, Board-approved policies and guidelines. In addition, AIG Parent is party to a CMA with its Mortgage Guaranty insurance company. Among other things, the CMA provides that AIG Parent will maintain capital and surplus of the Mortgage Guaranty insurance company at or above a specified minimum required capital based on a specified risk-to-capital ratio. In addition, the CMA provides that if capital and surplus of the Mortgage Guaranty insurance company is in excess of that same specified minimum required capital, subject to its board approval and compliance with applicable insurance laws, the Mortgage Guaranty insurance company would declare and pay ordinary dividends to its equity holders up to an amount necessary to reduce projected or actual capital and surplus to a level equal to or not materially greater than such specified minimum required capital. As structured, the CMA contemplates that the specified minimum required capital would be reviewed and agreed upon at least annually. As of December 31, 2015, the minimum required capital for the CMA with the Mortgage Guaranty insurance company is based on a risk-to-capital ratio of 19 to 1.

In 2015, our Non-Life Insurance Companies paid approximately \$3.2 billion in dividends in the form of cash and fixed maturity securities to AIG Parent, of which \$600 million represented the remainder of dividends that were declared by our Non-Life

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Insurance Companies in the fourth quarter of 2014. The 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.

#### **Life Insurance Companies**

We expect that our Life 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 Life Insurance Companies' liquidity sources are primarily held in the form of cash, short-term investments and publicly traded, investment grade rated fixed maturity securities.

Each of our Life Insurance Companies' liquidity is monitored through the use of various internal liquidity risk measures. The primary sources of liquidity are premiums, fees, reinsurance recoverables and investment income. The primary uses of liquidity are benefit claims, interest payments, surrenders, withdrawals, dividends, expenses, investments and collateral requirements.

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. However, as we saw in 2008, in times of extreme capital markets disruption, liquidity needs could outpace resources. Furthermore, our Life Insurance Companies' products contain certain features that mitigate surrender risk, including surrender charges. 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. Life Insurance Companies are members of the 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. Life Insurance Companies had outstanding borrowings from the FHLBs in an aggregate amount of \$2 million and \$44 million as of December 31, 2015 and 2014, respectively.

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, 2015, our U.S. Life Insurance Companies had \$1.1 billion of securities subject to these agreements and \$1.1 billion of liabilities to borrowers for collateral received. Our U.S. Life Insurance Companies had no securities subject to lending agreements and no collateral liability at December 31, 2014.

AIG generally manages capital between AIG Parent and our Life Insurance Companies through internal, Board-approved policies and guidelines. In addition, 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, 2015, the specified minimum percentage under this CMA was 250 percent.

In 2015, our U.S. Life Insurance Companies paid approximately \$4.6 billion to AIG Parent, which included \$5.4 billion in dividends and loan repayments in the form of cash and fixed maturity securities, net of an \$818 million tax settlement payment received from AIG Parent. The 2015 dividend payments included \$2.2 billion that represented the remainder of dividends that were declared in the fourth quarter of 2014. 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.

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### **Item 7 / LIQUIDITY AND CAPITAL RESOURCES**

#### **Credit Facilities**

We maintain a committed, revolving syndicated credit facility as a potential source of liquidity for general corporate purposes. On November 5, 2015, we amended and restated the five-year syndicated credit facility that was entered into on June 19, 2014 (the Previous Facility). The amended and restated five-year syndicated facility (the Five-Year 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 (increased from a \$4.0 billion commitment in the Previous Facility) without any limits on the type of borrowings and is scheduled to expire in November 2020 (the Previous Facility was scheduled to expire in June 2019). The increased commitment of \$500 million to the Five-Year Facility offsets the effect of the expiration of our \$500 million contingent liquidity facility. See Contingent Liquidity Facilities below.

As of December 31, 2015, a total of \$4.5 billion remains available under the Five-Year Facility. Our ability to borrow under the Five-Year Facility is not contingent on our credit ratings. However, our ability to borrow under the Five-Year Facility is conditioned on the satisfaction of certain legal, operating, administrative and financial covenants and other requirements contained in the Five-Year 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 Five-Year Facility would restrict our access to the Five-Year Facility and could have a material adverse effect on our financial condition, results of operations and liquidity. We expect to borrow under the Five-Year Facility from time to time, and may use the proceeds for general corporate purposes.

#### **Contingent Liquidity Facilities**

AIG Parent had access to a contingent liquidity facility of up to \$500 million as a potential source of liquidity for general corporate purposes. Under this facility, we had the unconditional right, prior to December 15, 2015, to issue up to \$500 million in senior debt to the counterparty, based on a put option agreement between AIG Parent and the counterparty. The contingent liquidity facility expired by its terms on December 15, 2015. The expiration of the contingent liquidity facility is offset by the effect of the increased commitment of \$500 million to our Five-Year Facility. See Credit Facilities above.

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The following table summarizes contractual obligations in total, and by remaining maturity:

**December 31, 2015**

<i>(in millions)</i>	Total Payments	2016	Payments due by Period		
			2017 - 2018	2019 - 2020	Thereafter
<b>Insurance operations</b>					
Loss reserves	\$ 78,090	\$ 19,035	\$ 22,202	\$ 12,243	\$ 24,610
Insurance and investment contract liabilities	229,806	15,691	28,322	24,999	160,794
Borrowings	813	-	-	106	707
Interest payments on borrowings	1,141	54	109	109	869
Operating leases	986	253	350	197	186
Other long-term obligations	25	4	11	6	4
Total	\$ 310,861	\$ 35,037	\$ 50,994	\$ 37,660	\$ 187,170
<b>Other</b>					
Borrowings	\$ 23,548	\$ 1,619	\$ 3,208	\$ 2,475	\$ 16,246
Interest payments on borrowings	17,142	1,067	1,998	1,759	12,318
Operating leases	149	51	52	23	24
Other long-term obligations	107	-	-	-	107
Total	\$ 40,946	\$ 2,737	\$ 5,258	\$ 4,257	\$ 28,695
<b>Consolidated</b>					
Loss reserves	\$ 78,090	\$ 19,035	\$ 22,202	\$ 12,243	\$ 24,610
Insurance and investment contract liabilities	229,806	15,691	28,322	24,999	160,794
Borrowings	24,361	1,619	3,208	2,581	16,953
Interest payments on borrowings	18,283	1,121	2,107	1,868	13,187
Operating leases	1,135	304	402	219	210
Other long-term obligations <sup>(a)</sup>	132	4	11	6	111
Total <sup>(b)</sup>	\$ 351,807	\$ 37,774	\$ 56,252	\$ 41,916	\$ 215,865

(a) Primarily includes contracts to purchase future services and other capital expenditures.

(b) Does not reflect unrecognized tax benefits of \$4.3 billion, the timing of which is uncertain.

**Loss Reserves**

Loss reserves relate to our Non-Life Insurance Companies and represent future losses 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 Non-Life 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 of a term certain nature. 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.

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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.

**TABLE OF CONTENTS****Item 7 / LIQUIDITY AND CAPITAL RESOURCES****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, 2015**

<i>(in millions)</i>	Total Amounts Committed	Amount of Commitment Expiring				
		2016	2017 - 2018	2019 - 2020	Thereafter	
<b>Insurance operations</b>						
Guarantees:						
Standby letters of credit	\$ 870	\$ 180	\$ 59	\$ 627	\$ 4	
Guarantees of indebtedness	128	101	27	-	-	
All other guarantees <sup>(a)</sup>	-	-	-	-	-	
Commitments:						
Investment commitments <sup>(b)</sup>	2,406	1,615	538	247	6	
Commitments to extend credit	2,403	1,171	856	290	86	
Letters of credit	6	6	-	-	-	
Total <sup>(c)</sup>	\$ 5,813	\$ 3,073	\$ 1,480	\$ 1,164	\$ 96	
<b>Other</b>						
Guarantees:						
Liquidity facilities <sup>(d)</sup>	\$ 74	\$ -	\$ -	\$ -	\$ 74	
Standby letters of credit	208	208	-	-	-	
All other guarantees	153	140	13	-	-	
Commitments:						
Investment commitments <sup>(b)</sup>	145	72	1	-	72	
Commitments to extend credit <sup>(e)</sup>	500	-	-	500	-	
Letters of credit	25	25	-	-	-	
Total <sup>(c)(f)</sup>	\$ 1,105	\$ 445	\$ 14	\$ 500	\$ 146	
<b>Consolidated</b>						
Guarantees:						
Liquidity facilities <sup>(d)</sup>	\$ 74	\$ -	\$ -	\$ -	\$ 74	
Standby letters of credit	1,078	388	59	627	4	
Guarantees of indebtedness	128	101	27	-	-	
All other guarantees <sup>(a)</sup>	153	140	13	-	-	
Commitments:						
Investment commitments <sup>(b)</sup>	2,551	1,687	539	247	78	
Commitments to extend credit <sup>(e)</sup>	2,903	1,171	856	790	86	
Letters of credit	31	31	-	-	-	
Total <sup>(c)(f)</sup>	\$ 6,918	\$ 3,518	\$ 1,494	\$ 1,664	\$ 242	

(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 9 to the Consolidated Financial Statements for further information on indemnification obligations.

(b) Includes commitments to invest in private equity funds, hedge funds and mutual 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 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. In June 2015, upon the receipt by AIG Parent of the \$500 million principal amount of 6.50% fixed-to-floating rate junior subordinated notes issued by AerCap Global Aviation Trust, the aggregate commitment under the AerCap Credit Facility was reduced to \$500 million from \$1.0 billion. At December 31, 2015, no amounts were outstanding under the AerCap Credit Facility.

(f) Excludes commitments with respect to pension plans. The annual pension contribution for 2016 is expected to be approximately \$67 million for U.S. and non-U.S. plans.

**TABLE OF CONTENTS****Item 7 / LIQUIDITY AND CAPITAL RESOURCES****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 9 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 15 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:

	Balance at		Maturities	Effect of	
<b>Year Ended December 31, 2015</b> <i>(in millions)</i>	December 31,		and	Foreign	Other
	2014	Issuance	Repayments	Exchange	Changes
Debt issued or guaranteed by AIG:					
AIG general borrowings:					
Notes and bonds payable	\$ 15,570	\$ 5,540	\$ (3,828)	\$ (156)	\$ 10
Subordinated debt	250	-	(250)	-	-
Junior subordinated debt	2,466	-	(1,073)	(57)	1
AIG Japan Holdings Kabushiki Kaisha	-	110	(1)	(3)	-
AIGLH notes and bonds payable	284	-	-	-	-
AIGLH junior subordinated debt	536	-	(114)	-	-

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Total AIG general borrowings	19,106	5,650	(5,266)	(216)	11
AIG borrowings supported by assets: <sup>(a)</sup>					
MIP notes payable	2,870	-	(1,351)	(143)	(4)
Series AIGFP matched notes and bonds payable	34	-	(2)	-	2
GIAs, at fair value	4,648	388	(1,812)	-	52 <sup>(b)</sup>
Notes and bonds payable, at fair value	818	16	(431)	-	(9) <sup>(b)</sup>
Total AIG borrowings supported by assets	8,370	404	(3,596)	(143)	41
Total debt issued or guaranteed by AIG	27,476	6,054	(8,862)	(359)	52
Debt not guaranteed by AIG:					
Other subsidiaries notes, bonds, loans and mortgages payable	58	450	(505)	(1)	-
Debt of consolidated investments <sup>(c)</sup>	3,683	363	(614)	(1)	1,556 <sup>(d)</sup>
Total debt not guaranteed by AIG	3,741	813	(1,119)	(2)	1,556
Total debt	\$ 31,217	\$ 6,867	\$ (9,981)	\$ (361)	\$ 1,608
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(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 \$2.4 billion and \$3.5 billion at December 31, 2015 and 2014, 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) At December 31, 2015, includes debt of consolidated investment vehicles related to real estate investments of \$2.4 billion, affordable housing partnership investments and securitizations of \$2.2 billion and other securitization vehicles and investments of \$359 million. At December 31, 2014, includes debt of consolidated investment vehicles related to real estate investments of \$2.1 billion, affordable housing partnership investments and securitizations of \$853 million, and other securitization vehicles and investments of \$728 million.

(d) Includes the effect of consolidating previously unconsolidated partnerships.

### **Total DEBT OUTSTANDING**

*(in millions)*

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## Debt Maturities

The following table summarizes maturing debt at December 31, 2015 of AIG (excluding \$5.0 billion of borrowings of consolidated investments) for the next four quarters:

	First Quarter 2016	Second Quarter 2016	Third Quarter 2016	Fourth Quarter 2016	Total
<i>(in millions)</i>					
AIG general borrowings	\$ -	\$ 684	\$ -	\$ 308	\$ 992
AIG borrowings supported by assets	107	72	83	365	627
Total	\$ 107	\$ 756	\$ 83	\$ 673	\$ 1,619

See Note 14 to the Consolidated Financial Statements for additional details for debt outstanding.

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**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 10, 2016. 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 <sup>(a)</sup>	S&P <sup>(b)</sup>	Fitch <sup>(c)</sup>
AIG	<b>P-2 (2nd of 3)</b> <i>Stable Outlook</i>	<b>A-2 (2nd of 8)</b>	<b>Baa 1 (4th of 9)</b> <i>Stable Outlook</i>	<b>A- (3rd of 8)</b> <i>Negative Outlook</i>	<b>BBB+ (4th of 10)</b> <i>Stable Outlook</i>
AIG Financial Products Corp. <sup>(d)</sup>	<b>P-2</b> <i>Stable Outlook</i>	<b>A-2</b>	<b>Baa 1</b> <i>Stable Outlook</i>	<b>A-</b> <i>Negative Outlook</i>	<b>-</b>

(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 the financial strength ratings of our insurance companies or our credit ratings, see Note 10 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.

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### **Item 7 / LIQUIDITY AND CAPITAL RESOURCES**

#### **Dividends and Repurchases of AIG Common Stock**

On February 12, 2015, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.125 per share, payable on March 26, 2015 to shareholders of record on March 12, 2015. On April 30, 2015, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.125 per share, payable on June 25, 2015 to shareholders of record on June 11, 2015. On August 3, 2015, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.28 per share, payable on September 28, 2015 to shareholders of record on September 14, 2015. On November 2, 2015, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.28 per share, payable on December 21, 2015 to shareholders of record on December 7, 2015.

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. 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 16 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 December 16, 2015, our Board of Directors authorized an additional increase of \$3.0 billion to the previous share repurchase authorization.

During 2015, we repurchased approximately 182 million shares of AIG Common Stock for an aggregate purchase price of approximately \$10.7 billion pursuant to this authorization. The total number of shares of AIG Common Stock repurchased in 2015 includes (but the aggregate purchase price does not include) approximately 3.5 million shares of AIG Common Stock received in January 2015 upon the settlement of an ASR agreement executed in the fourth quarter of 2014. Pursuant to Exchange Act Rule 10b5-1 repurchase plans, from January 1 to February 11, 2016, we have repurchased approximately \$2.5 billion of additional shares of AIG Common Stock.

On February 11, 2016, our Board of Directors authorized an additional increase to the repurchase authorization of AIG Common Stock of \$5.0 billion, resulting in a remaining authorization on such date of approximately \$5.8 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 18 to the Consolidated Financial Statements for a discussion of restrictions on payments of dividends by our subsidiaries.

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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 the firm'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 enterprise 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.

- Our ERM framework provides senior management with a consolidated view of our risk appetite and major risk positions.
- In each of our business units, senior leaders and executives approve risk-taking policies and targeted risk tolerances within the ERM framework while working with ERM to mitigate risks across the firm.
- Risk management is an integral part of how we manage our core businesses.

**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 charged with 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 management strategy committee providing ERM the opportunity 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 us and our subsidiaries. Its mandate includes overseeing our aggregate credit, market, interest rate, capital, liquidity and model risks, as well as asset-

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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. Membership of the FRG includes our CFO, CRO, Chief Investment Officer and Chief Strategy Officer.

**Operational Risk Committee (ORC):** This committee oversees operational risk management activities across our businesses, functions, and geographic locations. The ORC reviews the enterprise-wide identification, escalation and mitigation of operational risks that may arise from inadequate or failed internal processes, people, systems, or external events. The ORC also monitors current and emerging operational risks, as well as management actions taken to reduce risks to acceptable levels. The ORC approves the Operational Risk Management (ORM) Policy and ORM Framework, which includes the identification, assessment, monitoring and measurement of risks. The ORC ensures applicable governance structures are established to provide oversight of operational risk at each business unit and corporate function. The ORC also reviews aggregate firm-wide operational risk reports and provides a forum for senior management to assess our operational risk profile and to discuss operational risks that may affect our strategic objectives.

ORC members include senior AIG executives with expertise in legal, compliance, technology, human resources, finance and operational risk, as well as business continuity management and the chief risk officer of our business units.

**Business Unit Risk and Capital 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 capital management strategies (including asset allocation and risk financing), insurance portfolio optimization, risk management policies and providing oversight of risk-adjusted metrics. In addition, each business unit has established subordinate committees which identify, assess and monitor the specific operational, transactional and financial risks inherent in its respective business. Together, the committees described above provide comprehensive risk oversight throughout the organization.

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#### **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 on capital and liquidity measures. These measures are set at the AIG Parent 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:

- Monitoring of risks, providing early warning indicators, and ensuring timely oversight and enforceability;
- Defining a consistent and transparent approach to limits governance from the group-level to regional entities; and
- Alignment with Risk Appetite Statement, where applicable.

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:

- **Level I Limits** are AIG consolidated level limits. They define our aggregate maximum exposures for core risks within the boundaries set by the Risk Appetite Statement, and constrain our concentration in specific

risk types. These limits are set to manage key risks identified by ERM and to meet requirements by regulators and rating agencies at a consolidated level. Level 1 Limits are reported to the FRG, GRC and RCC.

- **Level II Limits** are business unit level limits. They define our appetite for specific, material risk taking activities within business units and corporate functions. These key risks are identified by ERM for the business unit and/or corporate function, and risk limits are developed to meet the specific requirements of regulators and rating agencies. Level II Limits are reported to the business unit RCCs, where applicable.
- **Level III Limits** monitor risk utilization on the regional or local level and are developed to address any specific requirements by regulators and rating agencies for that region not captured by the Level I and Level II limits. Level III Limits are reported at the local entity risk committee.

All limits are reviewed by the FRG, GRC or relevant business unit RCCs 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

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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.

- Credit Risk Management
- Liquidity Risk Management
- Insurance Risks
- Market Risk Management
- Operational Risk Management
- Other Operations 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.

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#### **Governance**

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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**

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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 documented risk-taking authorities, 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.

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#### **Risk Identification**

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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 U.S. 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 rise in 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 significant income, assets and liabilities denominated in, and significant 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

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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, U.S. 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.

**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.

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The following table provides estimates of our sensitivity to changes in yield curves, equity prices and foreign currency exchange rates:

	Balance Sheet Exposure December 31, 2015	December 31, 2014	Balance Sheet Effect December 31, 2015	December 31, 2014
<i>(dollars in millions)</i>				
Sensitivity factor			100 bps parallel increase in all yield curves	
Interest rate sensitive assets:				
Fixed maturity securities	260,689	273,885	(14,549)	(15,107)
Mortgage and other loans receivable	18,878	16,594	(1,092)	(921)
Preferred stock	20	19	(1)	(1)
Total interest rate sensitive assets	\$ 279,587 <sup>(a)</sup>	\$ 290,498 <sup>(a)</sup>	\$ (15,642)	\$ (16,029)
Sensitivity factor			20% decline in stock prices and value of alternative investments	
Equity and alternative investments exposure:				
Hedge funds	10,917	10,798	(2,183)	(2,160)
Private equity	7,233	8,858	(1,447)	(1,772)
Real estate investments	6,579	3,612	(1,316)	(722)
PICC <sup>(b)</sup>	2,239	3,375	(448)	(675)
Common equity	1,574	2,044	(315)	(409)
Aircraft asset investments	477	651	(95)	(130)
AerCap <sup>(c)</sup>	-	4,972	-	(994)
Other investments	472	1,331	(94)	(266)
Total equity and alternative investments exposure	\$ 29,491	\$ 35,641	\$ (5,898)	\$ (7,128)
Sensitivity factor			10% depreciation of all foreign currency exchange rates against the U.S. dollar	
Foreign currency-denominated net asset position:				
Great Britain pound	2,158	3,884	(216)	(388)
Hong Kong dollar	2,138	2,875	(214)	(288)
Euro	2,053	768	(205)	(77)
All other foreign currencies	4,310	4,478	(431)	(448)



Total foreign currency-denominated net  
asset position<sup>(d)</sup>

\$ 10,659      \$ 12,005      \$ (1,066)      \$ (1,201)

(a) 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. At December 31, 2014, the analysis covered \$290.4 billion of \$308.9 billion interest-rate sensitive assets. Excluded were \$8.4 billion of loans and \$3.8 billion of investments in life settlements. In addition, \$6.3 billion of assets across various asset categories were excluded due to modeling limitations.

(b) Includes our investments in PICC Group and PICC P&C.

(c) In September 2015, we sold the remainder of our ordinary shares of AerCap. Our 2014 sensitivity calculation for AerCap was based on our carrying value rather than the stock price as of the applicable date, as we applied the equity method of accounting prior to the sale.

(d) 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 U.S. GAAP basis. 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. We manage cash flow risk on our foreign currency-denominated debt issued by AIG Parent and use a variety of techniques to mitigate this risk, including but not limited to the execution of cross-currency swaps and the issuance of new foreign currency-denominated debt to replace equivalent maturing debt. At the AIG Parent level, we monitor our foreign currency exposures against single currency and

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aggregate currency portfolio limits. As a matter of general practice, we do not typically hedge our foreign currency exposures to net investments in subsidiaries.

At December 31, 2015, our foreign currency-denominated net asset position decreased by \$1.3 billion, or 11.2 percent, compared to December 31, 2014. The decrease was mostly due to a \$1.7 billion decrease in our British pound position, primarily resulting from the unwinding of a cross-currency swap and a \$737 million decrease in our Hong Kong dollar position, primarily resulting from the sale of ordinary shares in PICC P&C. These decreases were partially offset by a \$1.3 billion increase in our euro position, primarily resulting from debt repurchases and hedging.

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 2015 and presented above were selected based on historical data from 1995 to 2015, 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)/Great Britain pound (GBP) exchange rate.

		Standard Period Deviation	Suggested 2015 Scenario	2015 Scenario as a Multiple of Standard Deviation	2015 2015 as a Multiple of Change/ Return	2015 2015 as a Multiple of Standard Deviation	Original 2014 Scenario on Standard Deviation 1994-2015
10-Year							
Treasury	1995-2015	0.01	0.01	1.00	-	0.10	
S&P 500	1995-2015	0.18	0.20	1.09	(0.01)	0.04	
USD/GBP	1995-2015	0.09	0.10	1.06	(0.05)	0.57	
<b>Risk Monitoring and Limits</b>							

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 can be generated to meet the obligations as they come due.

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AIG Parent liquidity risk tolerance levels allow it to meet its obligations over a twelve month horizon consistent with its risk appetite. We maintain a target range for required liquidity 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 cannot 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 is 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 are 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 through the CMRO, who reports directly to the AIG CRO. 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.

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**Target Liquidity Range:** Target Liquidity Range specifies the amount of assets required to be maintained in specific liquidity portfolios to meet obligations as they arise over a twelve month 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:** Coverage Ratios and Asset 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, but 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 the firm'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 key second lines of defense functions (e.g., Model Validation and the Technology Risk office, as well as Compliance, SOX, 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

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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.

- 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 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 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.

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#### **Risk Identification**

- **Non-Life Insurance Companies** — risks covered include property, casualty, fidelity/surety, accident and health, aviation, management liability and mortgage insurance. 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. We manage risks in the mortgage insurance business through geographic classification, risk based pricing, premium adequacy monitoring, and prudent credit policy and underwriting standards.

- **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, both for the Non-Life Insurance Companies and the Life Insurance Companies.

#### **Governance**

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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**

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**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.

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See Risk Appetite, Limits, Identification, and Measurement – Risk Limits herein for further information on our three-tiered hierarchy of limits

#### **Non-Life 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 Non-Life Insurance Companies, insurance risks primarily include the following:

- **Liability for Unpaid Losses and Loss Adjustment Expenses** - The potential inadequacy of the liabilities we establish for unpaid losses and loss adjustment expenses is a key risk faced by the Non-Life 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 1. Business – A review of Liability for Unpaid Losses and Loss Adjustment Expenses herein for further information.
- **Underwriting** - The potential inadequacy of premiums charged for future risk periods on risks underwritten in our portfolios can impact the Non-Life 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

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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 which 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. 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.**

<b>At December 31, 2015</b> <i>(in millions)</i>		<b>Net of 2016</b>	<b>Net of 2016</b>	<b>Percent of Total</b>
	<b>Gross</b>	<b>Reinsurance</b>	<b>Reinsurance, After Tax</b>	<b>Shareholder Equity</b>
Exposures:				
U.S. Hurricane (1-in-100) <sup>(a)</sup>	\$ 5,332	\$ 3,144	\$ 2,044	2.3%
U.S. Earthquake (1-in-250) <sup>(b)</sup>	7,484	3,827	2,487	2.8
Japanese Wind (1-in-100)	936	523	340	0.4
Contractual Obligations				350

Japanese Earthquake (1-in-250) <sup>(c)</sup>	\$	993	\$	601	\$	391	0.4%
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(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, 2015, for both U.S. and Japan exposures. The catastrophe reinsurance program is as of January 1, 2016.

As noted above, AIG, along with other non-life insurance and reinsurance companies, utilizes industry-recognized catastrophe models and apply their 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, 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

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traditional reinsurance transactions. Therefore, these estimates are inherently uncertain and may not accurately reflect our exposure to these events.

Our 2016 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 occurrence and aggregate covers to protect against losses in Japan. The attachment point for this reinsurance program is at \$3 billion for the North American cover and varies by line of business for the Japan covers.

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 Non-Life 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 \$3 billion as of September 30, 2015. We also have smaller terrorism exposure in Canadian cities and in London.

Our exposure to terrorism risk 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 2016, TRIPRA covers 84 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 \$2.7 billion for 2015.

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.

#### *Mortgage Risk*



For Mortgage Guaranty, the potential exposure to loss is due to borrower default on a first-lien residential mortgage; the primary drivers of this risk are changes in mortgage underwriting standards, home price depreciation, changes in the unemployment rate, changes in mortgage rates, and mortgagee behavior.

Mortgage Guaranty manages the quality of the loans it insures through use of a proprietary risk quality index. Mortgage Guaranty uses this index to determine an insurability threshold as well as to manage the risk distribution of its new business. Along with traditional mortgage underwriting variables, Mortgage Guaranty's risk-based pricing model uses rating factors such as local housing economic conditions to establish premium rates.

#### *Reinsurance Recoverable*

AIG's reinsurance recoverable assets are comprised of:

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- 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, 2015, total reinsurance recoverable assets were \$20.4 billion. These assets include general reinsurance paid losses recoverable of \$1.2 billion, ceded loss reserves of \$14.5 billion including reserves for IBNR, and ceded reserves for unearned premiums of \$3.0 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, 2015 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 both the financial condition of reinsurers as well as the total reinsurance recoverable ceded to reinsurers, and set limits with regard to the amount and type or exposure we are willing to take with reinsurers. As part of these assessments, we attempt to identify whether a reinsurer is appropriately licensed, assess its financial capacity and liquidity; and evaluate the local economic and financial environment in which a foreign reinsurer operates. 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 events for 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, 2015, we held \$7.4 billion of collateral, in the form of funds withheld, securities in reinsurance trust accounts and/or irrevocable 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, nor is our business substantially dependent upon any single reinsurance contract.

The following table presents information for each reinsurer representing in excess of five percent of our total reinsurance recoverable assets:

**At December 31, 2015**

<i>(in millions)</i>	S&P Rating <sup>(a)</sup>	A.M. Best Rating <sup>(a)</sup>	Gross Reinsurance Assets	Percent of Reinsurance Assets <sup>(b)</sup>	Uncollateralized Collateral Held <sup>(c)</sup>	Reinsurance Assets
Reinsurer:						
Swiss Reinsurance Group of Companies	AA-	A+	\$ 2,553	12.5%	\$ 733	\$ 1,820
Berkshire Hathaway Group of Companies	AA+	A++	\$ 2,275 <sup>(d)</sup>	11.1%	\$ 1,408	\$ 867
Munich Reinsurance Group of Companies	AA-	A+	\$ 1,637	8.0%	\$ 660	\$ 977

(a) The financial strength ratings reflect the ratings of the various reinsurance subsidiaries of the companies listed as of February 5, 2016.

(b) Total reinsurance assets include both the Non-Life 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 Non-Life 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. See Liability for Unpaid Losses and Loss Adjustment Expenses — Transfer of Domestic Asbestos Liabilities.

At December 31, 2015, we had no significant general reinsurance recoverable due from any individual reinsurer that was financially troubled. Reinsurer capital levels continued to increase in 2015, thereby increasing the industry's underwriting capacity. This increased capacity has resulted in increased competition and lower rates for 2016 renewals. Reduced profitability associated with lower rates could potentially result in reduced capacity or rating downgrades for some reinsurers.

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The RCD, in conjunction with the credit executives within ERM, reviews these developments, monitors compliance with 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 Retirement and Life segments 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 Retirement and Life 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 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 Program*

Our Retirement Income Solutions and Group Retirement businesses offer variable annuity products with riders that guarantee a certain level of benefits. Certain guaranteed living benefits, which include GMWB and GMAB, are accounted for as

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embedded derivatives measured at fair value, with changes in the fair value recorded in Other realized capital gains (losses). GMWB and GMAB 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 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 and GMAB features through our variable annuity hedging program, which is designed to offset certain changes in the economic value of these GMWB and GMAB 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 drivers of these embedded derivatives, based on the present value of the future expected benefit payments for the GMWB and GMAB, 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 Results of Operations – Life Insurance Companies DAC and Reserves - Variable Annuity Guaranteed Benefit Features and Hedging Program 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, 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.

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 credit spreads. The 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 program utilizes 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, 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 program is 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

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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 Operations 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 \$1.3 billion at December 31, 2015 and \$1.6 billion at December 31, 2014. 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)

Rating:

AAA

	2015	2014
	\$ 56	\$ 11

Contractual Obligations

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AA	103	129
A	256	441
BBB	767	838
Below investment grade	127	184
Total	\$ 1,309	\$ 1,603

See Note 10 to the Consolidated Financial Statements for additional discussion related to derivative transactions.

#### AIG Parent and Other

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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.

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

- 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;
- 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; 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.

**The major assumptions used to establish each critical accounting estimate are discussed below.**

#### **Income Taxes**

##### **Recoverability of Net Deferred Tax Asset**

The evaluation of the recoverability of our net 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 net 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

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planning strategies, all resulted in sufficient taxable income to achieve realization of the U.S. tax attributes prior to their expiration.

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, 2015, 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 22 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.

### **Insurance Liabilities**

#### **Liability for Unpaid Losses and Loss Adjustment Expenses (Non-Life Insurance Companies)**

The estimate of the Liability for unpaid losses and loss adjustment expenses consists of several key judgments:

- the determination of the actuarial models used as the basis for these estimates;
- the relative weights given to these models by class;
- the underlying assumptions used in these models; and
- the determination of the appropriate groupings of similar classes and, in some cases, the segmentation of dissimilar claims within a class.

We use numerous assumptions in determining the best estimate of reserves for each class of business. The importance of any specific assumption can vary by both class 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

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is particularly true for long-tail casualty classes of business such as excess casualty, asbestos, D&O, and primary or excess workers' compensation.

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.

In some of our estimation processes we rely on the claims department estimates of our case reserves as an input to our best estimate of the ultimate loss cost.

The Non-Life Insurance Companies' loss reserves can generally be categorized into two distinct groups. Short-tail classes of business consist principally of property, Personal Insurance and certain casualty classes. Long-tail casualty classes of business include excess and umbrella liability, D&O, professional liability, medical malpractice, workers' compensation, general liability, products liability and related classes.

**For operations writing short-tail coverages**, where the nature of claims is low frequency and high severity such as property, the process for recording non-catastrophe quarterly loss reserves for more recent accident quarters is geared toward maintaining incurred but not reported reserves (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 class of property business 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. The percent of premium factor reflects both our expectation of the ultimate loss costs associated with the class 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 class 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 classes where the nature of claims is high frequency 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, using alternative techniques or expected percentages of ultimate loss cost emergence based on historical loss emergence of similar claim types.



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<p><b>Estimation of ultimate net losses and loss adjustment expenses (net losses) for long-tail casualty classes of business</b> is a complex process and depends on a number of factors, including the class and volume of business, as well as estimates of the reinsurance recoverable. Experience in the more recent accident years shows limited statistical credibility in reported net losses on long-tail casualty classes of business. That is because a relatively low proportion of net incurred losses represents reported claims and expenses, and an even smaller percentage represents net losses paid. Therefore, IBNR constitutes a relatively high proportion of net losses.</p>	<p><i>To estimate net losses for long-tail casualty classes of business, we use a variety of actuarial methods and assumptions.</i></p>
<p><b>To estimate net losses for long-tail casualty classes of business</b>, we use a variety of actuarial methods and assumptions and other analytical techniques as described below. A detailed reserve review is generally performed at least once per year to allow for comprehensive actuarial evaluation and collaboration with claims, underwriting, business unit management, risk management and senior management.</p>	
<p><b>We generally make a number of actuarial assumptions in the review of reserves for each class of business.</b></p>	

- **Loss cost trend factors** which are used to establish expected loss ratios for subsequent accident years based on the projected loss ratios for prior accident years.
  - **Expected loss ratios** for the latest accident year (i.e., accident year 2015 for the year-end 2015 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 trend and the effect of rate changes and other quantifiable factors on the loss ratio. For low-frequency, high-severity classes such as excess casualty, expected loss ratios generally are used for at least the three most recent accident years.
  - **Loss development factors** which 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.
- We record quarterly changes in loss reserves for each of the Non-Life Insurance Companies classes of business.** The overall change in our loss reserves is based on the sum of the changes for all classes of business. For most long-tail classes of business, the quarterly loss reserve changes are based on the estimated current loss ratio for each class 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 reserve studies or large loss analysis, either positive or negative, is reflected in the loss reserve for the current quarter. Differences between actual loss emergence in a given period compared to our expectations may also influence our judgment with respect to reserve adequacy.

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**The process of determining the current loss ratio for each class 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 class of business is intended to represent our best estimate of the current loss ratio after reflecting all of the relevant factors. At the close of each quarter, the assumptions underlying the loss ratios are reviewed to determine if the loss ratios remain appropriate. This process includes a review of the actual claims experience in the quarter, actual rate changes achieved, actual changes in coverage, reinsurance or mix of business, and changes in other factors that may affect the loss ratio. When this review suggests that the initially determined loss ratio is no longer appropriate, the loss ratio for current business is changed to reflect the revised assumptions.

**We conduct a comprehensive loss reserve review at least annually for each class of business in accordance with Actuarial Standards of Practice.** These standards provide that the unpaid claim 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 claim amount. Further, the actuarial central estimate represents an expected value using the range of reasonably possible outcomes.

The reserve analysis for each class of business is performed by the actuarial personnel who are most familiar with that class of business. In this process, the actuaries are required to make numerous assumptions, including the selection of loss development factors and loss cost trend factors. They are also required to determine and select the most appropriate actuarial methods for each business class. Additionally, they must determine the segmentation of data that will enable the most suitable test of reserve adequacy. In the course of these detailed reserve reviews an actuarial central estimate of the loss reserve is determined. The sum of these central estimates for each class of business provides an overall actuarial central estimate of the loss reserve for that class.

We selected our central estimate based on point estimates from each method with weights that vary by accident year. In 2015, we began developing our ranges of reasonable estimates for certain classes by evaluating ranges derived from multiple methodologies. We considered the range of reasonable parameter selections (for example, three-year versus ten-year average loss development factors) for each appropriate method and calculated a range of indications for each method. Where we have ranges, we assess the position of the actuarial central estimate in the range to help inform management's decision making. The range of reasonable estimates are not intended to cover all possibilities or extreme values.

We continue to 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. In 2015, the third party

actuarial reviews covered the majority of net reserves held for our Commercial long-tail classes of business, and run-off portfolios reported in Corporate and Other.

A critical component of our detailed valuation reviews is our 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 challenge process by specialists in our Enterprise Risk Management group.

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- 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;
  - claims handling processes and enhancements;
  - third-party claims reviews that are periodically performed for key classes of claims such as toxic tort, environmental and other complex casualty claims and
  - third-party actuarial reviews that are periodically performed for key classes of business.
- Loss reserve development can also be affected by commutations of assumed and ceded reinsurance agreements.

#### **Actuarial and Other Methods for Major Classes of Business**

**In testing the reserves for each class of business**, our actuaries determine the most appropriate actuarial methods. This determination is based on a variety of factors including the nature of the claims associated with the class of business, such as the frequency or severity of the claims. Other considerations include the loss development characteristics associated with the claims, the volume of claim data available for the applicable class, and the applicability of various actuarial methods to the class. In addition to determining the actuarial methods, the actuaries determine the appropriate loss reserve groupings of data. For example, we write many unique subclasses of professional liability. For pricing or other purposes, it is appropriate to evaluate the profitability of each subclass individually. However, for purposes of estimating the loss reserves for many classes of business, we believe it is appropriate to combine the subclasses into larger groups to produce a greater degree of credibility in the claims experience. This determination of data segmentation and actuarial methods is carefully considered for each class of business. The segmentation and actuarial methods chosen are those which together are expected to produce the most robust central estimate of the loss reserves.

**The actuarial methods we use for most long-tail casualty classes of business include loss development methods, expected loss ratio methods, including “Bornhuetter Ferguson” methods described below, and frequency/severity models.** Loss development methods utilize the actual loss development patterns from prior accident years to project the reported losses to an ultimate basis for

subsequent accident years. Loss development methods generally are most appropriate for classes of business which exhibit a stable pattern of loss development from one accident year to the next, and for which the components of the classes have similar development characteristics. For example, property exposures would generally not be combined into the same class as casualty exposures, and primary casualty exposures would generally not be combined into the same class as excess casualty exposures. In 2015, we continued to refine our loss reserving techniques for the domestic primary casualty classes of business and adopted further segmentations based on our analysis of the differing emerging loss patterns for certain classes of insureds. We generally use expected loss ratio methods in cases where the reported loss data lacks sufficient credibility to utilize loss development methods, such as for new classes of business or for long-tail classes 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 class of business to determine the loss reserves.** For example, an expected loss ratio of 70 percent applied to an earned premium base of \$10 million for a class of business would generate an ultimate loss estimate of \$7 million. Subtracting any reported paid losses and loss adjustment expenses would result in the indicated loss reserve for this class. Under the “Bornhuetter Ferguson” methods, the expected loss ratio is applied only to the expected unreported portion of the losses. For example, for a

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long-tail class 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 applied to the 90 percent of the 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 class 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 class 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 the 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 not credible. 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 will continue at later stages of development. 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.

**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 class of business must consist of homogeneous types of claims for which loss severity trends from one year to the next are reasonably consistent. Generally these methods work best for high frequency, low severity classes of business such as personal auto.

**Structural drivers analytics seek to explain the underlying drivers of frequency/severity.** A structural drivers 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 class of business, we have attempted to corroborate our judgment by considering the impact on severity of the future propensity 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 to determine the stability and likelihood of settling an injured worker's indemnity and medical benefits – the claim file review was facilitated by third party specialists experienced in workers' compensation claims;
- 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;

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- Portfolio specific mortality level and mortality improvement assumptions based on a mortality study conducted for AIG's primary and excess workers' compensation portfolios and AIG's opinion of future longevity trends for the open reported cases;
- Ground-up consideration of the reinsurance recoveries expected for the class of business for reported claims with extrapolation for unreported claims; and
- The effects of various run-off claims management strategies that have been developed by AIG's run-off unit.

During 2015, we continued to expand our analysis of structural drivers as a means of corroborating our judgments using traditional actuarial techniques. For example, we have considered the impact of changes in economic activity (real GDP growth, which can impact levels of trucking activity) on our emerging experience in the Commercial Auto Liability class of business, particularly business written in excess of a large insured deductible where ground up experience may take several years to reach our layer. Further, we considered the impact of expected levels of future inflation as measured by the Personal Consumption Expenditure (PCE) Deflator (Health Services Component) published by the U.S. Bureau of Economic Analysis on our ultimate loss costs for medical benefits in the primary workers' compensation class of business. We believe the PCE Deflator provides a more appropriate measure of workers' compensation medical inflation as it includes medical expenditures made by employers on behalf of their employees. We also tested the sensitivity of our estimates to changes in the future path and level of inflation for this class of business.

**Overall, our loss reserve reviews for long-tail classes typically utilize a combination of both loss development and expected loss ratio methods, supplemented by structural drivers analysis of frequency/severity where available.** Loss development methods are generally given more weight for accident years and classes of business where the loss experience is highly credible. Expected loss ratio methods are given more weight where the reported loss experience is less credible, or is driven more by large losses. Expected loss ratio methods require sufficient information to determine the appropriate expected loss ratio. This information generally includes the actual loss ratios for prior accident years, and rate changes as well as underwriting or other changes which would affect the loss ratio. Further, an estimate of the loss cost trend or loss ratio trend is required to allow for the effect of inflation and other factors which may increase or otherwise change the loss costs from one accident year to the next.

**The estimation of loss reserves relating to asbestos and environmental claims on insurance policies written many years ago is subject to greater uncertainty than other types of claims.** 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 claims 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 Non-Life Insurance Companies 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 claims 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 claim liabilities, where future litigation costs are reasonably determinable, are established on a case-by-case basis.

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#### *Reserve Estimation for Asbestos and Environmental Claims*

Estimation of asbestos and environmental claims loss reserves is a subjective process. Reserves for asbestos and environmental claims cannot be estimated using conventional reserving techniques such as those that rely on historical accident year loss development factors. The methods used to determine asbestos and environmental loss estimates and to establish the resulting reserves are continually reviewed and updated by management.

Various factors contribute to the complexity and difficulty in determining the future development of claims. Significant factors that influence the claims estimation process include court resolutions and judicial interpretations which broaden the intent of the policies and scope of coverage. The current case law can be characterized as still evolving, and there is little likelihood that any firm direction will develop in the near future. Additionally, the exposures for cleanup costs of hazardous waste dump sites involve issues such as allocation of responsibility among potentially responsible parties and the government's refusal to release parties from liability. Future claims development also will be affected by the changes in Superfund and waste dump site coverage and liability issues.

If the asbestos and environmental reserves develop adversely, resulting deficiencies could have an adverse effect on our future results of operations for an individual reporting period.

With respect to known environmental claims, over two decades ago we established a specialized environmental claims unit, which investigates and adjusts all such environmental claims. This unit evaluates environmental claims utilizing a claim-by-claim approach that involves a detailed review of individual policy terms and exposures. Because each policyholder presents different liability and coverage issues, we generally evaluate exposure on a policy-by-policy basis, considering a variety of factors such as known facts, current law, jurisdiction, policy language and other factors that are unique to each policy. Quantitative techniques must be supplemented by subjective considerations, including management judgment. Each claim is reviewed at least semi-annually utilizing the aforementioned approach and adjusted as necessary to reflect the current information.

The environmental claims unit also actively manages and pursues early resolution with respect to these claims in an attempt to mitigate our exposure to the unpredictable development of these claims. We attempt to mitigate our known long-tail environmental exposures through a combination of proactive claim-resolution techniques, including policy buybacks, complete environmental releases, compromise settlements, and, when appropriate, litigation.

Known asbestos claims are managed in a similar manner. Over two decades ago we established a specialized toxic tort claims unit, which historically investigated and adjusted all such asbestos claims. As part of the above mentioned NICO transaction, effective January 1, 2011, NICO assumed responsibility for claims handling related to the majority of AIG's domestic asbestos liabilities.



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The following is a discussion of actuarial methods applied by major class of business:

<i>Excess Casualty</i>		
<p>We generally use a combination of loss development methods, both multiplicative and/or additive, and expected loss ratio methods for excess casualty classes.</p> <p>Frequency/severity methods are generally not used in isolation to determine ultimate loss costs as the vast majority of reported claims do not result in claim payment. (However, frequency/severity methods assist in the regular monitoring of the adequacy of carried reserves to support incurred but not reported claims). In addition, the average severity varies significantly from accident year to accident year due to large losses which characterize this class of business, as well as changing proportions of claims which do not result in a claim payment. To gain more stability in the projection, the claims amenable to loss development methods are analyzed in multiple layers: the layer capped at \$1 million, \$4 million excess of \$1 million, \$5 million excess of \$5 million, \$15 million excess of \$10 million, and the layer above \$25 million. The expected loss ratios for the layers above \$5 million are derived from the expected relationship between the layers, reflecting the attachment point and limit by accident year.</p> <p>In addition, we leverage case reserving based methodologies for complex claims/ latent exposures such as those involving toxic tort and other claims accumulations.</p>		
<p>Expected loss ratio methods are generally used for at least the three latest accident years, due to the relatively low credibility of the reported losses. The loss experience is generally reviewed separately for lead umbrella classes and for other excess classes, due to the relatively shorter tail for lead umbrella business. Automobile related claims are generally reviewed separately from non-auto claims, due to the shorter-tail nature of the automobile related claims. Claims relating to certain latent exposures such as construction defects, exhaustion of underlying product aggregate limits, or mass torts are reviewed separately due to the unique emergence patterns of losses relating to these claims. The expected loss ratios used for recent accident years are based on the projected ultimate loss ratios of prior years, adjusted for rate changes, estimated loss cost trends and all other changes that can be quantified.</p> <p>During 2015, the observed claims deterioration for complex claims/latent exposures impacted the case reserving methodologies which are relied on in determining ultimate loss costs. This deterioration was considered in the expected loss ratio method that we also consider in setting the reserve for mass tort exposures. The provision for the base years of 1986-2000 was increased, which raised the expected loss ratios for the subsequent accident years.</p>		
<i>D&amp;O and Related Management Liability Classes of Business</i>		
<p>We generally use a combination of loss development methods and expected loss ratio methods for D&amp;O</p>		
<p>These classes of business reflect claims made coverage, and losses are characterized by low frequency</p>		

<p>and related management liability classes of business.</p> <p>Frequency/severity methods are generally not used in isolation for these classes as the overall losses are driven by large losses more than by claim frequency. Severity trends have varied significantly from accident year to accident year and care is required in analyzing these trends by claim type. We also give weight to claim department ground-up projections of ultimate loss on a claim by claim basis as these may be more predictive of ultimate loss values especially for older accident years.</p>		<p>and high severity. In general, expected loss ratio methods are given more weight in the more recent accident years, whereas loss development methods are given more weight in more mature accident years. For the year-end 2015 loss reserve review, claims projections for accident years 2014 and prior were used after making adjustments for changing levels of development in these estimates. In the 2015 analysis, for the more mature accident years, we have generally given more weight to the incurred and legal expense loss development methods than in prior years' reviews. For the more recent accident years, we have made some changes in the weights on certain market segments to give more weight to the claims projections than in the prior years' reviews.</p>

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<i>Workers' Compensation</i>		
We generally use a combination of loss development methods and expected loss ratio methods for workers' compensation. We segment the data by state and industry class to the extent that meaningful differences are determined to exist.		For guaranteed cost business, expected loss ratio methods generally are given significant weight only in the most recent accident year. Workers' compensation claims are generally characterized by high frequency, low severity, and relatively consistent loss development from one accident year to the next. We historically have been a leading writer of workers' compensation, and thus have sufficient volume of claims experience to use development methods. We generally segregate California (CA) business from other business in evaluating workers' compensation reserves. Commencing in 2012, we segmented out New York (NY) from the other states to reflect its different development pattern and changing percentage of the mix by state. We also revised our assumptions to reflect changes in our claims management activities. Certain classes of workers' compensation, such as construction and business written in excess of a deductible, are also evaluated separately. Expected loss ratio methods for business written in excess of a deductible may be given significant weight in the five or more most recent accident years. Additionally, we write a number of very large accounts which include workers' compensation coverage. These accounts are generally individually priced by our actuaries, and to the extent appropriate, the indicated losses based on the pricing analysis may be used to record the initial estimated loss reserves for these accounts.

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		<p>In 2014, we updated our tail factor selections in CA and NY, our loss development factors in the Construction class, and refined our segmentation for excess of a large deductible business. Each of these segments appeared to have been impacted by specific structural changes in the portfolio. For CA business, our tail factor increases were in response to changing long-term medical development patterns. In NY, there has been a lengthening of the period between the date of accident and the classification of non-scheduled permanent partial injuries. We completed a review of claim emergence and payouts for our top six states in workers' compensation and concluded that NY and CA were the main states where the loss development patterns had materially changed since our last review. For the Construction class, we noted that the construction sector has experienced a comparatively slow recovery in payroll levels. As a result of the diminished employment opportunities in this industry sector, injured workers may experience limited return-to-work opportunities, which moderate the shortening of claim duration that normally accompanies a labor market recovery. Lastly, for excess of large deductible business, we updated our analyses to consider the impact of changes in the mix of retentions that has occurred over time as the data by retention band was becoming more credible.</p> <p>Commencing in 2014, we also enhanced our analysis by considering our best estimate expectations of inflation (principally, the PCE Deflator for Health Care Services) and loss cost trends and we also reflected the impacts of enhancements in our claim management and loss mitigation activities, such as opioid drug</p>

<p>Many of our primary casualty policies contain risk-sharing features, including high deductibles, self-insured retentions or retrospective rating features, in addition to a traditional insurance component. These risk-sharing programs generally are large and complex, comprising multiple products, years and structures, and are subject to amendment over time. We generally use premium and expected loss ratio methods for these programs.</p>	<p>management, fraud investigation and medical management.</p> <p>As part of the 2015 reserve review related to these policies, we enhanced our segmentation to better reflect varying policy features. As a result of the improved loss segmentation, we were able to give more weight to loss development methods in addition to premium and expected loss ratio methods.</p>
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<i>Excess Workers' Compensation</i>		
<p>We historically have used a combination of loss development methods and expected loss ratio methods for excess workers' compensation. Commencing with the 2014 loss reserve review, our actuaries supplemented the methods used historically by applying a structural drivers approach to inform their judgment of the ultimate loss costs for open reported claims from accident years 2006 and prior and used the refined analysis to help inform their judgment of the ultimate loss cost for claims that have not yet been reported using a frequency/severity approach for these accident years.</p>		<p>Excess workers' compensation is an extremely long-tail class of business, with loss emergence extending for decades. The class is highly sensitive to small changes in assumptions — in the rate of medical inflation or the longevity of injured workers, for example — which can have a significant effect on the ultimate reserve estimate. Claims estimates for this line also are highly sensitive to:</p> <ul style="list-style-type: none"> <li>• the assumed future rate of inflation and other economic conditions in the United States;</li> <li>• changes in the legal, regulatory, judicial and social environment;</li> <li>• the expected impact of recently enacted health care reform on workers' compensation costs;</li> <li>• underlying policy pricing, terms and conditions;</li> <li>• claims settlement trends that can materially alter the mix and ultimate cost of claims;</li> <li>• changes in claims reporting and management practices of insureds and their third-party administrators;</li> <li>• the cost of new and additional treatment specialties, such as "pain management";</li> <li>• the propensity for severely injured workers' medical conditions to deteriorate in the future;</li> <li>• changes in injured worker longevity; and</li> <li>• territorial experience differences (across states and within regions in a state).</li> </ul>

Methods based on expected loss ratios are given the greater weight for the more recent accident years. For the 2015 loss reserve review, the structural drivers approach which was applied to open reported claims from accident years 2006 and prior, was deemed to be most suitable for informing our judgment of the ultimate loss cost for injured workers whose medical conditions had largely stabilized (i.e., at least 9 to 10 years have elapsed since the date of injury). The reserve for accident years 2007 and subsequent was determined using a Generalized Cape Cod Method, which is similar to a Bornhuetter Ferguson expected loss ratio method.

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<i>General Liability</i>		
We generally use a combination of loss development methods and expected loss ratio methods for primary general liability or products liability classes. We also supplement the standard actuarial techniques by using evaluations of the ultimate losses on unusual claims or claim accumulations by external specialists on those classes of claims. The segmentation of the data reflects state differences, industry classes, deductible/non-deductible programs and type of claim.		For certain classes of business with sufficient loss volume, loss development methods may be given significant weight for all but the most recent one or two accident years. For smaller or more volatile classes of business and excess of a large deductible business, loss development methods may be given limited weight for the five or more most recent accident years. Expected loss ratio methods are used for the more recent accident years for these classes. The loss experience for primary general liability business is generally reviewed at a level that is believed to provide the most appropriate data for reserve analysis. Additionally, certain sub-classes, such as construction defect, are generally reviewed separately from business in other subclasses. For other sub-classes, such as Environmental, we utilize the claim analysts' claim projections for incurred but not enough reported (IBNER) and actuarial methods to calculate pure IBNR. Commencing in 2014, we continued to refine our loss reserving techniques for the domestic primary casualty classes of business and adopted further segmentations based on our analysis of the differing emerging loss patterns for certain classes of insureds. Due to the fairly long-tail nature of general liability business, and the many subclasses that are reviewed individually, there is less credibility given to the reported losses and increased reliance on expected loss ratio methods for recent accident years.
<i>Commercial Automobile Liability</i>		
We generally use loss development methods for all but the most recent accident year for commercial automobile liability classes of business.		Expected loss ratio methods are generally given significant weight only in the most recent accident year, except for excess of large deductible business, in which expected loss ratio methods may receive weight for several accident years. In 2015, the impact of the increase in frequency of

severe claims was projected in the accident years where it was most prevalent. The resulting increase in ultimate loss projections and loss ratios for those years impacted subsequent years through loss development factors and prior expected loss ratio assumptions.

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<i>Healthcare</i>		
<p>We generally use a combination of loss development methods and expected loss ratio methods for healthcare classes of business.</p> <p>Frequency/severity methods are sometimes used for pricing certain healthcare accounts or business. However, for loss reserve adequacy testing, the need to ensure sufficient credibility generally results in segmentations that are not sufficiently homogeneous to utilize frequency/severity methods.</p> <p>We also supplement the standard actuarial techniques by using evaluations of the ultimate losses on unusual claims by specialists on those classes of claims.</p>		<p>The largest component of the healthcare business consists of coverage written for hospitals and other healthcare facilities. We test reserves for excess coverage separately from those for primary coverage. For primary coverages, loss development methods are generally given the majority of the weight for all but the latest three accident years, and are given some weight for all years other than the latest accident year. For excess coverages, expected loss methods are generally given all the weight for the latest three accident years, and are also given considerable weight for accident years prior to the latest three years. For other classes of healthcare coverage, an analogous weighting between loss development and expected loss ratio methods is used. The weights assigned to each method are those that are believed to result in the best combination of responsiveness and credibility.</p>
<i>Professional Liability</i>		
<p>We generally use a combination of loss development methods and expected loss ratio methods for professional liability classes of business.</p> <p>Frequency/severity methods are used in pricing and profitability analyses for some classes of professional liability; however, for loss reserve adequacy testing, the need to ensure sufficient credibility generally results in segmentations that are not sufficiently homogeneous to utilize frequency/severity methods.</p> <p>We also use claim department projections of the ultimate value of each reported claim to supplement and inform the standard actuarial approaches and some weight is given to this method in the more recent accident years.</p>		<p>Loss development methods are used for the more mature accident years. Greater weight is given to expected loss ratio methods in the more recent accident years. Reserves are tested separately for claims made classes and classes written on occurrence policy forms. Further segmentations are made in a manner believed to provide an appropriate balance between credibility and homogeneity of the data. Commencing in 2015, the claims department projections already used in other financial lines classes were utilized for professional liability and given some weight in the final selection.</p>

<i>Catastrophic Casualty</i>		
We use expected loss ratio methods for all accident years for catastrophic casualty business. This class of business consists of casualty or financial lines coverage that attach in excess of very high attachment points; thus the claims experience is marked by very low frequency and high severity. Because of the limited number of claims, loss development methods are not relied upon.		The expected loss ratios and loss development assumptions used are based upon the results of prior accident years for this business as well as for similar classes of business written above lower attachment points. The business can be written on a claims-made or occurrence basis. We use ground-up claim projections provided by our claims staff to assist in developing the appropriate reserve.

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<i>Aviation</i>		
<p>We generally use a combination of loss development methods and expected loss ratio methods for aviation exposures. Aviation claims are not very long-tail in nature; however, they are driven by claim severity. Thus a combination of both development and expected loss ratio methods are used for all but the latest accident year to determine the loss reserves.</p> <p>Frequency/severity methods are not employed due to the high severity nature of the claims and different mix of claims from year to year.</p>		<p>Expected loss ratio methods are used to determine the loss reserves for the latest accident year. We also use ground-up claim projections provided by our claims staff to assist in developing the appropriate reserve.</p>
<i>Personal Auto</i>		
<p>Frequency/severity and loss development methods are utilized for domestic personal auto classes.</p>		<p>For these classes of business, reliance is placed on frequency/severity methods as claim counts emerge quickly for personal auto. Frequency/severity methods allow for more immediate analysis of resulting loss trends and comparisons to industry and other diagnostic metrics.</p>
<i>Fidelity/Surety</i>		
<p>We generally use loss development methods for fidelity exposures for all but the latest accident year. We also use claim department projections of the ultimate value of each reported claim to supplement and inform the standard actuarial approaches and some weight is given to this method in the more recent accident years. For surety exposures, we generally use the same method as for short-tail classes (discussed below).</p>		<p>Expected loss ratio methods are also given weight for the more recent accident years. For the latest accident year they may be given 100 percent weight.</p>

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<i>Mortgage Guaranty</i>		
We test mortgage guaranty reserves using loss development methods, supplemented by an internal claim analysis by actuaries and staff who specialize in the mortgage guaranty business.		<p>The reserve analysis projects ultimate losses for claims within each of several reserving categories based on actual historical experience, using primarily a frequency/severity loss development approach. Additional reserve tests are also employed, such as tests measuring the trend of losses as a percent of risk in force. Reserves are reviewed separately for each line of business considering the loss development characteristics, volume of claim data available and applicability of various actuarial methods to each line.</p> <p>Reserves for mortgage guaranty insurance losses and loss adjustment expenses are established for reported mortgage loan delinquencies and estimates of delinquencies that have been incurred but have not been reported by loan servicers, based upon historical reporting trends. We establish reserves using a percentage of the contractual liability (for each delinquent loan reported) that is based upon projected claim experience for each category of delinquency, consistent in total with the overall reserve estimate.</p> <p>Mortgage Guaranty losses and loss adjustment expenses have been affected by macroeconomic events, such as improving home prices and decreasing unemployment. Because these macroeconomic events are subject to adverse or favorable change, the determination of the ultimate losses and loss adjustment expenses requires a high degree of judgment. Improving economic conditions have produced higher cure rates of delinquent loans in recent years, a trend that may not continue in 2016. In addition, loans with modifications through government and lender programs may re-default resulting in new losses</p>



for Mortgage Guaranty if adverse economic conditions were to return. In addition to improved cure rates, the favorable economic trends have resulted in a decline of newly reported delinquencies. Partially offsetting these favorable frequency trends was a lower incidence of denied and rescinded claims.

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<i>Other Short-Tail Classes</i>		
For non-catastrophe business, frequency/severity methods, loss development methods, and IBNR factor methods are used alone or in combination to set reserves for short-tail classes such as Commercial Property, Personal Property, and Accident & Health coverages.		IBNR factor methods are used, when the nature of losses are low frequency/high severity. The IBNR factors, when applied to earned premium, generate the ultimate expected losses (or other exposure measure) yet to be reported. The factors are determined based on prior accident quarters' loss costs adjusted to reflect current cost levels and the historical emergence of those loss costs. The factors are continually reevaluated to reflect emerging claim experience, rate changes or other factors that could affect the adequacy of the IBNR factor being employed.
<i>International</i>		
Business written by the Non-Life Insurance Companies internationally includes both long-tail and short-tail classes of business. For long-tail classes of business, the actuarial methods used are comparable to those described above. However, the majority of business written by the Non-Life Insurance Companies internationally is short-tail, high frequency and low severity in nature. For this business, loss development methods are generally employed to test the loss reserves.		We maintain a database of detailed historical premium and loss transactions in original currency for business written by the Non-Life Insurance Companies internationally. This allows our actuaries to determine the current reserves without any distortion from changes in exchange rates over time. Our actuaries segment the international data by region, country or class of business as appropriate to determine an optimal balance between homogeneity and credibility. The techniques developed by our U.S. actuaries for certain commercial classes of business are increasingly applied to our International portfolios where the experience volume and data segmentation is comparable to that of the U.S. portfolios. Our actuaries work closely with the claims departments in each of our major International locations to determine the most appropriate methodology and assumptions.

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<i>Loss Adjustment Expenses</i>		
We determine reserves for legal defense and cost containment loss adjustment expenses for each class of business by one or more actuarial or structural driver methods. The methods 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 classes of business. We also provide reserves for the estimated future costs of our claims department settling existing reserves.		We generally determine reserves for adjuster loss adjustment expenses based on calendar year ratios of adjuster expenses paid to losses paid for the particular class of business. We generally determine reserves for other unallocated loss adjustment expenses based on the ratio of the calendar year expenses paid to overall losses paid. This determination is generally done for all classes of business combined, and uses claim overhead costs as a percent of losses paid. We may supplement our judgments with an analysis of loss and legal expense mix change using predictive models that explicitly represent such mix change and detailed reviews with the claims department on the methods used to allocate the costs of the claims initiatives to new and in-force business and to different classes and sub-classes of business. In 2015, we increased our estimates of our claims department costs to reflect higher expected future costs associated with new technology and operating models.
<i>Catastrophes and Severe Losses</i>		
In response to major catastrophes and severe losses, special analyses by both Actuarial and Claims are conducted to estimate the gross and net liability for unpaid losses and loss adjustment expenses from such events.		These analyses may include a combination of approaches, including catastrophe modeling estimates, ground-up claim analysis, loss evaluation reports from on-site field adjusters, and market share estimates. Loss emergence patterns of similar catastrophic events or aggregated severe losses are used to help determine the reasonableness of ultimate loss projections and the resulting IBNR need.

**Alternative Loss Cost Trend and Loss Development Factor Assumptions by Class of Business**

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Two of our most significant assumptions in loss-based methodologies are those for loss cost trends and loss development factors. There is generally some potential for deviation from our selected best estimate assumptions related to loss cost trends and loss development factor assumptions. The classes noted below are considered to have a higher sensitivity to changes in these assumptions than other classes. For

example, primary auto liability reserves were impacted by changes in the frequency and severity of losses in recent years which may not be captured by sensitivities of the parameter modeled below.

The sensitivity analysis below addresses each major class of business for which there is a possibility of a material deviation from our overall reserve position as a result of changes in these individual assumptions. The analysis uses a range of potential alternative assumptions for each class based on historical experience. Actual reserve development may not be consistent with either the original or the alternative loss trend or loss development factor assumptions, and other assumptions made in the reserving process may materially affect reserve development for a particular class of business.

It should be noted that there are many other assumptions used in the loss reserving process, and the sensitivities shown below are not intended to be indications of possible loss reserve ranges for the class but merely illustrations of the sensitivity of the reserves to certain alternative assumptions considered individually. The actual reserve range is a function of many factors interacting with each other.

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**Loss cost trends:** The percentage deviations noted in the table below are not considered the highest possible deviations that might be expected, but rather what we consider to reflect a reasonably likely range of potential deviation based on historical loss cost trends. The impacts cited below are only for the years for which we used an expected loss ratio approach. Actual loss cost trends in the early 1990s were negative for several years whereas actual loss cost trends exceeded the figures cited below for 1997 through 2001. These observed variations were considered in establishing the percentage deviations, and result in asymmetrical selections. Loss trends may deviate by more than the amounts noted above and discussed below.

**Loss development factors:** The percentage deviations noted in the table below are not considered the highest possible deviations that might be expected, but rather what we consider to reflect a reasonably likely range of potential deviation. While multiple scenarios are performed, the assumed loss development factors are a key assumption. Generally, actual historical loss development factors are used to project future loss development. Future loss development patterns may be different from those in the past, or may deviate by more than the amounts noted above and discussed below. Further, there is a greater incidence of these factors increasing, which is reflected in the deviations selected.

A large portion of the loss reserves from the Non-Life Insurance Companies business relates to longer-tail casualty classes of business, such as excess casualty and D&O, which are driven by severity rather than frequency of claims. Using the reserving methodologies described above, our actuaries determine their actuarial central estimates of the loss reserves and advise management on their final recommendation for management's best estimate of the recorded reserves. Subject matter experts from underwriting and claims play an important part in informing the actuarial assumptions and methods. The governance process over the establishment of loss reserves also ensures robust considerations of the changes in the loss trends, terms and conditions, claims handling practices, and large loss impact when determining the methods, assumptions and the estimations. This multi-disciplinary process engages underwriting, claims, risk management, business unit executives and senior management and involves several iterative levels of feedback and response during the regular reserving process.

**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 2015.**

<b>December 31, 2015</b> <i>(in millions)</i>	<b>Effect on</b> <b>Loss Reserves</b>		<b>Effect on</b> <b>Loss Reserves</b>
<i>Excess casualty:</i>		<i>Excess casualty:</i>	
5 percent increase	\$ 1,646	3 percent increase	\$ 945
5 percent decrease	(1,067)	4 percent decrease	(874)
<i>D&amp;O:</i>		<i>D&amp;O:</i>	
31 percent increase	1,400	14 percent increase	800
Contractual Obligations			397

30 percent decrease	(950)	5 percent decrease	(300)
<i>Excess workers' compensation:</i>		<i>Excess workers' compensation:</i>	
5 percent increase	N/A	Increase <sup>(b)</sup>	1,000
5 percent decrease	N/A	Decrease <sup>(b)</sup>	(250)
<i>Primary workers' compensation</i> <sup>(a)</sup> :		<i>Primary workers' compensation:</i>	
		Increase <sup>(b)</sup>	1,400
		Decrease <sup>(b)</sup>	(900)

(a) Loss cost trend assumption does not have a material impact for this line of business.

(b) Percentages not applicable due to extremely long-tailed nature of workers' compensation.

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<i>Excess Casualty</i>				
		<p>In the analysis 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 2015 loss reserve review for excess casualty will range five percent lower or higher than this estimated loss trend. The loss cost trend assumption is critical for the excess casualty class of business due to the long-tail nature of the claims and therefore is applied across many accident years. Thus, there is the potential for the 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 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 claims.</p>	<p>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 will range from approximately 3 percent below those actually utilized in the year-end 2015 reserve review to approximately 3.5 percent above those factors actually utilized. 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. Thus, there is the potential for the 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. 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 claims.</p>	





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<i>D&amp;O and Related Management Liability Classes of Business</i>				
		<p>The assumed loss cost trend was approximately 1 percent. After evaluating the historical loss cost trends from prior accident years since the early 1990s, including the potential effect of recent claims relating to the credit crisis, in our judgment, it is reasonably likely that actual loss cost trends applicable to the year-end 2015 loss reserve review for these classes will range from approximately 30 percent lower or 31 percent higher than the assumption actually utilized in the year-end 2015 reserve review. Because the D&amp;O class of business has exhibited highly volatile loss trends from one accident year to the next, there is the possibility of an exceptionally high deviation.</p>	<p>The assumed loss development factors are also an important assumption but less critical than for excess casualty. Because these classes are written on a claims made basis, the loss reporting and development tail is much shorter than for excess casualty. However, the high severity nature of the claims does create the potential for significant deviations in loss development patterns from one year to the next. After evaluating the historical loss development factors for these classes of business for accident years since the early 1990s, in our judgment, it is reasonably likely that actual loss development factors will range from approximately 5 percent lower to approximately 14 percent higher than those factors actually indicated in the year-end 2015 loss reserve review for these classes.</p>	
<i>Primary Workers' Compensation</i>				
		<p>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.</p>	<p>Generally, our actual historical workers' compensation loss development factors would be expected to provide a reasonably accurate predictor of future loss development. However, workers' compensation is a long-tail class of business, and our business reflects a very significant</p>	

	<p>volume of losses, particularly in recent accident years. After evaluating the actual historical loss development since the 1980s for this business, in our judgment, it is reasonably likely that actual loss reserves will fall within the range of approximately 7 percent below to approximately 11 percent above those actually indicated in the 2015 loss reserve review.</p>
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## Contractual Obligations

	<p>Loss costs were trended at six percent per annum. After reviewing actual industry loss trends for the past ten years, in our judgment, it is reasonably likely that actual loss cost trends applicable to the year-end 2015 loss reserve review for excess workers' compensation will range five percent lower or higher than this estimated loss trend. However, given the small volume of business written in these years, the range in reserve estimates as a result of varying these loss cost trends is not very wide.</p>	<p>Excess workers' compensation 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. 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 claim 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 actual loss development for excess workers' compensation could increase the current reserves by up to approximately \$1.0 billion or decrease them by approximately \$250 million.</p>
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#### **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 in 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, 2015, the allowance for estimated unrecoverable reinsurance was \$272 million.

See Note 7 to the Consolidated Financial Statements for additional information on reinsurance.

#### **Future Policy Benefits for Life and Accident and Health Insurance Contracts (Life Insurance Companies)**

**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 8 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 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:

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- 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.

The Life operating segment recorded loss recognition expense of \$28 million in 2015 and \$87 million in 2014 to increase reserves for certain discontinued long-term care business due to the update of actuarial assumptions, primarily a result of lower future premium increase assumptions and, in 2014, lower yield assumptions. Sales of investment securities in connection with our program to utilize capital loss carryforwards and other investment sales with subsequent reinvestment at lower yields triggered recording of loss recognition expense of \$30 million and \$1.5 billion in 2014 and 2013, respectively, primarily related to certain long-term payout annuity contracts in the Institutional Markets and Retirement operating segments.

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 8 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 (Life Insurance Companies)**

Variable annuity products offered by our Retirement Income Solutions 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), guaranteed minimum income benefits (GMIB), and guaranteed minimum accumulation benefits (GMAB). See Note 13 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 over the accumulation period based on total expected fee assessments, through Policyholder benefits and losses incurred. The liabilities for GMWB and GMAB, 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).



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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 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 their 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) 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:

<b>GMDB</b>		
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 13 to the Consolidated Financial Statements for additional information on how we reserve for variable annuity products with guaranteed benefit features.	<p>Key assumptions include:</p> <ul style="list-style-type: none"> <li>• Interest rates, which vary by year of issuance and products</li> <li>• Mortality rates, which are based upon actual experience modified to allow for variations in policy form</li> <li>• Lapse rates, which are based upon actual experience modified to allow for variations in policy form</li> <li>• Investment returns, using assumptions from a randomly generated model</li> <li>• 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</li> </ul>	

		DAC. For a description of this methodology, see Estimated Gross Profits for Investment-Oriented Products (Life Insurance Companies) below.	
<b>GMWB</b>			
<p>GMWB living benefits are embedded derivatives that are required to be bifurcated from the host contract and carried at fair value. The fair value estimates of the living benefit guarantees include assumptions such as interest rates, equity market returns, market volatility, credit spreads, equity / interest rate correlation and policyholder behavior. See Note 13 to the Consolidated Financial Statements for additional information on how we reserve for variable annuity products with guaranteed benefit features, and Note 4 to the Consolidated Financial Statements for information on fair value measurement of these embedded derivatives, including how we incorporate our own non-performance risk.</p>		<p>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:</p> <ul style="list-style-type: none"> <li>• Interest rates</li> <li>• Equity market returns</li> <li>• Market volatility</li> <li>• Credit spreads</li> <li>• Equity / interest rate correlation</li> <li>• Benefits and related fees assessed, when applicable</li> <li>• Policyholder behavior, including mortality, lapses, withdrawals and benefit utilization. Estimates of future policyholder behavior are subjective and based primarily on our historical experience</li> <li>• 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</li> <li>• Allocation of fees between the embedded derivative and host contract</li> </ul>	
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#### **Estimated Gross Profits for Investment–Oriented Products (Life Insurance Companies)**

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 investment 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 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, a long-term annual asset growth assumption of 8.5% (before expenses that reduce the asset base from which future fees are projected) is 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 Results of Operations – Life Insurance Companies DAC and Reserves – 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, the related hypothetical impact on December 31, 2015 balances and the resulting hypothetical impact on**

**pre-tax income, before hedging. Changes in net investment spread assumptions primarily affect DAC and SIA in our Fixed Annuities product line. Changes in interest**

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rates, equity returns and volatility primarily impact embedded derivatives and other reserves for guaranteed benefits in our Retirement Income Solutions and Group Retirement product lines, as well as universal life insurance with secondary guarantees. Changes in mortality assumptions primarily impact DAC in our universal life insurance business.

<b>December 31, 2015</b> <i>(in millions)</i>	<b>DAC/SIA</b>	<b>Other Reserves Related to Guaranteed Benefits</b>	<b>Unearned Revenue Reserve</b>	<b>Embedded Derivatives Related to Guaranteed Benefits</b>	<b>Net Increase (Decrease) in Pre-Tax Income</b>
<b>Assumptions:</b>					
<b>Net Investment Spread</b>					
Effect of an increase by 10 basis points	\$ 123	\$ (7)	\$ 8	\$ (12)	135
Effect of a decrease by 10 basis points	(131)	14	(26)	12	(130)
<b>Equity Return<sup>(a)</sup></b>					
Effect of an increase by 1%	88	(34)	1	(47)	168
Effect of a decrease by 1%	(87)	40	(1)	50	(176)
<b>Volatility<sup>(b)</sup></b>					
Effect of an increase by 1%	-	-	-	(43)	43
Effect of a decrease by 1%	-	-	-	42	(42)
<b>Interest Rate<sup>(c)</sup></b>					
Effect of an increase by 10 basis points	-	-	-	(131)	131
Effect of a decrease by 10 basis points	-	-	-	141	(141)
<b>Mortality</b>					
Effect of an increase by 1%	(8)	23	(1)	(25)	(4)
Effect of a decrease by 1%	8	(23)	3	26	3
<b>Lapse</b>					
Effect of an increase by 10%	(142)	(42)	(8)	(103)	11
Effect of an decrease by 10%	149	43	8	109	(11)

(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 and GMAB 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 and GMAB living benefit features. Does not represent interest rate spread compression on investment-oriented products.

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, Item 1A. — Risk Factors — Business and Operations, and Notes 4 and 13 to the Consolidated Financial Statements.

## Impairment Charges

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### Impairments of Investments

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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

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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 5 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 become negative in future reporting periods, 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 5 to the Consolidated Financial Statements.

#### **Goodwill Impairment**

For a discussion of goodwill impairment, see Note 11 to the Consolidated Financial Statements. In 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.

For more information on legal, regulatory and litigation matters, see Note 15 to the Consolidated Financial Statements.

### Fair Value Measurements of Certain Financial Assets and Financial Liabilities

See Note 4 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:

<b>December 31, 2015</b> <i>(in billions)</i>		<b>Fair Value</b>	<b>Percent of Total</b>
Fair value based on external sources <sup>(a)</sup>	\$	250	93%
Fair value based on internal sources		19	7
Total fixed maturity and equity securities <sup>(b)</sup>	\$	269	100%

(a) Includes \$26.3 billion for which the primary source is broker quotes.



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(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 4 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:**

<i>(in billions)</i>	<b>December 31, 2015</b>	<b>Percentage of Total</b>	<b>December 31, 2014</b>	<b>Percentage of Total</b>
Assets	\$ 42.4	8.5%	\$ 44.4	8.6%
Liabilities	3.1	0.8	2.9	0.7

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 4 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.

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### **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, certain costs of personnel engaged in sales support activities such as underwriting.

**Base Spread** Net investment income excluding income from alternative investments and enhancements, less interest credited excluding amortization of sales inducement assets.

**Base Yield** Net investment income excluding income from alternative investments and 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.

**BET** *Binomial Expansion Technique* A model that generates expected loss estimates for CDO tranches and derives a credit rating for those tranches.

**Book Value Per Common Share, Excluding AOCI and Book Value Per Common Share Excluding AOCI and DTA** 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. Book Value Per Common Share, Excluding AOCI and DTA is derived by dividing Total AIG shareholders' equity, excluding AOCI and DTA, 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.

**Catastrophe losses** are generally weather or seismic events having a net impact on AIG in excess of \$10 million each.

**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.

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### **glossary**

**Expense ratio** Sum of acquisition expenses and general operating expenses, divided by net premiums earned.

**First-Lien** Priority over all other liens or claims on a property in the event of default on a mortgage.

**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 of settling claims, including legal and other fees and the portion of general expenses allocated to claim settlement costs.

**Loss Ratio** Losses and loss adjustment expenses incurred divided by net premiums earned. Loss adjustment expenses are directly attributed to settling and paying claims of insureds and include, but are not limited to, legal fees, adjuster's fees, and claims department personnel costs.

**Loss reserve development** The increase or decrease in incurred losses and loss adjustment expenses as a result of the re-estimation of liability for unpaid losses and loss adjustment expenses 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.

**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.

**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. Prior to January 1, 2014, AIG maintained two pools, the admitted lines pool and the surplus lines pool. Effective January 1, 2014, these two pools were merged into the combined pool.

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### **glossary**

**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 – Retirement and – Life** 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** Increase (referred to as unfavorable or adverse development or reserve strengthening) or decrease (referred to as favorable development) in estimates of losses and loss expenses for prior years that is included in earnings.

**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.

**Rescission** Denial of claims and termination of coverage on loans related to fraudulent or undocumented claims, underwriting guideline violations and other deviations from contractual terms.

**Retroactive Reinsurance** See Deferred Gain on Retroactive Reinsurance.

**Return on Equity – After-tax Operating Income Excluding AOCI and Return on Equity – After-tax Operating Income Excluding AOCI and DTA** are non-GAAP measures and are used to show the rate of return on shareholders' equity. Return on Equity – After-tax Operating Income Excluding AOCI is derived by dividing actual or annualized after-tax operating income attributable to AIG by average AIG shareholders' equity, excluding average AOCI. Return on Equity – After-tax Operating Income Excluding AOCI and DTA is derived by dividing actual or annualized after-tax operating income attributable to AIG by average AIG shareholders' equity, excluding average AOCI and DTA.

**Salvage** The amount that can be recovered by us for the sale of damaged goods for which our policyholder has been indemnified (and to which title was transferred to us).

**Second-lien** Subordinate in ranking to the first-lien holder claims on a property in the event of default on a mortgage.

**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 is expected to become 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 account value.

**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.

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### acronyms

<b>A&amp;H</b> Accident and Health Insurance	<b>GMIB</b> Guaranteed Minimum Income Benefits
<b>ABS</b> Asset-Backed Securities	<b>GMWB</b> Guaranteed Minimum Withdrawal Benefits
<b>CDO</b> Collateralized Debt Obligations	<b>ISDA</b> International Swaps and Derivatives Association, Inc.
<b>CDS</b> Credit Default Swap	<b>Moody's</b> Moody's Corporation
<b>CLO</b> Collateralized Loan Obligations	<b>NAIC</b> National Association of Insurance Commissioners
<b>CMA</b> Capital Maintenance Agreement	<b>NM</b> Not Meaningful
<b>CMBS</b> Commercial Mortgage-Backed Securities	<b>OTC</b> Over-the-Counter
<b>EGPs</b> Estimated gross profits	<b>OTTI</b> Other-Than-Temporary Impairment
<b>FASB</b> Financial Accounting Standards Board	<b>RMBS</b> Residential Mortgage-Backed Securities
<b>FRBNY</b> Federal Reserve Bank of New York	<b>S&amp;P</b> Standard & Poor's Financial Services LLC
<b>GAAP</b> Accounting principles generally accepted in the United States of America	<b>SEC</b> Securities and Exchange Commission
<b>GMAB</b> Guaranteed Minimum Accumulation Benefits	<b>URR</b> Unearned revenue reserve
<b>GMDB</b> Guaranteed Minimum Death Benefits	<b>VIE</b> Variable Interest Entity



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**Item 7a / QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**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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### **Item 8 / REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

## **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, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 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, 2015, 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 2015 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 19, 2016

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### **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: 2015 - \$240,968; 2014 - \$243,307)

Other bond securities, at fair value (See Note 5)

Equity Securities:

Common and preferred stock available for sale, at fair value (cost: 2015 - \$1,379; 2014 - \$1,930)

Other common and preferred stock, at fair value (See Note 5)

Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2015 - \$11; 2014 - \$6)

Other invested assets (portion measured at fair value: 2015 - \$8,912; 2014 - \$9,394)

Short-term investments (portion measured at fair value: 2015 - \$2,591; 2014 - \$1,684)

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 \$170 in 2015 and \$2,025 in 2014

Separate account assets, at fair value

#### **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: 2015 - \$2,325; 2014 - \$1,561)

Other policyholder funds (portion measured at fair value: 2015 - \$6; 2014 - \$8)

Other liabilities (portion measured at fair value: 2015 - \$62; 2014 - \$350)

Long-term debt (portion measured at fair value: 2015 - \$3,670; 2014 - \$5,466)

Separate account liabilities

#### **Total liabilities**

#### **Contingencies, commitments and guarantees (see Note 15)**

#### **AIG shareholders' equity:**

Common stock, \$2.50 par value; 5,000,000,000 shares authorized; shares issued: 2015 - 1,906,671,492 and 2014 - 1,906,671,492

Treasury stock, at cost; 2015 - 712,754,875; 2014 - 530,744,521 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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**TABLE OF CONTENTS****American International Group, Inc.****Consolidated Statements of INCOME**

	Years Ended December 31,		
<i>(dollars in millions, except per share data)</i>	2015	2014	2013
<b>Revenues:</b>			
Premiums	\$ 36,655	\$ 37,254	\$ 37,499
Policy fees	2,755	2,615	2,340
Net investment income	14,053	16,079	15,810
Net realized capital gains:			
Total other-than-temporary impairments on available for sale securities	(556)	(182)	(165)
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income (loss)	(35)	(35)	(22)
Net other-than-temporary impairments on available for sale securities recognized in net income	(591)	(217)	(187)
Other realized capital gains	1,367	956	2,126
Total net realized capital gains	776	739	1,939
Aircraft leasing revenue	-	1,602	4,420
Other income	4,088	6,117	6,866
<b>Total revenues</b>	<b>58,327</b>	<b>64,406</b>	<b>68,874</b>
<b>Benefits, losses and expenses:</b>			
Policyholder benefits and losses incurred	31,345	28,281	29,503
Interest credited to policyholder account balances	3,731	3,768	3,892
Amortization of deferred policy acquisition costs	5,236	5,330	5,157
General operating and other expenses	12,686	13,138	13,564
Interest expense	1,281	1,718	2,142
Aircraft leasing expenses	-	1,585	4,549
Loss on extinguishment of debt	756	2,282	651
Net (gain) loss on sale of properties and divested businesses	11	(2,197)	48
<b>Total benefits, losses and expenses</b>	<b>55,046</b>	<b>53,905</b>	<b>59,506</b>
<b>Income from continuing operations before income tax expense</b>	<b>3,281</b>	<b>10,501</b>	<b>9,368</b>
<b>Income tax expense:</b>			
Current	820	588	680
Deferred	239	2,339	(320)
<b>Income tax expense</b>	<b>1,059</b>	<b>2,927</b>	<b>360</b>

American International Group, Inc.

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<b>Income from continuing operations</b>	<b>2,222</b>	7,574	9,008
<b>Income (loss) from discontinued operations, net of income tax expense</b>	<b>-</b>	(50)	84
<b>Net income</b>	<b>2,222</b>	7,524	9,092
<b>Less:</b>			
<b>Net income (loss) from continuing operations attributable to noncontrolling interests</b>	<b>26</b>	(5)	7
<b>Net income attributable to AIG</b>	<b>\$ 2,196</b>	<b>\$ 7,529</b>	<b>\$ 9,085</b>
<b>Net income attributable to AIG common shareholders</b>	<b>\$ 2,196</b>	<b>\$ 7,529</b>	<b>\$ 9,085</b>
<b>Income per common share attributable to AIG:</b>			
Basic:			
Income from continuing operations	<b>\$ 1.69</b>	<b>\$ 5.31</b>	<b>\$ 6.11</b>
Income (loss) from discontinued operations	<b>\$ -</b>	<b>\$ (0.04)</b>	<b>\$ 0.05</b>
Net income attributable to AIG	<b>\$ 1.69</b>	<b>\$ 5.27</b>	<b>\$ 6.16</b>
Diluted:			
Income from continuing operations	<b>\$ 1.65</b>	<b>\$ 5.24</b>	<b>\$ 6.08</b>
Income (loss) from discontinued operations	<b>\$ -</b>	<b>\$ (0.04)</b>	<b>\$ 0.05</b>
Net income attributable to AIG	<b>\$ 1.65</b>	<b>\$ 5.20</b>	<b>\$ 6.13</b>
<b>Weighted average shares outstanding:</b>			
Basic	<b>1,299,825,350</b>	1,427,959,799	1,474,171,690
Diluted	<b>1,334,464,883</b>	1,447,553,652	1,481,206,797
<b>Dividends declared per common share</b>	<b>\$ 0.81</b>	<b>\$ 0.50</b>	<b>\$ 0.20</b>

See accompanying Notes to Consolidated Financial Statements.

**TABLE OF CONTENTS****American International Group, Inc.****Consolidated StatementS of Comprehensive Income (Loss)**

	Years Ended December 31,		
<i>(in millions)</i>	2015	2014	2013
<b>Net income</b>	<b>\$ 2,222</b>	<b>\$ 7,524</b>	<b>\$ 9,092</b>
<b>Other comprehensive income (loss), net of tax</b>			
Change in unrealized appreciation (depreciation) of fixed maturity securities on which other-than-temporary credit impairments were recognized	(347)	107	361
Change in unrealized appreciation (depreciation) of all other investments	(6,762)	5,538	(6,673)
Change in foreign currency translation adjustments	(1,100)	(832)	(556)
Change in net derivative gains arising from cash flow hedging activities	-	-	-
Change in retirement plan liabilities adjustment	123	(556)	631
<b>Other comprehensive income (loss)</b>	<b>(8,086)</b>	<b>4,257</b>	<b>(6,237)</b>
<b>Comprehensive income (loss)</b>	<b>(5,864)</b>	<b>11,781</b>	<b>2,855</b>
Comprehensive income (loss) attributable to noncontrolling nonvoting, callable, junior and senior preferred interests	-	-	-
Comprehensive income (loss) attributable to other noncontrolling interests	20	(5)	(16)
<b>Total comprehensive income (loss) attributable to noncontrolling interests</b>	<b>20</b>	<b>(5)</b>	<b>(16)</b>
<b>Comprehensive income (loss) attributable to AIG</b>	<b>\$(5,884)</b>	<b>\$ 11,786</b>	<b>\$ 2,871</b>

See accompanying Notes to Consolidated Financial Statements.

**TABLE OF CONTENTS****American International Group, Inc.****Consolidated Statements of Equity**

				Additional	Retained	Accumulated	Other
	Common	Treasury	Paid-in	Earnings	Comprehensive	Income	
(in millions)	Stock	Stock	Capital				
Balance, January 1, 2013	\$ 4,766	\$ (13,924)	\$ 80,410	\$ 14,176	\$ 12,574		
Purchase of common stock	-	(597)	-	-	-	-	-
Net income attributable to AIG or other noncontrolling interests*	-	-	-	9,085	-	-	-
Dividends	-	-	-	(294)	-	-	-
Other comprehensive loss	-	-	-	-	-	(6,214)	-
Deferred income taxes	-	-	355	-	-	-	-
Contributions from noncontrolling interests	-	-	-	-	-	-	-
Distributions to noncontrolling interests	-	-	-	-	-	-	-
Other	-	1	134	(2)	-	-	-
<b>Balance, December 31, 2013</b>	<b>\$ 4,766</b>	<b>\$ (14,520)</b>	<b>\$ 80,899</b>	<b>\$ 22,965</b>	<b>\$ 6,360</b>		
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)	-	-	-
<b>Balance, December 31, 2014</b>	<b>\$ 4,766</b>	<b>\$ (19,218)</b>	<b>\$ 80,958</b>	<b>\$ 29,775</b>	<b>\$ 10,617</b>		
Common stock issued under stock plans	-	13	(13)	-	-	-	-
Purchase of common stock	-	(10,895)	-	-	-	-	-
Net income attributable to AIG or noncontrolling interests	-	-	-	2,196	-	-	-
Dividends	-	-	-	(1,028)	-	-	-
Other comprehensive loss	-	-	-	-	-	(8,080)	-
Deferred income taxes	-	-	(9)	-	-	-	-
Net increase due to acquisitions and consolidations	-	-	-	-	-	-	-
Contributions from noncontrolling interests	-	-	-	-	-	-	-
Distributions to noncontrolling interests	-	-	-	-	-	-	-
Other	-	2	574	-	-	-	-
<b>Balance, December 31, 2015</b>	<b>\$ 4,766</b>	<b>\$ (30,098)</b>	<b>\$ 81,510</b>	<b>\$ 30,943</b>	<b>\$ 2,537</b>		

\* Excludes gains of \$2 million in 2013, attributable to redeemable noncontrolling interests.

*See accompanying Notes to Consolidated Financial Statements.*

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**TABLE OF CONTENTS****American International Group, Inc.****Consolidated StatementS of Cash Flows****Years Ended December 31,***(in millions)*

	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>		
Net income	<b>\$ 2,222</b>	<b>\$ 7,524</b>
(Income) loss from discontinued operations	<b>-</b>	<b>50</b>
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
<b>Noncash revenues, expenses, gains and losses included in income:</b>		
Net gains on sales of securities available for sale and other assets	<b>(1,111)</b>	<b>(764)</b>
Net (gains) losses on sales of divested businesses	<b>11</b>	<b>(2,197)</b>
Net losses on extinguishment of debt	<b>756</b>	<b>2,282</b>
Unrealized gains in earnings – net	<b>(522)</b>	<b>(1,239)</b>
Equity in income from equity method investments, net of dividends or distributions	<b>(481)</b>	<b>(1,394)</b>
Depreciation and other amortization	<b>4,629</b>	<b>4,448</b>
Impairments of assets	<b>1,500</b>	<b>610</b>
<b>Changes in operating assets and liabilities:</b>		
Insurance reserves	<b>1,645</b>	<b>(2,281)</b>
Premiums and other receivables and payables – net	<b>(70)</b>	<b>820</b>
Reinsurance assets and funds held under reinsurance treaties	<b>1,525</b>	<b>1,872</b>
Capitalization of deferred policy acquisition costs	<b>(5,808)</b>	<b>(5,880)</b>
Current and deferred income taxes – net	<b>548</b>	<b>2,190</b>
Other, net	<b>(1,967)</b>	<b>(1,034)</b>
Total adjustments	<b>655</b>	<b>(2,567)</b>
<b>Net cash provided by operating activities</b>	<b>2,877</b>	<b>5,007</b>
<b>Cash flows from investing activities:</b>		
Proceeds from (payments for)		
Sales or distribution of:		
Available for sale investments	<b>28,721</b>	<b>25,526</b>
Other securities	<b>6,055</b>	<b>4,930</b>
Other invested assets	<b>8,002</b>	<b>3,884</b>
Divested businesses, net	<b>-</b>	<b>2,348</b>
Maturities of fixed maturity securities available for sale	<b>24,734</b>	<b>25,560</b>
Principal payments received on and sales of mortgage and other loans receivable	<b>5,104</b>	<b>3,856</b>
Purchases of:		
Available for sale investments	<b>(48,848)</b>	<b>(45,552)</b>
Other securities	<b>(2,704)</b>	<b>(472)</b>
Other invested assets	<b>(3,573)</b>	<b>(4,078)</b>
Mortgage and other loans receivable	<b>(10,140)</b>	<b>(8,008)</b>
Net change in restricted cash	<b>1,457</b>	<b>(1,447)</b>
Net change in short-term investments	<b>1,163</b>	<b>8,760</b>
Other, net	<b>(1,509)</b>	<b>(1,023)</b>

<b>Net cash provided by investing activities</b>	<b>8,462</b>	14,284
<b>Cash flows from financing activities:</b>		
Proceeds from (payments for)		
Policyholder contract deposits	<b>17,029</b>	16,829
Policyholder contract withdrawals	<b>(14,619)</b>	(15,110)
Issuance of long-term debt	<b>6,867</b>	6,687
Repayments of long-term debt	<b>(9,805)</b>	(16,160)
Purchase of Common Stock	<b>(10,691)</b>	(4,902)
Dividends paid	<b>(1,028)</b>	(712)
Other, net	<b>818</b>	(6,420)
<b>Net cash used in financing activities</b>	<b>(11,429)</b>	(19,788)
<b>Effect of exchange rate changes on cash</b>	<b>(39)</b>	(74)
Net increase (decrease) in cash	<b>(129)</b>	(571)
Cash at beginning of year	<b>1,758</b>	2,241
Change in cash of businesses held for sale	-	88
<b>Cash at end of year</b>	<b>\$ 1,629</b>	\$ 1,758
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**TABLE OF CONTENTS****Supplementary Disclosure of Consolidated Cash Flow Information****Cash paid during the period for:**

Interest	<b>\$ 1,368</b>	\$ 3,367	\$ 3,856
Taxes	<b>\$ 511</b>	\$ 737	\$ 796

**Non-cash investing/financing activities:**

Interest credited to policyholder contract deposits included in financing activities	<b>\$ 3,676</b>	\$ 3,904	\$ 3,987
Non-cash consideration received from sale of ILFC	<b>\$ -</b>	\$ 4,586	\$ -
Non-cash consideration received from sale of AerCap	<b>\$ 500</b>	\$ -	\$ -

*See accompanying Notes to Consolidated Financial Statements.*

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### **Item 8 / note 1. BASIS OF PRESENTATION**

#### **1. BASIS OF PRESENTATION**

American International Group, Inc. (AIG) is a leading global insurance organization serving customers in more than 100 countries and jurisdictions. AIG companies serve commercial, institutional 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 recorded.

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.

#### **Sale of 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;

**TABLE OF CONTENTS****Item 8 / note 1. BASIS OF PRESENTATION**

- liability for unpaid losses and loss adjustment expenses;
- 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; 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, 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 Liability for unpaid losses and loss adjustment expenses 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 years ended December 31, 2014 and 2013 would have decreased by \$51 million and increased by \$78 million, respectively.

**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 5.	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 6.	Lending Activities
	• Mortgage and other loans receivable – net of allowance
Note 7.	Reinsurance
	• Reinsurance assets – net of allowance
Note 8.	Deferred Policy Acquisition Costs
	• Deferred policy acquisition costs
	• Amortization of deferred policy acquisition costs
Note 10.	Derivatives and Hedge Accounting
	• Derivative assets and liabilities, at fair value
Note 11.	Goodwill

Note 12.	Insurance Liabilities
	• Liability for unpaid losses and loss adjustment expenses
	• Discounting of reserves
	• Future policy benefits
	• Policyholder contract deposits
	• Other policyholder funds
Note 13	Variable Life and Annuity Contracts
Note 14.	Debt
	• Long-term debt
Note 15.	Contingencies, Commitments and Guarantees
	• Legal contingencies
Note 17.	Earnings Per Share
Note 22.	Income Taxes
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### **Item 8 / note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **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 \$94 million, \$804 million and \$1.2 billion from legacy crisis and other matters in 2015, 2014 and 2013, respectively.

Other income from our Corporate and Other 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.

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### **Item 8 / note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- 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).
- Gains and losses recognized in earnings on derivatives designated as hedges, for the effective portion and their related hedged items.

**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 DIB and 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 \$333 million and \$428 million at December 31, 2015 and 2014, 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 8 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 \$845 million and \$629 million at December 31, 2015 and 2014, 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 \$88 million, \$63 million and \$102 million for the years ended December 31, 2015, 2014 and 2013, 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.



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### **Item 8 / note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**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. For a more detailed discussion of separate accounts, see Note 13 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 Non-Life Insurance Companies segment, 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 2015**

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure

In January 2014, the Financial Accounting Standards Board (FASB) issued an accounting standard that clarifies that a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, so that the loan is derecognized and the real estate property is recognized, when either (i) the creditor obtains legal title to the residential real estate property upon completion of a foreclosure or (ii) the borrower conveys all interest in the residential real estate property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement.

We adopted the standard on its required effective date of January 1, 2015. The adoption of this standard had no material effect on our consolidated financial condition, results of operations or cash flows.

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### **Item 8 / note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Reporting Discontinued Operations**

In April 2014, the FASB issued an accounting standard that changes the requirements for presenting a component or group of components of an entity as a discontinued operation and requires new disclosures. Under the standard, the disposal of a component or group of components of an entity should be reported as a discontinued operation if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Disposals of equity method investments, or those reported as held-for-sale, must be presented as a discontinued operation if they meet the new definition. The standard also requires entities to provide disclosures about the disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation.

We adopted the standard on its required effective date of January 1, 2015 on a prospective basis. The adoption of this standard had no material effect on our consolidated financial condition, results of operations or cash flows.

#### **Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures**

In June 2014, the FASB issued an accounting standard that changes the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. It also requires additional disclosures about repurchase agreements and other similar transactions. The standard aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as repurchase financings with the accounting for other typical repurchase agreements such that they all will be accounted for as secured borrowings. The standard eliminates sale accounting for repurchase-to-maturity transactions and supersedes the standard under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement.

We adopted the standard on its required effective date of January 1, 2015 on a prospective basis. The adoption of this standard had no 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 for interim and annual reporting periods beginning after December 15, 2017 and may be applied retrospectively or through a cumulative effect adjustment to retained earnings at the date of adoption. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. We plan to adopt the standard on its required effective date of January 1, 2018 and are assessing the impact of the standard on our consolidated financial condition, results of operations and cash flows.

#### 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.

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### **Item 8 / note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The standard is effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted. The standard may be applied prospectively to all awards granted or modified after the effective date or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. We plan to adopt the standard on its required effective date of January 1, 2016 and do not expect the adoption of the standard to have a material effect on our consolidated financial condition, results of operations and 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.

The standard is effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted. The standard may be applied retrospectively or through a cumulative effect adjustment to retained earnings at the date of adoption. We plan to adopt the standard on its required effective date of January 1, 2016 and do not expect the adoption of the standard to have a material effect on our consolidated financial condition, results of operations and cash flows.

#### **Consolidation: 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.

The standard is effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The standard may be applied retrospectively or through a cumulative effect adjustment to retained earnings as of the beginning of the year of adoption. We plan to adopt the standard on its required effective date of January 1, 2016 and do not expect the adoption of the standard to have a material effect on our consolidated financial condition, results of operations and 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.

The standard is effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted. The standard may be adopted prospectively to all arrangements entered into or materially modified after the effective date or retrospectively. We plan to adopt the standard on its required effective date of January 1, 2016 and do not expect the adoption of the standard to have a material effect on our consolidated financial condition, results of operations or cash flows.

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### **Item 8 / note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **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.

The standard is effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted. The standard must be applied retrospectively to all prior periods presented. We plan to adopt the standard on January 1, 2016, its required effective date. Because the new standard does not affect accounting recognition or measurement of debt issuance costs, the adoption of the standard will have 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 (including accident year information) for short-duration insurance contracts. New disclosures about the liability for unpaid losses and loss adjustment expenses will be required of public business entities for annual periods beginning after December 15, 2015. 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. In addition, the roll forward of the liability for unpaid losses and loss adjustment expenses currently disclosed in annual financial statements will be required for interim periods beginning in the first quarter of 2017. Early adoption of the new annual and interim disclosures is permitted.

We plan to adopt the standard on its required effective date. Because the new standard does not affect accounting recognition or measurement, the adoption of the standard will have no effect on our 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 affects the recognition, measurement, presentation, and disclosure of financial instruments. Specifically, under the new standard, equity investments (other than those accounted for using the equity method of accounting or those subject to consolidation) will be measured at fair value with changes in fair value recognized in earnings. Also, for those financial liabilities for which fair value option accounting has been elected, the new standard requires changes in fair value due to instrument-specific credit risk to be presented separately in other comprehensive income. The standard updates certain fair value disclosure requirements for financial instruments carried at amortized cost.

The standard is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption of certain provisions is permitted. We are assessing the impact of the standard on our consolidated financial condition, results of operations and cash flows.

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### **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 through two reportable segments: Commercial Insurance and Consumer Insurance as well as a Corporate and Other category. The Corporate and Other category consists of businesses and items not allocated to our reportable segments.

We evaluate performance based on revenues and pre-tax operating income (loss). Pre-tax operating income (loss) is derived by excluding certain items from net income (loss) attributable to AIG. See the table below for the items excluded from pre-tax operating income.

Investment income of the Non-Life Insurance Companies is allocated between the Property Casualty and Personal Insurance operating segments based on an internal investment income allocation model. The model estimates investable funds based primarily on loss reserves and allocated capital. Investment income of the Life Insurance Companies is attributed to the Retirement, Life and Institutional Markets operating segments based on invested assets in product line portfolios; income from invested assets in excess of liabilities is allocated to product lines based on internal capital estimates.

The Commercial and Consumer reportable segments are each presented as three operating segments:

#### **Commercial Insurance**

The Commercial Insurance segment is presented as three operating segments:

- **Property Casualty** – consists of Casualty, Property, Specialty, and Financial product lines.
- **Mortgage Guaranty** – Mortgage insurance protects mortgage lenders and investors against the increased risk of borrower default related to high loan-to-value mortgages.
- **Institutional Markets** – consists of stable value wrap products, structured settlement and terminal funding annuities, high net worth products, corporate- and bank-owned life insurance and guaranteed investment contracts (GICs).

Property Casualty products are primarily distributed through a network of independent retail and wholesale brokers, and through an independent agency network. Mortgage Guaranty products and services are provided to mortgage lenders including mortgage banks, credit unions and finance agencies. Institutional Markets products are marketed primarily through specialized marketing and consulting firms and structured settlement brokers.

## Consumer Insurance

The Consumer Insurance segment is presented as three operating segments:

- **Retirement** – consists of Fixed Annuities, Retirement Income Solutions, Group Retirement, and Retail Mutual Funds product lines.
- **Life** – primary products in the U.S. include term life and universal life insurance. International products include term and whole life insurance, supplemental health, cancer and critical illness insurance.
- **Personal Insurance** – consists of Personal Lines and Accident & Health product lines.

Retirement products are distributed through affiliated career financial advisors and through non-affiliated channels, which include banks, wirehouses, regional and independent broker-dealers, independent marketing organizations and independent insurance agents. Life products in the U.S. are primarily distributed through independent marketing organizations, independent insurance agents, financial advisors and direct marketing. International life products are sold through non-affiliated

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### **Item 8 / note 3. SEGMENT INFORMATION**

independent agents and direct marketing. Personal insurance products are distributed primarily through agents and brokers, as well as through direct marketing and partner organizations.

#### **Corporate and Other**

Our Corporate and Other consists of:

- Income from assets held by AIG Parent and other corporate subsidiaries;
- General operating expenses not attributable to specific reporting segments;
- Interest expense; and
- Run-off insurance lines.

Certain of our management activities, such as investment management, enterprise risk management, liquidity management and capital management, and our balance sheet reporting, are conducted on a legal entity basis. We group our insurance-related legal entities into two categories: Non-Life Insurance Companies, and Life Insurance Companies.

Non-Life Insurance Companies include the following major property casualty and mortgage guaranty 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); AIG Asia Pacific Insurance, Pte, Ltd.; AIG Europe Limited and United Guaranty Residential Insurance Company (UGRIC).

Life Insurance Companies include the following major operating companies: American General Life Insurance Company (American General Life); The Variable Annuity Life Insurance Company (VALIC); The United States Life Insurance Company in the City of New York (U.S. Life) and AIG Fuji Life Insurance Company Limited (Fuji Life).

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The following table presents AIG's continuing operations by reportable segment:

<i>(in millions)</i>	Total Revenues	Net Investment Income	Interest Expense	Depreci- Amortiz-
<b>2015</b>				
Commercial Insurance				
Property Casualty	\$ 23,625	\$ 3,596	\$ 12	2
Mortgage Guaranty	1,051	139	-	
Institutional Markets	3,518	1,739	11	(
Total Commercial Insurance	28,194	5,474	23	2
Consumer Insurance				
Retirement	9,298	6,002	39	
Life	6,393	2,100	14	
Personal Insurance	11,378	220	1	1
Total Consumer Insurance	27,069	8,322	54	2
Corporate and Other	2,901	617	1,313	
AIG Consolidation and elimination	(573)	(317)	(109)	
Total AIG Consolidated pre-tax operating income	\$ 57,591	\$ 14,096	\$ 1,281	4
Reconciling Items from pre-tax operating income to pre-tax income:				
Changes in fair value of securities used to hedge guaranteed living benefits	(43)	(43)	-	
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains	-	-	-	
Other income (expense) - net	-	-	-	
Loss on extinguishment of debt	-	-	-	
Net realized capital gains	776	-	-	
Income from divested businesses	(48)	-	-	
Non-operating litigation reserves and settlements	94	-	-	
Reserve development related to non-operating run-off insurance business	-	-	-	
Restructuring and other costs	-	-	-	
Other	(43)	-	-	
Pre-tax income	\$ 58,327	\$ 14,053	\$ 1,281	4
<b>2014</b>				
Commercial Insurance				
Property Casualty	\$ 25,183	\$ 4,298	\$ -	2
Mortgage Guaranty	1,042	138	-	
Institutional Markets	2,576	1,957	7	(
Total Commercial Insurance	28,801	6,393	7	2
Consumer Insurance				
Retirement	9,784	6,489	23	(
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Life	6,321	2,199	7
Personal Insurance	12,364	394	2
Total Consumer Insurance	28,469	9,082	32
Corporate and Other	4,206	700	1,805
AIG Consolidation and elimination	(475)	(356)	(126)
Total AIG Consolidated pre-tax operating income	\$ 61,001\$	15,819\$	1,718\$
Reconciling Items from pre-tax operating income to pre-tax income:			
Changes in fair value of securities used to hedge guaranteed living benefits	260	260	-
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains	-	-	-
Other income (expense) - net	-	-	-
Loss on extinguishment of debt	-	-	-
Net realized capital gains	739	-	-
Loss from divested businesses	1,602	-	-
Non-operating litigation reserves and settlements	804	-	-
Reserve development related to non-operating run-off insurance business	-	-	-
Restructuring and other costs	-	-	-
Other	-	-	-
Pre-tax income	\$ 64,406\$	16,079\$	1,718\$
<b>2013</b>			
Commercial Insurance			
Property Casualty	\$ 25,108\$	4,431\$	8\$
Mortgage Guaranty	941	132	-

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Institutional Markets	2,813	2,090	1	(160)	680
Total Commercial Insurance	28,862	6,653	9	2,283	4,980
Consumer Insurance					
Retirement	9,431	6,628	3	(165)	3,490
Life	6,397	2,269	4	214	806
Personal Insurance	12,832	455	3	2,110	268
Total Consumer Insurance	28,660	9,352	10	2,159	4,564
Corporate and Other	4,073	309	2,451	221	(265)
AIG Consolidation and elimination	(71)	(343)	(328)	(26)	111
Total AIG Consolidated pre-tax operating income	\$ 61,524	\$ 15,971	\$ 2,142	\$ 4,637	\$ 9,390
Reconciling Items from pre-tax operating income to pre-tax income:					
Changes in fair value of securities used to hedge guaranteed living benefits	(161)	(161)	-	-	(161)
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains	-	-	-	-	(1,608)
Other income (expense) - net	-	-	-	-	(72)
Loss on extinguishment of debt	-	-	-	-	(651)
Net realized capital gains	1,939	-	-	-	1,939
Loss from divested businesses	4,420	-	-	76	(177)
Non-operating litigation reserves and settlements	1,152	-	-	-	708
Reserve development related to non-operating run-off insurance business	-	-	-	-	-
Restructuring and other costs	-	-	-	-	-
Other	-	-	-	-	-
Pre-tax income	\$ 68,874	\$ 15,810	\$ 2,142	\$ 4,713	\$ 9,368

**The following table presents AIG's year-end identifiable assets and capital expenditures by legal entity category:**

<i>(in millions)</i>	Year-End Identifiable Assets		Capital Expenditures	
	2015	2014	2015	2014
Total Non-Life Insurance Companies	\$ 150,368	\$ 164,299	\$ 991	\$ 697
Total Life Insurance Companies	297,499	301,295	102	114
Total Corporate and Other	141,648	159,394	629	1,021
AIG Consolidation and Elimination	(92,572)	(109,407)	-	-
Total Assets	\$ 496,943	\$ 515,581	\$ 1,722	\$ 1,832

**The following table presents AIG's consolidated total revenues and real estate and other fixed assets, net of accumulated depreciation, by major geographic area:**

<i>(in millions)</i>	Total Revenues*			Real Estate and Other Fixed Assets, Net of Accumulated Depreciation		
	2015	2014	2013	2015	2014	2013
U.S.	\$ 42,366	\$ 44,274	\$ 46,078	\$ 2,213	\$ 1,886	\$ 1,606
Asia Pacific	5,942	7,523	8,804	602	521	448
Other Foreign	10,019	12,609	13,992	320	293	261
Consolidated	\$ 58,327	\$ 64,406	\$ 68,874	\$ 3,135	\$ 2,700	\$ 2,315

\* Revenues are generally reported according to the geographic location of the reporting unit.

#### 4. FAIR VALUE MEASUREMENTS

##### Fair Value Measurements on a Recurring Basis

We carry certain of our financial instruments at fair value. We define the fair value of a financial instrument as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We are responsible for the determination of the value of the investments carried at fair value and the supporting methodologies and assumptions.

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

**Fair Value Hierarchy**

Assets and liabilities recorded at fair value in the Consolidated Balance Sheets are measured and classified in accordance with a fair value hierarchy consisting of three “levels” based on the observability of valuation inputs:

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

The following is a description of the valuation methodologies used for instruments carried at fair value. These methodologies are applied to assets and liabilities across the levels discussed above, and it is the observability of the inputs used that determines the appropriate level in the fair value hierarchy for the respective asset or liability.



## Valuation Methodologies of Financial Instruments Measured at Fair Value

### Incorporation of Credit Risk in Fair Value Measurements

- **Our Own Credit Risk.** Fair value measurements for certain liabilities incorporate our own credit risk by determining the explicit cost for each counterparty to protect against its net credit exposure to us at the balance sheet date by reference to observable AIG CDS or cash bond spreads. We calculate the effect of credit spread changes using discounted cash flow techniques that incorporate current market interest rates. A derivative counterparty's net credit exposure to us is determined based on master netting agreements, when applicable, which take into consideration all derivative positions with us, as well as collateral we post with the counterparty at the balance sheet date. For a description of how we incorporate our own credit risk in the valuation of embedded derivatives related to certain annuity and life insurance products, see Embedded Derivatives within Policyholder Contract Deposits, below.
- **Counterparty Credit Risk.** Fair value measurements for freestanding derivatives incorporate counterparty credit by determining the explicit cost for us to protect against our net credit exposure to each counterparty at the balance sheet date by reference to observable counterparty CDS spreads, when available. When not available, other directly or indirectly observable credit spreads will be used to derive the best estimates of the counterparty spreads. Our net credit exposure to

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### **Item 8 / note 4. FAIR VALUE MEASUREMENTS**

a counterparty is determined based on master netting agreements, which take into consideration all derivative positions with the counterparty, as well as collateral posted by the counterparty at the balance sheet date.

Fair values for fixed maturity securities based on observable market prices for identical or similar instruments implicitly incorporate counterparty credit risk. Fair values for fixed maturity securities based on internal models incorporate counterparty credit risk by using discount rates that take into consideration cash issuance spreads for similar instruments or other observable information.

For fair values measured based on internal models, the cost of credit protection is determined under a discounted present value approach considering the market levels for single name CDS spreads for each specific counterparty, the mid-market value of the net exposure (reflecting the amount of protection required) and the weighted average life of the net exposure. CDS spreads are provided to us by an independent third party. We utilize an interest rate based on the benchmark London Interbank Offered Rate (LIBOR) curve to derive our discount rates.

While this approach does not explicitly consider all potential future behavior of the derivative transactions or potential future changes in valuation inputs, we believe this approach provides a reasonable estimate of the fair value of the assets and liabilities, including consideration of the impact of non-performance risk.

#### **Fixed Maturity Securities**

Whenever available, we obtain quoted prices in active markets for identical assets at the balance sheet date to measure fixed maturity securities at fair value. Market price data is generally obtained from dealer markets.

We employ independent third-party valuation service providers to gather, analyze, and interpret market information to derive fair value estimates for individual investments, based upon market-accepted methodologies and assumptions. The methodologies used by these independent third-party valuation service providers are reviewed and understood by management, through periodic discussion with and information provided by the independent third-party valuation service providers. In addition, as discussed further below, control processes are applied to the fair values received from independent third-party valuation service providers to ensure the accuracy of these values.

Valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources and, through the use of market-accepted valuation methodologies, which may utilize matrix pricing, financial models, accompanying model inputs and various assumptions, provide a single fair value measurement for individual securities. The inputs used by the valuation service providers include, but are not limited to, market prices from completed transactions for identical securities and transactions for comparable securities, benchmark yields, interest rate yield curves, credit spreads,

prepayment rates, default rates, recovery assumptions, currency rates, quoted prices for similar securities and other market-observable information, as applicable. If fair value is determined using financial models, these models generally take into account, among other things, market observable information as of the measurement date as well as the specific attributes of the security being valued, including its term, interest rate, credit rating, industry sector, and when applicable, collateral quality and other security or issuer-specific information. When market transactions or other market observable data is limited, the extent to which judgment is applied in determining fair value is greatly increased.

We have control processes designed to ensure that the fair values received from independent third-party valuation service providers are accurately recorded, that their data inputs and valuation techniques are appropriate and consistently applied and that the assumptions used appear reasonable and consistent with the objective of determining fair value. We assess the reasonableness of individual security values received from independent third-party valuation service providers through various analytical techniques, and have procedures to escalate related questions internally and to the independent third-party valuation service providers for resolution. To assess the degree of pricing consensus among various valuation service providers for specific asset types, we conduct comparisons of prices received from available sources. We use these comparisons to establish a hierarchy for the fair values received from independent third-party valuation service providers to be used for particular security classes. We also validate prices for selected securities through reviews by members of management who have relevant expertise and who are independent of those charged with executing investing transactions.

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When our independent third-party valuation service providers are unable to obtain sufficient market observable information upon which to estimate the fair value for a particular security, fair value is determined either by requesting brokers who are knowledgeable about these securities to provide a price quote, which is generally non-binding, or by employing market accepted valuation models. Broker prices may be based on an income approach, which converts expected future cash flows to a single present value amount, with specific consideration of inputs relevant to particular security types. For structured securities, such inputs may include ratings, collateral types, geographic concentrations, underlying loan vintages, loan delinquencies and defaults, loss severity assumptions, prepayments, and weighted average coupons and maturities. When the volume or level of market activity for a security is limited, certain inputs used to determine fair value may not be observable in the market. Broker prices may also be based on a market approach that considers recent transactions involving identical or similar securities. Fair values provided by brokers are subject to similar control processes to those noted above for fair values from independent third-party valuation service providers, including management reviews. For those corporate debt instruments (for example, private placements) that are not traded in active markets or that are subject to transfer restrictions, valuations reflect illiquidity and non-transferability, based on available market evidence. When observable price quotations are not available, fair value is determined based on discounted cash flow models using discount rates based on credit spreads, yields or price levels of comparable securities, adjusted for illiquidity and structure. Fair values determined internally are also subject to management review to ensure that valuation models and related inputs are reasonable.

The methodology above is relevant for all fixed maturity securities including residential mortgage backed securities (RMBS), commercial mortgage backed securities (CMBS), collateralized debt obligations (CDO), other asset backed securities (ABS) and fixed maturity securities issued by government sponsored entities and corporate entities.

**Equity Securities Traded in Active Markets**

Whenever available, we obtain quoted prices in active markets for identical assets at the balance sheet date to measure equity securities at fair value. Market price data is generally obtained from exchange or dealer markets.

**Mortgage and Other Loans Receivable**

We estimate the fair value of mortgage and other loans receivable that are measured at fair value by using dealer quotations, discounted cash flow analyses and/or internal valuation models. The determination of fair value considers inputs such as interest rate, maturity, the borrower's creditworthiness, collateral, subordination, guarantees, past-due status, yield curves, credit curves, prepayment rates, market pricing for comparable loans and other relevant factors.

## Other Invested Assets

We initially estimate the fair value of investments in certain hedge funds, private equity funds and other investment partnerships by reference to the transaction price. Subsequently, we generally obtain the fair value of these investments from net asset value information provided by the general partner or manager of the investments, the financial statements of which are generally audited annually. We consider observable market data and perform certain control procedures to validate the appropriateness of using the net asset value as a fair value measurement. The fair values of other investments carried at fair value, such as direct private equity holdings, are initially determined based on transaction price and are subsequently estimated based on available evidence such as market transactions in similar instruments, other financing transactions of the issuer and other available financial information for the issuer, with adjustments made to reflect illiquidity as appropriate.

## Short-term Investments

For short-term investments that are measured at amortized cost, the carrying amounts of these assets approximate fair values because of the relatively short period of time between origination and expected realization, and their limited exposure to credit risk. Securities purchased under agreements to resell (reverse repurchase agreements) are generally treated as collateralized

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### **Item 8 / note 4. FAIR VALUE MEASUREMENTS**

receivables. We report certain receivables arising from securities purchased under agreements to resell as Short-term investments in the Consolidated Balance Sheets. When these receivables are measured at fair value, we use market-observable interest rates to determine fair value.

#### **Separate Account Assets**

Separate account assets are composed primarily of registered and unregistered open-end mutual funds that generally trade daily and are measured at fair value in the manner discussed above for equity securities traded in active markets.

#### **Freestanding Derivatives**

Derivative assets and liabilities can be exchange-traded or traded over-the-counter (OTC). We generally value exchange-traded derivatives such as futures and options using quoted prices in active markets for identical derivatives at the balance sheet date.

OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of, and specific risks inherent in the instrument, as well as the availability of pricing information in the market. We generally use similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be corroborated by observable market data by correlation or other means, and model selection does not involve significant management judgment.

For certain OTC derivatives that trade in less liquid markets, where we generally do not have corroborating market evidence to support significant model inputs and cannot verify the model to market transactions, the transaction price may provide the best estimate of fair value. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so the model value at inception equals the transaction price. We will update valuation inputs in these models only when corroborated by evidence such as similar market transactions, independent third-party valuation service providers and/or broker or dealer quotations, or other empirical market data. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

We value our super senior credit default swap portfolio using prices obtained from vendors and/or

counterparties. The valuation of the super senior credit derivatives is complex because of the limited availability of market observable information due to the lack of trading and price transparency in certain structured finance markets. Our valuation methodologies for the super senior CDS portfolio have evolved over time in response to market conditions and the availability of market observable information. We have sought to calibrate the methodologies to available market information and to review the assumptions of the methodologies on a regular basis.

#### Embedded Derivatives within Policyholder Contract Deposits

Certain variable annuity and equity-indexed annuity and life contracts contain embedded derivatives that we bifurcate from the host contracts and account for separately at fair value, with changes in fair value recognized in earnings. These embedded derivatives are classified within Policyholder contract deposits. We have concluded these contracts contain either (i) a written option that guarantees a minimum accumulation value at maturity, (ii) a written option that guarantees annual withdrawals regardless of underlying market performance for a specific period or for life, or (iii) equity-indexed written options that meet the criteria of derivatives and must be bifurcated.

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The fair value of embedded derivatives contained in certain variable annuity and equity-indexed annuity and life contracts is measured based on actuarial and capital market assumptions related to projected cash flows over the expected lives of the contracts. These discounted cash flow projections primarily include benefits and related fees assessed, when applicable. In some instances, the projected cash flows from fees may exceed projected cash flows related to benefit payments and therefore, at a point in time, the carrying value of the embedded derivative may be in a net asset position. The projected cash flows incorporate best estimate assumptions for policyholder behavior (including mortality, lapses, withdrawals and benefit utilization), along with an explicit risk margin to reflect a market participant's estimates of projected cash flows and policyholder behavior. Estimates of future policyholder behavior are subjective and based primarily on our historical experience.

Because of the dynamic and complex nature of the projected cash flows with respect to embedded derivatives in our variable annuity contracts, risk neutral valuations are used which are calibrated to observable interest rate and equity option prices. Estimating the underlying cash flows for these products involves judgments regarding expected market rates of return, market volatility, credit spreads, correlations of certain market variables, fund performance, discount rates and policyholder behavior. The portion of fees attributable to the fair value of expected benefit payments are included within the fair value measurement of these embedded derivatives and related fees are classified in net realized gain/loss as earned, consistent with other changes in the fair value of these embedded policy derivatives. Any portion of the fees not attributed to the embedded derivative are excluded from the fair value measurement and classified in policy fees as earned.

With respect to embedded derivatives in our equity-indexed annuity and life contracts, option pricing models are used to estimate fair value, taking into account assumptions for future equity index growth rates, volatility of the equity index, future interest rates, and determinations on adjusting the participation rate and the cap on equity-indexed credited rates in light of market conditions and policyholder behavior assumptions.

Projected cash flows are discounted using the interest rate swap curve (swap curve), which is commonly viewed as being consistent with the credit spreads for highly rated financial institutions (S&P AA-rated or above). A swap curve shows the fixed-rate leg of a non-complex swap against the floating rate (for example, LIBOR) leg of a related tenor. We also incorporate our own risk of non-performance in the valuation of the embedded derivatives associated with variable annuity and equity-indexed annuity and life contracts. The non-performance risk adjustment reflects a market participant's view of our claims-paying ability by incorporating an additional spread to the swap curve used to discount projected benefit cash flows in the valuation of these embedded derivatives. The non-performance risk adjustment is calculated by constructing forward rates based on a weighted average of observable corporate credit indices to approximate the claims-paying ability rating of our Life Insurance Companies.

**Long-Term Debt**



The fair value of non-structured liabilities is generally determined by using market prices from exchange or dealer markets, when available, or discounting expected cash flows using the appropriate discount rate for the applicable maturity. We determine the fair value of structured liabilities and hybrid financial instruments (where performance is linked to structured interest rates, inflation or currency risks) using the appropriate derivative valuation methodology (described above) given the nature of the embedded risk profile. In addition, adjustments are made to the valuations of both non-structured and structured liabilities to reflect our own creditworthiness based on the methodology described under the caption "Incorporation of Credit Risk in Fair Value Measurements – Our Own Credit Risk" above.

Borrowings under obligations of guaranteed investment agreements (GIAs), which are guaranteed by us, are recorded at fair value using discounted cash flow calculations based on interest rates currently being offered for similar contracts and our current market observable implicit credit spread rates with maturities consistent with those remaining for the contracts being valued. Obligations may be called at various times prior to maturity at the option of the counterparty. Interest rates on these borrowings are primarily fixed, vary by maturity and range up to 7.62 percent.

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Other liabilities measured at fair value include certain securities sold under agreements to repurchase and certain securities sold but not yet purchased. Liabilities arising from securities sold under agreements to repurchase are generally treated as collateralized borrowings. We estimate the fair value of liabilities arising under these agreements by using market-observable interest rates. This methodology considers such factors as the coupon rate, yield curves and other relevant factors. Fair values for securities sold but not yet purchased are based on current market prices.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The following table presents information about assets and liabilities measured at fair value on a recurring basis and indicates the level of the fair value measurement based on the observability of the inputs used:

**December 31, 2015***(in millions)***Assets:**

	Level 1	Level 2	Level 3	Counterparty Netting	Cash Collateral
Bonds available for sale:					
U.S. government and government sponsored entities	\$	-\$ 1,844	\$	-\$	-\$
Obligations of states, municipalities and political subdivisions	-	25,199	2,124	-	-
Non-U.S. governments	683	17,480	32	-	-
Corporate debt	-	134,618	1,370	-	-
RMBS	-	19,690	16,537	-	-
CMBS	-	10,986	2,585	-	-
CDO/ABS	-	8,928	6,169	-	-
Total bonds available for sale	683	218,745	28,817	-	-
Other bond securities:					
U.S. government and government sponsored entities	-	3,369	-	-	-
Obligations of states, municipalities and political subdivisions	-	75	-	-	-
Non-U.S. governments	-	50	-	-	-
Corporate debt	-	2,018	17	-	-
RMBS	-	649	1,581	-	-
CMBS	-	557	193	-	-
CDO/ABS	-	1,218	7,055	-	-
Total other bond securities	-	7,936	8,846	-	-
Equity securities available for sale:					
Common stock	2,401	-	-	-	-
Preferred stock	22	-	-	-	-

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Mutual funds	491	1	-	-	-
Total equity securities available for sale	2,914	1	-	-	-
Other equity securities	906	1	14	-	-
Mortgage and other loans receivable	-	-	11	-	-
Other invested assets	2	4,256	4,654	-	-
Derivative assets:					
Interest rate contracts	-	3,150	12	-	-
Foreign exchange contracts	-	766	-	-	-
Equity contracts	91	32	54	-	-
Commodity contracts	-	-	-	-	-
Credit contracts	-	-	3	-	-
Other contracts	-	2	21	-	-
Counterparty netting and cash collateral	-	-	-	(1,268)	(1,554)
Total derivative assets	91	3,950	90	(1,268)	(1,554)
Short-term investments	1,416	1,175	-	-	-
Separate account assets	73,699	5,875	-	-	-
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Total	\$ 79,711	\$ 241,939	\$ 42,432	\$ (1,268)	\$ (1,554)	\$ 361,260	
<b>Liabilities:</b>							
Policyholder contract deposits	\$ -	\$ 36	\$ 2,289	\$ -	\$ -	\$ 2,325	
Other policyholder funds	6	-	-	-	-	6	
Derivative liabilities:							
Interest rate contracts	-	2,137	62	-	-	2,199	
Foreign exchange contracts	-	1,197	7	-	-	1,204	
Equity contracts	-	68	-	-	-	68	
Commodity contracts	-	-	-	-	-	-	
Credit contracts	-	-	508	-	-	508	
Other contracts	-	-	69	-	-	69	
Counterparty netting and cash collateral	-	-	-	(1,268)	(760)	(2,028)	
Total derivative liabilities	-	3,402	646	(1,268)	(760)	2,020	
Long-term debt	-	3,487	183	-	-	3,670	
Other liabilities	-	62	-	-	-	62	
Total	\$ 6	\$ 6,987	\$ 3,118	\$ (1,268)	\$ (760)	\$ 8,083	
<b>December 31, 2014</b>							
(in millions)				Level 1	Level 2	Level 3	Counterparty Cash Collateral
<b>Assets:</b>							
Bonds available for sale:							
U.S. government and government sponsored entities	\$	322	\$ 2,670	\$ -	\$ -	\$ -	2,992
Obligations of states, municipalities and political subdivisions		-	25,500	2,159	-	-	27,659
Non-U.S. governments		742	20,323	30	-	-	21,095
Corporate debt		-	142,550	1,883	-	-	144,433
RMBS		-	20,715	16,805	-	-	37,520
CMBS		-	10,189	2,696	-	-	12,885
CDO/ABS		-	7,165	6,110	-	-	13,275
Total bonds available for sale			1,064	229,112	29,683	-	259,859
Other bond securities:							
U.S. government and government sponsored entities			130	5,368	-	-	5,498
Obligations of states, municipalities and political subdivisions			-	122	-	-	122
Non-U.S. governments			-	2	-	-	2
Corporate debt			-	719	-	-	719
RMBS			-	989	1,105	-	2,094
CMBS			-	708	369	-	1,077
CDO/ABS			-	2,751	7,449	-	10,200
Total other bond securities			130	10,659	8,923	-	19,712
Equity securities available for sale:							
Common stock			3,626	2	1	-	3,629
Preferred stock			25	-	-	-	25

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Mutual funds	738	3	-	- -	74
Total equity securities available for sale	4,389	5	1	- -	4,395
Other equity securities	1,024	25	-	- -	1,049
Mortgage and other loans receivable	-	-	6	- -	6
Other invested assets	2	3,742	5,650	- -	9,394
Derivative assets:					
Interest rate contracts	2	3,729	12	- -	3,743
Foreign exchange contracts	-	839	1	- -	840
Equity contracts	98	58	51	- -	207
Commodity contracts	-	-	-	- -	-
Credit contracts	-	-	4	- -	4
Other contracts	-	-	31	- -	31

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Counterparty netting and cash collateral	-	-	-	(2,102)	(1,119)	(3,221)
Total derivative assets	100	4,626	99	(2,102)	(1,119)	1,604
Short-term investments	584	1,100	-	-	-	1,684
Separate account assets	73,939	6,097	-	-	-	80,036
Total	\$ 81,232	\$ 255,366	\$ 44,362	\$ (2,102)	\$ (1,119)	\$ 377,739
<b>Liabilities:</b>						
Policyholder contract deposits	\$ -	\$ 52	\$ 1,509	\$ -	\$ -	\$ 1,561
Other policyholder funds	-	8	-	-	-	8
Derivative liabilities:						
Interest rate contracts	-	3,047	86	-	-	3,133
Foreign exchange contracts	-	1,482	9	-	-	1,491
Equity contracts	-	98	4	-	-	102
Commodity contracts	-	6	-	-	-	6
Credit contracts	-	-	982	-	-	982
Other contracts	-	-	90	-	-	90
Counterparty netting and cash collateral	-	-	-	(2,102)	(1,429)	(3,531)
Total derivative liabilities	-	4,633	1,171	(2,102)	(1,429)	2,273
Long-term debt	-	5,253	213	-	-	5,466
Other liabilities	34	316	-	-	-	350
Total	\$ 34	\$ 10,262	\$ 2,893	\$ (2,102)	\$ (1,429)	\$ 9,658

\* Represents netting of derivative exposures covered by qualifying master netting agreements.

**Transfers of Level 1 and Level 2 Assets and Liabilities**

Our policy is to record transfers of assets and liabilities between Level 1 and Level 2 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. During the years ended December 31, 2015 and 2014, we transferred \$695 million and \$590 million, respectively, of securities issued by Non-U.S. government entities from Level 1 to Level 2, because they are no longer considered actively traded. For similar reasons, during the years ended December 31, 2015 and 2014, we transferred \$181 million and \$107 million, respectively, of securities issued by the U.S. government and government sponsored entities from Level 1 to Level 2. There were no material transfers from Level 2 to Level 1 during the years ended December 31, 2015 and 2014.



**TABLE OF CONTENTS****Item 8 / note 4. FAIR VALUE MEASUREMENTS****Changes in Level 3 Recurring Fair Value Measurements**

The following tables present changes during the years ended December 31, 2015 and 2014 in Level 3 assets and liabilities measured at fair value on a recurring basis, and the realized and unrealized gains (losses) related to the Level 3 assets and liabilities in the Consolidated Balance Sheets at December 31, 2015 and 2014:

	Fair Value Beginning of Year	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gro Transfe
<i>(in millions)</i>					
<b>December 31, 2015</b>					
<b>Assets:</b>					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions	\$ 2,159	\$ 1	\$ (85)	\$ 154	
Non-U.S. governments	30	-	(7)	10	
Corporate debt	1,883	15	(109)	(210)	1,5
RMBS	16,805	1,052	(512)	(808)	
CMBS	2,696	77	(95)	118	
CDO/ABS	6,110	149	(258)	300	
Total bonds available for sale	29,683	1,294	(1,066)	(436)	1,5
Other bond securities:					
Corporate debt	-	-	-	1	
RMBS	1,105	32	-	460	
CMBS	369	(3)	-	(177)	
CDO/ABS	7,449	646	-	(1,658)	6
Total other bond securities	8,923	675	-	(1,374)	7
Equity securities available for sale:					
Common stock	1	2	-	(3)	
Preferred stock	-	-	-	-	
Total equity securities available for sale	1	2	-	(3)	
Other equity securities	-	(1)	-	(7)	
Mortgage and other loans receivable	6	-	-	5	
Other invested assets	5,650	435	(789)	(530)	1
Total	\$ 44,263	\$ 2,405	\$ (1,855)	\$ (2,345)	2,4
<b>Liabilities:</b>					
Policyholder contract deposits	\$ (1,509)	\$ (315)	\$ -	\$ (465)	



Derivative liabilities, net:				
Interest rate contracts	(74)	-	-	24
Foreign exchange contracts	(8)	1	-	-
Equity contracts	47	2	-	5
Commodity contracts	-	-	-	-
Credit contracts	(978)	186	-	287
Other contracts	(59)	79	-	(68)
Total derivative liabilities, net <sup>(a)</sup>	(1,072)	268	-	248
Long-term debt <sup>(b)</sup>	(213)	10	-	20
Total	\$ (2,794)	\$ (37)	-\$	(197)\$
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	Fair Value Beginning of Year	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gross Transfers
<i>(in millions)</i>					
<b>December 31, 2014</b>					
<b>Assets:</b>					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions <sup>(c)</sup>	\$ 1,080	\$ -	\$ 233	\$ 914	\$ 1,000
Non-U.S. governments	16	1	(1)	9	1,000
Corporate debt	1,255	12	19	(257)	1,300
RMBS	14,941	1,012	53	796	1,000
CMBS	5,735	69	243	85	1,000
CDO/ABS	6,974	86	(38)	1,545	2,400
Total bonds available for sale	30,001	1,180	509	3,092	4,100
Other bond securities:					
Corporate debt	-	-	-	-	-
RMBS	937	40	-	97	1,000
CMBS	844	(6)	-	(141)	1,000
CDO/ABS	8,834	1,098	-	(1,805)	2,000
Total other bond securities	10,615	1,132	-	(1,849)	4,000
Equity securities available for sale:					
Common stock	1	-	-	(1)	1,000
Preferred stock	-	-	-	-	1,000
Mutual funds	-	-	-	-	1,000
Total equity securities available for sale	1	-	-	(1)	1,000
Mortgage and other loans receivable	-	-	-	6	1,000
Other invested assets	5,930	150	398	(83)	1,000
Total	\$ 46,547	\$ 2,462	\$ 907	\$ 1,165	\$ 4,700
<b>Liabilities:</b>					
Policyholder contract deposits	\$ (312)	\$ (1,127)	\$ (54)	\$ (16)	\$ 1,000
Derivative liabilities, net:					
Interest rate contracts	(100)	(10)	-	39	1,000
Foreign exchange contracts	-	2	-	(10)	1,000
Equity contracts	49	21	-	(18)	1,000
Commodity contracts	1	(1)	-	-	1,000
Credit contracts	(1,280)	263	-	39	1,000
Other contracts	(109)	99	53	(103)	1,000
Total derivatives liabilities, net <sup>(a)</sup>	(1,439)	374	53	(53)	1,000
Long-term debt <sup>(b)</sup>	(370)	94	-	37	(700)

Total	\$	(2,121)	\$	(659)	\$	(1)	\$	(32)	\$	(2)
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(a) Total Level 3 derivative exposures have been netted in these tables for presentation purposes only.

(b) Includes guaranteed investment agreements (GIAs), notes, bonds, loans and mortgages payable.

(c) Purchases, Sales, Issues and Settlements, Net primarily reflect the effect of consolidating previously unconsolidated securitization vehicles.

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Net realized and unrealized gains and losses included in income related to Level 3 assets and liabilities shown above are reported in the Consolidated Statements of Income as follows:

<i>(in millions)</i>	Net Investment Income	Net Realized Capital Gains (Losses)	Other Income	Total
<b>December 31, 2015</b>				
Bonds available for sale	\$ 1,227	\$ (49)	\$ 116	\$ 1,294
Other bond securities	44	3	628	675
Equity securities available for sale	-	2	-	2
Other equity securities	-	-	(1)	(1)
Other invested assets	45	324	66	435
Policyholder contract deposits	-	(315)	-	(315)
Derivative liabilities, net	-	(1)	269	268
Long-term debt	-	-	10	10
<b>December 31, 2014</b>				
Bonds available for sale	\$ 1,236	\$ (107)	\$ 51	\$ 1,180
Other bond securities	95	-	1,037	1,132
Equity securities available for sale	-	-	-	-
Other invested assets	175	(28)	3	150
Policyholder contract deposits	-	(1,127)	-	(1,127)
Derivative liabilities, net	68	8	298	374
Long-term debt	-	-	94	94

The following table presents the gross components of purchases, sales, issues and settlements, net, shown above:

<i>(in millions)</i>	Purchases	Sales	Settlements	Purchases Sales, Issu Settlements
<b>December 31, 2015</b>				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	\$ 279	\$ (37)	\$ (88)	
Non-U.S. governments	18	(1)	(7)	
Corporate debt	221	(60)	(371)	
RMBS	2,215	(194)	(2,829)	
CMBS	273	(28)	(127)	
CDO/ABS	1,400	(210)	(890)	
Total bonds available for sale	4,406	(530)	(4,312)	
Other bond securities:				
Corporate debt	-	-	1	
RMBS	655	(22)	(173)	

CMBS	-	(79)	(98)
CDO/ABS	242	(380)	(1,520)
Total other bond securities	897	(481)	(1,790)
Equity securities available for sale	-	(2)	(1)
Other equity securities	-	-	(7)
Mortgage and other loans receivable	5	-	-
Other invested assets	682	(587)	(625)
Total assets	\$ 5,990	\$(1,600)	\$(6,735)
Liabilities:			
Policyholder contract deposits	\$ -	\$(442)	\$(23)
Derivative liabilities, net	19	-	229
Long-term debt <sup>(b)</sup>	-	-	20
Total liabilities	\$ 19	\$(442)	226\$

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Bonds available for sale:				
Obligations of states, municipalities and political subdivisions <sup>(c)</sup>	\$ 1,041	\$ (35)	\$ (92)	\$ 914
Non-U.S. governments	12	-	(3)	9
Corporate debt	148	(8)	(397)	(257)
RMBS	3,301	(124)	(2,381)	796
CMBS	368	(224)	(59)	85
CDO/ABS	2,760	(70)	(1,145)	1,545
Total bonds available for sale	7,630	(461)	(4,077)	3,092
Other bond securities:				
Corporate debt	-	-	-	-
RMBS	211	(31)	(83)	97
CMBS	-	(16)	(125)	(141)
CDO/ABS	55	(21)	(1,839)	(1,805)
Total other bond securities	266	(68)	(2,047)	(1,849)
Equity securities available for sale	-	-	(1)	(1)
Mortgage and other loans receivable	6	-	-	6
Other invested assets	776	(25)	(834)	(83)
Total assets	\$ 8,678	\$ (554)	\$ (6,959)	\$ 1,165
Liabilities:				
Policyholder contract deposits	\$ -	\$ (149)	\$ 133	\$ (16)
Derivative liabilities, net	2	(3)	(52)	(53)
Long-term debt <sup>(b)</sup>	-	-	37	37
Total liabilities	\$ 2	\$ (152)	\$ 118	\$ (32)

(a) There were no issuances during the years ended December 31, 2015 and 2014.

(b) Includes GIAs, notes, bonds, loans and mortgages payable.

(c) Purchases primarily reflect the effect of consolidating previously unconsolidated securitization vehicles.

Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3 in the tables above. As a result, the unrealized gains (losses) on instruments held at December 31, 2015 and 2014 may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable inputs (e.g., changes in unobservable long-dated volatilities).

**Transfers of Level 3 Assets and Liabilities**

We record transfers of assets and liabilities into or out of Level 3 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. The Net realized and unrealized gains (losses) included in income (loss) or Other comprehensive income (loss) and as shown in the table above excludes \$2 million of net losses and \$22 million of net gains related to assets and liabilities transferred into Level 3 during 2015 and 2014, respectively, and includes \$36 million of net losses and \$62 million of net gains related to assets and liabilities transferred out of Level 3 during 2015 and 2014, respectively.

### Transfers of Level 3 Assets

During the years ended December 31, 2015 and 2014, transfers into Level 3 assets primarily included certain investments in private placement corporate debt, RMBS, CMBS, CDO/ABS, and investments in hedge funds. Transfers of private placement corporate debt and certain ABS into Level 3 assets were primarily the result of limited market pricing information that required us to determine fair value for these securities based on inputs that are adjusted to better reflect our own assumptions regarding the characteristics of a specific security or associated market liquidity. The transfers of investments in RMBS, CMBS and CDO and certain ABS into Level 3 assets were due to decreases in market transparency and liquidity for individual

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security types. Certain investments in hedge funds were transferred into Level 3 due to these investments now being carried at fair value and no longer being accounted for using the equity method of accounting due to a change in percentage ownership, or as a result of limited market activity due to fund-imposed redemption restrictions.

During the years ended December 31, 2015 and 2014, transfers out of Level 3 assets primarily included CMBS, CDO/ABS, RMBS, certain investments in municipal securities, private placement and other corporate debt, and investments in hedge funds. Transfers of certain investments in municipal securities, corporate debt, RMBS, CMBS and CDO/ABS out of Level 3 assets were based on consideration of market liquidity as well as related transparency of pricing and associated observable inputs for these investments. Transfers of certain investments in private placement corporate debt and certain ABS out of Level 3 assets were primarily the result of using observable pricing information that reflects the fair value of those securities without the need for adjustment based on our own assumptions regarding the characteristics of a specific security or the current liquidity in the market. The transfers of certain hedge fund investments out of Level 3 assets were primarily the result of easing of certain fund-imposed redemption restrictions.

**Transfers of Level 3 Liabilities**

There were no significant transfers of derivative or other liabilities into or out of Level 3 for the years ended December 31, 2015 and 2014.

**Quantitative Information about Level 3 Fair Value Measurements**

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

(in millions)	Fair Value at December 31, 2015	Valuation Technique	Unobservable Input <sup>(b)</sup>	Range (Weighted Average )
<b>Assets:</b>				
Obligations of states,	\$ 1,217	Discounted cash flow		Yield 4.32% - 5.10% (4.71%)



municipalities and  
political  
subdivisions

Corporate debt	642	Discounted cash flow	Yield	5.63% - 12.45% (9.04%)
RMBS(a)	17,280	Discounted cash flow	Constant prepayment rate	0.99% - 8.95% (4.97%) 47.21% - 79.50%
			Loss severity	(63.35%)
			Constant default rate	3.49% - 9.04% (6.26%)
			Yield	3.13% - 6.14% (4.63%)
CDO/ABS(a)	3,338	Discounted cash flow	Yield	3.41% - 4.98% (4.19%)
CMBS	2,388	Discounted cash flow	Yield	0.00% - 17.65% (6.62%)

Liabilities:

Embedded  
derivatives  
within  
Policyholder

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contract deposits:

GMWB and GMAB	1,234	Discounted cash flow	Equity volatility	15.00% - 50.00%
			Base lapse rate	1.00% - 17.00%
			Dynamic lapse rate	0.20% - 25.50%
			Mortality multiplier <sup>(c)</sup>	80.00% - 104.27%
			Utilization rate	0.00% - 70.00%
			Equity / interest-rate correlation <sup>(d)</sup>	20.00% - 40.00%
Index Annuities	715	Discounted cash flow	Lapse rate	0.75% - 66.00%
			Mortality multiplier <sup>(c)</sup>	50.00% - 75.00%
Indexed Life	332	Discounted cash flow	Equity volatility	13.25% to 22.00%
			Base lapse rate	2.00% to 19.00%
			Mortality rate	0.00% to 40.00%

	Fair Value at December 31, 2014	Valuation Technique	Unobservable Input <sup>(b)</sup>	Range (Weighted Average)
<i>(in millions)</i>				
<b>Assets:</b>				
Obligations of states, municipalities and political subdivisions	\$ 1,178	Discounted cash flow	Yield	3.9% - 4.62% (4.26%)
Corporate debt	1,145	Discounted cash flow	Yield	3.46% - 8.75% (6.10%)
RMBS <sup>(a)</sup>	17,353	Discounted cash flow		0.59% - 9.35% (4.97%)
Consolidated StatementS of Cash Flows				490

Constant prepayment rate	
Loss severity	46.04% - 79.56% (62.80%)
Constant default rate	3.67% - 9.96% (6.82%)
Yield	2.67% - 6.64% (4.65%)

CDO/ABS <sup>(a)</sup>	5,282 Discounted cash flow	Yield	4.70% - 9.70% (7.10%)
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CMBS	2,687 Discounted cash flow	Yield	0.00% - 17.29% (6.06%)
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**Liabilities:**

Embedded  
derivatives  
within  
Policyholder  
contract  
deposits:

GMWB and GMAB	957 Discounted cash flow	Equity volatility	6.00% - 39.00%
		Base lapse rate	1.00% - 28.00%
		Dynamic lapse rate	0.20% - 42.00%
		Mortality rate	0.10% - 35.00%
		Utilization rate	0.50% - 30.00%

Index Annuities	294 Discounted cash flow	Lapse rate	0.75% - 66.00%
		Mortality rate	0.02% - 44.06%

Indexed Life	259 Discounted cash flow	Equity volatility	10.00% to 25.00%
		Base lapse rate	2.00% to 19.00%
		Mortality rate	0.00% to 20.00%

Derivative  
liabilities -  
credit

contracts <sup>(e)</sup>	791	BET	Recovery rate	5.00% - 23.00% (13.00%)
			Diversity score	8 - 25 (13)
			Weighted average life	2.67 - 10.49 years (4.65 years)

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### **Item 8 / note 4. FAIR VALUE MEASUREMENTS**

(a) Information received from third-party valuation service providers. The ranges of the unobservable inputs for constant prepayment rate, loss severity and constant default rate relate to each of the individual underlying mortgage loans that comprise the entire portfolio of securities in the RMBS and CDO securitization vehicles and not necessarily to the securitization vehicle bonds (tranches) purchased by us. The ranges of these inputs do not directly correlate to changes in the fair values of the tranches purchased by us, because there are other factors relevant to the fair values of specific tranches owned by us including, but not limited to, purchase price, position in the waterfall, senior versus subordinated position and attachment points.

(b) Represents discount rates, estimates and assumptions that we believe would be used by market participants when valuing these assets and liabilities.

(c) Mortality inputs are shown as multipliers of the 2012 Individual Annuity Mortality Basic table for GMWB and GMAB, and the 1975-1980 Modified Basic Table for index annuities.

(d) An equity / interest rate correlation factor was added to the valuation model in the fourth quarter of 2015.

(e) Beginning in the third quarter of 2015, we began valuing these instruments using prices obtained from vendors and/or counterparties and discontinued use of the BET model.

The ranges of reported inputs for Obligations of states, municipalities and political subdivisions, Corporate debt, RMBS, CDO/ABS, and CMBS valued using a discounted cash flow technique consist of one standard deviation in either direction from the value weighted average. The preceding table does not give effect to our risk management practices that might offset risks inherent in these Level 3 assets and liabilities.

### **Sensitivity to Changes in Unobservable Inputs**

We consider unobservable inputs to be those for which market data is not available and that are developed using the best information available to us about the assumptions that market participants would use when pricing the asset or liability. Relevant inputs vary depending on the nature of the instrument being measured at fair value. The following paragraphs provide a general description of sensitivities of significant unobservable inputs along with interrelationships between and among the significant unobservable inputs and their impact on the fair value measurements. The effect of a change in a particular assumption in the sensitivity analysis below is considered independently of changes in any other assumptions. In practice, simultaneous changes in assumptions may not always have a linear effect on the inputs discussed below. Interrelationships may also exist between observable and unobservable inputs. Such relationships have not been included in the discussion below. For each of the individual relationships described below, the inverse relationship would also generally apply.

*Obligations of States, Municipalities and Political Subdivisions*

The significant unobservable input used in the fair value measurement of certain investments in obligations of states, municipalities and political subdivisions is yield. In general, increases in the yield would decrease the fair value of investments in obligations of states, municipalities and political subdivisions.

*Corporate Debt*

Corporate debt securities included in Level 3 are primarily private placement issuances that are not traded in active markets or that are subject to transfer restrictions. Fair value measurements consider illiquidity and non-transferability. When observable price quotations are not available, fair value is determined based on discounted cash flow models using discount rates based on credit spreads, yields or price levels of publicly traded debt of the issuer or other comparable securities, considering illiquidity and structure. The significant unobservable input used in the fair value measurement of corporate debt is the yield.

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The yield is affected by the market movements in credit spreads and U.S. Treasury yields. In addition, the migration in credit quality of a given security generally has a corresponding effect on the fair value measurement of the security. For example, a downward migration of credit quality would increase spreads. Holding U.S. Treasury rates constant, an increase in corporate credit spreads would decrease the fair value of corporate debt.

*RMBS and CDO/ABS*

The significant unobservable inputs used in fair value measurements of RMBS and certain CDO/ABS valued by third party valuation service providers are constant prepayment rates (CPR), loss severity, constant default rates (CDR) and yield. A change in the assumptions used for the probability of default will generally be accompanied by a corresponding change in the assumption used for the loss severity and an inverse change in the assumption used for prepayment rates. In general, increases in CPR, loss severity, CDR and yield, in isolation, would result in a decrease in the fair value measurement. Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship between the directional change of each input is not usually linear.

*CMBS*

The significant unobservable input used in fair value measurements for CMBS is the yield. Prepayment assumptions for each mortgage pool are factored into the yield. CMBS generally feature a lower degree of prepayment risk than RMBS because commercial mortgages generally contain a penalty for prepayment. In general, increases in the yield would decrease the fair value of CMBS.

*Embedded derivatives within Policyholder contract deposits*

Embedded derivatives reported within Policyholder contract deposits include guaranteed minimum withdrawal benefits (GMWB) and guaranteed minimum accumulation benefits (GMAB) within variable annuity products, and certain enhancements to interest crediting rates based on market indices within index annuities, indexed life and guaranteed investment contracts (GICs). For any given contract, assumptions for unobservable inputs vary throughout the period over which cash flows are projected for purposes of valuing the embedded derivative. The following unobservable inputs are used for valuing embedded derivatives measured at fair value:

- Long-term equity volatilities represent equity volatility beyond the period for which observable equity volatilities are available. Increases in assumed volatility will generally increase the fair value of both the projected cash flows from rider fees as well as the projected cash flows related to benefit payments. Therefore, the net change in the fair value of the liability may either decrease or increase, depending on the

relative changes in projected rider fees and projected benefit payments. In 2015, the calculations used to measure equity volatilities for the GMWB and GMAB were updated to provide greater emphasis on current expected market-based volatilities versus historical market volatilities. The implementation of this change reduced the fair value of the GMWB and GMAB liabilities, net of related adjustments to DAC, by approximately \$143 million at December 31, 2015, which was more than offset by the addition of an equity / interest rate correlation factor to the valuation model in 2015, as described below. Long-term equity volatility and equity / interest rate correlation are both key inputs in our economic scenario modeling used to value the embedded derivatives.

- Equity / interest rate correlation estimates the relationship between changes in equity returns and interest rates in the economic scenario generator used to value our GMWB and GMAB embedded derivatives. In general, a higher positive correlation assumes that equity markets and interest rates move in a more correlated fashion, which generally increases the fair value of the liability. Prior to 2015, an assumption of zero correlation was used based on historical data that was mixed as to the direction of this correlation over a long period of time. In 2015, we added a positive correlation factor based on current market conditions and expected views of market participants. This change increased the GMWB and GMAB fair value liabilities, net of related adjustments to DAC, by approximately \$155 million at December 31, 2015, which was largely offset by an update to equity volatility assumptions, as described above.

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- Base lapse rate assumptions are determined by company experience and are adjusted at the contract level using a dynamic lapse function, which reduces the base lapse rate when the contract is in-the-money (when the contract holder's guaranteed value is worth more than their underlying account value). Lapse rates are also generally assumed to be lower in periods when a surrender charge applies. Increases in assumed lapse rates will generally decrease the fair value of the liability, as fewer policyholders would persist to collect guaranteed withdrawal amounts, but in certain scenarios, increases in assumed lapse rates may increase the fair value of the liability.
  - Mortality rate assumptions, which vary by age and gender, are based on company experience and include a mortality improvement assumption. Increases in assumed mortality rates will decrease the fair value of the liability, while lower mortality rate assumptions will generally increase the fair value of the liability, because guaranteed payments will be made for a longer period of time.
  - Utilization rate assumptions estimate the timing when policyholders with a GMWB will elect to utilize their benefit and begin taking withdrawals. The assumptions may vary by the type of guarantee, tax-qualified status, the contract's withdrawal history and the age of the policyholder. Utilization rate assumptions are based on company experience, which includes partial withdrawal behavior. Increases in assumed utilization rates will generally increase the fair value of the liability.

*Derivative liabilities – credit contracts*

The significant unobservable inputs used for Derivative liabilities – credit contracts are recovery rates, diversity scores, and the weighted average life of the portfolio. AIG non-performance risk is also considered in the measurement of the liability.

An increase in recovery rates and diversity score will decrease the fair value of the liability. An increase in the weighted average life will increase the fair value measurement of the liability.

**Investments in Certain Entities Carried at Fair Value Using Net Asset Value Per Share**

The following table includes information related to our investments in certain other invested assets, including private equity funds, hedge funds and other alternative investments that calculate net asset value per share (or its equivalent). For these investments, which are measured at fair value on a recurring basis, we use the net asset value per share to measure fair value.

December 31, 2015		December 31, 2014	
Fair Value Using Net Asset	Unfunded	Fair Value Using Net Asset	Unfunded



<i>(in millions)</i>	Investment Category Includes	Value Per Share (or its equivalent)	Commitments	Value Per Share (or its equivalent)	Commitments
<b>Investment Category</b>					
<i>Private equity funds:</i>					
Leveraged buyout	Debt and/or equity investments made as part of a transaction in which assets of mature companies are acquired from the current shareholders, typically with the use of financial leverage	\$ 1,774\$	436 \$	2,275\$	450
Real Estate / Infrastructure	Investments in real estate properties and infrastructure positions, including power plants and other energy generating facilities	306	213	384	227
Venture capital	Early-stage, high-potential, growth companies expected to generate a return through an eventual realization event, such as an initial public offering or sale of the company	107	41	121	26

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Distressed	Securities of companies that are in default, under bankruptcy protection, or troubled	146	41	164	43
Other	Includes multi-strategy, mezzanine, and other strategies	298	239	216	234
Total private equity funds		2,631	970	3,160	980
<i>Hedge funds:</i>					
Event-driven	Securities of companies undergoing material structural changes, including mergers, acquisitions and other reorganizations	1,194	-	1,109	-
Long-short	Securities that the manager believes are undervalued, with corresponding short positions to hedge market risk	2,978	25	2,428	1
Macro	Investments that take long and short positions in financial instruments based on a top-down view of certain economic and capital market conditions	555	-	498	-
Distressed	Securities of companies that are in default, under bankruptcy protection or troubled	699	8	731	5
Emerging markets	Investments in the financial markets of developing countries	353	-	308	-
Other	Includes multi-strategy, relative value, and other strategies	167	-	125	-
Total hedge funds		5,946	33	5,199	6
Total		\$ 8,577	\$ 1,003	\$ 8,359	\$ 986

Private equity fund investments included above are not redeemable, because distributions from the funds will be received when underlying investments of the funds are liquidated. Private equity funds are generally expected to have 10-year lives at their inception, but these lives may be extended at the fund manager's discretion, typically in one or two-year increments. At December 31, 2015, assuming average original expected lives of 10 years for the funds, 78 percent of the total fair value using net asset value per share

(or its equivalent) presented above would have expected remaining lives of three years or less, 6 percent between four and six years and 16 percent between seven and 10 years.

The hedge fund investments included above are generally redeemable monthly (14 percent), quarterly (47 percent), semi-annually (14 percent) and annually (25 percent), with redemption notices ranging from one day to 180 days. At December 31, 2015, however, investments representing approximately 46 percent of the total fair value of the hedge fund investments cannot be redeemed, either in whole or in part, because the investments include various contractual restrictions. The majority of these contractual restrictions, which may have been put in place at the fund's inception or thereafter, have pre-defined end dates and are generally expected to be lifted by the end of 2016. The fund investments for which redemption is restricted only in part generally relate to certain hedge funds that hold at least one investment that the fund manager deems to be illiquid.

### Fair Value Option

Under the fair value option, we may elect to measure at fair value financial assets and financial liabilities that are not otherwise required to be carried at fair value. Subsequent changes in fair value for designated items are reported in earnings. We elect the fair value option for certain hybrid securities given the complexity of bifurcating the economic components associated with the embedded derivatives. Refer to Note 10 for additional information related to embedded derivatives.

Additionally, we elect the fair value option for certain alternative investments when such investments are eligible for this election. We believe this measurement basis is consistent with the applicable accounting guidance used by the respective investment company funds themselves. Refer to Note 5 herein for additional information.

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The following table presents the gains or losses recorded related to the eligible instruments for which we elected the fair value option:

Years Ended December 31, (in millions)	Gain (Loss)		
	2015	2014	2013
<b>Assets:</b>			
Mortgage and other loans receivable	\$ -	\$ -	\$ 3
Bond and equity securities	616	2,099	1,667
Alternative investments <sup>(a)</sup>	36	313	360
Other, including Short-term investments	2	10	11
<b>Liabilities:</b>			
Long-term debt <sup>(b)</sup>	(38)	(269)	327
Other liabilities	(3)	(13)	(15)
<b>Total gain</b>	<b>\$ 613</b>	<b>\$ 2,140</b>	<b>\$ 2,353</b>

(a) Includes certain hedge funds, private equity funds and other investment partnerships.

(b) Includes GIAs, notes, bonds and mortgages payable.

Interest income and dividend income on assets measured under the fair value option are recognized and included in Net investment income in the Consolidated Statements of Income with the exception of activity within AIG's Corporate and Other category, which is included in Other income. Interest expense on liabilities measured under the fair value option is reported in Other Income in the Consolidated Statements of Income. See Note 5 herein for additional information about our policies for recognition, measurement, and disclosure of interest and dividend income.

During 2015, 2014 and 2013, we recognized losses of \$4 million, \$32 million and \$54 million, respectively, attributable to the observable effect of changes in credit spreads on our own liabilities for which the fair value option was elected. We calculate the effect of these credit spread changes using discounted cash flow techniques that incorporate current market interest rates, our observable credit spreads on these liabilities and other factors that mitigate the risk of nonperformance such as cash collateral posted.

The following table presents the difference between fair values and the aggregate contractual principal amounts of mortgage and other loans receivable and long-term borrowings for which the fair value option was elected:

(in millions)	December 31, 2015			December 31, 2014		
	Fair Value	Outstanding Principal Amount	Difference	Fair Value	Outstanding Principal Amount	Difference
<b>Assets:</b>						
Mortgage and other loans receivable	\$ 11	\$ 9	\$ 2	\$ 6	\$ 4	\$ 2
<b>Liabilities:</b>						

Long-term debt\* **\$ 3,670** **\$ 2,675** **\$ 995** \$ 5,466 \$ 4,101 \$ 1,365  
 \* Includes GIAs, notes, bonds, loans and mortgages payable.

There were no mortgage or other loans receivable for which the fair value option was elected that were 90 days or more past due or in non-accrual status at December 31, 2015 or 2014.

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**TABLE OF CONTENTS****Item 8 / note 4. FAIR VALUE MEASUREMENTS****FAIR VALUE MEASUREMENTS ON A NON-RECURRING BASIS**

We measure the fair value of certain assets on a non-recurring basis, generally quarterly, annually or when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. These assets include cost and equity-method investments, commercial mortgage loans, investments in life settlements, investments in real estate and other fixed assets, goodwill and other intangible assets. See Notes 5 and 6 herein for additional information about how we test various asset classes for impairment.

Information regarding the estimation of fair value for financial instruments measured at fair value on a non-recurring basis is discussed below:

- Impairments for Other investments primarily relate to certain investments in affordable housing partnerships, the fair values of which are determined based on remaining tax credits and other residual benefits due from the respective partnerships. Residual benefits include consideration of the fair value of underlying real estate properties, which is determined based on market-appropriate capitalization rates applied to net operating income of the properties. Impairments for Other investments also relate to certain investments in aircraft, the fair values of which are determined based on third party independent appraisals that use industry specific appraisal standards and methodologies.
- Impairments of Investments in Life Settlements are measured using their fair values as determined using a discounted cash flow methodology that incorporates the best available market assumptions for mortality as well as market yields based on reported transactions. Effective December 31, 2015, AIG adopted the Society of Actuaries 2015 Valuation Basic Table (VBT) as the market mortality assumption used to measure fair value of impaired policies.

**The following table presents assets measured at fair value on a non-recurring basis at the time of impairment and the related impairment charges recorded during the periods presented:**

<i>(in millions)</i>	Assets at Fair Value Non-Recurring Basis				Impairment Charges December 31,		
	Level 1	Level 2	Level 3	Total	2015	2014	2013
<b>December 31, 2015</b>							
Other investments	\$ -	\$ -	\$ 1,117	\$ 1,117	\$ 189	\$ 134	\$ 112
Investments in life settlements	-	-	828	828	540	201	971
Other assets	-	-	129	129	80	7	31
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,074</b>	<b>\$ 2,074</b>	<b>\$ 809</b>	<b>\$ 342</b>	<b>\$ 1,114</b>
<b>December 31, 2014</b>							
Other investments	\$ -	\$ -	\$ 790	\$ 790			
Investments in life settlements	-	-	537	537			

Other assets	-	-	1	1
Total	\$ -	\$ -	\$ 1,328	\$ 1,328

#### FAIR VALUE INFORMATION ABOUT FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

Information regarding the estimation of fair value for financial instruments not carried at fair value (excluding insurance contracts and lease contracts) is discussed below:

- **Mortgage and other loans receivable:** Fair values of loans on commercial real estate and other loans receivable are estimated for disclosure purposes using discounted cash flow calculations based on discount rates that we believe market participants would use in determining the price that they would pay for such assets. For certain loans, our current incremental lending rates for similar types of loans are used as the discount rates, because we believe this rate approximates the rates market participants would use. Fair values of residential mortgage loans are generally determined based on market prices, using market based adjustments for credit and servicing as appropriate. The fair values of policy loans are generally estimated based on unpaid principal amount as of each reporting date. No consideration is given to credit risk because policy loans are effectively collateralized by the cash surrender value of the policies.

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- **Other invested assets:** The majority of Other invested assets that are not measured at fair value represent investments in life settlements. The fair value of investments in life settlements is determined using a discounted cash flow methodology that incorporates the best available market assumptions for longevity as well as market yields based on reported transactions. Due to the individual life nature of each investment in life settlements and the illiquidity of the existing market, significant inputs to the fair value are unobservable.
- **Cash and short-term investments:** The carrying amounts of these assets approximate fair values because of the relatively short period of time between origination and expected realization, and their limited exposure to credit risk.
- **Policyholder contract deposits associated with investment-type contracts:** Fair values for policyholder contract deposits associated with investment-type contracts not accounted for at fair value are estimated using discounted cash flow calculations based on interest rates currently being offered for similar contracts with maturities consistent with those of the contracts being valued. When no similar contracts are being offered, the discount rate is the appropriate swap rate (if available) or current risk-free interest rate consistent with the currency in which the cash flows are denominated. To determine fair value, other factors include current policyholder account values and related surrender charges and other assumptions include expectations about policyholder behavior and an appropriate risk margin.
- **Other liabilities:** The majority of Other liabilities that are financial instruments not measured at fair value represent secured financing arrangements, including repurchase agreements. The carrying amounts of these liabilities approximate fair value, because the financing arrangements are short-term and are secured by cash or other liquid collateral.
- **Long-term debt:** Fair values of these obligations were determined by reference to quoted market prices, when available and appropriate, or discounted cash flow calculations based upon our current market observable implicit credit spread rates for similar types of borrowings with maturities consistent with those remaining for the debt being valued.

The following table presents the carrying amounts and estimated fair values of our financial instruments not measured at fair value and indicates the level in the fair value hierarchy of the estimated fair value measurement based on the observability of the inputs used:

(in millions)	Estimated Fair Value			Total	Carrying Value
	Level 1	Level 2	Level 3		
<b>December 31, 2015</b>					
Assets:					
Mortgage and other loans receivable	\$ -	\$ 198	\$ 30,147	\$ 30,345	\$ 29,554
Other invested assets	-	563	2,880	3,443	4,169
Short-term investments	-	7,541	-	7,541	7,541
Cash	1,629	-	-	1,629	1,629



## Liabilities:

Policyholder contract deposits associated  
with investment-type contracts

- 309 117,537 117,846 108,788

Other liabilities

- 2,852 - 2,852 2,852

Long-term debt

- 21,686 4,528 26,214 25,680

December 31, 2014

## Assets:

Mortgage and other loans receivable

\$ - \$ 449 \$ 26,157 \$ 26,606 \$ 24,984

Other invested assets

- 593 2,882 3,475 4,352

Short-term investments

- 9,559 - 9,559 9,559

Cash

1,758 - - 1,758 1,758

## Liabilities:

Policyholder contract deposits associated  
with investment-type contracts

- 244 119,268 119,512 106,395

Other liabilities

- 1,120 - 1,120 1,120

Long-term debt

- 24,749 2,932 27,681 25,751

**TABLE OF CONTENTS****Item 8 / note 5. INVESTMENTS****5. INVESTMENTS****Fixed Maturity and Equity Securities**

Bonds held to maturity are carried at amortized cost when we have the ability and positive intent to hold these securities until maturity. When we do not have the ability or positive intent to hold bonds until maturity, these securities are classified as available for sale or are measured at fair value at our election. None of our fixed maturity securities met the criteria for held to maturity classification at December 31, 2015 or 2014.

Fixed maturity and equity securities classified as available for sale are carried at fair value. Unrealized gains and losses from available for sale investments in fixed maturity and equity securities are reported as a separate component of Accumulated other comprehensive income, net of deferred policy acquisition costs and deferred income taxes, in shareholders' equity. Realized and unrealized gains and losses from fixed maturity and equity securities measured at fair value at our election are reflected in Net investment income (for insurance subsidiaries) or Other income (for Corporate and Other). Investments in fixed maturity and equity securities are recorded on a trade-date basis.

Premiums and discounts arising from the purchase of bonds classified as available for sale are treated as yield adjustments over their estimated holding periods, until maturity, or call date, if applicable. For investments in certain RMBS, CMBS and CDO/ABS, (collectively, structured securities), recognized yields are updated based on current information regarding the timing and amount of expected undiscounted future cash flows. For high credit quality structured securities, effective yields are recalculated based on actual payments received and updated prepayment expectations, and the amortized cost is adjusted to the amount that would have existed had the new effective yield been applied since acquisition with a corresponding charge or credit to net investment income. For structured securities that are not high credit quality, effective yields are recalculated and adjusted prospectively based on changes in expected undiscounted future cash flows. For purchased credit impaired (PCI) securities, at acquisition, the difference between the undiscounted expected future cash flows and the recorded investment in the securities represents the initial accretable yield, which is to be accreted into net investment income over the securities' remaining lives on a level yield basis. Subsequently, effective yields recognized on PCI securities are recalculated and adjusted prospectively to reflect changes in the contractual benchmark interest rates on variable rate securities and any significant increases in undiscounted expected future cash flows arising due to reasons other than interest rate changes.

**TABLE OF CONTENTS****Item 8 / note 5. INVESTMENTS****Securities Available for Sale**

The following table presents the amortized cost or cost and fair value of our available for sale securities:

<i>(in millions)</i>	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other T
<b>December 31, 2015</b>					
Bonds available for sale:					
U.S. government and government sponsored entities	\$ 1,698\$	155\$	(9)\$	1,844\$	
Obligations of states, municipalities and political subdivisions	26,003	1,424	(104)	27,323	
Non-U.S. governments	17,752	805	(362)	18,195	
Corporate debt	133,513	6,462	(3,987)	135,988	
Mortgage-backed, asset-backed and collateralized:					
RMBS	33,878	2,760	(411)	36,227	
CMBS	13,139	561	(129)	13,571	
CDO/ABS	14,985	360	(248)	15,097	
Total mortgage-backed, asset-backed and collateralized	62,002	3,681	(788)	64,895	
<b>Total bonds available for sale<sup>(b)</sup></b>	<b>240,968</b>	<b>12,527</b>	<b>(5,250)</b>	<b>248,245</b>	
Equity securities available for sale:					
Common stock	913	1,504	(16)	2,401	
Preferred stock	19	3	-	22	
Mutual funds	447	53	(8)	492	
<b>Total equity securities available for sale</b>	<b>1,379</b>	<b>1,560</b>	<b>(24)</b>	<b>2,915</b>	
<b>Total</b>	<b>\$ 242,347\$</b>	<b>14,087\$</b>	<b>(5,274)\$</b>	<b>\$251,160\$</b>	
<b>December 31, 2014</b>					
Bonds available for sale:					
U.S. government and government sponsored entities	\$ 2,806\$	204\$	(18)\$	2,992\$	
Obligations of states, municipalities and political subdivisions	25,979	1,729	(49)	27,659	
Non-U.S. governments	20,280	966	(151)	21,095	
Corporate debt	134,961	10,594	(1,122)	144,433	
Mortgage-backed, asset-backed and collateralized:					
RMBS	34,377	3,435	(292)	37,520	
CMBS	12,129	815	(59)	12,885	
CDO/ABS	12,775	628	(128)	13,275	
Total mortgage-backed, asset-backed and collateralized	59,281	4,878	(479)	63,680	
<b>Total bonds available for sale<sup>(b)</sup></b>	<b>243,307</b>	<b>18,371</b>	<b>(1,819)</b>	<b>259,859</b>	
Equity securities available for sale:					

Common stock	1,185	2,461	(17)	3,629
Preferred stock	21	4	-	25
Mutual funds	724	54	(37)	741
<b>Total equity securities available for sale</b>	<b>1,930</b>	<b>2,519</b>	<b>(54)</b>	<b>4,395</b>
<b>Total</b>	<b>\$ 245,237</b>	<b>\$ 20,890</b>	<b>(1,873)</b>	<b>\$264,254</b>

(a) Represents the amount of other-than-temporary impairments recognized in Accumulated other comprehensive income. Amount includes unrealized gains and losses on impaired securities relating to changes in the fair value of such securities subsequent to the impairment measurement date.

(b) At December 31, 2015 and 2014, bonds available for sale held by us that were below investment grade or not rated totaled \$34.9 billion and \$35.1 billion, respectively.

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The following table summarizes the fair value and gross unrealized losses on our available for sale securities, aggregated by major investment category and length of time that individual securities have been in a continuous unrealized loss position:

	Less than 12 Months		12 Months or More		Total	
	Fair	Gross	Fair	Gross	Fair	Unre
(in millions)	Value	Unrealized	Value	Losses	Value	L
<b>December 31, 2015</b>						
Bonds available for sale:						
U.S. government and government sponsored entities	\$ 483\$	9 \$	1\$	- \$	484\$	
Obligations of states, municipalities and political subdivisions	2,382	87	268	17	2,650	
Non-U.S. governments	4,327	203	832	159	5,159	
Corporate debt	41,317	2,514	5,428	1,473	46,745	
RMBS	7,215	133	4,318	278	11,533	
CMBS	4,138	108	573	21	4,711	
CDO/ABS	7,064	104	2,175	144	9,239	
<b>Total bonds available for sale</b>	<b>66,926</b>	<b>3,158</b>	<b>13,595</b>	<b>2,092</b>	<b>80,521</b>	
Equity securities available for sale:						
Common stock	91	16	-	-	91	
Mutual funds	200	8	-	-	200	
<b>Total equity securities available for sale</b>	<b>291</b>	<b>24</b>	<b>-</b>	<b>-</b>	<b>291</b>	
<b>Total</b>	<b>\$67,217\$</b>	<b>3,182</b>	<b>\$13,595\$</b>	<b>2,092</b>	<b>\$80,812\$</b>	
<b>December 31, 2014</b>						
Bonds available for sale:						
U.S. government and government sponsored entities	\$ 526\$	5 \$	281\$	13 \$	807\$	
Obligations of states, municipalities and political subdivisions	495	9	794	40	1,289	
Non-U.S. governments	1,606	42	1,690	109	3,296	
Corporate debt	12,132	450	11,570	672	23,702	
RMBS	4,621	109	3,996	183	8,617	
CMBS	220	1	2,087	58	2,307	
CDO/ABS	3,857	50	1,860	78	5,717	
<b>Total bonds available for sale</b>	<b>23,457</b>	<b>666</b>	<b>22,278</b>	<b>1,153</b>	<b>45,735</b>	
Equity securities available for sale:						
Common stock	88	16	2	1	90	
Mutual funds	280	37	64	-	344	

Total equity securities available for sale	368	53	66	1	434
Total	\$23,825\$	719	\$22,344\$	1,154	\$46,169\$

At December 31, 2015, we held 14,972 and 174 individual fixed maturity and equity securities, respectively, that were in an unrealized loss position, of which 2,176 individual fixed maturity securities were in a continuous unrealized loss position for 12 months or more. We did not recognize the unrealized losses in earnings on these fixed maturity securities at December 31, 2015 because we neither intend to sell the securities nor do we believe that it is more likely than not that we will be required to sell these securities before recovery of their amortized cost basis. For fixed maturity securities with significant declines, we performed fundamental credit analyses on a security-by-security basis, which included consideration of credit enhancements, expected defaults on underlying collateral, review of relevant industry analyst reports and forecasts and other available market data.

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**TABLE OF CONTENTS****Item 8 / note 5. INVESTMENTS****Contractual Maturities of Fixed Maturity Securities Available for Sale**

The following table presents the amortized cost and fair value of fixed maturity securities available for sale by contractual maturity:

	Total Fixed Maturity Securities Available for Sale		Fixed Maturity Securities Available for Sale in a Loss Position	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>December 31, 2015</b>				
<i>(in millions)</i>				
Due in one year or less	\$ 9,176	\$ 9,277	\$ 1,122	\$ 1,103
Due after one year through five years	47,230	49,196	9,847	9,494
Due after five years through ten years	54,120	54,459	22,296	20,686
Due after ten years	68,440	70,418	26,235	23,755
Mortgage-backed, asset-backed and collateralized	62,002	64,895	26,271	25,483
Total	\$ 240,968	\$ 248,245	\$ 85,771	\$ 80,521
<b>December 31, 2014</b>				
Due in one year or less	\$ 9,821	\$ 9,975	\$ 637	\$ 620
Due after one year through five years	48,352	50,873	6,669	6,529
Due after five years through ten years	62,685	65,889	12,873	12,338
Due after ten years	63,168	69,442	10,255	9,607
Mortgage-backed, asset-backed and collateralized	59,281	63,680	17,120	16,641
Total	\$ 243,307	\$ 259,859	\$ 47,554	\$ 45,735

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

The following table presents the gross realized gains and gross realized losses from sales or maturities of our available for sale securities:

	Years Ended December 31,					
	2015		2014		2013	
	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses
<i>(in millions)</i>						
Fixed maturity securities	\$ 517	\$ 423	\$ 703	\$ 118	\$ 2,634	\$ 202
Equity securities	1,060	28	135	24	130	19
Total	\$ 1,577	\$ 451	\$ 838	\$ 142	\$ 2,764	\$ 221

For the years ended December 31, 2015, 2014 and 2013, the aggregate fair value of available for sale securities sold was \$28.7 billion, \$25.3 billion and \$35.9 billion, which resulted in net realized capital gains of \$1.1 billion, \$0.7 billion and \$2.5 billion, respectively.





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The following table presents the fair value of other securities measured at fair value based on our election of the fair value option:

<i>(in millions)</i>	<b>December 31, 2015</b>		<b>December 31, 2014</b>	
	Fair Value	Percent of Total	Fair Value	Percent of Total
Fixed maturity securities:				
U.S. government and government sponsored entities	\$ 3,369	19 %	\$ 5,498	27%
Obligations of states, municipalities and political subdivisions	75	-	122	1
Non-U.S. governments	50	-	2	-
Corporate debt	2,035	12	719	3
Mortgage-backed, asset-backed and collateralized:				
RMBS	2,230	13	2,094	10
CMBS	750	4	1,077	5
CDO/ABS and other collateralized*	8,273	47	10,200	49
Total mortgage-backed, asset-backed and collateralized	11,253	64	13,371	64
Total fixed maturity securities	16,782	95	19,712	95
Equity securities	921	5	1,049	5
Total	\$ 17,703	100 %	\$ 20,761	100%

\* Includes \$712 million and \$859 million of U.S. Government agency backed ABS at December 31, 2015 and 2014, respectively.

**Other Invested Assets**

The following table summarizes the carrying amounts of other invested assets:

<b>December 31,</b>			
<i>(in millions)</i>			
Alternative investments <sup>(a)</sup>	\$	2015 18,150	\$ 2014 19,656
Investment real estate <sup>(b)</sup>		6,579	3,612
Aircraft asset investments <sup>(c)</sup>		477	651
Investments in life settlements		3,606	3,753
Investment in AerCap		-	4,972
All other investments		982	1,874
Total	\$	2015 29,794	\$ 2014 34,518

(a) Includes hedge funds, private equity funds, affordable housing partnerships, and other investment

partnerships.

(b) Net of accumulated depreciation of \$668 million and \$315 million in 2015 and 2014, respectively.

(c) Consists of investments in aircraft equipment held in consolidated trusts.

#### Other Invested Assets Carried at Fair Value

Certain hedge funds, private equity funds, affordable housing partnerships and other investment partnerships for which we have elected the fair value option are reported at fair value with changes in fair value recognized in Net investment income with the exception of investments of AIG's Corporate and Other category, for which such changes are reported in Other income. Other investments in hedge funds, private equity funds, affordable housing partnerships and other investment partnerships in which our insurance operations do not hold aggregate interests sufficient to exercise more than minor influence over the respective partnerships are reported at fair value with changes in fair value recognized as a component of Accumulated other comprehensive income. These investments are subject to other-than-temporary impairment evaluations (see discussion below on evaluating equity investments for other-than-temporary impairment). The gross unrealized loss recorded in Other comprehensive income on such investments was \$33 million and \$56 million at December 31, 2015 and

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2014, respectively, the majority of which pertains to investments in private equity funds and hedge funds that have been in continuous unrealized loss positions for less than 12 months.

**Other Invested Assets – Equity Method Investments**

We account for hedge funds, private equity funds, affordable housing partnerships and other investment partnerships using the equity method of accounting unless our interest is so minor that we may have virtually no influence over partnership operating and financial policies, or we have elected the fair value option. Under the equity method of accounting, our carrying amount generally is our share of the net asset value of the funds or the partnerships, and changes in our share of the net asset values are recorded in Net investment income with the exception of investments of AIG's Corporate and Other category, for which such changes are reported in Other income. In applying the equity method of accounting, we consistently use the most recently available financial information provided by the general partner or manager of each of these investments, which is one to three months prior to the end of our reporting period. The financial statements of these investees are generally audited annually.

**Summarized Financial Information of Equity Method Investees**

The following is the aggregated summarized financial information of our equity method investees, including those for which the fair value option has been elected:

**Years Ended December 31,***(in millions)*

Operating results:

	2015	2014	2013
Total revenues	\$ 22,055	\$ 29,579	\$ 19,181
Total expenses	(3,898)	(7,828)	(5,515)
Net income	\$ 18,157	\$ 21,751	\$ 13,666

**At December 31,***(in millions)*

Balance sheet:

	2015	2014
Total assets	\$ 201,007	\$ 207,994
Total liabilities	\$ (33,424)	\$ (67,346)

The following table presents the carrying amount and ownership percentage of equity method investments at December 31, 2015 and 2014:

	2015		2014	
<i>(in millions, except percentages)</i>	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Equity method investments	\$ 14,259	Various	\$ 18,951	Various

Summarized financial information for these equity method investees may be presented on a lag, due to the unavailability of information for the investees at our respective balance sheet dates, and is included for the periods in which we held an equity method ownership interest.

### Other Investments

Also included in Other invested assets are real estate held for investment and investments in aircraft equipment held in consolidated trusts. These investments are reported at cost, less depreciation and are subject to impairment review, as discussed below.

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Investments in life settlements are accounted for under the investment method. Under the investment method, we recognize our initial investment in life settlements at the transaction price plus all initial direct external costs. Continuing costs to keep the policy in force, primarily life insurance premiums, increase the carrying amount of the investment. We recognize income on individual investments in life settlements when the insured dies, at an amount equal to the excess of the investment proceeds over the carrying amount of the investment at that time. These investments are subject to impairment review, as discussed below.

During 2015, 2014 and 2013, income recognized on investments in life settlements was \$332 million, \$407 million and \$334 million, respectively, and is included in Net investment income in the Consolidated Statements of Income.

The following table presents further information regarding investments in life settlements:

	December 31, 2015		
	Number of Contracts	Carrying Value	Face Value (Death Benefits)
<i>(dollars in millions)</i>			
Remaining Life Expectancy of Insureds:			
0 – 1 year	1	\$ -	\$ -
1 – 2 years	9	9	17
2 – 3 years	16	10	20
3 – 4 years	72	50	113
4 – 5 years	156	235	485
Thereafter	4,300	3,302	14,233
Total	4,554	\$ 3,606	\$ 14,868

Remaining life expectancy for year 0-1 references policies whose current life expectancy is less than 12 months as of the valuation date. Remaining life expectancy is not an indication of expected maturity. Actual maturity dates in any category may vary significantly (either earlier or later) from the remaining life expectancies reported above.

At December 31, 2015, management's best estimate of the life insurance premiums required to keep the investments in life settlements in force, payable in the 12 months ending December 31, 2016 and the four succeeding years ending December 31, 2020 are \$530 million, \$553 million, \$579 million, \$598 million and \$607 million, respectively.

**Net Investment Income**

Net investment income represents income primarily from the following sources:

- Interest income and related expenses, including amortization of premiums and accretion of discounts with changes in the timing and the amount of expected principal and interest cash flows reflected in yield, as applicable.
- Dividend income from common and preferred stocks and earnings distributions from other investments.
- Realized and unrealized gains and losses from investments in other securities and investments for which we elected the fair value option.
- Earnings from alternative investments.
- The difference between the carrying amount of an investment in life settlements and the life insurance proceeds of the underlying life insurance policy recorded in income upon the death of the insured.

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The following table presents the components of Net investment income:

**Years Ended December 31,***(in millions)*

	2015	2014	2013
Fixed maturity securities, including short-term investments	\$ 11,332	\$ 12,322	\$ 12,044
Equity securities	99	221	178
Interest on mortgage and other loans	1,417	1,272	1,144
Alternative investments*	1,476	2,624	2,803
Real estate	181	110	128
Other investments	76	47	61
Total investment income	14,581	16,596	16,358
Investment expenses	528	517	548
Net investment income	\$ 14,053	\$ 16,079	\$ 15,810

\* Includes hedge funds, private equity funds, affordable housing partnerships, investments in life settlements and other investment partnerships.

**Net Realized Capital Gains and Losses**

Net realized capital gains and losses are determined by specific identification. The net realized capital gains and losses are generated primarily from the following sources:

- Sales or full redemptions of available for sale fixed maturity securities, available for sale equity securities, real estate and other alternative investments.
- Reductions to the cost basis of available for sale fixed maturity securities, available for sale equity securities and certain other invested assets for other-than-temporary impairments.
- Impairments on investments in life settlements.
- Changes in fair value of derivatives except for (1) those derivatives at AIGFP and (2) those instruments that are designated as hedging instruments when the change in the fair value of the hedged item is not reported in Net realized capital gains (losses).
- Exchange gains and losses resulting from foreign currency transactions.

The following table presents the components of Net realized capital gains (losses):

**Years Ended December 31,***(in millions)*

	2015	2014	2013
Sales of fixed maturity securities	\$ 94	\$ 585	\$ 2,432

Sales of equity securities <sup>(a)</sup>	<b>1,032</b>	111	111
Other-than-temporary impairments:			
Severity	<b>(13)</b>	(3)	(6)
Change in intent	<b>(233)</b>	(40)	(48)
Foreign currency declines	<b>(57)</b>	(19)	(1)
Issuer-specific credit events	<b>(348)</b>	(169)	(170)
Adverse projected cash flows	<b>(20)</b>	(16)	(7)
Provision for loan losses	<b>(58)</b>	(1)	(26)
Foreign exchange transactions	<b>416</b>	598	151
Derivative instruments	<b>341</b>	(177)	287
Impairments on investments in life settlements	<b>(540)</b>	(201)	(971)
Other	<b>162<sup>(b)</sup></b>	71	187
Net realized capital gains	<b>\$ 776</b>	<b>\$ 739</b>	<b>\$ 1,939</b>

(a) Includes realized gains on the sale of our equity interests in PICC.

(b) Includes realized gains due to the sale of Class B shares of Prudential Financial, Inc. and common shares of Springleaf Holdings, Inc. and realized losses on the sale of ordinary shares of AerCap.



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The following table presents the increase (decrease) in unrealized appreciation (depreciation) of our available for sale securities and other investments:

	Years Ended December 31,	
(in millions)	2015	2014
Increase (decrease) in unrealized appreciation (depreciation) of investments:		
Fixed maturity securities	\$ (9,275)	\$ 6,809
Equity securities	(929)	535
Other investments	(803)	376
Total increase (decrease) in unrealized appreciation (depreciation) of investments	<b>\$(11,007)</b>	\$ 7,720

**Evaluating Investments for Other-Than-Temporary Impairments****Fixed Maturity Securities**

If we intend to sell a fixed maturity security or it is more likely than not that we will be required to sell a fixed maturity security before recovery of its amortized cost basis and the fair value of the security is below amortized cost, an other-than-temporary impairment has occurred and the amortized cost is written down to current fair value, with a corresponding charge to realized capital losses. When assessing our intent to sell a fixed maturity security, or whether it is more likely than not that we will be required to sell a fixed maturity security before recovery of its amortized cost basis, management evaluates relevant facts and circumstances including, but not limited to, decisions to reposition our investment portfolio, sales of securities to meet cash flow needs and sales of securities to take advantage of favorable pricing.

For fixed maturity securities for which a credit impairment has occurred, the amortized cost is written down to the estimated recoverable value with a corresponding charge to realized capital losses. The estimated recoverable value is the present value of cash flows expected to be collected, as determined by management. The difference between fair value and amortized cost that is not related to a credit impairment is presented in unrealized appreciation (depreciation) of fixed maturity securities on which other-than-temporary credit impairments were recognized (a separate component of accumulated other comprehensive income).

When estimating future cash flows for structured fixed maturity securities (e.g., RMBS, CMBS, CDO, ABS) management considers historical performance of underlying assets and available market information as well as bond-specific structural considerations, such as credit enhancement and priority of payment

structure of the security. In addition, the process of estimating future cash flows includes, but is not limited to, the following critical inputs, which vary by asset class:

- Current delinquency rates;
- Expected default rates and the timing of such defaults;
- Loss severity and the timing of any recovery; and
- Expected prepayment speeds.

For corporate, municipal and sovereign fixed maturity securities determined to be credit impaired, management considers the fair value as the recoverable value when available information does not indicate that another value is more relevant or reliable. When management identifies information that supports a recoverable value other than the fair value, the determination of a recoverable value considers scenarios specific to the issuer and the security, and may be based upon estimates of outcomes of corporate restructurings, political and macroeconomic factors, stability and financial strength of the issuer, the value of any secondary sources of repayment and the disposition of assets.

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We consider severe price declines in our assessment of potential credit impairments. We may also modify our model inputs when we determine that price movements in certain sectors are indicative of factors not captured by the cash flow models.

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 prospectively accrete into earnings the difference between the new amortized cost and the expected undiscounted recoverable value over the remaining expected holding period of the security.

**Credit Impairments**

The following table presents a rollforward of the cumulative credit losses in other-than-temporary impairments recognized in earnings for available for sale fixed maturity securities:

**Years Ended December 31,***(in millions)*

	2015	2014	2013
Balance, beginning of year	\$ 2,659	\$ 3,872	\$ 5,164
Increases due to:			
Credit impairments on new securities subject to impairment losses	111	49	47
Additional credit impairments on previously impaired securities	109	85	78
Reductions due to:			
Credit impaired securities fully disposed for which there was no prior intent or requirement to sell	(399)	(613)	(643)
Credit impaired securities for which there is a current intent or anticipated requirement to sell	2	-	-
Accretion on securities previously impaired due to credit*	(735)	(725)	(774)
Other	-	(9)	-
Balance, end of year	\$ 1,747	\$ 2,659	\$ 3,872

\* Represents both accretion recognized due to changes in cash flows expected to be collected over the remaining expected term of the credit impaired securities and the accretion due to the passage of time.

**Equity Securities**

We evaluate our available for sale equity securities for impairment by considering such securities as candidates for other-than-temporary impairment if they meet any of the following criteria:

- The security has traded at a significant (25 percent or more) discount to cost for an extended period of time (nine consecutive months or longer);
- A discrete credit event has occurred resulting in (i) the issuer defaulting on a material outstanding

obligation; (ii) the issuer seeking protection from creditors under the bankruptcy laws or any similar laws intended for court-supervised reorganization of insolvent enterprises; or (iii) the issuer proposing a voluntary reorganization pursuant to which creditors are asked to exchange their claims for cash or securities having a fair value substantially lower than the par value of their claims; or

- We have concluded that we may not realize a full recovery on our investment, regardless of the occurrence of one of the foregoing events.

The determination that an equity security is other-than-temporarily impaired requires the judgment of management and consideration of the fundamental condition of the issuer, its near-term prospects and all the relevant facts and circumstances. In addition to the above criteria, all equity securities that have been in a continuous decline in value below cost over twelve months are impaired. We also consider circumstances of a rapid and severe market valuation decline (50 percent or more) discount to cost, in which we could not reasonably assert that the impairment period would be temporary (severity losses).

### Other Invested Assets

Our equity and cost method investments in private equity funds, hedge funds and other entities are evaluated for impairment similar to the evaluation of equity securities for impairments as discussed above. Such evaluation considers market conditions,

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events and volatility that may impact the recoverability of the underlying investments within these private equity funds and hedge funds and is based on the nature of the underlying investments and specific inherent risks. Such risks may evolve based on the nature of the underlying investments.

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, which is 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 which is determined on a discounted cash flow basis, incorporating current market mortality assumptions and market yields.

In general, fair value estimates for the investments in life settlements are calculated using cash flows based on medical underwriting ratings of the policies from a third-party underwriter, applied to an industry mortality table. Our mortality assumptions are based on an industry table as supplemented with proprietary data on the older age mortality of U.S. insured lives. Mortality improvement factors are applied to these assumptions based on our view of future mortality improvements likely to apply to the U.S. insured lives population. Our mortality assumptions coupled with the mortality improvement rates are used in our estimate of future net cash flows from the investments in life settlements.

Our investments in aircraft assets and real estate are periodically evaluated for recoverability whenever changes in circumstances indicate the carrying amount of an asset may be impaired. When impairment indicators are present, we compare expected investment cash flows to carrying amount. When the expected cash flows are less than the carrying amount, the investments are written down to fair value with a corresponding charge to earnings.

#### **Purchased Credit Impaired (PCI) Securities**

We purchase certain RMBS securities that have experienced deterioration in credit quality since their issuance. We determine, based on our expectations as to the timing and amount of cash flows expected to be received, whether it is probable at acquisition that we will not collect all contractually required payments for these PCI securities, including both principal and interest after considering the effects of prepayments. At acquisition, the timing and amount of the undiscounted future cash flows expected to be received on each PCI security is determined based on our best estimate using key assumptions, such as interest rates, default rates and prepayment speeds. At acquisition, the difference between the undiscounted expected future cash flows of the PCI securities and the recorded investment in the securities represents the initial accretable yield, which is accreted into Net investment income over their remaining lives on a level-yield basis. Additionally, the difference between the contractually required payments on the PCI securities and the undiscounted expected future cash flows represents the non-accretable difference at acquisition. The accretable yield and the non-accretable difference will change over time, based on actual payments

received and changes in estimates of undiscounted expected future cash flows, which are discussed further below.

On a quarterly basis, the undiscounted expected future cash flows associated with PCI securities are re-evaluated based on updates to key assumptions. Declines in undiscounted expected future cash flows due to further credit deterioration as well as changes in the expected timing of the cash flows can result in the recognition of an other-than-temporary impairment charge, as PCI securities are subject to our policy for evaluating investments for other-than-temporary impairment. Changes to undiscounted expected future cash flows due solely to the changes in the contractual benchmark interest rates on variable rate PCI securities will change the accretable yield prospectively. Significant increases in undiscounted expected future cash flows for reasons other than interest rate changes are recognized prospectively as adjustments to the accretable yield.

The following tables present information on our PCI securities, which are included in bonds available for sale:

(in millions)

	At Date of Acquisition
Contractually required payments (principal and interest)	\$ 33,191
Cash flows expected to be collected*	26,882
Recorded investment in acquired securities	17,955

\* Represents undiscounted expected cash flows, including both principal and interest.

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<i>(in millions)</i>	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Outstanding principal balance	<b>\$ 16,871</b>	\$ 16,962
Amortized cost	<b>12,303</b>	12,216
Fair value	<b>13,164</b>	13,462

**The following table presents activity for the accretable yield on PCI securities:**

**Years Ended December 31,**

<i>(in millions)</i>	<b>2015</b>	<b>2014</b>
Balance, beginning of year	<b>\$ 6,865</b>	\$ 6,940
Newly purchased PCI securities	<b>696</b>	1,289
Disposals	<b>(13)</b>	-
Accretion	<b>(879)</b>	(880)
Effect of changes in interest rate indices	<b>(251)</b>	(542)
Net reclassification from (to) non-accretable difference, including effects of prepayments	<b>428</b>	58
Balance, end of year	<b>\$ 6,846</b>	\$ 6,865

**Pledged Investments****Secured Financing and Similar Arrangements**

We enter into secured financing transactions whereby certain securities are sold under agreements to repurchase (repurchase agreements), in which we transfer securities in exchange for cash, with an agreement by us to repurchase the same or substantially similar securities. At December 31, 2015, our secured financing transactions also include those that involve the transfer of securities to financial institutions in exchange for cash (securities lending agreements). In all of these secured financing transactions, the securities transferred by us (pledged collateral) may be sold or repledged by the counterparties. These agreements are recorded at their contracted amounts plus accrued interest, other than those that are accounted for at fair value.

Pledged collateral levels are monitored daily and are generally maintained at an agreed-upon percentage of the fair value of the amounts borrowed during the life of the transactions. In the event of a decline in the fair value of the pledged collateral under these secured financing transactions, we may be required to transfer cash or additional securities as pledged collateral under these agreements. At the termination of the transactions, we and our counterparties are obligated to return the amounts borrowed and the securities transferred, respectively.

**The following table presents the fair value of securities pledged to counterparties under secured financing transactions, including repurchase and securities lending agreements:**

*(in millions)*

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Fixed maturity securities available for sale	\$ <b>1,145</b>	\$ -
Other bond securities, at fair value	<b>1,740</b>	2,122

At December 31, 2015, amounts borrowed under repurchase and securities lending agreements totaled \$2.9 billion.

At December 31, 2015, repurchase agreements with remaining contractual maturities of 91 - 364 days were collateralized by Non-U.S. government securities, at fair value, of \$49 million. Repurchase agreements with remaining contractual maturities of up to 30 days, 31 - 90 days and 91 - 364 days were collateralized by Corporate debt securities, at fair value, of \$33 million, \$332 million and \$1,326 million, respectively. Repurchase agreements with remaining contractual maturities of up to 30 days were collateralized by Non-U.S. government securities, available for sale, of \$50 million.

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At December 31, 2015, securities lending agreements with remaining contractual maturities of 31 - 90 days were collateralized by \$914 million of Corporate debt securities and \$57 million of Non-U.S. government securities, all classified as available for sale. Securities lending agreements with remaining contractual maturities of 91 - 364 days were collateralized by \$124 million of RMBS, classified as available for sale.

We also enter into agreements in which securities are purchased by us under agreements to resell (reverse repurchase agreements), which are accounted for as secured financing transactions and reported as short-term investments or other assets, depending on their terms. These agreements are recorded at their contracted resale amounts plus accrued interest, other than those that are accounted for at fair value. In all reverse repurchase transactions, we take possession of or obtain a security interest in the related securities, and we have the right to sell or repledge this collateral received.

**The following table presents information on the fair value of securities pledged to us under reverse repurchase agreements:**

<i>(in millions)</i>	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Securities collateral pledged to us	\$ <b>1,742</b>	\$ 2,506
Amount sold or repledged by us	-	131
<b>Insurance – Statutory and Other Deposits</b>		

Total carrying values of cash and securities deposited by our insurance subsidiaries under requirements of regulatory authorities or other insurance-related arrangements, including certain annuity-related obligations and certain reinsurance treaties, were \$4.9 billion and \$5.9 billion at December 31, 2015 and 2014, respectively.

**Other Pledges and Restrictions**

Certain of our subsidiaries are members of Federal Home Loan Banks (FHLBs) and such membership requires the members to own stock in these FHLBs. We owned an aggregate of \$47 million and \$44 million of stock in FHLBs at December 31, 2015 and 2014, respectively. In addition, our subsidiaries have pledged securities available for sale with a fair value of \$1.2 billion and \$0.5 billion at December 31, 2015 and 2014, respectively, associated with advances from the FHLBs.

Certain GIAs have provisions that require collateral to be posted or payments to be made by us upon a downgrade of our long-term debt ratings. The actual amount of collateral required to be posted to the counterparties in the event of such downgrades, and the aggregate amount of payments that we could be required to make, depend on market conditions, the fair value of outstanding affected transactions and other factors prevailing at and after the time of the downgrade. The fair value of securities pledged as collateral with respect to these obligations was approximately \$2.4 billion and \$3.5 billion at December 31,

2015 and 2014, 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.

At December 31, 2015, \$439 million of short-term investments were held in escrow accounts or were otherwise subject to restriction as to their use.

## 6. LENDING ACTIVITIES

Mortgage and other loans receivable include commercial mortgages, residential mortgages, life insurance policy loans, commercial loans, and other loans and notes receivable. Commercial mortgages, residential mortgages, commercial loans, and other loans and notes receivable are carried at unpaid principal balances less allowance for credit losses and plus or minus adjustments for the accretion or amortization of discount or premium. Interest income on such loans is accrued as earned.

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Direct costs of originating commercial mortgages, commercial loans, and other loans and notes receivable, net of nonrefundable points and fees, are deferred and included in the carrying amount of the related receivables. The amount deferred is amortized to income as an adjustment to earnings using the interest method. Premiums and discounts on purchased residential mortgages are also amortized to income as an adjustment to earnings using the interest method.

Life insurance policy loans are carried at unpaid principal balances. There is no allowance for policy loans because these loans serve to reduce the death benefit paid when the death claim is made and the balances are effectively collateralized by the cash surrender value of the policy.

The following table presents the composition of Mortgage and other loans receivable, net:

	December 31, 2015	December 31, 2014
<i>(in millions)</i>		
Commercial mortgages*	\$ 22,067	\$ 18,909
Residential mortgages	2,758	1,007
Life insurance policy loans	2,597	2,710
Commercial loans, other loans and notes receivable	2,451	2,635
Total mortgage and other loans receivable	29,873	25,261
Allowance for credit losses	(308)	(271)
Mortgage and other loans receivable, net	\$ 29,565	\$ 24,990

\* Commercial mortgages primarily represent loans for offices, retail and apartments, with exposures in New York and California representing the largest geographic concentrations (aggregating approximately 22 percent and 12 percent, respectively, at December 31, 2015, and 18 percent and 14 percent, respectively, at December 31, 2014).

Nonperforming loans are generally those loans where payment of contractual principal or interest is more than 90 days past due. Nonperforming mortgages were not significant for all periods presented.

The following table presents the credit quality indicators for commercial mortgages:

<b>December 31, 2015</b> <i>(dollars in millions)</i>	Number of Loans							Percent of Total \$
	Apartments	Offices	Retail	Industrial	Hotel	Others	Total <sup>(c)</sup>	
<b>Credit Quality Indicator:</b>								
In good standing	830	\$3,916	\$7,484	\$4,809	\$1,902	\$2,082	\$1,435	\$21,628 98%
Restructured <sup>(a)</sup>	9	-	156	25	6	16	6	209 1
90 days or less delinquent	1	-	-	4	-	-	-	4 -
>90 days delinquent or in process of foreclosure	9	3	205	-	6	-	12	226 1

Total <sup>(b)</sup>	849	\$3,919\$	7,845\$	4,838\$	1,914\$	2,098\$	1,453\$	22,067	100%
Allowance for credit losses:									
Specific		-	16	1	6	1	-	24	-%
General		35	47	29	8	15	13	147	1
Total allowance for credit losses	\$	35\$	63\$	30\$	14\$	16\$	13\$	171	1%

December 31, 2014

*(dollars in millions)***Credit Quality Indicator:**

In good standing	1,007	\$3,384\$	6,100\$	3,807\$	1,689\$	1,660\$	1,812\$	18,452	98%
Restructured <sup>(a)</sup>	7	-	343	7	-	17	-	367	2
90 days or less delinquent	6	-	-	10	-	-	5	15	-
>90 days delinquent or in process of foreclosure	4	-	75	-	-	-	-	75	-
Total <sup>(b)</sup>	1,024	\$3,384\$	6,518\$	3,824\$	1,689\$	1,677\$	1,817\$	18,909	100%

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Allowance for credit losses:

Specific	\$	-	\$	27	\$	3	\$	13	\$	3	\$	9	\$	55	-	%
General		3		59		25		9		3		5		104		1
Total allowance for credit losses	\$	3	\$	86	\$	28	\$	22	\$	6	\$	14	\$	159		1%

(a) Loans that have been modified in troubled debt restructurings and are performing according to their restructured terms. See discussion of troubled debt restructurings below.

(b) Does not reflect allowance for credit losses.

(c) Approximately 99 percent of the commercial mortgages held at such respective dates were current as to payments of principal and interest.

**Methodology Used to Estimate the Allowance for Credit Losses**

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

Interest income is not accrued when payment of contractual principal and interest is not expected. Any cash received on impaired loans is generally recorded as a reduction of the current carrying amount of the loan. Accrual of interest income is generally resumed when delinquent contractual principal and interest is repaid or when a portion of the delinquent contractual payments are made and the ongoing required contractual payments have been made for an appropriate period.

A significant majority of commercial mortgages in the portfolio are non-recourse loans and, accordingly, the only guarantees are for specific items that are exceptions to the non-recourse provisions. It is therefore extremely rare for us to have cause to enforce the provisions of a guarantee on a commercial real estate or mortgage loan.

**The following table presents a rollforward of the changes in the allowance for credit losses on Mortgage and other loans receivable:**

Years Ended December 31, (in millions)	2015			2014			2013	
	Commercial Mortgages	Other Loans	Total	Commercial Mortgages	Other Loans	Total	Commercial Mortgages	Other Loans
Allowance, beginning of year	\$ 159	\$ 112	\$ 271	\$ 201	\$ 111	\$ 312	\$ 159	\$ 246
Loans charged off	(23)	(6)	(29)	(29)	(39)	(68)	(12)	(104)
Recoveries of loans previously charged off	4	1	5	18	16	34	3	6
Net charge-offs	(19)	(5)	(24)	(11)	(23)	(34)	(9)	(98)
Provision for loan losses	31	27	58	(31)	23	(8)	52	(32)
Other	-	3	3	-	1	1	(1)	(5)
Allowance, end of year	\$ 171 *	\$ 137	\$ 308	\$ 159 *	\$ 112	\$ 271	\$ 201 *	\$ 111

\* Of the total allowance at the end of the year, \$24 million and \$55 million relates to individually assessed credit losses on \$507 million and \$192 million of commercial mortgages as of December 31, 2015 and 2014, respectively.

### Troubled Debt Restructurings

We modify loans to optimize their returns and improve their collectability, among other things. When we undertake such a modification with a borrower that is experiencing financial difficulty and the modification involves us granting a concession to



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the troubled debtor, the modification is a troubled debt restructuring (TDR). We assess whether a borrower is experiencing financial difficulty based on a variety of factors, including the borrower's current default on any of its outstanding debt, the probability of a default on any of its debt in the foreseeable future without the modification, the insufficiency of the borrower's forecasted cash flows to service any of its outstanding debt (including both principal and interest), and the borrower's inability to access alternative third-party financing at an interest rate that would be reflective of current market conditions for a non-troubled debtor. Concessions granted may include extended maturity dates, interest rate changes, principal or interest forgiveness, payment deferrals and easing of loan covenants.

During 2015 and 2014, loans with a carrying value of \$36 million and \$218 million were modified in TDRs, respectively.

**7. REINSURANCE**

In the ordinary course of business, our insurance companies may use both treaty and facultative reinsurance to minimize their net loss exposure to any single catastrophic loss event or to an accumulation of losses from a number of smaller events or to provide greater diversification of our businesses. In addition, our general insurance subsidiaries assume reinsurance from other insurance companies. We determine the portion of the incurred but not reported (IBNR) loss that will be recoverable under our reinsurance contracts by reference to the terms of the reinsurance protection purchased. This determination is necessarily based on the estimate of IBNR and accordingly, is subject to the same uncertainties as the estimate of IBNR. Reinsurance assets include the balances due from reinsurance and insurance companies under the terms of our reinsurance agreements for paid and unpaid losses and loss adjustment expenses incurred, ceded unearned premiums and ceded future policy benefits for life and accident and health insurance contracts and benefits paid and unpaid. Amounts related to paid and unpaid losses and benefits and loss expenses with respect to these reinsurance agreements are substantially collateralized. We remain liable to the extent that our reinsurers do not meet their obligation under the reinsurance contracts, and as such, we regularly evaluate the financial condition of our reinsurers and monitor concentration of our credit risk. The estimation of the allowance for doubtful accounts requires judgment for which key inputs typically include historical trends regarding uncollectible balances, disputes and credit events as well as specific reviews of balances in dispute or subject to credit impairment. The allowance for doubtful accounts on reinsurance assets was \$272 million and \$258 million at December 31, 2015 and 2014, respectively. Changes in the allowance for doubtful accounts on reinsurance assets are reflected in Policyholder benefits and losses incurred within the Consolidated Statements of Income.

**The following table provides supplemental information for loss and benefit reserves, gross and net of ceded reinsurance:**

**At December 31,**

**2015**

**As Net of**

**2014**

**As Net of**

*(in millions)*

	Reported	Reinsurance	Reported	Reinsurance
Liability for unpaid losses and loss adjustment expenses <sup>(a)</sup>	\$ (74,942)	\$ (60,603)	\$ (77,260)	\$ (61,603)
Future policy benefits for life and accident and health insurance contracts	(43,585)	(42,506)	(42,749)	(41,749)
Reserve for unearned premiums	(21,318)	(18,380)	(21,324)	(18,244)
Reinsurance assets <sup>(b)</sup>	18,356		19,676	

(a) In 2015 and 2014, the Net of Reinsurance amount reflects the cession under the June 17, 2011 transaction with National Indemnity Company (NICO) of \$1.8 billion and \$1.5 billion, respectively.

(b) Represents gross reinsurance assets, excluding allowances and reinsurance recoverable on paid losses.

### Short-Duration Reinsurance

Short-duration reinsurance is effected under reinsurance treaties and by negotiation on individual risks. Certain of these reinsurance arrangements consist of excess of loss contracts that protect us against losses above stipulated amounts. Ceded premiums are considered prepaid reinsurance premiums and are recognized as a reduction of premiums earned over the contract period in proportion to the protection received. Amounts recoverable from reinsurers on short-duration contracts are estimated in a manner consistent with the claims liabilities associated with the reinsurance and presented as a component of Reinsurance assets. Assumed reinsurance premiums are earned primarily on a pro-rata basis over the terms of the

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reinsurance contracts and the portion of premiums relating to the unexpired terms of coverage is included in the reserve for unearned premiums. For both ceded and assumed reinsurance, risk transfer requirements must be met for reinsurance accounting to apply. If risk transfer requirements are not met, the contract is accounted for as a deposit, resulting in the recognition of cash flows under the contract through a deposit asset or liability and not as revenue or expense. To meet risk transfer requirements, a reinsurance contract must include both insurance risk, consisting of both underwriting and timing risk, and a reasonable possibility of a significant loss for the assuming entity. Similar risk transfer criteria are used to determine whether directly written insurance contracts should be accounted for as insurance or as a deposit.

The following table presents short-duration insurance premiums written and earned:

<i>(in millions)</i>	Years Ended December 31, Non-Life Insurance Companies		
	2015	2014	2013
Premiums written:			
Direct	\$ 37,698	\$ 39,375	\$ 39,833
Assumed	2,972	3,399	4,306
Ceded	(7,604)	(8,318)	(9,514)
Net	\$ 33,066	\$ 34,456	\$ 34,625
Premiums earned:			
Direct	\$ 37,105	\$ 38,707	\$ 39,018
Assumed	2,659	3,258	3,516
Ceded	(7,593)	(8,140)	(8,585)
Net	\$ 32,171	\$ 33,825	\$ 33,949

For the years ended December 31, 2015, 2014 and 2013, reinsurance recoveries, which reduced losses and loss adjustment expenses incurred, amounted to \$4.1 billion, \$2.6 billion and \$3.3 billion, respectively.

**Long-Duration Reinsurance**

Long-duration reinsurance is effected principally under yearly renewable term treaties. The premiums with respect to these treaties are earned over the contract period in proportion to the protection provided. Amounts recoverable from reinsurers on long-duration contracts are estimated in a manner consistent with the assumptions used for the underlying policy benefits and are presented as a component of Reinsurance assets.

The following table presents premiums for our long-duration insurance and retirement services operations:

**Years Ended**

December 31, (in millions)	Life Insurance Companies			Run-off insurance lines			Total		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Gross premiums	\$ 5,234	\$ 4,059	\$ 4,155	\$ 6	\$ 11	\$ 9	\$ 5,240	\$ 4,070	\$ 4,164
Ceded premiums	(756)	(661)	(620)	-	-	-	(756)	(661)	(620)
Net	\$ 4,478	\$ 3,398	\$ 3,535	\$ 6	\$ 11	\$ 9	\$ 4,484	\$ 3,409	\$ 3,544

Long-duration reinsurance recoveries, which reduced Policyholder benefits and losses incurred, were approximately \$1.0 billion, \$731 million and \$714 million, respectively, for the years ended December 31, 2015, 2014 and 2013.

The following table presents long-duration insurance in-force ceded to other insurance companies:

At December 31, (in millions)	2015	2014	2013*
Long-duration insurance in force ceded	\$ 177,025	\$ 180,178	\$ 122,012

\* Excludes amounts related to held-for-sale entities.

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### **Item 8 / note 7. REINSURANCE**

Long-duration insurance in-force assumed represented 0.04 percent of gross long-duration insurance in-force at December 31, 2015, 0.04 percent at December 31, 2014 and 0.05 percent at December 31, 2013, and premiums assumed by the Life Insurance Companies represented 0.1 percent, 0.5 percent and 0.3 percent of gross premiums for the years ended December 31, 2015, 2014 and 2013, respectively.

The U.S. Life Insurance Companies utilize internal and third-party reinsurance relationships to manage insurance risks and to facilitate capital management strategies, which allows them to minimize the use of letters of credit and utilize capital more efficiently. Pools of highly-rated third-party reinsurers are utilized to manage net amounts at risk in excess of retention limits.

The U.S. Life Insurance Companies manage the capital impact on their statutory reserve requirements under the NAIC Model Regulation "Valuation of Life Insurance Policies" (Regulation XXX) and NAIC Actuarial Guideline 38 (Guideline AXXX) through intercompany reinsurance transactions. Under GAAP, these intercompany reinsurance transactions are eliminated in consolidation. Under one arrangement, one of the U.S. Life Insurance Companies obtains letters of credit to support statutory recognition of the ceded reinsurance. As of December 31, 2015, the U.S. Life Insurance Companies had two bilateral letters of credit totaling \$450 million with AIG entities, which were issued on February 7, 2014 and expire on February 7, 2019, but will be automatically extended without amendment by one year on each anniversary of the issuance date, unless the issuer provides notice of non-renewal. See Note 18 for additional information on the use of affiliated reinsurance for Regulation XXX and Guideline AXXX reserves.

### **Reinsurance Security**

Our third-party reinsurance arrangements do not relieve us from our direct obligations to our beneficiaries. Thus, a credit exposure exists with respect to both short-duration and long-duration reinsurance ceded to the extent that any reinsurer fails to meet the obligations assumed under any reinsurance agreement. We hold substantial collateral as security under related reinsurance agreements in the form of funds, securities, and/or letters of credit. A provision has been recorded for estimated unrecoverable reinsurance. We believe that no exposure to a single reinsurer represents an inappropriate concentration of credit risk to AIG. Gross reinsurance assets with our three largest reinsurers aggregate to approximately \$6.5 billion and \$6.2 billion at December 31, 2015 and 2014, respectively, of which approximately \$3.7 billion and \$3.3 billion at December 31, 2015 and 2014, respectively, was not secured by collateral.

### **8. DEFERRED POLICY ACQUISITION COSTS**

Deferred policy acquisition costs (DAC) represent those costs that are incremental and directly related to the successful acquisition of new or renewal of existing insurance contracts. We defer incremental costs that result directly from, and are essential to, the acquisition or renewal of an insurance contract. Such deferred policy acquisition costs generally include agent or broker commissions and bonuses, premium

taxes, and medical and inspection fees that would not have been incurred if the insurance contract had not been acquired or renewed. Each cost is analyzed to assess whether it is fully deferrable. We partially defer costs, including certain commissions, when we do not believe that the entire cost is directly related to the acquisition or renewal of insurance contracts.

We also defer a portion of employee total compensation and payroll-related fringe benefits directly related to time spent performing specific acquisition or renewal activities, including costs associated with the time spent on underwriting, policy issuance and processing, and sales force contract selling. The amounts deferred are derived based on successful efforts for each distribution channel and/or cost center from which the cost originates.

**Short-duration insurance contracts:** Policy acquisition costs are deferred and amortized over the period in which the related premiums written are earned, generally 12 months. DAC is grouped consistent with the manner in which the insurance contracts are acquired, serviced and measured for profitability and is reviewed for recoverability based on the profitability of the underlying insurance contracts. Investment income is anticipated in assessing the recoverability of DAC. We assess the recoverability of DAC on an annual basis or more frequently if circumstances indicate an impairment may have occurred. This assessment is performed by comparing recorded net unearned premiums and anticipated investment income on in-force

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business to the sum of expected losses and loss adjustment expenses incurred, unamortized DAC and maintenance costs. If the sum of these costs exceeds the amount of recorded net unearned premiums and anticipated investment income, the excess is recognized as an offset against the asset established for DAC. This offset is referred to as a premium deficiency charge. Increases in expected losses and loss adjustment expenses incurred can have a significant impact on the likelihood and amount of a premium deficiency charge.

**Long-duration insurance contracts:** Policy acquisition costs for participating life, traditional life and accident and health insurance products are generally deferred and amortized, with interest, over the premium paying period. The assumptions used to calculate the benefit liabilities and DAC for these traditional products are set when a policy is issued and do not change with changes in actual experience, unless a loss recognition event occurs. These “locked-in” assumptions include mortality, morbidity, persistency, maintenance expenses and investment returns, and include margins for adverse deviation to reflect uncertainty given that actual experience might deviate from these assumptions. A loss recognition event occurs when there is a shortfall between the carrying amount of future policy benefit liabilities, net of DAC, and what the future policy benefit liabilities, net of DAC, would be when applying updated current assumptions. When we determine a loss recognition event has occurred, we first reduce any DAC related to that block of business through amortization of acquisition expense, and after DAC is depleted, we record additional liabilities through a charge to Policyholder benefits and losses incurred. Groupings for loss recognition testing are consistent with our manner of acquiring, servicing and measuring the profitability of the business and applied by product groupings. We perform separate loss recognition tests for traditional life products, payout annuities and long-term care products. 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.

**Investment-oriented contracts:** Policy acquisition costs and policy issuance costs related to universal life and investment-type products (collectively, investment-oriented products) are deferred and amortized, with interest, in relation to the incidence of estimated gross profits to be realized over the estimated lives of the contracts. Estimated gross profits include net investment income and spreads, net realized investment gains and losses, fees, surrender charges, expenses, and mortality gains and losses. In each reporting period, current period amortization expense is adjusted to reflect actual gross profits. If estimated gross profits change significantly, DAC is recalculated using the new assumptions, and any resulting adjustment is included in income. If the new assumptions indicate that future estimated gross profits are higher than previously estimated, DAC will be increased resulting in a decrease in amortization expense and increase in income in the current period; if future estimated gross profits are lower than previously estimated, DAC will be decreased resulting in an increase in amortization expense and decrease in income in the current period. Updating such assumptions may result in acceleration of amortization in some products and deceleration of amortization in other products. DAC is grouped consistent with the manner in which the insurance contracts are acquired, serviced and measured for profitability and is reviewed for recoverability based on the current and projected future profitability of the underlying insurance contracts.

To estimate future estimated gross profits for variable annuity products, a long-term annual asset growth assumption is applied to determine 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 long-term annual rate assumptions impact 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 in 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.

**Shadow DAC and Shadow Loss Recognition:** DAC related to investment-oriented products is also adjusted to reflect the effect of unrealized gains or losses on fixed maturity and equity securities available for sale on estimated gross profits, with related changes recognized through Other comprehensive income (shadow DAC). The adjustment is made at each balance sheet date, as if the securities had been sold at their stated aggregate fair value and the proceeds reinvested at current yields. Similarly, for long-duration traditional insurance contracts, if the assets supporting the liabilities maintain a temporary net unrealized gain position at the balance sheet date, loss recognition testing assumptions are updated to exclude such gains from future cash flows by reflecting the impact of reinvestment rates on future yields. If a future loss is anticipated under this basis, any additional shortfall indicated by loss recognition tests is recognized as a reduction in accumulated other



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comprehensive income (shadow loss recognition). Similar to other loss recognition on long-duration insurance contracts, such shortfall is first reflected as a reduction in DAC and secondly as an increase in liabilities for future policy benefits. The change in these adjustments, net of tax, is included with the change in net unrealized appreciation of investments that is credited or charged directly to Other comprehensive income.

**Internal Replacements of Long-duration and Investment-oriented Products:** For some products, policyholders can elect to modify product benefits, features, rights or coverages by exchanging a contract for a new contract or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. These transactions are known as internal replacements. If the modification does not substantially change the contract, we do not change the accounting and amortization of existing DAC and related actuarial balances. If an internal replacement represents a substantial change, the original contract is considered to be extinguished and any related DAC or other policy balances are charged or credited to income, and any new deferrable costs associated with the replacement contract are deferred.

Value of Business Acquired (VOBA) is determined at the time of acquisition and is reported in the Consolidated Balance Sheets with DAC. This value is based on the present value of future pre-tax profits discounted at yields applicable at the time of purchase. For participating life, traditional life and accident and health insurance products, VOBA is amortized over the life of the business in a manner similar to that for DAC based on the assumptions at purchase. For investment-oriented products, VOBA is amortized in relation to estimated gross profits and adjusted for the effect of unrealized gains or losses on fixed maturity and equity securities available for sale in a manner similar to DAC.

**The following table presents a rollforward of DAC and VOBA:**

**Years Ended December 31,***(in millions)***Non-Life Insurance Companies:**

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Balance, beginning of year	\$ 2,551	\$ 2,493	\$ 2,342
Acquisition costs deferred	4,537	4,805	4,803
Amortization expense	(4,313)	(4,599)	(4,481)
Other	(144)	(148)	(171)
Balance, end of year	\$ 2,631	\$ 2,551	\$ 2,493
<b>Life Insurance Companies:</b>			
Balance, beginning of year	\$ 7,258	\$ 6,920	\$ 5,815
Acquisition costs deferred	1,288	1,114	1,034
Amortization expense	(916)	(727)	(674)
Change in net unrealized gains (losses) on securities	848	(360)	784
Decrease due to foreign exchange	(34)	(32)	(39)
Other	23	343	
Balance, end of year	\$ 8,467	\$ 7,258	\$ 6,920

Consolidation and eliminations	17	18	23
Total deferred policy acquisition costs*	\$ 11,115	\$ 9,827	\$ 9,430
Supplemental Information:			
VOBA amortization expense included in Life Insurance Companies DAC amortization	64	17	23
VOBA, end of year included in Life Insurance Companies DAC balance	453	510	373

\* Net of reductions in DAC of \$583 million, \$1.4 billion, and \$1.1 billion for Life Insurance Companies at December 31, 2015, 2014 and 2013, respectively, related to the effect of net unrealized gains and losses on available for sale securities (shadow DAC).

The percentage of the unamortized balance of VOBA at December 31, 2015 expected to be amortized in 2016 through 2020 by year is: 8.4 percent, 7.6 percent, 7.1 percent, 6.9 percent and 6.5 percent, respectively, with 63.5 percent being amortized after five years. These projections are based on current estimates for investment income and spreads, persistency, mortality and morbidity assumptions.

DAC, VOBA and SIA for insurance oriented and investment oriented products are reviewed for recoverability, which involves estimating the future profitability of current business. This review involves significant management judgment. If actual future

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profitability is substantially lower than estimated, AIG's DAC, VOBA and SIA may be subject to an impairment charge and AIG's results of operations could be significantly affected in future periods.

**9. VARIABLE INTEREST ENTITIES**

A variable interest entity (VIE) is a legal entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support or is structured such that equity investors lack the ability to make significant decisions relating to the entity's operations through voting rights or do not substantively participate in the gains and losses of the entity. Consolidation of a VIE by its primary beneficiary is not based on majority voting interest, but is based on other criteria discussed below.

We enter into various arrangements with VIEs in the normal course of business and consolidate the VIEs when we determine we are the primary beneficiary. This analysis includes a review of the VIE's capital structure, related contractual relationships and terms, nature of the VIE's operations and purpose, nature of the VIE's interests issued and our involvement with the entity. When assessing the need to consolidate a VIE, we evaluate the design of the VIE as well as the related risks the entity was designed to expose the variable interest holders to.

For VIEs with attributes consistent with that of an investment company or a money market fund, the primary beneficiary is the party or group of related parties that absorbs a majority of the expected losses of the VIE, receives the majority of the expected residual returns of the VIE, or both.

For all other VIEs, the primary beneficiary is the entity that has both (1) the power to direct the activities of the VIE that most significantly affect the entity's economic performance and (2) the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. While also considering these factors, the consolidation conclusion depends on the breadth of our decision-making ability and our ability to influence activities that significantly affect the economic performance of the VIE.

**Balance Sheet Classification and Exposure to Loss**

The following table presents the total assets and total liabilities associated with our variable interests in consolidated VIEs, as classified in the Consolidated Balance Sheets:

	Real Estate and Investment Entities <sup>(d)</sup>	Securitization Vehicles	Structured Investment Vehicle	Affordable Housing Partnerships	Other	Tot
<i>(in millions)</i>						

**December 31, 2015****Assets:**

Bonds available for sale	\$	-\$	10,309\$	-\$	-\$	15\$	10,309\$
Other bond securities		-	5,756	387	-	24	6,143
Mortgage and other loans receivable		1	1,960	-	-	132	2,093
Other invested assets		489	477	-	2,608	24	3,594
Other <sup>(a)</sup>		29	1,349	94	293	159	1,925
Total assets <sup>(b)(e)</sup>	\$	519\$	19,851\$	481\$	2,901\$	354\$	24,105\$
<b>Liabilities:</b>							
Long-term debt	\$	-\$	1,025\$	53\$	1,513\$	6\$	2,591\$
Other <sup>(c)</sup>		34	236	1	214	71	546
Total liabilities <sup>(e)</sup>	\$	34\$	1,261\$	54\$	1,727\$	77\$	3,135\$

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Bonds available for sale	\$	-	\$ 11,459	\$	-	\$ 35	\$ 11,494
Other bond securities		-	7,251		615	-	7,906
Mortgage and other loans receivable		-	2,398		-	-	2,560
Other invested assets		577	651		-	1,684	2,941
Other <sup>(a)</sup>		40	1,447		140	49	1,752
Total assets <sup>(b)</sup>	\$	617	\$ 23,206	\$	755	\$ 1,733	\$ 26,653

**Liabilities:**

Long-term debt	\$	69	\$ 1,370	\$	52	\$ 199	\$ 1,697
Other <sup>(c)</sup>		32	276		-	101	446
Total liabilities	\$	101	\$ 1,646	\$	52	\$ 300	\$ 2,143

(a) Comprised primarily of Short-term investments, Premiums and other receivables or Other assets at December 31, 2015 and 2014.

(b) The assets of each VIE can be used only to settle specific obligations of that VIE.

(c) Comprised primarily of Other liabilities and Derivative liabilities, at fair value, at both December 31, 2015 and 2014.

(d) At December 31, 2015 and 2014, off-balance sheet exposure primarily consisting of commitments to real estate and investment entities was \$131.2 million and \$56.4 million, respectively.

(e) Includes the effect of consolidating previously unconsolidated partnerships.

We calculate our maximum exposure to loss to be (i) the amount invested in the debt or equity of the VIE, (ii) the notional amount of VIE assets or liabilities where we have also provided credit protection to the VIE with the VIE as the referenced obligation, and (iii) other commitments and guarantees to the VIE. Interest holders in VIEs sponsored by us generally have recourse only to the assets and cash flows of the VIEs and do not have recourse to us, except in limited circumstances when we have provided a guarantee to the VIE's interest holders.

**The following table presents total assets of unconsolidated VIEs in which we hold a variable interest, as well as our maximum exposure to loss associated with these VIEs:**

<i>(in millions)</i>	Total VIE Assets	Maximum Exposure to Loss		Total
		On-Balance Sheet <sup>(a)</sup>	Off-Balance Sheet	
<b>December 31, 2015</b>				
Real estate and investment entities	\$ 21,951	\$ 3,072	\$ 398	\$ 3,470
Affordable housing partnerships	5,255	774	-	774
Other	1,110	215	1,000	1,215

Total	\$ 28,316	\$ 4,061	\$ 1,398	\$ 5,459
December 31, 2014				
Real estate and investment entities	\$ 19,949	\$ 2,785	\$ 454	\$ 3,239
Affordable housing partnerships	7,911	425	-	425
Other <sup>(c)</sup>	1,959	304	992	(b) 1,296
Total	\$ 29,819	\$ 3,514	\$ 1,446	\$ 4,960

(a) At December 31, 2015 and 2014, \$3.8 billion and \$3.2 billion, respectively, of our total unconsolidated VIE assets were recorded as Other invested assets.

(b) These amounts represent our estimate of the maximum exposure to loss under certain insurance policies issued to VIEs if a hypothetical loss occurred to the extent of the full amount of the insured value. Our insurance policies cover defined risks and our estimate of liability is included in our insurance reserves on the balance sheet.

(c) The On-Balance and Off-Balance sheet amounts have been revised from \$32 million and \$0 to \$304 million and \$992 million, respectively, to correct the Maximum Exposure to Loss as of December 31, 2014, which are not considered material to previously issued financial statements.

### Real Estate and Investment Entities

Through our insurance operations and AIG Global Real Estate, we are an investor in various real estate investment entities, some of which are VIEs. These investments are typically with unaffiliated third-party developers via a partnership or limited liability company structure. The VIEs' activities consist of the development or redevelopment of commercial, industrial and

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### **Item 8 / note 9. VARIABLE INTEREST ENTITIES**

residential real estate. Our involvement varies from being a passive equity investor or finance provider to actively managing the activities of the VIEs.

Our insurance operations participate as passive investors in the equity issued by certain third-party-managed hedge and private equity funds that are VIEs. Our insurance operations typically are not involved in the design or establishment of these VIEs, nor do they actively participate in the management of the VIEs.

#### **Securitization Vehicles**

We created certain VIEs that hold investments, primarily in investment-grade debt securities and loans, and issued beneficial interests in these investments. The majority of these beneficial interests are owned by our insurance operations and we maintain the power to direct the activities of the VIEs that most significantly impact their economic performance and bear the obligation to absorb losses or receive benefits from the entities that could potentially be significant to the entities. Accordingly, we consolidate these entities and those beneficial interests issued to third-parties are reported as Long-term debt.

#### **Structured Investment Vehicle**

We sponsor Nightingale Finance Ltd., a structured investment vehicle (SIV), which is a VIE. Nightingale Finance Ltd. primarily invests in variable rate, investment-grade debt securities, the majority of which are ABS. We have no equity interest in the SIV, but we maintain the power to direct the activities of the SIV that most significantly impact the entity's economic performance and bear the obligation to absorb economic losses that could potentially be significant to the SIV. We are the primary beneficiary and consolidate the SIV.

#### **Affordable Housing Partnerships**

SunAmerica Affordable Housing Partners, Inc. (SAAHP) organized and invested in limited partnerships that develop and operate affordable housing qualifying for federal, state, and historic tax credits, in addition to a few market rate properties across the United States. The operating partnerships are VIEs, whose debt is generally non-recourse in nature, and the general partners of which are mostly unaffiliated third-party developers. We account for our investments in operating partnerships using the equity method of accounting, unless they are required to be consolidated. We consolidate an operating partnership if the general partner is an affiliated entity or we otherwise have the power to direct activities that most significantly impact the entities' economic performance. The pre-tax income of SAAHP is reported as a component of the Consumer Insurance segment.

## RMBS, CMBS, Other ABS and CDOs

Primarily through our insurance operations, we are a passive investor in RMBS, CMBS, other ABS and CDOs, the majority of which are issued by domestic special purpose entities. We generally do not sponsor or transfer assets to, or act as the servicer to these asset-backed structures, and were not involved in the design of these entities.

Our maximum exposure in these types of structures is limited to our investment in securities issued by these entities. Based on the nature of our investments and our passive involvement in these types of structures, we have determined that we are not the primary beneficiary of these entities. We have not included these entities in the above tables; however, the fair values of our investments in these structures are reported in Notes 4 and 5 herein.

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We use derivatives and other financial instruments as part of our financial risk management programs and as part of our investment operations. Interest rate derivatives (such as interest rate swaps) are used to manage interest rate risk associated with embedded derivatives contained in insurance contract liabilities, fixed maturity securities, outstanding medium and long term notes as well as other interest rate sensitive assets and liabilities. Foreign exchange derivatives (principally foreign exchange swaps and forwards) are used to economically mitigate risk associated with non U.S. dollar denominated debt, net capital exposures, and foreign currency transactions. Equity derivatives are used to mitigate financial risk embedded in certain insurance liabilities. The derivatives are effective economic hedges of the exposures that they are meant to offset. In addition to hedging activities, we also enter into derivative instruments as a part of our investment operations, which may include, among other things, CDSs and purchases of investments with embedded derivatives, such as equity linked notes and convertible bonds.

Interest rate, currency, equity and commodity swaps, credit contracts, swaptions, options and forward transactions are accounted for as derivatives, recorded on a trade-date basis and carried at fair value. Unrealized gains and losses are reflected in income, when appropriate. Aggregate asset or liability positions are netted on the Consolidated Balance Sheets only to the extent permitted by qualifying master netting arrangements in place with each respective counterparty. Cash collateral posted with counterparties in conjunction with transactions supported by qualifying master netting arrangements is reported as a reduction of the corresponding net derivative liability, while cash collateral received in conjunction with transactions supported by qualifying master netting arrangements is reported as a reduction of the corresponding net derivative asset.

Effective July 1, 2015, we reclassified derivatives, with the exception of embedded derivatives, in the Consolidated Balance Sheets from Derivative assets, at fair value and Derivative liabilities, at fair value to Other assets and Other liabilities, respectively. This change had no effect on the measurement of these derivatives, which continue to be measured at fair value. Embedded derivatives continue to be generally presented with the host contract in the Consolidated Balance Sheets. A bifurcated embedded derivative is measured at fair value and accounted for in the same manner as a free standing derivative contract. The corresponding host contract is accounted for according to the accounting guidance applicable for that instrument. See Notes 4 and 13 herein for additional information on embedded derivatives.

**The following table presents the notional amounts of our derivatives and the fair value of derivative assets and liabilities in the Consolidated Balance Sheets:**

December 31, 2015				December 31, 2014			
Gross Derivative Assets		Gross Derivative Liabilities		Gross Derivative Assets		Gross Derivative Liabilities	
Notional	Fair	Notional	Fair	Notional	Fair	Notional	Fair

*(in millions)*

	Amount	Value	Amount	Value	Amount	Value	Amount	Value
<b>Derivatives designated as hedging instruments:<sup>(a)</sup></b>								
Interest rate contracts	\$ 301	\$ 1	\$ 725	\$ 2	\$ 155	\$ -	\$ 25	\$ 2
Foreign exchange contracts	2,903	207	914	56	611	25	1,794	239
Equity contracts	-	-	121	23	7	1	104	13
<b>Derivatives not designated as hedging instruments:<sup>(a)</sup></b>								
Interest rate contracts	45,846	3,161	65,733	2,197	65,070	3,743	45,104	3,131
Foreign exchange contracts	9,472	559	8,900	1,148	13,667	815	8,516	1,251
Equity contracts	6,656	177	5,028	45	7,565	206	3,049	90
Commodity contracts	-	-	-	-	15	-	11	6
Credit contracts <sup>(b)</sup>	4	3	1,289	508	5	4	5,288	982
Other contracts <sup>(c)</sup>	37,586	23	203	69	36,155	31	538	90
<b>Total derivatives, gross</b>	<b>\$ 102,768</b>	<b>\$ 4,131</b>	<b>\$ 82,913</b>	<b>\$ 4,048</b>	<b>\$ 123,250</b>	<b>\$ 4,825</b>	<b>\$ 64,429</b>	<b>\$ 5,804</b>

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Counterparty netting <sup>(d)</sup>	(1,268)	(1,268)	(2,102)	(2,102)
Cash collateral <sup>(e)</sup>	(1,554)	(760)	(1,119)	(1,429)
<b>Total derivatives on consolidated balance sheets<sup>(f)</sup></b>	<b>\$ 1,309</b>	<b>\$ 2,020</b>	<b>\$ 1,604</b>	<b>\$ 2,273</b>

(a) Fair value amounts are shown before the effects of counterparty netting adjustments and offsetting cash collateral.

(b) As of December 31, 2015 and 2014, included super senior multi-sector CDOs with a net notional amount of \$1.1 billion and \$2.6 billion (fair value liability of \$483 million and \$947 million), respectively. The expected weighted average maturity as of December 31, 2015 is six years. Because of long-term maturities of the CDSs in the portfolio, we are unable to make reasonable estimates of the periods during which any payments would be made. However, the net notional amount represents the maximum exposure to loss on the portfolio. As of December 31, 2015, there were no super senior corporate debt/CLOs remaining. As of December 31, 2014, included super senior corporate debt/CLOs with a net notional amount of \$2.5 billion (fair value liability of \$7 million).

(c) Consists primarily of stable value wraps and contracts with multiple underlying exposures.

(d) Represents netting of derivative exposures covered by a qualifying master netting agreement.

(e) Represents cash collateral posted and received that is eligible for netting.

(f) Freestanding derivatives only, excludes Embedded derivatives. Derivative instrument assets and liabilities are recorded in Other Assets and Liabilities, respectively. Fair value of assets related to bifurcated Embedded derivatives was zero at both December 31, 2015 and December 31, 2014. Fair value of liabilities related to bifurcated Embedded derivatives was \$2.3 billion and \$1.6 billion, respectively, at December 31, 2015 and December 31, 2014. A bifurcated Embedded derivative is generally presented with the host contract in the Consolidated Balance Sheets. Embedded derivatives are primarily related to guarantee features in variable annuity products, which include equity and interest rate components.

**Collateral**

We engage in derivative transactions that are not subject to a clearing requirement directly with unaffiliated third parties, in most cases, under International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements. Many of the ISDA Master Agreements also include Credit Support Annex (CSA) provisions, which provide for collateral postings that may vary at various ratings and threshold levels. We attempt to reduce our risk with certain counterparties by entering into agreements that enable collateral to be obtained from a counterparty on an upfront or contingent basis. We minimize the risk that counterparties might be unable to fulfill their contractual obligations by monitoring counterparty credit exposure and collateral value and generally requiring additional collateral to be posted upon the occurrence of certain events or

circumstances. In addition, certain derivative transactions have provisions that require collateral to be posted upon a downgrade of our long term debt ratings or give the counterparty the right to terminate the transaction. In the case of some of the derivative transactions, upon a downgrade of our long term debt ratings, as an alternative to posting collateral and subject to certain conditions, we may assign the transaction to an obligor with higher debt ratings or arrange for a substitute guarantee of our obligations by an obligor with higher debt ratings or take other similar action. The actual amount of collateral required to be posted 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 and after the time of the downgrade.

Collateral posted by us to third parties for derivative transactions was \$3.0 billion and \$3.3 billion at December 31, 2015 and 2014, respectively. In the case of collateral posted under derivative transactions that are not subject to clearing, this collateral can generally be repledged or resold by the counterparties. Collateral provided to us from third parties for derivative transactions was \$1.6 billion and \$1.3 billion at December 31, 2015 and 2014, respectively. We generally can repledge or resell collateral.

### Offsetting

We have elected to present all derivative receivables and derivative payables, and the related cash collateral received and paid, on a net basis on our Consolidated Balance Sheets when a legally enforceable ISDA Master Agreement exists between us and our derivative counterparty. An ISDA Master Agreement is an agreement governing multiple derivative transactions between two counterparties. The ISDA Master Agreement generally provides for the net settlement of all, or a specified group, of these derivative transactions, as well as transferred collateral, through a single payment, and in a single currency, as applicable. The net settlement provisions apply 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 governed by the ISDA Master Agreement.

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We designated certain derivatives entered into with third parties as fair value hedges of available for sale investment securities held by our insurance subsidiaries. The fair value hedges include foreign currency forwards and cross currency swaps designated as hedges of the change in fair value of foreign currency denominated available for sale securities attributable to changes in foreign exchange rates. We also designated certain interest rate swaps entered into with third parties as fair value hedges of fixed rate GICs attributable to changes in benchmark interest rates.

We use foreign currency denominated debt and cross-currency swaps as hedging instruments in net investment hedge relationships to mitigate the foreign exchange risk associated with our non-U.S. dollar functional currency foreign subsidiaries. For net investment hedge relationships where issued debt is used as a hedging instrument, we assess the hedge effectiveness and measure the amount of ineffectiveness based on changes in spot rates. For net investment hedge relationships that use derivatives as hedging instruments, we assess hedge effectiveness and measure hedge ineffectiveness using changes in forward rates. For the years ended December 31, 2015, 2014, and 2013 we recognized gains of \$90 million and \$156 million and a loss of \$38 million, respectively, included in Change in foreign currency translation adjustment in Other comprehensive income related to the net investment hedge relationships.

A qualitative methodology is utilized to assess hedge effectiveness for net investment hedges, while regression analysis is employed for all other hedges.

**The following table presents the gain (loss) recognized in earnings on our derivative instruments in fair value hedging relationships in the Consolidated Statements of Income:**

(in millions)	Gains/(Losses) Recognized in Earnings for:		Including Gains/(Losses) Attributable to:		
	Hedging Derivatives <sup>(a)</sup>	Hedged Items	Hedge Ineffectiveness	Excluded Components	Other <sup>(b)</sup>
<b>Year ended December 31, 2015</b>					
Interest rate contracts:					
Realized capital gains/(losses)	\$ -	\$ 1	\$ 1	\$ -	\$ -
Interest credited to policyholder account balances	-	-	-	-	-
Other income	-	9	-	-	9
Gain/(Loss) on extinguishment of debt	-	14	-	-	14
Foreign exchange contracts:					
Realized capital gains/(losses)	202	(167)	-	32	3
Interest credited to policyholder account balances	-	(1)	-	-	(1)

Other income	-	17	-	-	17
Gain/(Loss) on extinguishment of debt	-	17	-	-	17
Equity contracts:					
Realized capital gains/(losses)	(45)	45	-	-	-
<b>Year ended December 31, 2014</b>					
Interest rate contracts:					
Realized capital gains/(losses)	\$ 1	\$ (2)	\$ -	\$ -	\$ (1)
Interest credited to policyholder					
account balances	-	(1)	-	-	(1)
Other income	-	43	-	-	43
Gain/(Loss) on extinguishment of debt	-	164	-	-	164
Foreign exchange contracts:					
Realized capital gains/(losses)	(129)	147	-	8	10
Interest credited to policyholder					
account balances	-	(3)	-	-	(3)
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Other income	-	23	-	-	23
Gain/(Loss) on extinguishment of debt	-	2	-	-	2
Equity contracts:					
Realized capital gains/(losses)	(23)	22	-	(1)	-
<b>Year ended December 31, 2013</b>					
Interest rate contracts:					
Realized capital gains/(losses)	\$ (5)	\$ 5	\$ -	\$ -	-
Interest credited to policyholder account balances	-	(2)	-	-	(2)
Other income	-	99	-	-	99
Foreign exchange contracts:					
Realized capital gains/(losses)	(187)	204	-	17	-

(a) The amounts presented do not include the periodic net coupon settlements of the derivative contract or the coupon income (expense) related to the hedged item.

(b) Represents accretion/amortization of opening fair value of the hedged item at inception of hedge relationship, amortization of basis adjustment on hedged item following the discontinuation of hedge accounting, and the release of debt basis adjustment following the repurchase of issued debt that was part of previously-discontinued fair value hedge relationship.

**Derivatives Not Designated as Hedging Instruments**

The following table presents the effect of derivative instruments not designated as hedging instruments in the Consolidated Statements of Income:

<b>Years Ended December 31,</b> <i>(in millions)</i>	<b>Gains (Losses)</b> <b>Recognized in Earnings</b>			<b>2013</b>
	<b>2015</b>	<b>2014</b>		
By Derivative Type:				
Interest rate contracts	\$ 339	\$ 851	\$ (259)	
Foreign exchange contracts	416	309	41	
Equity contracts	(182)	(274)	(507)	
Commodity contracts	(1)	(1)	(4)	
Credit contracts	186	263	567	
Other contracts	69	192	85	
Embedded derivatives	49	(841)	1,099	
<b>Total</b>	<b>\$ 876</b>	<b>\$ 499</b>	<b>\$ 1,022</b>	
By Classification:				

Policy fees	\$	78	\$	-	\$	-
Net investment income		26		102		28
Net realized capital gains (losses)		365		(219)		257
Other income		401		599		750
Policyholder benefits and claims incurred		6		17		(13)
<b>Total</b>	\$	<b>876</b>	\$	499	\$	1,022

### Credit Risk-Related Contingent Features

The aggregate fair value of our derivative instruments that contain credit risk-related contingent features that were in a net liability position at December 31, 2015 and 2014, was approximately \$2.0 billion and \$2.5 billion, respectively. The aggregate fair value of assets posted as collateral under these contracts at December 31, 2015 and 2014, was \$2.1 billion and \$2.7 billion, respectively.

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We estimate that at December 31, 2015, based on our outstanding financial derivative transactions, a one-notch downgrade of our long-term senior debt ratings to BBB+ by Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. (S&P), would permit counterparties to make additional collateral calls and permit certain counterparties to elect early termination of contracts, resulting in a negligible amount of corresponding collateral postings and termination payments; a one-notch downgrade to Baa2 by Moody's Investors' Service, Inc. (Moody's) and an additional one-notch downgrade to BBB by S&P would result in approximately \$44 million in additional collateral postings and termination payments, and a further one-notch downgrade to Baa3 by Moody's and BBB- by S&P would result in approximately \$95 million in additional collateral postings and termination payments.

Additional collateral postings upon downgrade are estimated based on the factors in the individual collateral posting provisions of the CSA with each counterparty and current exposure as of December 31, 2015. Factors considered in estimating the termination payments upon downgrade include current market conditions, the complexity of the derivative transactions, historical termination experience and other observable market events such as bankruptcy and downgrade events that have occurred at other companies. Our estimates are also based on the assumption that counterparties will terminate based on their net exposure to us. The actual termination payments could significantly differ from our estimates given market conditions at the time of downgrade and the level of uncertainty in estimating both the number of counterparties who may elect to exercise their right to terminate and the payment that may be triggered in connection with any such exercise.

**Hybrid Securities with Embedded Credit Derivatives**

We invest in hybrid securities (such as credit linked notes) with the intent of generating income, and not specifically to acquire exposure to embedded derivative risk. As is the case with our other investments in RMBS, CMBS, CDOs and ABS, our investments in these hybrid securities are exposed to losses only up to the amount of our initial investment in the hybrid security. Other than our initial investment in the hybrid securities, we have no further obligation to make payments on the embedded credit derivatives in the related hybrid securities.

We elect to account for our investments in these hybrid securities with embedded written credit derivatives at fair value, with changes in fair value recognized in Net investment income and Other income. Our investments in these hybrid securities are reported as Other bond securities in the Consolidated Balance Sheets. The fair values of these hybrid securities were \$5.7 billion and \$6.1 billion at December 31, 2015 and 2014, respectively. These securities have par amounts of \$11.2 billion and \$12.3 billion at December 31, 2015 and 2014, respectively, and have remaining stated maturity dates that extend to 2055.

**11. GOODWILL**

Goodwill represents the future economic benefits arising from assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is tested for impairment annually or more frequently if circumstances indicate an impairment may have occurred. We assess goodwill for impairment at one level below our reportable segments. At December 31, 2015, our principal reporting units with goodwill are Commercial Insurance - Property Casualty, Consumer Insurance - Personal Insurance, and Consumer Insurance - Life. When a business is transferred from one reporting unit to another, as occurred with the transfer of a portion of the Consumer Insurance - Personal Insurance to Consumer Insurance – Life, as part of the 2014 segment changes, goodwill at the original reporting unit is allocated among reporting units based on the fair value of business transferred, relative to business retained by a reporting unit.

The impairment assessment involves an option to first assess qualitative factors to determine whether events or circumstances exist that lead to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment is not performed, or after assessing the totality of the events or circumstances, we determine it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the impairment assessment involves a two-step process in which a quantitative assessment for potential impairment is performed.

If the qualitative test is not performed or if the test indicates a potential impairment is present, we estimate the fair value of each reporting unit and compare the estimated fair value with the carrying amount of the reporting unit, including allocated

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goodwill. The estimate of a reporting unit's fair value involves management judgment and is based on one or a combination of approaches including discounted expected future cash flows, market based earnings multiples of the unit's peer companies, external appraisals or, in the case of reporting units being considered for sale, third party indications of fair value, if available. We consider one or more of these estimates when determining the fair value of a reporting unit to be used in the impairment test.

If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill is not impaired. If the carrying value of a reporting unit exceeds its estimated fair value, goodwill associated with that reporting unit potentially is impaired. The amount of impairment, if any, is measured as the excess of the carrying value of the goodwill over the implied fair value of the goodwill. The implied fair value of the goodwill is measured as the excess of the fair value of the reporting unit over the amounts that would be assigned to the reporting unit's assets and liabilities in a hypothetical business combination. An impairment charge is recognized in earnings to the extent of the excess of carrying value over fair value.

Goodwill was not impaired at December 31, 2015 based on the results of the goodwill impairment test.

**The following table presents the changes in goodwill by reportable segment:**

<i>(in millions)</i>	Commercial	Consumer	Other	Total
<b>Balance at January 1, 2013:</b>				
Goodwill - gross	\$ 2,444	\$ 2,502	\$ -	\$ 4,946
Accumulated impairments	(1,266)	(2,211)	-	(3,477)
Net goodwill	1,178	291	-	1,469
Increase (decrease) due to:				
Other	6	-	-	6
<b>Balance at December 31, 2013:</b>				
Goodwill - gross	2,450	2,502	-	4,952
Accumulated impairments	(1,266)	(2,211)	-	(3,477)
Net goodwill	1,184	291	-	1,475
Increase (decrease) due to:				
Acquisition	-	28	-	28
Other	(49)	-	-	(49)
<b>Balance at December 31, 2014:</b>				
Goodwill - gross	2,401	2,530	-	4,931
Accumulated impairments	(1,266)	(2,211)	-	(3,477)
Net goodwill	1,135	319	-	1,454
Increase (decrease) due to:				
Acquisition	96	82	30	208
Other	(50)	1	-	(49)
<b>Balance at December 31, 2015:</b>				
Goodwill - gross	<b>2,447</b>	<b>2,613</b>	<b>30</b>	<b>5,090</b>

Accumulated impairments	(1,266)	(2,211)	-	(3,477)
Net goodwill	\$ 1,181	\$ 402	\$ 30	\$ 1,613

**12. INSURANCE LIABILITIES****Liability for Unpaid Losses and Loss Adjustment Expenses**

The liability for unpaid losses and loss adjustment expenses represents the accumulation of estimates of unpaid claims, including estimates for claims incurred but not reported and claim adjustments expenses, less applicable discount for future investment income. We continually review and update the methods used to determine loss reserve estimates and to establish the resulting reserves. Any adjustments resulting from this review are reflected currently in pre-tax income. Because these

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estimates are subject to the outcome of future events, changes in estimates are common given that loss trends vary and time is often required for changes in trends to be recognized and confirmed. Reserve changes that increase previous estimates of ultimate cost are referred to as unfavorable or adverse development or reserve strengthening. Reserve changes that decrease previous estimates of ultimate cost are referred to as favorable development.

Our gross loss reserves before reinsurance and discount are net of contractual deductible recoverable amounts due from policyholders of approximately \$12.6 billion and \$12.4 billion at December 31, 2015 and 2014, respectively. These recoverable amounts are related to certain policies with high deductibles (in excess of high dollar amounts retained by the insured through self-insured retentions or deductibles each referred to generically as "deductibles"), primarily for U.S. commercial casualty business. With respect to the deductible portion of the claim, the Non-life Insurance Companies manage and pay the entire claim on behalf of the insured and are reimbursed by the insured for the deductible portion of the claim. At December 31, 2015 and 2014, we held collateral of approximately \$9.6 billion and \$9.4 billion, respectively, for these deductible recoverable amounts, consisting primarily of letters of credit and trust agreements.

**The following table presents the reconciliation of activity in the Liability for unpaid losses and loss adjustment expenses:**

**Years Ended December 31,***(in millions)*

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Liability for unpaid losses and loss adjustment expenses, beginning of year	<b>\$ 77,260</b>	\$ 81,547	\$ 87,991
Reinsurance recoverable	<b>(15,648)</b>	(17,231)	(19,209)
Net liability for unpaid losses and loss adjustment expenses, beginning of year	<b>61,612</b>	64,316	68,782
Foreign exchange effect	<b>(1,429)</b>	(1,061)	(617)
Dispositions	-	-	(79)
Changes in net loss reserves due to retroactive asbestos reinsurance transaction	<b>20</b>	141	22
Total	<b>60,203</b>	63,396	68,108
Losses and loss adjustment expenses incurred:			
Current year	<b>20,308</b>	21,279	22,171
Prior years, excluding discount	<b>4,119</b>	703	557
Prior years, discount charge (benefit)	<b>(71)</b>	478	(309)
Total	<b>24,356</b>	22,460	22,419
Losses and loss adjustment expenses paid*:			
Current year	<b>5,751</b>	6,358	7,431
Prior years	<b>18,205</b>	17,886	18,780
Total	<b>23,956</b>	24,244	26,211
Balance, end of year:			
Net liability for unpaid losses and loss adjustment expenses	<b>60,603</b>	61,612	64,316
Reinsurance recoverable	<b>14,339</b>	15,648	17,231
Total	<b>\$ 74,942</b>	\$ 77,260	\$ 81,547

\* Includes amounts related to dispositions through the date of disposition.

The net adverse development includes loss-sensitive business, for which we recognized (return) additional premiums on loss sensitive business of \$(49) million, \$105 million and \$89 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Each quarter, we conduct a series of actuarial reviews to reassess the reasonableness of our carried reserves. These reviews are conducted for each class of business, and consist of hundreds of individual analyses. We consider data and information arising since the prior review and adjust, as appropriate, the methods and assumptions used in the latest actuarial reviews. Our analyses produce a range of indications from various methods, from which we select our best estimate.

For 2015, the adverse development of prior year losses is primarily a result of the following:

- Excess Casualty – U.S. & Canada experienced \$1.5 billion of adverse development largely driven by worse than expected loss emergence reported in 2015, reflecting worsening trends in the number and nature of high severity losses in both

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### **Item 8 / note 12. INSURANCE LIABILITIES**

general liability and umbrella auto liability, primarily for U.S. risks. We reacted to the adverse emergence by updating our assumptions about loss severity, loss development patterns, and expected loss ratios for the most recent accident years.

- Primary Casualty – U.S. & Canada experienced \$1.1 billion of adverse development. \$540 million related to workers' compensation policies with risk sharing features to reflect estimated increased losses and reduced expectations of future recoveries from our insureds through these risk-sharing features. Risk-sharing features, include high deductibles, self-insured retentions or retrospective rating features. We also experienced adverse development of \$146 million in primary general liability due to adverse emergence of claims in the construction sector; \$144 million in primary auto liability due to observed increases in both the frequency and severity of claims; \$100 million for future claim handling expenses related to existing loss reserves, and \$100 million in workers' compensation for coverages sold to government contractors in U.S. and non U.S. military installations as a result of adverse loss emergence in recent accident years.
- Financial Lines – U.S. & Canada experienced \$579 million of adverse development related to development of several reported claims above expectations, in D&O and professional liability principally related to accident years 2006 through 2010.
- Run-off insurance lines experienced \$727 million of adverse development largely driven by \$281 million in asbestos and environmental for accident years 1986 & prior and \$272 million of other run-off. Reasons for this development are as follows:
  - Asbestos coverage has been excluded from AIG policies commencing in 1985. Most of AIG's asbestos reserves are ceded to National Indemnity Company (NICO) under a retrospective reinsurance arrangement entered into in 2011. However, certain asbestos-related exposures are not subject to the NICO agreement, including asbestos exposures for which we have negotiated fixed payment schedules, and third party reinsurance assumed policies. The reported claim activity on the assumed claims has increased in the last year. As a result, we modified certain of our loss-reserve-related assumptions to better reflect this AIG-specific experience as well as consideration of recent industry-wide trends regarding expanding coverage theories for liability. As a result, we increased our 2015 reserves by \$164 million and by \$117 million for Asbestos and Environmental, respectively.
  - Run-off lines experienced \$272 million of adverse development based on updated assumptions about future loss development.

In 2014, the increase in prior years' loss reserves of \$703 million included \$550 million, \$124 million, \$182 million, \$109 million, and \$(102) million related to Primary Casualty – U.S. & Canada, Asbestos and environmental (1986 and prior), Financial Lines – International, Healthcare, and Natural Catastrophes – U.S. & Canada, respectively.

In 2013, the increase in prior years' loss reserves of \$557 million includes \$498 million, \$238 million, \$(144) million, and \$(54) million related to Primary Casualty – U.S. & Canada, Asbestos and environmental (1986 and prior), Excess Casualty – U.S. & Canada, and Healthcare, respectively.

#### Asbestos and Environmental Run-off Reserves

At December 31, 2015 and 2014, our net liability for unpaid loss and loss adjustment expenses included \$722 million and \$573 million, respectively, for asbestos and environmental-related claims (net of reinsurance, including retroactive reinsurance). We cede the bulk of AIG Property Casualty's net domestic asbestos liabilities under a 2011 retroactive reinsurance agreement with National Indemnity Company (NICO) with an aggregate limit of \$3.5 billion. Reinsurance recoverables related to this agreement are \$1.8 billion and \$1.5 billion, respectively, at December 31, 2015 and 2014, respectively. Under retroactive reinsurance accounting, contractual gains are deferred and amortized into income over the settlement period of the underlying reinsured claims. During 2015, 2014 and 2013, we recognized approximately \$233 million, \$0 and \$72 million, respectively, of additional recoveries under the NICO agreement for which the income statement benefit was deferred. The expense related to this increase in the deferred gain liability is reported in Other income/expense and is therefore excluded from net losses incurred.



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### **Item 8 / note 12. INSURANCE LIABILITIES**

Reserves for asbestos and environmental claims cannot be estimated using conventional reserving techniques such as those that rely on historical accident year loss development factors. The methods used to determine asbestos and environmental loss estimates and to establish the resulting reserves are continually reviewed and updated by management.

Various factors contribute to the complexity and difficulty in determining the future development of claims such as court resolutions and judicial interpretations which broaden the intent of the policies and scope of coverage.

We primarily base our determination of these reserves on a combination of ground-up and top-down analyses of historical claims and available insurance coverages. We consider a number of factors and recent experience, in addition to the results of both external and internal analyses, to estimate asbestos and environmental loss reserves.

#### **Discounting of Reserves**

At December 31, 2015, the liability for unpaid losses and loss adjustment expenses reflects a net loss reserve discount of \$3.1 billion, including tabular and non-tabular calculations based upon the following assumptions:

- Certain asbestos business that was written by Non-Life Insurance Companies is discounted, when allowed by the regulator and when payments are fixed and determinable, based on the investment yields of the companies and the payout pattern for this business.
- The tabular workers' compensation discount is calculated based on a 3.5 percent interest rate and the mortality table used in the 2007 U.S. Life Table.
- The non-tabular workers' compensation discount is calculated separately for companies domiciled in New York and Pennsylvania, and follows the statutory regulations (prescribed or permitted) for each state. For New York companies, the discount is based on a five percent interest rate and the companies' own payout patterns.
- Our Delaware and Pennsylvania regulators approved use of a consistent discount rate (U.S. Treasury rate plus a liquidity premium) to all of our workers' compensation reserves in companies domiciled in those states, as well as our use of updated payout patterns specific to our primary and excess workers compensation portfolios.
- In the fourth quarter of 2015, our Pennsylvania and Delaware regulators approved an updated discount rate that we applied to our workers' compensation loss reserves for the legal entities domiciled in those states.

The discount consists of the following: \$853 million of tabular discount for workers' compensation, \$2.3 billion of non-tabular discount for workers' compensation in the domestic operations; and \$7 million — non tabular discount for asbestos.

### Future Policy Benefits

Future policy benefits primarily include reserves for traditional life and annuity payout contracts, which represent an estimate of the present value of future benefits less the present value of future net premiums. Included in Future policy benefits are liabilities for annuities issued in structured settlement arrangements whereby a claimant has agreed to settle a general insurance claim in exchange for fixed payments over a fixed determinable period of time with a life contingency feature.

Future policy benefits also include certain guaranteed benefits of variable annuity products that are not considered embedded derivatives, primarily guaranteed minimum death benefits. See Note 13 for additional information on guaranteed minimum death benefits.

The liability for long-duration future policy benefits has been established including assumptions for interest rates which vary by year of issuance and product, and range from approximately 3 percent to 14 percent. Mortality and surrender rate assumptions are generally based on actual experience when the liability is established.

**TABLE OF CONTENTS****Item 8 / note 12. INSURANCE LIABILITIES****Policyholder Contract Deposits**

The liability for Policyholder contract deposits is primarily recorded at accumulated value (deposits received and net transfers from separate accounts, plus accrued interest credited at rates ranging from 0.2 percent to 9.0 percent at December 31, 2015, less withdrawals and assessed fees). Deposits collected on investment-oriented products are not reflected as revenues, because they are recorded directly to Policyholder contract deposits upon receipt. Amounts assessed against the contract holders for mortality, administrative, and other services are included in revenues.

In addition to liabilities for universal life, fixed annuities, fixed options within variable annuities, annuities without life contingencies, funding agreements and GICs, policyholder contract deposits also include our liability for (a) certain guaranteed benefits and indexed features accounted for as embedded derivatives at fair value, (b) annuities issued in a structured settlement arrangement with no life contingency and (c) certain contracts we have elected to account for at fair value. See Note 13 herein for additional information on guaranteed benefits accounted for as embedded derivatives.

For universal life policies with secondary guarantees, we recognize certain liabilities in addition to policyholder account balances. For universal life policies with secondary guarantees, as well as other universal life policies for which profits followed by losses are expected at contract inception, a liability is recognized based on a benefit ratio of (a) the present value of total expected payments, in excess of the account value, over the life of the contract, divided by (b) the present value of total expected assessments over the life of the contract. For universal life policies without secondary guarantees, for which profits followed by losses are first expected after contract inception, we establish a liability, in addition to policyholder account balances, so that expected future losses are recognized in proportion to the emergence of profits in the earlier (profitable) years. Universal life account balances as well as these additional liabilities related to universal life products are reported within policyholder contract deposits in the Consolidated Balance Sheet.

Under a funding agreement-backed notes issuance program, an unaffiliated, non-consolidated statutory trust issues medium-term notes to investors, which are secured by GICs issued to the trust by one of our Life Insurance Companies through our Institutional Markets operating segment.

**The following table presents Policyholder contract deposits of the U.S. Life Insurance Companies by product line:**

**At December 31,**  
*(in millions)*

Policyholder contract deposits:

	<b>2015</b>	<b>2014</b>
Fixed Annuities	\$ <b>52,397</b>	\$ 53,370
Group Retirement	<b>37,865</b>	37,693

Life	14,028	13,717
Retirement Income Solutions	13,927	10,040
Institutional Markets	9,371	9,793
Total Policyholder contract deposits	\$ 127,588	\$ 124,613
<b>Other Policyholder Funds</b>		

Other policyholder funds include unearned revenue reserves (URR). URR consist of front-end loads on investment-oriented contracts, representing those policy loads that are non-level and typically higher in initial policy years than in later policy years. URR for investment-oriented contracts are generally deferred and amortized, with interest, in relation to the incidence of estimated gross profits (EGPs) to be realized over the estimated lives of the contracts and are subject to the same adjustments due to changes in the assumptions underlying EGPs as DAC. Amortization of URR is recorded in Policy fees.

Other policyholder funds also include provisions for future dividends to participating policyholders, accrued in accordance with all applicable regulatory or contractual provisions. Participating life business represented approximately 2.2 percent of gross insurance in force at December 31, 2015 and 2.4 percent of gross domestic premiums and other considerations in 2015. The amount of annual dividends to be paid is approved locally by the boards of directors of the Life Insurance Companies.

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### **Item 8 / note 12. INSURANCE LIABILITIES**

Provisions for future dividend payments are computed by jurisdiction, reflecting local regulations. The portions of current and prior net income and of current unrealized appreciation of investments that can inure to our benefit are restricted in some cases by the insurance contracts and by the local insurance regulations of the jurisdictions in which the policies are in force.

Certain products are subject to experience adjustments. These include group life and group medical products, credit life contracts, accident and health insurance contracts/riders attached to life policies and, to a limited extent, reinsurance agreements with other direct insurers. Ultimate premiums from these contracts are estimated and recognized as revenue with the unearned portions of the premiums recorded as liabilities in Other policyholder funds. Experience adjustments vary according to the type of contract and the territory in which the policy is in force and are subject to local regulatory guidance.

### **13. VARIABLE LIFE AND ANNUITY CONTRACTS**

We report variable contracts within the separate accounts when investment income and investment gains and losses accrue directly to, and investment risk is borne by, the contract holder and the separate account meets additional accounting criteria to qualify for separate account treatment. The assets supporting the variable portion of variable annuity and variable universal life contracts that qualify for separate account treatment are carried at fair value and reported as Separate account assets, with an equivalent summary total reported as Separate account liabilities.

Policy values for variable products and investment contracts are expressed in terms of investment units. Each unit is linked to an asset portfolio. The value of a unit increases or decreases based on the value of the linked asset portfolio. The current liability at any time is the sum of the current unit value of all investment units in the separate accounts, plus any liabilities for guaranteed minimum death benefits or guaranteed minimum withdrawal benefits included in Future policy benefits or Policyholder contract deposits, respectively.

Amounts assessed against the contract holders for mortality, administrative and other services are included in revenue. Net investment income, net investment gains and losses, changes in fair value of assets, and policyholder account deposits and withdrawals related to separate accounts are excluded from the Consolidated Statements of Income, Comprehensive Income (Loss) and Cash Flows.

Variable annuity contracts may include certain contractually guaranteed benefits to the contract holder. These guaranteed features include guaranteed minimum death benefits (GMDB) that are payable in the event of death, 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 income benefits (GMIB), guaranteed minimum withdrawal benefits (GMWB) and guaranteed minimum accumulation benefits (GMAB). 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 only

receive payout from one guaranteed feature on a contract containing a death benefit and a living benefit, i.e. the features are 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 their lifetime). A policyholder cannot purchase more than one living benefit on one contract. The net amount at risk for each feature is calculated irrespective of the existence of other features; as a result, the net amount at risk for each feature is not additive to that of other features.

**Account balances of variable annuity contracts with guarantees were invested in separate account investment options as follows:**

**At December 31,**

*(in millions)*

	2015	2014
Equity funds	\$ 39,284	\$ 40,811
Bond funds	7,261	7,566
Balanced funds	24,849	22,354
Money market funds	826	797
Total	\$ 72,220	\$ 71,528

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**TABLE OF CONTENTS****Item 8 / note 13. VARIABLE LIFE AND ANNUITY CONTRACTS****GMDB and GMIB**

Depending on the contract, the GMDB feature may provide a death benefit of either (a) total deposits made to the contract less any partial withdrawals plus a minimum return (and in rare instances, no minimum return) or (b) the highest contract value attained, typically on any anniversary date minus any subsequent withdrawals following the contract anniversary. GMIB guarantees a minimum level of periodic income payments upon annuitization. GMDB is our most widely offered benefit. Our account values subject to guarantees also include GMIB to a lesser extent, which is no longer offered.

The liabilities for GMDB and GMIB, which are recorded in Future policy benefits, represent the expected value of benefits in excess of the projected account value, with the excess recognized ratably over the accumulation period based on total expected assessments, through Policyholder benefits and losses incurred. The net amount at risk for GMDB represents the amount of benefits in excess of account value if death claims were filed on all contracts on the balance sheet date.

The following table presents details concerning our GMDB exposures, by benefit type:

At December 31,	2015		2014	
	Net Deposits Plus a Minimum Return	Highest Contract Value Attained	Net Deposits Plus a Minimum Return	Highest Contract Value Attained
<i>(dollars in billions)</i>				
Account value	\$ 87	\$ 16	\$ 85	
Net amount at risk	2	1	1	
Average attained age of contract holders by product	63	69	62	
Range of guaranteed minimum return rates	0-4.5%		0%-5%	

The following summarizes GMDB and GMIB liabilities related to variable annuity contracts, excluding assumed reinsurance:

Years Ended December 31,	2015	2014	2013
<i>(in millions)</i>			
Balance, beginning of year	\$ 420	\$ 394	\$ 413
Reserve increase	127	93	32
Benefits paid	(56)	(67)	(51)
Balance, end of year	\$ 491	\$ 420	\$ 394

Assumptions used to determine the GMDB and GMIB liability 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; and asset growth assumptions, which include a reversion to the mean methodology, similar to that applied for DAC.

We regularly evaluate estimates used to determine the GMDB liability and adjust the additional liability balance, with a related charge or credit to Policyholder benefits and losses incurred, if actual experience or other evidence suggests that earlier assumptions should be revised.

### GMWB and GMAB

Certain of our variable annuity contracts contain optional GMWB benefits and, to a lesser extent, GMAB benefits, which are not currently offered. With a GMWB, the contract holder can monetize the excess of the guaranteed amount over the account value of the contract only through a series of withdrawals that do not exceed a specific percentage per year of the guaranteed amount. If, after the series of withdrawals, the account value is exhausted, the contract holder will receive a series of annuity payments equal to the remaining guaranteed amount, and, for lifetime GMWB products, the annuity payments continue as long as the covered person(s) is living. With a GMAB benefit, the contract holder can monetize the excess of the guaranteed amount over the account value of the contract, provided the contract holder persists until the maturity date.



**TABLE OF CONTENTS****Item 8 / note 13. VARIABLE LIFE AND ANNUITY CONTRACTS**

The liabilities for GMWB and GMAB, 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 net realized capital gains (losses). The fair value of these embedded derivatives was a net liability of \$1.2 billion and \$957 million at December 31, 2015 and 2014, respectively. See Note 4 for discussion of the fair value measurement of guaranteed benefits that are accounted for as embedded derivatives. We had account values subject to GMWB and GMAB that totaled \$38 billion and \$35 billion at December 31, 2015 and 2014, respectively. The net amount at risk for GMWB represents the present value of minimum guaranteed withdrawal payments, in accordance with contract terms, in excess of account value, assuming no lapses. The net amount at risk for GMAB represents the present value of minimum guaranteed account value in excess of the current account balance, assuming no lapses. In aggregate, the net amount at risk related to the GMWB and GMAB guarantees was \$640 million and \$414 million at December 31, 2015 and 2014, respectively. We use derivative instruments and other financial instruments to mitigate a portion of our exposure that arises from GMWB and GMAB benefits.

**14. DEBT**

Our long-term debt is denominated in various currencies, with both fixed and variable interest rates. Long-term debt is carried at the principal amount borrowed, including unamortized discounts, hedge accounting valuation adjustments and fair value adjustments, when applicable. The interest rates presented in the following table reflect the range of contractual rates in effect at December 31, 2015, including fixed and variable rate issuances.

**The following table lists our total debt outstanding at December 31, 2015 and 2014. The interest rates presented in the following table are the range of contractual rates in effect at December 31, 2015, including fixed and variable-rates:**

			<b>Balance at December 31, 2015</b>	<b>Balance at December 31, 2014</b>
<b>At December 31, 2015</b>				
<i>(in millions)</i>				
Debt issued or guaranteed by AIG:				
AIG general borrowings:				
Notes and bonds payable	2.30% - 8.13%	2016 - 2097	<b>\$ 17,136</b>	\$ 15,570
Subordinated debt	2.38%	2015	<b>-</b>	250
Junior subordinated debt	4.88% - 8.63%	2037 - 2058	<b>1,337</b>	2,466
AIG Japan Holdings Kabushiki Kaisha	0.44% - 1.25%	2016 - 2019	<b>106</b>	-
AIGLH notes and bonds payable	6.63% - 7.50%	2025 - 2029	<b>284</b>	284
AIGLH junior subordinated debt	7.57% - 8.50%	2030 - 2046	<b>422</b>	536
Total AIG general borrowings			<b>19,285</b>	19,106

AIG borrowings supported by assets:<sup>(a)</sup>

MIP notes payable	2.28% - 8.59%	2016 - 2018	<b>1,372</b>	2,870
Series AIGFP matched notes and bonds payable	0.16% - 7.50%	2017 - 2047	<b>34</b>	34
GIAs, at fair value	0.02% - 7.62%	2016 - 2047	<b>3,276</b>	4,648
Notes and bonds payable, at fair value	0.12% - 10.37%	2016 - 2047	<b>394</b>	818
Total AIG borrowings supported by assets			<b>5,076</b>	8,370
Total debt issued or guaranteed by AIG			<b>24,361</b>	27,476
Debt not guaranteed by AIG:				
Other subsidiaries notes, bonds, loans and				
mortgages payable	0.06%	2017	<b>2</b>	58
Debt of consolidated investments <sup>(b)</sup>	0.00% - 6.6%	2016 - 2062	<b>4,987</b>	3,683
Total debt not guaranteed by AIG			<b>4,989</b>	3,741
Total long term debt			<b>\$ 29,350</b>	\$ 31,217

(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 \$2.4 billion and \$3.5 billion at December 31, 2015 and December 31, 2014, 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) At December 31, 2015, includes debt of consolidated investment vehicles related to real estate investments of \$2.4 billion, affordable housing partnership investments and securitizations of \$2.2 million, and other securitization vehicles and investments of \$359 million, respectively. At December 31, 2014, includes debt of consolidated investment vehicles related to real estate investments of \$2.1 billion, affordable housing partnership investments and securitizations of \$853 million, and other securitization vehicles and investments of \$728 million, respectively.

**TABLE OF CONTENTS****Item 8 / note 14. DEBT**

The following table presents maturities of long-term debt (including unamortized original issue discount, hedge accounting valuation adjustments and fair value adjustments, when applicable), excluding \$5 billion in borrowings of debt of consolidated investments:

**December 31, 2015***(in millions)*

Debt issued or guaranteed by AIG:

AIG general borrowings:

	Total	2016	2017	Year Ending		2020	Thereafter
				2018	2019		
Notes and bonds payable	\$ 17,136	\$ 992	\$ 192	\$ 1,106	\$ 999	\$ 1,345	\$ 12,502
Subordinated debt	-	-	-	-	-	-	-
Junior subordinated debt	1,337	-	-	-	-	-	1,337
AIG Japan Holdings Kabushiki Kaisha	106	-	-	-	106	-	-
AIGLH notes and bonds payable	284	-	-	-	-	-	284
AIGLH junior subordinated debt	422	-	-	-	-	-	422
Total AIG general borrowings	19,285	992	192	1,106	1,105	1,345	14,545
AIG borrowings supported by assets:							
MIP notes payable	1,372	245	781	346	-	-	-
Series AIGFP matched notes and bonds payable	34	-	10	-	-	-	24
GIAs, at fair value	3,276	190	176	464	90	41	2,315
Notes and bonds payable, at fair value	394	192	10	123	-	-	69
Total AIG borrowings supported by assets	5,076	627	977	933	90	41	2,408
Total debt issued or guaranteed by AIG	24,361	1,619	1,169	2,039	1,195	1,386	16,953
Other subsidiaries notes, bonds, loans and mortgages payable	2	-	2	-	-	-	-
Total	\$ 24,363	\$ 1,619	\$ 1,171	\$ 2,039	\$ 1,195	\$ 1,386	\$ 16,953

**Uncollateralized and collateralized notes, bonds, loans and mortgages payable consisted of the following:**

**At December 31, 2015***(in millions)*

AIG general borrowings

Other subsidiaries notes, bonds, loans and mortgages payable\*

Total

	Uncollateralized Notes/Bonds/Loans Payable	Collateralized Loans and Mortgages Payable	Total
AIG general borrowings	\$ -	\$ 106	\$ 106
Other subsidiaries notes, bonds, loans and mortgages payable*	-	2	2
Total	\$ -	\$ 108	\$ 108

\* AIG does not guarantee any of these borrowings.

**Junior Subordinated Debt**

In August 2012, we entered into new replacement capital covenants (the New RCCs) for the initial benefit

of the holders of our 2.375% Subordinated Notes due 2015 (the Subordinated Notes), in connection with our 5.75% Series A-2 Junior Subordinated Debentures and our 4.875% Series A-3 Junior Subordinated Debentures. We covenanted in each New RCC that, subject to certain exceptions, we would not repay, redeem or purchase, and that none of our subsidiaries would purchase, the applicable series of junior subordinated debentures prior to the scheduled termination date of that New RCC, unless since the date 360 days prior to the date of that repayment, redemption or purchase, we have received a specified amount of net cash proceeds from the sale of common stock or certain other qualifying securities that have certain characteristics that are at least as equity-like as the applicable characteristics of the applicable series of junior subordinated debentures, or we or our subsidiaries have issued a specified amount of common stock in connection with the conversion or exchange of certain convertible or exchangeable securities. In the first quarter of 2013, our obligations under the New RCCs were effectively terminated because one of the termination provisions set forth in the New RCCs was triggered when it was determined that neither series of junior subordinated debentures received equity credit any longer for rating agency purposes.

In 2015, we repurchased approximately \$588 million aggregate principal amount of our 8.175% Series A-6 Junior Subordinated Debentures.

**TABLE OF CONTENTS****Item 8 / note 14. DEBT****AIGLH Junior Subordinated Debentures (Formerly, Liabilities Connected To Trust Preferred Stock)**

In connection with our acquisition of AIG Life Holdings, Inc. (AIGLH) in 2001, we entered into arrangements with AIGLH with respect to outstanding AIGLH capital securities. In 1996, AIGLH issued capital securities through a trust to institutional investors and funded the trust with AIGLH junior subordinated debentures issued to the trust with the same terms as the capital securities.

On July 11, 2013, the AIGLH junior subordinated debentures were distributed to holders of the capital securities, the capital securities were cancelled and the trusts were dissolved. At December 31, 2015, the junior subordinated debentures outstanding consisted of \$116 million of 8.5 percent junior subordinated debentures due July 2030, \$227 million of 8.125 percent junior subordinated debentures due March 2046 and \$79 million of 7.57 percent junior subordinated debentures due December 2045, each guaranteed by AIG Parent.

**Credit Facilities**

On November 5, 2015, we amended and restated the five-year syndicated credit facility entered into on June 19, 2014 (the Previous Facility). The amended and restated five-year syndicated facility (the Five-Year 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 (increased from a \$4.0 billion commitment in the Previous Facility) without any limits on the type of borrowings and is scheduled to expire in November 2020 (the Previous Facility was scheduled to expire in June 2019). The increased commitment of \$500 million to the Five-Year Facility offsets the effect of the expiration of our \$500 million contingent liquidity facility.

**At December 31, 2015***(in millions)*

	Size	Available Amount	Expiration	Effective Date
Five-Year Syndicated Credit Facility	\$ 4,500	\$ 4,500	November 2020	11/5/2015

**15. CONTINGENCIES, COMMITMENTS AND GUARANTEES**

In the normal course of business, various contingent liabilities and commitments are entered into by AIG and our subsidiaries. In addition, AIG Parent guarantees various obligations of certain subsidiaries.

Although AIG cannot currently quantify its ultimate liability for unresolved litigation and investigation matters, including those referred to below, it is possible that such liability could have a material adverse effect on AIG's consolidated financial condition or its consolidated results of operations or consolidated cash

flows for an individual reporting period.

## Legal Contingencies

**Overview.** In the normal course of business, AIG and our subsidiaries are, like others in the insurance and financial services industries in general, subject to litigation, including claims for punitive damages. In our insurance and mortgage guaranty operations, litigation arising from claims settlement activities is generally considered in the establishment of our liability for unpaid losses and loss adjustment expenses. However, the potential for increasing jury awards and settlements makes it difficult to assess the ultimate outcome of such litigation. AIG is also subject to derivative, class action and other claims asserted by its shareholders and others alleging, among other things, breach of fiduciary duties by its directors and officers and violations of insurance laws and regulations, as well as federal and state securities laws. In the case of any derivative action brought on behalf of AIG, any recovery would accrue to the benefit of AIG.

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### **Item 8 / note 15. CONTINGENCIES, COMMITMENTS AND GUARANTEES**

Various regulatory and governmental agencies have been reviewing certain transactions and practices of AIG and our subsidiaries in connection with industry-wide and other inquiries into, among other matters, certain business practices of current and former operating insurance subsidiaries. We have cooperated, and will continue to cooperate, in producing documents and other information in response to subpoenas and other requests.

#### **AIG's Subprime Exposure, AIGFP Credit Default Swap Portfolio and Related Matters**

AIG, AIG Financial Products Corp. and related subsidiaries (collectively AIGFP), and certain directors and officers of AIG, AIGFP and other AIG subsidiaries have been named in various actions relating to our exposure to the U.S. residential subprime mortgage market, unrealized market valuation losses on AIGFP's super senior credit default swap portfolio, losses and liquidity constraints relating to our securities lending program and related disclosure and other matters (Subprime Exposure Issues).

**Consolidated 2008 Securities Litigation.** On May 19, 2009, a consolidated class action complaint, resulting from the consolidation of eight purported securities class actions filed between May 2008 and January 2009, was filed against AIG and certain directors and officers of AIG and AIGFP, AIG's outside auditors, and the underwriters of various securities offerings in the United States District Court for the Southern District of New York (the Southern District of New York) in *In re American International Group, Inc. 2008 Securities Litigation* (the Consolidated 2008 Securities Litigation), asserting claims under the Securities Exchange Act of 1934, as amended (the Exchange Act), and claims under the Securities Act of 1933, as amended (the Securities Act), for allegedly materially false and misleading statements in AIG's public disclosures from March 16, 2006 to September 16, 2008 relating to, among other things, the Subprime Exposure Issues.

On July 15, 2014 and August 1, 2014, lead plaintiff, AIG and AIG's outside auditor accepted mediators' proposals to settle the Consolidated 2008 Securities Litigation against all defendants. On October 22, 2014, AIG made a cash payment of \$960 million, which is being held in escrow until all funds are distributed. On March 20, 2015, the Court issued an Order and Final Judgment approving the class settlement and dismissing the action with prejudice, and the AIG settlement became final on June 29, 2015.

**Individual Securities Litigations.** Between November 18, 2011 and February 9, 2015, eleven separate, though similar, securities actions (Individual Securities Litigations) were filed asserting claims substantially similar to those in the Consolidated 2008 Securities Litigation against AIG and certain directors and officers of AIG and AIGFP (one such action also names as a defendant AIG's outside auditor and two such actions also name as defendants the underwriters of various securities offerings). Two of the actions were voluntarily dismissed. On September 10, 2015, the Southern District of New York granted AIG's motion to dismiss some of the claims in the Individual Securities Litigations in whole or in part. AIG has settled seven of the nine remaining actions.

On March 27, 2015, an additional securities action was filed in state court in Orange County, California asserting a claim against AIG pursuant to Section 11 of the Securities Act (the California Action) that is substantially similar to those in the Consolidated 2008 Securities Litigation and the two remaining Individual Securities Litigations pending in the Southern District of New York. On July 10, 2015, AIG filed a motion to stay the California Action. On September 18, 2015, the court denied AIG's motion to stay the California Action. On October 23, 2015, AIG filed an appeal of the court's denial. On January 28, 2016, the California appellate court summarily denied AIG's appeal. On February 8, 2016, AIG filed a petition for review in the California Supreme Court.

On April 29, 2015, AIG filed a complaint for declaratory relief in the Southern District of New York seeking a declaration that the Section 11 claims filed in the California Action are time-barred (the SDNY Action). On July 10, 2015, AIG filed a motion for summary judgment and the plaintiff in the California Action cross moved to dismiss the SDNY Action.

We have accrued our current estimate of probable loss with respect to these litigations.

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### **Item 8 / note 15. CONTINGENCIES, COMMITMENTS AND GUARANTEES**

#### **Starr International Litigation**

On November 21, 2011, Starr International Company, Inc. (SICO) filed a complaint against the United States in the United States Court of Federal Claims (the Court of Federal Claims), bringing claims, both individually and on behalf of the classes defined below and derivatively on behalf of AIG (the SICO Treasury Action). The complaint challenges the government's assistance of AIG, pursuant to which AIG entered into a credit facility with the Federal Reserve Bank of New York (the FRBNY, and such credit facility, the FRBNY Credit Facility) and the United States received an approximately 80 percent ownership in AIG. The complaint alleges that the interest rate imposed on AIG and the appropriation of approximately 80 percent of AIG's equity was discriminatory, unprecedented, and inconsistent with liquidity assistance offered by the government to other comparable firms at the time and violated the Equal Protection, Due Process, and Takings Clauses of the U.S. Constitution.

In the SICO Treasury Action, the only claims naming AIG as a party (as a nominal defendant) are derivative claims on behalf of AIG. On September 21, 2012, SICO made a pre litigation demand on our Board demanding that we pursue the derivative claims or allow SICO to pursue the claims on our behalf. On January 9, 2013, our Board unanimously refused SICO's demand in its entirety and on January 23, 2013, counsel for the Board sent a letter to counsel for SICO describing the process by which our Board considered and refused SICO's demand and stating the reasons for our Board's determination.

On March 11, 2013, SICO filed a second amended complaint in the SICO Treasury Action alleging that its demand was wrongfully refused. On June 26, 2013, the Court of Federal Claims granted AIG's and the United States' motions to dismiss SICO's derivative claims in the SICO Treasury Action due to our Board's refusal of SICO's demand and denied the United States' motion to dismiss SICO's direct, non-derivative claims.

On March 11, 2013, the Court of Federal Claims in the SICO Treasury Action granted SICO's motion for class certification of two classes with respect to SICO's non derivative claims: (1) persons and entities who held shares of AIG Common Stock on or before September 16, 2008 and who owned those shares on September 22, 2008 (the Credit Agreement Shareholder Class); and (2) persons and entities who owned shares of AIG Common Stock on June 30, 2009 and were eligible to vote those shares at AIG's June 30, 2009 annual meeting of shareholders (the Reverse Stock Split Shareholder Class). SICO has provided notice of class certification to potential members of the classes, who, pursuant to a court order issued on April 25, 2013, had to return opt in consent forms by September 16, 2013 to participate in either class. 286,908 holders of AIG Common Stock during the two class periods have opted into the classes.

On June 15, 2015, the Court of Federal Claims issued its opinion and order in the SICO Treasury Action. The Court found that the United States exceeded its statutory authority by exacting approximately 80 percent of AIG's equity in exchange for the FRBNY Credit Facility, but that AIG shareholders suffered no damages as a result. SICO argued during trial that the two classes are entitled to a total of approximately

\$40 billion in damages, plus interest. The Court also found that the United States was not liable to the Reverse Stock Split Class in connection with the reverse stock split vote at the June 30, 2009 annual meeting of shareholders.

On June 17, 2015, the Court of Federal Claims entered judgment stating that “the Credit Agreement Shareholder Class shall prevail on liability due to the Government’s illegal exaction, but shall recover zero damages, and that the Reverse Stock Split Shareholder Class shall not prevail on liability or damages.” SICO filed a notice of appeal of the July 2, 2012 dismissal of SICO’s unconstitutional conditions claim, the June 26, 2013 dismissal of SICO’s derivative claims, the Court’s June 15, 2015 opinion and order, and the Court’s June 17, 2015 judgment to the United States Court of Appeals for the Federal Circuit. The United States filed a notice of cross appeal of the Court’s July 2, 2012 opinion and order denying in part its motion to dismiss, the Court’s June 26, 2013 opinion and order denying its motion to dismiss SICO’s direct claims, the Court’s June 15, 2015 opinion and order, and the Court’s June 17, 2015 judgment to the United States Court of Appeals for the Federal Circuit.

On August 25, 2015, SICO filed its appellate brief, in which it stated SICO does not appeal the dismissal of the derivative claims it asserted on behalf of AIG. On December 7, 2015, the United States filed its principal and response brief.

In the Court of Federal Claims, the United States has alleged, as an affirmative defense in its answer, that AIG is obligated to indemnify the FRBNY and its representatives, including the Federal Reserve Board of Governors and the United States (as the FRBNY’s principal), for any recovery in the SICO Treasury Action.

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AIG believes that any indemnification obligation would arise only if: (a) SICO prevails on its appeal and ultimately receives an award of damages; (b) the United States then commences an action against AIG seeking indemnification; and (c) the United States is successful in such an action through any appellate process. If SICO prevails on its claims and the United States seeks indemnification from AIG, AIG intends to assert defenses thereto. A reversal of the Court of Federal Claim's June 17, 2015 decision and judgment and a final determination that the United States is liable for damages, together with a final 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.

**False Claims Act Complaint**

On February 25, 2010, a complaint was filed in the United States District Court for the Southern District of California by two individuals (Relators) seeking to assert claims on behalf of the United States against AIG and certain other defendants, including Goldman Sachs and Deutsche Bank, under the False Claims Act. Relators filed a first amended complaint on September 30, 2010, adding certain additional defendants, including Bank of America and Société Générale. The first amended complaint alleged that defendants engaged in fraudulent business practices in respect of their activities in the over-the-counter market for collateralized debt obligations, and submitted false claims to the United States in connection with the FRBNY Credit Facility and Maiden Lane II LLC and Maiden Lane III LLC entities (the Maiden Lane Interests) through, among other things, misrepresenting AIG's ability and intent to repay amounts drawn on the FRBNY Credit Facility, and misrepresenting the value of the securities that the Maiden Lane Interests acquired from AIG and certain of its counterparties. The first amended complaint sought unspecified damages pursuant to the False Claims Act in the amount of three times the damages allegedly sustained by the United States as well as interest, attorneys' fees, costs and expenses. The complaint and the first amended complaint were initially filed and maintained under seal while the United States considered whether to intervene in the action. On or about April 28, 2011, after the United States declined to intervene, the District Court lifted the seal, and Relators served the first amended complaint on AIG on July 11, 2011. On April 19, 2013, the Court granted AIG's motion to dismiss, dismissing the first amended complaint in its entirety, without prejudice, giving the Relators the opportunity to file a second amended complaint. On May 24, 2013, the Relators filed a second amended complaint, which attempted to plead the same claims as the prior complaints and did not specify an amount of alleged damages. AIG and its co-defendants filed motions to dismiss the second amended complaint on August 9, 2013. On March 29, 2014, the Court dismissed the second amended complaint with prejudice. On April 30, 2014, the Relators filed a Notice of Appeal to the Ninth Circuit. We are unable to reasonably estimate the possible loss or range of losses, if any, arising from this litigation.

**Litigation Matters Relating to AIG's Insurance Operations**

**Caremark.** AIG and certain of its subsidiaries have been named defendants in two putative class actions in

state court in Alabama that arise out of the 1999 settlement of class and derivative litigation involving Caremark Rx, Inc. (Caremark). The plaintiffs in the second filed action intervened in the first filed action, and the second filed action was dismissed. An excess policy issued by a subsidiary of AIG with respect to the 1999 litigation was expressly stated to be without limit of liability. In the current actions, plaintiffs allege that the judge approving the 1999 settlement was misled as to the extent of available insurance coverage and would not have approved the settlement had he known of the existence and/or unlimited nature of the excess policy. They further allege that AIG, its subsidiaries, and Caremark are liable for fraud and suppression for misrepresenting and/or concealing the nature and extent of coverage.

The complaints filed by the plaintiffs and the intervenors request compensatory damages for the 1999 class in the amount of \$3.2 billion, plus punitive damages. Plaintiffs have now reduced the amount of compensatory damages they are seeking at trial to \$1.1 billion. AIG and its subsidiaries deny the allegations of fraud and suppression, assert that information concerning the excess policy was publicly disclosed months prior to the approval of the settlement, that the claims are barred by the statute of limitations, and that the statute cannot be tolled in light of the public disclosure of the excess coverage. The plaintiffs and intervenors, in turn, have asserted that the disclosure was insufficient to inform them of the nature of the coverage and did not start the running of the statute of limitations.

On August 15, 2012, the trial court entered an order granting plaintiffs' motion for class certification, and on September 12, 2014, the Alabama Supreme Court affirmed that order. AIG and the other defendants' petition for rehearing of that decision

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was denied on February 27, 2015. The matter has been remanded to the trial court for general discovery and adjudication of the merits. On November 24, 2015, the trial court ruled that the defendants had a duty to disclose the amount of insurance available at the settlement approval hearings and that the defendants breached that duty. AIG intends to appeal this ruling in the event of an adverse judgment at trial. Trial is expected to commence on February 22, 2016. In 2015, we accrued our current estimate of loss with respect to this litigation.

### **Regulatory and Related Matters**

In April 2007, the National Association of Insurance Commissioners (NAIC) formed a Settlement Review Working Group, directed by the State of Indiana, to review the Workers' Compensation Residual Market Assessment portion of the settlement between AIG, the Office of the New York Attorney General, and the New York State Department of Insurance. In late 2007, the Settlement Review Working Group, under the direction of Indiana, Minnesota and Rhode Island, recommended that a multi-state targeted market conduct examination focusing on workers' compensation insurance be commenced under the direction of the NAIC's Market Analysis Working Group. AIG was informed of the multi-state targeted market conduct examination in January 2008. The lead states in the multi-state examination were Delaware, Florida, Indiana, Massachusetts, Minnesota, New York, Pennsylvania and Rhode Island. All other states (and the District of Columbia) agreed to participate in the multi-state examination. The examination focused on legacy issues related to certain AIG entities' writing and reporting of workers compensation insurance between 1985 and 1996.

On December 17, 2010, AIG and the lead states reached an agreement to settle all regulatory liabilities arising out of the subjects of the multistate examination. This regulatory settlement agreement, which was agreed to by all 50 states and the District of Columbia, included, among other terms, (i) AIG's payment of \$100 million in regulatory fines and penalties; (ii) AIG's payment of \$46.5 million in outstanding premium taxes and assessments; (iii) AIG's agreement to enter into a compliance plan describing agreed-upon specific steps and standards for evaluating AIG's ongoing compliance with state regulations governing the setting of workers' compensation insurance premium rates and the reporting of workers' compensation premiums; and (iv) AIG's agreement to pay up to \$150 million in contingent fines in the event that AIG fails to comply substantially with the compliance plan requirements. In furtherance of the compliance plan, the agreement provided for a monitoring period from May 29, 2012 to May 29, 2014 leading up to a compliance plan examination. After the close of the monitoring period, as part of preparation for the actual conduct of the compliance plan examination, on or about October 1, 2014, AIG and the lead states agreed upon corrective action plans to address particular issues identified during the monitoring period. The compliance plan examination is ongoing. There can be no assurance that the result of the compliance plan examination will not result in a fine, have a material adverse effect on AIG's ongoing operations or lead to civil litigation.

In connection with a multi state examination of certain accident and health products, including travel products, issued by National Union Fire Insurance Company of Pittsburgh, Pa. (National Union), AIG Property Casualty Inc. (formerly Chartis Inc.), on behalf of itself, National Union, and certain of AIG

Property Casualty Inc.'s insurance and non insurance companies (collectively, the AIG PC parties) entered into a Regulatory Settlement Agreement with regulators from 50 U.S. jurisdictions effective November 29, 2012. Under the agreement, and without admitting any liability for the issues raised in the examination, the AIG PC parties (i) paid a civil penalty of \$50 million, (ii) entered into a corrective action plan describing agreed upon specific steps and standards for evaluating the AIG PC parties' ongoing compliance with laws and regulations governing the issues identified in the examination, and (iii) agreed to pay a contingent fine in the event that the AIG PC parties fail to satisfy certain terms of the corrective action plan. National Union and other AIG companies are also currently subject to civil litigation relating to the conduct of their accident and health business, and may be subject to additional litigation relating to the conduct of such business from time to time in the ordinary course. There can be no assurance that any regulatory action resulting from the issues identified will not have a material adverse effect on our ongoing operations of the business subject to the agreement, or on similar business written by other AIG carriers.

### Legal Reserves

We recorded increases in our legal reserve liability of \$25 million and \$507 million in the years ended December 31, 2015 and 2014, respectively.

**TABLE OF CONTENTS****Item 8 / note 15. CONTINGENCIES, COMMITMENTS AND GUARANTEES****Commitments**

We occupy leased space in many locations under various long-term leases and have entered into various leases covering the long-term use of data processing equipment.

The following table presents the future minimum lease payments under operating leases at December 31, 2015:

*(in millions)*

2016	\$	304
2017		234
2018		168
2019		126
2020		93
Remaining years after 2020		210
Total	\$	1,135

Rent expense was \$327 million, \$471 million and \$414 million for the years ended December 31, 2015, 2014 and 2013, respectively.

**Other Commitments**

In the normal course of business, we enter into commitments to invest in limited partnerships, private equity funds and hedge funds and to purchase and develop real estate in the U.S. and abroad. These commitments totaled \$2.6 billion at December 31, 2015.

**Guarantees****Subsidiaries**

We have issued unconditional guarantees with respect to the prompt payment, when due, of all present and future payment obligations and liabilities of AIGFP and of AIG Markets arising from transactions entered into by AIG Markets.

In connection with AIGFP's business activities, AIGFP has issued, in a limited number of transactions, standby letters of credit or similar facilities to equity investors of structured leasing transactions in an

amount equal to the termination value owing to the equity investor by the lessee in the event of a lessee default (the equity termination value). The total amount outstanding at December 31, 2015 was \$208 million. In those transactions, AIGFP has agreed to pay such amount if the lessee fails to pay. The amount payable by AIGFP is, in certain cases, partially offset by amounts payable under other instruments typically equal to the present value of scheduled payments to be made by AIGFP. In the event that AIGFP is required to make a payment to the equity investor, the lessee is unconditionally obligated to reimburse AIGFP. To the extent that the equity investor is paid the equity termination value from the standby letter of credit and/or other sources, including payments by the lessee, AIGFP takes an assignment of the equity investor's rights under the lease of the underlying property. Because the obligations of the lessee under the lease transactions are generally economically defeased, lessee bankruptcy is the most likely circumstance in which AIGFP would be required to pay without reimbursement.



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We are subject to financial guarantees and indemnity arrangements in connection with the completed sales of businesses pursuant to our asset disposition plan. The various arrangements may be triggered by, among other things, declines in asset values, the occurrence of specified business contingencies, the realization of contingent liabilities, developments in litigation or breaches of representations, warranties or covenants provided by us. These arrangements are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential obligation is subject to contractual limitations, while in other cases such limitations are not specified or are not applicable.

We are unable to develop a reasonable estimate of the maximum potential payout under certain of these arrangements. Overall, we believe that it is unlikely we will have to make any material payments related to completed sales under these arrangements, and no material liabilities related to these arrangements have been recorded in the Consolidated Balance Sheets.

**Other**

- See Note 9 to the Consolidated Financial Statements for additional discussion on commitments and guarantees associated with VIEs.
- See Note 10 to the Consolidated Financial Statements for additional disclosures about derivatives.
- See Note 24 to the Consolidated Financial Statements for additional disclosures about guarantees of outstanding debt.

**16. Equity****Shares Outstanding**

The following table presents a rollforward of outstanding shares:

Common Stock Issued	Treasury Stock	Common Stock Outstanding
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**Year Ended December 31, 2013**

Shares, beginning of year	1,906,611,680	(430,289,745)	1,476,321,935
Shares issued	34,009	24,778	58,787
Shares repurchased	-	(12,317,399)	(12,317,399)
Shares, end of year	1,906,645,689	(442,582,366)	1,464,063,323

**Year Ended December 31, 2014**

Shares, beginning of year	1,906,645,689	(442,582,366)	1,464,063,323
Shares issued	25,803	15,748	41,551
Shares repurchased	-	(88,177,903)	(88,177,903)
Shares, end of year	1,906,671,492	(530,744,521)	1,375,926,971

**Year Ended December 31, 2015**

Shares, beginning of year	<b>1,906,671,492</b>	<b>(530,744,521)</b>	<b>1,375,926,971</b>
Shares issued	-	<b>371,806</b>	<b>371,806</b>
Shares repurchased	-	<b>(182,382,160)</b>	<b>(182,382,160)</b>
Shares, end of year	<b>1,906,671,492</b>	<b>(712,754,875)</b>	<b>1,193,916,617</b>

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### **Item 8 / note 16. EQUITY**

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#### **Dividends**

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Payment of future dividends to our shareholders and repurchases of AIG Common Stock depends in part on the regulatory framework that we are currently subject to and that will ultimately be applicable to us, including as a nonbank systemically important financial institution under the Dodd Frank Wall Street Reform and Consumer Protection Act (Dodd Frank) and a global systemically important insurer. In addition, dividends are payable on AIG Common Stock only when, as and if declared by our Board of Directors in its discretion, from funds legally available for this purpose. In considering whether to pay a dividend or purchase shares of AIG Common Stock, our Board of Directors considers a number of factors, including, but not limited to: the capital resources available to support our insurance operations and business strategies, AIG's funding capacity and capital resources in comparison to internal benchmarks, expectations for capital generation, rating agency expectations for capital, regulatory standards for capital and capital distributions, and such other factors as our Board of Directors may deem relevant.

On March 26, 2015, AIG paid a dividend of \$0.125 per share on AIG Common Stock to shareholders of record on March 12, 2015. On June 25, 2015, AIG paid a dividend of \$0.125 per share on AIG Common Stock to shareholders of record on June 11, 2015. On September 28, 2015, AIG paid a dividend of \$0.28 per share on AIG Common Stock to shareholders of record on September 14, 2015. On December 21, 2015, AIG paid a dividend of \$0.28 per share on AIG Common Stock to shareholders of record on December 7, 2015.

#### **Repurchase of AIG Common Stock**

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Our Board of Directors has authorized the repurchase of shares of AIG Common Stock through a series of actions. On December 16, 2015, our Board of Directors authorized an additional increase of \$3.0 billion to its previous share repurchase authorization, resulting in an aggregate remaining authorization on such date of approximately \$4.1 billion. As of December 31, 2015, approximately \$3.3 billion remained under our share repurchase authorization. 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.

For the year ended December 31, 2013, we repurchased approximately 12 million shares of AIG Common Stock for an aggregate purchase price of approximately \$597 million.

For the year ended December 31, 2014, we repurchased approximately 88 million shares of AIG Common Stock for an aggregate purchase price of approximately \$4.9 billion.

In the second, third and fourth quarters of 2014, we executed five accelerated stock repurchase (ASR)

agreements with third-party financial institutions. The total number of shares of AIG Common Stock repurchased in the twelve-month period ended December 31, 2014, and the aggregate purchase price of those shares, each as set forth above, reflect our payment of approximately \$3.1 billion in the aggregate under the ASR agreements and the receipt of approximately 53 million shares of AIG Common Stock in the aggregate, including the initial receipt of 70 percent of the total notional share equivalent, or approximately 9.2 million shares of AIG Common Stock, under an ASR agreement executed in December 2014. That ASR agreement settled in January 2015, at which time we received approximately 3.5 million additional shares of AIG Common Stock based on a formula specified by the terms of the ASR agreement.

For the year ended December 31, 2015, we repurchased approximately 182 million shares of AIG Common Stock for an aggregate purchase price of approximately \$10.7 billion.

The total number of shares of AIG Common Stock repurchased for the year ended December 31, 2015 includes (but the aggregate purchase price does not include) approximately 3.5 million shares of AIG Common Stock received in January 2015 upon the settlement of an accelerated share repurchase agreement executed in the fourth quarter of 2014.

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The timing of any future repurchases will depend on market conditions, our financial condition, results of operations, liquidity and other factors.

**Accumulated Other Comprehensive Income**

The following table presents a rollforward of Accumulated other comprehensive income:

	Unrealized Appreciation (Depreciation) of Fixed Maturity Investments on Which Other-Than- Temporary Credit Impairments Were Taken	Unrealized Appreciation (Depreciation) of All Other Investments	Foreign Currency Translation Adjustments	Retirement Plan Liabilities Adjustment	Total
<i>(in millions)</i>					
Balance, January 1, 2013, net of tax	\$ 575	\$ 13,446	\$ (403)	\$ (1,044)	\$ 12,574
Change in unrealized appreciation (depreciation) of investments	464	(14,069)	-	-	(13,605)
Change in deferred policy acquisition costs adjustment and other	(127)	1,000	-	-	873
Change in future policy benefits	79	2,658	-	-	2,737
Change in foreign currency translation adjustments	-	-	(454)	-	(454)
Net actuarial gain	-	-	-	1,012	1,012
Prior service credit	-	-	-	(51)	(51)
Change in deferred tax asset (liability)	(55)	3,738	(102)	(330)	3,251
Total other comprehensive income (loss)	361	(6,673)	(556)	631	(6,237)
Noncontrolling interests	-	(16)	(7)	-	(23)
<b>Balance, December 31, 2013, net of tax</b>	<b>\$ 936</b>	<b>\$ 6,789</b>	<b>\$ (952)</b>	<b>\$ (413)</b>	<b>\$ 6,360</b>
Change in unrealized appreciation of investments	156	7,564	-	-	7,720
Change in deferred policy acquisition costs adjustment and other	68	(495)	-	-	(427)

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Change in future policy benefits	(133)	(1,113)	-	-	(1,246)
Change in foreign currency translation adjustments	-	-	(833)	-	(833)
Net actuarial loss	-	-	-	(815)	(815)
Prior service credit	-	-	-	(49)	(49)
Change in deferred tax asset (liability)	16	(418)	1	308	(93)
Total other comprehensive income (loss)	107	5,538	(832)	(556)	4,257
Noncontrolling interests	-	-	-	-	-
<b>Balance, December 31, 2014, net of tax</b>	<b>\$ 1,043\$</b>	<b>12,327\$</b>	<b>(1,784)\$</b>	<b>(969)\$</b>	<b>10,617</b>
Change in unrealized depreciation of investments	(488)	(10,519)	-	-	(11,007)
Change in deferred policy acquisition costs adjustment and other	(146)	1,265	-	-	1,119
Change in future policy benefits	92	1,112	-	-	1,204
Change in foreign currency translation adjustments	-	-	(1,129)	-	(1,129)
Net actuarial gain	-	-	-	413	413
Prior service credit	-	-	-	(239)	(239)
Change in deferred tax asset (liability)	195	1,380	29	(51)	1,553
Total other comprehensive income (loss)	(347)	(6,762)	(1,100)	123	(8,086)
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Noncontrolling interests	-	(1)	(5)	-	(6)
<b>Balance, December 31, 2015, net of tax</b>	<b>\$ 696</b>	<b>\$ 5,566</b>	<b>\$ (2,879)</b>	<b>\$ (846)</b>	<b>\$ 2,537</b>

**The following table presents the other comprehensive income (loss) reclassification adjustments for the years ended December 31, 2015, 2014 and 2013:**

	Unrealized Appreciation (Depreciation) of Fixed Maturity Securities on Which Other-Than- Temporary Credit Impairments Were Recognized	Unrealized Appreciation (Depreciation) of All Other Investments	Foreign Currency Translation Adjustments	Retirement Plan Liabilities Adjustment
<i>(in millions)</i>				
<b>December 31, 2013</b>				
Unrealized change arising during period	\$ 507	\$ (9,556)	\$ (454)	\$ (851)
Less: Reclassification adjustments included in net income	91	855	-	(110)
Total other comprehensive income (loss), before income tax expense (benefit)	416	(10,411)	(454)	961
Less: Income tax expense (benefit)	55	(3,738)	102	330
Total other comprehensive income (loss), net of income tax expense (benefit)	\$ 361	\$ (6,673)	\$ (556)	\$ (631)
<b>December 31, 2014</b>				
Unrealized change arising during period	\$ 119	\$ 6,488	\$ (833)	\$ (866)
Less: Reclassification adjustments included in net income	28	532	-	(2)
Total other comprehensive income (loss), before income tax expense (benefit)	91	5,956	(833)	(864)
Less: Income tax expense (benefit)	(16)	418	(1)	(308)
Total other comprehensive income (loss), net of income tax expense (benefit)	\$ 107	\$ 5,538	\$ (832)	\$ (556)
<b>December 31, 2015</b>				
Unrealized change arising during period	\$ (471)	\$ (7,068)	\$ (1,129)	\$ 285
Less: Reclassification adjustments included in net income	71	1,074	-	111
Total other comprehensive income (loss), before income tax expense (benefit)	(542)	(8,142)	(1,129)	174
Less: Income tax expense (benefit)	(195)	(1,380)	(29)	51
Total other comprehensive income (loss),				

net of income tax expense (benefit)      \$                      (347)\$              (6,762)\$              (1,100)\$              123\$(8)

**The following table presents the effect of the reclassification of significant items out of Accumulated other comprehensive income on the respective line items in the Consolidated Statements of Income:**

Years Ended December 31, (in millions)	Amount Reclassified from Accumulated Other Comprehensive Income			Affected Line Item in the Consolidated Statements of Income
	2015	2014	2013	
<b>Unrealized appreciation (depreciation) of fixed maturity securities on which other-than-temporary credit impairments were recognized</b>				
Investments	\$ 71	\$ 28	\$ 91	Other realized capital gains
		313		



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Total	71	28	91	
<b>Unrealized appreciation (depreciation) of all other investments</b>				
Investments	1,054	669	2,452	Other realized capital gains
Deferred acquisition costs adjustment	3	(20)	(28)	Amortization of deferred policy acquisition costs
Future policy benefits	17	(117)	(1,569)	Policyholder benefits and losses incurred
Total	1,074	532	855	
<b>Change in retirement plan liabilities adjustment</b>				
Prior-service costs	214	47	47	*
Actuarial gains/(losses)	(103)	(49)	(157)	*
Total	111	(2)	(110)	
Total reclassifications for the period	\$1,256	\$ 558	\$ 836	

\* These Accumulated other comprehensive income components are included in the computation of net periodic pension cost. See Note 20 to the Consolidated Financial Statements.

**17. EARNINGS PER SHARE (EPS)**

The basic EPS computation is based on the weighted average number of common shares outstanding, adjusted to reflect all stock dividends and stock splits. The diluted EPS computation is based on those shares used in the basic EPS computation plus shares that would have been outstanding assuming issuance of common shares for all dilutive potential common shares outstanding and adjusted to reflect all stock dividends and stock splits.

The following table presents the computation of basic and diluted EPS:

**Years Ended December 31,**

(dollars in millions, except per share data)

**Numerator for EPS:**

	2015	2014	2013
Income from continuing operations	\$ 2,222	\$ 7,574	\$ 9,008
Less: Net income (loss) from continuing operations attributable to noncontrolling interests	26	(5)	7
Income attributable to AIG common shareholders from continuing operations	2,196	7,579	9,001
Income (loss) from discontinued operations	-	(50)	84
Net income attributable to AIG common shareholders	\$ 2,196	\$ 7,529	\$ 9,085

**Denominator for EPS:**

Weighted average shares outstanding — basic	<b>1,299,825,350</b>	1,427,959,799	1,474,171,690
Dilutive shares	<b>34,639,533</b>	19,593,853	7,035,107
Weighted average shares outstanding — diluted*	<b>1,334,464,883</b>	1,447,553,652	1,481,206,797
<b>Income per common share attributable to AIG:</b>			
Basic:			
Income from continuing operations	\$ <b>1.69</b>	\$ 5.31	\$ 6.11
Income from discontinued operations	\$ -	\$ (0.04)	\$ 0.05
Net Income attributable to AIG	\$ <b>1.69</b>	\$ 5.27	\$ 6.16
Diluted:			
Income from continuing operations	\$ <b>1.65</b>	\$ 5.24	\$ 6.08
Income from discontinued operations	\$ -	\$ (0.04)	\$ 0.05
Net Income attributable to AIG	\$ <b>1.65</b>	\$ 5.20	\$ 6.13

\* Dilutive shares primarily result from share-based employee compensation plans and a weighted average portion of the warrants issued to AIG shareholders as part of the recapitalization in January 2011. The number of shares excluded from diluted shares outstanding were 0.2 million, 0.3 million and 38 million for the years ended December 31, 2015, 2014 and 2013, respectively, because the effect of including those shares in the calculation would have been anti-dilutive.

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The following table presents statutory net income (loss) and capital and surplus for our Non-Life Insurance Companies and our Life Insurance Companies in accordance with statutory accounting practices:

<i>(in millions)</i>	2015	2014	2013
<b>Years Ended December 31,</b>			
Statutory net income (loss) <sup>(a)(b)(c)(d)(e)</sup> :			
Non-Life Insurance Companies:			
Domestic <sup>(d)(e)</sup>	\$ 1,202	\$ 3,265	\$ 11,440
Foreign	521	1,252	842
Total Non-Life Insurance Companies	1,723	4,517	12,282
Life Insurance Companies:			
Domestic	2,672	2,865	5,047
Foreign	(16)	(9)	(9)
Total Life Insurance Companies	2,656	2,856	5,038
<b>At December 31,</b>			
Statutory capital and surplus <sup>(a)(c)(d)(e)</sup> :			
Non-Life Insurance Companies:			
Domestic <sup>(d)(e)</sup>	\$ 24,358	\$ 27,621	
Foreign	11,465	12,183	
Total Non-Life Insurance Companies	35,823	39,804	
Life Insurance Companies:			
Domestic	8,287	9,879	
Foreign	422	437	
Total Life Insurance Companies	8,709	10,316	
<b>Aggregate minimum required statutory capital and surplus:</b>			
Non-Life Insurance Companies <sup>(f)</sup> :			
Domestic <sup>(f)</sup>	\$ 6,493	\$ 7,540	
Foreign	7,554	8,210	
Total Non-Life Insurance Companies	14,047	15,750	
Life Insurance Companies:			
Domestic	3,658	3,674	
Foreign	45	46	
Total Life Insurance Companies	3,703	3,720	

(a) Excludes discontinued operations and other divested businesses. Statutory capital and surplus and net income (loss) with respect to foreign operations are as of November 30.

(b) Non-Life Insurance Companies did not recognize material statutory gains related to legal entity

simplification (restructuring) in 2015. Non-Life Insurance Companies include \$0 and approximately \$8.0 billion of recognized statutory gains related to legal entity simplification (restructuring) in 2014 and 2013, respectively. These recognized gains were largely offset by reductions in unrealized gains; therefore, there was no material impact to total surplus.

(c) In aggregate, the 2014 Non-Life Insurance Companies and Life Insurance Companies statutory net income (loss) and statutory capital and surplus amounts increased by \$115 million and \$303 million, respectively, compared to the amounts previously reported in our Annual Report on Form 10-K for the year ended December 31, 2014, due to finalization of statutory filings.

(d) Non-Life Insurance Companies recognized \$2.75 billion of capital contributions from AIG Parent in their statutory financial statements as of December 31, 2015, related to the reserve strengthening in the fourth quarter of 2015. These capital contributions were received in January 2016.

(e) For the year ended December 31, 2015, excluded Eaglestone Reinsurance Company (Eaglestone), a reinsurer of run-off lines of business from affiliates within Non-Life Insurance Companies, which was transferred from the Non-Life Insurance Companies to Corporate and Other. The statutory net income and statutory capital and surplus of Eaglestone at December 31, 2015 were \$22.8 million and \$1.9 billion, respectively. The statutory surplus included \$150 million of capital contribution received from AIG Parent in January 2016.

(f) For the year ended December 31, 2015, excluded \$274 million for Eaglestone.

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### **Item 8 / note 18. STATUTORY FINANCIAL DATA AND RESTRICTIONS**

Our insurance subsidiaries file financial statements prepared in accordance with statutory accounting practices prescribed or permitted by domestic and foreign insurance regulatory authorities. The principal differences between statutory financial statements and financial statements prepared in accordance with U.S. GAAP for domestic companies are that statutory financial statements do not reflect DAC, some bond portfolios may be carried at amortized cost, investment impairments are determined in accordance with statutory accounting practices, assets and liabilities are presented net of reinsurance, policyholder liabilities are generally valued using more conservative assumptions and certain assets are non-admitted.

For domestic insurance subsidiaries, aggregate minimum required statutory capital and surplus is based on the greater of the RBC level that would trigger regulatory action or minimum requirements per state insurance regulation. Capital and surplus requirements of our foreign subsidiaries differ from those prescribed in the U.S., and can vary significantly by jurisdiction. At both December 31, 2015 and 2014, all domestic and foreign insurance subsidiaries individually exceeded the minimum required statutory capital and surplus requirements and all domestic insurance subsidiaries individually exceeded RBC minimum required levels.

At December 31, 2015 and 2014, with the exception of one permitted practice adopted by one domestic life insurance subsidiary in 2015, described below, the use of prescribed or permitted statutory accounting practices by our domestic and foreign insurance subsidiaries did not result in reported statutory surplus or risk-based capital that is significantly different from the statutory surplus or risk-based capital that would have been reported had NAIC statutory accounting practices or the prescribed regulatory accounting practices of their respective foreign regulatory authority been followed in all respects for domestic and foreign insurance entities. As described in Note 12, our domestic insurance subsidiaries domiciled in New York and Pennsylvania discount non-tabular workers' compensation reserves based on the prescribed or approved regulations in each of those states. This practice did not have a material impact on our statutory surplus, statutory net income (loss), or risk-based capital. In 2015, a domestic life insurance subsidiary domiciled in Texas adopted a permitted statutory accounting practice to report derivatives used to hedge interest rate risk on product-related embedded derivatives at amortized cost instead of fair value. The initial adoption of the permitted practice resulted in a reduction to the statutory surplus of our subsidiary of \$366 million at December 31, 2015.

The NAIC Model Regulation "Valuation of Life Insurance Policies" (Regulation XXX) requires U.S. life insurers to establish additional statutory reserves for term life insurance policies with long-term premium guarantees and universal life policies with secondary guarantees (ULSGs). In addition, NAIC Actuarial Guideline 38 (Guideline AXXX) clarifies the application of Regulation XXX as to these guarantees, including certain ULSGs.

Domestic insurance subsidiaries manage the capital impact of statutory reserve requirements under Regulation XXX and Guideline AXXX through intercompany reinsurance transactions. The affiliated life insurers providing reinsurance capacity for such transactions are fully licensed insurance companies and are not formed under captive insurance laws. Under one of these intercompany reinsurance arrangements, certain Regulation XXX and Guideline AXXX reserves related to new and in-force business are ceded to an

affiliated U.S. life insurer, which is a licensed life insurer in the state of Missouri and an accredited reinsurer in the state of Texas. As an accredited reinsurer, this affiliated life insurer is not required to post any collateral such as letters of credit or assets in trust.

Under the other intercompany reinsurance arrangement, certain Regulation XXX and Guideline AXXX reserves related to a closed block of in-force business are ceded to an affiliated off-shore life insurer, which is licensed as a class E insurer under Bermuda law. Bermuda law permits the off-shore life insurer to record an asset that effectively reduces the statutory reserves for the assumed reinsurance to the level that would be required under U.S. GAAP. Letters of credit are used to support the credit for reinsurance provided by the affiliated off-shore life insurer. The letters of credit are subject to reimbursement by AIG Parent in the event of a drawdown. See Note 7 for additional information regarding these letters of credit.

### Subsidiary Dividend Restrictions

Payments of dividends to us by our insurance subsidiaries are subject to certain restrictions imposed by regulatory authorities. With respect to our domestic insurance subsidiaries, the payment of any dividend requires formal notice to the insurance department in which the particular insurance subsidiary is domiciled. For example, unless permitted by the Superintendent of Financial Services, property casualty companies domiciled in New York generally may not pay dividends to shareholders that,

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in any 12 month period, exceed the lesser of 10 percent of such company's statutory policyholders' surplus or 100 percent of its "adjusted net investment income," for the previous year, as defined. Generally, less severe restrictions applicable to both property casualty and life insurance companies exist in most of the other states in which our insurance subsidiaries are domiciled. Under the laws of many states, an insurer may pay a dividend without prior approval of the insurance regulator when the amount of the dividend is below certain regulatory thresholds. Other foreign jurisdictions may restrict the ability of our foreign insurance subsidiaries to pay dividends. Various other regulatory restrictions also limit cash loans and advances to us by our subsidiaries.

Largely as a result of these restrictions, approximately \$41.6 billion of the statutory capital and surplus of our consolidated insurance subsidiaries were restricted from transfer to AIG Parent without prior approval of state insurance regulators at December 31, 2015.

To our knowledge, no AIG insurance company is currently on any regulatory or similar "watch list" with regard to solvency.

**Parent Company Dividend Restrictions**

At December 31, 2015, our ability to pay dividends is not subject to any significant contractual restrictions, but remains subject to regulatory restrictions. See Note 16 herein for additional information about our ability to pay dividends to our shareholders.

**19. SHARE-BASED AND OTHER COMPENSATION PLANS**

The following table presents our share based compensation expense:

**Years Ended December 31,**

(in millions)

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Share-based compensation expense - pre-tax*	<b>\$ 365</b>	<b>\$ 349</b>	<b>\$ 457</b>
Share-based compensation expense - after tax	<b>237</b>	<b>227</b>	<b>297</b>

\* For the years ended December 31, 2015, 2014 and 2013, \$19 million, \$86 million and \$315 million, respectively, of pre-tax compensation expense was attributed to unsettled liability-classified awards, the values of which are based on our share price at the reporting date. Our share price was \$61.97, \$56.01 and \$51.05 at December 31, 2015, 2014 and 2013, respectively. In addition, we recognized \$147 million, \$120 million and \$101 million for immediately vested stock-settled awards issued to retirement eligible employees in 2015, 2014 and 2013, respectively.

**Employee Plans**

The Company grants annual Long Term Incentive (LTI) awards under the 2013 Long Term Incentive Plan (2013 LTIP), which is governed by the AIG 2013 Omnibus Incentive Plan (2013 Plan). The 2013 Plan replaced the AIG 2010 Stock Incentive Plan (2010 Plan) as of May 15, 2013 but does not affect the terms and conditions of any award issued under the 2010 Plan. The 2013 Plan is currently the only plan under which share-settled awards can be made.

As of December 31, 2015, the Starr International Company Inc. Deferred Compensation Profit Participation Plans (the SICO Plans) are the only legacy plans for which awards remain unvested.

Our share-settled awards are settled with previously acquired shares held in AIG's treasury. Share awards made by SICO are settled by SICO.

#### AIG 2013 Omnibus Incentive Plan

The 2013 Plan was adopted at the 2013 Annual Meeting of Shareholders and provides for the grants of share-based awards to our employees and non-employee directors. The total number of shares that may be granted under the 2013 Plan (the reserve) is the sum of 1) 45 million shares of AIG Common Stock, plus 2) the number of authorized shares that remained available for issuance under the 2010 Plan when the 2013 Plan became effective, plus 3) the number of shares of AIG



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### **Item 8 / note 19. SHARE-BASED AND OTHER COMPENSATION PLANS**

Common Stock relating to outstanding awards under the 2010 Plan at the time the 2013 Plan became effective that subsequently are forfeited, expired, terminated or otherwise lapse or are settled in cash. Each share-based unit granted under the 2013 Plan reduces the number of shares available for future grants by one share. However, shares with respect to awards that are forfeited, expired or settled for cash, and shares withheld for taxes on awards (other than options and stock appreciation rights (SARs) awards) are returned to the reserve.

During 2015, performance share units (PSUs) and deferred stock units (DSUs) were granted under the 2013 Plan and 45,670,678 shares are available for future grants as of December 31, 2015. PSUs were issued to employees as part of our long-term incentive program in March 2015 and are also issued for off-cycle grants, which are made from time to time during the year as sign-on awards to new hires or as a result of a change in employee status.

#### **AIG 2010 Stock Incentive Plan**

The 2010 Plan was adopted at the 2010 Annual Meeting of Shareholders. The total number of shares of AIG Common Stock that could be granted under the 2010 Plan was 60 million. During 2013, we granted PSUs, DSUs and restricted stock units (RSUs) under the 2010 Plan. Each PSU, DSU and RSU awarded reduced the number of shares available for future grants by one share. Subsequent to the adoption of the 2013 Plan in May 2013, no additional grants were made under the 2010 Plan.

#### **Share-settled Awards**

#### **AIG 2013 Long Term Incentive Plan**

The 2013 LTIP provides for the annual grant of PSUs to certain employees, including our senior executive officers and other highly compensated employees. Each recipient of an award is granted a number of PSUs (the target) that provides the opportunity to receive shares of AIG Common Stock based on AIG achieving specified performance goals at the end of a three-year performance period. These performance goals are pre-established by AIG's Compensation and Management Resources Committee for each annual grant and may differ from year to year. The actual number of PSUs earned can vary from zero to 150 percent of the target depending on AIG's performance relative to a specified peer group. Vesting occurs in three equal installments beginning on January 1 of the year immediately following the end of a performance period and January 1 of each of the next two years. Recipients must be employed at each vesting date to be entitled to share delivery, except upon the occurrence of an accelerated vesting event, such as an involuntary termination without cause, disability, retirement or death during the vesting period.

LTI awards granted in 2015 accrue dividend equivalent units (DEUs) in the form of additional PSUs whenever a cash dividend is declared on shares of AIG Common Stock; the DEUs are subject to the same

vesting terms and conditions as the underlying PSUs. Neither dividends nor DEUs accrue on unvested PSUs or the shares underlying the PSUs for LTI awards granted in 2014 and 2013.

### *Performance Share Unit Goals and Valuation*

The performance goals used to measure LTI awards granted in 2015 and 2014 pertain to AIG's total shareholder return (TSR) and credit default swap (CDS) spread, weighted 75 percent and 25 percent, respectively, in each case relative to a specified peer group. The goals for the 2013 awards are AIG's growth in tangible book value per common share (TBVPS) (excluding accumulated other comprehensive income) and TSR weighted 50 percent each, in each case relative to a specified peer group. The fair value of PSUs to be earned based on AIG's TBVPS and CDS spreads was based on the closing price of AIG Common Stock on the grant date. However, PSUs granted in 2014 and 2013 that vest based on these goals were discounted by the present value of estimated dividends to be paid during the respective vesting periods as these awards do not accrue dividends or DEUs. The fair value of PSUs to be earned based on AIG's TSR relative to a specified peer group was determined on the grant date using a Monte Carlo simulation.

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The following table presents the assumptions used to estimate the fair value of PSUs that vest based on AIG's TSR:

	2015	2014	2013
Expected dividend yield <sup>(a)</sup>	1.78%	1.13%	0.38%
Expected volatility <sup>(b)</sup>	22.71%	23.66%	30.79%
Risk-free interest rate <sup>(c)</sup>	1.01%	0.76%	0.50%

(a) The dividend yield is the projected annualized AIG dividend yield estimated by Bloomberg Professional service as of the valuation date.

(b) The expected volatility is based on the implied volatilities of actively traded stock options from the valuation date through the end of the PSU performance period as estimated by Bloomberg Professional service.

(c) The risk-free interest rate is the continuously compounded interest rate for the term between the valuation date and the end of the performance period that is assumed to be constant and equal to the interpolated value between the closest data points on the U.S. dollar LIBOR-swap curve as of the valuation date.

The following table summarizes outstanding share-settled LTI awards<sup>(a)</sup>:

As of or for the Year Ended December 31, 2015	Number of PSUs <sup>(b)</sup>			Weighted Average Grant-Date Fair Value		
	2015 LTI	2014 LTI	2013 LTI	2015 LTI	2014 LTI	2013 LTI
Unvested, beginning of year	-	4,036,527	4,066,182	\$ -	\$ 48.72	\$ 37.09
Granted	6,445,639	10,225	-	54.55	52.83	-
Vested	(3,212,976)	(1,270,263)	(1,593,595)	54.09	48.56	37.09
Forfeited	(185,705)	(217,130)	(222,478)	53.66	48.78	37.38
Unvested, end of year	3,046,958	2,559,359	2,250,109	\$ 55.08	\$ 48.82	\$ 37.07

(a) Excludes SICO awards, DSUs and options, which are discussed under the SICO Plans, Non-Employee Plans and Stock Options sections, respectively.

(b) Represents target number of PSUs granted, and does not reflect potential increases or decreases that could result from the final outcome of the performance goals to be determined after the applicable performance period ends. The performance period for 2013 LTI awards ended December 31, 2015; the number of earned PSUs based on the results of the 2013 performance goals will be adjudicated in March 2016 by the Compensation and Management Resources Committee.

At December 31, 2015, the total unrecognized compensation cost (net of expected forfeitures) for the unvested PSUs was \$190 million and the weighted-average and expected period of years over which that cost is expected to be recognized are 1.29 years and 4 years.

*SICO Plans*

The SICO Plans, which have been closed to new participants since 2004, provide that shares of AIG Common Stock currently held by SICO are set aside for the benefit of the participants and distributed upon retirement. The SICO Board of Directors currently may permit an early payout of shares under certain circumstances. Prior to payout, the participant is not entitled to vote, dispose of or receive dividends with respect to such shares, and shares are subject to forfeiture under certain conditions, including but not limited to the participant's termination of employment with us prior to normal retirement age. A significant portion of the awards under the SICO Plans vest the year after the participant reaches age 65, provided that the participant remains employed by us through age 65. The portion of the awards for which early payout is available vests on the applicable payout date.

SICO Plan awards issued in the form of restricted stock were valued based on the closing price of AIG's Common Stock on the grant date. Although none of the costs of the various benefits provided under the SICO Plans have been paid by us, we have recorded compensation expense for the deferred compensation amounts payable to our employees by SICO, with an offsetting amount credited to Additional paid-in capital reflecting amounts deemed contributed by SICO. As of December 31, 2015, 31,964 shares of restricted stock remain unvested; the total unrecognized compensation cost (net of expected forfeitures) is \$10 million and the weighted average and expected period of years over which those costs are expected to be recognized are 5.28 years and 21 years, respectively.

*Non-Employee Plans*

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Our non-employee directors, who serve on our Board of Directors, receive share-based compensation in the form of fully vested deferred stock units (DSUs) with delivery deferred until retirement from the Board. DSUs granted in 2015, 2014 and 2013 accrue DEUs equal to the amount of any regular quarterly dividend that would have been paid by AIG if the shares of AIG Common Stock underlying the DSUs had been outstanding. In 2015, 2014 and 2013, we granted to non-employee directors 32,342, 28,477 and 25,735 DSUs, respectively, under the 2013 Plan, and recognized expense of \$1.9 million, \$1.5 million and \$1.2 million, respectively.

*Stock Options*

Options granted under the AIG 2007 Stock Incentive Plan and the 1999 Stock Option Plan generally vested over four years (25 percent vesting per year) and expire 10 years from the date of grant. All outstanding options are vested and out of the money at December 31, 2015. There were no stock options granted since 2008. The aggregate intrinsic value for all unexercised options is zero.

The following table provides a roll forward of stock option activity:

<b>As of or for the Year Ended December 31, 2015</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life</b>
<b>Options:</b>			
Exercisable at beginning of year	202,275	\$ 1,037.74	2.17
Expired	(108,763)	\$ 1,261.25	
Exercisable at end of year	93,512	\$ 777.78	2.16
<b>Cash-settled Awards</b>			

Share-based cash-settled awards are recorded as liabilities until the final payout is made or the award is replaced with a stock-settled award. Compensation expense is recognized over the vesting periods, unless the award is fully vested on the grant date in which case the entire award value is immediately recognized as expense.

Unlike stock-settled awards, which generally have a fixed grant-date fair value (unless the award is subsequently modified), the fair value of unsettled or unvested cash-settled awards is remeasured at the end of each reporting period based on the change in fair value of one share of AIG Common Stock. The liability and corresponding expense are adjusted accordingly until the award is settled.

During the period we were subject to Troubled Asset Relief Program (TARP) restrictions, we issued various cash-settled share-based grants, including Stock Salary, TARP RSU awards, and other cash-settled RSU awards, to certain of our most highly compensated employees and executive officers in the form of restricted stock units that were either fully vested with payment deferred, or subject to specified service and performance conditions. After the repayment of our TARP obligations in December 2012, all performance conditions were satisfied; as a result, we no longer issue awards that are subject to TARP restrictions.

### *Restricted Stock Units*

Stock Salary was earned and accrued at the same time or times as the salary would otherwise be paid in cash and is generally settled in installments on the first, second or third anniversary of grant in accordance with the terms of an employee's award. Stock Salary grants were generally issued in the form of fully vested RSUs and are settled in cash based on the value of AIG

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Common Stock on the applicable settlement date. During 2015, 2014 and 2013, we paid \$42 million, \$89 million and \$180 million, respectively, to settle awards. For those awards that were vested and unsettled at the end of each year, we recognized charges of \$2 million, \$7 million and \$73 million in compensation expense for the years ended December 31, 2015, 2014 and 2013, respectively, to reflect fluctuations in the value of AIG Common Stock. At December 31, 2015, the number of vested but unsettled RSUs totaled 24,405, all of which were settled in January 2016.

**In addition, other TARP-related cash-settled RSU granted and issued in March 2013 and 2012 remained unvested as follows:**

	Number of Units RSUs*
<b>Year Ended December 31, 2015</b>	
Unvested, beginning of year	1,404,645
Granted	-
Vested	(975,715)
Forfeited	(15,972)
Unvested, end of year	412,958
Net compensation expense for the year (in millions)	\$ 17

\* Total unrecognized compensation as of December 31, 2015 is \$1 million; the unvested RSUs will vest and settle in March 2016.

*Long Term Incentive Plans*

Certain employees were provided the opportunity to receive additional compensation in the form of cash and cash-settled SARs under the 2011 LTIP award or 100 percent cash for the 2012 LTIP award if certain performance measures were met. The ultimate value of these awards was contingent on AIG achieving performance measures over a two-year performance period and such value could range from zero to twice the target amount. Subsequent to the performance period, the earned awards were subject to an additional time-vesting period. This resulted in a graded vesting schedule for the cash portion of up to two years, while the SARs portion cliff-vests two years after the end of performance period.

The cash portion of the awards expensed in 2015, 2014 and 2013 totaled approximately \$19 million, \$57 million and \$249 million, respectively. All payments remaining under these awards were made in January 2016.

**20. EMPLOYEE BENEFITS****Pension Plans**

We offer various defined benefit plans to eligible employees.

The U.S. AIG Retirement Plan (the qualified plan) is a noncontributory defined benefit plan that is subject to the provisions of ERISA. U.S. salaried employees who are employed by a participating company and who have completed 12 months of continuous service are eligible to participate in the plan. Effective April 1, 2012, the qualified plan was converted to a cash balance formula comprised of pay credits based on six percent of a plan participant's annual compensation (subject to IRS limitations) and annual interest credits. In addition, employees can take their vested benefits when they leave AIG as a lump sum or an annuity option after completing at least three years of service. However, employees satisfying certain age and service requirements (i.e. grandfathered employees) remain covered under the old plan formula, which is based upon a percentage of final average compensation multiplied by years of credited service, up to 44 years. Grandfathered employees will receive the higher of the benefits under the cash balance or final average pay formula at retirement. Non-U.S. defined benefit plans are generally either based on the employee's years of credited service and compensation in the years preceding retirement or on points accumulated based on the employee's job grade and other factors during each year of service.



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In the U.S. we also sponsor several non-qualified unfunded defined benefit plans for certain employees, including key executives, designed to supplement pension benefits provided by the qualified plan. These include the AIG Non-Qualified Retirement Income Plan (AIG NQRIP), which provides a benefit equal to the reduction in benefits under the qualified plan as a result of federal tax limitations on compensation and benefits payable, and the Supplemental Executive Retirement Plan (SERP), which provides additional retirement benefits to designated executives. Under the SERP, an annual benefit accrues at a percentage of final average pay multiplied by each year of credited service, not greater than 60 percent of final average pay, reduced by any benefits from the current and any predecessor retirement plans (including the AIG NQRIP), Social Security, and any benefits accrued under a Company sponsored foreign deferred compensation plan.

*Plan Freeze*

On August 27, 2015, we amended the qualified plan, the AIG NQRIP and the SERP, to freeze benefit accruals effective January 1, 2016. Consequently, these plans were closed to new participants and current participants ceased earning additional benefits as of December 31, 2015. However, interest credits continue to accrue on the existing cash balance accounts and participants are continuing to accrue years of service for purposes of vesting and early retirement eligibility and subsidies as they continue to be employed by AIG.

**Postretirement Plans**

We also provide postretirement medical care and life insurance benefits in the U.S. and in certain non-U.S. countries. Eligibility in the various plans is generally based upon completion of a specified period of eligible service and attaining a specified age. Overseas, benefits vary by geographic location.

U.S. postretirement medical and life insurance benefits are based upon the employee attaining the age of 55 and having a minimum of ten years of service. Eligible employees who have medical coverage can enroll in retiree medical upon termination of employment. Medical benefits are contributory, while the life insurance benefits are generally non-contributory. Retiree medical contributions vary from none for pre-1989 retirees to actual premium payments reduced by certain subsidies for post-1992 retirees. These contributions are subject to adjustment annually. Other cost sharing features of the medical plan include deductibles, coinsurance and Medicare coordination. Effective April 1, 2012, the retiree medical employer subsidy for the AIG Postretirement plan was eliminated for employees who were not grandfathered. Additionally, new employees hired after December 31, 2012 are not eligible for retiree life insurance.

**The following table presents the funded status of the plans reconciled to the amount reported in the Consolidated Balance Sheets. The measurement date for most of the non-U.S. defined benefit pension and postretirement plans is November 30, consistent with the fiscal year end of the**

sponsoring companies. For all other plans, measurement occurs as of December 31.

**As of or for the Years Ended**

**December 31,**

*(in millions)*

**Change in projected benefit obligation:**

	Pension				Postretirement <sup>(a)</sup>			
	U.S. Plans <sup>(b)</sup>		Non-U.S. Plans <sup>(b)</sup>		U.S. Plans		Non-U.S. Plans	
	2015	2014	2015	2014	2015	2014	2015	2014
Benefit obligation, beginning of year	\$ 5,769	\$ 4,882	\$ 1,099	\$ 1,072	\$ 229	\$ 217	\$ 64	\$ 52
Service cost	192	173	43	42	5	4	3	2
Interest cost	220	228	25	29	8	9	3	2
Actuarial (gain) loss	(423)	780	(16)	114	(23)	10	9	11
Benefits paid:								
AIG assets	(17)	(15)	(9)	(15)	(11)	(11)	(1)	(1)
Plan assets	(285)	(279)	(24)	(24)	-	-	-	-
Plan amendment	(132)	-	24	(1)	-	-	-	-
Settlements	-	-	(15)	(9)	-	-	-	-
Foreign exchange effect	-	-	(67)	(107)	-	-	(3)	(2)
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Acquisitions	-	-	72	-	-	-	-	-
Other	-	-	14	(2)	-	-	-	-
<b>Projected benefit obligation, end of year</b>	<b>\$ 5,324</b>	<b>\$ 5,769</b>	<b>\$ 1,146</b>	<b>\$ 1,099</b>	<b>\$ 208</b>	<b>\$ 229</b>	<b>\$ 75</b>	<b>\$ 64</b>
<b>Change in plan assets:</b>								
Fair value of plan assets, beginning of year	\$ 4,111	\$ 4,024	\$ 708	\$ 738	\$ -	\$ -	\$ -	\$ -
Actual return on plan assets, net of expenses	(8)	266	47	71	-	-	-	-
AIG contributions	558	115	62	67	11	11	1	1
Benefits paid:								
AIG assets	(17)	(15)	(9)	(15)	(11)	(11)	(1)	(1)
Plan assets	(285)	(279)	(24)	(24)	-	-	-	-
Settlements	-	-	(15)	(8)	-	-	-	-
Foreign exchange effect	-	-	(44)	(75)	-	-	-	-
Acquisitions	-	-	35	-	-	-	-	-
Other	-	-	13	(46)	-	-	-	-
<b>Fair value of plan assets, end of year</b>	<b>\$ 4,359</b>	<b>\$ 4,111</b>	<b>\$ 773</b>	<b>\$ 708</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Funded status, end of year</b>	<b>\$ (965)</b>	<b>\$ (1,658)</b>	<b>\$ (373)</b>	<b>\$ (391)</b>	<b>\$ (208)</b>	<b>\$ (229)</b>	<b>\$ (75)</b>	<b>\$ (64)</b>
<b>Amounts recognized in the balance sheet:</b>								
Assets	\$ -	\$ -	\$ 46	\$ 46	\$ -	\$ -	\$ -	\$ -
Liabilities	(965)	(1,658)	(419)	(437)	(208)	(229)	(75)	(64)
<b>Total amounts recognized</b>	<b>\$ (965)</b>	<b>\$ (1,658)</b>	<b>\$ (373)</b>	<b>\$ (391)</b>	<b>\$ (208)</b>	<b>\$ (229)</b>	<b>\$ (75)</b>	<b>\$ (64)</b>
<b>Pre-tax amounts recognized in Accumulated other comprehensive income:</b>								
Net gain (loss)	\$ (1,324)	\$ (1,667)	\$ (161)	\$ (227)	\$ 13	\$ (9)	\$ (16)	\$ (8)
Prior service (cost) credit	-	200	(16)	11	13	24	-	1
<b>Total amounts recognized</b>	<b>\$ (1,324)</b>	<b>\$ (1,467)</b>	<b>\$ (177)</b>	<b>\$ (216)</b>	<b>\$ 26</b>	<b>\$ 15</b>	<b>\$ (16)</b>	<b>\$ (7)</b>

(a) We do not currently fund postretirement benefits.

(b) Includes non-qualified unfunded plans of which the aggregate projected benefit obligation was \$299 million and \$325 million for the U.S. and \$199 million and \$295 million for the non-U.S. at December 31, 2015 and 2014, respectively.

**The following table presents the accumulated benefit obligations for U.S. and non-U.S. pension benefit plans:**

**At December 31,**  
(in millions)

		2015		2014
U.S. pension benefit plans	\$	5,324	\$	5,601
Non-U.S. pension benefit plans	\$	1,109	\$	1,040

**Defined benefit plan obligations in which the projected benefit obligation was in excess of the related plan assets and the accumulated benefit obligation was in excess of the related plan assets were as follows:**

<b>At December 31,</b> <i>(in millions)</i>	PBO Exceeds Fair Value of Plan Assets				ABO Exceeds Fair Value of Plan Assets			
	U.S. Plans		Non-U.S. Plans		U.S. Plans		Non-U.S. Plans	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Projected benefit obligation	<b>\$ 5,324</b>	\$ 5,769	<b>\$ 999</b>	\$ 843	<b>\$ 5,324</b>	\$ 5,769	<b>\$ 912</b>	\$ 757
Accumulated benefit obligation	<b>5,324</b>	5,601	<b>896</b>	746	<b>5,324</b>	5,601	<b>889</b>	740
Fair value of plan assets	<b>4,359</b>	4,111	<b>506</b>	342	<b>4,359</b>	4,111	<b>497</b>	329

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The following table presents the components of net periodic benefit cost with respect to pensions and other postretirement benefits:

	U.S. Plans		Pension	Non-
(in millions)	2015	2014	2013	2015
Components of net periodic benefit cost:				
Service cost	\$ 192	\$ 173	\$ 205	\$ 43
Interest cost	220	228	201	25
Expected return on assets	(295)	(288)	(257)	(25)
Amortization of prior service credit	(22)	(33)	(33)	(2)
Amortization of net loss	92	42	138	9
Curtailment (gain) loss	(179)	-	-	(1)
Settlement loss	-	-	-	1
Other	-	-	-	-
Net periodic benefit cost	\$ 8	\$ 122	\$ 254	\$ 50
Total recognized in Accumulated other comprehensive income (loss)	\$ 143	\$ (793)	\$ 823	\$ 38
Total recognized in net periodic benefit cost and other comprehensive income (loss)	\$ 135	\$ (915)	\$ 569	\$ (12)

The estimated net loss and prior service credit that will be amortized from Accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$32 million and \$1 million, respectively, for our combined defined benefit pension plans. For the defined benefit postretirement plans, the estimated amortization from Accumulated other comprehensive income for net loss and prior service credit that will be amortized into net periodic benefit cost over the next fiscal year is a \$9 million credit in the aggregate.

At the end of 2015, we changed the method used to measure interest costs for pension and postretirement benefits for our U.S. plans and largest non-U.S. plans. Previously, we measured interest costs utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligations. For 2016, interest costs will be measured by applying the specific spot rates along the yield curve to the plans' corresponding discounted cash flows that comprise the obligation (i.e., the Spot Rate Approach). The new method provides a more precise measurement of interest costs by aligning the timing of the plans' discounted cash flows to the corresponding spot rates on the yield curve; the measurement of our pension and postretirement benefit obligations is not affected. We have accounted for this change as a change in accounting estimate, which is applied prospectively. Consequently, combined estimated 2016 pension expense for the AIG U.S. and non-U.S. defined benefit pension plans under the Spot Rate Approach is approximately \$86 million, which is a \$52 million reduction when compared to the prior approach.

A 100 basis point increase in the discount rate or expected long-term rate of return would decrease the 2016 expense by approximately \$56 million and \$45 million, respectively, with all other items remaining the same. Conversely, a 100 basis point decrease in the discount rate or expected long-term rate of return would increase the 2016 expense by approximately \$71 million and \$45 million, respectively, with all other items remaining the same.



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The following table summarizes the weighted average assumptions used to determine the benefit obligations:

	U.S. Plans	Pension Non-U.S. Plans <sup>(a)</sup>	Postretirement U.S. Plans	Non-U.S. Plans <sup>(a)</sup>
<b>December 31, 2015</b>				
Discount rate	<b>4.32%</b>	<b>2.17%</b>	<b>4.21%</b>	<b>4.09%</b>
Rate of compensation increase	<b>N/A%</b>	<b>(b)</b>	<b>N/A</b>	<b>3.43%</b>
<b>December 31, 2014</b>				
Discount rate	3.94%	2.33%	3.78%	4.04%
Rate of compensation increase	3.40%	2.89%	N/A	3.29%

(a) The non-U.S. plans reflect those assumptions that were most appropriate for the local economic environments of each of the subsidiaries providing such benefits.

(b) Compensation increases are no longer applicable due to the plan freeze that became effective 1/1/2016.

The following table summarizes assumed health care cost trend rates for the U.S. plans:

<b>At December 31,</b>	<b>2015</b>	<b>2014</b>
Following year:		
Medical (before age 65)	<b>6.79%</b>	7.07%
Medical (age 65 and older)	<b>6.64%</b>	6.75%
Ultimate rate to which cost increase is assumed to decline	<b>4.50%</b>	4.50%
Year in which the ultimate trend rate is reached:		
Medical (before age 65)	<b>2027</b>	2027
Medical (age 65 and older)	<b>2027</b>	2027

**A one percent point change in the assumed healthcare cost trend rate would have the following effect on our postretirement benefit obligations:**

<b>At December 31,</b>	<b>One Percent Increase</b>		<b>One Percent Decrease</b>	
<i>(in millions)</i>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
U.S. plans	\$ <b>6</b>	\$ 5	\$ <b>(4)</b>	\$ (5)
Non-U.S. plans	\$ <b>17</b>	\$ 12	\$ <b>(12)</b>	\$ (12)

Our postretirement plans provide benefits primarily in the form of defined employer contributions rather than defined employer benefits. Changes in the assumed healthcare cost trend rate have a minimal impact for U.S. plans because for post-1992 retirees, benefits are fixed dollar amounts based on service at retirement.

Our non-U.S. postretirement plans are not subject to caps.

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The following table presents the weighted average assumptions used to determine the net periodic benefit costs:

At December 31, 2015	Pension		Postretirement	
	U.S. Plans	Non-U.S. Plans*	U.S. Plans	Non-U.S. Plans*
Discount rate	3.94%	2.33%	3.77%	4.04%
Rate of compensation increase	3.40%	2.89%	N/A	3.29%
Expected return on assets	7.25%	3.33%	N/A	N/A
2014				
Discount rate	4.83%	2.77%	4.59%	4.77%
Rate of compensation increase	3.50%	2.89%	N/A	3.34%
Expected return on assets	7.25%	2.93%	N/A	N/A
2013				
Discount rate	3.93%	2.62%	3.67%	3.45%
Rate of compensation increase	4.00%	2.86%	N/A	3.55%
Expected return on assets	7.25%	2.60%	N/A	N/A

\* The non-U.S. plans reflect those assumptions that were most appropriate for the local economic environments of the subsidiaries providing such benefits.

**Discount Rate Methodology**

The projected benefit cash flows under the U.S. AIG Retirement Plan were discounted using the spot rates derived from the Mercer US Pension Discount Yield Curve at December 31, 2015 and 2014, which resulted in a single discount rate that would produce the same liability at the respective measurement dates. The discount rates were 4.32 percent at December 31, 2015 and 3.95 percent at December 31, 2014. The methodology was consistently applied for the respective years in determining the discount rates for the other U.S. plans.

In general, the discount rates for non-U.S. pension plans were developed based on the duration of liabilities on a plan by plan basis and were selected by reference to high quality corporate bonds in developed markets or local government bonds where developed markets are not as robust or are nonexistent.

The projected benefit obligation for Japan represents approximately 50 percent and 47 percent of the total projected benefit obligations for our non-U.S. pension plans at December 31, 2015 and 2014, respectively. The weighted average discount rate of 0.99 percent at December 31, 2015 was selected by reference to the Mercer Yield Curve (Japan) based on the duration of the plans' liabilities. The weighted average discount rate of 1.22 percent at December 31, 2014 for Japan was selected by reference to the AA rated corporate bonds reported by Rating and Investment Information, Inc. based on the duration of the plans' liabilities.

## Plan Assets

The investment strategy with respect to assets relating to our U.S. and non-U.S. pension plans is designed to achieve investment returns that will provide for the benefit obligations of the plans over the long term, limit the risk of short-term funding shortfalls and maintain liquidity sufficient to address cash needs. Accordingly, the asset allocation strategy is designed to maximize the investment rate of return while managing various risk factors, including but not limited to, volatility relative to the benefit obligations, diversification and concentration, and the risk and rewards profile applicable to each asset class.

There were no shares of AIG Common Stock included in the U.S. and non-U.S. pension plans assets at December 31, 2015 or 2014.

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**TABLE OF CONTENTS****Item 8 / note 20. EMPLOYEE BENEFITS***U.S. Pension Plan*

The assets of the qualified plan are monitored by the investment committee and actively managed by the investment managers, and involves allocating the plan's assets among approved asset classes within ranges as permitted by the strategic allocation. The long-term strategic asset allocation historically has been reviewed and revised approximately every three years. Beginning in 2016, the investment strategy will focus on de-risking the Plan via regular monitoring. This will be implemented through liability driven investing and the adoption of the glide path approach, where the glide path defines the target allocation for the "Return-Seeking" portion of the portfolio (i.e., growth assets) based on the funded ratio. Under this approach, the allocation to growth assets is reduced and the allocation to liability-hedging assets is increased as the Plan's funded ratio increases in accordance with the defined glide path.

**The following table presents the asset allocation percentage by major asset class for the U.S. qualified plan and the target allocation for 2016 based on the plan's funded status at December 31, 2015:**

<b>At December 31,</b>	<b>Target</b>	<b>Actual</b>	<b>Actual</b>
<b>Asset class:</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Equity securities	35%	<b>35%</b>	55%
Fixed maturity securities	45%	<b>41%</b>	28%
Other investments	20%	<b>24%</b>	17%
Total	100%	<b>100%</b>	100%

For both 2015 and 2014, the expected long-term rate of return for the plan was 7.25 percent. The expected rate of return is an aggregation of expected returns within each asset class category, weighted for the investment mix of the assets. The combination of the expected asset return and any contributions made by us are expected to maintain the plan's ability to meet all required benefit obligations. The expected asset return for each asset class was developed based on an approach that considers key fundamental drivers of the asset class returns in addition to historical returns, current market conditions, asset volatility and the expectations for future market returns.

*Non-U.S. Pension Plans*

The assets of the non-U.S. pension plans are held in various trusts in multiple countries and are invested primarily in equities and fixed maturity securities to maximize the long-term return on assets for a given level of risk.

**The following table presents the asset allocation percentage by major asset class for Non-U.S. pension plans and the target allocation:**

<b>At December 31,</b>	<b>Target 2016</b>	<b>Actual 2015</b>	<b>Actual 2014</b>
Asset class:			
Equity securities	32%	<b>45%</b>	50%
Fixed maturity securities	48%	<b>35%</b>	35%
Other investments	18%	<b>13%</b>	8%
Cash and cash equivalents	2%	<b>7%</b>	7%
Total	100%	<b>100%</b>	100%

The assets of AIG's Japan pension plans represent approximately 54 percent and 55 percent of total non-U.S. assets at December 31, 2015 and 2014 respectively. The expected long term rate of return was 1.71 percent and 1.24 percent, for 2015 and 2014, respectively, and is evaluated by the Japanese Pension Investment Committee on a quarterly and annual basis along with various investment managers, and is revised to achieve the optimal allocation to meet targeted funding levels if necessary. In addition, the funding policy is revised in accordance with local regulation every five years.

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The expected weighted average long-term rate of return for all our non-U.S. pension plans was 3.33 percent and 2.93 percent for the years ended December 31, 2015 and 2014, respectively. It is an aggregation of expected returns within each asset class that was generally developed based on the building block approach that considers historical returns, current market conditions, asset volatility and the expectations for future market returns.

**Assets Measured at Fair Value**

The following table presents information about our plan assets and indicates the level of the fair value measurement based on the observability of the inputs used. The inputs and methodology used in determining the fair value of these assets are consistent with those used to measure our assets as discussed in Note 4 herein.

	U.S. Plans				Non-U.S. Plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<i>(in millions)</i>								
<b>At December 31, 2015</b>								
<b>Assets:</b>								
Cash and cash equivalents	\$ 239	\$ -	\$ -	\$ 239	\$ 49	\$ -	\$ -	\$ 49
Equity securities:								
U.S. <sup>(a)</sup>	924	388	-	1,312	35	-	-	35
International <sup>(b)</sup>	262	1	-	263	248	67	-	315
Fixed maturity securities:								
U.S. investment grade <sup>(c)</sup>	-	1,452	9	1,461	-	-	-	-
International investment grade <sup>(c)</sup>	-	-	-	-	-	190	-	190
U.S. and international high yield <sup>(d)</sup>	-	322	-	322	-	66	-	66
Mortgage and other asset-backed securities <sup>(e)</sup>	-	7	-	7	-	-	-	-
Other fixed maturity securities	-	-	-	-	-	12	-	12
Other investment types:								
Hedge funds <sup>(f)</sup>	-	469	31	500	-	-	-	-
Futures	2	-	-	2	-	-	-	-
Real Estate	-	-	-	-	11	-	-	11
Private equity <sup>(g)</sup>	-	-	230	230	-	-	-	-
Insurance contracts	-	23	-	23	-	-	95	95
<b>Total</b>	<b>\$ 1,427</b>	<b>\$ 2,662</b>	<b>\$ 270</b>	<b>\$ 4,359</b>	<b>\$ 343</b>	<b>\$ 335</b>	<b>\$ 95</b>	<b>\$ 773</b>
<b>At December 31, 2014</b>								
<b>Assets:</b>								
Cash and cash equivalents	\$ 80	\$ -	\$ -	\$ 80	\$ 50	\$ -	\$ -	\$ 50
Equity securities:								

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U.S. <sup>(a)</sup>	1,244	239	-	1,483	30	-	-	30
International <sup>(b)</sup>	787	1	-	788	274	48	-	322
Fixed maturity securities:								
U.S. investment grade <sup>(c)</sup>	-	768	8	776	-	-	-	-
International investment grade <sup>(c)</sup>	-	-	-	-	2	160	-	162
U.S. and international high yield <sup>(d)</sup>	-	347	-	347	-	61	-	61
Mortgage and other asset-backed securities <sup>(e)</sup>	-	6	-	6	-	-	-	-
Other fixed maturity securities	-	-	-	-	-	10	17	27
Other investment types:								
Hedge funds <sup>(f)</sup>	-	337	36	373	-	-	-	-
Futures	4	-	-	4	-	-	-	-
Private equity <sup>(g)</sup>	-	-	228	228	-	-	-	-
Insurance contracts	-	26	-	26	-	-	56	56
Total	\$ 2,115	\$ 1,724	\$ 272	\$ 4,111	\$ 356	\$ 279	\$ 73	\$ 708

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(a) Includes index funds that primarily track several indices including S&P 500 and S&P Small Cap 600 as well as other actively managed accounts composed of investments in large cap companies.

(b) Includes investments in companies in emerging and developed markets.

(c) Represents investments in U.S. and non-U.S. government issued bonds, U.S. government agency or sponsored agency bonds, and investment grade corporate bonds.

(d) Consists primarily of investments in securities or debt obligations that have a rating below investment grade.

(e) Comprised primarily of investments in U.S. government agency or U.S. government sponsored agency bonds.

(f) Includes funds composed of macro, event driven, long/short equity, and controlled risk hedge fund strategies and a separately managed controlled risk strategy.

(g) Includes funds that are diverse by geography, investment strategy, sector and vintage year.

The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in these securities. Based on our investment strategy, we had no significant concentrations of risks at December 31, 2015.

The U.S. pension plan holds a group annuity contract with U.S. Life, one of our subsidiaries, which totaled \$23 million and \$26 million at December 31, 2015 and 2014, respectively.

**Changes in Level 3 fair value measurements**

The following table presents changes in our U.S. and non-U.S. Level 3 plan assets measured at fair value:

<b>At December 31, 2015</b> <i>(in millions)</i>	<b>Balance</b> <b>Beginning</b> <b>of year</b>	<b>Net</b> <b>Realized and</b> <b>Unrealized</b> <b>Gains (Losses)</b>	<b>Purchases</b>	<b>Sales</b>	<b>Issuances</b>	<b>Settlements</b>	<b>Transf</b>
<b>U.S. Plan Assets:</b>							
Fixed maturity securities							
U.S. investment grade	\$	8\$	(1)\$	17\$	(15)\$	-\$	-\$
Hedge funds		36	1	11	(10)	-	-

Private equity		228	(1)	86	(83)	-	-
Total	\$	272\$	(1)\$	114\$	(108)\$	-\$	-\$
<b>Non-U.S. Plan Assets:</b>							
Other fixed maturity securities	\$	17\$	(1)\$	-\$	-\$	-\$	-\$
Insurance contracts		56	(7)	1	-	-	-
Total	\$	73\$	(8)\$	1\$	-\$	-\$	-\$

<b>At December 31, 2014</b> <i>(in millions)</i>	Balance Beginning of year	Net Realized and Unrealized Gains (Losses)	Purchases	Sales	Issuances	Settlements	Transf
<b>U.S. Plan Assets:</b>							
Fixed maturity securities							
U.S. investment grade	\$	9\$	2\$	18\$	(21)\$	-\$	-\$
Hedge funds		35	3	15	(32)	-	-
Private equity		248	11	73	(104)	-	-
Total	\$	292\$	16\$	106\$	(157)\$	-\$	-\$
<b>Non-U.S. Plan Assets:</b>							
Other fixed maturity securities	\$	19\$	-\$	-\$	(2)\$	-\$	-\$
Insurance contracts		44	9	3	-	-	-
Total	\$	63\$	9\$	3\$	(2)\$	-\$	-\$

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**TABLE OF CONTENTS****Item 8 / note 20. EMPLOYEE BENEFITS****Transfers of Level 1 and Level 2 Assets**

Our policy is to record transfers of assets between Level 1 and Level 2 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. We had no transfers between Level 1 and Level 2 during the years ended December 31, 2015 and 2014.

**Transfers of Level 3 Assets**

We record transfers of assets into or out of Level 3 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. During the year ended December 31, 2015, we transferred certain investments in hedge funds into Level 3 as a result of limited market activity due to fund-imposed redemption restrictions.

**Expected Cash Flows**

Funding for the U.S. pension plan ranges from the minimum amount required by ERISA to the maximum amount that would be deductible for U.S. tax purposes. Contributed amounts in excess of the minimum amounts are deemed voluntary. Amounts in excess of the maximum amount would be subject to an excise tax and may not be deductible under the Internal Revenue Code. There are no minimum required cash contributions in 2016 for the AIG Retirement Plan. SERP, AIG NQRIP, and postretirement plan payments are deductible when paid to participants.

Our annual pension contribution in 2016 is expected to be approximately \$67 million for our U.S. and non-U.S. plans. These estimates are subject to change, since contribution decisions are affected by various factors including our liquidity, market performance and management's discretion.

**The expected future benefit payments, net of participants' contributions, with respect to the defined benefit pension plans and other postretirement benefit plans, are as follows:**

	Pension		Postretirement	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
<i>(in millions)</i>				
2016	\$ 759	\$ 36	\$ 14	\$ 1
2017	310	38	15	1
2018	323	40	15	2

2019	319	46	15	2
2020	313	45	16	2
2021-2025	1,487	282	83	12

#### Defined Contribution Plans

We sponsor several defined contribution plans for U.S. employees that provide for pre-tax salary reduction contributions by employees. The most significant plan is the AIG Incentive Savings Plan, for which the Company's matching contribution is 100 percent of the first six percent of a participant's contributions, subject to the IRS-imposed limitations. Our pre-tax expenses associated with these plans were \$166 million, \$156 million and \$155 million in 2015, 2014 and 2013 respectively. Effective January 1, 2016, we provide participants in the AIG Incentive Savings Plan an additional fully vested, non-elective, non-discretionary Company contribution equal to 3 percent of the participant's annual base compensation for the plan year, paid each pay period regardless of whether the participant currently contributes to the plan, and subject to the IRS-imposed limitations.

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A Schedule 13G/A filed on February 10, 2016 reports aggregate ownership of 80,762,613 shares, or approximately 6.5 percent (based on the AIG Common Stock outstanding) of AIG Common Stock as of December 31, 2015, by various subsidiaries of Blackrock, Inc.

A Schedule 13G/A filed on February 10, 2016 reports aggregate ownership of 67,605,730 shares, or approximately 5.5 percent (based on the AIG Common Stock outstanding) of AIG Common Stock as of December 31, 2015, by The Vanguard Group, Inc. and various subsidiaries thereof.

The calculation of ownership interest for purposes of the AIG Tax Asset Protection Plan and Article 13 of our Restated Certificate of Incorporation is different than beneficial ownership for Schedule 13G.

**22. INCOME TAXES**

The following table presents income (loss) from continuing operations before income tax expense (benefit) by U.S. and foreign location in which such pre-tax income (loss) was earned or incurred.

**Years Ended December 31,**  
(in millions)

	2015	2014	2013
U.S.	\$ 1,950	\$ 8,250	\$ 8,058
Foreign	1,331	2,251	1,310
Total	\$ 3,281	\$ 10,501	\$ 9,368

The following table presents the income tax expense (benefit) attributable to pre-tax income (loss) from continuing operations:

**Years Ended December 31,**  
(in millions)

	2015	2014	2013
Foreign and U.S. components of actual income tax expense:			
Foreign:			
Current	\$ 391	\$ 473	\$ 549
Deferred	(95)	154	(442)
U.S.:			
Current	429	115	131
Deferred	334	2,185	122
Total	\$ 1,059	\$ 2,927	\$ 360



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**Our actual income tax (benefit) expense differs from the statutory U.S. federal amount computed by applying the federal income tax rate due to the following:**

<b>Years Ended December 31,</b>	<b>Pre-Tax Income</b>	<b>2015 Tax Expense/</b>	<b>Percent of Pre-Tax Income</b>	<b>Pre-Tax Income</b>	<b>2014 Tax Expense/</b>	<b>Percent of Pre-Tax Income</b>
<i>(dollars in millions)</i>	<i>(Loss)</i>	<i>(Benefit)</i>	<i>(Loss)</i>	<i>(Loss)</i>	<i>(Benefit)</i>	<i>(Loss)</i>
U.S. federal income tax at statutory rate	\$ 3,281	\$ 1,148	35.0%	\$ 10,524	\$ 3,683	35.0%
Adjustments:						
Tax exempt interest		(195)	(5.9)		(236)	(2.2)
Uncertain tax positions		195	5.9		(81)	(0.8)
Reclassifications from accumulated other comprehensive income		(127)	(3.9)		(61)	(0.6)
Non-deductible transfer pricing charges		97	3.0		86	0.8
Dividends received deduction		(72)	(2.2)		(62)	(0.6)
Effect of foreign operations		(58)	(1.8)		(68)	(0.6)
State income taxes		34	1.0		39	0.4
Other		(73)	(2.2)		(184)	(1.7)
Effect of discontinued operations		-	-		65	0.6
Valuation allowance:						
Continuing operations		110	3.4		(181)	(1.7)
Consolidated total amounts	3,281	1,059	32.3	10,524	3,000	28.5
Amounts attributable to discontinued operations	-	-	-	23	73	317.4
Amounts attributable to continuing operations	\$ 3,281	\$ 1,059	32.3%	\$ 10,501	\$ 2,927	27.9%

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 Internal Revenue Service 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.

For the year ended December 31, 2015, our repatriation assumptions related to certain European operations 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 \$1.8 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.

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.

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For the year ended December 31, 2013, the effective tax rate on income from continuing operations was 3.8 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 \$2.8 billion related to a decrease in the U.S. Life Insurance Companies' capital loss carryforward valuation allowance, \$396 million related to a decrease in certain other valuation allowances associated with foreign jurisdictions and \$298 million associated with tax exempt interest income. These items were partially offset by charges of \$632 million related to uncertain tax positions.

The following table presents the components of the net deferred tax assets (liabilities):

**December 31,**  
(in millions)

	2015	2014
Deferred tax assets:		
Losses and tax credit carryforwards	\$ 18,680	\$ 18,203
Basis differences on investments	4,886	4,114
Life policy reserves	353	629
Accruals not currently deductible, and other	1,003	1,804
Loss reserve discount	1,021	1,378
Loan loss and other reserves	8	152
Unearned premium reserve reduction	1,603	1,269
Flight equipment, fixed assets and intangible assets	129	28
Other	577	220
Employee benefits	1,286	1,543
Total deferred tax assets	29,546	29,340
Deferred tax liabilities:		
Investments in foreign subsidiaries	(33)	(58)
Deferred policy acquisition costs	(3,467)	(3,003)
Unrealized gains related to available for sale debt securities	(3,077)	(5,795)
Total deferred tax liabilities	(6,577)	(8,856)
Net deferred tax assets before valuation allowance	22,969	20,484
Valuation allowance	(3,012)	(1,739)
Net deferred tax assets (liabilities)	\$ 19,957	\$ 18,745

The following table presents our U.S. consolidated income tax group tax losses and credits carryforwards as of December 31, 2015.

**December 31, 2015**  
(in millions)

	Gross	Tax Effected	Expiration Periods
Net operating loss carryforwards	\$ 34,883	\$ 12,209	2028 - 2035
Foreign tax credit carryforwards		6,853	2016 - 2024
Other carryforwards		538	Various
Total AIG U.S. consolidated income tax group tax losses and credits carryforwards on a tax return basis		19,600	

Unrecognized tax benefit	(2,523)
Total AIG U.S. consolidated income tax group tax losses and credits carryforwards on a U.S. GAAP basis*	\$ 17,077

\* Includes other carryforwards, e.g. general business credits, of \$326 million on a U.S. GAAP basis.

We have U.S. federal consolidated net operating loss and tax credit carryforwards of approximately \$17.1 billion, including \$266 million of the foreign tax credit carryforward originated in tax years 2006 and 2007. The carryforward periods for 2006 and 2007 foreign tax credits expire in 2016 and 2017, respectively. As detailed in the Assessment of Deferred Tax Asset Valuation Allowance section of this footnote, we determined that it is more likely than not that our U.S. federal consolidated tax attribute carryforwards will be realized prior to their expiration.



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#### **Assessment of Deferred Tax Asset Valuation Allowance**

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.

Our framework for assessing the recoverability of the deferred tax asset requires us to consider all available evidence, including:

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

In performing our assessment of the recoverability of the deferred tax asset under this framework, we consider tax laws governing the utilization of the net operating loss, capital loss and foreign tax credit carryforwards in each applicable jurisdiction. Under U.S. tax law, a company generally must use its net operating loss carryforwards before it can use its foreign tax credit carryforwards, even though the carryforward period for the foreign tax credit is shorter than for the net operating loss. Our U.S. federal consolidated income tax group includes both life companies and non-life companies. While the U.S. taxable income of our non-life companies can be offset by the net operating loss carryforwards, only a portion (no more than 35 percent) of the U.S. taxable income of our life companies can be offset by those net operating loss carryforwards. The remaining tax liability of our life companies can be offset by the foreign tax credit carryforwards. Accordingly, we utilize both the net operating loss and foreign tax credit carryforwards concurrently which enables us to realize our tax attributes prior to expiration. As of December 31, 2015, based on all available evidence, it is more likely than not that the U.S. net operating loss and foreign tax credit carryforwards will be utilized prior to expiration and, thus, no valuation allowance has been established.

Estimates of future taxable income, including income generated from prudent and feasible actions and tax planning strategies could change in the near term, perhaps materially, which may require us to consider any potential impact to our assessment of the recoverability of the deferred tax asset. Such potential impact could be material to our consolidated financial condition or results of operations for an individual reporting period.

For the three months ended December 31, 2015, recent changes in market conditions, including rising interest rates, impacted the unrealized tax losses in the U.S. Life Insurance Companies' available for sale portfolio, resulting in an increase to the related deferred tax asset. The deferred tax asset relates to the unrealized losses for which the carryforward period has not yet begun, and as such, when assessing its recoverability, we consider our ability and intent to hold the underlying securities to recovery. As of December 31, 2015, 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.

For the year ended December 31, 2015, we established \$1.2 billion of valuation allowance associated with the unrealized tax losses in the U.S. Life Insurance Companies, all of which was allocated to other comprehensive income.

During the year ended December 31, 2015, we recognized an increase of \$110 million in our deferred tax asset valuation allowance associated with certain foreign jurisdictions, primarily attributable to factors such as cumulative losses in recent years and the inability to demonstrate profits within the specific jurisdictions over the relevant carryforward periods.

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The following table presents the net deferred tax assets (liabilities) at December 31, 2015 and 2014 on a U.S. GAAP basis:

December 31,  
(in millions)

	2015	2014
Net U.S. consolidated return group deferred tax assets	\$ 24,134	\$ 24,543
Net deferred tax assets (liabilities) in accumulated other comprehensive income	(2,806)	(5,510)
Valuation allowance	(1,281)	(129)
Subtotal	20,047	18,904
Net foreign, state and local deferred tax assets	2,078	2,045
Valuation allowance	(1,731)	(1,610)
Subtotal	347	435
Subtotal - Net U.S., foreign, state and local deferred tax assets	20,394	19,339
Net foreign, state and local deferred tax liabilities	(437)	(594)
Total AIG net deferred tax assets (liabilities)	\$ 19,957	\$ 18,745

**Deferred Tax Asset Valuation Allowance of U.S. Consolidated Income Tax Group**

At December 31, 2015 and 2014, our U.S. consolidated income tax group had net deferred tax assets after valuation allowance of \$20.0 billion and \$18.9 billion, respectively. At December 31, 2015 and 2014, our U.S. consolidated income tax group had valuation allowances of \$1.3 billion and \$129 million, respectively.

**Deferred Tax Liability — Foreign, State and Local**

At December 31, 2015 and 2014, we had net deferred tax liabilities of \$90 million and \$159 million, respectively, related to foreign subsidiaries, state and local tax jurisdictions, and certain domestic subsidiaries that file separate tax returns.

At December 31, 2015 and 2014, we had deferred tax asset valuation allowances of \$1.7 billion and \$1.6 billion, respectively, related to foreign subsidiaries, state and local tax jurisdictions, and certain domestic subsidiaries that file separate tax returns. We maintained these valuation allowances following our conclusion that we could not demonstrate that it was more likely than not that the related deferred tax assets will be realized. This was primarily due to factors such as cumulative losses in recent years and the inability to demonstrate profits within the specific jurisdictions over the relevant carryforward periods.

**Tax Examinations and Litigation**

We file a consolidated U.S. federal income tax return with our eligible U.S. subsidiaries. Income earned by subsidiaries operating outside the U.S. is taxed, and income tax expense is recorded, based on applicable

U.S. and foreign law.

The statute of limitations for all tax years prior to 2000 has expired for our consolidated federal income tax return. We are currently under examination for the tax years 2000 through 2010.

On March 20, 2008, we received a Statutory Notice of Deficiency (Notice) from the IRS for years 1997 to 1999. The Notice asserted that we owe additional taxes and penalties for these years primarily due to the disallowance of foreign tax credits associated with cross-border financing transactions. The transactions that are the subject of the Notice extend beyond the period covered by the Notice, and the IRS has administratively challenged the later periods. The IRS has also administratively challenged other cross-border transactions in later years. We have paid the assessed tax plus interest and penalties for 1997 to 1999. On February 26, 2009, we filed a complaint in the United States District Court for the Southern District of New York (Southern District) seeking a refund of approximately \$306 million in taxes, interest and penalties paid with respect to the 1997 taxable year. We allege that the IRS improperly disallowed foreign tax credits and that our taxable income should be reduced as a result of the 2005 restatement of our consolidated financial statements.

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We also filed an administrative refund claim on September 9, 2010 for our 1998 and 1999 tax years.

On August 1, 2012, we filed a motion for partial summary judgment related to the disallowance of foreign tax credits associated with cross border financing transactions. On March 29, 2013, the Southern District denied our motion. On March 17, 2014, the U.S. Court of Appeals for the Second Circuit (the Second Circuit) granted our petition for an immediate appeal of the partial summary judgment decision. On September 9, 2015, the Second Circuit affirmed the decision of the Southern District. On October 13, 2015, we filed a petition for a writ of certiorari to the U.S Supreme Court. If the U.S. Supreme Court does not grant certiorari the case will be remanded back to the Southern District for trial.

We will vigorously defend our position and continue to believe that we have adequate reserves for any liability that could result from these government actions. We continue to monitor legal and other developments in this area and evaluate the effect, if any, on our position, including recent decisions affecting other taxpayers.

**Accounting For Uncertainty in Income Taxes**

The following table presents a reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits:

**Years Ended December 31,***(in millions)*

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Gross unrecognized tax benefits, beginning of year	<b>\$ 4,395</b>	<b>\$ 4,340</b>	<b>\$ 4,385</b>
Increases in tax positions for prior years	<b>162</b>	91	680
Decreases in tax positions for prior years	<b>(209)</b>	(60)	(796)
Increases in tax positions for current year	-	10	43
Lapse in statute of limitations	<b>(4)</b>	(6)	(20)
Settlements	<b>(13)</b>	-	(2)
Activity of discontinued operations	-	20	50
Gross unrecognized tax benefits, end of year	<b>\$ 4,331</b>	<b>\$ 4,395</b>	<b>\$ 4,340</b>

At December 31, 2015, 2014 and 2013, our unrecognized tax benefits, excluding interest and penalties, were \$4.3 billion, \$4.4 billion and \$4.3 billion, respectively. The activity includes increases for amounts associated with cross border financing transactions partially offset by certain benefits realized due to the partial completion of the Internal Revenue Service examination covering tax year 2006. At December 31, 2015, 2014 and 2013, our unrecognized tax benefits related to tax positions that, if recognized, would not affect the effective tax rate because they relate to such factors as the timing, rather than the permissibility, of the deduction were \$0.1 billion, \$0.3 billion and \$0.1 billion, respectively. Accordingly, at December 31, 2015, 2014 and 2013, the amounts of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate were \$4.2 billion, \$4.1 billion and \$4.2 billion, respectively.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense. At December 31, 2015 and 2014, we had accrued liabilities of \$1.2 billion and \$1.1 billion, respectively for the payment of interest (net of the federal benefit) and penalties. For the years ended December 31, 2015, 2014 and 2013, we accrued expense of \$156 million, \$21 million and \$142 million, respectively, for the payment of interest (net of the federal benefit) and penalties. The interest increase from December 31, 2014 was primarily due to increases in amounts associated with cross border financing transactions.

We regularly evaluate adjustments proposed by taxing authorities. At December 31, 2015, such proposed adjustments would not have resulted in a material change to our consolidated financial condition, although it is possible that the effect could be material to our consolidated results of operations for an individual reporting period. Although it is reasonably possible that a change in the balance of unrecognized tax benefits may occur within the next 12 months, based on the information currently available, we do not expect any change to be material to our consolidated financial condition.

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Listed below are the tax years that remain subject to examination by major tax jurisdictions:

**At December 31, 2015**

**Open Tax Years**

**Major Tax Jurisdiction**

United States	2000-2014
Australia	2011-2014
France	2013-2014
Japan	2009-2014
Korea	2010-2014
Singapore	2011-2014
United Kingdom	2013-2014

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	Three Months Ended							
	March 31,		June 30,		September 30,		December 31,	
<i>(dollars in millions, except per share data)</i>	2015	2014	2015	2014	2015	2014	2015	2014
Total revenues	\$15,975	\$16,163	\$15,699	\$16,136	\$12,822	\$16,697	\$13,831	\$15,410
Income (loss) from continuing operations before income taxes*	3,776	2,273	2,552	4,480	(115)	3,019	(2,932)	729
Income (loss) from discontinued operations, net of income taxes	1	(47)	16	30	(17)	2	-	(35)
Net income (loss)	2,477	1,612	1,791	3,036	(197)	2,201	(1,849)	675
Net income (loss) from continuing operations attributable to noncontrolling interests	9	3	(9)	(37)	34	9	(8)	20
Net income (loss) attributable to AIG*	\$ 2,468	\$ 1,609	\$ 1,800	\$ 3,073	\$ (231)	\$ 2,192	\$ (1,841)	\$ 655
Earnings (loss) per common share attributable to AIG common shareholders:								
Basic:								
Income (loss) from continuing operations	\$ 1.81	\$ 1.13	\$ 1.34	\$ 2.11	\$ (0.17)	\$ 1.54	\$ (1.50)	\$ 0.50
Income (loss) from discontinued operations	\$ -	\$ (0.03)	\$ 0.01	\$ 0.02	\$ (0.01)	\$ -	\$ -	\$ (0.03)
Diluted:								
Income (loss) from continuing operations	\$ 1.78	\$ 1.12	\$ 1.31	\$ 2.08	\$ (0.17)	\$ 1.52	\$ (1.50)	\$ 0.49
Income (loss) from discontinued operations	\$ -	\$ (0.03)	\$ 0.01	\$ 0.02	\$ (0.01)	\$ -	\$ -	\$ (0.03)
Weighted average shares outstanding:								
Basic	1,365,951,459	1,329,249,323	1,357,442,397	1,379,072,419	1,239,226,880	1,391,790,420	1,280,691,790	1,420,790,420
Diluted	1,386,263,472	1,351,035,390	1,365,390,464	1,379,072,442	1,239,226,880	1,391,790,420	1,280,691,790	1,420,790,420
Noteworthy quarterly items - income (expense):								
Other-than-temporary impairments	(128)	(59)	(164)	(55)	(273)	(50)	(106)	(83)



Net (gain) loss on sale of divested businesses	<b>6</b>	(4)	<b>1</b>	(2,174)	<b>3</b>	(18)	<b>1</b>	(1)
Federal and foreign valuation allowance for deferred tax assets	<b>93</b>	65	<b>(40)</b>	75	<b>8</b>	21	<b>49</b>	20
Net gain (loss) on extinguishment of debt	<b>(68)</b>	(238)	<b>(342)</b>	(34)	<b>(346)</b>	(742)	<b>-</b>	(1,268)
Reserve strengthening charges	<b>24</b>	-	<b>317</b>	-	<b>191</b>	-	<b>3,587</b>	-
Restructuring and other costs	<b>-</b>	-	<b>-</b>	-	<b>274</b>	-	<b>222</b>	-

\* For the three months ended December 31, 2015, we recorded out of period adjustments related to prior periods that decreased Net income attributable to AIG by \$193 million, decreased AIG's Income from continuing operations before income taxes by \$308 million and decreased pre-tax operating income by \$122 million. The out of period adjustments primarily related to impairments of Other invested assets and changes in Liability for unpaid losses and loss adjustment expenses 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 three-month periods ended September 30, 2015, June 30, 2015 and March 31, 2015 would have decreased by \$36 million, increased by \$15 million and decreased by \$16 million, respectively. Net income attributable to AIG for the three-month periods ended December 31, 2014, September 30, 2014, June 30, 2014 and March 31, 2014 would have increased by \$25 million, decreased by \$61 million, increased by \$13 million and decreased by \$28 million, respectively.

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The following condensed consolidating financial statements reflect the results of AIG Life Holdings, Inc. (AIGLH), a holding company and a wholly owned subsidiary of AIG. AIG provides a full and unconditional guarantee of all outstanding debt of AIGLH.

**Condensed Consolidating Balance Sheets**

	American International Group, Inc. (As Guarantor)	AIGLH	Subsidiaries	Reclassifications Other Eliminations	Consolidated AIG
<i>(in millions)</i>					
<b>December 31, 2015</b>					
<b>Assets:</b>					
Short-term investments	\$ 4,042	\$ -	\$ 9,637	\$(3,547)	\$ 10,132
Other investments <sup>(a)</sup>	7,425	-	320,797	-	328,222
Total investments	11,467	-	330,434	\$(3,547)	338,354
Cash	34	116	1,479	-	1,629
Loans to subsidiaries <sup>(b)</sup>	35,927	-	578	\$(36,505)	-
Investment in consolidated subsidiaries <sup>(b)</sup>	51,151	30,239	-	\$(81,390)	-
Other assets, including deferred income taxes	23,398	260	135,690	\$(2,388)	156,960
<b>Total assets</b>	<b>\$ 121,977</b>	<b>\$ 30,615</b>	<b>\$ 468,181</b>	<b>\$(123,830)</b>	<b>\$ 496,943</b>
<b>Liabilities:</b>					
Insurance liabilities	\$ -	\$ -	\$ 271,645	-	\$ 271,645
Long-term debt	19,876	706	8,768	-	29,350
Other liabilities, including intercompany balances <sup>(a)</sup>	11,869	201	99,777	\$(6,109)	105,738
Loans from subsidiaries <sup>(b)</sup>	574	3	35,928	\$(36,505)	-
<b>Total liabilities</b>	<b>32,319</b>	<b>910</b>	<b>416,118</b>	<b>\$(42,614)</b>	<b>406,733</b>
<b>Total AIG shareholders' equity</b>	<b>89,658</b>	<b>29,705</b>	<b>51,511</b>	<b>\$(81,216)</b>	<b>89,658</b>
<b>Non-redeemable noncontrolling interests</b>	<b>-</b>	<b>-</b>	<b>552</b>	<b>-</b>	<b>552</b>
<b>Total equity</b>	<b>89,658</b>	<b>29,705</b>	<b>52,063</b>	<b>\$(81,216)</b>	<b>90,210</b>
<b>Total liabilities and equity</b>	<b>\$ 121,977</b>	<b>\$ 30,615</b>	<b>\$ 468,181</b>	<b>\$(123,830)</b>	<b>\$ 496,943</b>



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December 31, 2014

**Assets:**

Short-term investments	\$ 6,078	\$ -	\$ 6,231	\$ (1,066)	\$ 11,243
Other investments <sup>(a)</sup>	11,415	-	333,108	-	344,523
Total investments	17,493	-	339,339	(1,066)	355,766
Cash	26	91	1,641	-	1,758
Loans to subsidiaries <sup>(b)</sup>	31,070	-	779	(31,849)	-
Investment in consolidated subsidiaries <sup>(b)</sup>	62,811	35,850	-	(98,661)	-
Other assets, including deferred income taxes	23,835	2,305	141,826	(9,909)	158,057
<b>Total assets</b>	<b>\$ 135,235</b>	<b>\$ 38,246</b>	<b>\$ 483,585</b>	<b>\$ (141,485)</b>	<b>\$ 515,581</b>

**Liabilities:**

Insurance liabilities	\$ -	\$ -	\$ 270,615	\$ -	\$ 270,615
Long-term debt	21,190	820	9,207	-	31,217
Other liabilities, including intercompany balances <sup>(a)</sup>	6,196	2,314	108,189	(10,222)	106,477
Loans from subsidiaries <sup>(b)</sup>	951	-	30,898	(31,849)	-
<b>Total liabilities</b>	<b>28,337</b>	<b>3,134</b>	<b>418,909</b>	<b>(42,071)</b>	<b>408,309</b>
<b>Total AIG shareholders' equity</b>	<b>106,898</b>	<b>35,112</b>	<b>64,302</b>	<b>(99,414)</b>	<b>106,898</b>
<b>Non-redeemable noncontrolling interests</b>	<b>-</b>	<b>-</b>	<b>374</b>	<b>-</b>	<b>374</b>
<b>Total equity</b>	<b>106,898</b>	<b>35,112</b>	<b>64,676</b>	<b>(99,414)</b>	<b>107,272</b>
<b>Total liabilities and equity</b>	<b>\$ 135,235</b>	<b>\$ 38,246</b>	<b>\$ 483,585</b>	<b>\$ (141,485)</b>	<b>\$ 515,581</b>

(a) Includes intercompany derivative positions, which are reported at fair value before credit valuation adjustment.

(b) Eliminated in consolidation.

**TABLE OF CONTENTS****Item 8 / note 24. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT****Condensed Consolidating Statements of Income (Loss)**

	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries	Re
<i>(in millions)</i>				
<b>Year Ended December 31, 2015</b>				
<b>Revenues:</b>				
Equity in earnings of consolidated subsidiaries*	\$ 3,954	\$ 1,936	\$ -	
Other income	88	-	58,953	
<b>Total revenues</b>	<b>4,042</b>	<b>1,936</b>	<b>58,953</b>	
<b>Expenses:</b>				
Interest expense	1,049	58	302	
Loss on extinguishment of debt	703	-	46	
Other expenses	1,178	44	52,374	
<b>Total expenses</b>	<b>2,930</b>	<b>102</b>	<b>52,722</b>	
Income (loss) from continuing operations before income tax expense (benefit)	1,112	1,834	6,231	
Income tax expense (benefit)	(1,086)	(73)	2,218	
<b>Income (loss) from continuing operations</b>	<b>2,198</b>	<b>1,907</b>	<b>4,013</b>	
<b>Income (loss) from discontinued operations, net of income taxes</b>	<b>(2)</b>	<b>-</b>	<b>2</b>	
<b>Net income (loss)</b>	<b>2,196</b>	<b>1,907</b>	<b>4,015</b>	
<b>Less:</b>				
<b>Net income from continuing operations attributable to noncontrolling interests</b>	<b>-</b>	<b>-</b>	<b>26</b>	
<b>Net income (loss) attributable to AIG</b>	<b>\$ 2,196</b>	<b>\$ 1,907</b>	<b>\$ 3,989</b>	
<b>Year Ended December 31, 2014</b>				
<b>Revenues:</b>				
Equity in earnings of consolidated subsidiaries*	\$ 9,450	\$ 3,519	\$ -	
Other income	1,658	-	63,157	
<b>Total revenues</b>	<b>11,108</b>	<b>3,519</b>	<b>63,157</b>	
<b>Expenses:</b>				
Interest expense	1,507	100	243	
Loss on extinguishment of debt	2,248	-	85	
Other expenses	1,546	203	48,315	
<b>Total expenses</b>	<b>5,301</b>	<b>303</b>	<b>48,643</b>	
Income (loss) from continuing operations before income tax				

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expense (benefit)	5,807	3,216	14,514
Income tax expense (benefit)	(1,735)	(103)	4,817
<b>Income (loss) from continuing operations</b>	<b>7,542</b>	<b>3,319</b>	<b>9,697</b>
<b>Loss from discontinued operations, net of income taxes</b>	<b>(13)</b>	<b>-</b>	<b>(37)</b>
<b>Net income (loss)</b>	<b>7,529</b>	<b>3,319</b>	<b>9,660</b>
<b>Less:</b>			
<b>Net income (loss) from continuing operations attributable to noncontrolling interests:</b>	-	-	(5)
<b>Net income (loss) attributable to AIG</b>	<b>\$ 7,529</b>	<b>\$ 3,319</b>	<b>\$ 9,665</b>
<hr/>			
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**TABLE OF CONTENTS****Item 8 / note 24. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT****Year Ended December 31, 2013****Revenues:**

Equity in earnings of consolidated subsidiaries*	\$ 7,638	\$4,075	\$ -	\$(11,713)	\$ -
Other income	1,487	1	67,698	(312)	68,874
<b>Total revenues</b>	<b>9,125</b>	<b>4,076</b>	<b>67,698</b>	<b>(12,025)</b>	<b>68,874</b>

**Expenses:**

Other interest expense	1,938	126	233	(155)	2,142
Loss on extinguishment of debt	580	-	71	-	651
Other expenses	1,520	75	55,277	(159)	56,713
<b>Total expenses</b>	<b>4,038</b>	<b>201</b>	<b>55,581</b>	<b>(314)</b>	<b>59,506</b>

Income (loss) from continuing operations before income tax expense (benefit)	5,087	3,875	12,117	(11,711)	9,368
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Income tax expense (benefit)	(4,012)	(58)	4,454	(24)	360
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<b>Income (loss) from continuing operations</b>	<b>9,099</b>	<b>3,933</b>	<b>7,663</b>	<b>(11,687)</b>	<b>9,008</b>
-------------------------------------------------	--------------	--------------	--------------	-----------------	--------------

<b>Income (loss) from discontinued operations, net of income taxes</b>	<b>(14)</b>	<b>-</b>	<b>98</b>	<b>-</b>	<b>84</b>
------------------------------------------------------------------------	-------------	----------	-----------	----------	-----------

<b>Net income (loss)</b>	<b>9,085</b>	<b>3,933</b>	<b>7,761</b>	<b>(11,687)</b>	<b>9,092</b>
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Less:

<b>Net income from continuing operations attributable to noncontrolling interests</b>	<b>-</b>	<b>-</b>	<b>7</b>	<b>-</b>	<b>7</b>
---------------------------------------------------------------------------------------	----------	----------	----------	----------	----------

<b>Net income (loss) attributable to AIG</b>	<b>\$ 9,085</b>	<b>\$3,933</b>	<b>\$ 7,754</b>	<b>\$(11,687)</b>	<b>\$ 9,085</b>
----------------------------------------------	-----------------	----------------	-----------------	-------------------	-----------------

\* Eliminated in consolidation.

**TABLE OF CONTENTS****Item 8 / note 24. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT****Condensed Consolidating Statements of Comprehensive Income (Loss)**

	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries	Recla
<i>(in millions)</i>				
<b>Year Ended December 31, 2015</b>				
Net income (loss)	\$ 2,196\$	1,907\$	4,015\$	
Other comprehensive income (loss)	(8,080)	2,320	54,757	
Comprehensive income (loss)	(5,884)	4,227	58,772	
Total comprehensive income attributable to noncontrolling interests	-	-	20	
Comprehensive income (loss) attributable to AIG	\$ (5,884)\$	4,227\$	58,752\$	
<b>Year Ended December 31, 2014</b>				
Net income (loss)	\$ 7,529\$	3,319\$	9,660\$	
Other comprehensive income (loss)	4,257	2,794	3,235	
Comprehensive income (loss)	11,786	6,113	12,895	
Total comprehensive loss attributable to noncontrolling interests	-	-	(5)	
Comprehensive income (loss) attributable to AIG	\$ 11,786\$	6,113\$	12,900\$	
<b>Year Ended December 31, 2013</b>				
Net income (loss)	\$ 9,085\$	3,933\$	7,761\$	
Other comprehensive income (loss)	(6,214)	(4,689)	(6,719)	
Comprehensive income (loss)	2,871	(756)	1,042	
Total comprehensive loss attributable to noncontrolling interests	-	-	(16)	
Comprehensive income (loss) attributable to AIG	\$ 2,871\$	(756)\$	1,058\$	



**TABLE OF CONTENTS****Item 8 / note 24. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT****Condensed Consolidating Statements of Cash Flows**

<i>(in millions)</i>	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries*	Reclassifications and Eliminations*
<b>Year Ended December 31, 2015</b>				
<b>Net cash (used in) provided by operating activities</b>	<b>\$ 4,443</b>	<b>\$ 2,314</b>	<b>\$ 1,112</b>	<b>\$ (4,992)</b>
Cash flows from investing activities:				
Sales of investments	7,767	-	69,726	(4,877)
Purchase of investments	(1,881)	-	(68,261)	4,877
Loans to subsidiaries – net	(83)	-	367	(284)
Contributions to subsidiaries	565	-	-	(565)
Net change in restricted cash	-	-	1,457	-
Net change in short-term investments	2,300	-	(1,137)	-
Other, net	(175)	-	(1,334)	-
<b>Net cash provided by investing activities</b>	<b>8,493</b>	<b>-</b>	<b>818</b>	<b>(849)</b>
Cash flows from financing activities:				
Issuance of long-term debt	5,540	-	1,327	-
Repayments of long-term debt	(6,504)	(114)	(3,187)	-
Purchase of Common Stock	(10,691)	-	-	-
Intercompany loans - net	(201)	3	(86)	284
Cash dividends paid	(1,028)	(2,178)	(2,814)	4,992
Other, net	(44)	-	2,707	565
<b>Net cash (used in) financing activities</b>	<b>(12,928)</b>	<b>(2,289)</b>	<b>(2,053)</b>	<b>5,841</b>
Effect of exchange rate changes on cash	-	-	(39)	-
<b>Change in cash</b>	<b>8</b>	<b>25</b>	<b>(162)</b>	<b>-</b>
<b>Cash at beginning of year</b>	<b>26</b>	<b>91</b>	<b>1,641</b>	<b>-</b>
<b>Change in cash of businesses held for sale</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash at end of year</b>	<b>\$ 34</b>	<b>\$ 116</b>	<b>\$ 1,479</b>	<b>-</b>
<b>Year Ended December 31, 2014</b>				
<b>Net cash (used in) provided by operating activities</b>	<b>\$ 9,316</b>	<b>\$ 6,155</b>	<b>\$ 8,979</b>	<b>\$ (19,443)</b>
Cash flows from investing activities:				
Sales of investments	3,036	-	65,108	(2,040)
Purchase of investments	(1,051)	-	(59,099)	2,040
Loans to subsidiaries – net	446	-	169	(615)
Contributions to subsidiaries	(148)	-	296	(148)

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Net change in restricted cash	(501)	-	(946)	-
Net change in short-term investments	5,792	-	2,968	-
Other, net	(141)	-	(882)	-
<b>Net cash (used in) provided by investing activities</b>	<b>7,433</b>	<b>-</b>	<b>7,614</b>	<b>(763)</b>

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## Cash flows from financing activities:

Issuance of long-term debt	3,247	-	3,440	-	6,687
Repayments of long-term debt	(14,468)	(477)	(1,215)	-	(16,160)
Intercompany loans - net	110	(280)	(445)	615	-
Purchase of common stock	(4,902)	-	-	-	(4,902)
Cash dividends paid to shareholders	(712)	(5,358)	(14,085)	19,443	(712)
Other, net	(28)	-	(4,821)	148	(4,701)
<b>Net cash (used in) provided by financing activities</b>	<b>(16,753)</b>	<b>(6,115)</b>	<b>(17,126)</b>	<b>20,206</b>	<b>(19,788)</b>
Effect of exchange rate changes on cash	-	-	(74)	-	(74)
<b>Change in cash</b>	<b>(4)</b>	<b>40</b>	<b>(607)</b>	<b>-</b>	<b>(571)</b>
<b>Cash at beginning of year</b>	<b>30</b>	<b>51</b>	<b>2,160</b>	<b>-</b>	<b>2,241</b>
<b>Reclassification to assets held for sale</b>	<b>-</b>	<b>-</b>	<b>88</b>	<b>-</b>	<b>88</b>
<b>Cash at end of year</b>	<b>\$ 26</b>	<b>\$ 91</b>	<b>\$ 1,641</b>	<b>-\$</b>	<b>1,758</b>

## Year Ended December 31, 2013

**Net cash (used in) provided by operating activities** \$ 6,422 \$ 4,488 \$ 7,385 \$ (12,430) \$ 5,865

## Cash flows from investing activities:

Sales of investments	1,425	-	78,868	(3,199)	77,094
Purchase of investments	(5,506)	-	(75,580)	3,199	(77,887)
Loans to subsidiaries – net	3,660	-	395	(4,055)	-
Contributions to subsidiaries	(2,081)	(1)	-	2,082	-
Net change in restricted cash	493	-	751	-	1,244
Net change in short-term investments	2,361	-	5,481	-	7,842
Other, net	130	-	(1,324)	-	(1,194)
<b>Net cash (used in) provided by investing activities</b>	<b>482</b>	<b>(1)</b>	<b>8,591</b>	<b>(1,973)</b>	<b>7,099</b>

## Cash flows from financing activities:

Issuance of long-term debt	2,015	-	3,220	-	5,235
Repayments of long-term debt	(7,439)	(245)	(6,513)	-	(14,197)
Intercompany loans - net	(123)	(273)	(3,659)	4,055	-
Purchase of common stock	(597)	-	-	-	(597)
Cash dividends paid to shareholders	(294)	(3,991)	(8,439)	12,430	(294)
Other, net	(517)	-	694	(2,082)	(1,905)
<b>Net cash (used in) provided by financing activities</b>	<b>(6,955)</b>	<b>(4,509)</b>	<b>(14,697)</b>	<b>14,403</b>	<b>(11,758)</b>
Effect of exchange rate changes on cash	-	-	(92)	-	(92)
<b>Change in cash</b>	<b>(51)</b>	<b>(22)</b>	<b>1,187</b>	<b>-</b>	<b>1,114</b>
<b>Cash at beginning of year</b>	<b>81</b>	<b>73</b>	<b>997</b>	<b>-</b>	<b>1,151</b>
<b>Change in cash of businesses held for sale</b>	<b>-</b>	<b>-</b>	<b>(24)</b>	<b>-</b>	<b>(24)</b>
<b>Cash at end of year</b>	<b>\$ 30</b>	<b>\$ 51</b>	<b>\$ 2,160</b>	<b>-\$</b>	<b>2,241</b>

\* The Other Subsidiaries and Reclassifications and Eliminations amounts were disclosed together in prior periods. The new presentation had no impact on the Consolidated AIG amounts.



**TABLE OF CONTENTS****Item 8 / note 24. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT****Supplementary Disclosure of Condensed Consolidating Cash Flow Information**

<i>(in millions)</i>	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries*
<b>Cash (paid) received during the year ended December 31, 2015 for:</b>			
Interest:			
Third party	\$ (1,030)	\$ (59)	\$ (279)
Intercompany	-	-	-
Taxes:			
Income tax authorities	\$ (11)	-\$	\$ (500)
Intercompany	829	-	(829)
<b>Cash (paid) received during the year ended December 31, 2014 for:</b>			
Interest:			
Third party	\$ (1,624)	\$ (87)	\$ (1,656)
Intercompany	5	(7)	2
Taxes:			
Income tax authorities	\$ (18)	-\$	\$ (719)
Intercompany	1,172	-	(1,172)
<b>Cash (paid) received during the year ended December 31, 2013 for:</b>			
Interest:			
Third party*	\$ (1,963)	\$ (111)	\$ (1,782)
Intercompany	(12)	(21)	33
Taxes:			
Income tax authorities	\$ (161)	-\$	\$ (635)
Intercompany	288	(78)	(210)

\* The Other Subsidiaries and Reclassifications and Eliminations amounts were disclosed together in prior periods. The new presentation had no impact on the Consolidated AIG amounts.

**American International Group, Inc. (As Guarantor) supplementary disclosure of non-cash activities:**

<b>Years Ended December 31,</b> <i>(in millions)</i>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Intercompany non-cash financing and investing activities:</b>			

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Capital contributions to subsidiaries through forgiveness of loans	\$	-	\$	-	\$	341
Dividends received in the form of securities		2,326		3,088		-
Other capital contributions - net		494		2,457		523
Return of capital*		-		4,836		-
<b>Non-cash financing/investing activities:</b>						
Consideration received from sale of shares of AerCap		500		-		-
* Includes \$4.8 billion return of capital from AIG Capital Corporation related to the sale of ILFC.						

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### **Item 8 / note 25. SUBSEQUENT EVENTS**

### **25. Subsequent events**

#### **Dividends Declared and Share Repurchase Authorization**

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 February 11, 2016, our Board of Directors authorized an additional increase to the repurchase authorization of AIG Common Stock of \$5.0 billion, resulting in an aggregate remaining authorization on such date of approximately \$5.8 billion.

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## **Part II**

### **ITEM 9 / CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

### **ITEM 9A / CONTROLS AND PROCEDURES**

#### **EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. In connection with the preparation of this Annual Report on Form 10-K, an evaluation was carried out by AIG management, with the participation of AIG's Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of December 31, 2015. Based on this evaluation, AIG's Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2015.

#### **Management's Report on Internal Control Over Financial Reporting**

Management of AIG is responsible for establishing and maintaining adequate internal control over financial reporting. AIG's internal control over financial reporting is a process, under the supervision of AIG's Chief Executive Officer and Chief Financial Officer, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of AIG's financial statements for external purposes in accordance with U.S. GAAP.

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.

AIG management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2015 based on the criteria established in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).



AIG management has concluded that, as of December 31, 2015, our internal control over financial reporting was effective based on the criteria articulated in the 2013 *Internal Control – Integrated Framework* issued by the COSO. The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included in this Annual Report on Form 10-K.

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### **Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting that have occurred during the quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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### **Part III**

#### **ITEM 10 / DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

All information required by Items 10, 11, 12, 13 and 14 of this Form 10-K is incorporated by reference from the definitive proxy statement for AIG's 2016 Annual Meeting of Shareholders, which will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to Regulation 14A.

#### **ITEM 11 / EXECUTIVE COMPENSATION**

See Item 10 herein.

#### **ITEM 12 / SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

See Item 10 herein.

#### **ITEM 13 / CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

See Item 10 herein.

#### **ITEM 14 / PRINCIPAL ACCOUNTING FEES AND SERVICES**

See Item 10 herein.

### **Part IV**

#### **ITEM 15 / EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) Financial Statements and Schedules. See accompanying Index to Financial Statements.

(b) Exhibits. See accompanying Exhibit Index.



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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on the 19th of February, 2016.

**AMERICAN INTERNATIONAL GROUP, INC.**

By /s/ PETER D. HANCOCK

-  
Officer)

(Peter D. Hancock, President and Chief Executive

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Peter D. Hancock and David L. Herzog, and each of them severally, his or her true and lawful attorney-in-fact, with full power of substitution and resubstitution, to sign in his or her name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the U.S. Securities and Exchange Commission in connection with this Annual Report on Form 10-K and any and all amendments hereto, as fully for all intents and purposes as he or she might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 19th of February, 2016.

<u>Signature</u>	<u>Title</u>
<u>/s/ PETER D. HANCOCK</u> (Peter D. Hancock)	President, Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ DAVID L. HERZOG</u> (David L. Herzog)	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
<u>/s/ ELIAS F. HABAYEB</u> (Elias F. Habayeb)	Senior Vice President – Deputy Chief Financial Officer and Group Controller (Principal Accounting Officer)
<u>/s/ W. DON CORNWELL</u> (W. Don Cornwell)	Director
<u>/s/ PETER R. FISHER</u> (Peter R. Fisher)	Director
<u>/s/ JOHN H. FITZPATRICK</u> (John H. Fitzpatrick)	Director

/s/ WILLIAM G. JURGENSEN  
(William G. Jurgensen)

Director

          /s/ CHRISTOPHER S.  
LYNCH  
(Christopher S. Lynch)

Director

          /s/ GEORGE L. MILES.  
JR.  
(George L. Miles, Jr.)

Director

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<u>                    /s/ HENRY S.</u> <u>MILLER</u> <u>                    (Henry S. Miller)</u>	Director
<u>                    /s/ ROBERT S.</u> <u>MILLER</u> <u>                    (Robert S. Miller)</u>	Director
<u>                    /s/ LINDA A.</u> <u>MILLS</u> <u>                    (Linda A. Mills)</u>	Director
<u>                    /s/ SUZANNE NORA</u> <u>JOHNSON</u> <u>                    (Suzanne Nora Johnson)</u>	Director
<u>                    /s/ RONALD A.</u> <u>RITTENMEYER</u> <u>                    (Ronald A. Rittenmeyer)</u>	Director
<u>                    /s/ DOUGLAS M.</u> <u>STEENLAND</u> <u>                    (Douglas M. Steenland)</u>	Director
<u>                    /s/ THERESA M. STONE</u> <u>                    (Theresa M. Stone)</u>	Director



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**EXHIBIT INDEX**

2	Plan of acquisition, reorganization, arrangement, liquidation or succession (1) Master Transaction Agreement, dated as of December 8, 2010, among AIG, ALICO Holdings LLC, AIA Aurora LLC, the Federal Reserve Bank of New York, the United States Department of the Treasury and the AIG Credit Facility Trust	Incorporated by reference to Exhibit 2.1 to AIG's Current Report on Form 8-K filed with the SEC on December 8, 2010 (File No. 1-8787).
3	Articles of incorporation and by laws	
3(i)	Amended and Restated Certificate of Incorporation of AIG	Incorporated by reference to Exhibit 3.1 to AIG's Current Report on Form 8-K filed with the SEC on May 12, 2014 (File No. 1-8787).
3(ii)	AIG By-laws, amended November 16, 2015	Incorporated by reference to Exhibit 3.1 to AIG's Current Report on Form 8-K filed with the SEC on November 16, 2015 (File No. 1-8787).
4	Instruments defining the rights of security holders, including indentures  (1) Credit Agreement, dated as of September 22, 2008, between AIG and Federal Reserve Bank of New York  (2) Warrant Agreement (including Form of Warrant), dated as of January 6, 2011, between AIG and Wells Fargo Bank, N.A., as Warrant Agent  (3) Tax Asset Protection Plan, dated as of March 9, 2011, between AIG and Wells Fargo Bank, N.A., as Rights Agent, including as Exhibit A the forms of Rights Certificate and of Election to Exercise  (4) Amendment No. 1, dated as of January 8, 2014, to Tax Asset Protection Plan, between AIG and Wells Fargo Bank, National Association, as Rights Agent	Certain instruments defining the rights of holders of long-term debt securities of AIG and its subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. AIG hereby undertakes to furnish to the Commission, upon request, copies of any such instruments.  Incorporated by reference to Exhibit 99.1 to AIG's Current Report on Form 8-K filed with the SEC on September 26, 2008 (File No. 1-8787).  Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on January 7, 2011 (File No. 1-8787).  Incorporated by reference to Exhibit 4.1 to AIG's Current Report on Form 8-K filed with the SEC on March 9, 2011 (File No. 1-8787).  Incorporated by reference to Exhibit 4.1 to AIG's Current Report on Form 8-K filed with the SEC on January 8, 2014 (File No. 1-8787).
9	Voting Trust Agreement	None.
10	Material contracts (1) AIG Amended and Restated 1999 Stock Option Plan*  (2) Form of Stock Option Grant Agreement under the AIG Amended and Restated 1999 Stock Option Plan*	Filed as exhibit to AIG's Definitive Proxy Statement dated April 4, 2003 (File No. 1-8787) and incorporated herein by reference.  Incorporated by reference to Exhibit 10(a) to AIG's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (File

	No. 1-8787).
(3) AIG Executive Deferred Compensation Plan*	Incorporated by reference to Exhibit 4(a) to AIG's Registration Statement on Form S-8 (File No. 333-101640).
(4) AIG Supplemental Incentive Savings Plan*	Incorporated by reference to Exhibit 4(b) to AIG's Registration Statement on Form S-8 (File No. 333-101640).
(5) AIG Director Stock Plan*	Filed as an exhibit to AIG's Definitive Proxy Statement dated April 5, 2004 (File No. 1-8787) and incorporated herein by reference.

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(6) Amended and Restated American General Supplemental Thrift Plan (December 31, 1998)*	Incorporated by reference to Exhibit 10.15 to American General Corporation's Annual Report on Form 10-K for the year ended December 31, 2000 (File No. 1-7981).
(7) AIG Amended and Restated Executive Severance Plan*	Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on September 26, 2008 (File No. 1-8787).
(8) Assurance Agreement, by AIG in favor of eligible employees, dated as of June 27, 2005, relating to certain obligations of Starr International Company, Inc.*	Incorporated by reference to Exhibit 10(6) to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 (File No. 1-8787).
(9) Final Judgment and Consent with the Securities and Exchange Commission, including the related complaint, dated February 9, 2006	Incorporated by reference to Exhibit 10.2 to AIG's Current Report on Form 8-K filed with the SEC on February 9, 2006 (File No. 1-8787).
(10) Agreement between the Attorney General of the State of New York and AIG and its Subsidiaries, dated January 18, 2006	Incorporated by reference to Exhibit 10.3 to AIG's Current Report on Form 8-K filed with the SEC on February 9, 2006 (File No. 1-8787).
(11) AIG Amended and Restated 2007 Stock Incentive Plan*	Incorporated by reference to Exhibit 10.62 to AIG's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-8787).
(12) AIG Form of Stock Option Award Agreement*	Incorporated by reference to Exhibit 10.A to AIG's Registration Statement on Form S-8 (File No. 333-148148).
(13) AIG Amended and Restated Form of Non-Employee Director Deferred Stock Units Award Agreement*	Incorporated by reference to Exhibit 10.69 to AIG's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-8787).
(14) Memorandum of Understanding, dated November 25, 2009, between AIG, Maurice R. Greenberg, Howard I. Smith, C.V. Starr and Star International Company, Inc.	Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on November 25, 2009 (File No. 1-8787).
(15) Master Investment and Credit Agreement, dated as of November 25, 2008, among Maiden Lane III LLC, the Federal Reserve Bank of New York, AIG and the Bank of New York Mellon	Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on December 2, 2008 (File No. 1-8787).

- |                                                                                                                                                                                                                                                                   |                                                                                                                                                  |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>(16) Asset Purchase Agreement, dated as of December 12, 2008, among the Sellers party thereto, AIF Securities Lending Corp., AIG, Maiden Lane II LLC and the Federal Reserve Bank of New York</p>                                                              | <p>Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on December 15, 2008 (File No. 1-8787).</p>  |
| <p>(17) AIG Credit Facility Trust Agreement, dated as of January 16, 2009, among the Federal Reserve Bank of New York and Jill M. Considine, Chester B. Feldberg and Douglas L. Foshee, as Trustees</p>                                                           | <p>Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on January 23, 2009 (File No. 1-8787).</p>   |
| <p>(18) Third Amended and Restated Credit Agreement, dated as of November 5, 2015, among AIG, the subsidiary borrowers party thereto, the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and each Several L/C Agent party thereto</p> | <p>Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on November 5, 2015 (File No. 1-8787).</p>   |
| <p>(19) American International Group, Inc. 2010 Stock Incentive Plan*</p>                                                                                                                                                                                         | <p>Incorporated by reference to AIG's Definitive Proxy Statement, dated April 12, 2010 (Filed No. 1-8787).</p>                                   |
| <p>(20) AIG Amended Form of 2010 Stock Incentive Plan DSU Award Agreement*</p>                                                                                                                                                                                    | <p>Incorporated by reference to Exhibit 10.14 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (File No. 1-8787).</p> |
| <p>(21) Release and Restrictive Covenant Agreement between AIG and Peter Hancock*</p>                                                                                                                                                                             | <p>Incorporated by reference to Exhibit 99.3 to AIG's Current Report on Form 8-K filed with the SEC on February 8, 2010 (File No. 1-8787).</p>   |

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(22) Non-Competition and Non-Solicitation Agreement between AIG and Peter Hancock, dated February 8, 2010*	Incorporated by reference to Exhibit 99.4 to AIG's Current Report on Form 8-K filed with the SEC on February 8, 2010 (File No. 1-8787).
(23) Letter Agreement, dated August 14, 2013, between AIG and Kevin Hogan*	Incorporated by reference to Exhibit 10.2 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (File No. 1-8787).
(24) Non-Solicitation and Non-Disclosure Agreement, dated August 14, 2013, between AIG and Kevin Hogan*	Incorporated by reference to Exhibit 10.3 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (File No. 1-8787).
(25) Introductory Bonus Agreement, dated August 14, 2013, between AIG and Kevin Hogan*	Incorporated by reference to Exhibit 10.4 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (File No. 1-8787).
(26) AIG Non-Qualified Retirement Income Plan (as amended)*	Incorporated by reference to Exhibit 10.1 to AIG's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 (File No. 1-8787).
(27) AIG Supplemental Executive Retirement Plan (as amended)*	Incorporated by reference to Exhibit 10.2 to AIG's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 (File No. 1-8787).
(28) American General Corporation Supplemental Executive Retirement Plan*	Incorporated by reference to Exhibit 10.1 to American General Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998 (File No. 1-7981).
(29) Amendment Number One to the American General Corporation Supplemental Executive Retirement Plan*	Incorporated by reference to Exhibit 10.73 to AIG's Annual Report on Form 10-K for the year ended December 31, 2012 (File No. 1-8787).
(30) Amendment Number Two to the American General Corporation' Supplemental Executive Retirement Plan*	Incorporated by reference to Exhibit 10.74 to AIG's Annual Report on Form 10-K for the year ended December 31, 2012 (File No. 1-8787).
(31) Master Transaction Agreement, dated as of April 19, 2011, by and among American	Incorporated by reference to Exhibit 10.6 to AIG's Quarterly Report on Form 10-Q for the

Home Assurance Company,  
Chartis Casualty Company (f/k/a  
American International South  
Insurance Company), Chartis  
Property Casualty Company (f/k/a  
AIG Casualty Company),  
Commerce and Industry  
Insurance Company, Granite  
State Insurance Company, Illinois  
National Insurance Co., National  
Union Fire Insurance Company of  
Pittsburgh, Pa., New Hampshire  
Insurance Company, The  
Insurance Company of the State  
of Pennsylvania, Chartis Select  
Insurance Company (f/k/a AIG  
Excess Liability Insurance  
Company Ltd.), Chartis Specialty  
Insurance Company (f/k/a  
American International Specialty  
Lines Insurance Company),  
Landmark Insurance Company,  
Lexington Insurance Company,  
AIU Insurance Company,  
American International  
Reinsurance Company, Ltd. and  
American Home Assurance  
Company, National Union Fire  
Insurance Company of Pittsburgh,  
Pa., New Hampshire Insurance  
Company and Chartis Overseas  
Limited acting as members of the  
Chartis Overseas Association as  
respects business written or  
assumed by or from affiliated  
companies of Chartis Inc.  
(collectively, the Reinsureds),  
Eaglestone Reinsurance  
Company and National Indemnity  
Company

quarter ended March 31, 2011  
(File No. 1-8787).

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(32) Amended and Restated Unconditional Capital Maintenance Agreement, dated as of February 18, 2014, between American International Group, Inc. and AGC Life Insurance Company	Incorporated by reference to Exhibit 10.58 to AIG's Annual Report on Form 10-K for the year ended December 31, 2013 (File No. 1-8787).
(33) Unconditional Capital Maintenance Agreement, dated as of July 1, 2013, between American International Group, Inc. and United Guaranty Residential Insurance Company	Incorporated by reference to Exhibit 10.7 to AIG's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 (File No. 1-8787).
(34) Side Letter, dated as of August 1, 2014, to Unconditional Capital Maintenance Agreement, dated as of July 1, 2013, between AIG and United Guaranty Residential Insurance Company	Incorporated by reference to Exhibit 10.2 to AIG's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (File No. 1-8787).
(35) AIG 2013 Long-Term Incentive Plan (as amended)*	Filed herewith.
(36) Form of 2013 Long-Term Incentive Plan Performance Share Units Award Agreement*	Incorporated by reference to Exhibit 10.2 to AIG's Current Report on Form 8-K filed with the SEC on March 27, 2013 (File No. 1-8787).
(37) Form of 2015 Performance Share Units Award Agreement*	Incorporated by reference to Exhibit 10.5 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (File No. 1-8787).
(38) AIG Clawback Policy*	Incorporated by reference to Exhibit 10.3 to AIG's Current Report on Form 8-K filed with the SEC on March 27, 2013 (File No. 1-8787).
(39) AIG 2013 Short-Term Incentive Plan*	Incorporated by reference to Exhibit 10.5 to AIG's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 (File No. 1-8787).
(40) Form of 2013 Short-Term Incentive Plan Award Letter*	Incorporated by reference to Exhibit 10.5 of AIG's



		Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 (File No. 1-8787). Filed herewith.
	(41) AIG Annual Short-Term Incentive Plan (as amended)* (42) AIG 2013 Omnibus Incentive Plan*	Incorporated by reference to Appendix B in AIG's Definitive Proxy Statement on Schedule 14A, dated April 4, 2013 (File No. 1-8787).
	(43) Description of Non-Management Director Compensation*	Incorporated by reference to "Compensation of Directors" in AIG's Definitive Proxy Statement on Schedule 14A, dated March 30, 2015 (File No. 1-8787).
	(44) AIG 2012 Executive Severance Plan (as amended)*	Incorporated by reference to Exhibit 10.3 of AIG's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 (File No. 1-8787).
	(45) Revolving Credit Agreement, dated as of December 16, 2013 by and among AIG, AerCap Ireland Capital Limited, AerCap Holdings N.V., AerCap Ireland Limited and certain subsidiaries of AerCap Holdings N.V., as guarantors	Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on December 16, 2013 (File No. 1-8787).
11	Statement re: Computation of Per Share Earnings	Included in Note 19 to Consolidated Financial Statements.
12	Computation of Ratios of Earnings to Fixed Charges	Filed herewith.
21	Subsidiaries of Registrant	Filed herewith.
23	Consent of Independent Registered Public Accounting Firm	Filed herewith.
24	Powers of attorney	Included on signature page and filed herewith.
31	Rule 13a-14(a)/15d-14(a) Certifications	Filed herewith.
32	Section 1350 Certifications**	Filed herewith.

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99.02	Securities Registered pursuant to Section 12(b) of the Act	Filed herewith.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of December 31, 2015 and December 31, 2014, (ii) the Consolidated Statements of Income for the three years ended December 31, 2015, (iii) the Consolidated Statements of Equity for the three years ended December 31, 2015, (iv) the Consolidated Statements of Cash Flows for the three years ended December 31, 2015, (v) the Consolidated Statements of Comprehensive Income (Loss) for the three years ended December 31, 2015 and (vi) the Notes to the Consolidated Financial Statements.	Filed herewith.

\* This exhibit is a management contract or a compensatory plan or arrangement.

\*\* This information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

**TABLE OF CONTENTS****Summary of Investments — Other than Investments in Related Parties****Schedule I****At December 31, 2015***(in millions)*

	Cost <sup>(a)</sup>	Fair Value	Amount at which shown in the Balance Sheet
Fixed maturities:			
U.S. government and government sponsored entities	\$ 5,066\$	5,212\$	5,212
Obligations of states, municipalities and political subdivisions	26,079	27,399	27,399
Non-U.S. governments	17,803	18,245	18,245
Public utilities	17,713	18,646	18,646
All other corporate debt securities	117,835	119,377	119,377
Mortgage-backed, asset-backed and collateralized	73,256	76,148	76,148
Total fixed maturity securities	257,752	265,027	265,027
Equity securities and mutual funds:			
Common stock:			
Public utilities	5	5	5
Banks, trust and insurance companies	1,493	2,835	2,835
Industrial, miscellaneous and all other	336	482	482
Total common stock	1,834	3,322	3,322
Preferred stock	19	22	22
Mutual funds	447	492	492
Total equity securities and mutual funds	2,300	3,836	3,836
Mortgage and other loans receivable, net of allowance	29,565	30,344	29,565
Other invested assets	29,155	29,067	29,794
Short-term investments, at cost (approximates fair value)	10,132	10,132	10,132
Derivative assets <sup>(b)</sup>	1,309	1,309	1,309
Total investments	\$ 330,213 \$	339,715\$	339,663

(a) Original cost of equity securities and fixed maturities is reduced by other-than-temporary impairment charges, and, as to fixed maturity securities, reduced by repayments and adjusted for amortization of premiums or accretion of discounts.

(b) The balance is reported in Other Assets.

**TABLE OF CONTENTS****Condensed Financial Information of Registrant  
Balance Sheets — Parent Company Only**

	<b>Schedule</b>	
<b>December 31,</b> <i>(in millions)</i>	<b>2015</b>	<b>2014</b>
<b>Assets:</b>		
Short-term investments	\$ 4,042	\$ 6,077
Other investments	7,425	11,411
Total investments	11,467	17,490
Cash	34	2
Loans to subsidiaries*	35,927	31,077
Due from affiliates - net*	1,967	3,566
Intercompany tax receivable*	3,234	
Deferred income taxes	17,564	18,300
Investments in consolidated subsidiaries*	51,151	62,811
Other assets	633	1,966
Total assets	\$ 121,977	\$ 135,233
<b>Liabilities:</b>		
Due to affiliate*	\$ 4,059	\$
Intercompany tax payable*	3,916	34
Deferred tax liabilities	9	
Notes and bonds payable	17,136	15,821
Junior subordinated debt	1,337	2,466
MIP notes payable	1,372	2,877
Series AIGFP matched notes and bonds payable	31	3
Loans from subsidiaries*	574	95
Other liabilities (includes intercompany derivative liabilities of \$144 in 2015 and \$275 in 2014)	3,885	5,851
Total liabilities	32,319	28,333
<b>AIG Shareholders' equity:</b>		
Common stock	4,766	4,766
Treasury stock	(30,098)	(19,218)
Additional paid-in capital	81,510	80,951
Retained earnings	30,943	29,771
Accumulated other comprehensive income	2,537	10,611
Total AIG shareholders' equity	89,658	106,891
Total liabilities and equity	\$ 121,977	\$ 135,233
* Eliminated in consolidation.		

See Accompanying Notes to Condensed Financial Information of Registrant.



**TABLE OF CONTENTS****Condensed Financial Information of Registrant (Continued)**  
**Statements of Income — Parent Company Only****Schedule II****Years Ended December 31,**  
*(in millions)*

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Revenues:			
Equity in undistributed net income (loss) of consolidated subsidiaries*	<b>\$ (2,929)</b>	\$ (5,573)	\$ (2,226)
Dividend income from consolidated subsidiaries*	<b>6,883</b>	15,023	9,864
Interest income	<b>342</b>	305	387
Net realized capital gains (losses)	<b>(587)</b>	8	169
Other income	<b>333</b>	1,345	931
Expenses:			
Interest expense	<b>1,049</b>	1,507	1,938
Net loss on extinguishment of debt	<b>703</b>	2,248	580
Other expenses	<b>1,178</b>	1,546	1,520
Income from continuing operations before income tax expense (benefit)	<b>1,112</b>	5,807	5,087
Income tax benefit	<b>(1,086)</b>	(1,735)	(4,012)
Net income	<b>2,198</b>	7,542	9,099
Loss from discontinued operations	<b>(2)</b>	(13)	(14)
Net income attributable to AIG Parent Company	<b>\$ 2,196</b>	\$ 7,529	\$ 9,085

\* Eliminated in consolidation.

*See Accompanying Notes to Condensed Financial Information of Registrant.***Condensed Financial Information of Registrant (Continued)**  
**Statements of Comprehensive Income — Parent Company Only****Schedule II****Years Ended December 31,**  
*(in millions)*

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Net income	<b>\$ 2,196</b>	\$ 7,529	\$ 9,085
Other comprehensive income	<b>(8,080)</b>	4,257	(6,214)
Total comprehensive income attributable to AIG	<b>\$ (5,884)</b>	\$ 11,786	\$ 2,871

*See accompanying Notes to Condensed Financial Information of Registrant*

**TABLE OF CONTENTS****Condensed Financial Information of Registrant (Continued)**  
**Statements of Cash Flows — Parent Company Only****Schedule II****Years Ended December 31,***(in millions)*

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Net cash provided by operating activities	<b>\$ 4,443</b>	<b>\$ 9,316</b>	<b>\$ 6,422</b>
Cash flows from investing activities:			
Sales and maturities of investments	<b>7,609</b>	2,996	1,074
Purchase of investments	<b>(1,881)</b>	(1,051)	(5,506)
Net change in restricted cash	<b>-</b>	(501)	493
Net change in short-term investments	<b>2,300</b>	5,792	2,361
Contributions to subsidiaries - net	<b>565</b>	(148)	(2,081)
Payments received on mortgages and other loan receivables	<b>158</b>	40	351
Loans to subsidiaries - net	<b>(83)</b>	446	3,660
Other, net	<b>(175)</b>	(141)	130
Net cash provided by investing activities	<b>8,493</b>	7,433	482
Cash flows from financing activities:			
Issuance of long-term debt	<b>5,540</b>	3,247	2,015
Repayment of long-term debt	<b>(6,504)</b>	(14,468)	(7,439)
Cash dividends paid	<b>(1,028)</b>	(712)	(294)
Loans from subsidiaries - net	<b>(201)</b>	110	(123)
Purchase of Common Stock	<b>(10,691)</b>	(4,902)	(597)
Other, net	<b>(44)</b>	(28)	(517)
Net cash used in financing activities	<b>(12,928)</b>	(16,753)	(6,955)
Change in cash	<b>8</b>	(4)	(51)
Cash at beginning of year	<b>26</b>	30	81
Cash at end of year	<b>\$ 34</b>	<b>\$ 26</b>	<b>\$ 30</b>

**Supplementary disclosure of cash flow information:**

	<b>Years Ended December 31,</b>		
<i>(in millions)</i>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Cash (paid) received during the period for:</b>			
Interest:			
Third party	<b>\$ (1,030)</b>	<b>\$ (1,624)</b>	<b>\$ (1,963)</b>
Intercompany	<b>-</b>	5	(12)
Taxes:			
Income tax authorities	<b>(11)</b>	(18)	(161)
Intercompany	<b>829</b>	1,172	288
<b>Intercompany non-cash financing and investing activities:</b>			
Capital contributions to subsidiaries through forgiveness of loans	<b>-</b>	-	341
Other capital contributions - net	<b>494</b>	2,457	523
Return of capital*	<b>-</b>	4,836	-
Dividends received in the form of securities	<b>2,326</b>	3,088	-

*See Accompanying Notes to Condensed Financial Information of Registrant.*

\* Includes \$4.8 billion return of capital from AIG Capital Corporation related to the sale of ILFC.

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### **Notes to Condensed Financial Information of Registrant**

American International Group, Inc.'s (the Registrant) investments in consolidated subsidiaries are stated at cost plus equity in undistributed income of consolidated subsidiaries. The accompanying condensed financial statements of the Registrant should be read in conjunction with the consolidated financial statements and notes thereto of American International Group, Inc. and subsidiaries included in the Registrant's 2015 Annual Report on Form 10-K for the year ended December 31, 2015 (2015 Annual Report on Form 10-K) filed with the Securities and Exchange Commission on February 19, 2016.

The Registrant includes in its Statement of Income dividends from its subsidiaries and equity in undistributed income (loss) of consolidated subsidiaries, which represents the net income (loss) of each of its wholly-owned subsidiaries.

Certain prior period amounts have been reclassified to conform to the current period presentation.

The five-year debt maturity schedule is incorporated by reference from Note 14 to Consolidated Financial Statements.

The Registrant files a consolidated federal income tax return with certain subsidiaries and acts as an agent for the consolidated tax group when making payments to the Internal Revenue Service. The Registrant and its subsidiaries have adopted, pursuant to a written agreement, a method of allocating consolidated Federal income taxes. Amounts allocated to the subsidiaries under the written agreement are included in Due from affiliates in the accompanying Condensed Balance Sheets.

Income taxes in the accompanying Condensed Balance Sheets are composed of the Registrant's current and deferred tax assets, the consolidated group's current income tax receivable, deferred taxes related to tax attribute carryforwards of AIG's U.S. consolidated income tax group and a valuation allowance to reduce the consolidated deferred tax asset to an amount more likely than not to be realized. See Note 22 to the Consolidated Financial Statements for additional information.

The consolidated U.S. deferred tax asset for net operating loss, capital loss and tax credit carryforwards and valuation allowance are recorded by the Parent Company, which files the consolidated U.S. Federal income tax return, and are not allocated to its subsidiaries. Generally, as, and if, the consolidated net operating losses and other tax attribute carryforwards are utilized, the intercompany tax balance will be settled with the subsidiaries.

**TABLE OF CONTENTS****Supplementary Insurance Information****Schedule III****At December 31, 2015 and 2014**

<b>Segment</b> <i>(in millions)</i>		Deferred Policy Acquisition Costs	Liability for Unpaid Losses and Loss Adjustment Expenses, Future Policy Benefits	Unearned Premiums	Policy and Contract Claims
<b>2015</b>					
Non-Life Insurance Companies	\$	2,631	\$ 69,213	\$ 20,961	-
Life Insurance Companies		8,467	42,893	-	851
Corporate and Other <sup>(a)</sup>		17	6,421	357	11
	\$	11,115	\$ 118,527	\$ 21,318	862
<b>2014</b>					
Non-Life Insurance Companies	\$	2,551	\$ 77,839	\$ 21,325	-
Life Insurance Companies		7,258	42,004	-	818
Corporate and Other <sup>(a)</sup>		18	166	(1)	11
	\$	9,827	\$ 120,009	\$ 21,324	829

**For the years ended December 31, 2015, 2014 and 2013**

<b>Segment</b> <i>(in millions)</i>		Premiums and Policy Fees	Net Investment Income	Losses and Loss Expenses Incurred, Benefits	Amortization of Deferred Policy Acquisition Costs	Other Operating Expenses	Net Premiums Written <sup>(b)</sup>
<b>2015</b>							
Commercial Insurance	\$	22,720	\$ 5,474	\$ 20,425	\$ 2,342	\$ 3,775	21,486
Consumer Insurance		16,642	8,322	13,791	2,887	7,013	11,580
Corporate and Other <sup>(a)</sup>		48	257	860	7	-	-
	\$	39,410	\$ 14,053	\$ 35,076	\$ 5,236	\$ 10,788	33,066
<b>2014</b>							
Commercial Insurance	\$	22,408	\$ 6,393	\$ 16,985	\$ 2,512	\$ 3,794	22,044
Consumer Insurance		17,389	9,082	14,149	2,759	7,087	12,412
Corporate and Other <sup>(a)</sup>		72	604	915	59	6	-
	\$	39,869	\$ 16,079	\$ 32,049	\$ 5,330	\$ 10,887	34,456

## 2013

Commercial Insurance	\$	22,209	\$	6,653	\$	17,415	\$	2,418	\$	4,049	\$	21,928
Consumer Insurance		17,554		9,352		14,434		2,836		6,826		12,700
Corporate and Other <sup>(a)</sup>		76		(195)		1,546		(97)		8		-
	\$	39,839	\$	15,810	\$	33,395	\$	5,157	\$	10,883	\$	34,628

(a) Includes consolidation and elimination entries.

(b) Balances reflect the segment changes discussed in Note 3 – Segment Information to the Consolidated Financial Statements.

**TABLE OF CONTENTS****Reinsurance****Schedule IV****At December 31, 2015, 2014 and 2013 and for the years then ended**

<i>(in millions)</i>	Gross Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percent of Amount Assumed to Net
<b>2015</b>					
Long-duration insurance in force	<b>\$ 1,051,571</b>	<b>\$ 177,025</b>	<b>\$ 372</b>	<b>\$ 874,918</b>	<b>-%</b>
Premiums:					
Non-Life Insurance Companies	<b>\$ 37,698</b>	<b>\$ 7,604</b>	<b>\$ 2,972</b>	<b>\$ 33,066</b>	<b>9.0%</b>
Life Insurance Companies	<b>5,227</b>	<b>756</b>	<b>7</b>	<b>4,478</b>	<b>0.2</b>
Run-off insurance lines	<b>6</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>-</b>
Total	<b>\$ 42,931</b>	<b>\$ 8,360</b>	<b>\$ 2,979</b>	<b>\$ 37,550</b>	<b>7.9%</b>
<b>2014</b>					
Long-duration insurance in force	\$ 1,033,281	\$ 180,178	\$ 410	\$ 853,513	-%
Premiums:					
Non-Life Insurance Companies	\$ 39,375	\$ 8,318	\$ 3,399	\$ 34,456	9.9%
Life Insurance Companies	4,039	661	20	3,398	0.6
Run-off insurance lines	11	-	-	11	-
Total	\$ 43,425	\$ 8,979	\$ 3,419	\$ 37,865	9.0%
<b>2013</b>					
Long-duration insurance in force	\$ 946,743	\$ 122,012	\$ 427	\$ 825,158	0.1%
Premiums:					
Non-Life Insurance Companies	\$ 39,833	\$ 9,514	\$ 4,306	\$ 34,625	12.4%
Life Insurance Companies	4,142	620	13	3,535	0.4
Run-off insurance lines	9	-	-	9	-
Total	\$ 43,984	\$ 10,134	\$ 4,319	\$ 38,169	11.3%

**TABLE OF CONTENTS****Valuation and Qualifying Accounts****For the years ended December 31, 2015, 2014 and 2013**

(in millions)	Balance, Beginning of year	Additions		Activity of Discontinued Operations	Divested Businesses	Other Changes
		Charged to Costs and Expenses	Charge Offs			
<b>2015</b>						
Allowance for mortgage and other loans receivable	\$ 271	\$ 58	\$(29)	-\$	3	
Allowance for premiums and insurances balances receivable	431	35	(120)	-	-	(1)
Allowance for reinsurance assets	258	90	(67)	-	-	(9)
Federal and foreign valuation allowance for deferred tax assets	1,739	110	-	-	-	1,16
<b>2014</b>						
Allowance for mortgage and other loans receivable	\$ 312	\$(8)	\$(68)	-\$	1	3
Allowance for premiums and insurances balances receivable	560	35	(99)	-	-	(6)
Allowance for reinsurance assets	276	4	(3)	-	-	(1)
Federal and foreign valuation allowance for deferred tax assets	3,596	(181)	-	-	-	(1,67)
<b>2013</b>						
Allowance for mortgage and other loans receivable	\$ 405	20	\$(116)	-\$	\$(6)	
Allowance for premiums and insurances balances receivable	624	14	(74)	-	-	(4)
Allowance for reinsurance assets	338	(42)	(31)	-	-	1
Federal and foreign valuation allowance for deferred tax assets	8,036	(3,165)	-	(40)	-	(1,23)

\* Includes recoveries of amounts previously charged off and reclassifications to/from other accounts.