

AMERICAN INTERNATIONAL GROUP INC

Form 10-K

February 16, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-K**

|   |  |
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| <b>ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934</b> |  |
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|--|--------------------------------------|
| <b>For the fiscal year ended December 31, 2017</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

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

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

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

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

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

|   |                   |                       |                              |                            |
|---|-------------------|-----------------------|------------------------------|----------------------------|
| Large accelerated<br>filer                          | Accelerated filer | Non-accelerated filer | Smaller reporting<br>company | Emerging growth<br>company |
| (Do not check if a<br>smaller reporting<br>company) |                   |                       |                              |                            |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 \$56,480,000,000.

As of February 7, 2018, there were outstanding 902,468,889 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

|  |    |
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| Portions of the registrant's definitive proxy statement for Part II, Item 5 and Part III, Items 10, 11, 12, 13 and the 2018 Annual Meeting of Shareholders | 14 |
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**AMERICAN INTERNATIONAL GROUP, INC.**  
**ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2017**

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## Part I

### ITEM 1 | Business

#### **American International Group, Inc. (AIG)**

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

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

On September 25, 2017, we announced organizational changes designed to best position AIG as a growing, more profitable insurer that is focused on underwriting excellence. In this Annual Report on Form 10-K (Annual Report), we are presenting our businesses consistent with the organizational aspects of that announcement. We believe that these organizational changes will allow us to leverage our key strengths and focus on our future.

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



ITEM 1 | **Business** | **AIG****Maximizing Industry Leadership and Global Footprint****World Class Insurance Franchises**

that are among the leaders in their categories, providing differentiated service and expertise.

**Balance Sheet Quality and Strength**

as demonstrated by over \$65 billion in shareholders' equity and AIG Parent liquidity sources of \$11.8 billion as of December 31, 2017.

**Effective Capital Management**

of the largest shareholders' equity of any insurance company in the world<sup>(a)</sup>.

**Breadth of Customers**

which include over 88 percent of companies in the Fortune Global 500<sup>(b)</sup> and 83 percent of the Forbes 2000<sup>(b)</sup>.

**A Diverse Mix of Businesses**

supported through a presence in most international markets.

(a) At June 30, 2017, the latest date for which information was available for certain foreign insurance companies.

(b) At November 1, 2017.

**Creating Value Through Profitable Growth****AIG Priorities for 2018**

To achieve AIG's goal to deliver sustainable, profitable growth and value to its shareholders, we are focused on the following elements of risk management, customer service, and strategic growth:

- **Balance and Diversification of Products** – Shifting our business mix to grow the best-performing lines of business and optimizing our global footprint
- **Culture and Talent** – Structuring, resourcing, and incentivizing teams

- **Technology and Innovation** – Improving the tools and processes that help employees evaluate business and provide the best service to customers
- **Capital and Growth** – Managing capital efficiently and growing through targeted



to deliver world-class performance

- **Underwriting Excellence** – Empowering the underwriter and continuing to integrate underwriting, claims and actuarial to enable better decision making

investments in our businesses that create value by improving our profitability, book value per share and return on equity

- **Reinsurance Optimization** – Strategically partnering with reinsurers to reduce exposure to losses arising from frequency of large catastrophic events and the severity from individual risk losses

## Highlights for 2017

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

ITEM 1 | **Business** | **AIG**

**Our Management Framework**

**AIG's new operating structure**

Our new operating structure is designed to reflect how our business is marketed and underwritten, allowing us to maximize our global platform by empowering our businesses with the best competitive advantage and ability to serve our partners and clients.

Our Core businesses include General Insurance, Life and Retirement and Other Operations. General Insurance consists of two operating segments – North America and International. Life and Retirement consists of four operating segments – Individual Retirement, Group Retirement, Life Insurance and Institutional Markets. Blackboard U.S. Holdings, Inc. (Blackboard), AIG's technology-driven subsidiary, is reported within Other Operations. We also report a Legacy Portfolio consisting of our run-off insurance lines and legacy investments that we consider non-core.

Consistent with how we now manage our business, our General Insurance North America operating segment primarily includes insurance businesses in the United States, Canada and Bermuda. Our General Insurance International operating segment includes insurance businesses in Japan, the United Kingdom, Europe, the Asia Pacific region, Latin America, Puerto Rico, Australia, the Middle East and Africa. General Insurance results are presented before consideration of internal reinsurance agreements.

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

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

ITEM 1 | **Business** | **AIG****Business Segments****General Insurance**

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

**Life and Retirement**

**Life and Retirement** is a unique franchise that brings together a broad portfolio of life and services for commercial and insurance, retirement and institutional personal insurance customers. It includes one of the world's most far-reaching property casualty networks. General Insurance offers a broad range of products to customers through a diversified, multichannel distribution network. Customers value General Insurance's strong capital position, extensive risk management and claims experience and its ability to be a market leader in critical lines of the insurance business.

General Insurance companies include the following major operating companies: National Union Fire Insurance Company of Pittsburgh, Pa. (National Union); American Home Assurance Company (American Home); Lexington Insurance Company (Lexington); AIG

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

General Insurance Company, Ltd. (AIG Sonpo); AIG Asia Pacific Insurance, Pte, Ltd. and AIG Europe Limited.

### Other Operations

**Other Operations** consists of businesses and items not attributed to our General Insurance and Life and Retirement segments or our Legacy Portfolio. It includes AIG Parent; Blackboard; AIG Fuji Life Insurance Company, Ltd. (Fuji Life), which was sold on April 30, 2017; United Guaranty Corporation (United Guaranty), which was sold on December 31, 2016; deferred tax assets related to tax attributes; corporate expenses and intercompany eliminations.

### Legacy Portfolio

**Legacy Portfolio** includes Legacy General Insurance Run-Off Lines, Legacy Life and Retirement Run-Off Lines and Legacy Investments. Effective in 2018, our newly formed Bermuda domiciled composite reinsurer, DSA Reinsurance Company, Ltd. (DSA Re) will be part of our Legacy Portfolio.

ITEM 1 | **Business** | **AIG**

**Diversified Mix of Businesses**

*(dollars in millions)*

\* Represents Adjusted revenues excluding revenues from our Legacy Portfolio operations of \$4.4 billion. Consolidated International Adjusted revenues of \$15.1 billion consists of Adjusted revenues from our General Insurance International operating segment. Consolidated North America Adjusted revenues of \$31.6 billion consists of Adjusted revenues from our General Insurance North America operating segment and Life and Retirement and Other Operations reportable segments. *For reconciliation of Adjusted revenues to Total revenues see Note 3 to the Consolidated Financial Statements.*

**Geographic Concentration**

In 2017, 6.5 percent of our property casualty direct premiums were written in the state of California, and 18.7 percent and 7.7 percent were written in Japan and the United Kingdom, respectively. No other state or foreign jurisdiction accounted for more than five percent of our property casualty direct premiums.

*For further information on our business segments see Note 3 to the Consolidated Financial Statements.*

ITEM 1 | **Business** | **AIG****How We Generate Revenues and Profitability**

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

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

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

**Investment Activities of Our Insurance Operations**

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

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

*For additional discussion of investment strategies see Item 7. MD&A — Investments.*

**Loss Reserve Development Process**

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

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

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

## Our Employees

At AIG, we believe that a major strength of ours is the quality and dedication of our people. At December 31, 2017 and 2016, we had approximately 49,800 and 56,400 employees, respectively. We believe that our relations with our employees are satisfactory.

ITEM 1 | **Business****Regulation****OVERVIEW**

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. The insurance and financial services industries generally have been subject to heightened regulatory scrutiny and supervision in recent years.

Our insurance subsidiaries are subject to regulation and supervision by the states and other jurisdictions in which they do business. We expect that the domestic and international regulations applicable to us and our regulated entities will continue to evolve for the foreseeable future.

**Regulatory developments**

On September 29, 2017, the Financial Stability Oversight Council (Council) rescinded its determination that material financial distress at AIG could pose a threat to U.S. financial stability and as a result, AIG is no longer designated as a nonbank systemically important financial institution (nonbank SIFI). With the rescission of its designation as a nonbank SIFI, AIG is no longer subject to the consolidated supervision of the Board of Governors of the Federal Reserve System (FRB) or subject to the enhanced prudential standards set forth in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) and its implementing regulations.

**U.S. REGULATION****Dodd-Frank**

On July 21, 2010, Dodd-Frank, which brought about the most extensive changes to financial regulation in the United States in many years, was signed into law. Although the Council has rescinded its designation of AIG as a nonbank SIFI, certain provisions of Dodd-Frank remain relevant to insurance groups generally.

- The Council has authority to determine, subject to certain statutory and regulatory standards, that any nonbank financial company be designated as a nonbank SIFI subject to supervision by the FRB and enhanced prudential standards. The Council may also recommend that state insurance regulators or other regulators apply new or heightened standards and safeguards for activities or practices that nonbank financial services companies, including insurers, engage in.
- Title II of Dodd-Frank (Orderly Liquidation Authority) provides that a financial company whose largest United States subsidiary is an insurer may be subject to a special orderly liquidation process outside the Bankruptcy Code. That process is to be administered by the FDIC upon a determination that the company is: (i) in default or in danger of default, (ii) would have serious adverse effects on U.S. financial stability



were it to fail and be resolved, (iii) is not likely to attract private sector alternatives to default and (iv) is not suitable for resolution under the Bankruptcy Code. Dodd-Frank authorizes possible assessments to cover the costs of any special resolution of a financial company conducted under Title II. U.S. insurance subsidiaries of any such financial company, however, would be subject to rehabilitation and liquidation proceedings under state insurance law.

- Title VII of Dodd-Frank provides for significantly increased regulation of and restrictions on derivatives markets and transactions that have affected and, as additional regulations come into effect, could affect various activities of insurance and other financial services companies, including (i) regulatory reporting for swaps and security-based swaps, (ii) mandated clearing through central counterparties and execution through regulated swap execution facilities for certain swaps and security-based swaps and (iii) margin and collateral requirements. Although the Commodities Futures Trading Commission (CFTC), which oversees and regulates the U.S. swap, commodities and futures markets, has finalized most of its requirements, the SEC has yet to finalize the majority of rules comprising its security-based swap regulatory regime. Increased regulation of and restrictions on derivatives markets and transactions could increase the cost of our trading and hedging activities, reduce liquidity and reduce the availability of customized hedging solutions and derivatives.
- 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.

- Title V of Dodd-Frank authorizes the United States to enter into covered agreements with foreign governments or regulatory entities regarding the business of insurance and reinsurance and on September 22, 2017, the U.S. and the European Union (EU) entered into such an agreement. *For additional information, see —International Regulation.*
- Dodd-Frank established the Consumer Financial Protection Bureau (CFPB), an independent agency within the FRB, to regulate certain non-insurance consumer financial products and services offered primarily for personal, family or household purposes. Insurance products and services are not within the CFPB's general jurisdiction. Broker-dealers and investment advisers are not subject to the CFPB's jurisdiction when acting in their registered capacity.
- Dodd-Frank established the Federal Insurance Office (FIO) to serve as the central insurance authority in the federal government. While not serving a regulatory function, FIO performs certain duties related to the business of insurance. FIO serves as a non-voting member of the Council, has authority to collect information on the insurance industry and recommend prudential standards, monitors market access issues, represents the United States in international insurance forums, has authority to determine, after consulting with the relevant State and the United States Trade Representative, if certain regulations are preempted by covered agreements, and assists the Secretary of the Treasury in administering the Terrorism Risk Insurance Program under the Terrorism Risk Insurance Act of 2002.

On February 3, 2017, the President of the United States signed an Executive Order that directed the Secretary of the Treasury, in consultation with federal financial regulators, to assess all laws, rules and policies that regulate the U.S. financial system, including requirements put into place under Dodd-Frank since 2010, and to recommend necessary changes to make sure they conform to certain core principles. Treasury divided its review into four parts and has published three reports to date: Banks and Credit Unions (June 12, 2017), Capital Markets (October 6, 2017), and Asset Management and Insurance (October 26, 2017). A fourth report on other nonbank financial institutions, financial technology, and financial innovation is forthcoming. In its report on insurance regulation, Treasury identified several areas for improvement at the federal and state levels and defined the role it intends for federal agencies. Among the points made in the report:

- Treasury expressed support for an activities-based approach to regulating systemic risk in the insurance industry rather than designating individual entities;
- Treasury recommended continued U.S. engagement in international standard-setting forums and charged FIO with coordinating the efforts of the federal government, state regulators, the National Association of Insurance Commissioners (NAIC), and other stakeholders on the issues within its scope, such as covered agreements, matters related to the Terrorism Risk Insurance Program, and standard-setting at the International Association of Insurance Supervisors (IAIS), including discussions regarding capital and liquidity requirements;
- Treasury expressed support for robust liquidity risk management programs for insurers and encouraged regulators to continue work on addressing potential liquidity risk in the insurance sector; and
- Treasury supported the DOL in delaying full implementation of the DOL Fiduciary Rule until relevant issues are further evaluated and addressed by the DOL, SEC, and state insurance regulators working together. *For additional information regarding the DOL Fiduciary Rule, see Item 7. MD&A – Executive Summary – AIG's Outlook – Industry and Economic Factors – Department of Labor Fiduciary Rule and Related Regulatory Developments.*

In addition, on April 21, 2017 the President of the United States directed the Secretary of the Treasury to evaluate and provide recommendations regarding the Council's processes for designating nonbank SIFIs. The Treasury published a report pursuant to this directive on November 17, 2017, recommending that the Council prioritize an activities-based approach to regulating systemic risk rather than designating individual entities, and recommending that the Council increase the analytical rigor of its designation analyses, enhance engagement with relevant regulators and transparency to the public, and provide a clear off-ramp to designated nonbank SIFIs. We will monitor developments resulting from these recommendations closely.

## Insurance Regulation

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 transactions and transfers of assets, including in some instances payment of dividends by the insurance subsidiary, within the holding company system. This legislation also requires any person or entity desiring to purchase more than a specified percentage (commonly 10 percent) of our outstanding voting securities to obtain regulatory approval prior to such purchase. Our subsidiaries are registered under such legislation in those jurisdictions that have such requirements.

Our U.S. insurance subsidiaries are subject to regulation and supervision by the states and other jurisdictions in which they do business. The method of such regulation varies but generally has its source in statutes that delegate regulatory and supervisory powers to a state 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

ITEM 1 | **Business**

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, 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. Our insurance subsidiaries are also subject to requirements on investments, which prescribe the kind, quality and concentration of investments they can make. In general, such regulation is for the protection of policyholders rather than the creditors or equity owners of these companies.

U.S. states have state insurance guaranty associations in which insurers doing business in the state are required by law to be members. Member insurers may be assessed by the associations for certain obligations of insolvent insurance companies to policyholders and claimants. Typically, states assess member insurers in amounts related to the member's proportionate share of the relevant type of business written by all members in the state. The protection afforded by a state's guaranty association to policyholders of insolvent insurers varies from state to state.

In the U.S., the NAIC is a standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. The NAIC itself is not a regulator, but, with assistance from the NAIC, state insurance regulators establish standards and best practices, conduct peer review and coordinate regulatory oversight. Every state has adopted, in substantial part, the Risk-Based Capital (RBC) Model Law promulgated by the NAIC or a substantially similar law, which allows states to act upon the results of RBC calculations, and provides 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 is designed to measure the adequacy of an insurer's statutory surplus in relation to the risks inherent in its business and computes a risk-adjusted surplus level by applying discrete factors to various asset, premium, reserve and other financial statement 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, 2017.

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

The NAIC's Model Regulation "Valuation of Life Insurance Policies" (Regulation XXX) requires insurers to establish additional statutory reserves for term life insurance policies with long-term premium guarantees

and universal life policies with secondary guarantees (ULSGs). NAIC Actuarial Guideline 38 (Guideline AXXX) clarifies the application of Regulation XXX as to these guarantees, including certain ULSGs. See *Item 1A. Risk Factors and Note 18 to the Consolidated Financial Statements for risks and additional information related to these statutory reserving requirements*. In December 2012, the NAIC approved a new valuation manual containing a principle-based approach to life insurance company reserves.

Principle-based reserving (PBR) is designed to tailor the reserving process to specific products in an effort to create a principle-based modeling approach to reserving rather than the factor-based approach historically employed. PBR became effective on January 1, 2017, after the NAIC's model Standard Valuation Law was enacted by the requisite number of states representing the required premium volume, replacing Regulation XXX and Guideline AXXX with respect to new life insurance business issued after that date. Two of our domiciliary states (Missouri and Texas) have adopted the regulations necessary to implement PBR. A third domiciliary state (New York) has approved PBR for new products written by regulated life insurers effective January 1, 2018. We have up to three years after January 1, 2017 to implement PBR, and have currently elected to defer implementation.

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

The NAIC's Risk Management and Own Risk and Solvency Assessment Model Act (ORSA) requires that insurers maintain a risk management framework and conduct an internal own risk and solvency assessment of the insurer's material risks in normal and stressed environments. All of the states where AIG has domestic insurers have enacted a version of ORSA.

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The NAIC is currently considering adoption of model standards, and state regulators are currently considering implementing regulations, that would apply an impartial conduct standard similar to the DOL Fiduciary Rule to recommendations made in connection with certain life insurance policies and annuities. For example, on December 27, 2017, the New York Department of Financial Services (NYDFS) proposed regulations that would adopt a “best interest” standard for the sale of life insurance and annuity products in New York. *For additional information regarding the DOL Fiduciary Rule, see Item 7. MD&A – Executive Summary – AIG’s Outlook – Industry and Economic Factors – Department of Labor Fiduciary Rule and Related Regulatory Developments.*

**ERISA Considerations**

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

*For additional information regarding the DOL Fiduciary Rule, see Item 7. MD&A – Executive Summary – AIG’s Outlook – Industry and Economic Factors – Department of Labor Fiduciary Rule and Related Regulatory Developments.*

**Investment Adviser, Broker-Dealer and Investment Company Regulation**

Our investment products and services are subject to federal and state securities, fiduciary, including ERISA, and other laws and regulations. The SEC, Financial Industry Regulatory Authority (FINRA), CFTC, state securities commissions, state insurance departments and the DOL are the principal U.S. regulators of these operations.

The subsidiaries that manage the operations of our investment products are registered as investment advisers with the SEC under the Investment Advisers Act of 1940 and are required to supervise the activities of their personnel. Our affiliates that offer interests in insurance company separate accounts, mutual funds and other pooled investment products, and that provide other financial services to customers, are registered as broker-dealers with the SEC under the Exchange Act and with certain states, and are also members of FINRA. Our broker-dealer subsidiaries and their personnel are subject to examination by the SEC, FINRA, and the states for compliance with law, and certain personnel of these broker-dealers are also required to pass qualification examinations. Sales to retirement accounts are subject to the DOL Fiduciary Rule. The investment products that are offered by our affiliates may be registered under the Securities Act, which regulates disclosure regarding the products, and/or the Investment Company of 1940,

which imposes substantive regulation on the structure and governance of the products, as well as being subject to insurance regulation in the case of separate accounts. Some products may also be qualified for sale in various states, the District of Columbia and Puerto Rico.

*For additional information regarding the DOL Fiduciary Rule, see Item 7. MD&A – Executive Summary – AIG’s Outlook – Industry and Economic Factors – Department of Labor Fiduciary Rule and Related Regulatory Developments.*

## Data Protection and Cybersecurity

We are subject to U.S. and foreign laws and regulations that require financial institutions and other businesses to protect the security and confidentiality of personal information and provide notice of their practices relating to the collection and disclosure of personal information. We also are subject to laws and regulations requiring notification to affected individuals and regulators of security breaches. In addition, we must comply with laws and regulations regarding the cross-border transfer of information.

In October 2017, the NAIC adopted the Insurance Data Security Model Law, which would require insurers, insurance producers and other entities required to be licensed under state insurance laws to develop and maintain a written information security program, conduct risk assessments, oversee the data security practices of third-party service providers and other related requirements. It is not clear whether or not, or in what form, the Insurance Data Security Model Law will be adopted by states in which we have licensed insurers and other licensed subsidiaries.

Effective March 1, 2017, the NYDFS promulgated a cybersecurity regulation requiring covered financial services institutions to implement a cybersecurity program designed to protect information systems. The regulation imposes specific technical safeguards as well as governance, risk assessment, monitoring and testing, third party service provider incident response and reporting and other requirements. The regulation sets forth transitional periods for compliance with different sections of the regulation through early 2019. Requirements under the NYDFS’ cybersecurity regulation are similar to those under the NAIC Insurance Data Security Model Law, with some differences.

*For information on data protection regulation in the EU, see International Regulation – Data Protection.*



ITEM 1 | **Business****Thrift Regulator**

AIG Federal Savings Bank, our trust-only federal thrift subsidiary, is supervised and regulated by the Office of the Comptroller of the Currency.

**INTERNATIONAL REGULATION****Insurance Regulation**

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.

Certain 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 transactions 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.

In addition to these licensing and other 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.

Legislation in the EU could also affect our international insurance operations. The European Parliament issues Directives on a wide range of topics that impact financial services. Insurance companies operating in the EU are subject to the Solvency II framework. The Prudential Regulatory Authority, the United Kingdom's (UK's) prudential regulator, is our lead EU prudential supervisor. *For information on the UK's pending withdrawal of its membership in the EU, see —Brexit.* The UK's Financial Conduct Authority has oversight of AIG's operations for consumer protection and competition matters within the UK. In addition, financial companies that operate in the EU are subject to a range of regulations enforced by the national regulators in each member state in which that firm operates. The EU has also established a set of regulatory requirements under the European Market Infrastructure Regulation (EMIR) that include, among other



things, risk mitigation, risk management, regulatory reporting and clearing requirements. Solvency II governs 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, the European Commission is required to make a determination as to whether a supervisory regime outside of the EU is "equivalent."

On September 22, 2017, the U.S. Treasury Department and the Office of the U.S. Trade Representative, on behalf of the U.S., and the EU signed the bilateral Covered Agreement, which is intended to address issues regarding the application of Solvency II requirements to U.S.-based insurance groups as well as other (re)insurance regulatory issues. While the signatures by both parties will allow for the provisional application of the agreement, the agreement is still subject to approval by the European Parliament before it enters into force. Other aspects of the agreement remain subject to an implementation timetable in the U.S. and the EU, which may delay or even prevent the agreement from being fully implemented. In particular, the U.S. states will be given a period of five years to comply with the agreement's reinsurance collateral provisions. After 42 months, FIO must begin evaluating a potential preemption determination with respect to any state law not in compliance with the aim of assuring full compliance within the five-year timeframe. The agreement may be terminated (following mandatory consultation) by notice from one party to the other effective in 180 days, or at such time as the parties may agree.

The agreement provides that AIG will be supervised at the worldwide group level only by its relevant U.S. insurance supervisors, and that it will not have to satisfy EU Solvency II group capital, reporting and governance requirements for its worldwide group. The agreement, however, would permit the imposition of EU Solvency II group capital requirements if, after five years from the signing of the agreement, a U.S. insurer is not subject to a group capital assessment by its applicable state regulator. The NAIC is in the process of developing a group capital calculation that, once adopted by the states, is expected to satisfy this condition. The agreement further provides that if the summary risk reports submitted to the supervisory authority of a host jurisdiction expose any serious threat to policyholder protection or financial stability in such host state, the host supervisor may request further information from the insurance group and/or impose preventive or corrective measures with respect to the (re)insurer in its jurisdiction. The agreement also seeks to impose equal treatment of U.S. and EU-based reinsurers that meet certain qualifications. In the U.S., once

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fully implemented, the agreement requires U.S. states to lift reinsurance collateral requirements on qualifying EU-based reinsurers and provide them equal treatment with U.S. reinsurers or be subject to federal preemption. While this provision does not preclude AIG from continuing to request collateral from an EU reinsurer that is party to a bilateral reinsurance transaction, it is unclear how much collateral AIG will be able to obtain from EU reinsurers going forward.

**Data Protection**

The EU General Data Protection Regulation (GDPR) will take effect in May 2018. The GDPR aims to introduce consistent data protection rules across the EU, and its scope will extend to entities established within the European Economic Area (EEA) (i.e., EU member states plus Iceland, Liechtenstein and Norway) and may extend to certain entities not established in the EEA (if they process personal data of or offer goods or services to EEA data subjects or monitor the behavior of EEA data subjects (e.g., in an online context)).

The GDPR contains a number of new requirements regarding the processing of personal data about individuals, including mandatory security breach reporting, new and strengthened individual rights, evidenced data controller accountability for compliance with the GDPR principles (including fairness and transparency), maintenance of data processing activity records and the implementation of “privacy by design”, including through the completion of mandatory Data Protection Impact Assessments in connection with higher risk data processing activities.

*For additional information on data protection and cybersecurity regulation generally, see U.S. Regulation – Data Protection and Cybersecurity.*

**FSB and IAIS**

The Financial Stability Board (FSB) consists of representatives of national financial authorities of the G20 countries. The FSB itself is not a regulator but is focused primarily on promoting international financial stability. It does so by coordinating the work of national financial authorities and international standard-setting bodies as well as developing and promoting the implementation of regulatory, supervisory and other financial policies. The FSB has issued a series of frameworks and recommendations intended to produce significant changes in how financial companies, particularly global systemically important financial institutions, should be regulated. These frameworks and recommendations address such issues as systemic financial risk, financial group supervision, capital and solvency standards, corporate governance including compensation, and a number of related issues associated with responses to the financial crisis.

The IAIS represents insurance regulators and supervisors of more than 200 jurisdictions (including regions and states) in nearly 140 countries and seeks to promote globally consistent insurance industry supervision. The IAIS itself is not a regulator, but one of its activities is to develop insurance regulatory standards for use by local authorities across the globe. The FSB has charged the IAIS with developing a

framework for measuring systemic risks posed by insurance groups and has directed the IAIS to create standards relative to many of the areas of focus of the FSB, which go beyond the IAIS' basic Insurance Core Principles. The IAIS is developing ComFrame, a Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs). ComFrame sets out qualitative and quantitative standards in order to assist supervisors in collectively addressing an IAIG's activities and risks, identifying and avoiding regulatory gaps and coordinating supervisory activities. ComFrame is expected to include standards for group supervision, governance and internal controls, enterprise risk management, and recovery and resolution planning. Also in connection with ComFrame, the IAIS is in the process of developing a risk-based global insurance capital standard (ICS) applicable to IAIGs. We currently meet the parameters set forth to define an IAIG. ComFrame standards are expected to be finalized in 2019. On November 2, 2017, the IAIS announced a new timeline and process for the development of the ICS. Following completion of field testing in 2019, the IAIS will put forward ICS version 2.0 for implementation in 2020. Implementation of ICS version 2.0 will consist of two phases: (1) a five year monitoring phase in which ICS version 2.0 will be used for confidential reporting to group-wide supervisors and discussion in supervisory colleges; and (2) an implementation phase whereby the ICS will be applied as a group-wide prescribed capital requirement at which point results will be used as the basis for supervisory action. Confidential reporting of ICS version 2.0 will include mandatory reporting by all insurance groups of a standard formula based on market adjusted valuation and the option, at the discretion of the group-wide supervisor, of additional ICS reporting based on GAAP with adjustments and/or an internal model based-calculation. In recognition of the fact that the U.S. Federal Reserve and the NAIC have announced plans to develop an "aggregation method" for a group capital calculation, the IAIS has agreed to aid in the development of - and collect data from jurisdictions that are party to - the aggregation method. Although the aggregation method will not be part of ICS version 2.0, the IAIS aims to be in a position at the end of the monitoring phase to determine whether the aggregated approach provides substantially the same outcome as the ICS in which case it could be incorporated into the ICS as an outcome-equivalent approach.

In February 2017, the IAIS announced the adoption of a three-year systemic risk assessment and policy workplan due to be finalized by year-end 2019. This initiative is comprised of a new macroprudential activities-based approach (ABA) to regulating systemic risk which will be developed in conjunction with the IAIS' previously announced work in finalizing ComFrame, including the ICS, as well as

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any improvements to the methodology for identifying global systemically important insurers (G-SIIs). Based on the IAIS' G-SII assessment methodology, since July 2013 the FSB has published an annual list of G-SIIs, which has included us. However, on November 30, 2017 the FSB announced that it would not be proceeding with the publication of a G-SII list for 2017 in light of the IAIS' development of the ABA and its implications for the assessment of systemic risk in insurance and, by extension, the identification of G-SIIs and related policy measures for G-SIIs. The FSB plans to re-assess the situation in November 2018, based on the IAIS' progress in finalizing the ABA framework. In the interim, the IAIS will continue to collect data for the G-SII identification process and G-SII policy measures are intended to continue to apply to those insurers identified on the FSB's 2016 G-SII list. 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 higher loss absorbency (HLA) capital. The IAIS' basic capital requirement (BCR) was endorsed by the FSB in October 2014 and by the G20 countries in November 2014. The BCR covers all group activities of G-SIIs, and we report our BCR ratios to supervisory authorities annually on a confidential basis. The BCR serves as the initial foundation for the application of HLA requirements, although the IAIS has indicated that the BCR will eventually be replaced by the ICS. In October 2015, the IAIS announced that it had concluded initial development of the HLA requirements, according to which we reported on a confidential basis to supervisors in 2016 and 2017. The IAIS had announced that expected revisions to the initial HLA requirements would occur once the systemic risk assessment and policy workplan were finalized and adopted, anticipated to be by 2019. However, in light of the new timeline announced on November 2, 2017 for development of the ICS, including a five-year monitoring phase and subsequent implementation phase, it is unclear how HLA might apply in the future. It is not known how any standards that might result from the IAIS' initiatives might be implemented in the U.S. and other jurisdictions around the world, or how they might apply to AIG.

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

**Brexit**

On June 23, 2016, the UK held a referendum in which a majority voted for the UK to withdraw its membership in the EU, commonly referred to as Brexit. The terms of withdrawal are subject to a formal negotiation period which was initiated on March 29, 2017 through the invocation of Article 50 of the Treaty on European Union. Negotiations on Brexit could, by treaty, last up to two years. It is not clear at this stage (and may not be for some time) what form the UK's future relationship with the remaining EU member states will take. We have significant operations and employees in the UK and other EU member states, including AIG Europe Ltd., which enjoys certain benefits based on the UK's membership in the EU. In order to adapt to Brexit, on March 8, 2017, we announced plans to reorganize our operations and legal entity

structure in the UK and the EU through the establishment of a new European subsidiary in Luxembourg. The reorganization is expected to be completed in the fourth quarter of 2018, subject to regulatory and court approvals. Future regulatory, tax or other developments may affect this reorganization and result in changes to our plans.

## Derivatives

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

## Markets in Financial Instruments Directive (MiFID) II

The Markets in Financial Instruments Directive (MiFID II) and Markets in Financial Instruments Regulation took effect in Europe on January 3, 2018. MiFID II and the related regulations are intended to create transparency in market trading by, for example, imposing trade and transaction reporting and other requirements. AIG Asset Management (Europe) Limited (AAMEL) has prepared for the implementation deadline over the last two years and is continuing to work with data providers, other market participants and AAMEL's regulator on compliance with MiFID II and the related regulations.

ITEM 1 | **Business****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.

ITEM 1A | **Risk Factors**ITEM 1A | **Risk Factors**

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

**MARKET CONDITIONS**

**Deterioration of economic conditions, geopolitical tensions or weakening in global capital markets may materially affect our businesses, results of operations, financial condition and liquidity.** Our businesses are highly dependent on global economic and market conditions. Weaknesses in economic conditions and the capital markets have in the past led, and may in the future lead, to a poor operating environment, erosion of consumer and investor confidence, reduced business volumes, deteriorating liquidity and declines in asset valuations. Adverse economic conditions may result from global economic and political developments, including plateauing business activity and inflationary pressures in developed economies, uncertainty surrounding China's ability to successfully maintain growth, the effects of Brexit (as defined below) on business investment, hiring, migration and labor supply, intensifying trade protectionism, and tensions over North Korea's nuclear program. These and other market, economic, and political factors could have a material adverse effect on our businesses, results of operations, financial condition and liquidity in many ways, including (i) lower levels of consumer and commercial business activities that could decrease revenues and profitability and decrease value in goodwill, deferred tax assets and other long term assets, (ii) increases in credit spreads and defaults that could reduce investment asset valuations, increase credit losses across numerous asset classes, and increase statutory capital requirements and (iii) increased market volatility and uncertainty that could decrease liquidity and increase borrowing costs.

Other ways in which we could be negatively affected by economic conditions include, but are not limited to: increases in policy surrenders and cancellations; write-offs of deferred policy acquisition costs; increases in liability for future policy benefits due to loss recognition on certain long-duration insurance contracts; and increases in expenses associated with reinsurance, or decreased ability to obtain reinsurance at acceptable terms.

**Sustained low interest rates, or rapidly increasing interest rates, may materially and adversely affect our profitability.** Recent periods have been characterized by low interest rates relative to historical levels. Sustained low interest rates can negatively affect the performance of our investment securities and

reduce the level of investment income earned on our investment portfolios. If a low interest rate environment persists, we may experience lower investment income growth. Due to practical and capital markets limitations, we may not be able to fully mitigate our interest rate risk by matching exposure of our assets relative to our liabilities. Continued low interest rates could also impair our ability to earn the returns assumed in the pricing and the reserving for our products at the time they were sold and issued. Changes in interest rates may be correlated with inflation trends, which would impact our loss trends.

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

## Reserves and Exposures

**Insurance liabilities are difficult to predict and may exceed the related reserves for losses and loss expenses.** We regularly review the adequacy of the established loss reserves and conduct extensive analyses of our reserves during the year. Our loss reserves, however, may develop adversely and materially impact our businesses, results of operations, financial condition and liquidity.



ITEM 1A | **Risk Factors**

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

While we use a number of analytical reserve development techniques to project future loss development, reserves have been and may be significantly affected by changes in loss cost trends or loss development factors that were relied upon in setting the reserves. For example, in 2017, 2016 and 2015, we recorded net charges of \$1.0 billion, \$5.4 billion and \$3.3 billion, respectively, to strengthen our General Insurance loss reserves, reflecting adverse development in classes of business with long reporting tails, primarily in Casualty and Financial Lines. These changes in loss cost trends or loss development factors could be due to changes in actual versus expected claims and losses, difficulties in predicting changes, such as changes in inflation, unemployment duration, or other social or economic factors affecting claims, including the judicial environment. Any deviation in loss cost trends or in loss development factors might not be identified for an extended period of time after we record the initial loss reserve estimates for any accident year or number of years.

For Life and Retirement, experience may develop adversely such that additional reserves must be established. Adverse experience could arise out of a severe short term event such as a pandemic, or due to misestimation of long-term assumptions such as mortality improvement and interest rate assumptions. While mortality experience is relatively stable due to the large amount of historical data available, assumptions in respect of other variables, such as policyholder behavior can be more difficult to estimate and may have a significant impact on reserves. Life and Retirement reserves and assumptions are reviewed quarterly and loss recognition testing and cash flow testing is carried out annually.

*For a further discussion of our loss reserves see Item 7. MD&A — Critical Accounting Estimates — Insurance Liabilities — Loss Reserves and Insurance Reserves — Loss Reserves and Note 13 to the Consolidated Financial Statements.*

**Our consolidated results of operations, liquidity, financial condition and ratings are subject to the effects of natural and man-made catastrophic events.** Events such as hurricanes, windstorms, flooding, earthquakes, wildfires, solar storms, acts of terrorism, explosions and fires, cyber-crimes, product defects, pandemic and other highly contagious diseases, mass torts and other catastrophes have adversely

affected our business in the past and could do so in the future. For example, we had pre-tax catastrophe losses of \$3.0 billion in the third quarter of 2017, which included losses from Hurricanes Harvey, Irma and Maria and the earthquake in Mexico and pre-tax catastrophe losses of \$766 million in the fourth quarter of 2017, which included losses from the California wildfires. 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.

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

ITEM 1A | **Risk Factors**

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

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

**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 may impact the availability and cost of reinsurance and could have a material adverse effect on our business, results of operations and financial condition. For example, reinsurance may be more difficult or costly to obtain after a year with a large number of major catastrophes. We may, at certain times, be forced to incur additional costs for reinsurance or may be unable to obtain sufficient reinsurance on acceptable terms. In the latter case, we would have to accept an increase in exposure to risk, reduce the amount of business written by our subsidiaries or seek alternatives in line with our risk limits.

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

Additionally, the use of reinsurance placed in the capital markets, may not provide the same levels of protection as traditional reinsurance transactions. Any disruption, volatility and uncertainty in these markets, such as following a major catastrophic event, may limit our ability to access such markets on terms favorable to us or at all. Also, to the extent that we intend to use structures 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.

We currently have limited reinsurance coverage for terrorist attacks. Further, the availability of private sector reinsurance for terrorism is limited. We rely heavily on the Terrorism Risk Insurance Program (TRIP), which provides U.S. government risk assistance to the insurance industry to manage the exposure to terrorism incidents in the U.S. TRIP was reauthorized in January 2015 and is scheduled to expire on December 31, 2020. Under TRIP, 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 (83 percent in 2017), and reducing by one percentage point each year, ending at 80 percent in 2020, up to a total industry program limit of \$100 billion. TRIP does not cover losses in certain lines of business such as consumer property and consumer casualty. We also rely on the government sponsored and government arranged terrorism reinsurance programs, including pools, in force in applicable non-U.S. jurisdictions.

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

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

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

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and we may experience an increase in surrenders and withdrawals of life and annuity contracts, resulting in a decrease in future profitability and an acceleration of the amortization of DAC.

We also periodically review products for potential loss recognition events, principally insurance-oriented products. This review involves estimating the future profitability of in-force business and requires significant management judgment about assumptions including mortality, morbidity, persistency, maintenance expenses, and investment returns, including net realized capital gains (losses). If actual experience or estimates result in projected future losses, we may be required to amortize any remaining DAC and record additional liabilities through a charge to policyholder benefit expense, which could negatively affect our results of operations.

*For further discussion of DAC and future policy benefits, see Item 7. MD&A — Critical Accounting Estimates and Notes 9 and 13 to the Consolidated Financial Statements.*

**Investment Portfolio, Concentration of Investments, Insurance and other Exposures**

**The performance and value of our investment portfolio are subject to a number of risks and uncertainties, including changes in interest rates.** Our investment securities are subject to market risks and uncertainties. In particular, interest rates are highly sensitive to many factors, including monetary and fiscal policy, domestic and international economic and political issues and other factors beyond our control. Changes in monetary policy or other factors may cause interest rate volatility, 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.*

Additionally, on July 27, 2017, the UK Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR rates after 2021, which is expected to result in these widely used reference rates no longer being available. At this time, it is not possible to predict the effect of any such changes, any establishment of alternative reference rates or any other reforms to LIBOR that may be enacted in the UK or elsewhere. Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect the trading market for LIBOR-based securities, including those held in our investment portfolio.

*For discussion regarding changes to LIBOR rates, see “Changes in the method for determining LIBOR and the potential replacement of LIBOR may affect our cost of capital and net investment income” below.*

Furthermore, our alternative investment portfolio includes investments for which changes in fair value are reported through operating income and are therefore subject to significant volatility. In an economic downturn or declining market, the reduction in our investment income due to decreases in the fair value of alternative investments could have a material adverse effect on operating income.

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

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

*Also see Item 7. MD&A – Business Segment Operations – General Insurance – Business Strategy and – Outlook – Industry and Economic Factors.*

ITEM 1A | **Risk Factors****Our valuation of investment securities may include methodologies, estimations and assumptions that are subject to differing interpretations and could result in changes to investment valuations that may materially adversely affect our results of operations, financial condition and liquidity.**

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

**LIQUIDITY, CAPITAL AND CREDIT**

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

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



*For a further discussion of our liquidity, see Item 7. MD&A — Liquidity and Capital Resources.*

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

*For further discussion of rating agency requirements, see "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" below.*

**Our subsidiaries may not be able to generate cash to meet their needs due to the illiquidity of some of their investments.** Our subsidiaries have investments in certain securities that may be illiquid, including certain fixed income securities and certain structured securities, private company securities, investments in private equity funds and hedge funds, mortgage loans, finance receivables and real estate. Collectively, investments in these assets had a fair value of \$58 billion at December 31, 2017. 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



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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 negatively revised the outlook for our IFS ratings in early 2017, primarily as a result of our reserve strengthening in the fourth quarter of 2016 and related concerns regarding our profitability outlook. We cannot predict what actions rating agencies may take, or what actions we may take in response to the actions of rating agencies, which could adversely affect our business.

**A downgrade in our credit ratings could adversely affect our business, our results of operations or our liquidity.** Credit ratings estimate a company's ability to meet its obligations. A downgrade of our long-term debt ratings by the major rating agencies could potentially increase our financing costs and limit the availability of financing. A downgrade would also 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 and/or our liquidity. Certain rating agencies negatively revised our credit ratings and ratings outlooks in early 2017, primarily as a result of our reserve strengthening in the fourth quarter of 2016 and related concerns regarding our profitability outlook. We cannot predict what actions rating agencies may take, or what actions we may take in response to the actions of rating agencies, which could adversely affect our business.

**Changes in the method for determining LIBOR and the potential replacement of LIBOR may affect our cost of capital and net investment income.** As a result of concerns about the accuracy of the calculation of LIBOR, a number of British Bankers' Association (BBA) member banks entered into settlements with certain regulators and law enforcement agencies with respect to the alleged manipulation of LIBOR. Actions by the BBA, regulators or law enforcement agencies as a result of these or future events may result in changes to the manner in which LIBOR is determined.

Potential changes or uncertainty related to such potential changes may adversely affect the market for LIBOR-based securities. In addition, changes or reforms to the determination or supervision of LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on the market for LIBOR-based securities or the value of our investment portfolio.

**Business and operations**

**Our restructuring initiatives may not yield our expected reductions in expenses and improvements in operational and organizational efficiency.** We may not be able to fully realize the anticipated expense reductions and operational and organizational efficiency improvements we expect to result from our restructuring initiatives, including the reorganization of AIG into General Insurance and Life and Retirement segments. Actual costs to implement these initiatives may exceed our estimates or we may be unable to fully implement and execute these initiatives as planned. The implementation of these initiatives may harm our relationships with customers or employees or our competitive position. Our businesses and results of operations may be negatively impacted 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. The successful implementation of these initiatives may continue to require us to effect workforce reductions, business rationalizations, systems enhancements, business process outsourcing, business and asset dispositions and acquisitions and other actions, which depend on a number of factors, some of which are beyond our control.

**Pricing for our products is subject to our ability to adequately assess risks and estimate losses.** We seek to price our insurance products such that insurance premiums, policy fees and charges, and future net investment income earned on revenues received will result in an acceptable profit in excess of expenses and the cost of paying claims. Our business is dependent on our ability to price our products effectively and charge appropriate premiums. Pricing adequacy depends on a number of factors and assumptions, including proper evaluation of insurance risks, our expense levels, net investment income realized, our response to rate actions taken by competitors, legal and regulatory developments and the ability to obtain regulatory approval for rate changes. Some life insurance business has the ability to adjust certain nonguaranteed charges or benefits if necessary; however, this right is limited and may be subject to guaranteed minimums and/or maximums. Inadequate pricing could have a material adverse effect on our results of operations and financial condition.

**Guarantees within certain of our products may increase the volatility of our results.** Certain of our variable annuity and life insurance products include features that guarantee a certain level of benefits, including guaranteed minimum death benefits (GMDB), guaranteed minimum withdrawal benefits (GMWB), and products with guaranteed interest crediting rates tied to an index.

*For a discussion of market risk management related to these product features see Item 7. MD&A – Enterprise Risk Management – Insurance Risks – Life and Retirement Companies Key Risks – Variable Annuity Risk Management and Hedging Programs.*

Differences between the change in fair value of the embedded derivatives associated with some of these guarantees and the related hedging portfolio can be caused by extreme and unanticipated movements in the equity markets, interest rates and market volatility, policyholder behavior that differs from our assumptions and our inability to purchase hedging instruments at prices consistent with the

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desired risk and return trade-off. The occurrence of one or more of these events could result in an increase in the liabilities associated with the guaranteed benefits, reducing our net income and shareholders' equity. 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.

*For more information regarding these products see Notes 5 and 14 to the Consolidated Financial Statements, Item 1. Business – Regulation, and Item 7. MD&A – Critical Accounting Estimates Insurance Liabilities – Guaranteed Benefit Features of Variable Annuity Products.*

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

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

On June 23, 2016, the United Kingdom (UK) held a referendum in which a majority voted for the UK to withdraw its membership in the European Union (EU), commonly referred to as Brexit. The terms of withdrawal are subject to a formal two-year negotiation period that was initiated on March 29, 2017 by invoking Article 50 of the Treaty on European Union. It is not clear at this stage (and may not be for some time) what form the UK's future relationship with the remaining EU member states will take. We have significant operations and employees in the UK and other EU member states, including AIG Europe Ltd., which enjoys certain benefits based on the UK's membership in the EU. In order to adapt to Brexit, we intend to reorganize our operations and legal entity structure in the UK and the EU through the establishment of a new European subsidiary in Luxembourg. Such a reorganization will have various costs associated with it, such as notifications to policyholders, and may involve the replication of certain resources currently in place in the UK. The reorganization is expected to be completed in the fourth quarter of 2018, subject to regulatory and court approvals. There can be no assurance that future regulatory, tax or other developments will not affect this reorganization and change our plans. Brexit has also affected the U.S. dollar/British pound exchange rate, increased the volatility of exchange rates among the euro, British pound and the Japanese yen, and created volatility in the financial markets. It is possible that the uncertainty around the outcome of the negotiations between the UK and the EU will lead to further turbulence in the financial markets, which may affect the value of our investments.

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

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

**Significant legal proceedings may adversely affect our results of operations or financial condition.**

Like others in the insurance and financial services industries in general, in the ordinary course of operating our businesses we face significant risk from regulatory and governmental investigations and civil actions, litigation and other forms of dispute resolution in various domestic and foreign jurisdictions. In our insurance and reinsurance operations, we frequently engage in litigation and arbitration concerning the scope of coverage under insurance and reinsurance contracts, and face litigation and arbitration in which our subsidiaries defend or indemnify their insureds under insurance contracts. AIG, our subsidiaries and their respective officers and directors are also subject to a variety of additional types of legal disputes brought by holders of AIG securities, customers, employees and others, alleging, among other things, breach of contractual or fiduciary duties, bad faith and violations of federal and state statutes and regulations. Certain of these matters involve potentially significant risk of loss due to the possibility of significant jury awards and settlements, punitive damages or other penalties. Many of these matters are also highly complex and seek recovery on behalf of a class or similarly large number of plaintiffs. It is therefore inherently difficult to predict the size or scope of potential future losses arising from

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them, and developments in these matters could have a material adverse effect on our consolidated financial condition or consolidated results of operations for an individual reporting period.

*For a discussion of certain legal proceedings, including certain tax controversies, see Notes 16 and 23 to the Consolidated Financial Statements.*

**If we are unable to maintain the availability of our electronic data systems and safeguard the security of our data, our ability to conduct business may be compromised, which could adversely affect our consolidated financial condition or results of operations.** We use computer systems to store, retrieve, evaluate and use customer, employee, and company data and information. Some of these systems, in turn, rely upon third-party systems. Our business is highly dependent on our ability to access these systems to perform necessary business functions. These functions include providing insurance quotes, processing premium payments, making changes to existing policies, filing and paying claims, administering variable annuity products and mutual funds, providing customer support, executing transactions 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, cyberattack 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 are regularly the target of attempted cyber and other security threats and must continuously monitor and develop our information technology networks and infrastructure to prevent, detect, address and mitigate the risk of threats to our data and systems, including malware and computer virus attacks, ransomware, unauthorized access, misuse, denial-of-service attacks, system failures and disruptions. There is no assurance that our security measures, including information security policies, 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. Any problems caused by these third parties, including those resulting from breakdowns or other disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher volumes, cyber-attacks and security breaches at a vendor could adversely affect our ability to deliver products and services to our customers and otherwise conduct our business. 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 cause a loss of data, give rise to remediation or other expenses, expose us to liability under federal and state laws, and subject us to litigation and investigations and result in reputational harm, which could have a material adverse effect on our business, cash flows, financial condition and results of operations.

We are continuously evaluating and enhancing systems and creating new systems and processes as our business depends on our ability to maintain and improve our technology systems for interacting with customers, brokers and employees. Due to the complexity and interconnectedness of our systems and processes, these changes, as well as changes designed to update and enhance our protective measures to address new threats, increase the risk of a system or process failure or the creation of a gap in our security measures. Any such failure or gap could adversely affect our business operations and the advancement of our restructuring initiatives.

**Business or asset acquisitions and dispositions may expose us to certain risks.** The completion of any business or asset acquisition or disposition is subject to certain risks, including those relating to the receipt of required regulatory approvals, the terms and conditions of regulatory approvals, the occurrence of any event, change or other circumstances that could give rise to the termination of a transaction and the risk that parties may not be willing or able to satisfy the conditions to a transaction. As a result, there can be no assurance that any business or asset acquisition or disposition will be completed as contemplated, or at all, or regarding the expected timing of the completion of the acquisition or disposition. Once we complete acquisitions or dispositions, there can be no assurance that we will realize the anticipated economic, strategic or other benefits of any transaction. For example, the integration of businesses we acquire may not be as successful as we anticipate or there may be undisclosed risks present in such businesses. Acquisitions involve a number of risks, including operational, strategic, financial, accounting, legal, compliance and tax risks. Difficulties integrating an acquired business may result in the acquired business performing differently than we expected (including through the loss of customers) 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



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results of operations and financial condition. In connection with a business or asset disposition, we may also hold a concentrated position in securities of the acquirer as part of the consideration, which subjects us to risks related to the price of equity securities and our ability to monetize such securities.

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

*For additional information on these financial guarantees and indemnities see Note 16 to the Consolidated Financial Statements.*

**Our risk management policies and procedures may prove to be ineffective and leave us exposed to unidentified or unanticipated risk, which could adversely affect our businesses or result in losses.**

We have developed and continue to develop enterprise-wide risk management policies and procedures to mitigate risk and loss to which we are exposed.

There are, however, inherent limitations to risk management strategies because there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. If our risk management policies and procedures are ineffective, we may suffer unexpected losses and could be materially adversely affected. As our businesses change and the markets in which we operate evolve, our risk management framework may not evolve at the same pace as those changes. As a result, there is a risk that new products or new business strategies may present risks that are not appropriately identified, monitored or managed. In times of market stress, unanticipated market movements or unanticipated claims experience resulting from adverse mortality, morbidity or policyholder behavior, the effectiveness of our risk management strategies may be limited, resulting in losses to us. In addition, there can be no assurance that we can effectively review and monitor all risks or that all of our employees will follow our risk management policies and procedures.

**REGULATION**

**Our businesses are heavily regulated and changes in regulation may affect our operations, increase our insurance subsidiary capital requirements or reduce our profitability.** Our operations generally, and our insurance subsidiaries, in particular, are subject to extensive and potentially conflicting supervision and regulation by national authorities and by the various jurisdictions in which we do business. Supervision and regulation relate to numerous aspects of our business and financial condition. Federal, 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, which 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. Every state has adopted, in substantial part, the RBC Model Law promulgated by the NAIC or a substantially similar law, 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. The NAIC and certain international standard-setting bodies are also considering methodologies for assessing group-wide regulatory capital, which might evolve into more formal group-wide capital requirements on certain insurance companies that may augment state-law RBC standards that apply at the legal entity level, and such capital calculations may be made, in whole or in part, on bases other than the statutory statements of our U.S. insurance subsidiaries. We cannot predict the effect these initiatives may have on our business, results of operations, cash flows and financial condition.

*See "Actions by foreign governments, regulators and international standard setters could result in substantial additional regulation to which we may be subject" below for additional information on increased capital and other requirements that may be imposed on us.*

The degree of regulation and supervision in foreign jurisdictions varies. AIG subsidiaries operating in foreign jurisdictions must satisfy local regulatory requirements and it is possible that local licenses may require AIG Parent to meet certain conditions. Licenses issued by foreign authorities to our subsidiaries are subject to modification and revocation. Accordingly, our insurance subsidiaries could be



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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.

*For further discussion of our regulatory environment see Item 1. Business – Regulation.*

**Certain provisions of Dodd-Frank remain relevant to insurance groups generally, including AIG.** The Financial Stability Oversight Council (Council) rescinded our designation as a nonbank systemically important financial institution (nonbank SIFI) on September 29, 2017, but the Council remains authorized under Dodd-Frank to determine, subject to certain statutory and regulatory standards, that any nonbank financial company be designated as a nonbank SIFI subject to supervision by the Board of Governors of the Federal Reserve System and enhanced prudential standards. The Council may also 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 nonbank financial services companies, including insurers, engage in. Additionally, Dodd-Frank directs existing and newly created government agencies and bodies to promulgate regulations implementing the law, which is an ongoing process. Following the change in administration in the U.S., there is considerable uncertainty as to the potential adoption and timing of regulatory changes related to Dodd-Frank. We cannot predict the requirements of the regulations that may be ultimately adopted or the impact they may have on our businesses, results of operations or cash flows and financial condition.

*See Item 1. Business – Regulation – U.S. Regulation – Dodd-Frank for further discussion of provisions of Dodd-Frank that remain relevant to insurance groups generally.*

**Actions by foreign governments, regulators and international standard setters could result in substantial additional regulation to which we may be subject.** 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 standard-setting initiatives by the FSB and the IAIS, including, but not limited to, the application of HLA capital and the ongoing development of a risk-based global insurance capital standard (ICS), and implementation of Solvency II in the European Union, may significantly alter our business practices. They may also limit our ability to engage in capital or liability management, require us to raise additional capital, and impose burdensome requirements and additional costs. It is possible that the laws and regulations adopted in foreign jurisdictions will differ from one another, and that they could be inconsistent with the laws and regulations of other jurisdictions including the U.S.

*For further details on these international regulations and their potential impact on AIG and its businesses, see Item 1. Business – Regulation – International Regulation.*

**The USA PATRIOT Act, the Office of Foreign Assets Control regulations and similar laws and regulations that apply to us may expose us to significant penalties.** The operations of our subsidiaries are subject to laws and regulations, including, in some cases, the USA PATRIOT Act of 2001, which require companies to know certain information about their clients and to monitor their transactions for suspicious activities. Also, the Department of the Treasury's Office of Foreign Assets Control administers regulations requiring U.S. persons to refrain from doing business, or allowing their clients to do business through them, with certain organizations or individuals on a prohibited list maintained by the U.S. government or with certain countries. The UK, the EU 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 and Retirement companies manage the capital impact of statutory reserve requirements under Regulation XXX and Guideline AXXX through reinsurance transactions, to maintain their ability to offer competitive pricing and successfully market such products. If regulations change with respect to our ability to manage the capital impact of certain statutory reserve requirements, our statutory reserve requirements could increase, or our ability to take reserve credit for reinsurance transactions could be reduced or eliminated. As a result, we could be required to increase prices on our products, raise capital to replace the reserve credit provided by the reinsurance transactions or incur higher costs to obtain reinsurance, each of which could adversely affect our competitive position, financial condition or results of operations. If our actions to efficiently manage the impact of Regulation XXX or Guideline AXXX on future sales of term and universal life insurance products are not successful, we may incur higher operating costs or our sales of these products may be affected.

ITEM 1A | **Risk Factors**

*For additional information on statutory reserving requirements under Regulation XXX and Guideline AXXX and our use of reinsurance see Note 19 to the Consolidated Financial Statements.*

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

*For discussion regarding the implementation of the Department of Labor's (the DOL) final fiduciary rule (the DOL Fiduciary Rule), see Item 7. MD&A – Executive Summary – AIG's Outlook – Industry and Economic Factors – Department of Labor Fiduciary Rule and Related Regulatory Developments and Item 1. Business – Regulation.*

**An “ownership change” could limit our ability to utilize tax loss and credit carryforwards to offset future taxable income.** As of December 31, 2017, on a tax basis, we had U.S. federal net operating loss carryforwards of approximately \$35.6 billion, \$305 million in capital loss carryforwards, \$4.5 billion in foreign tax credits and \$1.2 billion in other tax credits (tax loss and credit carryforwards). Our ability to use these tax attributes to offset future taxable income may be significantly limited if we experience an “ownership change” as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the Code). In general, an ownership change will occur when the percentage of AIG Parent's ownership (by value) of one or more “5-percent shareholders” (as defined in the Code) has increased by more than 50 percent over the lowest percentage owned by such shareholders at any time during the prior three years (calculated on a rolling basis). An entity that experiences an ownership change generally will be subject to an annual limitation on its pre-ownership change tax loss and credit carryforwards equal to the equity value of the corporation immediately before the ownership change, multiplied by the long-term, tax-exempt rate posted monthly by the IRS (subject to certain adjustments). The annual limitation would be increased each year to the extent that there is an unused limitation in a prior year. The limitation on our ability to utilize tax loss and credit carryforwards arising from an ownership change under Section 382 would depend on the value of our equity at the time of any ownership change. If we were to experience an “ownership change”, it is possible that a significant portion of our tax loss and credit carryforwards could expire before we would be able to use them to offset future taxable income.

On March 9, 2011, our Board adopted our Tax Asset Protection Plan (the Plan) to help protect these tax loss and credit carryforwards, and on December 14, 2016, the Board adopted an amendment to the Plan, extending its expiration date to December 14, 2019. Our shareholders ratified the amendment of the Plan

at our 2017 Annual Meeting of Shareholders. At our 2011 Annual Meeting of Shareholders, shareholders adopted a protective amendment to our Restated Certificate of Incorporation (Protective Amendment), which is designed to prevent certain transfers of AIG Common Stock that could result in an “ownership change”. At our 2017 Annual Meeting of Shareholders, our shareholders approved the amendment to our Amended and Restated Certificate of Incorporation to adopt a successor to the Protective Amendment that contains substantially the same terms as the Protective Amendment but would expire on June 28, 2020.

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

**Changes to tax laws, including recently enacted U.S. legislation, could increase our corporate taxes or make some of our products less attractive to consumers.**

On December 22, 2017 President Trump signed major tax legislation into law (Public Law 115-97) (the Tax Act). The Tax Act, known informally as the Tax Cuts and Jobs Act, reduces the statutory rate of U.S. federal corporate income tax to 21 percent and enacts numerous other changes impacting AIG and the insurance industry.

The reduction in the statutory U.S. federal corporate income tax rate is expected to positively impact AIG’s future U.S. after-tax earnings. Other changes in the Tax Act that broaden the tax base by reducing or eliminating deductions for certain items (e.g., reductions to separate account dividends received deductions, disallowance of entertainment expenses, and limitations on the

ITEM 1A | **Risk Factors**

deduction of certain executive compensation costs) will offset a portion of the benefits from the lower statutory rate. Other specific changes, including the calculation of insurance tax reserves and the amortization of deferred acquisition costs, will impact the timing of our tax expense items and could impact the pricing of certain insurance products.

In addition to changing the taxation of corporations in general and insurance companies in particular, the Tax Act temporarily reduces certain tax rates for individuals and increases the exemption for the federal estate tax. These changes could reduce demand in the U.S. for life insurance and annuity contracts, which would reduce our income due to lower sales of these products or potential increased surrenders of in-force business.

Furthermore, the overall impact of the Tax Act is subject to the effect of other complex provisions in the Tax Act (including the base erosion and anti-abuse tax (BEAT) and global intangible low-taxed income (GILTI)), which AIG continues to review. It is possible that the impact from BEAT and GILTI could reduce the benefit of the reduction in the statutory U.S. federal rate. In addition, if BEAT induces other countries to enact similar legislation that could impact cross-border reinsurance transactions, AIG could be negatively impacted by increased tax costs in those countries.

Finally, it is possible that tax laws will be further changed either in a technical corrections bill or entirely new legislation. The overall impact of the Tax Act also depends on the future interpretations and regulations that may be issued by U.S. tax authorities. It remains difficult to predict whether or when there will be any tax law changes or further guidance by the authorities in the U.S. or elsewhere in the world having a material adverse effect on our financial condition or results of operations, as the impact of broad proposals on our business can vary substantially depending upon the specific changes or further guidance made and how the changes or guidance are implemented by the authorities.

*For additional information see Item 7. MD&A – Consolidated Results of Operations – U.S. Tax Reform Overview.*

**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 General Insurance companies compete with other stock companies, specialty insurance organizations, mutual insurance companies and other underwriting organizations. Our Life and Retirement 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. Technological advancements and innovation in the insurance industry may present competitive risks; technological advancements and innovation are occurring in distribution,

underwriting and operations and at a pace that may increase. Our business and results of operations could be materially and adversely affected if technological advancements or innovation limit our ability to retain existing business, write new business at adequate rates or on appropriate terms, render our insurance products less suitable or impact our ability to adapt or deploy current products as quickly and effectively as our competitors.

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

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

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

**Employee error and misconduct may be difficult to detect and prevent and may result in significant losses.** There have been a number of cases involving fraud or other misconduct by employees in the financial services industry in recent years and we run the



ITEM 1A | **Risk Factors**

risk that employee misconduct could occur. Instances of fraud, illegal acts, errors, failure to document transactions properly or to obtain proper internal authorization, misuse of customer or proprietary information, or failure to comply with regulatory requirements or our internal policies may result in losses and/or reputational damage. It is not always possible to deter or prevent employee misconduct, and the controls that we have in place to prevent and detect this activity may not be effective in all cases.

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

*For discussion regarding cyber risk arising from third-party vendors, see “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” above.*

**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 International Accounting Standards Board (IASB) has issued International Financial Reporting Standard (IFRS) 17, Insurance Contracts, with an effective date of January 1, 2021. This new standard will require significant changes to accounting measurements for long-duration insurance contracts for many of our international operations. The FASB is also nearing completion of its ongoing project 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 effects of IFRS 17 are currently under review, while the final resolution of changes to insurance contracts under U.S. GAAP has not yet been finalized. Changes to the manner in which we account for insurance products could have a significant impact on our future financial reports, operations, capital management and business. Further, the adoption of a new insurance contracts standard as well as other future accounting standards could have a material effect on our reported results of operations and reported financial condition.

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

*For further details on our pension and postretirement benefit plans see Note 21 to the Consolidated Financial Statements.*



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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](#)

We operate from approximately 160 offices in the United States and approximately 380 offices in approximately 60 foreign countries. The following offices are located in buildings in the United States owned by us:

| General Insurance Companies:  | Life and Retirement Companies:  |
|---|---|
| <ul style="list-style-type: none"> <li>Stevens Point, Wisconsin</li> </ul>  | <ul style="list-style-type: none"> <li>Amarillo and Houston, Texas</li> </ul> |
| <b>Other Operations:</b> <ul style="list-style-type: none"> <li>175 Water Street in New York, New York (Corporate Headquarters; also includes General Insurance companies)</li> <li>Livingston, New Jersey</li> <li>Ft. Worth, Texas</li> </ul> |   |

In addition, our General Insurance companies own offices in 13 foreign countries and jurisdictions including Bermuda, Ecuador, Japan, Mexico, the UK and Venezuela. The remainder of the office space we use is leased. We believe that our leases and properties are sufficient for our current purposes.

**LOCATIONS OF CERTAIN ASSETS**

As of December 31, 2017, approximately 11 percent of our consolidated assets were located outside the U.S. and Canada, including \$491 million of cash and securities on deposit with regulatory authorities in those locations.

*For additional geographic information see Note 3 to the Consolidated Financial Statements.*

*For total carrying values of cash and securities deposited by our insurance subsidiaries under requirements of regulatory authorities see Note 6 to the Consolidated Financial Statements.*

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.

*For additional information see Item 1A. Risk Factors — Business and Operations.*

### ITEM 3 | [Legal Proceedings](#)

*For a discussion of legal proceedings see Note 16 to the Consolidated Financial Statements, which is incorporated herein by reference.*

### ITEM 4 | [Mine Safety Disclosures](#)

Not applicable.

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) and the Tokyo Stock Exchange. There were approximately 25,522 stockholders of record of AIG Common Stock as of February 7, 2018.

**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 2017 and 2016, and the dividends declared per share during those periods:**

|                  | 2017     |          |           | 2016     |          |           |
|------------------|----------|----------|-----------|----------|----------|-----------|
|                  | High     | Low      | Dividends | High     | Low      | Dividends |
| First quarter    | \$ 67.20 | \$ 60.85 | \$ 0.320  | \$ 60.64 | \$ 50.20 | \$ 0.320  |
| Second quarter   | 64.25    | 58.98    | 0.320     | 58.32    | 48.79    | 0.320     |
| Third quarter    | 66.06    | 58.27    | 0.320     | 59.86    | 51.21    | 0.320     |
| Fourth quarter   | 65.13    | 58.11    | 0.320     | 66.70    | 57.38    | 0.320     |
| <b>Dividends</b> |          |          |           |          |          |           |

On February 8, 2018, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.32 per share, payable on March 29, 2018 to shareholders of record on March 15, 2018.

Any dividend payment must be approved by AIG's Board of Directors. In determining whether to pay any dividend, our Board of Directors may consider AIG's financial position, the performance of our businesses, our consolidated financial condition, results of operations, capital and liquidity positions and risk profile, our expectations for capital generation and utilization, the existence of investment opportunities, and other factors.

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

**Equity Compensation Plans**

Our table of equity compensation plans will be included in the definitive proxy statement for AIG's 2018 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.

**Purchases of Equity Securities**

Our Board of Directors has authorized the repurchase of shares of AIG Common Stock and warrants to purchase shares of AIG Common Stock through a series of actions. On May 3, 2017, our Board of Directors approved an additional increase of \$2.5 billion to the share repurchase authorization.

During the three-month period ended December 31, 2017, we did not repurchase any shares of AIG Common Stock or any warrants to purchase shares of AIG Common Stock under this authorization.

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

As of December 31, 2017, approximately \$2.3 billion remained under our share repurchase authorization. We did not repurchase any shares of AIG Common Stock from January 1, 2018 to February 8, 2018. 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 business and strategic plans, financial condition, results of operations, liquidity and other factors.

*For additional information on our share purchases see Note 17 to the Consolidated Financial Statements.*

**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, 2012 to December 31, 2017) with the cumulative total return of the S&P's 500 stock index (which includes AIG), the S&P Property and Casualty Insurance Index (S&P P&C Index) and the S&P Life and Health Insurance Index (S&P L&H Index).

**Value of \$100 Invested on December 31, 2012**

*(All \$ as of December 31st)*

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

|   | As of December 31, |           |           |           |           |                  |
|---|--------------------|-----------|-----------|-----------|-----------|------------------|
|   | 2012               | 2013      | 2014      | 2015      | 2016      | 2017             |
| AIG   | \$ 100.00          | \$ 145.20 | \$ 160.80 | \$ 180.37 | \$ 194.36 | <b>\$ 181.03</b> |
| S&P 500                                     | 100.00             | 132.39    | 150.51    | 152.59    | 170.84    | <b>208.14</b>    |
| S&P 500 Property & Casualty Insurance Index | 100.00             | 138.29    | 160.06    | 175.32    | 202.85    | <b>248.26</b>    |
| S&P 500 Life & Health Insurance             | 100.00             | 163.48    | 166.66    | 156.14    | 194.96    | <b>226.98</b>    |

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**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>2017</b>                     | <b>2016</b> | <b>2015</b> | <b>2014</b> | <b>2013</b> |
| <b>Revenues:</b>   |                                 |             |             |             |             |
| Premiums   | <b>\$ 31,374</b>                | \$ 34,393   | \$ 36,655   | \$ 37,254   | \$ 37,499   |
| Policy fees  | <b>2,935</b>                    | 2,732       | 2,755       | 2,615       | 2,340       |
| Net investment income  | <b>14,179</b>                   | 14,065      | 14,053      | 16,079      | 15,810      |
| Net realized capital gains (losses)  | <b>(1,380)</b>                  | (1,944)     | 776         | 739         | 1,939       |
| Aircraft leasing revenue   | <b>-</b>                        | -           | -           | 1,602       | 4,420       |
| Other income   | <b>2,412</b>                    | 3,121       | 4,088       | 6,117       | 6,866       |
| <b>Total revenues</b>  | <b>49,520</b>                   | 52,367      | 58,327      | 64,406      | 68,874      |
| <b>Benefits, losses and expenses:</b>  |                                 |             |             |             |             |
| Policyholder benefits and losses incurred  | <b>29,972</b>                   | 32,437      | 31,345      | 28,281      | 29,503      |
| Interest credited to policyholder account balances   | <b>3,592</b>                    | 3,705       | 3,731       | 3,768       | 3,892       |
| Amortization of deferred policy acquisition costs  | <b>4,288</b>                    | 4,521       | 5,236       | 5,330       | 5,157       |
| General operating and other expenses   | <b>9,107</b>                    | 10,989      | 12,686      | 13,138      | 13,564      |
| Interest expense   | <b>1,168</b>                    | 1,260       | 1,281       | 1,718       | 2,142       |
| Aircraft leasing expenses  | <b>-</b>                        | -           | -           | 1,585       | 4,549       |
| Net (gain) loss on extinguishment of debt  | <b>(5)</b>                      | 74          | 756         | 2,282       | 651         |
| Net (gain) loss on sale of divested businesses   | <b>(68)</b>                     | (545)       | 11          | (2,197)     | 48          |
| <b>Total benefits, losses and expenses</b>   | <b>48,054</b>                   | 52,441      | 55,046      | 53,905      | 59,506      |
| Income (loss) from continuing operations before income taxes                                 | <b>1,466</b>                    | (74)        | 3,281       | 10,501      | 9,368       |
| Income tax expense   | <b>7,526</b>                    | 185         | 1,059       | 2,927       | 360         |
| Income (loss) from continuing operations   | <b>(6,060)</b>                  | (259)       | 2,222       | 7,574       | 9,008       |
| Income (loss) from discontinued operations, net of taxes                                     | <b>4</b>                        | (90)        | -           | (50)        | 84          |
| <b>Net income (loss)</b>   | <b>(6,056)</b>                  | (349)       | 2,222       | 7,524       | 9,092       |
| <b>Net income (loss) from continuing operations attributable to noncontrolling interests</b> | <b>28</b>                       | 500         | 26          | (5)         | 7           |

|   |                |        |       |        |       |
|---|----------------|--------|-------|--------|-------|
| <b>Net income (loss) attributable to AIG</b>                                  | <b>(6,084)</b> | (849)  | 2,196 | 7,529  | 9,085 |
| <b>Income (loss) per common share attributable to AIG common shareholders</b> |                |        |       |        |       |
| Basic   |                |        |       |        |       |
| Income (loss) from continuing operations                                      | <b>(6.54)</b>  | (0.70) | 1.69  | 5.31   | 6.11  |
| Income (loss) from discontinued operations                                    | -              | (0.08) | -     | (0.04) | 0.05  |
| Net income (loss) attributable to AIG   | <b>(6.54)</b>  | (0.78) | 1.69  | 5.27   | 6.16  |
| Diluted   |                |        |       |        |       |
| Income (loss) from continuing operations                                      | <b>(6.54)</b>  | (0.70) | 1.65  | 5.24   | 6.08  |
| Income (loss) from discontinued operations                                    | -              | (0.08) | -     | (0.04) | 0.05  |
| Net income (loss) attributable to AIG   | <b>(6.54)</b>  | (0.78) | 1.65  | 5.20   | 6.13  |
| Dividends declared per common share   | <b>1.28</b>    | 1.28   | 0.81  | 0.50   | 0.20  |
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TABLE OF CONTENTSITEM 6 | **Selected Financial Data****Year-end balance sheet data:**

|   |                |         |         |         |         |
|---|----------------|---------|---------|---------|---------|
| Total investments   | <b>322,292</b> | 328,175 | 338,354 | 355,766 | 356,428 |
| Total assets  | <b>498,301</b> | 498,264 | 496,842 | 515,500 | 541,221 |
| Long-term debt  | <b>31,640</b>  | 30,912  | 29,249  | 31,136  | 41,585  |
| Total liabilities   | <b>432,593</b> | 421,406 | 406,632 | 408,228 | 440,110 |
| Total AIG shareholders' equity  | <b>65,171</b>  | 76,300  | 89,658  | 106,898 | 100,470 |
| Total equity  | <b>65,708</b>  | 76,858  | 90,210  | 107,272 | 101,081 |
| Book value per common share   | <b>72.49</b>   | 76.66   | 75.10   | 77.69   | 68.62   |
| Book value per common share, excluding Accumulated other comprehensive income (loss) <sup>(a)</sup> | <b>66.41</b>   | 73.41   | 72.97   | 69.98   | 64.28   |
| Adjusted book value per common share <sup>(a)</sup>   | <b>54.74</b>   | 58.57   | 58.94   | 58.23   | 52.12   |
| ROE   | <b>(8.4)%</b>  | (1.0)%  | 2.2%    | 7.1%    | 9.2%    |
| Adjusted ROE <sup>(a)</sup>   | <b>4.1</b>     | 0.6     | 3.7     | 8.8     | 9.0     |

| <i>(in millions, except per share data)</i>   | <b>Years Ended December 31,</b> |             |             |             |             |
|---|---------------------------------|-------------|-------------|-------------|-------------|
|   | <b>2017</b>                     | <b>2016</b> | <b>2015</b> | <b>2014</b> | <b>2013</b> |
| <b>Other data:</b>  |                                 |             |             |             |             |
| Catastrophe-related losses <sup>(b)</sup>   | <b>\$ 4,167</b>                 | \$ 1,331    | \$ 731      | \$ 728      | \$ 787      |
| Prior year unfavorable development  | <b>978</b>                      | 5,788       | 4,119       | 703         | 557         |
| Other-than-temporary impairments  | <b>260</b>                      | 559         | 671         | 247         | 232         |
| Adjustment to federal deferred tax valuation allowance                                      | <b>43</b>                       | 83          | 110         | (181)       | (3,165)     |
| Impact of Tax Act   | <b>6,687</b>                    | -           | -           | -           | -           |
| Net positive (negative) adjustment from update of Life and Retirement actuarial assumptions | <b>\$ 68</b>                    | \$ (427)    | \$ 3        | \$ 168      | \$ 214      |

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

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

**Items Affecting Comparability Between Periods**

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

### **Asset Dispositions in 2015, 2016 and 2017**

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 International Lease Finance Corporation (ILFC). In 2016, we sold United Guaranty to Arch Capital Group Ltd. In 2017, we sold Fuji Life to FWD Group and certain international insurance operations to Fairfax Financial Holdings Limited (Fairfax).

*For further discussion on 2016 and 2017 asset dispositions see Note 1 to the Consolidated Financial Statements.*

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## Reconciliation of Non-GAAP Measures Included in Selected Financial Data

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

|   | At December 31, |                 |                 |                 |                 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| (in millions, except per share data)                  | 2017            | 2016            | 2015            | 2014            | 2013            |
| Total AIG shareholders' equity                        | \$ 65,171       | \$ 76,300       | \$ 89,658       | \$ 106,898      | \$ 100,470      |
| Accumulated other comprehensive income                | 5,465           | 3,230           | 2,537           | 10,617          | 6,360           |
| <b>Total AIG shareholders' equity, excluding AOCI</b> | <b>59,706</b>   | <b>73,070</b>   | <b>87,121</b>   | <b>96,281</b>   | <b>94,110</b>   |
| Deferred tax assets                                   | 10,492          | 14,770          | 16,751          | 16,158          | 17,797          |
| <b>Adjusted shareholders' equity</b>                  | <b>49,214</b>   | <b>58,300</b>   | <b>70,370</b>   | <b>80,123</b>   | <b>76,313</b>   |
| Total common shares outstanding                       | 899,044,657     | 995,335,841     | 1,193,916,617   | 1,375,926,971   | 1,464,063,323   |
| <b>Book value per common share</b>                    | <b>\$ 72.49</b> | <b>\$ 76.66</b> | <b>\$ 75.10</b> | <b>\$ 77.69</b> | <b>\$ 68.62</b> |
| <b>Book value per common share, excluding AOCI</b>    | <b>66.41</b>    | <b>73.41</b>    | <b>72.97</b>    | <b>69.98</b>    | <b>64.28</b>    |
| <b>Adjusted book value per common share</b>           | <b>54.74</b>    | <b>58.57</b>    | <b>58.94</b>    | <b>58.23</b>    | <b>52.12</b>    |

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

| Years Ended December 31,                                 | 2017          | 2016          | 2015        | 2014        | 2013        |
|--|---------------|---------------|-------------|-------------|-------------|
| (dollars in millions)                                    |               |               |             |             |             |
| Net income (loss) attributable to AIG                    | \$(6,084)     | \$ (849)      | \$ 2,196    | \$ 7,529    | \$ 9,083    |
| Adjusted after-tax income attributable to AIG            | 2,231         | 406           | 2,872       | 6,941       | 6,444       |
| Average AIG Shareholders' equity                         | 72,348        | 86,617        | 101,558     | 105,589     | 98,850      |
| Average AOCI   | 4,675         | 5,722         | 7,598       | 9,781       | 8,863       |
| Average AIG Shareholders' equity, excluding average AOCI | 67,673        | 80,895        | 93,960      | 95,808      | 89,987      |
| Average DTA  | 13,806        | 15,905        | 15,803      | 16,611      | 18,150      |
| Average adjusted Shareholders' equity                    | \$ 53,867     | \$ 64,990     | \$ 78,157   | \$ 79,197   | \$ 71,837   |
| <b>ROE</b>   | <b>(8.4)%</b> | <b>(1.0)%</b> | <b>2.2%</b> | <b>7.1%</b> | <b>9.2%</b> |
| <b>Adjusted Return on Equity</b>                         | <b>4.1</b>    | <b>0.6</b>    | <b>3.7</b>  | <b>8.8</b>  | <b>9.1</b>  |



TABLE OF CONTENTSITEM 7 | [Management's Discussion and Analysis of Financial Condition and Results of Operations](#)[Cautionary Statement Regarding Forward-Looking Information](#)

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

- exposures to subprime mortgages, monoline insurers, the residential and commercial real estate markets, state and municipal bond issuers, sovereign bond issuers, the energy sector and currency exchange rates;
- exposure to European governments and European financial institutions;
- strategy for risk management;
- actual and anticipated sales, monetizations and/or acquisitions of businesses or assets, including our ability to successfully consummate the purchase of Validus Holdings, Ltd.;
- restructuring of business operations, including anticipated restructuring charges and annual cost savings;
- generation of deployable capital;
- strategies to increase return on equity and earnings per share;
- strategies to grow net investment income, efficiently manage capital, grow book value per common share, and reduce expenses;
- anticipated organizational, business and regulatory changes;
- strategies for customer retention, growth, product development, market position, financial results and reserves;
- management of the impact that innovation and technology changes may have on customer preferences, the frequency or severity of losses and/or the way we distribute and underwrite our products;
- segments' revenues and combined ratios; and
- management succession and retention plans.

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;
- our ability to successfully reduce costs and expenses and make business and organizational

- negative impacts on customers, business partners changes without negatively impacting client and other stakeholders; relationships or our competitive position;
- the occurrence of catastrophic events, both natural and man-made;
- significant legal, regulatory or governmental proceedings;
- the timing and applicable requirements of any regulatory framework to which we are subject, including as a global systemically important insurer (G SII);
- concentrations in our investment portfolios;
- actions by credit rating agencies;
- judgments concerning casualty insurance underwriting and insurance liabilities;
- our ability to successfully manage Legacy portfolios;
- our ability to successfully dispose of, monetize and/or acquire businesses or assets, including our ability to successfully consummate the purchase of Validus Holdings, Ltd.;
- judgments concerning the recognition of deferred tax assets;
- judgments concerning estimated restructuring charges and estimated cost savings; and
- such other factors discussed in:
  - Part I, Item 1A. Risk Factors of this Annual Report; and
  - this Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) of this Annual Report.

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

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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 to assist readers seeking additional information related to a particular subject.



TABLE OF CONTENTSITEM 7 | **Use of Non-GAAP Measures****Use of Non-GAAP Measures**

In Item 1. Business, Item 6. Selected Financial Data and throughout this MD&A, we present our financial condition and results of operations in the way we believe will be most meaningful and representative of our business results. Some of the measurements we use are “non GAAP financial measures” under Securities and Exchange Commission rules and regulations. GAAP is the acronym for “generally accepted accounting principles” 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) (Adjusted book value per common share)** are used to show the amount of our net worth on a per-share basis. We believe these measures are useful to investors because they eliminate items that can fluctuate significantly from period to period, including changes in fair value of our available for sale securities portfolio, foreign currency translation adjustments and U.S. tax attribute deferred tax assets. These measures also eliminate the asymmetrical impact resulting from changes in fair value of our available for sale securities portfolio wherein there is largely no offsetting impact for certain related insurance liabilities. We exclude deferred tax assets representing U.S. tax attributes related to net operating loss carryforwards and foreign tax credits as they have not yet been utilized. Amounts for interim periods are estimates based on projections of full-year attribute utilization. As net operating loss carryforwards and foreign tax credits are utilized, the portion of the DTA utilized is included in these book value per common share metrics. Book value per common share excluding AOCI, is derived by dividing total AIG shareholders’ equity, excluding AOCI, by total common shares outstanding. Adjusted book value per common share is derived by dividing total AIG shareholders’ equity, excluding AOCI and DTA (Adjusted Shareholders’ Equity), by total common shares outstanding. The reconciliation to book value per common share, the most comparable GAAP measure, is presented in Item 6. Selected Financial Data.

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

**Adjusted after-tax income attributable to AIG** is derived by excluding the tax effected adjusted pre-tax income (APTI) adjustments described below and the following tax items from net income attributable to

AIG:

- deferred income tax valuation allowance releases and charges;
- changes in uncertain tax positions and other tax items related to legacy matters having no relevance to our current businesses or operating performance; and
- net tax charge related to the enactment of the Tax Act.

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

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

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

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

- changes in fair value of securities used to hedge guaranteed living benefits;
- changes in benefit reserves and deferred policy acquisition costs (DAC), value of business acquired (VOBA), and sales inducement assets (SIA) related to net realized capital gains and losses;
- loss (gain) on extinguishment of debt;
- net realized capital gains and losses;
- non-qualifying derivative hedging activities, excluding net realized capital gains and losses;
- income or loss from discontinued operations;
- net loss reserve discount benefit (charge);
- **General Insurance**
- pension expense related to a one-time lump sum payment to former employees;
- income and loss from divested businesses;
- non-operating litigation reserves and settlements;
- reserve development related to non-operating run-off insurance business;
- restructuring and other costs related to initiatives designed to reduce operating expenses, improve efficiency and simplify our organization; and
- the portion of favorable or unfavorable prior year reserve development for which we have ceded the risk under retroactive reinsurance agreements and related changes in amortization of the deferred gain.

– **Ratios** We, along with most property and casualty insurance companies, use the loss ratio, the expense ratio and the combined ratio as measures of underwriting performance. These ratios are relative measurements that describe, for every \$100 of net premiums earned, the amount of losses and loss adjustment expenses (which for General Insurance excludes net loss reserve discount), and the amount of other underwriting expenses that would be incurred. A combined ratio of less than 100 indicates

underwriting income and a combined ratio of over 100 indicates an underwriting loss. Our ratios are calculated using the relevant segment information calculated under GAAP, and thus may not be comparable to similar ratios calculated for regulatory reporting purposes. The underwriting environment varies across countries and products, as does the degree of litigation activity, all of which affect such ratios. In addition, investment returns, local taxes, cost of capital, regulation, product type and competition can have an effect on pricing and consequently on profitability as reflected in underwriting income and associated ratios.

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

- **Life and Retirement**

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

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

ITEM 7 | **Critical Accounting Estimates****Critical Accounting Estimates**

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

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

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

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

**Insurance Liabilities****Loss Reserves**

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

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

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

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

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

ITEM 7 | **Critical Accounting Estimates****Overview of Loss Reserving Process and Methods**

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

**Short-Tail Reserves**

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

**Long-Tail Reserves**

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

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

- **Loss cost trend factors** are used to establish expected loss ratios for subsequent accident years based on the projected loss ratios for prior accident years.
- **Expected loss ratios** are used for the latest accident year (i.e., accident year 2017 for the year-end 2017 loss reserve analysis) and, in some cases for accident years prior to the latest accident year. The expected loss ratio generally reflects the projected loss ratio from prior accident years, adjusted for the loss cost trend and the effect of rate changes and other quantifiable factors on the loss ratio. For low-frequency, high-severity lines of business such as excess casualty, expected loss ratios generally are used for at least the three most recent accident years.
- **Loss development factors** are used to project the reported losses for each accident year to an ultimate basis. Generally, the actual loss development factors observed from prior accident years would be used as a basis to determine the loss development factors for the subsequent accident years.
- **Tail factors are development factors** used for certain longer tailed lines of business (for example, excess casualty, workers' compensation and general liability), to project future loss development for periods that extend beyond the available development data. The development of losses to the ultimate loss for a given accident year for these lines may take decades and the projection of ultimate losses for an accident year is very sensitive to the tail factors selected beyond a certain age.

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

**Details of the Loss Reserving Process**

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

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

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

overall actuarial best estimate for that line of business.

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

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

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

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

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

**Actuarial and Other Methods for Major Lines of Business**

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

**The actuarial methods we use most commonly include paid and incurred loss development methods, expected loss ratio methods, including “Bornhuetter Ferguson” and “Cape Cod”, and frequency/severity models.** Loss development methods utilize the actual loss development patterns from prior accident years updated through the current year to project the reported losses to an ultimate basis for

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

**Expected loss ratio methods rely on the application of an expected loss ratio to the earned premium for the product line of business to determine the liability for loss reserves and loss adjustment expenses.**

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

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

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

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

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

- Claim by claim reviews, often facilitated by third party specialists, to determine the stability and likelihood of settling an injured worker's indemnity and medical benefits;
- Analysis of the potential for future deterioration in medical condition unlikely to be picked up by a claim file review and associated with potentially costly medical procedures (i.e., increases in both utilization and intensity of medical care) over the course of the injured worker's lifetime;
- Analysis of the cost of medical price inflation for each category of medical spend (services and devices) and for cost of living adjustments in line with statutory requirements;
- Portfolio specific mortality level and mortality improvement assumptions based on a mortality study conducted for our primary and excess workers' compensation portfolios and our opinion of future longevity trends for the open reported cases;
- Ground-up consideration of the reinsurance recoveries expected for the product line of business for reported claims with extrapolation for unreported claims; and
- The effects of various run-off loss management strategies that have been developed by our run-off unit.

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

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

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

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

### **Discussion of Key Assumptions of our Actuarial Methods**

Line of

Business or Category Key Assumptions

**U.S. Workers'  
Compensation**

We generally use a combination of loss development and expected loss ratio methods for U.S. Workers' Compensation as this line of business is long-tail.

The loss cost trend assumption is not believed to be material with respect to our guaranteed cost loss reserves. This is primarily because our actuaries are generally

able to use loss development projections for all but the most recent accident year's reserves, so there is limited need to rely on loss cost trend assumptions for primary workers' compensation business.

The tail factor is typically the most critical assumption, and small changes in the selected tail factor can have a material effect on our carried reserves. For example, the tail factors beyond twenty years for guaranteed cost business could vary by one and one-half percent below to two percent above those actually indicated in the 2017 loss reserve review. For excess of deductible business, in our judgment, it is reasonably likely that tail factors beyond twenty years could vary by four percent below to six percent above those actually indicated in the 2017 loss reserve review.



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| Line of<br>Business or Category | Key Assumptions   |
|---------------------------------|---|
| <b>U.S. Excess<br/>Casualty</b> | <p>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 2017 loss reserve review for U.S. Excess Casualty may range five percent lower or higher than this estimated loss trend. The loss cost trend assumption is critical for the U.S. Excess Casualty class of business due to the long-tail nature of the losses, and is applied across many accident years. Thus, there is the potential for the loss reserves with respect to a number of accident years (the expected loss ratio years) to be significantly affected by changes in loss cost trends that were initially relied upon in setting the loss reserves. These changes in loss trends could be attributable to changes in inflation or in the judicial environment, or in other social or economic conditions affecting losses.</p> <p>U.S. Excess Casualty is a long-tail class of business and any deviation in loss development factors might not be discernible for an extended period of time subsequent to the recording of the initial loss reserve estimates for any accident year. Mass tort claims in particular may develop over a very extended period and impact multiple accident years, so we usually select a separate pattern for them. Thus, there is the potential for the loss reserves with respect to a number of accident years to be significantly affected by changes in loss development factors that were initially relied upon in setting the reserves.</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 the actual loss development factors could vary by an amount equivalent to a six month shift from those actually utilized in the year-end 2017 reserve review. This would impact projections both for accident years where the selections were directly based on loss development methods as well as the a priori loss ratio assumptions for accident years with selections based on Bornhuetter-Ferguson or Cape Cod methods. Similar to loss cost trends, these changes in loss development factors could be attributable to changes in inflation or in the judicial environment, or in other social or economic conditions affecting losses.</p> |
| <b>U.S. Other Casualty</b>      | <p>The key uncertainties for other casualty lines are similar to excess casualty, as the underlying business is long-tailed and can be subject to variability in loss cost trends and changes in loss development factors. These may differ significantly by line of business as coverages such as general liability, medical malpractice and environmental may be subject to different risk drivers.</p>   |
| <b>U.S. Financial Lines</b>     | <p>The loss cost trends for U.S. D&amp;O business vary by year and subset, but for the most recent accident years, it is assumed to have been generally close to zero. After evaluating the historical loss cost levels from prior accident years since the early 1990s, including the potential effect of losses relating to the credit crisis, in our</p>   |

judgment, it is reasonably likely that the actual variation in loss cost levels for these subsets could vary by approximately 10 percent lower or higher on a year-over-year basis than the assumptions actually utilized in the year-end 2017 reserve review. Because U.S. D&O business has exhibited highly volatile loss trends from one accident year to the next, there is the possibility of an exceptionally high deviation. In our analysis, the effects of loss cost trend assumptions affect the results through the a priori loss ratio assumptions used for the Bornhuetter-Ferguson and Cape Cod methods, which impact the projections for the more recent accident years.

The selected loss development factors are also an important assumption, but are less critical than for U.S. Excess Casualty. Because these classes are written on a claims made basis, the loss reporting and development tail is much shorter than for U.S. Excess Casualty. However, the high severity nature of the losses does create the potential for significant deviations in loss development patterns from one year to the next. Similar to U.S. Excess Casualty, after evaluating the historical loss development factors from prior accident years since the early 1990s, in our judgment, it is reasonably likely that actual loss development factors could change by an amount equivalent to a shift by six months from those actually utilized in the year-end 2017 reserve review.

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

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

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

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## Line of

Business or Category **Key Assumptions****U.S. Run-off Long Tail Insurance lines**

We historically have used a combination of loss development methods and expected loss ratio methods for excess workers' compensation and other run-off segments. For environmental claims, we have utilized a variety of methods including traditional loss development approaches, claim department and other expert evaluations of the ultimate costs for certain claims and survival ratio metrics.

U.S. Run-off Long Tail Insurance lines is an extremely long-tail class of business, with a much greater than normal uncertainty as to the appropriate loss development factors for the tail of the loss development. Specifically for excess workers' compensation, after evaluating the historical loss development factors for prior accident years since the 1980s as well as the development over the past several years of the ground up loss projections utilized to help select the loss development factors in the tail for this class of business, in our judgment, it is reasonably likely that the tail factor beyond 30 years could vary by 10 percent above or below that actually indicated in the 2017 loss reserve review.

**Other Reserve Items**

Loss adjustment expenses (LAE) are separated into two broad categories, allocated loss adjustment expenses (ALAE), also referred to as legal defense and cost containment or "legal" and unallocated loss adjustment expenses (ULAE), which includes certain claims adjuster fees and other internal claim management costs.

We determine reserves for legal expenses for each class of business by one or more actuarial or structural driver methods. For the majority of segments, legal costs are analyzed in conjunction with losses. For segments where they are separately analyzed the methods used generally include development methods comparable to those described for loss development methods. The development could be based on either the paid loss adjustment expenses or the ratio of paid loss adjustment expenses to paid losses, or both. Other methods include the utilization of expected ultimate ratios of paid loss expense to paid losses, based on actual experience from prior accident years or from similar product lines of business.

The bulk of adjuster expenses are allocated and charged to individual claim files. For these expenses, we generally determine reserves based on calendar year ratios of adjuster expenses paid to losses paid for the particular product line of business. For other internal claim costs, which generally relate to specific claim department expenses that are not allocated to individual claim files such as technology costs and other broad initiatives, we look at historic and expected expenditures for these items and project these into the future.

The incidence of LAE is directly related to the frequency, complexity and level of underlying claims. As a result, a key driver of variability in LAE is the variability in the overall claims, particularly for long tail lines.

The following sensitivity analysis table summarizes the effect on the loss reserve position of using certain alternative loss cost trend (for accident years where we use expected loss ratio methods) or loss development factor assumptions rather than the assumptions actually used in determining our estimates in the year-end loss reserve analyses in 2017:

| <b>December 31, 2017</b><br><i>(in millions)</i> | Increase<br>(Decrease)<br>to Loss Reserves |   | Increase<br>(Decrease)<br>to Loss Reserves |
|--|--|---|--|
| <b>Loss cost trends:</b>                         |  | <b>Loss development factors:</b>                                  |  |
| <b>U.S. Excess Casualty:</b>                     |  | <b>U.S. Excess Casualty:</b>                                      |  |
| 5 percent increase                               | \$ 1,100                                   | 6-months slower   | \$ 900                                     |
| 5 percent decrease                               | (950)                                      | 6-months faster   | (750)                                      |
| <b>U.S. Financial Lines (D&amp;O)</b>            |  | <b>U.S. Financial Lines (D&amp;O)</b>                             |  |
| 10 percent increase                              | 700  | 6-months slower   | 800  |
| 10 percent decrease                              | (400)                                      | 6-months faster   | (550)                                      |
|  |  | <b>U.S. Run-off P&amp;C Lines (Excess Workers' Compensation):</b> |  |
|  |  | 10% tail factor increase  | 470  |
|  |  | 10% tail factor decrease  | (470)                                      |
|  |  | <b>U.S. Workers' Compensation:</b>                                |  |
|  |  | Tail factor increase <sup>(a)</sup>                               | 1,100                                      |
|  |  | Tail factor decrease <sup>(b)</sup>                               | (800)                                      |

(a) Tail factor increase of 2 percent for guaranteed cost business and 6 percent for deductible business.

(b) Tail factor decrease of 1.5 percent for guaranteed cost business and 4 percent for deductible business.

ITEM 7 | **Critical Accounting Estimates****Future Policy Benefits for Life and Accident and Health Insurance Contracts**

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

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

Loss recognition occurs if observed changes in actual experience or estimates result in projected future losses under loss recognition testing. To determine whether loss recognition exists, we determine whether a future loss is expected based on updated current assumptions. If loss recognition exists, we recognize the loss by first reducing DAC through amortization expense, and, if DAC is depleted, record additional liabilities through a charge to policyholder benefit expense. 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.

*For additional information on loss recognition see Note 9 to the Consolidated Financial Statements.*

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

- To determine investment returns used in loss recognition tests, we typically match 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 to medium 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 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.

ITEM 7 | **Critical Accounting Estimates**

Significant unrealized appreciation on investments in a 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. 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.

*For additional information on shadow loss recognition see Note 9 to the Consolidated Financial Statements.*

**Guaranteed Benefit Features of Variable Annuity Products**

Variable annuity products offered by our Individual Retirement and Group Retirement product lines offer guaranteed benefit features. These guaranteed features include guaranteed minimum death benefits (GMDB) that are payable in the event of death or other instances, and living benefits that are payable in the event of annuitization, or, in other instances, at specified dates during the accumulation period. Living benefits primarily include guaranteed minimum withdrawal benefits (GMWB).

*For additional information on these features see Note 14 to the Consolidated Financial Statements.*

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

Our exposure to the guaranteed amounts is equal to the amount by which the contract holder’s account balance is below the amount provided by the guaranteed feature. A variable annuity contract may include more than one type of guaranteed benefit feature; for example, it may have both a GMDB and a GMWB. However, a policyholder can generally only receive payout from one guaranteed feature on a contract containing a death benefit and a living benefit, i.e., the features are generally mutually exclusive (except a surviving spouse who has a rider to potentially collect both a GMDB upon their spouse’s death and a GMWB during his or her lifetime). A policyholder cannot purchase more than one living benefit on one contract. Declines in the equity markets, increased volatility and a sustained low interest rate environment increase our exposure to potential benefits under the guaranteed features, leading to an increase in the liabilities for those benefits.

*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 see Estimated Gross Profits for Investment-Oriented Products below.*

*For additional discussion of market risk management related to these product features see Enterprise Risk Management – Insurance Risks – Life and Retirement Companies Key Risks – Variable Annuity Risk*

*Management and Hedging Program.*



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

| Guaranteed Benefit Feature | Reserving Methodology & Assumptions and Accounting Judgments  |
|----------------------------|---|
| <b>GMDB</b>                | <p>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. <i>For additional information on how we reserve for variable annuity products with guaranteed benefit features see Note 14 to the Consolidated Financial Statements.</i></p> <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> </ul> <p>In applying asset growth assumptions for the valuation of the GMDB liability, we use a reversion to the mean methodology, similar to that applied for DAC. <i>For a description of this methodology see Estimated Gross Profits for Investment-Oriented Products below.</i></p> |
| <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. <i>For additional information on how we reserve for variable annuity products with guaranteed benefit features see Note 14 to the Consolidated Financial Statements, and for information on fair value measurement of these embedded derivatives, including how we incorporate our own non-performance risk see Note 5 to the Consolidated Financial Statements.</i></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> </ul>   |

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

### Estimated Gross Profits for Investment–Oriented Products

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

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

In estimating future gross profits for variable annuity products as of December 31, 2017, a long-term annual asset growth assumption of 7.0 percent (before expenses that reduce the asset base from which future fees are projected) was applied to estimate the future growth in assets and related asset-based fees. In determining the asset growth rate, the effect of short-term fluctuations in the equity markets is partially mitigated through the use of a reversion to the mean methodology, whereby short-term asset growth above or below the long-term annual rate assumption impacts the growth assumption applied to the five-year period subsequent to the current balance sheet date. The reversion to the mean methodology allows us to maintain our long-term growth assumptions, while also giving consideration to the effect of actual investment performance. When actual performance significantly deviates from the annual

TABLE OF CONTENTSITEM 7 | **Critical Accounting Estimates**

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.

*For additional discussion see Insurance Reserves – Life and Annuity Reserves and DAC – DAC – Reversion to the Mean.*

**The following table summarizes the sensitivity of changes in certain assumptions for DAC and SIA, embedded derivatives and other reserves related to guaranteed benefits and URR, measured as the related hypothetical impact on December 31, 2017 balances and the resulting hypothetical impact on pre-tax income, before hedging.**

|  | Increase (decrease) in |                                 |          |                                       |    |         |
|--|------------------------|---------------------------------|----------|---------------------------------------|----|---------|
|  |                        | Other<br>Reserves<br>Related to | Unearned | Embedded<br>Derivatives<br>Related to |    |         |
| December 31, 2017                        | DAC/SIA                | Guaranteed                      | Revenue  | Guaranteed                            |    | Pre-Tax |
| (in millions)                            | Asset                  | Benefits                        | Reserve  | Benefits                              |    | Income  |
| <b>Assumptions:</b>                      |                        |                                 |          |                                       |    |         |
| <b>Net Investment Spread</b>             |                        |                                 |          |                                       |    |         |
| Effect of an increase by 10 basis points | \$ 137                 | \$ (24)                         | \$ 15    | \$ (129)                              | \$ | 275     |
| Effect of a decrease by 10 basis points  | (136)                  | 24                              | (19)     | 132                                   |    | (273)   |
| <b>Equity Return</b> <sup>(a)</sup>      |                        |                                 |          |                                       |    |         |
| Effect of an increase by 1%              | 87                     | (24)                            | -        | (59)                                  |    | 170     |
| Effect of a decrease by 1%               | (82)                   | 32                              | -        | 63                                    |    | (177)   |
| <b>Volatility</b> <sup>(b)</sup>         |                        |                                 |          |                                       |    |         |
| Effect of an increase by 1%              | (3)                    | 20                              | -        | 2                                     |    | (25)    |
| Effect of a decrease by 1%               | 3                      | (19)                            | -        | -                                     |    | 22      |
| <b>Interest Rate</b> <sup>(c)</sup>      |                        |                                 |          |                                       |    |         |
| Effect of an increase by 1%              | -                      | -                               | -        | (2,175)                               |    | 2,175   |
| Effect of a decrease by 1%               | -                      | -                               | -        | 2,200                                 |    | (2,200) |
| <b>Mortality</b>                         |                        |                                 |          |                                       |    |         |
| Effect of an increase by 1%              | (10)                   | 41                              | (2)      | (30)                                  |    | (19)    |
| Effect of a decrease by 1%               | 10                     | (41)                            | -        | 30                                    |    | 21      |
| <b>Lapse</b>                             |                        |                                 |          |                                       |    |         |
| Effect of an increase by 10%             | (132)                  | (63)                            | (16)     | (106)                                 |    | 53      |
| Effect of an decrease by 10%             | 137                    | 66                              | 15       | 109                                   |    | (53)    |

(a) Represents the net impact of a one percent increase or decrease in long-term equity returns for GMDB reserves and net impact of a one percent increase or decrease in the S&P 500 index on the value of the GMWB embedded derivative.

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

(c) Represents the net impact of one percent parallel shift in the yield curve on the value of the GMWB embedded derivative. Does not represent interest rate spread compression on investment-oriented products.

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

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

*For a further discussion on guaranteed benefit features of our variable annuities and the related hedging program see Enterprise Risk Management Insurance Risks – Life and Retirement Companies Key Risks – Variable Annuity Risk Management and Hedging Program, Insurance Reserves – Life and Annuity Reserves and DAC – DAC – Variable Annuity Guaranteed Benefits and Hedging Results, and Notes 5 and 14 to the Consolidated Financial Statements.*

ITEM 7 | **Critical Accounting Estimates****Reinsurance Assets**

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

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

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

At December 31, 2017, the allowance for estimated unrecoverable reinsurance was \$187 million, or less than one percent of the consolidated reinsurance recoverable.

*For additional information on reinsurance see Note 8 to the Consolidated Financial Statements.*

**Impairment Charges****Impairments of Investments**

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

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

**Goodwill Impairment**

*For a discussion of goodwill impairment see Note 12 to the Consolidated Financial Statements.* In 2017, 2016 and 2015, for substantially all of the reporting units we 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 our 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 regulatory and government investigations and actions and litigation and other forms of dispute resolution to the extent such losses are probable and can be estimated. Determining a reasonable estimate of the amount of such losses requires significant management judgment. In many cases, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the matter is close to resolution. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases that are in the early stages of litigation or in which claimants seek substantial or indeterminate damages, we often cannot predict the outcome or estimate the eventual loss or range of reasonably possible losses related to such matters. Given the inherent unpredictability of such matters, the outcome of certain matters could, from time to time, have a material adverse effect on the company's consolidated financial condition, results of operations or cash flows.

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

TABLE OF CONTENTSITEM 7 | **Critical Accounting Estimates****Fair Value Measurements of Certain Financial Assets and Financial Liabilities**

*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 see Note 5 to the Consolidated Financial Statements.*

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

| <b>December 31, 2017</b><br><i>(in billions)</i>                | Fair Value    | Percent of Total |
|---|---------------|------------------|
| Fair value based on external sources <sup>(a)</sup>             | \$ 233        | 92%              |
| Fair value based on internal sources                            | 21            | 8                |
| <b>Total fixed maturity and equity securities<sup>(b)</sup></b> | <b>\$ 254</b> | <b>100%</b>      |

(a) Includes \$16.4 billion for which the primary source is broker quotes.

(b) Includes available for sale and other securities.

**Level 3 Assets and Liabilities**

Assets and liabilities recorded at fair value in the Consolidated Balance Sheets are measured and classified in a hierarchy for disclosure purposes consisting of three “levels” based on the observability of inputs available in the marketplace used to measure the fair value.

*For additional information see Note 5 to the Consolidated Financial Statements.*

**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> | December 31, 2017 | Percentage of Total | December 31, 2016 | Percentage of Total |
|----------------------|-------------------|---------------------|-------------------|---------------------|
| Assets               | \$ 35.9           | 7.2%                | \$ 37.7           | 7.6%                |
| Liabilities          | 4.4               | 1.0                 | 3.5               | 0.8                 |

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

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

*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 see Note 5 to the Consolidated Financial Statements.*

## Income Taxes

### Recoverability of Net Deferred Tax Asset

The evaluation of the recoverability of our deferred tax asset and the need for a valuation allowance requires us to weigh all positive and negative evidence to reach a conclusion that it is more likely than not that all or some portion of the deferred tax asset will not be realized. The weight given to the evidence is commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is necessary and the more difficult it is to support a conclusion that a valuation allowance is not needed.

We consider a number of factors to reliably estimate future taxable income so we can determine the extent of our ability to realize net operating losses (NOLs), foreign tax credits (FTCs), realized capital loss and other carryforwards. These factors include forecasts of future income for each of our businesses and actual and planned business and operational changes, both of which include assumptions about future macroeconomic and AIG specific conditions and events. We subject the forecasts to stresses of key assumptions and evaluate the effect on tax attribute utilization. We also apply stresses to our assumptions about the effectiveness of relevant prudent and feasible tax planning strategies. Our income forecasts, coupled with our tax planning strategies, all resulted in sufficient taxable income to achieve realization of the U.S. tax attributes prior to their expiration.



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We assess the recoverability of deferred tax assets related to unrealized tax capital losses in the U.S. non-life companies' available for sale portfolio. For the year ended December 31, 2017, recent changes in market conditions, including interest rate fluctuations, impacted the unrealized tax gains and losses in the U.S. non-life companies' available for sale securities portfolio, resulting in a deferred tax liability related to net unrealized tax capital gains. As of December 31, 2017, based on all available evidence, we have concluded no valuation allowance is necessary in the U.S. non-life companies' available for sale securities portfolio.

We also assess the recoverability of deferred tax assets related to unrealized tax capital losses in the U.S. life insurance companies' available for sale portfolio. For the year ended December 31, 2017, recent changes in market conditions, including interest rate fluctuations, impacted the unrealized tax gains and losses in the U.S. life insurance companies' available for sale securities portfolio, resulting in a deferred tax liability related to net unrealized tax capital gains. As of December 31, 2017, based on all available evidence, we have concluded no valuation allowance is necessary in the U.S. life insurance companies' available for sale securities portfolio.

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

**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 (ASC 740) 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 percent 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.

**U.S. Tax Reform**

On December 22, 2017, the U.S. enacted Public Law 115-97, known informally as the Tax Cuts and Jobs Act (the Tax Act). The Tax Act reduces the statutory rate of U.S. federal corporate income tax to 21 percent and enacts numerous other changes impacting AIG and the insurance industry. Additionally, the SEC staff issued Staff Accounting Bulletin 118 (SAB 118), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 addresses situations where accounting for certain income tax effects of the Tax Act under ASC 740 may be incomplete upon issuance of an entity's financial statements and provides a one-year measurement period from the enactment date to complete the accounting under ASC 740. As of December 31, 2017, we had not fully completed our accounting for the tax effects of the Tax Act. Our provision for income taxes for the periods ended December 31, 2017, is based in part on a reasonable estimate of the effects on existing deferred tax balances and of certain provisions of the Tax Act.

The Tax Act includes a provision for Global Intangible Low-Taxed Income (GILTI) under which taxes on foreign income are imposed on the excess of a deemed return on tangible assets of certain foreign subsidiaries. We have made a policy election to treat GILTI as an in period tax charge when incurred in future periods for which no deferred taxes need to be provided.

*For additional discussion of the Tax Act see Note 23 to the Consolidated Financial Statements.*

**Executive Summary****Overview**

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

In the fourth quarter of 2017, we completed the reorganization of our operating structure. *For a further discussion on these actions see Item 1. Business.*

On January 21, 2018, we entered into an agreement to purchase Validus Holdings, Ltd., a leading provider of reinsurance, primary insurance, and asset management services, for \$5.6 billion in cash. This transaction strengthens our global General Insurance business by expanding our current product portfolio through additional distribution channels and advancing the tools available to enhance underwriting. The transaction is expected to close mid-2018 and is subject to obtaining the relevant regulatory approvals and other customary closing conditions.

In February 2018, we closed a series of affiliated reinsurance transactions impacting the Legacy Portfolio. These transactions were designed to consolidate the bulk of the Legacy Insurance Run-Off Lines into a single legal entity, DSA Reinsurance Company, Ltd. (DSA Re), a Bermuda domiciled composite reinsurer, 100 percent owned by AIG. The transactions include the cession of approximately \$32 billion of reserves from the Legacy Life and Retirement Run-off Lines and approximately \$5 billion of reserves from the Legacy General Insurance Run-off Lines relating to business written by multiple AIG legal entities. This represented over 80 percent of the insurance reserves in the Legacy Portfolio as of December 31, 2017. DSA Re will have approximately \$40 billion of invested assets, managed by AIG Investments and will become AIG's main run-off reinsurer with its own dedicated management team.

Following the close of the DSA Re transactions, Eaglestone Reinsurance Company will continue to reinsure the AIG property casualty pool companies for their asbestos liabilities and benefit from the retroactive reinsurance agreement entered into with NICO in 2011.

## **Financial Performance Summary**

### **Net Income (Loss) Attributable To AIG**

*(\$ in millions)*

#### **2017 and 2016 Comparison**

Decreased primarily due to a \$6.7 billion tax charge related to the enactment of the Tax Act. Excluding this tax charge, net income increased \$1.5 billion due to:

- lower losses from General Insurance operations, reflecting \$1.0 billion of pre-tax unfavorable prior year loss reserve development in 2017 driven by higher than expected loss emergence in General Insurance primarily related to accident year 2016 compared to \$5.4 billion in 2016, partially offset by higher catastrophe losses;
- a net positive adjustment from the update of Life and Retirement actuarial assumptions in 2017 compared to a net negative adjustment in the prior year;
- lower general operating and other expenses;
- lower net realized capital losses;
- increased adjusted pre-tax income from the Legacy Portfolio; and
- higher net investment income due to increased income from alternative investments and higher appreciation on assets for which the fair value option was elected.

This increase was partially offset by a loss on sale of divested businesses in 2017 compared to a gain on sale of divested businesses in 2016.

### 2016 and 2015 Comparison

Declined primarily due to a decrease in income from insurance operations, reflecting \$5.4 billion of pre-tax prior year adverse reserve development in General Insurance in 2016 compared to \$3.3 billion pre-tax in 2015. In addition, we recorded net realized capital losses in 2016 compared to net realized capital gains in 2015. These decreases were partially offset by improved performance from Life and Retirement.

*For further discussion see MD&A – Consolidated Results of Operations.*

## **Adjusted Pre-Tax Income\***

*(\$ in millions)*

### **2017 and 2016 Comparison**

Increased primarily due to:

- lower losses from General Insurance operations, reflecting \$1.0 billion of pre-tax unfavorable prior year loss reserve development in 2017 driven by higher than expected loss emergence in General Insurance primarily related to accident year 2016 compared to \$5.4 billion in 2016, partially offset by higher catastrophe losses;
- a net positive adjustment from the update of Life and Retirement actuarial assumptions in 2017 compared to a net negative adjustment in the prior year;
- lower general operating and other expenses;
- increased adjusted pre-tax income from the Legacy Portfolio; and
- higher net investment income due to increased income from alternative investments and higher appreciation on assets for which the fair value option was elected.

### **2016 and 2015 Comparison**

Decreased primarily due to adverse prior year loss reserve development in General Insurance of \$5.4 billion in 2016 compared to \$3.3 billion in 2015.

This decrease was partially offset by:

- favorable adjustments to reserves and DAC in Life and Retirement, including higher net positive adjustments from the update of actuarial assumptions

in Individual Retirement and Life Insurance; and

- lower general operating and other expenses.

*For further discussion see MD&A – Consolidated Results of Operations.*

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

## **General Operating and Other Expenses**

*(\$ in millions)*

Declined \$3.6 billion since 2015 due to lower employee-related expenses and professional fee reductions related to our ongoing efficiency program and divestitures of businesses, including United Guaranty, AIG Advisor Group, Fuji Life and NSM Insurance Group LLC (NSM), and a favorable foreign exchange impact of \$63 million.

In keeping with our broad and ongoing efforts to transform for long-term competitiveness, general operating and other expenses for 2017, 2016 and 2015 included approximately \$413 million, \$694 million and \$496 million of pre-tax restructuring and other costs, respectively, which were primarily comprised of employee severance charges.

## **General Operating Expenses, Adjusted Basis\***

*(\$ in millions)*

We continue to execute initiatives focused on organizational simplification, operational efficiency, and business rationalization.

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



**Return on Equity**

**Adjusted Return on Equity\***

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

**Book Value Per Share**

**Book Value Per Share, excluding AOCI\***

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

**AIG's Outlook – Industry and economic factors**

Our business is affected by industry and economic factors such as interest rates, currency exchange rates, credit and equity market conditions, catastrophic claims events, regulation, tax policy, competition, and general economic, market and political conditions. We continued to operate under difficult market conditions in 2017, characterized by factors such as historically low interest rates, the Department of Labor's (the DOL) final fiduciary duty rule (the DOL Fiduciary Rule), historically high levels of catastrophic events, slowing growth in China and Euro-Zone economies, and the formal commencement of the UK's withdrawal from its membership in the European Union (the EU) (commonly referred to as Brexit). Brexit has also affected the U.S. dollar/British pound exchange rate and increased the volatility of exchange rates

among the euro, British pound and the Japanese yen (the Major Currencies), which may continue for some time.

### Impact of Changes in the Interest Rate Environment

Interest rates have remained at historically low levels throughout 2017. Certain markets in which we operate have experienced negative interest rates. A sustained low interest rate environment negatively affects sales of interest rate sensitive products in our industry and may negatively impact the profitability of our existing business as we reinvest cash flows from investments, including increased calls and prepayments of fixed maturity securities and mortgage loans, at rates below the average yield of our existing portfolios. We actively manage our exposure to the interest rate environment through portfolio selection and asset-liability management, including spread management strategies for our investment-oriented products and economic hedging of interest rate risk from guarantee features in our variable and fixed index annuities.

**Annuity Sales and Surrenders**

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

**Reinvestment and Spread Management**

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

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

*For additional information on our investment and asset-liability management strategies see Investments.*

For investment-oriented products in our Individual Retirement, Group Retirement, Life Insurance and Institutional Markets businesses, our spread management strategies include disciplined pricing and product

design for new business, modifying or limiting the sale of products that do not achieve targeted spreads, using asset-liability management to match assets to liabilities to the extent practicable, and actively managing crediting rates to help mitigate some of the pressure on investment spreads. Renewal crediting rate management is done under contractual provisions that were designed to allow crediting rates to be reset at pre-established intervals in accordance with state and federal laws and subject to minimum crediting rate guarantees. We will continue to adjust crediting rates on in-force business to mitigate the pressure on spreads from declining base yields, but our ability to lower crediting rates may be limited by the competitive environment, contractual minimum crediting rates, and provisions that allow rates to be reset only at pre-established intervals.

Of the aggregate fixed account values of our Individual Retirement and Group Retirement annuity products, 73 percent were crediting at the contractual minimum guaranteed interest rate at December 31, 2017. The percentage of fixed account values of our annuity products that are currently crediting at rates above one percent was 69 percent and 70 percent at December 31, 2017 and 2016, respectively. These businesses continue to focus on pricing discipline and strategies to reduce the minimum guaranteed interest crediting rates offered on new sales. In the core universal life business in our Life Insurance business, 71 percent of the account values were crediting at the contractual minimum guaranteed interest rate at December 31, 2017.

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

| December 31, 2017<br>Contractual Minimum Guaranteed<br>Interest Rate<br>(in millions) | Current Crediting Rates                |  |  | Total             |
|---|--|--|--|-------------------|
|   | At Contractual<br>Minimum<br>Guarantee | 1-50 Basis<br>Points Above<br>Minimum<br>Guarantee | More than 50<br>Basis Points<br>Above Minimum<br>Guarantee |                   |
| <b>Individual Retirement*</b>   |  |  |  |                   |
| 1%  | \$ 5,340                               | \$ 3,823   | \$ 12,963  | \$ 22,126         |
| > 1% - 2%   | 6,904                                  | 89   | 2,341  | 9,334             |
| > 2% - 3%   | 13,753                                 | 25   | 432  | 14,210            |
| > 3% - 4%   | 10,207                                 | 44   | 7  | 10,258            |
| > 4% - 5%   | 556                                    | -  | 4  | 560               |
| > 5% - 5.5%   | 34                                     | -  | 5  | 39                |
| <b>Total Individual Retirement</b>  | <b>\$ 36,794</b>                       | <b>\$ 3,981</b>                                    | <b>\$ 15,752</b>   | <b>\$ 56,527</b>  |
| <b>Group Retirement*</b>  |  |  |  |                   |
| 1%  | \$ 1,411                               | \$ 2,674   | \$ 2,565   | \$ 6,650          |
| > 1% - 2%   | 6,359                                  | 513  | 157  | 7,029             |
| > 2% - 3%   | 15,340                                 | -  | 162  | 15,502            |
| > 3% - 4%   | 879                                    | -  | -  | 879               |
| > 4% - 5%   | 7,103                                  | -  | -  | 7,103             |
| > 5% - 5.5%   | 157                                    | -  | -  | 157               |
| <b>Total Group Retirement</b>   | <b>\$ 31,249</b>                       | <b>\$ 3,187</b>                                    | <b>\$ 2,884</b>  | <b>\$ 37,320</b>  |
| <b>Universal life insurance</b>   |  |  |  |                   |
| 1%  | \$ -                                   | \$ -   | \$ 9   | \$ 9              |
| > 1% - 2%   | 60                                     | 150  | 209  | 419               |
| > 2% - 3%   | 601                                    | 511  | 926  | 2,038             |
| > 3% - 4%   | 1,694                                  | 348  | 6  | 2,048             |
| > 4% - 5%   | 3,227                                  | 216  | -  | 3,443             |
| > 5% - 5.5%   | 303                                    | -  | -  | 303               |
| <b>Total universal life insurance</b>   | <b>\$ 5,885</b>                        | <b>\$ 1,225</b>                                    | <b>\$ 1,150</b>  | <b>\$ 8,260</b>   |
| <b>Total</b>  | <b>\$ 73,928</b>                       | <b>\$ 8,393</b>                                    | <b>\$ 19,786</b>   | <b>\$ 102,107</b> |
| <b>Percentage of total</b>  | <b>73%</b>                             | <b>8%</b>  | <b>19%</b>   | <b>100%</b>       |

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

### Assumption Updates and Loss Recognition

Spreads and surrender rates are important components of the future profit assumptions that drive the rate we use to amortize DAC and related reserves for investment-oriented products. If future profit assumptions change significantly, we may be required to recalculate DAC and related reserves, and reflect any resulting

adjustments in current period income. In addition to investment-oriented products, certain traditional long-duration products for which we do not have the ability to adjust interest rates, such as payout annuities, are exposed to reduced earnings and potential loss recognition reserve increases in a sustained low interest rate environment.

*For discussion of such adjustments recorded in our Life and Retirement and Legacy Life and Retirement Run-Off Lines see Insurance Reserves – Life and Annuity Reserves and DAC – Update of Actuarial Assumptions.*

## General Insurance

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

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

ITEM 7 | **Executive Summary**

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

**Department of Labor Fiduciary Rule and Related Regulatory Developments**

Our Individual Retirement and Group Retirement operating segments provide products and services that are subject to restrictions imposed by the ERISA and the Internal Revenue Code, including the requirements of the DOL Fiduciary Rule, related exemption amendments, and subsequent interpretative guidance and bulletins. Overall, the DOL Fiduciary Rule, as currently promulgated, would result in increased compliance costs and may create increased exposure to legal claims under certain circumstances, including class actions. Following the extension of the applicability dates of the DOL Fiduciary Rule and related exemptions announced by the DOL in April 2017, the new definition of fiduciary and the impartial conduct standards under the DOL Fiduciary Rule became applicable on June 9, 2017, with the remaining provisions of the rule scheduled to become applicable on January 1, 2018. On November 29, 2017, the DOL finalized an 18-month delay of the elements of the rule that have not yet taken effect.

Uncertainty in the annuity market around the implementation of the DOL Fiduciary Rule has negatively impacted industry sales of annuity products, including those offered by Individual Retirement as reflected in declines of premiums and deposits and net flows in our variable annuity product line during the 12-month period ended December 31, 2017. Despite these effects, we believe our diverse complement of annuity product offerings position Individual Retirement and Group Retirement to effectively compete in this evolving retirement market environment.

In addition to the DOL reexamining the Fiduciary Rule, the Securities and Exchange Commission and state insurance regulators are also engaged in efforts to evaluate standards of conduct for investment advice, and to impose fiduciary duties on financial advisers who give investment advice. These regulatory initiatives may also create additional uncertainties in the annuity marketplace that could affect our distribution partners and the industry sales of annuity products. While we cannot yet predict what impact these developments will have on our businesses, we are closely following the ongoing review and assessment of the DOL Fiduciary Rule as well as these other federal and state-level developments.

**Impact of Currency Volatility**

Currency volatility remains acute. Such volatility affected line item components of income for those businesses with substantial international operations. In particular, growth trends in net premiums written reported in U.S. dollars can differ significantly from those measured in original currencies. The net effect on underwriting results, however, is significantly mitigated, as both revenues and expenses are similarly affected.

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

**General Insurance businesses are transacted in most major foreign currencies. The following table presents the average of the quarterly weighted average exchange rates of the Major Currencies, which have the most significant impact on our businesses:**

| Years Ended December 31,<br>Rate for 1 USD<br>Currency: | Percentage Change |        |        |               |               |
|---|-------------------|--------|--------|---------------|---------------|
|   | 2017              | 2016   | 2015   | 2017 vs. 2016 | 2016 vs. 2015 |
| JPY   | <b>112.44</b>     | 109.19 | 120.82 | 3%            | (10)%         |
| EUR   | <b>0.90</b>       | 0.90   | 0.89   | -%            | 1%            |
| GBP   | <b>0.78</b>       | 0.73   | 0.65   | 7%            | 12%           |

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

### Other Industry Developments

On September 7, 2017, the UK Ministry of Justice announced a proposal to increase the Ogden rate from negative 0.75 percent to between zero and one percent. This proposal has to be passed by Parliament. We will continue to monitor the progress with this potential change.



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## ITEM 7 | Consolidated Results of Operations

## Consolidated Results of Operations

The following section provides a comparative discussion of our Consolidated Results of Operations on a reported basis for the three-year period ended December 31, 2017. Factors that relate primarily to a specific business are discussed in more detail within the business segment operations section.

*For a discussion of the Critical Accounting Estimates that affect our results of operations see the Critical Accounting Estimates section of this MD&A.*

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

| Years Ended December 31,<br>(in millions)                                    | 2017              | 2016            | 2015            | 2017 vs. 2016 | Percentage Change<br>2017 vs. 2016 |
|--|-------------------|-----------------|-----------------|---------------|------------------------------------|
| <b>Revenues:</b>   |                   |                 |                 |               |                                    |
| Premiums   | \$ 31,374         | \$ 34,393       | \$ 36,655       |               | (9)%                               |
| Policy fees  | 2,935             | 2,732           | 2,755           |               | 7                                  |
| Net investment income  | 14,179            | 14,065          | 14,053          |               | 1                                  |
| Net realized capital gains (losses)  | (1,380)           | (1,944)         | 776             |               | 29                                 |
| Other income   | 2,412             | 3,121           | 4,088           |               | (23)                               |
| <b>Total revenues</b>  | <b>49,520</b>     | <b>52,367</b>   | <b>58,327</b>   |               | (5)                                |
| <b>Benefits, losses and expenses:</b>  |                   |                 |                 |               |                                    |
| Policyholder benefits and losses incurred                                    | 29,972            | 32,437          | 31,345          |               | (8)                                |
| Interest credited to policyholder account balances                           | 3,592             | 3,705           | 3,731           |               | (3)                                |
| Amortization of deferred policy acquisition costs                            | 4,288             | 4,521           | 5,236           |               | (5)                                |
| General operating and other expenses   | 9,107             | 10,989          | 12,686          |               | (17)                               |
| Interest expense   | 1,168             | 1,260           | 1,281           |               | (7)                                |
| (Gain) loss on extinguishment of debt  | (5)               | 74              | 756             |               | NM                                 |
| Net (gain) loss on sale of divested businesses                               | (68)              | (545)           | 11              |               | 88                                 |
| <b>Total benefits, losses and expenses</b>                                   | <b>48,054</b>     | <b>52,441</b>   | <b>55,046</b>   |               | (8)                                |
| <b>Income (loss) from continuing operations before income tax expense</b>    | <b>1,466</b>      | <b>(74)</b>     | <b>3,281</b>    |               | NM                                 |
| <b>Income tax expense</b>  | <b>7,526</b>      | <b>185</b>      | <b>1,059</b>    |               | NM                                 |
| <b>Income (loss) from continuing operations</b>                              | <b>(6,060)</b>    | <b>(259)</b>    | <b>2,222</b>    |               | NM                                 |
| <b>Income (loss) from discontinued operations, net of income tax expense</b> | <b>4</b>          | <b>(90)</b>     | <b>-</b>        |               | NM                                 |
| <b>Net income (loss)</b>   | <b>(6,056)</b>    | <b>(349)</b>    | <b>2,222</b>    |               | NM                                 |
| <b>Less: Net income attributable to noncontrolling interests</b>             | <b>28</b>         | <b>500</b>      | <b>26</b>       |               | (94)                               |
| <b>Net income (loss) attributable to AIG</b>                                 | <b>\$ (6,084)</b> | <b>\$ (849)</b> | <b>\$ 2,196</b> |               | NM%                                |
| <b>Years Ended December 31,</b>  | <b>2017</b>       | <b>2016</b>     | <b>2015</b>     |               |                                    |
| Return on equity   | (8.4)%            | (1.0)%          | 2.2%            |               |                                    |
| Adjusted Return on equity  | 4.1               | 0.6             | 3.7             |               |                                    |

|   | December<br>31,<br>2017 | December 31,<br>2016 |
|---|-------------------------|----------------------|
| <i>(in millions, except per share data)</i> |                         |                      |
| <b>Balance sheet data:</b>                  |                         |                      |
| Total assets                                | \$ 498,301              | \$ 498,264           |
| Long-term debt                              | 31,640                  | 30,912               |
| Total AIG shareholders' equity              | 65,171                  | 76,300               |
| Book value per common share                 | 72.49                   | 76.66                |
| Book value per common share, excluding AOCI | 66.41                   | 73.41                |
| Adjusted book value per common share        | 54.74                   | 58.57                |
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The following table presents a reconciliation of General operating and other expenses to General operating expense, adjusted basis, which is a Non-GAAP measure:

| Years Ended December 31,<br>(in millions)   | 2017           | 2016            | 2015            | Percentage<br>2017 vs. 2016 |
|---|----------------|-----------------|-----------------|-----------------------------|
| <b>General operating and other expenses</b>   | <b>\$9,107</b> | <b>\$10,989</b> | <b>\$12,686</b> | <b>(17)%</b>                |
| Restructuring and other costs   | (413)          | (694)           | (496)           | 40                          |
| Other (income) expense related to retroactive reinsurance agreement                   | -              | 18              | (233)           | NM                          |
| Pension expense related to a one-time lump sum payment to former employees            | (60)           | (147)           | -               | 59                          |
| Non-operating litigation reserves   | 102            | (3)             | (12)            | NM                          |
| <b>Total general operating and other expenses included in adjusted pre-tax income</b> | <b>8,736</b>   | <b>10,163</b>   | <b>11,945</b>   | <b>(14)</b>                 |
| Loss adjustment expenses, reported as policyholder benefits and losses incurred       | 1,184          | 1,345           | 1,632           | (12)                        |
| Advisory fee expenses   | (324)          | (645)           | (1,349)         | 50                          |
| Non-deferrable insurance commissions and other  | (579)          | (508)           | (504)           | (14)                        |
| Direct marketing and acquisition expenses, net of deferrals, and other                | (219)          | (460)           | (659)           | 52                          |
| Investment expenses reported as net investment income and other                       | 73             | 57              | 76              | 28                          |
| <b>Total general operating expenses, adjusted basis</b>                               | <b>\$8,871</b> | <b>\$9,952</b>  | <b>\$11,141</b> | <b>(11)%</b>                |

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

| Years Ended December 31,<br>(in millions, except per share data)                                 | 2017<br>Total Tax<br>(Benefit)<br>Charge | After<br>Tax   | 2016<br>Total Tax<br>(Benefit)<br>Charge | After<br>Tax   |
|--|--|----------------|--|----------------|
| <b>Pre-tax income/net income (loss), including noncontrolling interests</b>                      | <b>\$1,466</b>                           | <b>\$7,526</b> | <b>\$(6,063)</b>                         | <b>\$ (74)</b> |
| Noncontrolling interest  |  | (21)           |  | (561)          |
| <b>Pre-tax income/net income (loss) attributable to AIG</b>                                      | <b>\$1,466</b>                           | <b>\$7,526</b> | <b>\$(6,084)</b>                         | <b>\$ (74)</b> |
| Changes in uncertain tax positions and other tax adjustments                                     | (488)                                    | 488            | 63                                       | (63)           |
| Deferred income tax valuation allowance charges  | (43)                                     | 43             | (83)                                     | 83             |
| Impact of Tax Act  | (6,687)                                  | 6,687          | -  | -              |
| Changes in fair value of securities used to hedge guaranteed living benefits                     | (146)                                    | (51)           | (95)                                     | (120)          |
| Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses) | (303)                                    | (106)          | (197)                                    | (195)          |
| Unfavorable (favorable) prior year development and   |  |                |  |                |

|   |              |             |             |       |       |       |       |
|---|--------------|-------------|-------------|-------|-------|-------|-------|
| related amortization changes ceded                |              |             |             |       |       |       |       |
| under retroactive reinsurance agreements          | <b>303</b>   | <b>106</b>  | <b>197</b>  | (42)  | (15)  | (27)  | 233   |
| (Gain) loss on extinguishment of debt             | <b>(5)</b>   | <b>(2)</b>  | <b>(3)</b>  | 74    | 26    | 48    | 756   |
| Net realized capital (gains) losses               | <b>1,380</b> | <b>506</b>  | <b>874</b>  | 1,944 | 561   | 1,383 | (776) |
| Noncontrolling interest on                        |              |             |             |       |       |       |       |
| net realized capital (gains) losses               |              |             | <b>7</b>    |       |       | (61)  |       |
| (Income) loss from discontinued operations        |              |             | <b>(4)</b>  |       |       | 90    |       |
| (Income) loss from divested businesses            | <b>(68)</b>  | <b>(41)</b> | <b>(27)</b> | (545) | (309) | (236) | 59    |
| Non-operating litigation reserves and settlements | <b>(129)</b> | <b>(45)</b> | <b>(84)</b> | (41)  | (14)  | (27)  | (82)  |
| Reserve development related to certain            |              |             |             |       |       |       |       |
| non-operating run-off insurance business          | -            | -           | -           | -     | -     | -     | 30    |
| Net loss reserve discount (benefit) charge        | <b>187</b>   | <b>65</b>   | <b>122</b>  | (427) | (150) | (277) | (71)  |
| Pension expense related to a one-time lump sum    |              |             |             |       |       |       |       |
| payment to former employees                       | <b>60</b>    | <b>21</b>   | <b>39</b>   | 147   | 51    | 96    | -     |
| Restructuring and other costs                     | <b>413</b>   | <b>145</b>  | <b>268</b>  | 694   | 243   | 451   | 496   |

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|  |                 |              |                |         |       |           |         |         |         |
|--|-----------------|--------------|----------------|---------|-------|-----------|---------|---------|---------|
| <b>Adjusted pre-tax income/Adjusted after-tax income</b>                         | <b>\$3,158</b>  | <b>\$906</b> | <b>\$2,231</b> | \$1,415 | \$448 | \$406     | \$3,984 | \$1,115 | \$2,800 |
| <b>Weighted average diluted shares outstanding</b>                               | <b>930.6</b>    |              |                |         |       | 1,091.1   |         |         | 1,330.0 |
| <b>Income (loss) per common share attributable to AIG (diluted)</b>              | <b>\$(6.54)</b> |              |                |         |       | \$ (0.78) |         |         | \$ 1.00 |
| <b>After-tax operating income per common share attributable to AIG (diluted)</b> | <b>\$ 2.34</b>  |              |                |         |       | \$ 0.36   |         |         | \$ 2.00 |

\* For 2017 and 2016, because we reported a net loss, all common stock equivalents are anti-dilutive and are therefore excluded from the calculation of diluted shares and diluted per share amounts. However, because we reported adjusted after-tax income, the calculation of adjusted after-tax income per diluted share includes 22,412,682 dilutive shares and 30,326,772 dilutive shares for 2017 and 2016, respectively.

**pre-tax income (loss) Comparison for 2017 and 2016**

Pre-tax results increased in 2017 compared to 2016 primarily due to:

- an increase in General Insurance Adjusted pre-tax income due to unfavorable prior year loss reserve development of \$1.0 billion in 2017 driven by higher than expected loss emergence in General Insurance primarily related to accident year 2016 compared to \$5.4 billion in 2016, partially offset by higher aggregate pre-tax catastrophe losses of \$4.2 billion, which included losses from Hurricanes Harvey, Irma and Maria, the earthquake in Mexico and the wildfires in California, compared to catastrophe losses of \$1.3 billion in the prior year;
- lower general operating and other expenses reflecting strategic actions to reduce expenses and divestitures of businesses, including United Guaranty, AIG Advisor Group, Inc. (AIG Advisor Group), Fuji Life and NSM;
- a net positive adjustment from the update of Life and Retirement actuarial assumptions compared to a net negative adjustment in the prior year;
- higher Adjusted pre-tax income from the Legacy Portfolio;
- an increase in net investment income due to higher income on alternative investments, primarily in our hedge fund portfolio and higher gains on assets for which we elected the fair value option, which more than offset lower invested assets and blended investment yields on new investments that were lower than the average yield of our existing portfolios; and
- a decrease in net realized capital losses reflecting:
  - foreign exchange gains in 2017 compared to foreign exchange losses in the prior year due to \$910 million of remeasurement losses for a short-term intercompany balance in 2016; and

– lower other-than-temporary impairments.

Partially offset by:

– movement in the non-performance or “own credit” risk adjustment (NPA), driven by tightening credit spreads and lower expected GMWB payments due to higher equity markets, and higher derivative losses from variable annuity GMWB, net of hedges, including losses from guaranteed living benefit embedded derivatives, net of hedging, primarily due to a higher net negative adjustment from updates of actuarial assumptions; and

– gains in the prior year on the sale of a portion of our investment in People’s Insurance Company (Group) of China Limited and PICC Property & Casualty Company Limited (collectively, our PICC Investment).

The increase in pre-tax results was partially offset by lower income from divested businesses in 2017 compared to the prior year due to gains on the sales of United Guaranty, AIG Advisor Group and NSM, partially offset by losses on the agreements to sell Fuji Life to FWD Group and certain insurance operations and assets to Fairfax.

ITEM 7 | **Consolidated Results of Operations**

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

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

- adverse prior year loss reserve development in General Insurance of \$5.4 billion in 2016 compared to \$3.3 billion in 2015; and
- net realized losses compared to net realized gains in the prior year due to:
  - foreign exchange losses in 2016 compared to foreign exchange gains in 2015 primarily due to \$910 million of remeasurement losses for a short-term intercompany balance;
  - the sale of Class B shares of Prudential Financial Inc. and common shares of Springleaf Holdings, Inc. (Springleaf, now known as OneMain Holdings, Inc.) in 2015; and
  - a net decrease of \$1.4 billion related to Life and Retirement guaranteed living benefits, net of hedges, primarily due to movement in the NPA component of the embedded derivative fair value measurement and 2016 actuarial assumption updates to surrender and mortality assumptions (see Insurance Reserves – Life and Annuity Reserves and DAC – Variable Annuity Guaranteed Benefits and Hedging Results).

These decreases were partially offset by:

- favorable adjustments to reserves and DAC in Life and Retirement, including higher net positive adjustments in 2016 to reflect the update of actuarial assumptions in Individual Retirement and Life Insurance;
- lower general operating expenses reflecting strategic actions to reduce expenses;
- lower loss on extinguishment of debt from ongoing liability management activities; and
- higher income from divested businesses due to gains on the sales of United Guaranty, AIG Advisor Group and NSM, partially offset by losses on the agreements to sell Fuji Life to FWD Group and certain insurance operations and assets to Fairfax.

**U.S. Tax Reform Overview**

On December 22, 2017, the U.S. enacted Public Law 115-97, known informally as the Tax Cuts and Jobs Act (the Tax Act). The Tax Act reduces the statutory rate of U.S. federal corporate income tax to 21 percent and enacts numerous other changes impacting AIG and the insurance industry.

Changes specific to the insurance industry include the calculation of insurance tax reserves and related transition adjustments, amortization of specified policy acquisition expenses, treatment of separate account dividends received deductions, and computation of pro-rata adjustments. Provisions of the Tax Act with

broader application include reductions or elimination of deductions for certain items, e.g., reductions to corporate dividends received deductions, disallowance of entertainment expenses, and limitations on the deduction of certain executive compensation costs. These provisions, generally, will result in an increase in AIG's taxable income in the years beginning after December 31, 2017.

Consistent with current income tax accounting requirements, we have remeasured our deferred tax assets and liabilities with reference to the statutory income tax rate of 21 percent and taking into consideration other provisions of the Tax Act. As of December 31, 2017, we had not fully completed our accounting for the tax effects of the Tax Act. Our provision for income taxes for the period ended December 31, 2017, is based in part on a reasonable estimate of the effects on existing deferred tax balances and of certain provisions of the Tax Act. To the extent a reasonable estimate of the impact of certain provisions was determinable, we recorded provisional estimates as a component of our provision for income taxes on continuing operations. To the extent a reasonable estimate of the impact of certain provisions was not determinable, we have not recorded any adjustments and have continued accounting for them in accordance with ASC 740 on the basis of the tax laws in effect before enactment of the Tax Act. Please refer to Note 23 to the *Consolidated Financial Statements* for further information about these provisions.



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The Tax Act includes provisions for Global Intangible Low-Taxed Income (GILTI) under which taxes on foreign income are imposed on the excess of a deemed return on tangible assets of certain foreign subsidiaries and for Base Erosion and Anti-Abuse Tax (BEAT) under which taxes are imposed on certain base eroding payments to affiliated foreign companies. Consistent with accounting guidance, we will treat BEAT as an in period tax charge when incurred in future periods for which no deferred taxes need to be provided and have made an accounting policy election to treat GILTI taxes in a similar manner. Accordingly, no provision for income taxes related to GILTI or BEAT was recorded as of December 31, 2017.

For the period ended December 31, 2017, we recognized a provisional estimate of income tax effects of the Tax Act of \$6.7 billion, including a tax charge of \$6.7 billion attributable to the reduction in the U.S. corporate income tax rate and tax benefit of \$38 million related to the deemed repatriation tax.

In our assessment of the realizability of our deferred tax assets, we made certain assumptions related to the impact of the Tax Act on our future taxable income. Generally, the Tax Act provisions result in an increase in our taxable income and, thus, accelerate utilization of our tax attribute deferred tax asset. Accordingly, we do not currently anticipate that our reliance on provisional estimates would have a material impact on our determination of the realizability of our deferred tax assets.

**Repatriation Assumptions**

As a result of the Tax Act, the majority of accumulated foreign earnings that were previously untaxed will become subject to a one-time deemed repatriation tax. Going forward, foreign earnings not taxed as part of the one-time deemed repatriation (or otherwise taxed currently under the GILTI or subpart F regimes) will generally be exempt from U.S. tax upon repatriation. Notwithstanding the changes, U.S. tax on foreign exchange gain or loss and certain non-U.S. withholding taxes will continue to be applicable upon future repatriations of foreign earnings. For the year ended December 31, 2017, we consider our foreign earnings with respect to certain operations in Canada, South Africa, the Far East, Latin America, Bermuda as well as the European, Asia Pacific and Middle East regions to be indefinitely reinvested. These earnings relate to ongoing operations and have been reinvested in active business operations. Deferred taxes have been provided on earnings of non-U.S. affiliates whose earnings are not indefinitely reinvested.

**Impact of Deemed Repatriation Tax on Liquidity**

The Tax Act requires companies to pay a one-time transition tax, net of tax credits related to applicable foreign taxes paid, on previously untaxed current and accumulated earnings and profits (E&P) of certain of our foreign subsidiaries. In the determination of the deemed repatriation tax, we reviewed estimated post-1986 E&P of the relevant foreign subsidiaries, and any related non-U.S. income tax paid on such earnings. Based on this analysis, we were able to determine a reasonable estimate and we have recorded a provisional estimated tax benefit of \$38 million. This amount is not considered to be material to our liquidity and capital resources.

**Impact to Effective Tax Rate on Future Consolidated Results of Operations**

We currently estimate that effective tax rate on future consolidated results of operations would be 21-22 percent, excluding impact of the items that cannot be forecasted. The effective tax rate is anticipated to exceed the U.S. statutory income tax rate primarily because we have operations in jurisdictions where statutory income tax rates exceed 21 percent.

## INCOME TAX EXPENSE ANALYSIS

For the year ended December 31, 2017, the effective tax rate on income from continuing operations was not meaningful. The effective tax rate differs from the 2017 statutory tax rate of 35 percent primarily due to

- tax charges of:
  - \$6.7 billion associated with the enactment of the Tax Act discussed above,
  - \$660 million of tax charges and related interest associated with increases in uncertain tax positions primarily related to cross border financing transactions and other open tax issues,
  - \$69 million associated with the effect of foreign operations, and
  - \$35 million of non-deductible transfer pricing charges
- partially offset by tax benefits of:
  - \$201 million of tax exempt income,
  - \$184 million of reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities, and
  - \$40 million of excess tax deductions related to share based compensation payments recorded through the income statement in accordance with relevant accounting literature.

ITEM 7 | **Consolidated Results of Operations**

The effect of foreign operations is primarily related to losses incurred in our European operations taxed at a statutory tax rate lower than 35 percent and other foreign taxes.

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

- tax charges of:
  - \$234 million associated with the effect of foreign operations,
  - \$216 million of tax and related interest associated with increases in uncertain tax positions related to cross border financing transactions,
  - \$118 million related to disposition of subsidiaries,
  - \$102 million related to non-deductible transfer pricing charges, and
  - \$83 million related to increases in the deferred tax asset valuation allowances associated with U.S. federal and certain foreign jurisdictions;
- partially offset by tax benefits of:
  - \$253 million related to tax exempt income,
  - \$164 million associated with a portion of the U.S. Life Insurance companies capital loss carryforwards previously treated as expired that was restored and utilized,
  - \$116 million related to the impact of an agreement reached with the Internal Revenue Service (IRS) related to certain tax issues under audit, and
  - \$132 million of reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities.

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

For the year ended December 31, 2015, the effective tax rate on income from continuing operations was 32.3 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 35 percent primarily due to tax benefits of \$195 million associated with tax exempt interest income, \$127 million related to reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities, \$58 million associated with the

effect of foreign operations, and \$109 million related to the partial completion of the IRS examination covering tax year 2006, partially offset by \$324 million of tax charges and related interest associated with increases in uncertain tax positions related to cross border financing transactions, and \$110 million related to increases in the deferred tax asset valuation allowances associated with certain foreign jurisdictions.

*For additional information see Note 23 to the Consolidated Financial Statements.*

TABLE OF CONTENTSITEM 7 | **Business Segment Operations****Business Segment Operations**

Our business operations consist of General Insurance, Life and Retirement, Other Operations, and a Legacy Portfolio.

General Insurance consists of two operating segments: North America and International. Life and Retirement consists of four operating segments: Group Retirement, Individual Retirement, Life Insurance and Institutional Markets. Other Operations consists of businesses and items not allocated to our other businesses, which are primarily AIG Parent, Blackboard, Fuji Life, which was sold on April 30, 2017, and United Guaranty, which was sold on December 31, 2016. Our Legacy Portfolio consists of our Legacy General Insurance Run-Off Lines, Legacy Life and Retirement Run-Off Lines and Legacy Investments. Effective in 2018, our newly formed Bermuda domiciled composite reinsurer, DSA Re. will be part of our Legacy Portfolio.

We modified the presentation of our segment results in 2017 to reflect our new operating structure and prior periods' presentation has been revised to conform to our new structure.

*For further information on our segment changes see Note 3 to the Consolidated Financial Statements.*

**The following table summarizes Adjusted pre-tax income (loss) from our business segment operations. See also Note 3 to the Consolidated Financial Statements.**

| <b>Years Ended December 31,</b><br><i>(in millions)</i> | <b>2017</b>     | <b>2016</b>     | <b>2015</b>     |
|---|-----------------|-----------------|-----------------|
| <b>Core business:</b>                                   |                 |                 |                 |
| <b>General Insurance</b>                                |                 |                 |                 |
| North America   | \$ (232)        | \$ (2,399)      | \$ 558          |
| International   | (581)           | 348             | 70              |
| <b>General Insurance</b>                                | <b>(813)</b>    | <b>(2,051)</b>  | <b>628</b>      |
| <b>Life and Retirement</b>                              |                 |                 |                 |
| Individual Retirement                                   | 2,289           | 2,269           | 1,812           |
| Group Retirement  | 1,004           | 931             | 1,100           |
| Life Insurance  | 274             | (37)            | (51)            |
| Institutional Markets                                   | 264             | 265             | 263             |
| <b>Life and Retirement</b>                              | <b>3,831</b>    | <b>3,428</b>    | <b>3,124</b>    |
| Other Operations  | (1,405)         | (1,011)         | (825)           |
| Consolidations, eliminations and other adjustments      | 75              | 42              | (76)            |
| Total Core  | 1,688           | 408             | 2,851           |
| Legacy Portfolio  | 1,470           | 1,007           | 1,133           |
| <b>Adjusted pre-tax income</b>                          | <b>\$ 3,158</b> | <b>\$ 1,415</b> | <b>\$ 3,984</b> |



ITEM 7 | **Business Segment Operations** | **General Insurance****General Insurance**

**General Insurance is managed by our geographic markets of North America and International. Our global presence is reflected in our multinational capabilities to provide our Commercial Lines and Personal Insurance products within these geographic markets.**

**PRODUCTS AND DISTRIBUTION**

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

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

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

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

**Personal Lines:** Products include personal auto and property in selected international markets and insurance for high net worth individuals offered through AIG Private Client Group (PCG) in the U.S. that covers auto, homeowners, umbrella, yacht, fine art and collections. In addition, we offer extended warranty insurance and services covering electronics, appliances, and HVAC.

**Accident & 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.

General Insurance products in North America and International markets are distributed through various channels, including captive and independent agents, brokers, affinity

partners, airlines and travel agents, and retailers. Our distribution network is aided by our competitive position to write multiple-national and cross-border risks in both Commercial Lines and Personal Insurance.

## BUSINESS STRATEGY

**Profitable Growth:** Deploy capital efficiently to act opportunistically and optimize diversity within the portfolio to grow in profitable lines, geographies and customer segments. Look to inorganic growth opportunities in profitable markets and segments to expand our capabilities and footprint.

**Reinsurance Optimization:** Strategically partner with reinsurers to reduce exposure to losses arising from frequency of large catastrophic events and the severity from individual risk losses. We will optimize our reinsurance program to manage volatility and protect the balance sheet from tail events and unpredictable net losses in support of our profitable growth objectives.

**Underwriting Excellence:** Empower and increase accountability of the underwriter and continue to integrate underwriting, claims and actuarial to enable better decision making. Focus on enhancing risk selection, driving consistent underwriting best practices and building robust monitoring standards to improve underwriting results.



ITEM 7 | **Business Segment Operations** | **General Insurance****COMPETITION and challenges**

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

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

Our challenges include:

- long-tail Commercial Lines exposures that create added challenges to pricing and risk management;
- over capacity in certain lines of business that creates downward market pressure on pricing;
- tort environment volatility in certain jurisdictions and lines of business; and
- volatility in claims arising from natural and man-made catastrophes.

**OUTLOOK—INDUSTRY AND ECONOMIC FACTORS**

Below is a discussion of the industry and economic factors impacting our operating segments:

**General Insurance – North America**

Commercial Lines continues to face challenging market conditions, with excess capacity negatively impacting the rate environment and suppressing margins. However, we continue to achieve positive rate increases across a number of lines and sub-segments as a result of our disciplined underwriting strategy and focus on risk selection. We continue to observe higher loss cost trends in Casualty, in particular Excess Casualty. We anticipate a positive impact on market pricing for Property following recent catastrophe activity, and observed progressive rate improvements throughout the fourth quarter of 2017. The more profitable segments of Commercial Lines remain highly competitive; however, we continue to achieve growth in several of our high margin businesses.

Personal Insurance growth prospects are supported by the need for full life cycle products and coverage, increases in personal wealth accumulation, and awareness of insurance protection and risk management.

We compete in the high net worth market, accident and health insurance, travel insurance, and warranty services and will continue to expand our innovative products and services to distribution partners and clients.

### **General Insurance – International**

We believe our global presence provides Commercial Lines and Personal Insurance a distinct competitive advantage, as the demand for multinational cross-border coverage and services increase due to the internationalization of customers.

The Commercial Lines market continues to be highly competitive, with increased pressure on rates, particularly in Europe and the Asia Pacific region, due to increased market capacity. Despite this, we are continuing to grow our most profitable segments across all regions and are maintaining market leadership in key developed markets. We are actively remediating our underperforming segments, maintaining our underwriting discipline and continuing our risk selection strategy to maintain profitability.

Personal Insurance focuses on individual customers, as well as group and corporate clients. Although market competition within Personal Insurance has increased, we continue to benefit from the underwriting quality, portfolio diversity, and low volatility of the short-tailed risk in the business. We expect our newly formed entity in Japan – AIG Sonpo – to provide the necessary scale and platform to compete more efficiently in the Japanese market. Outside of Japan, Personal Insurance continues to invest selectively in international markets, which we believe have higher potential for sustainable profitability.

TABLE OF CONTENTSITEM 7 | **Business Segment Operations** | **General Insurance****General insurance RESULTS**

| Year Ended December 31,<br>(in millions)  | 2017            | 2016          | 2015      | 2017 vs. 2016 | Change<br>2016 vs. 2015 |       |
|---|-----------------|---------------|-----------|---------------|-------------------------|-------|
| <b>Underwriting results:</b>  |                 |               |           |               |                         |       |
| Net premiums written  | \$ 25,438       | \$ 28,393     | \$ 32,199 | (10)%         | (12)%                   |       |
| Decrease in unearned premiums   | 588             | 1,193         | (1,277)   | (51)          | NM                      |       |
| <b>Net premiums earned</b>  | <b>26,026</b>   | 29,586        | 30,922    | (12)          | (4)                     |       |
| Losses and loss adjustment expenses incurred <sup>(a)</sup>   | <b>21,642</b>   | 25,103        | 22,873    | (14)          | 10                      |       |
| Acquisition expenses:   |                 |               |           |               |                         |       |
| Amortization of deferred policy acquisition costs   | <b>3,765</b>    | 4,121         | 4,319     | (9)           | (5)                     |       |
| Other acquisition expenses  | <b>1,388</b>    | 1,732         | 2,081     | (20)          | (17)                    |       |
| <b>Total acquisition expenses</b>   | <b>5,153</b>    | 5,853         | 6,400     | (12)          | (9)                     |       |
| General operating expenses  | <b>3,712</b>    | 4,235         | 4,767     | (12)          | (11)                    |       |
| <b>Underwriting loss</b>  | <b>(4,481)</b>  | (5,605)       | (3,118)   | 20            | (80)                    |       |
| Net investment income   | <b>3,668</b>    | 3,554         | 3,746     | 3             | (5)                     |       |
| <b>Adjusted pre-tax income (loss)</b>   | <b>\$ (813)</b> | \$ (2,051)    | \$ 628    | 60%           | NM%                     |       |
| <b>Loss ratio<sup>(a)</sup></b>   |                 | <b>83.2</b>   | 84.8      | 74.0          | (1.6)                   | 10.8  |
| Acquisition ratio   |                 | <b>19.8</b>   | 19.8      | 20.7          | -                       | (0.9) |
| General operating expense ratio   |                 | <b>14.3</b>   | 14.3      | 15.4          | -                       | (1.1) |
| <b>Expense ratio</b>  |                 | <b>34.1</b>   | 34.1      | 36.1          | -                       | (2.0) |
| <b>Combined ratio<sup>(a)</sup></b>   |                 | <b>117.3</b>  | 118.9     | 110.1         | (1.6)                   | 8.8   |
| <b>Adjustments for accident year loss ratio, as adjusted and accident year combined ratio, as adjusted:</b> |                 |               |           |               |                         |       |
| Catastrophe losses and reinstatement premiums   |                 | <b>(16.1)</b> | (4.4)     | (2.4)         | (11.7)                  | (2.0) |
| Prior year development, net of (additional) return premium on loss sensitive business                       |                 | <b>(4.0)</b>  | (18.5)    | (10.7)        | 14.5                    | (7.8) |
| Adjustment for ceded premiums under reinsurance contracts related to prior accident years                   |                 | <b>(0.1)</b>  | -         | -             | (0.1)                   | NM    |
| <b>Accident year loss ratio, as adjusted</b>  |                 | <b>63.0</b>   | 61.9      | 60.9          | 1.1                     | 1.0   |
| <b>Accident year combined ratio, as adjusted</b>  |                 | <b>97.1</b>   | 96.0      | 97.0          | 1.1                     | (1.0) |

(a) Consistent with our definition of APTI, excludes net loss reserve discount and the portion of favorable or unfavorable prior year reserve development for which we have ceded the risk under retroactive reinsurance agreements and related changes in amortization of the deferred gain.

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

| <b>Years Ended December 31,</b><br><i>(in millions)</i> | <b>Percentage Change in</b> |             |             |                      | <b>Percentage Change in</b> |                      |                      |  |
|---|-----------------------------|-------------|-------------|----------------------|-----------------------------|----------------------|----------------------|--|
|   | <b>U.S. dollars</b>         |             |             |                      | <b>Original Currency</b>    |                      |                      |  |
|   | <b>2017</b>                 | <b>2016</b> | <b>2015</b> | <b>2017 vs. 2016</b> | <b>2016 vs. 2015</b>        | <b>2017 vs. 2016</b> | <b>2016 vs. 2015</b> |  |
| North America   | <b>\$ 10,973</b>            | \$ 13,026   | \$ 15,866   | (16)%                | (18)%                       | (16)%                | (18)%                |  |

|                            |                      |          |          |       |       |       |       |
|----------------------------|----------------------|----------|----------|-------|-------|-------|-------|
| International              | 14,465               | 15,367   | 16,333   | (6)   | (6)   | (4)   | (4)   |
| Total net premiums written | \$25,438             | \$28,393 | \$32,199 | (10)% | (12)% | (10)% | (11)% |
| 72                         | AIG   2017 Form 10-K |          |          |       |       |       |       |

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TABLE OF CONTENTSITEM 7 | **Business Segment Operations** | **General Insurance**

The following tables present General Insurance accident year catastrophes and severe losses by geography<sup>(a)</sup> and number of events:

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

| <i>(in millions)</i>                     | # of<br>Events | North<br>America | International | Total           |
|--|----------------|------------------|---------------|-----------------|
| <b>Year Ended December 31, 2017</b>      |                |                  |               |                 |
| Flooding                                 | -(c)           | \$ 962           | \$ 158        | \$ 1,120        |
| Windstorms and hailstorms                | 20             | 1,771            | 616           | 2,387           |
| Wildfire                                 | 2              | 562              | 10            | 572             |
| Tropical cyclone                         | 1              | -                | 66            | 66              |
| Earthquakes                              | 1              | -                | 41            | 41              |
| Reinstatement premiums                   | -              | (23)             | -             | (23)            |
| <b>Total catastrophe-related charges</b> | <b>24</b>      | <b>\$ 3,272</b>  | <b>\$ 891</b> | <b>\$ 4,163</b> |
| <b>Year Ended December 31, 2016</b>      |                |                  |               |                 |
| Flooding                                 | 3              | \$ 134           | \$ 27         | \$ 161          |
| Windstorms and hailstorms                | 19             | 631              | 127           | 758             |
| Wildfire                                 | 2              | 129              | 7             | 136             |
| Earthquakes                              | 3              | 25               | 205           | 230             |
| Other                                    | 1              | -                | 40            | 40              |
| Reinstatement premiums                   | -              | (2)              | 3             | 1               |
| <b>Total catastrophe-related charges</b> | <b>28</b>      | <b>\$ 917</b>    | <b>\$ 409</b> | <b>\$ 1,326</b> |
| <b>Year Ended December 31, 2015</b>      |                |                  |               |                 |
| Flooding                                 | 4              | \$ 70            | \$ 79         | \$ 149          |
| Windstorms and hailstorms                | 14             | 406              | 121           | 527             |
| Wildfire                                 | 1              | 10               | -             | 10              |
| Tropical cyclone                         | 1              | 18               | 15            | 33              |
| Earthquakes                              | 1              | -                | 7             | 7               |
| <b>Total catastrophe-related charges</b> | <b>21</b>      | <b>\$ 504</b>    | <b>\$ 222</b> | <b>\$ 726</b>   |

(a) Geography: North America primarily includes insurance businesses in the United States, Canada and Bermuda. International includes insurance businesses in Japan, the United Kingdom, Europe, the Asia Pacific region, Latin America, Puerto Rico, Australia, the Middle East and Africa. Geography results are presented before consideration of internal reinsurance agreements.

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

(c) Flooding events reported in 2017 are a subset of windstorm events.

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

| <b>Years Ended December 31,</b><br><i>(in millions)</i> | <b># of<br/>Events</b> | <b>North<br/>America</b> | <b>International</b> | <b>Total</b> |
|---|------------------------|--------------------------|----------------------|--------------|
| <b>2017<sup>(e)</sup></b>                               | <b>27 \$</b>           | <b>203 \$</b>            | <b>273 \$</b>        | <b>476</b>   |
| 2016  | 24 \$                  | 110 \$                   | 323 \$               | 433          |
| 2015  | 30 \$                  | 247 \$                   | 464 \$               | 711          |

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

(e) The amount presented for 2017 is net of \$121 million of recoveries, \$65 million in North America and \$56 million in International, under an aggregate reinsurance contract. Eligible incurred losses under this agreement exceeded the applicable aggregate attachment point in the fourth quarter of 2017. There were no aggregate recoveries included in the amounts presented or 2016 and 2015.

TABLE OF CONTENTSITEM 7 | **Business Segment Operations** | **General Insurance****North America Results**

| <b>Years Ended December 31,</b><br><i>(in millions)</i>   | <b>2017</b>      | <b>2016</b> | <b>2015</b> | <b>2017 vs. 2016</b> | <b>Change<br/>2016 vs. 2015</b> |
|---|------------------|-------------|-------------|----------------------|---------------------------------|
| <b>Underwriting results:</b>  |                  |             |             |                      |                                 |
| Net premiums written  | <b>\$ 10,973</b> | \$ 13,026   | \$ 15,866   | (16)%                | (18)%                           |
| Decrease in unearned premiums   | <b>482</b>       | 938         | (580)       | (49)                 | NM                              |
| <b>Net premiums earned</b>  | <b>11,455</b>    | 13,964      | 15,286      | (18)                 | (9)                             |
| Losses and loss adjustment expenses incurred <sup>(a)</sup>   | <b>11,646</b>    | 15,692      | 13,647      | (26)                 | 15                              |
| Acquisition expenses:   |                  |             |             |                      |                                 |
| Amortization of deferred policy acquisition costs   | <b>1,305</b>     | 1,444       | 1,699       | (10)                 | (15)                            |
| Other acquisition expenses  | <b>485</b>       | 718         | 880         | (32)                 | (18)                            |
| <b>Total acquisition expenses</b>   | <b>1,790</b>     | 2,162       | 2,579       | (17)                 | (16)                            |
| General operating expenses  | <b>1,396</b>     | 1,550       | 1,698       | (10)                 | (9)                             |
| <b>Underwriting loss</b>  | <b>(3,377)</b>   | (5,440)     | (2,638)     | 38                   | (106)                           |
| Net investment income   | <b>3,145</b>     | 3,041       | 3,196       | 3                    | (5)                             |
| <b>Adjusted pre-tax income (loss)</b>   | <b>\$ (232)</b>  | \$ (2,399)  | \$ 558      | 90%                  | NM%                             |
| <b>Loss ratio<sup>(a)</sup></b>   | <b>101.7</b>     | 112.4       | 89.3        | (10.7)               | 23.1                            |
| Acquisition ratio   | <b>15.6</b>      | 15.5        | 16.9        | 0.1                  | (1.4)                           |
| General operating expense ratio   | <b>12.2</b>      | 11.1        | 11.1        | 1.1                  | -                               |
| <b>Expense ratio</b>  | <b>27.8</b>      | 26.6        | 28.0        | 1.2                  | (1.4)                           |
| <b>Combined ratio<sup>(a)</sup></b>   | <b>129.5</b>     | 139.0       | 117.3       | (9.5)                | 21.7                            |
| <b>Adjustments for accident year loss ratio, as adjusted<br/>and accident year combined ratio, as adjusted:</b> |                  |             |             |                      |                                 |
| Catastrophe losses and reinstatement premiums   | <b>(28.7)</b>    | (6.6)       | (2.9)       | (22.1)               | (3.7)                           |
| Prior year development, net of (additional) return premium<br>on loss sensitive business                        | <b>(3.6)</b>     | (37.9)      | (20.6)      | 34.3                 | (17.3)                          |
| Adjustment for ceded premiums under reinsurance<br>contracts related to prior accident years                    | <b>(0.3)</b>     | -           | -           | (0.3)                | NM                              |
| <b>Accident year loss ratio, as adjusted</b>  | <b>69.1</b>      | 67.9        | 65.8        | 1.2                  | 2.1                             |
| <b>Accident year combined ratio, as adjusted</b>  | <b>96.9</b>      | 94.5        | 93.8        | 2.4                  | 0.7                             |

(a) Consistent with our definition of APTI, excludes net loss reserve discount and the portion of favorable or unfavorable prior year reserve development for which we have ceded the risk under retroactive reinsurance agreements and related changes in amortization of the deferred gain.

**Business and Financial Highlights**

The adjusted pre-tax loss decreased in 2017 primarily due to significantly lower unfavorable prior year loss reserve development. This decrease in adjusted pre-tax loss was partially offset by higher severe losses and higher catastrophe losses due to hurricanes Harvey, Irma and Maria, and the California wildfires during the second half of 2017. Net premiums written decreased primarily due to continued underwriting actions to strengthen our portfolio and increased rate pressure.

The increase in net investment income was driven by higher income on alternative investments and gains on securities where we elected the fair value option partially offset by lower interest and dividends due to lower invested assets resulting from the first quarter 2017 funding of the adverse development reinsurance agreement with NICO.

*For further discussion on the NICO transaction see MD&A – Insurance Reserves.*



ITEM 7 | **Business Segment Operations** | **General Insurance****North America Adjusted Pre-Tax Loss***(in millions)***2017 and 2016 Comparison**

Adjusted pre-tax loss decreased primarily due to:

- lower unfavorable prior year loss reserve development (decrease by \$4.9 billion);
- lower acquisition expenses driven by lower production, the impact of the reinsurance agreement with Swiss Re Group, and lower insurance taxes, licenses and fees;
- lower general operating expenses driven by lower employee-related expenses and other expense reduction initiatives; and
- higher net investment income reflecting higher income on alternative investments and gains on securities where we elected the fair value option partially offset by lower interest and dividends due to lower invested assets resulting from the first quarter 2017 funding of the adverse development reinsurance agreement with NICO.

This decrease was partially offset by:

- higher severe losses; and
- higher catastrophe losses primarily driven by hurricanes Harvey, Irma and Maria and the California wildfires.

**North America Adjusted Pre-Tax Income (Loss)**

*(in millions)***2016 and 2015 Comparison**

Adjusted pre-tax loss in 2016 compared to adjusted pre-tax income in 2015 was primarily due to:

- higher unfavorable prior year loss reserve development (increase by \$2.2 billion);
- higher current accident year loss ratio, as adjusted, in Casualty and programs business, partially offset by lower severe losses;
- higher catastrophe losses; and
- lower net investment income reflecting lower income on alternative investments and lower interest and dividends on invested assets.

These were partially offset by:

- lower acquisition expenses primarily due to reduced production and the ceding commissions related to the reinsurance arrangement with Swiss Re Group; and
- lower general operating expenses primarily due to lower employee-related expenses and other expense reduction initiatives.

TABLE OF CONTENTSITEM 7 | **Business Segment Operations** | **General Insurance****North America Net Premiums Written***(in millions)***2017 and 2016 Comparison**

Net premiums written decreased primarily due to:

- lower production primarily in Casualty, commercial property within Property, D&O products within Financial Lines and programs business due to continued underwriting actions to strengthen our portfolio and to maintain pricing discipline; and
- higher ceded premiums related to the additional layer of coverage added to the North American catastrophe reinsurance cover for 2017.

This decrease was partially offset by:

- the growth of PCG business within Personal Lines and travel insurance within Accident and Health;
- recognition of ceded return premiums on our excess of loss reinsurance covers; and
- lower ceded premiums related to the reinsurance arrangement with the Swiss Re Group partially offset by lower assumed premium from the quota share reinsurance agreement with United Guaranty.

**North America Net Premiums Written***(in millions)***2016 and 2015 Comparison**

Net premiums written decreased primarily due to:

- decreased production in Casualty reflecting continued underwriting actions to strengthen our portfolio by either exiting or revising rates and terms and conditions in certain underperforming products;

- increased rate pressure, significant competition and challenging market conditions in Property and Special Risks combined with continued adherence to our underwriting discipline;
- the effect of the reinsurance arrangement with the Swiss Re Group partially offset by the effect of the reinsurance agreement with United Guaranty; and
- the renewal of a large multi-year E&O policy in 2015.

This decrease was partially offset by growth in PCG business.

TABLE OF CONTENTSITEM 7 | **Business Segment Operations** | **General Insurance**

| <b>North America Combined Ratios</b> |   |
|--------------------------------------|---|
|                                      | <p><b>2017 and 2016 Comparison</b></p> <p>The decrease in the combined ratio reflected a decrease in the loss ratio slightly offset by an increase in the expense ratio.</p> <p>The decrease in the loss ratio was primarily due to lower prior year unfavorable development. Prior year reserve development is net of the losses ceded under the NICO reinsurance agreement as well as the amortization of the related deferred gain.</p> <p>This decrease in the loss ratio was partially offset by:</p> <ul style="list-style-type: none"> <li>• higher catastrophe losses primarily driven by hurricanes Harvey, Irma and Maria, and the California wildfires; and</li> <li>• slightly elevated current accident year loss ratio, as adjusted, driven primarily by higher severe losses and an increase in loss estimates in Casualty and Financial Lines reflecting the result of 2017 detailed valuation reviews, partially offset by lower current accident year losses in Personal Insurance.</li> </ul> <p>The increase in the expense ratio was primarily due to a higher general operating expense ratio primarily driven by a decrease in net premiums earned reflecting portfolio optimization, which more than offset expense reductions.</p> |

| <b>North America Combined Ratios</b> |  |
|--------------------------------------|--|
|                                      | <p><b>2016 and 2015 Comparison</b></p> <p>The increase in the combined ratio reflected an increase in the loss ratio slightly offset by a decrease in the expense ratio.</p> <p>The increase in the loss ratio was primarily due to:</p> |

- higher prior year unfavorable loss reserve development impacted by unfavorable loss emergence in worker's compensation and other casualty;
- higher catastrophe losses; and
- higher current accident year loss ratio, as adjusted, in Casualty and programs business within Property driven by an increase in loss estimates as a result of 2016 year-end detailed reserves valuation reviews, offset slightly by lower severe losses.

The decrease in the expense ratio reflected lower acquisition expense ratio driven primarily by higher commission income from the reinsurance agreement with Swiss Re Group.

TABLE OF CONTENTSITEM 7 | **Business Segment Operations** | **General Insurance****International Results**

| Years Ended December 31,<br>(in millions)   | 2017            | 2016         | 2015      | 2017 vs. 2016 | Change<br>2016 vs. 2015 |       |
|---|-----------------|--------------|-----------|---------------|-------------------------|-------|
| <b>Underwriting results:</b>  |                 |              |           |               |                         |       |
| Net premiums written  | \$ 14,465       | \$ 15,367    | \$ 16,333 | (6)%          | (6)%                    |       |
| Decrease in unearned premiums   | 106             | 255          | (697)     | (58)          | NM                      |       |
| <b>Net premiums earned</b>  | <b>14,571</b>   | 15,622       | 15,636    | (7)           | -                       |       |
| Losses and loss adjustment expenses incurred <sup>(a)</sup>   | <b>9,996</b>    | 9,411        | 9,226     | 6             | 2                       |       |
| Acquisition expenses:   |                 |              |           |               |                         |       |
| Amortization of deferred policy acquisition costs   | <b>2,460</b>    | 2,677        | 2,620     | (8)           | 2                       |       |
| Other acquisition expenses  | <b>903</b>      | 1,014        | 1,201     | (11)          | (16)                    |       |
| <b>Total acquisition expenses</b>   | <b>3,363</b>    | 3,691        | 3,821     | (9)           | (3)                     |       |
| General operating expenses  | <b>2,316</b>    | 2,685        | 3,069     | (14)          | (13)                    |       |
| <b>Underwriting loss</b>  | <b>(1,104)</b>  | (165)        | (480)     | NM            | 66                      |       |
| Net investment income   | <b>523</b>      | 513          | 550       | 2             | (7)                     |       |
| <b>Adjusted pre-tax income (loss)</b>   | <b>\$ (581)</b> | \$ 348       | \$ 70     | NM%           | 397%                    |       |
| <b>Loss ratio<sup>(a)</sup></b>   |                 | <b>68.6</b>  | 60.2      | 59.0          | 8.4                     | 1.2   |
| Acquisition ratio   |                 | <b>23.1</b>  | 23.6      | 24.4          | (0.5)                   | (0.8) |
| General operating expense ratio   |                 | <b>15.9</b>  | 17.2      | 19.6          | (1.3)                   | (2.4) |
| <b>Expense ratio</b>  |                 | <b>39.0</b>  | 40.8      | 44.0          | (1.8)                   | (3.2) |
| <b>Combined ratio<sup>(a)</sup></b>   |                 | <b>107.6</b> | 101.0     | 103.0         | 6.6                     | (2.0) |
| <b>Adjustments for accident year loss ratio, as adjusted<br/>and accident year combined ratio, as adjusted:</b> |                 |              |           |               |                         |       |
| Catastrophe losses and reinstatement premiums   |                 | <b>(6.1)</b> | (2.6)     | (1.9)         | (3.5)                   | (0.7) |
| Prior year development, net of (additional) return premium<br>on loss sensitive business                        |                 | <b>(4.3)</b> | (1.0)     | (1.0)         | (3.3)                   | -     |
| Adjustment for ceded premiums under reinsurance<br>contracts related to prior accident years                    |                 | -            | -         | -             | NM                      | NM    |
| <b>Accident year loss ratio, as adjusted</b>  |                 | <b>58.2</b>  | 56.6      | 56.1          | 1.6                     | 0.5   |
| <b>Accident year combined ratio, as adjusted</b>  |                 | <b>97.2</b>  | 97.4      | 100.1         | (0.2)                   | (2.7) |

(a) Consistent with our definition of APTI, excludes net loss reserve discount and the portion of favorable or unfavorable prior year reserve development for which we have ceded the risk under retroactive reinsurance agreements and related changes in amortization of the deferred gain.

**Business and Financial Highlights**

The adjusted pre-tax loss in 2017 resulted primarily from higher unfavorable prior year loss reserve development and higher catastrophe losses mainly driven by hurricanes Maria, Harvey and Irma. These were partially offset by lower general operating expenses driven by lower employee-related expenses and other expense reduction initiatives. Net premiums written decreased primarily due to the sale of our interest in Ascot Underwriting Holdings Limited and Ascot Employees Corporate Member Limited (Ascot) and certain of our insurance operations to Fairfax, and lower production in Japan.





TABLE OF CONTENTSITEM 7 | **Business Segment Operations** | **General Insurance****International Adjusted Pre-Tax Income (Loss)***(in millions)***2017 and 2016 Comparison**

Adjusted pre-tax loss in 2017 compared to adjusted pre-tax income in 2016 was primarily due to:

- higher catastrophe losses primarily driven by hurricanes Maria, Harvey and Irma;
- higher prior year unfavorable loss reserve development impacted by unfavorable loss emergence in Europe Casualty and Property; and
- higher current accident year loss ratio, as adjusted, in Europe Casualty, partially offset by improvements in our Europe and Japan Personal Insurance businesses.

These were partially offset by lower general operating expenses driven by lower employee-related expenses and other expense reduction initiatives.

**International Adjusted Pre-Tax Income***(in millions)***2016 and 2015 Comparison**

Adjusted pre-tax income increased due to lower general operating expenses primarily due to lower employee-related expenses and other expense reduction initiatives, as well as lower acquisition costs reflecting strategic actions to refocus direct marketing activities.

This increase was partially offset by higher catastrophe losses and higher current accident year loss ratio, as adjusted, in Europe Casualty and Property.

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TABLE OF CONTENTSITEM 7 | **Business Segment Operations** | **General Insurance****International Net Premiums Written***(in millions)***2017 and 2016 Comparison**

Net premiums written decreased, excluding the impact of foreign exchange, primarily due to:

- the sale of our interest in the Ascot business and certain of our insurance operations to Fairfax; and
- lower production in our Japan business reflecting our focus on profitability combined with a competitive market environment.

**International Net Premiums Written***(in millions)***2016 and 2015 Comparison**

Net premiums written decreased, excluding the impact of foreign exchange, primarily due to:

- lower production mainly in Casualty due to continued underwriting actions to strengthen our portfolio and to maintain pricing discipline; and
- lower production in personal property primarily due to the impact of a duration restriction on long-term fire insurance put in place in the fourth quarter of 2015 in Japan.



ITEM 7 | **Business Segment Operations** | **General Insurance**

| <b>International Combined Ratios</b> |   |
|--------------------------------------|---|
|                                      | <p><b>2017 and 2016 Comparison</b></p> <p>The increase in the combined ratio reflected a higher loss ratio partially offset by a decrease in the expense ratio.</p> <p>The higher loss ratio reflected:</p> <ul style="list-style-type: none"> <li>• higher catastrophe losses primarily driven by hurricanes Maria, Harvey and Irma;</li> <li>• higher prior year unfavorable loss reserve development impacted by unfavorable loss emergence in Europe Casualty and Property; and</li> <li>• higher current accident year loss ratio, as adjusted, in Europe Casualty driven by an increase in loss estimates as a result of 2017 year-end detailed reserve valuation reviews slightly offset by lower severe losses and improved current accident year performance in Europe and Japan Personal Insurance.</li> </ul> <p>The decrease in the expense ratio was primarily due to:</p> <ul style="list-style-type: none"> <li>• a lower general operating expense ratio driven by lower employee-related expenses and other expense reduction initiatives, and</li> <li>• a lower acquisition ratio driven by the sale of our interest in the Ascot business.</li> </ul> |

**International Combined Ratios**

**2016 and 2015 Comparison**

The decrease in the combined ratio reflected a lower expense ratio partially offset by an increase in the loss ratio.

The lower expense ratio reflected a decrease in the general operating expense ratio due to lower employee-related expenses and other expense reduction initiatives.

The increase in the loss ratio was primarily due to:

- a higher current accident year loss ratio, as adjusted, in Europe Casualty and Property driven by an increase in loss estimates as a result of 2016 year-end detailed reserve valuation reviews partially offset by severe losses; and
- higher catastrophe losses.

ITEM 7 | **Business Segment Operations** | **Life and Retirement**

Life and Retirement

**PRODUCTS AND DISTRIBUTION**

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

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

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

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

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

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



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

**Institutional Markets:** Products primarily include stable value wrap products, structured settlement and pension risk transfer annuities, 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.

TABLE OF CONTENTSITEM 7 | **Business Segment Operations | Life and Retirement****BUSINESS STRATEGY**

**Deliver client-centric solutions through our unique franchise** by bringing together a broad portfolio of life insurance, retirement and institutional products offered through an extensive, multichannel distribution network. Life and Retirement focuses on ease of doing business, offering valuable solutions, and expanding and deepening its distribution relationships across multiple channels.

**Position market leading businesses to serve growing needs** by continually enhancing product solutions, service delivery and digital capabilities while using data and analytics in an innovative manner to improve customer experience.

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|  | <p><b>Individual Retirement</b> will continue to capitalize on the opportunity to meet consumer demand for guaranteed income by maintaining innovative variable and index annuity products, while also managing risk from guarantee features through risk-mitigating product design and well-developed economic hedging capabilities.</p> <p>Our fixed annuity products provide diversity in our annuity product suite by offering stable returns for retirement savings.</p> |  | <p><b>Group Retirement</b> continues to enhance its technology platform to improve the customer experience for plan sponsors and individual participants. VALIC's self-service tools paired with its career financial advisors provide a compelling service platform. Group Retirement's strategy also involves providing financial planning services for its clients and meeting their demand for income in retirement.</p> |  |
|  |   |  |  |  |
|  | <p><b>Life Insurance</b> continues to invest to position itself for growth, while executing on strategies to enhance returns.</p> <p>Life Insurance is focused on rationalizing its product portfolio, aligning distribution with its most productive channels, consolidating systems to state-of-the-art platforms, and employing innovative underwriting enhancements.</p>  |  | <p><b>Institutional Markets</b> continues to grow its assets under management across multiple product lines, including stable value wrap, GICs and pensions risk transfer business. Our growth strategy is opportunistic and allows us to pursue select transactions that meet our risk-adjusted return requirements.</p>  |  |
|  |   |  |  |  |

**Enhance Operational Effectiveness** by simplifying processes and operating environments to increase competitiveness, improve service and product capabilities and facilitate delivery of our target customer experience. We continue to invest in technology to improve operating efficiency and ease of doing business for our distribution partners and customers. In the U.S. Life business, we are focused on

leveraging our most efficient systems and increasing automation of our underwriting process. We believe that simplifying our operating models will enhance productivity and support further profitable growth.

**Manage our Balance Sheet** through a rigorous approach to our products and portfolio. We match our product design and high quality investments with our asset and liability exposures to maximize our ability to meet cash and liquidity needs under various operating scenarios.

**Deliver Value Creation and Manage Capital** by striving to deliver solid earnings through disciplined pricing, sustainable underwriting improvements, expense reductions, and diversification of risk, while optimizing capital allocation and efficiency within insurance entities to enhance return on equity.

ITEM 7 | **Business Segment Operations | Life and Retirement****COMPETITION and challenges**

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

Our business remains competitive due to its long-standing market leading positions, innovative products, distribution relationships across multiple channels, customer-focused service and strong financial ratings.

Our primary challenges include:

- a sustained low interest rate environment, which makes it difficult to profitably price new products and puts margin pressure on existing business due to lower reinvestment yields;
- increased competition in our primary markets, including aggressive pricing of annuities by private equity-backed annuity writers, increased competition and consolidation of employer groups in the group retirement planning market, and peers with lower profitability targets in the pension funding space;
- increasingly complex new and proposed regulatory requirements, which have created uncertainty that is affecting industry growth; and
- investments to upgrade our technology and underwriting processes challenge our management of general operating expenses.

**OUTLOOK—INDUSTRY AND ECONOMIC FACTORS**

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

**Individual Retirement**

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

Changes in the interest rate environment can have a significant impact on sales, surrender rates, investment returns, guaranteed income features, and spreads in the annuity industry.

Individual Retirement provides products and services that are subject to the requirements of the DOL Fiduciary Rule.

### **Group Retirement**

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

Changes in the interest rate environment can have a significant impact on investment returns, guaranteed income features, and spreads, and a moderate impact on sales and surrender rates.

Group Retirement provides products and services that are subject to the requirements of the DOL Fiduciary Rule.

### **Life Insurance**

Consumers have a significant need for life insurance, whether it is used for income replacement for their surviving family, estate planning or wealth transfer. Additionally, consumers use life insurance to provide living benefits in case of chronic, critical or terminal illnesses, as well as to supplement retirement income.

TABLE OF CONTENTSITEM 7 | **Business Segment Operations | Life and Retirement**

In response to consumer needs and a sustained low interest rate environment, our Life Insurance product portfolio has been evolving. We will continue to place a strong focus on indexed universal life products and de-emphasize products with long-duration interest rate guarantees.

As life insurance ownership remains at historical lows in the United States, efforts to expand the reach and increase the affordability of life insurance are critical. The industry is investing in consumer-centric efforts to reduce traditional barriers to securing life protection by simplifying the sales and service experience. Digitally enabled processes and tools provide a fast, friendly and simple path to life insurance protection.

**Institutional Markets**

Institutional Markets serves a variety of needs for corporate clients. Demand is driven by a number of factors including the macroeconomic and regulatory environment. We expect to see continued growth in the pension risk transfer market as corporate plan sponsors look to transfer asset or liability, longevity, administrative and operational risks associated with their defined benefit plans.

Changes in interest rate environment can have significant impact on investment returns and net investment spread, as well as reduce the tax efficiency associated with institutional life insurance products, dampening organic growth opportunities. Tax reform may lead to new opportunities in the stable value wrap market.

*For additional discussion of the impact of market interest rate movement on our Life and Retirement business see Executive Summary – AIG’s Outlook – Industry and Economic Factors – Impact of Changes in the Interest Rate Environment.*

*For additional information on the impact of the DOL Fiduciary Rule on our Individual Retirement and Group Retirement businesses see Executive Summary – AIG’s Outlook – Industry and Economic Factors – Department of Labor Fiduciary Rule and Related Regulatory Developments.*

**LIFE AND RETIREMENT RESULTS**

| <b>Years Ended December 31,</b><br><i>(in millions)</i> | <b>Percentage Change</b> |             |             |                      |                      |
|---|--------------------------|-------------|-------------|----------------------|----------------------|
|   | <b>2017</b>              | <b>2016</b> | <b>2015</b> | <b>2017 vs. 2016</b> | <b>2016 vs. 2015</b> |
| <b>Revenues:</b>  |                          |             |             |                      |                      |
| Premiums  | \$ 4,046                 | \$ 2,288    | \$ 3,054    | 77%                  | (25)%                |
| Policy fees   | 2,798                    | 2,590       | 2,623       | 8                    | (1)                  |
| Net investment income                                   | 7,816                    | 7,622       | 7,541       | 3                    | 1                    |
| Other income  | 926                      | 1,278       | 2,104       | (28)                 | (39)                 |
| Total adjusted revenues                                 | 15,586                   | 13,778      | 15,322      | 13                   | (10)                 |
| <b>Benefits and expenses:</b>                           |                          |             |             |                      |                      |
| Policyholder benefits and losses incurred               | 5,247                    | 3,496       | 4,292       | 50                   | (19)                 |
| Interest credited to policyholder account balances      | 3,360                    | 3,449       | 3,453       | (3)                  | -                    |

|   |                 |                 |                 |            |            |
|---|-----------------|-----------------|-----------------|------------|------------|
| Amortization of deferred policy acquisition costs | 743             | 613             | 794             | 21         | (23)       |
| General operating and other expenses*             | 2,296           | 2,700           | 3,607           | (15)       | (25)       |
| Interest expense                                  | 109             | 92              | 52              | 18         | 77         |
| Total operating expenses                          | 11,755          | 10,350          | 12,198          | 14         | (15)       |
| <b>Adjusted pre-tax income</b>                    | <b>\$ 3,831</b> | <b>\$ 3,428</b> | <b>\$ 3,124</b> | <b>12%</b> | <b>10%</b> |

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

Our insurance companies generate significant revenues from investment activities. As a result, the operating segments in Life and Retirement are subject to variances in net investment income on the asset portfolios that support insurance liabilities and surplus.

For additional information on our investment strategy, asset-liability management process and invested asset composition see Investments.

Life and Retirement reviews and updates estimated gross profit assumptions used to amortize DAC and related items for investment-oriented products, as well as other actuarial assumptions, at least annually. As a result, the adjusted pre-tax income of Life and Retirement included adjustments to policy fees, policyholder benefits, interest credited and DAC amortization to reflect such assumption updates, which may be significant.

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For the amount of adjustments recorded to reflect such assumption updates by product line and financial statement line item and for related discussion of the assumption changes that resulted in these adjustments see Insurance Reserves – Life and Annuity Reserves and DAC – Update of Actuarial Assumptions.

**Individual Retirement Results**

| <b>Years Ended December 31,</b><br><i>(in millions)</i> | <b>2017</b>     | <b>2016</b>     | <b>2015</b>     | <b>Percentage Change</b> |                      |
|---|-----------------|-----------------|-----------------|--------------------------|----------------------|
|   |                 |                 |                 | <b>2017 vs. 2016</b>     | <b>2016 vs. 2015</b> |
| <b>Revenues:</b>  |                 |                 |                 |                          |                      |
| Premiums  | \$ 91           | \$ 163          | \$ 137          | (44)%                    | 19%                  |
| Policy fees   | 767             | 709             | 670             | 8                        | 6                    |
| Net investment income                                   | 4,013           | 3,878           | 3,805           | 3                        | 2                    |
| Advisory fee and other income                           | 643             | 1,008           | 1,838           | (36)                     | (45)                 |
| <b>Benefits and expenses:</b>                           |                 |                 |                 |                          |                      |
| Policyholder benefits and losses incurred               | 161             | 173             | 328             | (7)                      | (47)                 |
| Interest credited to policyholder account balances      | 1,616           | 1,684           | 1,702           | (4)                      | (1)                  |
| Amortization of deferred policy acquisition costs       | 415             | 298             | 431             | 39                       | (31)                 |
| Non deferrable insurance commissions                    | 308             | 226             | 212             | 36                       | 7                    |
| Advisory fee expenses                                   | 241             | 570             | 1,277           | (58)                     | (55)                 |
| General operating expenses                              | 426             | 488             | 661             | (13)                     | (26)                 |
| Interest expense  | 58              | 50              | 27              | 16                       | 85                   |
| <b>Adjusted pre-tax income</b>                          | <b>\$ 2,289</b> | <b>\$ 2,269</b> | <b>\$ 1,812</b> | <b>1%</b>                | <b>25%</b>           |
| <b>Fixed Annuities base net investment spread:</b>      |                 |                 |                 |                          |                      |
| Base yield  | 4.80%           | 4.90%           | 4.96%           | (10)bps                  | (6)bps               |
| Cost of funds   | 2.65            | 2.74            | 2.78            | (9)                      | (4)                  |
| <b>Fixed Annuities base net investment spread</b>       | <b>2.15%</b>    | <b>2.16%</b>    | <b>2.18%</b>    | <b>(1)bps</b>            | <b>(2)bps</b>        |

**Business and Financial Highlights**

The market environment reflected continued uncertainty about the DOL Fiduciary Rule and interest rates, which remained low relative to historical levels. As a result, deposits were lower in 2017 compared to 2016 and 2015. In 2017, net investment income included higher gains on securities for which the fair value option was elected and higher returns from alternative investments, partially offset by a reduction in the overall size of the hedge fund portfolio. In 2016 and 2015, net investment income included the impact of volatility from alternative investments, commercial mortgage loan prepayments and fair value option assets. Adjusted pre-tax income also included adjustments in each year to update actuarial assumptions, which



were net positive adjustments for all years presented. The sale of AIG Advisor Group in May 2016 resulted in decreases in advisory fee income, advisory fee expenses and general operating expenses in 2017 compared to 2016 and 2015, but did not result in a significant decrease in adjusted pre-tax income.

Fixed Annuities base net investment spread decreased slightly in 2017 compared to 2016 and 2015, primarily due to lower reinvestment yields partially mitigated by disciplined pricing and active crediting rate management.

TABLE OF CONTENTSITEM 7 | **Business Segment Operations | Life and Retirement****Individual Retirement Adjusted Pre-Tax Income***(in millions)***2017 and 2016 Comparison**

Adjusted pre-tax income increased primarily due to:

- net investment income, which included higher gains on securities for which the fair value option was elected and higher returns on alternative investments, partially offset by a reduction in the overall size of the hedge fund portfolio;
- higher base net investment spread primarily in Variable and Index Annuities driven by growth in invested assets, and disciplined pricing and active crediting rate management; and
- higher policy fees due to growth in annuity account values driven by improved equity market performance.

Partially offsetting these increases were:

- lower net positive adjustment from the review and update of actuarial assumptions which was \$242 million in 2017 compared to \$369 million in 2016;
- increases in reserves primarily due to additional reserves for guaranteed benefits in 2017 compared to a reduction in 2016;
- excluding the impact of actuarial assumption updates, higher DAC amortization due to system conversions and model refinements, partially offset by a decrease driven by improved equity market performance;
- higher commission expense primarily due to growth in account values driven by improved equity market performance and the allocation of reinsurance risk charges, as all U.S. Life and Retirement segments benefited from the reduction in the required statutory

capital resulting from a reinsurance agreement entered into in 2016 involving certain whole life, term life and universal life businesses (Life Insurance Reinsurance Transactions); and

- the sale of AIG Advisor Group in May 2016, which drove the decreases in advisory fee income, advisory expenses and general operating expenses, and resulted in a net \$13 million decrease in adjusted pre-tax income.

#### Individual Retirement Adjusted Pre-Tax Income

*(in millions)*

**2016 and 2015 Comparison**

Adjusted pre-tax income increased primarily due to:

- a higher net positive adjustment from the review and update of actuarial assumptions, which was \$369 million in 2016 compared to \$92 million in 2015;
- higher net investment income reflecting higher commercial mortgage loan prepayments, growth in average invested assets and higher gains on securities for which the fair value option was elected, partially offset by lower income on alternative investments;
- better equity market performance contributed to decreases in policyholder benefit expense and DAC amortization. Excluding the impact of actuarial assumption updates and equity market performance, DAC amortization increased primarily due to higher rate of amortization in Fixed Annuities and growth in Index Annuities;
- higher policy fees due to growth in annuity account values from positive net flows; and
- lower general operating expenses due to decreases in employee-related expenses

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TABLE OF CONTENTSITEM 7 | **Business Segment Operations | Life and Retirement****Individual Retirement GAAP Premiums, Premiums and Deposits, Surrenders and Net Flows**

For Individual Retirement, premiums primarily represent amounts received on life-contingent payout annuities. Premiums decreased in 2017 compared to 2016, primarily due to strong annuity sales in 2016 driven by higher equity market volatility, which made immediate annuities more attractive to customers seeking less volatile returns. Premiums increased in 2016 compared to 2015, primarily due to higher rates in the first half of 2016.

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

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

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

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

|                              | 2017             | 2016             | 2015             |
|------------------------------|------------------|------------------|------------------|
| Premiums                     | \$ 91            | \$ 163           | \$ 137           |
| Deposits                     | 11,819           | 15,898           | 18,238           |
| Other                        | (4)              | 1                | 1                |
| <b>Premiums and deposits</b> | <b>\$ 11,906</b> | <b>\$ 16,062</b> | <b>\$ 18,376</b> |

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

**Years Ended December 31,**

|   | 2017 | 2016  | 2015  |
|---|------|-------|-------|
| <b>Surrenders as a percentage of average reserves</b> |      |       |       |
| Fixed Annuities                                       | 6.7% | 7.6 % | 7.2 % |
| Variable and Index Annuities                          | 6.0  | 5.2   | 6.0   |

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

**At December 31,**

|                       | 2017             |                              | 2016             |                              |
|-----------------------|------------------|------------------------------|------------------|------------------------------|
| (in millions)         | Fixed Annuities  | Variable and Index Annuities | Fixed Annuities  | Variable and Index Annuities |
| No surrender charge   | \$ 32,299        | \$ 18,896                    | \$ 34,674        | \$ 15,338                    |
| Greater than 0% - 2%  | 1,704            | 6,045                        | 857              | 4,558                        |
| Greater than 2% - 4%  | 1,560            | 9,470                        | 2,221            | 5,741                        |
| Greater than 4%       | 13,329           | 34,677                       | 12,599           | 34,966                       |
| Non-surrenderable     | 1,665            | 429                          | 1,606            | 380                          |
| <b>Total reserves</b> | <b>\$ 50,557</b> | <b>\$ 69,517</b>             | <b>\$ 51,957</b> | <b>\$ 60,983</b>             |

Individual Retirement annuities are typically subject to a four- to seven-year surrender charge period, depending on the product. For Variable and Index Annuities, the proportion of reserves subject to surrender charges at December 31, 2017 has decreased compared to December 31, 2016 due to normal aging of the business and slower sales, which were due in part to uncertainty around the implementation of the DOL Fiduciary Rule. The increase in reserves with no surrender charge contributed to the increase in the surrender rate for variable and index annuities in 2017 compared to 2016.





ITEM 7 | **Business Segment Operations** | **Life and Retirement**

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

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

*(in millions)*

**2017 and 2016 Comparison**

- **Fixed Annuities** premiums and deposits decreased, primarily due to disciplined pricing in the continued low interest rate environment and strong sales in 2016 driven by higher equity market volatility, which made fixed annuities more attractive to customers seeking less volatile returns. Although premiums and deposits were lower compared to 2016, annuity sales in the second half of 2017 improved compared to the same period in 2016. Net flows declined and continued to be negative reflecting lower premiums and deposits, partially offset by lower surrenders.
- **Variable and Index Annuities** premiums and deposits and net flows declined, reflecting a continued decrease in variable annuity industry sales due in part to uncertainty around the implementation of the DOL Fiduciary Rule, partially offset by slightly higher index annuity sales. Lower premiums and deposits combined with higher surrenders resulted in a decrease in net flows.
- **Retail Mutual Funds** had negative net flows compared to positive net flows in 2016, reflecting lower deposits and higher withdrawals due to negative industry trends in U.S. equity actively managed funds and uncertainty surrounding the DOL Fiduciary Rule.

**Individual Retirement Premiums and Deposits and Net Flows**

*(in millions)*

## 2016 and 2015 Comparison

- **Fixed Annuities** deposits increased primarily due to higher sales in the bank and broker-dealer distribution channels as a result of customers favoring the safety of fixed annuities in response to equity market volatility. Net flows were negative, but improved compared to 2015 due to higher sales.
- **Variable and Index Annuities** net flows were significantly lower due to a decrease in premiums and deposits, primarily due to lower sales of variable annuities, which reflected a strategic decision to scale back living benefits during the period of very low interest rates, as well as an industry-wide slowdown and uncertainty around the effect of the DOL Fiduciary Rule.
- **Retail Mutual Funds** net flows increased due to improvement in the level of deposits, which was partially offset by higher withdrawals, both driven by activity within the Focused Dividend Strategy Portfolio fund.

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TABLE OF CONTENTSITEM 7 | **Business Segment Operations | Life and Retirement****Group Retirement Results**

| <b>Years Ended December 31,</b><br><i>(in millions)</i> | <b>2017</b>     | <b>2016</b>   | <b>2015</b>     | <b>Percentage Change</b> |                      |
|---|-----------------|---------------|-----------------|--------------------------|----------------------|
|   |                 |               |                 | <b>2017 vs. 2016</b>     | <b>2016 vs. 2015</b> |
| <b>Revenues:</b>  |                 |               |                 |                          |                      |
| Premiums  | \$ 27           | \$ 27         | \$ 22           | -%                       | 23%                  |
| Policy fees   | 427             | 383           | 401             | 11                       | (4)                  |
| Net investment income                                   | 2,164           | 2,146         | 2,192           | 1                        | (2)                  |
| Advisory fee and other income                           | 230             | 213           | 219             | 8                        | (3)                  |
| <b>Benefits and expenses:</b>                           |                 |               |                 |                          |                      |
| Policyholder benefits and losses incurred               | 74              | 28            | 33              | 164                      | (15)                 |
| Interest credited to policyholder account balances      | 1,115           | 1,135         | 1,113           | (2)                      | 2                    |
| Amortization of deferred policy acquisition costs       | 84              | 129           | 50              | (35)                     | 158                  |
| Non deferrable insurance commissions                    | 108             | 85            | 71              | 27                       | 20                   |
| Advisory fee expenses                                   | 83              | 75            | 73              | 11                       | 3                    |
| General operating expenses                              | 348             | 360           | 379             | (3)                      | (5)                  |
| Interest expense  | 32              | 26            | 15              | 23                       | 73                   |
| <b>Adjusted pre-tax income</b>                          | <b>\$ 1,004</b> | <b>\$ 931</b> | <b>\$ 1,100</b> | <b>8%</b>                | <b>(15)%</b>         |
| <b>Base net investment spread:</b>                      |                 |               |                 |                          |                      |
| Base yield  | 4.53%           | 4.71%         | 4.91%           | (18)bps                  | (20)bps              |
| Cost of funds   | 2.76            | 2.89          | 2.95            | (13)                     | (6)                  |
| <b>Base net investment spread</b>                       | <b>1.77%</b>    | <b>1.82%</b>  | <b>1.96%</b>    | <b>(5)bps</b>            | <b>(14)bps</b>       |

**Business and Financial Highlights**

Group Retirement premiums remained flat and premiums and deposits decreased slightly in 2017 compared to 2016 and increased in 2016 compared to 2015. Net flows in 2017 declined and continued to be negative primarily due to higher surrenders reflecting continued pressure from the consolidation of healthcare providers and other employers in our target markets. Net flows in 2016 showed significant improvement compared to 2015 primarily due to lower surrenders as well as record sales, resulting in part from investment in talent, group plan administration record-keeping capabilities and digital functionality. Higher deposits from group acquisitions in 2017 and 2016 partially mitigated the negative impact of surrenders to net flows and of lower index annuity sales in 2017.

Low base net investment yields continued to pressure investment spreads, partially mitigated by crediting rate management. In 2017, net investment income included higher gains on securities for which the fair value option was elected and higher returns from alternative investments, partially offset by a reduction in the overall size of the hedge fund portfolio. In 2016 and 2015, net investment income included the impact of

volatility from alternative investments, fair value option assets and commercial mortgage loan prepayments. Adjusted pre-tax income also included adjustments in each year to update actuarial assumptions, which were net positive adjustments in 2017 and 2015 compared to a net negative adjustment in 2016.

ITEM 7 | **Business Segment Operations | Life and Retirement****Group Retirement Adjusted Pre-Tax Income***(in millions)***2017 and 2016 Comparison**

Adjusted pre-tax income increased primarily due to:

- a net positive adjustment from the review and update of actuarial assumptions which was \$13 million in 2017 compared to a \$47 million net negative adjustment in 2016;
- net investment income, which included higher gains on securities for which the fair value option was elected and higher returns on alternative investments, partially offset by a reduction in the overall size of the hedge fund portfolio;
- higher policy fees and advisory fees, net of expenses, due to growth in account values driven by improved equity market performance; and
- lower general operating expenses primarily due to reduced legal expenses, partially offset by higher spending for implementation of the DOL Fiduciary Rule.

Partially offsetting these increases were:

- higher policyholder benefits primarily due to increases in reserves for guaranteed benefits;
- lower base net investment spread primarily due to lower reinvestment yields, partially mitigated by effective crediting rate management; and
- higher commission expense primarily due to the allocation of reinsurance risk charges from Life Insurance Reinsurance Transactions.

**Group Retirement Adjusted Pre-Tax Income***(in millions)***2016 and 2015 Comparison**

Adjusted pre-tax income decreased primarily due to:

- a net negative adjustment from the review and update of actuarial assumptions, which was \$47 million in 2016 compared to a \$48 million net positive adjustment in 2015;
- lower net investment income on alternative investments and lower base spreads primarily due to lower investment returns, partially offset by higher commercial mortgage loan prepayments and gains on securities for which the fair value option was elected; and
- lower policy fees primarily due to a decrease in separate account assets driven by negative net flows.

These decreases were partially offset by lower general operating expenses due to reductions in employee-related expenses.

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TABLE OF CONTENTSITEM 7 | **Business Segment Operations | Life and Retirement****Group Retirement GAAP Premiums, Premiums and Deposits, Surrenders and Net Flows**

For Group Retirement, premiums primarily represent amounts received on life-contingent payout annuities. Premiums in 2017 were comparable to 2016. Premiums increased in 2016 compared to 2015, as customers continued to invest in immediate annuities due to equity market volatility.

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

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

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

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

|                              | 2017            | 2016            | 2015            |
|------------------------------|-----------------|-----------------|-----------------|
| Premiums                     | \$ 27           | \$ 27           | \$ 22           |
| Deposits                     | 7,523           | 7,543           | 6,899           |
| Other                        | -               | -               | (1)             |
| <b>Premiums and deposits</b> | <b>\$ 7,550</b> | <b>\$ 7,570</b> | <b>\$ 6,920</b> |

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

**Years Ended December 31,**

|   | 2017 | 2016  | 2015   |
|---|------|-------|--------|
| Surrenders as a percentage of average reserves and mutual funds | 8.6% | 8.8 % | 10.0 % |

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

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

|                                    | 2017 <sup>(a)</sup> | 2016 <sup>(a)</sup> |
|------------------------------------|---------------------|---------------------|
| No surrender charge <sup>(b)</sup> | \$ 69,006           | \$ 64,160           |
| Greater than 0% - 2%               | 1,087               | 906                 |
| Greater than 2% - 4%               | 1,344               | 1,395               |
| Greater than 4%                    | 5,270               | 5,434               |
| Non-surrenderable                  | 439                 | 417                 |
| <b>Total reserves</b>              | <b>\$ 77,146</b>    | <b>\$ 72,312</b>    |

(a) Excludes mutual fund assets under administration of \$20.2 billion and \$16.3 billion at December 31, 2017 and 2016, respectively.

(b) Group Retirement amounts in this category include reserves of approximately \$6.3 billion, at both December 31, 2017 and 2016, which are subject to 20 percent annual withdrawal limitations.



Group Retirement annuities are typically subject to a five- to seven-year surrender charge period, depending on the product. The increase in the amount and proportion of Group Retirement annuity reserves that have no surrender charge at December 31, 2017 compared to December 31, 2016 was primarily due to normal aging of this book of business, withdrawal limitations on certain plan assets and lower than expected surrenders of older contracts with higher minimum interest rates on fixed account balances that have continued to be attractive to the contract holders in the low interest rate environment.

ITEM 7 | **Business Segment Operations | Life and Retirement**

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

**Group Retirement Premiums and Deposits and Net Flows**

*(in millions)*

**2017 and 2016 Comparison**

Net flows declined and continued to be negative primarily due to surrenders, including group plan surrenders of approximately \$460 million. In addition, premiums and deposits decreased slightly primarily due to lower index annuity sales, partially offset by significantly higher deposits from group plan acquisitions.

**Group Retirement Premiums and Deposits and Net Flows**

*(in millions)*

**2016 and 2015 Comparison**

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



TABLE OF CONTENTSITEM 7 | **Business Segment Operations | Life and Retirement****Life Insurance Results**

| <b>Years Ended December 31,</b><br><i>(in millions)</i> | <b>2017</b>     | <b>2016</b> | <b>2015</b> | <b>Percentage Change</b> |                      |
|---|-----------------|-------------|-------------|--------------------------|----------------------|
|   |                 |             |             | <b>2017 vs. 2016</b>     | <b>2016 vs. 2015</b> |
| <b>Revenues:</b>  |                 |             |             |                          |                      |
| Premiums  | <b>\$ 1,530</b> | \$ 1,407    | \$ 1,311    | 9%                       | 7%                   |
| Policy fees   | <b>1,430</b>    | 1,319       | 1,379       | 8                        | (4)                  |
| Net investment income                                   | <b>1,044</b>    | 1,035       | 1,034       | 1                        | -                    |
| Other income  | <b>52</b>       | 57          | 47          | (9)                      | 21                   |
| <b>Benefits and expenses:</b>                           |                 |             |             |                          |                      |
| Policyholder benefits and losses incurred               | <b>2,444</b>    | 2,452       | 2,248       | -                        | 9                    |
| Interest credited to policyholder account balances      | <b>376</b>      | 386         | 392         | (3)                      | (2)                  |
| Amortization of deferred policy acquisition costs       | <b>239</b>      | 182         | 311         | 31                       | (41)                 |
| Non deferrable insurance commissions                    | <b>109</b>      | 155         | 157         | (30)                     | (1)                  |
| General operating expenses                              | <b>601</b>      | 668         | 707         | (10)                     | (6)                  |
| Interest expense  | <b>13</b>       | 12          | 7           | 8                        | 71                   |
| <b>Adjusted pre-tax income (loss)</b>                   | <b>\$ 274</b>   | \$ (37)     | \$ (51)     | NM%                      | 27%                  |

**Business and Financial Highlights**

Individual life premiums and deposits in 2017 reflected higher universal life deposits and term life premiums compared to 2016. Life Insurance is focused on selling profitable new products through strategic channels to enhance future returns. General operating expenses decreased in 2017 compared to the prior year, primarily due to the strategic decision to refocus the group benefits business. Adjusted pre-tax income also included adjustments in each year to update actuarial assumptions, which was a net positive adjustment in 2017 compared to net negative adjustments in 2016 and 2015.

**Life Insurance Adjusted Pre-Tax Income (Loss)***(in millions)***2017 and 2016 Comparison**

Adjusted pre-tax income increased in 2017 compared to a loss in 2016 primarily due to:

- a net positive adjustment from the review and update of actuarial assumptions, which was \$29 million in 2017 compared to a \$92 million net negative

adjustment in 2016;

- lower commissions and general operating expenses primarily due to the strategic decision to refocus the group benefits business, partially offset by the allocation of reinsurance risk charges from Life Insurance Reinsurance Transactions. In addition, lower general operating expenses in 2017 reflected the impact of new business reinsurance;
- favorable loss experience and a reserve reduction in group benefits business;
- favorable mortality experience in individual life business; and
- excluding the impact of the actuarial assumption updates, lower DAC amortization primarily due to lapse assumptions on international life.

TABLE OF CONTENTSITEM 7 | **Business Segment Operations | Life and Retirement****Life Insurance Adjusted Pre-Tax Loss***(in millions)***2016 and 2015 Comparison**

Adjusted pre-tax loss improved primarily due to:

- a lower negative adjustment from the review and update of actuarial assumptions, which was \$92 million in 2016 compared to \$118 million in 2015;
- improved mortality experience in individual life; and
- lower domestic employee-related expenses.

These improvements were partially offset by:

- lower net investment income on alternative investments, largely offset by higher other enhancement income, primarily bond call and tender income;
- underperforming group benefits results, including reserve increases and elevated morbidity experience;
- reserve increases in individual life, and individual and group benefits products;
- higher international general operating expenses, due in part to the acquisition in March 2015 of Laya Healthcare, an Irish healthcare distributor and administrator; and
- increased DAC amortization (excluding adjustments to reflect assumption updates).

**Life Insurance GAAP Premiums and Premiums and Deposits**

Premiums for Life Insurance represent amounts received on traditional life insurance policies, primarily term life, and group benefit policies. Premiums, excluding the effect of foreign exchange, increased nine percent in both 2017 compared to 2016 and 2016 compared to 2015, primarily due to assumed premiums related to business distributed by Laya Healthcare and growth in international life and health. Premiums in 2017 also reflected growth in term life business, partially offset by lower group benefits premiums.

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

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

**Years Ended December 31,**

*(in millions)*

|                              | <b>2017</b>     | <b>2016</b>     | <b>2015</b>     |
|------------------------------|-----------------|-----------------|-----------------|
| Premiums                     | \$ <b>1,530</b> | \$ 1,407        | \$ 1,311        |
| Deposits                     | <b>1,518</b>    | 1,419           | 1,451           |
| Other                        | <b>707</b>      | 693             | 608             |
| <b>Premiums and deposits</b> | <b>\$ 3,755</b> | <b>\$ 3,519</b> | <b>\$ 3,370</b> |

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TABLE OF CONTENTSITEM 7 | **Business Segment Operations | Life and Retirement****A discussion of the significant variances in premiums and deposits follows:****Life Insurance Premiums and Deposits**

(\$ in millions)

Premiums and deposits, excluding the effect of foreign exchange, grew by seven percent in 2017 compared to 2016, and increased by five percent in 2016 compared to 2015, primarily due to assumed premiums related to business distributed by Laya Healthcare and growth in international life and health. Premiums and deposits in 2017 also reflected growth in universal life and term life business, partially offset by lower group benefits premiums.

**Institutional markets Results**

| <b>Years Ended December 31,</b><br><i>(in millions)</i> | <b>2017</b>     | <b>2016</b> | <b>2015</b> | <b>Percentage Change</b> |                      |
|---|-----------------|-------------|-------------|--------------------------|----------------------|
|   |                 |             |             | <b>2017 vs. 2016</b>     | <b>2016 vs. 2015</b> |
| <b>Revenues:</b>  |                 |             |             |                          |                      |
| Premiums  | <b>\$ 2,398</b> | \$ 691      | \$ 1,584    | 247%                     | (56)%                |
| Policy fees   | <b>174</b>      | 179         | 173         | (3)                      | 3                    |
| Net investment income                                   | <b>595</b>      | 563         | 510         | 6                        | 10                   |
| Other income  | <b>1</b>        | -           | -           | NM                       | NM                   |
| <b>Benefits and expenses:</b>                           |                 |             |             |                          |                      |
| Policyholder benefits and losses incurred               | <b>2,568</b>    | 843         | 1,683       | 205                      | (50)                 |
| Interest credited to policyholder account balances      | <b>253</b>      | 244         | 246         | 4                        | (1)                  |
| Amortization of deferred policy acquisition costs       | <b>5</b>        | 4           | 2           | 25                       | 100                  |
| Non deferrable insurance commissions                    | <b>28</b>       | 32          | 29          | (13)                     | 10                   |
| General operating expenses                              | <b>44</b>       | 41          | 41          | 7                        | -                    |
| Interest expense  | <b>6</b>        | 4           | 3           | 50                       | 33                   |
| <b>Adjusted pre-tax income</b>                          | <b>\$ 264</b>   | \$ 265      | \$ 263      | -%                       | 1%                   |

**Business and Financial Highlights**

Institutional Markets continued to grow its assets under management, which drove the continuous increase



in net investment income over the recent years.

TABLE OF CONTENTSITEM 7 | **Business Segment Operations | Life and Retirement****Institutional Markets Adjusted Pre-Tax Income***(in millions)***2017 and 2016 Comparison**

Adjusted pre-tax income was comparable to 2016. Increases in premiums and policyholder benefits were primarily due to pension risk transfer business written in 2017. Growth in reserves and assets under management drove the increase in net investment income with similar impact to policyholder benefits.

**Institutional Markets Adjusted Pre-Tax Income***(in millions)***2016 and 2015 Comparison**

Adjusted pre-tax income was comparable to 2015. Decreases in premiums and policyholder benefits were primarily due to pension risk transfer business written in 2015. Growth in reserves and assets under management drove the increase in net investment income with similar impact to policyholder benefits.



TABLE OF CONTENTSITEM 7 | **Business Segment Operations | Life and Retirement****Institutional markets GAAP Premiums and Premiums and Deposits**

Premiums for Institutional Markets represent amounts received on traditional life insurance policies and pension risk transfer annuities or structured settlements. Premiums increased in 2017 compared to 2016 and declined in 2016 compared to 2015 primarily driven by the pension risk transfer business written in 2017 and 2015. Partially offsetting the increase in 2017 was a decrease in structured settlement sales.

Premiums and deposits for Institutional Markets is a non-GAAP financial measure that includes direct premiums as well as deposits received on universal life insurance and investment-type annuity contracts, including GICs.

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

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

|                              | 2017            | 2016            | 2015            |
|------------------------------|-----------------|-----------------|-----------------|
| Premiums                     | \$ 2,398        | \$ 691          | \$ 1,584        |
| Deposits                     | 1,821           | 1,434           | 118             |
| Other                        | 28              | 28              | 30              |
| <b>Premiums and deposits</b> | <b>\$ 4,247</b> | <b>\$ 2,153</b> | <b>\$ 1,732</b> |

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

**Institutional Markets Premiums and Deposits***(\$ in millions)*

Premiums and deposits increased in 2017 compared to 2016 primarily driven by higher pension risk transfer business, partially offset by lower structured settlement sales. In 2016, premiums and deposits increased compared to 2015 primarily due to higher GIC deposits, partially offset by lower pension risk transfer business.

TABLE OF CONTENTSITEM 7 | **Business Segment Operations** | **Other Operations****Other Operations**

The following table presents Other Operations results:

| <i>(in millions)</i>                                 | 2017             | 2016           | 2015           | Percentage Change |               |
|--|------------------|----------------|----------------|-------------------|---------------|
|  |                  |                |                | 2017 vs. 2016     | 2016 vs. 2015 |
| <b>Adjusted pre-tax income (loss) by activities:</b> |                  |                |                |                   |               |
| United Guaranty                                      | \$ -             | \$ 522         | \$ 537         | NM%               | (3)%          |
| Fuji Life  | 43               | 14             | (33)           | 207               | NM            |
| Parent and Other:                                    |                  |                |                |                   |               |
| Corporate General operating expenses                 | (769)            | (666)          | (411)          | (15)              | (62)          |
| Interest expense                                     | (968)            | (983)          | (1,030)        | 2                 | 5             |
| Other income, net                                    | 289              | 102            | 112            | 183               | (9)           |
| Total Parent and Other                               | (1,448)          | (1,547)        | (1,329)        | 6                 | (16)          |
| <b>Adjusted pre-tax loss before eliminations</b>     | <b>(1,405)</b>   | <b>(1,011)</b> | <b>(825)</b>   | <b>(39)</b>       | <b>(23)</b>   |
| Consolidation, eliminations and other adjustments    | 75               | 42             | (76)           | 79                | NM            |
| <b>Adjusted pre-tax loss</b>                         | <b>\$(1,330)</b> | <b>\$(969)</b> | <b>\$(901)</b> | <b>(37)%</b>      | <b>(8)%</b>   |

**2017 and 2016 Comparison**

Adjusted pre-tax loss increased primarily due to the sale of United Guaranty during the fourth quarter of 2016.

Parent and Other adjusted pre-tax loss decreased as a result of gains on securities where we elected the fair value option, partially offset by higher general operating expenses related to one time payments for recent executive leadership changes.

Fuji Life adjusted pre-tax results increased primarily as a result of increases in underwriting income as a result of new products launched during 2016 as well as growth within existing product lines. Fuji Life was sold on April 30, 2017.

**2016 and 2015 Comparison**

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

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

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

ITEM 7 | **Business Segment Operations** | **Legacy Portfolio****Legacy Portfolio**

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

**Legacy General Insurance Run-Off Lines** — consists of asbestos and environmental exposures and other exposures within certain Property and Casualty profit centers no longer actively marketed, including excess workers' compensation, environmental impairment liability, public entity liability, accident & health, physicians and surgeons professional liability, and various other workers' compensation and general liability exposures.

**Legacy Life and Retirement Run-Off Lines** include whole life, long-term care and exited accident & health product lines. Also includes certain structured settlement, pension risk transfer annuities and single premium immediate annuities written prior to April 2012.

**Legacy Investments** include investment classes that we have placed into run-off.

**BUSINESS STRATEGY**

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

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

For Legacy Investments, our business strategy is to maximize liquidity to AIG Parent and minimize book value impairments while sourcing for our insurance companies attractive assets for their portfolios.

TABLE OF CONTENTSITEM 7 | **Business Segment Operations | Legacy Portfolio****LEGACY PORTFOLIO RESULTS**

The following table presents Legacy Portfolio results:

| <i>(in millions)</i>   | 2017           | 2016           | 2015           | Percentage Change |               |
|--|----------------|----------------|----------------|-------------------|---------------|
|  |                |                |                | 2017 vs. 2016     | 2016 vs. 2015 |
| <b>Revenues:</b>   |                |                |                |                   |               |
| Premiums   | \$ 590         | \$ 674         | \$ 1,037       | (12)%             | (35)%         |
| Policy fees  | 137            | 142            | 133            | (4)               | 7             |
| Net investment income  | 2,776          | 2,913          | 2,928          | (5)               | (1)           |
| Other income (loss)  | 888            | 1,521          | 1,673          | (42)              | (9)           |
| <b>Total adjusted revenues</b>   | <b>4,391</b>   | <b>5,250</b>   | <b>5,771</b>   | <b>(16)</b>       | <b>(9)</b>    |
| <b>Benefits and expenses:</b>  |                |                |                |                   |               |
| Policyholder benefits and losses and loss adjustment expenses incurred | 1,998          | 3,084          | 3,337          | (35)              | (8)           |
| Interest credited to policyholder account balances                     | 241            | 267            | 267            | (10)              | -             |
| Amortization of deferred policy acquisition costs                      | 76             | 108            | 102            | (30)              | 6             |
| General operating and other expenses                                   | 484            | 502            | 640            | (4)               | (22)          |
| Interest expense   | 122            | 282            | 292            | (57)              | (3)           |
| <b>Total benefits and expenses</b>                                     | <b>2,921</b>   | <b>4,243</b>   | <b>4,638</b>   | <b>(31)</b>       | <b>(9)</b>    |
| <b>Adjusted pre-tax income</b>   | <b>\$1,470</b> | <b>\$1,007</b> | <b>\$1,133</b> | <b>46%</b>        | <b>(11)%</b>  |
| <b>Adjusted pre-tax income by type:</b>                                |                |                |                |                   |               |
| General Insurance Run-Off Lines  | \$ 221         | \$ (237)       | \$ (709)       | NM%               | 67%           |
| Life and Retirement Run-Off Lines                                      | 406            | (224)          | 468            | NM                | NM            |
| Legacy Investments   | 843            | 1,468          | 1,374          | (43)              | 7             |
| <b>Adjusted pre-tax income</b>   | <b>\$1,470</b> | <b>\$1,007</b> | <b>\$1,133</b> | <b>46%</b>        | <b>(11)%</b>  |

**Business and Financial Highlights**

In 2017, the Legacy Investment portfolio executed several transactions with external parties for total consideration of approximately \$2.5 billion, which included sales of our entire life settlements portfolio with a face value (death benefits) of approximately \$9.8 billion, resulting in a loss on the sale of \$139 million and total book value impairments of \$360 million. A significant portion of the consideration received was used to pay down intercompany loans and notes with affiliated insurance companies. In addition, the Legacy Investment portfolio returned approximately \$3.0 billion of cash proceeds to AIG Parent in 2017, including \$191 million from the sale of an AIG-sponsored fund that occurred in the fourth quarter of 2016.





TABLE OF CONTENTSITEM 7 | **Business Segment Operations** | **Legacy Portfolio**

| <b>Legacy Portfolio Adjusted Pre-Tax Income</b> |  |
|---|--|
| <i>(in millions)</i>                            |  |
|   | <p><b>2017 and 2016 Comparison</b></p> <p>Adjusted pre-tax income increased due to:</p> <ul style="list-style-type: none"> <li>increased Legacy Life and Retirement adjusted pre-tax income due to the absence of any significant loss recognition on certain payout annuities from the update of actuarial assumptions in 2017 compared to 2016. Loss recognition from the update to actuarial assumptions in 2017 was \$14 million mainly attributable to the Long-Term Care portfolio;</li> <li>increased Legacy General Insurance adjusted pre-tax income due to the absence of any significant prior year development in 2017 compared to 2016.</li> </ul> <p>This increase was partially offset by decreased Legacy Investment adjusted pre-tax income in 2017 compared to 2016 driven by the decreased value of the remaining Legacy Investment portfolio post-sales.</p> |

| <b>Legacy Portfolio Adjusted Pre-Tax Income</b> |   |
|---|---|
| <i>(in millions)</i>                            |   |
|   | <p><b>2016 and 2015 Comparison</b></p> <p>Adjusted pre-tax income remained relatively stable; however, there were fluctuations within the portfolios due to:</p> <ul style="list-style-type: none"> <li>lower Legacy Life and Retirement earnings in 2016 compared to 2015 primarily due to lower net investment income on investments and higher loss recognition on certain payout annuities from the update of actuarial assumptions;</li> </ul> |

- |  |   |
|--|---|
|  | <ul style="list-style-type: none"><li>• lower Legacy General Insurance adjusted pre-tax loss due to lower unfavorable prior year development in 2016 compared to 2015; and</li><li>• higher Legacy Investment adjusted pre-tax income driven mainly by asset sales, partially offset by fair value losses on certain investments.</li></ul> |
|--|---|

ITEM 7 | **Investments****Investments****Overview**

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

**Investment Highlights in 2017**

- A decrease in interest rates and narrowing credit spreads resulted in a net unrealized gain in our investment portfolio. Net unrealized gains in our available for sale portfolio increased to approximately \$13.9 billion as of December 31, 2017 from approximately \$9.7 billion as of December 31, 2016.
- We continued to make investments in structured securities and other fixed maturity securities and increased lending activities in mortgage loans with favorable risk versus return characteristics to improve yields and increase net investment income.
- During the first quarter of 2017, we funded the adverse development reinsurance agreement entered into with NICO. The approximate \$10.2 billion funding of this agreement was the primary reason for the decrease in the invested asset portfolio in 2017.
- During 2017, we reduced our hedge fund portfolio by approximately \$2.4 billion as a result of redemptions consistent with our planned reduction of exposure. Our hedge fund portfolio experienced above average returns in 2017 due to higher equity market performance.
- Blended investment yields on new investments were lower than blended rates on investments that were sold, matured or called.
- Other-than-temporary impairments decreased due to lower impairments in our structured securities and corporate bond portfolios.
- During the second quarter of 2017, we had a partial sale of our investment in Arch Capital Group Ltd. (Arch), which we received as part of the consideration for selling United Guaranty to Arch in 2016.
- We sold the remaining portion of our life settlements portfolio in 2017.

**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 General Insurance consist of a mix of instruments that meet our current risk-return, tax, liquidity, credit quality and diversification objectives.
- Outside of the U.S., fixed maturity securities held by General Insurance companies consist primarily of high-grade securities generally denominated in the currencies of the countries in which we operate.
- While more of a focus is placed on asset-liability management in Life and Retirement companies, our fundamental strategy across all of our investment portfolios is to optimize the duration characteristics of the assets within a target range based on comparable liability characteristics, to the extent practicable.
- AIG Parent, included in Other Operations, actively manages its assets and liabilities in terms of products, counterparties and duration. AIG Parent's liquidity sources are held primarily in the form of cash, short-term investments and publicly traded, investment-grade rated fixed maturity securities. Based upon an assessment of its immediate and longer-term funding needs, AIG Parent purchases publicly traded, investment-grade rated fixed maturity securities that can be readily monetized through sales or repurchase agreements. These securities allow us to diversify sources of liquidity while reducing the cost of maintaining sufficient liquidity.

ITEM 7 | **Investments****Attribution of Net Investment Income to Operating Segments**

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

For General Insurance — North America and International and Legacy General Insurance Run-Off Lines, we estimate investable funds based primarily on loss reserves and unearned premiums. The allocation of net investment income of the General Insurance companies to segments is calculated based on these estimated investable funds, consistent with the approximate duration of the liabilities and the required economic capital allocation for each segment.

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

**Asset Liability Measurement**

For the General 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 General Insurance companies focuses on growth of surplus and preservation of capital, subject to liability and other business considerations.

The General 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 General 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 General Insurance companies' liquidity, duration and credit quality objectives as well as current risk return and tax objectives.

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

Fixed maturity securities of the General Insurance companies' domestic operations, with an average duration of 3.9 years, are currently comprised of corporate bonds, structured securities, taxable municipal bonds and government and agency bonds as well as tax-exempt securities, which provide attractive risk-adjusted after-tax returns. The majority of these high quality investments are rated A or higher based on composite ratings.

Fixed maturity securities held in the General Insurance companies' foreign operations are of high quality, primarily rated A or higher based on composite ratings, with an average duration of 3.6 years.

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

The Life and Retirement 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 and Retirement 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

ITEM 7 | **Investments**

component of the investment strategy of the Life and Retirement companies, we have reduced the overall size of the hedge fund portfolio, in light of changing market conditions and perceived market opportunities, and to continue reducing the size of the private equity portfolio.

Fixed maturity securities of the Life and Retirement companies domestic operations, with an average duration of 7.3 years, are comprised primarily of taxable corporate bonds, as well as taxable municipal and government bonds, and agency and non agency structured securities. The majority of these investments are held in the available for sale portfolio and are rated investment grade based on its composite ratings.

Fixed maturity securities held in the Life and Retirement companies foreign operations are of high quality, primarily rated A or higher based on composite ratings, with an average duration of 21.1 years.

*NAIC Designations of Fixed Maturity Securities*

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

*For a full description of the composite AIG credit ratings see Investments – Credit Ratings.*

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

**December 31, 2017**

*(in millions)*

| <b>NAIC Designation</b>                          | <b>1</b>  | <b>2</b> | <b>Total<br/>Investment<br/>Grade</b> | <b>3</b> | <b>4</b> | <b>5</b> | <b>6</b> |
|--|-----------|----------|---------------------------------------|----------|----------|----------|----------|
| Other fixed maturity securities                  | \$ 74,791 | \$68,400 | \$ <b>143,191</b>                     | \$5,778  | \$5,180  | \$1,348  | \$ 144   |
| Mortgage-backed, asset-backed and collateralized | 64,364    | 3,181    | <b>67,545</b>                         | 571      | 170      | 96       | 2,304    |



**Total\***\$139,155\$71,581\$ **210,736** \$6,349\$5,350\$1,444\$2,448\$

\* Excludes \$25.4 billion of fixed maturity securities for which no NAIC Designation is available because they are held in legal entities within U.S. Insurance Companies that do not require a statutory filing.

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

**December 31, 2017**

(in millions)

| Composite AIG Credit Rating                      |            |           | Total<br>Investment<br>Grade |          |          |  | CCC and<br>Lower |
|--|------------|-----------|------------------------------|----------|----------|--|------------------|
|  | AAA/AA/A   | BBB       |                              | BB       | B        |  |                  |
| Other fixed maturity securities                  | \$ 75,277  | \$ 68,211 | \$ <b>143,488</b>            | \$ 5,561 | \$ 5,232 |  | \$ 1,360         |
| Mortgage-backed, asset-backed and collateralized | 45,464     | 4,546     | <b>50,010</b>                | 1,032    | 867      |  | 18,777           |
| <b>Total*</b>                                    | \$ 120,741 | \$ 72,757 | \$ <b>193,498</b>            | \$ 6,593 | \$ 6,099 |  | \$ 20,137        |

\* Excludes \$25.4 billion of fixed maturity securities for which no NAIC Designation is available because they are held in legal entities within U.S. Insurance Companies that do not require a statutory filing.

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**Credit Ratings**

At December 31, 2017, approximately 90 percent of our fixed maturity securities were held by our domestic entities. Approximately 18 percent of these securities were rated AAA by one or more of the principal rating agencies, and approximately 16 percent were rated below investment grade or not rated. Our investment decision process relies primarily on internally generated fundamental analysis and internal risk ratings. Third-party rating services' ratings and opinions provide one source of independent perspective for consideration in the internal analysis.

Moody's Investors' Service Inc. (Moody's), Standard & Poor's Financial Services LLC, a subsidiary of S&P Global Inc. (S&P), or similar foreign rating services rate a significant portion of our foreign entities' fixed maturity securities portfolio. Rating services are not available for some foreign-issued securities. Our Credit Risk Management department closely reviews the credit quality of the foreign portfolio's non-rated fixed maturity securities. At December 31, 2017, approximately 22 percent of such investments were either rated AAA or, on the basis of our internal analysis, were equivalent from a credit standpoint to securities rated AAA, and approximately 8 percent were below investment grade or not rated. Approximately 36 percent of the foreign entities' fixed maturity securities portfolio is comprised of sovereign fixed maturity securities supporting policy liabilities in the country of issuance.

**Composite AIG Credit Ratings**

With respect to our fixed maturity securities, 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 securities), 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.

*For a discussion of credit risks associated with Investments see Enterprise Risk Management.*

**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,       |
|  | 2017               | 2016      | 2017     | 2016     | 2017      | 2016      |
| (in millions)                          |                    |           |          |          |           |           |
| <b>Rating:</b>                         |                    |           |          |          |           |           |
| <b>Other fixed maturity securities</b> |                    |           |          |          |           |           |
| AAA                                    | \$ 11,644          | \$ 11,791 | \$ 2,656 | \$ 2,807 | \$ 14,300 | \$ 14,598 |

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|   |                   |                   |                  |                  |                   |                   |
|---|-------------------|-------------------|------------------|------------------|-------------------|-------------------|
| AA  | 29,560            | 33,647            | 212              | 250              | 29,772            | 33,897            |
| A   | 45,049            | 45,619            | 1,745            | 1,612            | 46,794            | 47,231            |
| BBB   | 70,636            | 68,700            | 138              | 76               | 70,774            | 68,776            |
| Below investment grade                                  | 13,173            | 12,832            | 17               | 17               | 13,190            | 12,849            |
| Non-rated   | 1,073             | 890               | -                | -                | 1,073             | 890               |
| <b>Total</b>  | <b>\$ 171,135</b> | <b>\$ 173,479</b> | <b>\$ 4,768</b>  | <b>\$ 4,762</b>  | <b>\$ 175,903</b> | <b>\$ 178,241</b> |
| <b>Mortgage-backed, asset-backed and collateralized</b> |                   |                   |                  |                  |                   |                   |
| AAA   | \$ 30,306         | \$ 28,593         | \$ 818           | \$ 1,055         | \$ 31,124         | \$ 29,648         |
| AA  | 8,158             | 6,114             | 610              | 714              | 8,768             | 6,828             |
| A   | 7,760             | 8,504             | 382              | 307              | 8,142             | 8,811             |
| BBB   | 4,414             | 4,996             | 163              | 303              | 4,577             | 5,299             |
| Below investment grade                                  | 17,194            | 19,838            | 6,004            | 6,790            | 23,198            | 26,628            |
| Non-rated   | 25                | 13                | 27               | 67               | 52                | 80                |
| <b>Total</b>  | <b>\$ 67,857</b>  | <b>\$ 68,058</b>  | <b>\$ 8,004</b>  | <b>\$ 9,236</b>  | <b>\$ 75,861</b>  | <b>\$ 77,294</b>  |
| <b>Total</b>  |                   |                   |                  |                  |                   |                   |
| AAA   | \$ 41,950         | \$ 40,384         | \$ 3,474         | \$ 3,862         | \$ 45,424         | \$ 44,246         |
| AA  | 37,718            | 39,761            | 822              | 964              | 38,540            | 40,725            |
| A   | 52,809            | 54,123            | 2,127            | 1,919            | 54,936            | 56,042            |
| BBB   | 75,050            | 73,696            | 301              | 379              | 75,351            | 74,075            |
| Below investment grade                                  | 30,367            | 32,670            | 6,021            | 6,807            | 36,388            | 39,477            |
| Non-rated   | 1,098             | 903               | 27               | 67               | 1,125             | 970               |
| <b>Total</b>  | <b>\$ 238,992</b> | <b>\$ 241,537</b> | <b>\$ 12,772</b> | <b>\$ 13,998</b> | <b>\$ 251,764</b> | <b>\$ 255,535</b> |

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## Available for Sale Investments

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

| <i>(in millions)</i>   | Fair Value at<br>December 31,<br>2017 | Fair Value at<br>December 31,<br>2016 |
|--|---------------------------------------|---------------------------------------|
| <b>Bonds available for sale:</b>                                 |                                       |                                       |
| U.S. government and government sponsored entities                | \$ 2,656                              | \$ 1,992                              |
| Obligations of states, municipalities and political subdivisions | 18,644                                | 24,772                                |
| Non-U.S. governments   | 15,659                                | 14,535                                |
| Corporate debt   | 134,176                               | 132,180                               |
| Mortgage-backed, asset-backed and collateralized:                |                                       |                                       |
| RMBS   | 37,234                                | 37,374                                |
| CMBS   | 13,841                                | 14,271                                |
| CDO/ABS  | 16,782                                | 16,413                                |
| <b>Total mortgage-backed, asset-backed and collateralized</b>    | <b>67,857</b>                         | <b>68,058</b>                         |
| <b>Total bonds available for sale*</b>                           | <b>238,992</b>                        | <b>241,537</b>                        |
| <b>Equity securities available for sale:</b>                     |                                       |                                       |
| Common stock   | 1,061                                 | 1,065                                 |
| Preferred stock  | 533                                   | 752                                   |
| Mutual funds   | 114                                   | 261                                   |
| <b>Total equity securities available for sale</b>                | <b>1,708</b>                          | <b>2,078</b>                          |
| <b>Total</b>   | <b>\$ 240,700</b>                     | <b>\$ 243,615</b>                     |

\* At December 31, 2017 and 2016, the fair value of bonds available for sale held by us that were below investment grade or not rated totaled \$31.5 billion and \$33.6 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,<br>2017 | December 31,<br>2016 |
|----------------------|----------------------|----------------------|
| Japan                | \$ 1,791             | \$ 2,140             |
| Germany              | 1,623                | 1,168                |
| United Kingdom       | 1,214                | 815                  |
| Canada               | 1,051                | 1,115                |
| France               | 923                  | 667                  |
| Netherlands          | 608                  | 445                  |
| Mexico               | 513                  | 637                  |
| Indonesia            | 493                  | 366                  |
| United Arab Emirates | 432                  | 343                  |

|              |           |               |           |               |
|--------------|-----------|---------------|-----------|---------------|
| Norway       |           | 409           |           | 456           |
| Other        |           | 6,659         |           | 6,434         |
| <b>Total</b> | <b>\$</b> | <b>15,716</b> | <b>\$</b> | <b>14,586</b> |

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

| (in millions)               | December 31, 2017 |                       |                          |                     |          | December 31, 2016 |
|-----------------------------|-------------------|-----------------------|--------------------------|---------------------|----------|-------------------|
|                             | Sovereign         | Financial Institution | Non-Financial Corporates | Structured Products | Total    | Total             |
| <b>Euro-Zone countries:</b> |                   |                       |                          |                     |          |                   |
| France                      | \$ 923            | \$ 1,243              | \$ 2,003                 | \$ -                | \$ 4,169 | \$ 3,788          |
| Germany                     | 1,623             | 178                   | 2,001                    | 1                   | 3,803    | 3,227             |
| Netherlands                 | 608               | 941                   | 1,271                    | 48                  | 2,868    | 2,658             |
| Belgium                     | 219               | 109                   | 888                      | -                   | 1,216    | 1,075             |
| Ireland                     | 11                | -                     | 495                      | 565                 | 1,071    | 1,263             |

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|                                       |                 |                 |                  |                 |                  |                  |
|---------------------------------------|-----------------|-----------------|------------------|-----------------|------------------|------------------|
| Spain                                 | -               | 149             | 860              | -               | 1,009            | 918              |
| Italy                                 | -               | 184             | 510              | -               | 694              | 842              |
| Luxembourg                            | -               | 30              | 406              | -               | 436              | 430              |
| Finland                               | 51              | 34              | 78               | -               | 163              | 198              |
| Austria                               | 29              | 8               | -                | -               | 37               | 95               |
| Other - EuroZone                      | 731             | 45              | 237              | -               | 1,013            | 1,104            |
| <b>Total Euro-Zone</b>                | <b>\$ 4,195</b> | <b>\$ 2,921</b> | <b>\$ 8,749</b>  | <b>\$ 614</b>   | <b>\$ 16,479</b> | <b>\$ 15,598</b> |
| <b>Remainder of Europe:</b>           |                 |                 |                  |                 |                  |                  |
| United Kingdom                        | \$ 1,214        | \$ 3,554        | \$ 8,465         | \$ 3,742        | \$ 16,975        | \$ 15,293        |
| Switzerland                           | 46              | 1,221           | 1,032            | -               | 2,299            | 2,360            |
| Sweden                                | 119             | 378             | 161              | -               | 658              | 691              |
| Norway                                | 409             | 45              | 164              | -               | 618              | 582              |
| Russian Federation                    | 114             | 17              | 153              | -               | 284              | 169              |
| Other - Remainder of Europe           | 140             | 55              | 92               | -               | 287              | 285              |
| <b>Total - Remainder of Europe</b>    | <b>\$ 2,042</b> | <b>\$ 5,270</b> | <b>\$ 10,067</b> | <b>\$ 3,742</b> | <b>\$ 21,121</b> | <b>\$ 19,380</b> |
| <b>Total</b>                          | <b>\$ 6,237</b> | <b>\$ 8,191</b> | <b>\$ 18,816</b> | <b>\$ 4,356</b> | <b>\$ 37,600</b> | <b>\$ 34,978</b> |
| <b>Investments in Municipal Bonds</b> |                 |                 |                  |                 |                  |                  |

At December 31, 2017, the U.S. municipal bond portfolio was composed primarily of essential service revenue bonds and high-quality tax-exempt bonds with over 92 percent of the portfolio rated A or higher.

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

| <i>(in millions)</i> | <b>December 31, 2017</b>       |                                |          |                        | <b>December 31, 2016</b> |       |
|----------------------|--------------------------------|--------------------------------|----------|------------------------|--------------------------|-------|
|                      | State<br>General<br>Obligation | Local<br>General<br>Obligation | Revenue  | Total<br>Fair<br>Value | Total Fair Value         |       |
| <b>State:</b>        |                                |                                |          |                        |                          |       |
| New York             | \$ 20                          | \$ 539                         | \$ 3,003 | \$ 3,562               | \$                       | 4,170 |
| California           | 703                            | 424                            | 2,148    | 3,275                  |                          | 3,471 |
| Texas                | 196                            | 700                            | 1,096    | 1,992                  |                          | 3,287 |
| Massachusetts        | 476                            | -                              | 490      | 966                    |                          | 1,396 |
| Illinois             | 109                            | 128                            | 671      | 908                    |                          | 1,171 |
| Florida              | 61                             | -                              | 605      | 666                    |                          | 1,016 |
| Washington           | 256                            | 13                             | 381      | 650                    |                          | 1,059 |
| Virginia             | 8                              | -                              | 631      | 639                    |                          | 789   |
| Ohio                 | 92                             | -                              | 483      | 575                    |                          | 536   |
| Georgia              | 130                            | 168                            | 268      | 566                    |                          | 747   |
| Washington D.C.      | 37                             | 1                              | 459      | 497                    |                          | 671   |
| Pennsylvania         | 160                            | 22                             | 236      | 418                    |                          | 719   |

|                                 |                 |                 |                  |                  |                  |
|---------------------------------|-----------------|-----------------|------------------|------------------|------------------|
| Maryland                        | 166             | 93              | 121              | 380              | 423              |
| All other states <sup>(a)</sup> | 402             | 334             | 2,814            | 3,550            | 5,317            |
| <b>Total</b> <sup>(b)(c)</sup>  | <b>\$ 2,816</b> | <b>\$ 2,422</b> | <b>\$ 13,406</b> | <b>\$ 18,644</b> | <b>\$ 24,772</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 \$0.9 billion of pre-refunded municipal bonds.

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

| <b>Industry Category</b><br><i>(in millions)</i> | <b>Fair Value at<br/>December 31,<br/>2017</b> | <b>Fair Value at<br/>December 31,<br/>2016</b> |
|--|--|--|
| Financial institutions:                          |  |  |
| Money Center/Global Bank Groups                  | \$ 9,295                                       | \$ 8,892                                       |
| Regional banks — other                           | 562  | 606  |
| Life insurance                                   | 3,603  | 3,100  |
| Securities firms and other finance companies     | 386  | 392  |
| Insurance non-life                               | 4,893  | 5,213  |
| Regional banks — North America                   | 6,320  | 6,844  |
| Other financial institutions                     | 9,906  | 8,435  |
| Utilities  | 18,655   | 17,938   |
| Communications                                   | 9,756  | 10,025   |
| Consumer noncyclical                             | 15,873   | 15,338   |
| Capital goods                                    | 7,797  | 8,339  |
| Energy   | 13,171   | 13,618   |
| Consumer cyclical                                | 9,166  | 8,606  |
| Basic  | 6,123  | 6,582  |
| Other  | 18,670   | 18,252   |
| <b>Total *</b>                                   | <b>\$ 134,176</b>                              | <b>\$ 132,180</b>                              |

\* At both December 31, 2017 and December 31, 2016, approximately 91 percent of these investments were rated investment grade.

Our investments in the energy category, as a percentage of total investments in available-for-sale fixed maturities, was 5.5 percent and 5.6 percent at December 31, 2017 and December 31, 2016, respectively. 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 securities:

| <b>(in millions)</b> | <b>Fair Value at<br/>December 31,<br/>2017</b> | <b>Fair Value at<br/>December 31,<br/>2016</b> |
|----------------------|--|--|
| Agency RMBS          | \$ 15,002                                      | \$ 13,854                                      |



|                                    |                  |                  |
|------------------------------------|------------------|------------------|
| Alt-A RMBS                         | 11,624           | 12,387           |
| Subprime RMBS                      | 2,947            | 2,905            |
| Prime non-agency                   | 6,891            | 7,422            |
| Other housing related              | 770              | 806              |
| <b>Total RMBS<sup>(a)(b)</sup></b> | <b>\$ 37,234</b> | <b>\$ 37,374</b> |

(a) Includes approximately \$12.3 billion and \$12.9 billion at December 31, 2017 and December 31, 2016, respectively, of certain RMBS that had experienced deterioration in credit quality since their origination. For additional discussion on Purchased Credit Impaired (PCI) Securities see Note 6 to the Consolidated Financial Statements.

(b) The weighted average expected life was six years at both December 31, 2017 and December 31, 2016.

Our underwriting practices for investing in RMBS, other asset backed securities (ABS) 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.

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## Investments in CMBS

The following table presents our CMBS available for sale securities:

| <i>(in millions)</i> | Fair Value at<br>December 31,<br>2017 | Fair Value at<br>December 31,<br>2016 |
|----------------------|---------------------------------------|---------------------------------------|
| CMBS (traditional)   | \$ 11,092                             | \$ 11,782                             |
| Agency               | 2,093                                 | 1,737                                 |
| Other                | 656                                   | 752                                   |
| <b>Total</b>         | <b>\$ 13,841</b>                      | <b>\$ 14,271</b>                      |

The fair value of CMBS holdings remained stable throughout 2017. The majority of our investments in CMBS are in tranches that contain substantial protection features through collateral subordination. The majority of CMBS holdings are traditional conduit transactions, broadly diversified across property types and geographical areas.

## Investments in CDOs

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

| <i>(in millions)</i>    | Fair value at<br>December 31,<br>2017 | Fair value at<br>December 31,<br>2016 |
|-------------------------|---------------------------------------|---------------------------------------|
| <b>Collateral Type:</b> |                                       |                                       |
| Bank loans (CLO)        | \$ 8,112                              | \$ 8,548                              |
| Other                   | 94                                    | 129                                   |
| <b>Total</b>            | <b>\$ 8,206</b>                       | <b>\$ 8,677</b>                       |

## Commercial Mortgage Loans

At December 31, 2017, we had direct commercial mortgage loan exposure of \$28.6 billion. All commercial mortgage loans were current or performing according to their restructured terms.

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<br>of<br>Loans | Apartment | Offices  | Class<br>Retail | Industrial | Hotel  | Others | Total    | Percent<br>of<br>Total |
|------------------------------|-----------------------|-----------|----------|-----------------|------------|--------|--------|----------|------------------------|
| <b>December 31, 2017</b>     |                       |           |          |                 |            |        |        |          |                        |
| <b>State:</b>                |                       |           |          |                 |            |        |        |          |                        |
| New York                     | 97                    | \$ 1,673  | \$ 3,716 | \$ 556          | \$ 265     | \$ 105 | \$ 177 | \$ 6,492 | 23%                    |

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|                 |     |          |          |          |          |          |          |           |      |
|-----------------|-----|----------|----------|----------|----------|----------|----------|-----------|------|
| California      | 86  | 438      | 1,055    | 301      | 313      | 845      | 360      | 3,312     | 12   |
| Texas           | 55  | 327      | 934      | 160      | 83       | 154      | 38       | 1,696     | 6    |
| Massachusetts   | 21  | 701      | 384      | 410      | -        | -        | 27       | 1,522     | 5    |
| New Jersey      | 42  | 667      | 46       | 486      | 41       | 28       | 32       | 1,300     | 4    |
| Florida         | 81  | 319      | 84       | 435      | 227      | 19       | 69       | 1,153     | 4    |
| Pennsylvania    | 25  | 74       | 22       | 577      | 47       | 26       | -        | 746       | 3    |
| Illinois        | 15  | 315      | 304      | 11       | 25       | -        | 23       | 678       | 2    |
| Ohio            | 26  | 163      | 11       | 205      | 240      | -        | 5        | 624       | 2    |
| Washington D.C. | 11  | 232      | 359      | -        | -        | 19       | -        | 610       | 2    |
| Other states    | 253 | 1,790    | 964      | 1,466    | 696      | 564      | 160      | 5,640     | 20   |
| <b>Foreign</b>  | 71  | 1,464    | 821      | 754      | 86       | 629      | 1,069    | 4,823     | 17   |
| <b>Total*</b>   | 783 | \$ 8,163 | \$ 8,700 | \$ 5,361 | \$ 2,023 | \$ 2,389 | \$ 1,960 | \$ 28,596 | 100% |

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December 31, 2016

**State:**

|                |     |          |          |          |          |          |          |           |      |
|----------------|-----|----------|----------|----------|----------|----------|----------|-----------|------|
| New York       | 96  | \$ 1,391 | \$ 3,527 | \$ 534   | \$ 215   | \$ 163   | \$ 185   | \$ 6,015  | 24%  |
| California     | 89  | 325      | 761      | 282      | 286      | 870      | 401      | 2,925     | 12   |
| Texas          | 58  | 255      | 857      | 97       | 108      | 154      | 44       | 1,515     | 6    |
| Florida        | 67  | 322      | 94       | 340      | 165      | 19       | 76       | 1,016     | 4    |
| Massachusetts  | 20  | 415      | 114      | 408      | 50       | -        | 27       | 1,014     | 4    |
| New Jersey     | 39  | 529      | 47       | 355      | -        | 29       | 33       | 993       | 4    |
| Illinois       | 19  | 258      | 307      | 20       | 52       | 36       | 23       | 696       | 3    |
| Pennsylvania   | 24  | -        | 28       | 473      | 51       | 26       | -        | 578       | 2    |
| Ohio           | 29  | 151      | 17       | 211      | 165      | -        | 5        | 549       | 2    |
| Connecticut    | 19  | 343      | 67       | 23       | 80       | -        | -        | 513       | 2    |
| Other states   | 269 | 1,309    | 1,239    | 1,670    | 481      | 560      | 199      | 5,458     | 22   |
| <b>Foreign</b> | 59  | 707      | 906      | 784      | 245      | 532      | 596      | 3,770     | 15   |
| <b>Total*</b>  | 788 | \$ 6,005 | \$ 7,964 | \$ 5,197 | \$ 1,898 | \$ 2,389 | \$ 1,589 | \$ 25,042 | 100% |

\* Does not reflect allowance for credit losses.

For additional discussion on commercial mortgage loans see Note 7 to the Consolidated Financial Statements.

**Impairments**

The following table presents impairments by investment type:

Years Ended December 31,

(in millions)

**Other-than-temporary Impairments:**

|  | 2017          | 2016            | 2015            |
|--|---------------|-----------------|-----------------|
| Fixed maturity securities, available for sale  | \$ 216        | \$ 480          | \$ 425          |
| Equity securities, available for sale          | 11            | 7               | 166             |
| Private equity funds and hedge funds           | 33            | 72              | 80              |
| <b>Subtotal</b>                                | <b>260</b>    | <b>559</b>      | <b>671</b>      |
| <b>Other impairments:</b>                      |               |                 |                 |
| Investments in life settlements <sup>(a)</sup> | 360           | 397             | 540             |
| Other investments                              | 20            | 66              | 166             |
| Real estate <sup>(b)</sup>                     | 61            | 10              | 23              |
| <b>Total</b>                                   | <b>\$ 701</b> | <b>\$ 1,032</b> | <b>\$ 1,400</b> |

(a) Impairments include \$360 million related to investments in our life settlements portfolio that were sold in 2017.

(b) Impairments include \$35 million related to other assets that were sold during the three-month period ended June 30, 2017.

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

Impairments on life settlements in 2017 were mainly attributable to write-downs of the policies to the purchase price as agreed in the sale of the remainder of the life settlements portfolio.

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

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

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

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

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

|                                      | RMBS |     | CDO/ABS |    | CMBS |    | Other<br>Fixed<br>Equities/Other<br>Invested<br>Assets* | Total |
|--------------------------------------|------|-----|---------|----|------|----|---|-------|
| (in millions)                        |      |     |         |    |      |    |   |       |
| For the Year Ended December 31, 2017 |      |     |         |    |      |    |   |       |
| Impairment Type:                     |      |     |         |    |      |    |   |       |
| Severity                             | \$   | -   | \$      | -  | \$   | -  | \$  | 2     |
| Change in intent                     |      | -   |         | -  |      | -  |   | 9     |
| Foreign currency declines            |      | -   |         | -  |      | -  |   | 11    |
| Issuer-specific credit events        |      | 24  |         | 41 |      | 32 |   | 95    |
| Adverse projected cash flows         |      | 4   |         | -  |      | -  |   | -     |
| Total                                | \$   | 28  | \$      | 41 | \$   | 32 | \$  | 115   |
| For the Year Ended December 31, 2016 |      |     |         |    |      |    |   |       |
| Impairment Type:                     |      |     |         |    |      |    |   |       |
| Severity                             | \$   | -   | \$      | -  | \$   | -  | \$  | 15    |
| Change in intent                     |      | -   |         | -  |      | -  |   | 46    |
| Foreign currency declines            |      | -   |         | -  |      | -  |   | 18    |
| Issuer-specific credit events        |      | 116 |         | 1  |      | 38 |   | 214   |
| Adverse projected cash flows         |      | 47  |         | -  |      | -  |   | -     |
| Total                                | \$   | 163 | \$      | 1  | \$   | 38 | \$  | 278   |
| For the Year Ended December 31, 2015 |      |     |         |    |      |    |   |       |
| Impairment Type:                     |      |     |         |    |      |    |   |       |
| Severity                             | \$   | -   | \$      | -  | \$   | -  | \$  | 13    |
| Change in intent                     |      | 3   |         | -  |      | 14 |   | 131   |
| Foreign currency declines            |      | -   |         | -  |      | -  |   | 57    |
| Issuer-specific credit events        |      | 79  |         | 3  |      | 8  |   | 110   |
| Adverse projected cash flows         |      | 20  |         | -  |      | -  |   | -     |
| Total                                | \$   | 102 | \$      | 3  | \$   | 22 | \$  | 298   |

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

We recorded other-than-temporary impairment charges in the years ended December 31, 2017, 2016 and 2015 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 \$669 million in 2017, \$767 million in 2016 and \$735 million in 2015.

*For a discussion of our other-than-temporary impairment accounting policy see Note 6 to the Consolidated Financial Statements.*

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

| December 31, 2017                             | 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    |                     |           |
|---|--|-----------|----------------------|--|-----------|----------------------|---|------------|----------------------|---------------------|---------------------|-----------|
| Aging <sup>(a)</sup><br>(dollars in millions) | 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     |
| <b>Investment grade bonds</b>                 |  |           |                      |  |           |                      |   |            |                      |                     |                     |           |
| 0-6 months                                    | \$24,962   | \$        | 321                  | 3,202  | \$        | 368                  | \$                                      | 128        | 7                    | \$                  | -                   | 3         |
| 7-11 months                                   | 3,364  |           | 108                  | 528  |           | 32                   |   | 10         | 5                    | 17                  | 11                  | 4         |
| 12 months or more                             | 13,371   |           | 473                  | 1,486  |           | 62                   |   | 18         | 13                   | 17                  | 10                  | 6         |
| <b>Total</b>                                  | <b>\$41,697</b>                                  | <b>\$</b> | <b>902</b>           | <b>5,216</b>                                   | <b>\$</b> | <b>462</b>           | <b>\$</b>                               | <b>156</b> | <b>25</b>            | <b>\$</b>           | <b>34</b>           | <b>21</b> |
| <b>Below investment grade bonds</b>           |  |           |                      |  |           |                      |   |            |                      |                     |                     |           |
| 0-6 months                                    | \$ 2,956   | \$        | 85                   | 1,490  | \$        | 20                   | \$                                      | 6          | 30                   | \$                  | 1                   | 1         |
| 7-11 months                                   | 476  |           | 24                   | 239  |           | 29                   |   | 11         | 19                   | -                   | -                   | -         |
| 12 months or more                             | 2,141  |           | 104                  | 385  |           | 186                  |   | 45         | 29                   | 5                   | 5                   | 1         |
| <b>Total</b>                                  | <b>\$ 5,573</b>                                  | <b>\$</b> | <b>213</b>           | <b>2,114</b>                                   | <b>\$</b> | <b>235</b>           | <b>\$</b>                               | <b>62</b>  | <b>78</b>            | <b>\$</b>           | <b>6</b>            | <b>5</b>  |
| <b>Total bonds</b>                            |  |           |                      |  |           |                      |   |            |                      |                     |                     |           |
| 0-6 months                                    | \$27,918   | \$        | 406                  | 4,692  | \$        | 388                  | \$                                      | 134        | 37                   | \$                  | 1                   | 1         |
| 7-11 months                                   | 3,840  |           | 132                  | 767  |           | 61                   |   | 21         | 24                   | 17                  | 11                  | 4         |
| 12 months or more                             | 15,512   |           | 577                  | 1,871  |           | 248                  |   | 63         | 42                   | 22                  | 15                  | 7         |
| <b>Total<sup>(e)</sup></b>                    | <b>\$47,270</b>                                  | <b>\$</b> | <b>1,115</b>         | <b>7,330</b>                                   | <b>\$</b> | <b>697</b>           | <b>\$</b>                               | <b>218</b> | <b>103</b>           | <b>\$</b>           | <b>40</b>           | <b>27</b> |
| <b>Equity securities</b>                      |  |           |                      |  |           |                      |   |            |                      |                     |                     |           |
| 0-11 months                                   | \$ 113   | \$        | 11                   | 66   | \$        | 45                   | \$                                      | 10         | 8                    | \$                  | -                   | -         |
| <b>Total</b>                                  | <b>\$ 113</b>                                    | <b>\$</b> | <b>11</b>            | <b>66</b>                                      | <b>\$</b> | <b>45</b>            | <b>\$</b>                               | <b>10</b>  | <b>8</b>             | <b>\$</b>           | <b>-</b>            | <b>-</b>  |

(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, 2017.

(c) For bonds, represents amortized cost.

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

(e) Item count is by CUSIP by subsidiary.

**Change in Unrealized Gains and Losses on Investments**



The change in net unrealized gains and losses on investments in 2017 was primarily attributable to increases in the fair value of fixed maturity securities. For 2017, net unrealized gains related to fixed maturity and equity securities increased by \$4.3 billion due primarily to a decrease in rates and a narrowing of credit spreads.

The change in net unrealized gains and losses on investments in 2016 was primarily attributable to increases in the fair value of fixed maturity securities. For 2016, net unrealized gains related to fixed maturity and equity securities increased by \$0.9 billion due primarily to a narrowing of credit spreads, which more than offset the rise in rates.

*For further discussion of our investment portfolio see also Note 6 to the Consolidated Financial Statements.*

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The following table presents the components of Net realized capital losses:

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

|  | <b>2017</b>       | <b>2016</b>       | <b>2015</b>   |
|--|-------------------|-------------------|---------------|
| Sales of fixed maturity securities                           | \$ <b>425</b>     | \$ 1              | \$ 94         |
| Sales of equity securities <sup>(a)</sup>                    | <b>88</b>         | 1,057             | 1,032         |
| <b>Other-than-temporary impairments:</b>                     |                   |                   |               |
| Severity   | <b>(2)</b>        | (15)              | (13)          |
| Change in intent   | <b>(9)</b>        | (46)              | (233)         |
| Foreign currency declines                                    | <b>(11)</b>       | (18)              | (57)          |
| Issuer-specific credit events                                | <b>(234)</b>      | (433)             | (348)         |
| Adverse projected cash flows                                 | <b>(4)</b>        | (47)              | (20)          |
| Provision for loan losses                                    | <b>(50)</b>       | 10                | (58)          |
| Foreign exchange transactions                                | <b>489</b>        | (1,226)           | 416           |
| Variable annuity embedded derivatives, net of related hedges | <b>(1,374)</b>    | (1,243)           | 320           |
| All other derivatives and hedge accounting                   | <b>(368)</b>      | 299               | 78            |
| Impairments on investments in life settlements               | <b>(360)</b>      | (397)             | (540)         |
| Other <sup>(b)</sup>   | <b>30</b>         | 114               | 105           |
| <b>Net realized capital gains (losses)</b>                   | <b>\$ (1,380)</b> | <b>\$ (1,944)</b> | <b>\$ 776</b> |

(a) In 2016 and 2015 includes realized gains on the sale of a portion of our holdings in People's Insurance Company (Group) of China Limited and PICC Property & Casualty Company Limited (collectively, our PICC Investment).

(b) In 2016, primarily includes \$107 million of realized gains due to a purchase price adjustment on the sale of Class B shares of Prudential Financial, Inc. and losses of \$253 million from the sale of a portion of our Life Settlements portfolio. In 2015, primarily includes \$357 million of realized gains due to the sale of common shares of SpringLeaf Holdings (now known as OneMain Holdings, Inc.), \$428 million of realized gains due to the sale of Class B shares of Prudential Financial, Inc. and \$463 million of realized losses due to the sale of ordinary shares of AerCap.

Net realized capital losses decreased in 2017 compared to 2016 due primarily to foreign exchange gains versus losses in the prior year and lower other-than-temporary impairments. Net realized capital losses in 2017 consisted primarily of variable annuity embedded derivatives, net of related hedges, and impairments, which were partially offset by gains on the sales of securities and foreign exchange gains.

Variable annuity embedded derivatives, net of related hedge losses were primarily a result of the non-performance or "own credit" risk adjustment used in the valuation of the variable annuities with guaranteed minimum withdrawal benefits (GMWB) embedded derivative impacted by interest rates and equity market performance in 2017 and changes in actuarial assumptions in our variable annuity program,

both of which are not hedged as part of our economic hedging program.

*For additional discussion of market risk management related to these product features see MD&A – Enterprise Risk Management – Insurance Risks – Life and Retirement Companies Key Risks – Variable Annuity Risk Management and Hedging Programs. For more information on the economic hedging target and the impact to pre-tax income of this program see Insurance Reserves – Life and Annuity Reserves and DAC – Variable Annuity Guaranteed Benefits and Hedging Results in this MD&A.*

Net realized capital losses in 2016 were primarily related to foreign exchange losses, derivative losses, and impairments, which were higher than the gain recognized on the sale of a portion of our PICC Investment. Foreign exchange gains (losses) were primarily due to \$910 million of remeasurement losses in 2016 for a short term intercompany balance that was matched with available for sale investments in fixed maturity securities denominated in the same foreign currencies. Unrealized gains and losses on the available for sale investments were recorded in other comprehensive income resulting in an immaterial impact on our overall equity or book value per share from this arrangement.

Net realized capital gains in 2015 were primarily driven by foreign exchange gains which included \$243 million of gains in 2015, related to the intercompany notional cash pooling arrangement, discussed above and net gains on the sales of various securities such as the Class B shares of Prudential Financial, Inc., common shares of OneMain Holdings and sales of our PICC Investment. These realized gains were partially offset by realized losses related to the sale of ordinary shares of AerCap.

*For further discussion of our investment portfolio see also Note 6 to the Consolidated Financial Statements.*





## Insurance Reserves

## Liability for unpaid losses and loss adjustment expenses (Loss Reserves)

The following table presents the components of our gross and net loss reserves by segment and major lines of business\*:

| At December 31,                                  | 2017   |   |  | 2016   |   |  |
|--|--|---|--|--|---|--|
|  | Net liability for unpaid losses and loss adjustment expenses | Reinsurance recoverable on unpaid losses and loss adjustment expenses | Gross liability for unpaid losses and loss adjustment expenses | Net liability for unpaid losses and loss adjustment expenses | Reinsurance recoverable on unpaid losses and loss adjustment expenses | Gross liability for unpaid losses and loss adjustment expenses |
| <i>(in millions)</i>                             |  |   |  |  |   |  |
| <b>General Insurance:</b>                        |  |   |  |  |   |  |
| U.S. Workers' Compensation (net of discount)     | \$ 5,690   | \$ 4,974  | \$ 10,664  | \$ 10,486  | \$ 1,159  | \$ 11,645  |
| U.S. Excess Casualty                             | 4,802  | 4,053   | 8,855  | 8,653  | 951   | 9,604  |
| U.S. Other Casualty                              | 5,149  | 4,793   | 9,942  | 8,853  | 2,618   | 11,471   |
| U.S. Financial Lines                             | 5,104  | 1,962   | 7,066  | 6,014  | 1,195   | 7,209  |
| U.S. Property and Special risks                  | 5,410  | 968   | 6,378  | 4,087  | 905   | 4,992  |
| U.S. Personal Insurance                          | 1,380  | 194   | 1,574  | 1,042  | 197   | 1,239  |
| Europe Casualty and Financial Lines              | 6,986  | 1,156   | 8,142  | 5,784  | 1,313   | 7,097  |
| Europe Property and Special risks                | 2,022  | 632   | 2,654  | 1,818  | 691   | 2,509  |
| Europe and Japan Personal Insurance              | 2,348  | 349   | 2,697  | 2,260  | 180   | 2,440  |
| Other product lines                              | 5,804  | 2,307   | 8,111  | 4,320  | 1,706   | 6,026  |
| Unallocated loss adjustment expenses             | 1,974  | 1,258   | 3,232  | 2,741  | 303   | 3,044  |
| <b>Total General Insurance</b>                   | <b>46,669</b>  | <b>22,646</b>   | <b>69,315</b>  | <b>56,058</b>  | <b>11,218</b>   | <b>67,276</b>  |
| <b>Legacy Portfolio - Run-off Lines:</b>         |  |   |  |  |   |  |
| U.S. Long Tail Insurance lines (net of discount) | 4,465  | 3,675   | 8,140  | 4,980  | 4,154   | 9,134  |
| Other run-off product lines                      | 153  | 65  | 218  | 160  | 46  | 206  |
| Unallocated loss adjusted expenses               | 370  | 111   | 481  | 347  | 114   | 461  |
| <b>Total Legacy Portfolio - Run-off Lines</b>    | <b>4,988</b>   | <b>3,851</b>  | <b>8,839</b>   | <b>5,487</b>   | <b>4,314</b>  | <b>9,801</b>   |
| <b>Other Operations (Blackboard)</b>             | <b>28</b>  | <b>211</b>  | <b>239</b>   | <b>-</b>   | <b>-</b>  | <b>-</b>   |

**Total** **\$ 51,685** **\$ 26,708** **\$ 78,393** **\$ 61,545** **\$ 15,532** **\$ 77,077**

\* Includes loss reserve discount of \$1.8 billion and \$3.6 billion for the years ended December 31, 2017, and 2016, respectively. For discussion of loss reserve discount see Note 13 to the Consolidated Financial Statements.

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ITEM 7 | **Insurance Reserves**





**PRIOR YEAR DEVELOPMENT**

The following table summarizes incurred (favorable) unfavorable prior year development net of reinsurance by segment:

| Year Ended December 31,<br>(in millions)        | 2017          | 2016            | 2015            |
|---|---------------|-----------------|-----------------|
| <b>General Insurance:</b>                       |               |                 |                 |
| North America*                                  | \$ 371        | \$ 5,286        | \$ 3,120        |
| International                                   | 628           | 156             | 155             |
| <b>Total General Insurance</b>                  | <b>\$ 999</b> | <b>\$ 5,442</b> | <b>\$ 3,275</b> |
| <b>Legacy Portfolio - Run-off Lines</b>         | <b>(21)</b>   | <b>402</b>      | <b>913</b>      |
| <b>Other Operations</b>                         | <b>-</b>      | <b>(56)</b>     | <b>(69)</b>     |
| <b>Total prior year unfavorable development</b> | <b>\$ 978</b> | <b>\$ 5,788</b> | <b>\$ 4,119</b> |

\* Includes the amortization attributed to the deferred gain at inception from the NICO adverse development reinsurance agreement of \$228 million in the year ended December 31, 2017. Consistent with our definition of APTI, the year ended December 31, 2017 excludes the portion of unfavorable prior year reserve development for which we have ceded the risk under the NICO reinsurance agreements of \$359 million, and related changes in amortization of the deferred gain of \$56 million.

**Net Loss Development – 2017**

During 2017, we recognized unfavorable prior year loss reserve development of \$978 million. This unfavorable development was primarily a result of the following:

- Unfavorable development in U.S. Excess Casualty and U.S. Other Casualty, driven primarily by increases in underlying severity and greater than expected emerging loss experience in accident year 2016 as well as increased development from claims related to construction defects and construction wrap business (largely from accident years 2006 and prior).
- Unfavorable development in U.S. Financial Lines, primarily from Directors & Officers (D&O) policies covering privately owned and not-for-profit insureds. This development was predominantly in accident year 2016 and resulted largely from increases in bankruptcy-related claims and fiduciary liability claims for large educational institutions.
- Higher than expected losses for Europe Casualty and Financial Lines, including a significant increase in large claims activity in our Europe long-tail business, with a large proportion emanating from accident year 2016. In addition, we increased our loss reserves as a result of the decision made by the UK Ministry of Justice to reduce the discount rate applied to lump-sum bodily injury payouts, known as the Ogden rate.
- In addition, we also observed higher than expected losses in our Europe Property and Special Risks business driven by unexpected development on various large claims across the property, aviation, marine, and trade credit segments.

Our analyses and conclusions about prior year reserves also help inform our judgments about the current accident year loss and loss adjustment expense ratios we selected.

*For further details of prior year development by line of business, see Note 13 to the Consolidated Financial Statements. For a discussion of actuarial methods employed for major classes of business, see also*

*Critical Accounting Estimates.*

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The following tables summarize incurred (favorable) unfavorable prior year development net of reinsurance, by segment and major lines of business, and by accident year groupings:

**Year Ended December 31, 2017**

(in millions)

|  | Total            | 2016          | 2015 & Prior |
|--|------------------|---------------|--------------|
| <b>General Insurance North America:</b>      |                  |               |              |
| U.S. Workers' Compensation                   | \$ (99) \$       | 46 \$         | (145)        |
| U.S. Excess casualty                         | 125              | 240           | (115)        |
| U.S. Other casualty                          | 14               | 16            | (2)          |
| U.S. Financial lines                         | 248              | 272           | (24)         |
| U.S. Property and special risks              | 71               | 74            | (3)          |
| U.S. Personal insurance                      | 17               | (4)           | 21           |
| Other product lines                          | (5)              | (19)          | 14           |
| <b>Total General Insurance North America</b> | <b>\$ 371 \$</b> | <b>625 \$</b> | <b>(254)</b> |
| <b>General Insurance International:</b>      |                  |               |              |
| Europe casualty and financial lines          | \$ 507 \$        | 153 \$        | 354          |
| Europe property and special risks            | 157              | 122           | 35           |
| Europe and Japan Personal insurance          | (58)             | (42)          | (16)         |
| Other product lines                          | 22               | (28)          | 50           |
| <b>Total General Insurance International</b> | <b>\$ 628 \$</b> | <b>205 \$</b> | <b>423</b>   |
| <b>Legacy Portfolio - Run-off Lines</b>      | <b>(21)</b>      | <b>(10)</b>   | <b>(11)</b>  |
| <b>Other Operations</b>                      | <b>-</b>         | <b>-</b>      | <b>-</b>     |

**Total prior year unfavorable development** \$ 978 \$ 820 \$ 158

For accident year 2016, the unfavorable development of \$820 million was spread across multiple segments, with the drivers being U.S. Excess Casualty, U.S. Financial Lines, Europe Casualty and Financial Lines, and Europe Property and Special Risks. As noted above, we have seen unexpected loss severity in these portfolios at this early stage of development.

For accident years 2015 and prior, the unfavorable development of \$158 million was primarily driven by Europe Casualty and Financial Lines. For North America, development was favorable, primarily reflecting the benefit of the prior year development ceded to NICO and the amortization on the adverse development reinsurance agreement.

**Net Loss Development – 2016**

During 2016, we recognized adverse prior year loss reserve development of \$5.8 billion. This unfavorable development was primarily a result of the following:

- Higher than expected losses emerging across several casualty product lines, especially in recent accident years (generally, 2011 to 2015) driven by increased frequency and severity of claims. This recent accident year loss emergence caused us to increase loss development factors applied across many accident years.
- Loss development factors including workers' compensation tail factors, also increased due to an observed lengthening of loss reporting patterns relative to prior expectations.
- Increases in loss trend assumptions to reflect the latest observed increases in frequency and severity and the impact of these increased loss trends on expected loss ratios.

- Changes in weights we apply to the various actuarial methods to better align with updated trends.

### **Net Loss Development – 2015**

During 2015, we recognized unfavorable prior year loss reserve development of \$4.1 billion. This unfavorable development was primarily as a result of the following:

- Higher than expected loss emergence across U.S. Excess Casualty, U.S. Workers' Compensation, and U.S. Other Casualty lines as well as European Financial Lines.
- Updated loss development selections in U.S. Excess Casualty, U.S. Financial Lines and U.S. Run-off Casualty Insurance lines, most notably tail factor selections and incorporation of updated industry experience for asbestos liabilities.
- Revised estimates of expected future recoveries from risk-sharing policies in the U.S. Workers' Compensation business.







- Updated estimates for extra-contractual obligation claims and unallocated loss adjustment expenses

We note that for certain categories of claims (e.g., construction defect claims and environmental claims) and for reinsurance recoverable, losses may sometimes be reclassified to an earlier or later accident year as more information about the date of occurrence becomes available to us. These reclassifications are shown as development in the respective years in the tables above.

### Significant Reinsurance Agreements

Effective January 1, 2016, we entered into a two-year reinsurance arrangement with the Swiss Reinsurance Company Ltd, under which we ceded a proportional share of our new and renewal U.S. Primary Casualty portfolio in order to reduce the concentration of casualty business in our portfolio. This agreement was not renewed for new and renewal business for 2018 but remains in effect for risks attaching during the two-year term of the agreement.

In 2017, we entered into an adverse development reinsurance agreement with NICO, a subsidiary of Berkshire Hathaway Inc., under which we transferred to NICO 80 percent of the reserve risk on substantially all of our U.S. Commercial long-tail exposures for accident years 2015 and prior. Under this agreement, we ceded to NICO 80 percent of the losses on subject business paid on or after January 1, 2016 in excess of \$25 billion of net paid losses, up to an aggregate limit of \$25 billion. At NICO's 80 percent share, NICO's limit of liability under the contract is \$20 billion. The covered losses ceded to NICO were \$13.1 billion and the unexpired limit was \$6.9 billion at December 31, 2017. We account for this transaction as retroactive reinsurance. We paid total consideration, including interest, of \$10.2 billion. The consideration was placed into a collateral trust account as security for NICO's claim payment obligations, and Berkshire Hathaway Inc. has provided a parental guarantee to secure the obligations of NICO under the agreement. This transaction resulted in a gain, which under U.S. GAAP retroactive reinsurance accounting is deferred and amortized into income over the settlement period.

*For a description of AIG's catastrophe reinsurance protection for 2018, see Enterprise Risk Management – Insurance Risks – General Insurance Companies Key Risks – Natural Catastrophe Risk.*

**The table below shows the calculation of the deferred gain on the adverse development reinsurance agreement at inception and as of December 31, 2017, showing the effect of discounting of loss reserves and amortization of the deferred gain.**

| <i>(in millions)</i>  | At Inception     | December 31, 2017 | 2017 Change |
|---|------------------|-------------------|-------------|
| <b>Gross Covered Losses</b>                                   |                  |                   |             |
| Covered reserves before discount                              | \$ 33,510        | \$ 26,654         | \$ (6,856)  |
| Inception to date losses paid                                 | 7,543            | 14,788            | 7,245       |
| Attachment point  | (25,000)         | (25,000)          | -           |
| <b>Covered losses above attachment point</b>                  | <b>\$ 16,053</b> | <b>\$ 16,442</b>  | <b>389</b>  |
| <b>Deferred Gain Development</b>                              |                  |                   |             |
| Covered losses above attachment ceded to NICO (80%)           | \$ 12,843        | \$ 13,153         | 310         |
| Consideration paid including interest                         | (10,188)         | (10,188)          | -           |
| <b>Pre-tax deferred gain before discount and amortization</b> | <b>2,655</b>     | <b>2,965</b>      | <b>310</b>  |
| Discount on ceded losses <sup>(a)</sup>                       | (1,539)          | (1,539)           | -           |
| <b>Pre-tax deferred gain before amortization</b>              | <b>1,116</b>     | <b>1,426</b>      | <b>310</b>  |

|  |                   |                |           |
|--|-------------------|----------------|-----------|
| Inception to date amortization of deferred gain at inception                         | -                 | (228)          | (228)     |
| Inception to date amortization attributed to changes in deferred gain <sup>(b)</sup> | -                 | (31)           | (31)      |
| <b>Deferred gain liability reflected in AIG's balance sheet</b>                      | <b>\$ 1,116\$</b> | <b>1,167\$</b> | <b>51</b> |

(a) For the period from inception to December 31, 2017, the accretion of discount and a reduction in effective interest rates was offset by changes in estimates of the amount and timing of future recoveries under the Adverse Development Reinsurance Agreement.

(b) Excluded from our definition of APTI.





The following table presents the rollforward of activity in the deferred gain from the adverse development reinsurance agreement:

|   | Year Ended<br>December 31, 2017 |                   |                 |
|---|---------------------------------|-------------------|-----------------|
| (in millions)   | Before<br>Discount              | Discount          | Net             |
| <b>Balance at beginning of year</b>                                     | \$ -                            | \$ -              | \$ -            |
| Gain at inception   | 2,655                           | (1,539)           | 1,116           |
| Unfavorable prior year reserve development ceded to NICO <sup>(a)</sup> | 310                             | -                 | 310             |
| Amortization attributed to deferred gain at inception <sup>(b)</sup>    | (228)                           | -                 | (228)           |
| Amortization attributed to changes in deferred gain <sup>(c)</sup>      | (31)                            | -                 | (31)            |
| Changes in discount on ceded loss reserves                              | -                               | -                 | -               |
| <b>Balance at end of year</b>   | <b>\$ 2,706</b>                 | <b>\$ (1,539)</b> | <b>\$ 1,167</b> |

(a) Prior year reserve development ceded to NICO under the retroactive reinsurance agreement is deferred under U.S. GAAP and is recognized in APTI.

(b) Represents amortization of the deferred gain recognized in APTI and under U.S. GAAP.

(c) Excluded from APTI and included in U.S. GAAP.

The lines of business subject to this agreement have been the source of the majority of the prior year adverse development charges over the past several years. The agreement is expected to result in lower capital charges for reserve risks at our U.S. insurance subsidiaries. In addition, we would expect future net investment income to decline as a result of lower invested assets.

For a summary of significant reinsurers see Item 7. MD&A – Enterprise Risk Management – Insurance Operations Risks – General Insurance Companies Key Insurance Risks – Reinsurance Recoverable.

## LIFE AND ANNUITY reserves and dac

The following section provides discussion of life and annuity reserves and deferred policy acquisition costs.

### Update of Actuarial Assumptions

The Life and Retirement companies review and update estimated gross profit projections used to amortize DAC and related items for investment-oriented products at least annually. Estimated gross profit projections include assumptions for investment-related returns and spreads, product-related fees and expenses, mortality gains and losses, policyholder behavior and other factors. In estimating future gross profits, lapse assumptions require judgment and can have a material impact on DAC amortization. If the assumptions used for estimated gross profits change significantly, DAC and related reserves (which may include VOBA, SIA, guaranteed benefit reserves and unearned revenue reserves) are recalculated using the new projections, and any resulting adjustment is included in income. Updating such projections may result in acceleration of amortization in some products and deceleration of amortization in other products.

The Life and Retirement companies also review assumptions related to the valuation of variable annuity GMWB living benefits which are accounted for as embedded derivatives and measured at fair value. The fair value of these embedded derivatives is based on actuarial assumptions, including policyholder behavior, as well as capital market assumptions.

Various assumptions were updated, including the following effective September 30, 2017:

- we reduced our separate account long-term asset growth rate assumption related to equity market performance by 50 basis points to 7.0 percent and increased our reversion to the mean rates (gross of fees) to 3.74 percent for the Variable Annuity product line in Individual Retirement and 3.78 percent for the Variable Annuity product line in Group Retirement; and
- we lowered our ultimate projected yields on invested assets by approximately five to 10 basis points. Projected yields are graded from a weighted average net GAAP book yield of existing assets supporting the business based on the value of the asset to a weighted average yield based on the duration of the assets excluding assets that mature during the grading period. The grading period is three years for annuity products and five years for life insurance products.







For long-duration traditional products, which include whole life insurance, term life insurance, accident and health insurance, long-term care insurance, and life-contingent single premium immediate annuities and structured settlements, 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. Loss recognition occurs if observed changes in actual experience or estimates result in projected future losses under loss recognition testing. Underlying assumptions are reviewed periodically and updated as appropriate.

**The following table presents the increase (decrease) in adjusted pre-tax income resulting from the update of actuarial assumptions for the domestic life and retirement companies, by segment and product line:**

| <b>Years Ended December 31,</b><br><i>(in millions)</i>                                | <b>2017</b>   | <b>2016</b>     | <b>2015</b>   |
|--|---------------|-----------------|---------------|
| <b>Life and Retirement:</b>  |               |                 |               |
| Individual Retirement  |               |                 |               |
| Fixed Annuities  | \$ 130        | \$ 330          | \$ 92         |
| Variable and Index Annuities   | 112           | 39              | -             |
| <b>Total Individual Retirement</b>   | <b>242</b>    | <b>369</b>      | <b>92</b>     |
| Group Retirement   | 13            | (47)            | 48            |
| Life Insurance   | 29            | (92)            | (118)         |
| Institutional Markets  | -             | -               | -             |
| <b>Total Life and Retirement</b>   | <b>284</b>    | <b>230</b>      | <b>22</b>     |
| <b>Other:</b>  |               |                 |               |
| Legacy Life and Retirement Run-off   | (14)          | (614)           | (28)          |
| <b>Total increase (decrease) in adjusted pre-tax income from update of assumptions</b> | <b>\$ 270</b> | <b>\$ (384)</b> | <b>\$ (6)</b> |

**The following table presents the increase (decrease) in pre-tax income resulting from the update of actuarial assumptions in the domestic life and retirement companies, by line item as reported in Results of Operations:**

| <b>Years Ended December 31,</b><br><i>(in millions)</i>      | <b>2017</b>  | <b>2016</b>     | <b>2015</b> |
|--|--------------|-----------------|-------------|
| Policy fees  | \$ (2)       | \$ (54)         | \$ 21       |
| Interest credited to policyholder account balances           | 49           | 65              | 74          |
| Amortization of deferred policy acquisition costs            | 184          | 325             | 79          |
| Policyholder benefits and losses incurred                    | 39           | (720)           | (180)       |
| <b>Increase (decrease) in adjusted pre-tax income</b>        | <b>270</b>   | <b>(384)</b>    | <b>(6)</b>  |
| Change in DAC related to net realized capital gains (losses) | 44           | 13              | 11          |
| Net realized capital gains (losses)                          | (246)        | (56)            | (2)         |
| <b>Increase (decrease) in pre-tax income</b>                 | <b>\$ 68</b> | <b>\$ (427)</b> | <b>\$ 3</b> |

In 2017, adjusted pre-tax income included a net positive adjustment of \$270 million, primarily driven by lower lapse assumptions in Fixed Annuities, improved mortality assumptions in Life Insurance, and an increase in the reversion to the mean rates in Variable Annuities. The positive adjustments were partially offset by lower spread assumptions in Fixed Annuities and a loss recognition expense on long-term care business in the Legacy Life and Retirement Run-Off Lines.

In 2016, adjusted pre-tax income included a net negative adjustment of \$384 million, primarily driven by \$622 million of loss recognition reserves for pre-2010 payout annuities in the Legacy Portfolio, and an increase in Life Insurance reserves for universal life with secondary guarantees. These negative adjustments were partially offset by positive adjustments, primarily due to lower lapse assumptions in Fixed

Annuities.

In 2015, adjusted pre-tax income included a net negative adjustment of \$6 million, primarily driven by a net negative adjustment of \$118 million in Life Insurance, which was offset in large part by net positive adjustments of \$92 million in Fixed Annuities and \$48 million in Group Retirement.

The adjustments related to the update of actuarial assumptions in each period are discussed by segment below.

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## Update of Actuarial Assumptions by Segment

### Individual Retirement

The update of actuarial assumptions resulted in net positive adjustments to adjusted pre-tax income of Individual Retirement of \$242 million, \$369 million and \$92 million in 2017, 2016 and 2015, respectively.

In Fixed Annuities, the update of estimated gross profit assumptions resulted in a net positive adjustment of \$130 million in 2017, which reflected lower lapse assumptions, partially offset by lower spread assumptions. In 2016, a net positive adjustment of \$330 million reflected lower lapse assumptions, primarily due to lower long-term interest rates, as well as updates to spread assumptions. In 2015, a net positive adjustment of \$92 million reflected refinements to investment spread assumptions, lower terminations and decreases to expense assumptions.

In Variable and Index Annuities, the update of estimated gross profit assumptions resulted in a net positive adjustment of \$112 million in 2017, primarily due to an increase in the reversion to the mean rate used for projecting future estimated gross profit for variable annuity products and changes in volatility assumptions. The net positive adjustment was partially offset by a decrease in the separate account long-term asset growth rate assumption from 7.5 percent to 7.0 percent (before expenses that reduce the asset base from which future fees are projected) and a negative adjustment in connection with the conversion to a new modeling platform for Index Annuities.

In 2016, the update of estimated gross profit assumptions resulted in a net positive adjustment of \$39 million in Variable and Index Annuities primarily due to favorable updates to assumptions for volatility, lapses, mortality and policy expenses, partially offset by a decrease in the separate account long-term asset growth rate assumption from 8.5 percent to 7.5 percent (before expenses that reduce the asset base from which future fees are projected). The net positive adjustment included a net negative adjustment of approximately \$24 million in connection with the conversion to a new modeling platform for variable annuities, primarily due to refinements to assumptions for guaranteed minimum interest rates and investment fees, partially offset by the impact of other refinements identified during the conversion.

In 2015, there were offsetting updates to assumed investment fees, modeled expenses, and terminations, resulting in no net adjustment to adjusted pre-tax income in Variable and Index Annuities.

### Group Retirement

In Group Retirement, the update of estimated gross profit assumptions resulted in a net positive adjustment of \$13 million in 2017, primarily due to an increase in the reversion to the mean rate used for projecting future estimated gross profit for variable annuity products and changes in maintenance expense assumptions. The net positive adjustment was partially offset by a decrease in the separate account long-term asset growth rate assumption from 7.5 percent to 7.0 percent (before expenses that reduce the asset base from which future fees are projected) and decreases in fixed annuity spread and separate account fee assumptions. In 2016, a net negative adjustment of \$47 million was primarily due to refinements in lapse and partial withdrawal assumptions and a decrease in the separate account long-term asset growth rate assumption from 8.5 percent to 7.5 percent (before expenses that reduce the asset base from which future fees are projected). In 2015, a net positive adjustment of \$48 million was primarily due to revisions to mortality and lapse assumptions, partially offset by decreased spread assumptions.

### Life Insurance

In Life Insurance, the update of actuarial assumptions resulted in a net positive adjustment of \$29 million in 2017, primarily due to improved mortality assumptions, partially offset by lower spread assumptions. In 2016, a net negative adjustment of \$92 million was primarily due to refinement to reserves for universal life insurance with secondary guarantees due to lower assumed lapse rates. The update to Life Insurance assumptions in 2016 also included lower spread assumptions. In 2015, the net negative adjustment of \$118 million was primarily due to lower assumed lapse rates for certain later-duration universal life with secondary guarantees. The net negative adjustment also reflected lower investment spread assumptions, partially offset by more favorable than expected mortality.

### Legacy Portfolio

In 2017, the update of actuarial assumptions resulted in a net negative adjustment of \$14 million, primarily due to \$13 million of loss recognition expense on long-term care business in the Legacy Life and Retirement Run-Off Lines resulting from model enhancements. In 2016, Legacy Life and Retirement Run-Off Lines recorded \$622 million of loss recognition expense on payout annuities. The loss recognition reflected the establishment of additional reserves primarily as a result of mortality experience studies, which indicated increased longevity, particularly on disabled lives on a block of structured settlements underwritten prior to 2010. In 2015, Legacy Life and Retirement Run-Off Lines recorded loss recognition expense of \$28 million to increase reserves for certain long-term care business. The loss recognition was primarily a result of lower future premium increase assumptions.







## Variable Annuity Guaranteed Benefits and Hedging Results

Our Individual Retirement and Group Retirement businesses offer variable annuity products with GMWB riders that provide guaranteed living benefit features. The liabilities for GMWB are accounted for as embedded derivatives measured at fair value. The fair value of the embedded derivatives may fluctuate significantly based on market interest rates, equity prices, credit spreads, market volatility, policyholder behavior and other factors.

In addition to risk-mitigating features in our variable annuity product design, we have an economic hedging program designed to manage market risk from GMWB, including exposures to changes in interest rates, equity prices, credit spreads and volatility. 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.

*For additional discussion of market risk management related to these product features see Enterprise Risk Management – Insurance Risks – Life and Retirement Companies Key Risks – Variable Annuity Risk Management and Hedging Programs.*

## Differences in Valuation of Embedded Derivatives and Economic Hedge Target

The variable annuity hedging program utilizes an economic hedge target, which represents an estimate of the underlying economic risks in our GMWB riders. The economic hedge target differs from the U.S. GAAP valuation of the GMWB embedded derivatives primarily due to the following:

- The economic hedge target includes 100 percent of rider fees in present value calculations; the U.S. GAAP valuation reflects only those fees attributed to the embedded derivative such that the initial value at contract issue equals zero;
- The economic hedge target uses best estimate actuarial assumptions and excludes explicit risk margins used for U.S. GAAP valuation, such as margins for policyholder behavior, mortality, and volatility; and
- The economic hedge target excludes the non-performance or “own credit” risk adjustment used in the U.S. GAAP valuation, which reflects a market participant’s view of our claims-paying ability by incorporating an additional spread (the NPA spread) to the swap curve used to discount projected benefit cash flows. Because the discount rate includes the NPA spread and other explicit risk margins, the U.S. GAAP valuation is generally less sensitive to movements in interest rates and other market factors, and to changes from actuarial assumption updates, than the economic hedge target. *For more information on our valuation methodology for embedded derivatives within policyholder contract deposits see Note 5 to the Consolidated Financial Statements.*

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 and Retirement companies have cash and invested assets available to cover future claims payable under these guarantees. The primary sources of difference between the change in the fair value of the hedging portfolio and the economic hedge target include:

- Basis risk due to the variance between expected and actual fund returns, which may be either positive or negative;
- Realized volatility versus implied volatility;

- Actual versus expected changes in the hedge target driven by assumptions not subject to hedging, particularly policyholder behavior; and
- Risk exposures that we have elected not to explicitly or fully hedge.

**The following table presents a reconciliation between the fair value of the U.S. GAAP embedded derivatives and the value of our economic hedge target:**

**December 31,**

*(in millions)*

**Reconciliation of embedded derivatives and economic hedge target:**

|   | <b>2017</b>     | <b>2016</b> |
|---|-----------------|-------------|
| Embedded derivative liability                             | \$ <b>1,994</b> | \$ 1,777    |
| Exclude non-performance risk adjustment                   | <b>(1,947)</b>  | (3,148)     |
| <b>Embedded derivative liability, excluding NPA</b>       | <b>3,941</b>    | 4,925       |
| Adjustments for risk margins and differences in valuation | <b>(1,557)</b>  | (2,251)     |
| <b>Economic hedge target liability</b>                    | <b>\$ 2,384</b> | \$ 2,674    |

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**Impact on Pre-tax Income (Loss)**

The impact on our pre-tax income (loss) of the variable annuity guaranteed living benefits and related hedging results includes changes in the fair value of the GMWB embedded derivatives, and changes in the fair value of related derivative hedging instruments, both of which are recorded in Other realized capital gains (losses). Realized capital gains (losses), as well as net investment income from changes in the fair value of fixed maturity securities used in the hedging program, are excluded from adjusted pre-tax income of Individual Retirement and Group Retirement.

The change in the fair value of the embedded derivatives and the change in the value of the hedging portfolio are not expected to be fully offsetting, primarily due to the differences in valuation between the economic hedge target, the U.S. GAAP embedded derivatives and the fair value of the hedging portfolio, as discussed above. When corporate credit spreads widen, the change in the NPA spread generally reduces the fair value of the embedded derivative liabilities, resulting in a gain, and when corporate credit spreads narrow or tighten, the change in the NPA spread generally increases the fair value of the embedded derivative liabilities, resulting in a loss. In addition to changes driven by credit market-related movements in the NPA spread, the NPA balance also reflects changes in business activity and in the net amount at risk from the underlying guaranteed living benefits.

**The following table presents the net increase (decrease) to consolidated pre-tax income (loss) from changes in the fair value of the GMWB embedded derivatives and related hedges, excluding related DAC amortization:**

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

|  | 2017             | 2016             | 2015          |
|--|------------------|------------------|---------------|
| <b>Change in fair value of embedded derivatives, excluding update of actuarial assumptions and NPA</b>                   | <b>\$ 1,423</b>  |                  | -\$ (843)     |
| <b>Change in fair value of variable annuity hedging portfolio:</b>   |                  |                  |               |
| Fixed maturity securities  | 146              | 120              | (43)          |
| Interest rate derivative contracts   | (70)             | (194)            | 343           |
| Equity derivative contracts  | (1,347)          | (919)            | (86)          |
| <b>Change in fair value of variable annuity hedging portfolio</b>  | <b>(1,271)</b>   | <b>(993)</b>     | <b>214</b>    |
| Change in fair value of embedded derivatives excluding update of actuarial assumptions and NPA, net of hedging portfolio | 152              | (993)            | (629)         |
| Change in fair value of embedded derivatives due to NPA spread   | (840)            | (286)            | 498           |
| Change in fair value of embedded derivatives due to change in NPA volume   | (352)            | 257              | 438           |
| Change in fair value of embedded derivatives due to update of actuarial assumptions                                      | (188)            | (101)            | (30)          |
| Total change due to update of actuarial assumptions and NPA  | (1,380)          | (130)            | 906           |
| <b>Net impact on pre-tax income (loss)</b>   | <b>\$(1,228)</b> | <b>\$(1,123)</b> | <b>\$ 277</b> |

**By Consolidated Income Statement line**

|  |                  |                  |               |
|--|------------------|------------------|---------------|
| Net Investment Income                      | \$ 146           | \$ 120           | \$ (43)       |
| Net Realized capital gains (losses)        | (1,374)          | (1,243)          | 320           |
| <b>Net impact on pre-tax income (loss)</b> | <b>\$(1,228)</b> | <b>\$(1,123)</b> | <b>\$ 277</b> |

The net impact on pre-tax income from the GMWB and related hedges in 2017 (excluding related DAC amortization) was primarily driven by losses from actuarial assumption updates to lapse and volatility assumptions, tightening credit spreads on the NPA spread and the impact on the NPA volume of lower expected GMWB payments, driven by higher equity markets. In 2016, the net impact on pre-tax income was primarily driven by the impact of rising interest rates and equity markets late in the fourth quarter of 2016, which resulted in fair value losses in the hedging portfolio, which were not offset by decreases in the embedded derivative liabilities as the risk margins and other assumptions used in the U.S. GAAP valuation

caused the embedded derivatives to be less sensitive to market changes than the related hedge portfolio. In addition, 2016 included losses from actuarial assumption updates due to lapse and mortality assumptions. In 2015, the net impact was primarily driven by increasing NPA spread and volume, which had a positive impact on pre-tax income, partially offset by an increase in embedded derivative liabilities driven by a decline in interest rates and unfavorable equity market performance.

The change in the fair value of embedded derivatives, excluding update of actuarial assumptions and NPA, in 2017 was largely offset by the related hedging portfolio. However, in 2016, the change in fair value of embedded derivatives, excluding update of actuarial assumptions and NPA, reflected losses on the hedging portfolio driven by improvements in both interest rates and equity markets late in the fourth quarter of 2016, which were not offset by decreases in embedded derivative liabilities. In 2015, the change in the fair value of embedded derivatives, excluding update of actuarial assumptions and NPA, included losses from equity volatility, primarily in the third quarter of 2015, a decline in interest rates and unfavorable equity market performance.

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Fair value gains or losses in the hedging portfolio are typically not fully offset by increases or decreases in liabilities on a U.S. GAAP basis, due to the NPA and other risk margins used for U.S. GAAP valuation that cause the embedded derivatives to be less sensitive to changes in market rates than the hedge portfolio. On an economic basis, the changes in the fair value of the hedge portfolio were partially offset by the decrease in the economic hedge target, as discussed below.

### Change in Economic Hedge Target

The decrease in the economic hedge target liability in 2017 was primarily due to positive equity markets, partially offset by tighter credit spreads and lower equity volatility. The increase in the economic hedge target liability in 2016 was primarily due to the update of actuarial assumptions offset by reductions from positive equity markets and increases in interest rates, particularly in the fourth quarter of 2016.

### Change in Fair Value of the Hedging Portfolio

The changes in the fair value of the economic hedge target and, to a lesser extent, the embedded derivative valuation under U.S. GAAP, 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, primarily corporate bonds for which the fair value option has been elected, are used as a capital-efficient way to economically hedge interest rate and credit spread-related risk. In 2017, the change in the fair value of the corporate bond hedging program reflected gains primarily due to tightening of credit spreads. The net gains in 2016 reflected the impact of credit spreads tightening and decreases in market interest rates in the first nine months of 2016, partially offset by an increase in rates in the fourth quarter of 2016. The net losses in 2015 reflected increases in market interest rates in the first six months of 2015 and credit spreads widening. The change in the fair value of the hedging bonds, which is excluded from the adjusted pre-tax income of the Individual Retirement and Group Retirement segments, is reported in net investment income on the Consolidated Statements of Income (Loss).
- Changes in the fair value of interest rate derivative contracts, which included swaps, swaptions and futures, resulted in a small net loss in 2017, which reflected increases in rates in the latter half of 2017, partially offset by the impact of interest rate declines in the first half of 2017. The net losses in 2016 reflected increases in rates in the fourth quarter of 2016, which more than offset the impact of interest rate declines in the first nine months of 2016. The net gains in 2015 reflected decreases in market interest rates in the latter half of 2015, partially offset by the impact of increases in rates in the first half of 2015.
- The change in the fair value of equity derivative contracts, which included futures and options, resulted in losses in 2017, 2016 and 2015, which varied based on the relative growth in equity market returns in the respective years.

### DAC

The following table summarizes the major components of the changes in DAC, including VOBA, within the life and retirement companies, excluding DAC of Legacy Portfolio:

Years Ended December 31,  
(in millions)

|                            | 2017     | 2016     | 2015     |
|----------------------------|----------|----------|----------|
| Balance, beginning of year | \$ 7,571 | \$ 7,174 | \$ 5,949 |
| Acquisition costs deferred | 970      | 1,026    | 1,205    |
| Amortization expense:      |          |          |          |

|   |                 |                 |                 |
|---|-----------------|-----------------|-----------------|
| Update of assumptions included in adjusted pre-tax income               | 194             | 315             | 79              |
| Related to realized capital gains and losses                            | 293             | 276             | (2)             |
| All other operating amortization  | (937)           | (928)           | (873)           |
| Increase (decrease) in DAC due to foreign exchange                      | 26              | (40)            | (11)            |
| Change related to unrealized depreciation (appreciation) of investments | (480)           | (252)           | 827             |
| <b>Balance, end of year*</b>  | <b>\$ 7,637</b> | <b>\$ 7,571</b> | <b>\$ 7,174</b> |

\* DAC balance excluding the amount related to unrealized depreciation (appreciation) of investments was \$8.9 billion, \$8.4 billion and \$7.7 billion at December 31, 2017, 2016 and 2015, respectively.

The net adjustments to DAC amortization from the update of actuarial assumptions for estimated gross profits, including those reported within change in DAC related to net realized capital gains (losses), represented two percent, four percent and one percent of the DAC balance excluding the amount related to unrealized depreciation (appreciation) of investments as of December 31, 2017, 2016 and 2015, respectively.

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ITEM 7 | **Insurance Reserves**



## Reversion to the Mean

In 2017, we updated the long-term annual growth assumption applied to subsequent periods used in our reversion to the mean methodology for estimating future estimated gross profits for variable annuity products, from 7.5 percent to 7.0 percent (before expenses that reduce the asset base from which future fees are projected). The five-year reversion to the mean period has met the criteria for adjustment in 2017. As a result, the average gross long-term return measurement start date was reset to December 31, 2011 for Individual Retirement and June 30, 2013 for Group Retirement; the reversion to the mean rates (gross of fees) were increased to 3.74 percent in Individual Retirement and 3.78 percent for Group Retirement. Sustained favorable equity market performance in excess of long-term assumptions could result in additional unlocking in the Individual Retirement or Group Retirement variable annuity product lines in the future, with a positive effect on pre-tax income in the period of the unlocking.

In 2016, the long-term annual asset growth assumption was updated from 8.5 percent to 7.5 percent. The five-year reversion to the mean period has not met the criteria for adjustment in 2016 and 2015.

*For additional discussion of assumptions related to our reversion to the mean methodology see Critical Accounting Estimates – Estimated Gross Profits for Investment-Oriented Products.*

## DAC and Reserves Related to Unrealized Appreciation of Investments

DAC and Reserves for universal life and investment-type products (collectively, investment-oriented products) are adjusted at each balance sheet date to reflect the change in DAC, unearned revenue, and benefit reserves with an offset to Other comprehensive income as if securities available for sale had been sold at their stated aggregate fair value and the proceeds reinvested at current yields (shadow Investment-Oriented Adjustments). Shadow Investment-Oriented Adjustments to DAC and unearned revenue generally move in the opposite direction of the change in unrealized appreciation of the available for sale securities portfolio, reducing the reported DAC and unearned revenue balance when market interest rates decline. Conversely, shadow Investment-Oriented Adjustments to benefit reserves generally move in the same direction as the change in unrealized appreciation of the available for sale securities portfolio, increasing reported future policy benefit liabilities balance when market interest rates decline. Market interest rates decreased in 2017. As a result, the unrealized appreciation of fixed maturity securities held in the Life and Retirement companies that support the businesses at December 31, 2017 increased by \$3.4 billion compared to December 31, 2016, which resulted in a decrease in DAC and unearned revenues and an increase in future policy benefit liabilities to reflect the shadow Investment-Oriented Adjustments.

Similarly, for long-duration traditional products, significant unrealized appreciation of investments in a sustained low interest rate environment may cause additional future policy benefit liabilities (shadow loss reserves) with an offset to Other comprehensive income to be recorded. At December 31, 2017, future policy benefit liabilities increased to reflect additional shadow loss reserves.

## Reserves

**The following table presents a rollforward of insurance reserves by operating segments for Life and Retirement, including future policy benefits, policyholder contract deposits, other policy funds, and separate account liabilities, as well as Retail Mutual Funds and Group Retirement mutual fund assets under administration:**

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

**2017      2016      2015**

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|   |                   |            |            |
|---|-------------------|------------|------------|
| Balance at beginning of year, gross   | <b>\$ 129,321</b> | \$ 121,474 | \$ 115,831 |
| Premiums and deposits   | <b>11,906</b>     | 16,062     | 18,376     |
| Surrenders and withdrawals  | <b>(10,943)</b>   | (10,027)   | (9,742)    |
| Death and other contract benefits   | <b>(3,089)</b>    | (2,991)    | (3,016)    |
| <b>Subtotal</b>   | <b>(2,126)</b>    | 3,044      | 5,618      |
| Change in fair value of underlying assets and reserve accretion, net of policy fees | <b>10,098</b>     | 3,657      | (1,775)    |
| Cost of funds*  | <b>1,528</b>      | 1,614      | 1,613      |
| Other reserve changes   | <b>(250)</b>      | (468)      | 187        |
| <b>Balance at end of year</b>   | <b>138,571</b>    | 129,321    | 121,474    |
| Reinsurance ceded   | <b>(322)</b>      | (371)      | (336)      |
| <b>Total Individual Retirement insurance reserves and mutual fund assets</b>        | <b>\$ 138,249</b> | \$ 128,950 | \$ 121,138 |
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**Group Retirement**

|   |                  |                  |                  |
|---|------------------|------------------|------------------|
| Balance at beginning of year, gross   | \$ 88,622        | \$ 84,145        | \$ 85,861        |
| Premiums and deposits   | 7,550            | 7,570            | 6,920            |
| Surrenders and withdrawals  | (8,019)          | (7,589)          | (8,505)          |
| Death and other contract benefits   | (562)            | (536)            | (506)            |
| <b>Subtotal</b>   | <b>(1,031)</b>   | <b>(555)</b>     | <b>(2,091)</b>   |
| Change in fair value of underlying assets and reserve accretion, net of policy fees | 8,617            | 3,923            | (657)            |
| Cost of funds*  | 1,098            | 1,109            | 1,106            |
| Other reserve changes   | -                | -                | (74)             |
| <b>Balance at end of year</b>   | <b>97,306</b>    | <b>88,622</b>    | <b>84,145</b>    |
| <b>Total Group Retirement insurance reserves and mutual fund assets</b>             | <b>\$ 97,306</b> | <b>\$ 88,622</b> | <b>\$ 84,145</b> |

**Life Insurance**

|   |                  |                  |                  |
|---|------------------|------------------|------------------|
| Balance at beginning of year, gross   | \$ 18,397        | \$ 18,006        | \$ 17,464        |
| Premiums and deposits   | 3,484            | 3,391            | 3,353            |
| Surrenders and withdrawals  | (569)            | (650)            | (440)            |
| Death and other contract benefits   | (575)            | (522)            | (577)            |
| <b>Subtotal</b>   | <b>2,340</b>     | <b>2,219</b>     | <b>2,336</b>     |
| Change in fair value of underlying assets and reserve accretion, net of policy fees | (889)            | (1,033)          | (1,026)          |
| Cost of funds*  | 376              | 386              | 394              |
| Other reserve changes   | (800)            | (1,181)          | (1,162)          |
| <b>Balance at end of year</b>   | <b>19,424</b>    | <b>18,397</b>    | <b>18,006</b>    |
| Reinsurance ceded   | (1,055)          | (1,085)          | (1,121)          |
| <b>Total Life Insurance reserves</b>  | <b>\$ 18,369</b> | <b>\$ 17,312</b> | <b>\$ 16,885</b> |

**Institutional Markets**

|   |                  |                  |                  |
|---|------------------|------------------|------------------|
| Balance at beginning of year, gross   | \$ 15,385        | \$ 14,216        | \$ 12,978        |
| Premiums and deposits   | 4,247            | 2,153            | 1,732            |
| Surrenders and withdrawals  | (1,291)          | (1,283)          | (520)            |
| Death and other contract benefits   | (343)            | (617)            | (56)             |
| <b>Subtotal</b>   | <b>2,613</b>     | <b>253</b>       | <b>1,156</b>     |
| Change in fair value of underlying assets and reserve accretion, net of policy fees | 245              | 256              | (16)             |
| Cost of funds*  | 253              | 244              | 245              |
| Other reserve changes   | 84               | 416              | (147)            |
| <b>Balance at end of year</b>   | <b>18,580</b>    | <b>15,385</b>    | <b>14,216</b>    |
| Reinsurance ceded   | (3)              | (3)              | (4)              |
| <b>Total Institutional Markets reserves</b>   | <b>\$ 18,577</b> | <b>\$ 15,382</b> | <b>\$ 14,212</b> |

**Total insurance reserves and mutual fund assets**

|   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|
| Balance at beginning of year, gross   | \$ 251,725        | \$ 237,841        | \$ 232,134        |
| Premiums and deposits   | 27,187            | 29,176            | 30,381            |
| Surrenders and withdrawals  | (20,822)          | (19,549)          | (19,207)          |
| Death and other contract benefits   | (4,569)           | (4,666)           | (4,155)           |
| <b>Subtotal</b>   | <b>1,796</b>      | <b>4,961</b>      | <b>7,019</b>      |
| Change in fair value of underlying assets and reserve accretion, net of policy fees | 18,071            | 6,803             | (3,474)           |
| Cost of funds*  | 3,255             | 3,353             | 3,358             |
| Other reserve changes   | (966)             | (1,233)           | (1,196)           |
| <b>Balance at end of year</b>   | <b>273,881</b>    | <b>251,725</b>    | <b>237,841</b>    |
| Reinsurance ceded   | (1,380)           | (1,459)           | (1,461)           |
| <b>Total insurance reserves and mutual fund assets</b>                              | <b>\$ 272,501</b> | <b>\$ 250,266</b> | <b>\$ 236,380</b> |

\* Excludes amortization of deferred sales inducements

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**Insurance reserves of Life and Retirement, as well as Retail Mutual Funds and Group Retirement mutual fund assets under administration, were comprised of the following balances:**

**At December 31,**

*(in millions)*

|  | 2017              | 2016              |
|--|-------------------|-------------------|
| Future policy benefits                                 | \$ 13,592         | \$ 10,945         |
| Policyholder contract deposits                         | 130,735           | 127,048           |
| Other policy funds                                     | 401               | 434               |
| Separate account liabilities                           | 90,819            | 80,979            |
| <b>Total insurance reserves</b>                        | <b>235,547</b>    | <b>219,406</b>    |
| Mutual fund assets                                     | 38,334            | 32,319            |
| <b>Total insurance reserves and mutual fund assets</b> | <b>\$ 273,881</b> | <b>\$ 251,725</b> |

**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 our Treasury group with oversight by Enterprise Risk Management (ERM). Our liquidity risk framework is designed to manage liquidity at both AIG Parent and its subsidiaries to meet our financial obligations for a minimum of six months under a liquidity stress scenario.

*See Enterprise Risk Management — Risk Appetite, Limits, Identification, and Measurement and Enterprise Risk Management — Liquidity Risk Management below for additional information.*

**Capital** refers to the long-term financial resources available to support the operation of our businesses, fund business growth, and cover financial and operational needs that arise from adverse circumstances. Our primary source of ongoing capital generation is derived from 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 at 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. 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 and/or warrant repurchases.

ITEM 7 | **Liquidity and Capital Resources****LIQUIDITY AND CAPITAL RESOURCES ACTIVITY FOR 2017****Sources****AIG Parent Funding from Subsidiaries**

During 2017, AIG Parent received \$1.9 billion in dividends from subsidiaries. Of this amount, \$350 million was dividends in the form of cash and fixed maturity securities from our General Insurance companies, \$1.5 billion was dividends and loan repayments in the form of cash and fixed maturity securities from our Life and Retirement companies and \$2 million was cash dividends from AIG Federal Savings Bank.

AIG Parent also received a net amount of \$2.2 billion in tax sharing payments in the form of cash and fixed maturity securities from our insurance businesses in 2017, reflecting \$1.2 billion that was reimbursed by AIG Parent to our insurance businesses during the fourth quarter of 2017 primarily as a result of adjustments made to prior-year tax sharing payments. The tax sharing payments may continue to be subject to adjustment in future periods.

The dividends, loan repayments and tax sharing payments from our Life and Retirement companies resulted from and were funded, in part, by excess statutory capital released by Life Insurance Reinsurance Transactions.

*For information regarding the Life Insurance Reinsurance Transactions, see Business Segment Operations — Life and Retirement.*

**Debt Issuances**

In June 2017, we issued €1.0 billion aggregate principal amount (\$1.1 billion at closing) of 1.875% Notes Due 2027.

In November 2017, we issued \$400 million aggregate principal amount of Zero Coupon Callable Notes due 2047.

**Legacy Investments**

During 2017, we generated approximately \$3.0 billion in return of capital from Legacy Investments, including through the sale of our remaining life settlements contracts.

**Arch**

In June 2017, AIG Parent and National Union received gross proceeds of approximately \$391 million and \$261 million, respectively, from the sale of approximately four million and three million shares, respectively, of common stock of Arch Capital Group Ltd. by means of an underwritten public offering.

## Uses

### Debt Reduction

On July 17, 2017, we redeemed \$290 million aggregate principal amount of our outstanding 4.90% Callable Notes Due July 17, 2045.

On September 25, 2017, we redeemed \$420 million aggregate principal amount of our outstanding 4.90% Callable Notes Due September 25, 2045.

We also made other repurchases of and repayments on debt instruments of approximately \$3.1 billion during 2017. AIG Parent made interest payments on our debt instruments totaling \$948 million during 2017.

### Dividend

We paid a cash dividend of \$0.32 per share on AIG Common Stock during each quarter of 2017.

### Repurchase of Common Stock

We repurchased approximately 100 million shares of AIG Common Stock during 2017, for an aggregate purchase price of approximately \$6.3 billion.



TABLE OF CONTENTSITEM 7 | **Liquidity and Capital Resources****Analysis of Sources and Uses of Cash**

The following table presents selected data from AIG's Consolidated Statements of Cash Flows:

| <b>Years Ended December 31,</b><br><i>(in millions)</i> | <b>2017</b>     | <b>2016</b>   | <b>2015</b>     |
|---|-----------------|---------------|-----------------|
| <b>Sources:</b>   |                 |               |                 |
| Net cash provided by operating activities               | \$ -            | \$ 2,383      | \$ 2,877        |
| Net cash provided by changes in restricted cash         | -               | 385           | 1,457           |
| Net cash provided by other investing activities         | <b>14,792</b>   | 4,359         | 7,005           |
| Changes in policyholder contract balances               | <b>2,123</b>    | 4,059         | 2,410           |
| Issuance of long-term debt                              | <b>3,356</b>    | 5,954         | 6,867           |
| Net cash provided by other financing activities         | -               | 377           | 818             |
| <b>Total sources</b>                                    | <b>20,271</b>   | 17,517        | 21,434          |
| <b>Uses:</b>  |                 |               |                 |
| Net cash used in operating activities                   | <b>(8,585)</b>  | -             | -               |
| Change in restricted cash                               | <b>(121)</b>    | -             | -               |
| Repayments of long-term debt                            | <b>(3,698)</b>  | (4,082)       | (9,805)         |
| Purchases of AIG Common Stock                           | <b>(6,275)</b>  | (11,460)      | (10,691)        |
| Dividends paid  | <b>(1,172)</b>  | (1,372)       | (1,028)         |
| Purchases of warrants                                   | <b>(3)</b>      | (309)         | -               |
| Net cash used in other financing activities             | <b>(28)</b>     | -             | -               |
| <b>Total uses</b>                                       | <b>(19,882)</b> | (17,223)      | (21,524)        |
| Effect of exchange rate changes on cash                 | <b>(28)</b>     | 52            | (39)            |
| <b>Increase (decrease) in cash</b>                      | <b>\$ 361</b>   | <b>\$ 346</b> | <b>\$ (129)</b> |

The following table presents a summary of AIG's Consolidated Statement of Cash Flows:

| <b>Years Ended December 31,</b><br><i>(in millions)</i> | <b>2017</b>       | <b>2016</b>     | <b>2015</b>     |
|---|-------------------|-----------------|-----------------|
| <b>Summary:</b>   |                   |                 |                 |
| Net cash provided by (used in) operating activities     | \$ <b>(8,585)</b> | \$ 2,383        | \$ 2,877        |
| Net cash provided by investing activities               | <b>14,671</b>     | 4,744           | 8,462           |
| Net cash used in financing activities                   | <b>(5,697)</b>    | (6,833)         | (11,429)        |
| Effect of exchange rate changes on cash                 | <b>(28)</b>       | 52              | (39)            |
| <b>Increase (decrease) in cash</b>                      | <b>361</b>        | 346             | (129)           |
| Cash at beginning of year                               | <b>1,868</b>      | 1,629           | 1,758           |
| Change in cash of businesses held for sale              | <b>133</b>        | (107)           | -               |
| <b>Cash at end of year</b>                              | <b>\$ 2,362</b>   | <b>\$ 1,868</b> | <b>\$ 1,629</b> |
| <b>Operating Cash Flow Activities</b>                   |                   |                 |                 |

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 \$1.2 billion in 2017 compared to \$1.3 billion in 2016 and \$1.4 billion in 2015. Excluding interest payments, AIG had operating cash outflows of \$7.3 billion in 2017 compared to operating cash inflow of \$3.7 billion and \$4.2 billion in 2016 and 2015 respectively. The operating cash outflow in 2017 was primarily due to payment for the adverse development reinsurance agreement entered into with NICO.

ITEM 7 | **Liquidity and Capital Resources****Investing Cash Flow Activities**

Net cash provided by investing activities in 2017 was \$14.7 billion compared to investing cash inflows of \$4.7 billion in 2016, which included \$2.8 billion of net cash proceeds from the sales of United Guaranty, Ascot and AIG Advisor Group. Net cash provided by investing activities for 2015 included \$4.2 billion of net cash proceeds from the sale of ordinary shares of AerCap. Net cash provided by investing activities in 2017 primarily included sales of certain investments to fund the adverse development reinsurance agreement entered into with NICO.

**Financing Cash Flow Activities**

Net cash used in financing activities in 2017 included:

- approximately \$1.2 billion in the aggregate to pay a dividend of \$0.32 per share on AIG Common Stock in each quarter of 2017;
- approximately \$6.3 billion to repurchase approximately 100 million shares of AIG Common Stock; and
- approximately \$342 million in net outflows from the issuance and repayment of long-term debt.

Net cash used in financing activities in 2016 included:

- approximately \$1.4 billion in the aggregate to pay a dividend of \$0.32 per share on AIG Common Stock in each quarter of 2016;
- approximately \$11.5 billion to repurchase approximately 201 million shares of AIG Common Stock;
- approximately \$309 million to repurchase approximately 17 million warrants to purchase shares of AIG Common Stock; and
- approximately \$1.9 billion in net inflows from the issuance and repayment of long-term debt.

Net cash used in financing activities in 2015 included:

- approximately \$1.0 billion in the aggregate to pay a dividend of \$0.125 per share on AIG Common Stock in each of the first and second quarters of 2015 and \$0.28 per share on AIG Common Stock in each of the third and fourth quarters of 2015;
- approximately \$10.7 billion to repurchase approximately 182 million shares of AIG Common Stock; and
- approximately \$2.9 billion in net outflows from the issuance and repayment of long-term debt.

**Liquidity and Capital Resources of AIG Parent and Subsidiaries**

**AIG Parent**

As of December 31, 2017, AIG Parent had approximately \$11.8 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 or repurchase agreements or contributed as admitted assets to regulated insurance companies. AIG Parent liquidity is monitored through the use of various internal liquidity risk measures. AIG Parent's primary sources of liquidity are dividends, distributions, loans and other payments from subsidiaries and credit facilities. AIG Parent's primary uses of liquidity are for debt service, capital and liability management, and operating expenses.

We believe that we have sufficient liquidity and capital resources to satisfy our reasonably foreseeable future requirements and meet our obligations to our creditors, debt-holders and insurance company subsidiaries. We expect to access the debt markets from time to time to meet funding requirements as needed.

We utilize our capital resources to support our businesses, with the majority of capital allocated to our insurance operations. Should we have or generate more capital than is needed to support our business strategies (including organic growth or acquisition opportunities) or mitigate risks inherent to our business, we may develop plans to distribute such capital to shareholders via dividends or share repurchase authorizations or deploy such capital towards liability management.

In the normal course, it is expected that a portion of the capital released by our insurance operations, by our other operations or through the utilization of AIG's deferred tax assets may be available to support our business strategies, for distribution to shareholders or for liability management.

In developing plans to distribute capital, AIG considers a number of factors, including, but not limited to: AIG's business and strategic plans, expectations for capital generation and utilization, AIG's funding capacity and capital resources in comparison to internal benchmarks, as well as rating agency expectations, regulatory standards and internal stress tests for capital.

TABLE OF CONTENTSITEM 7 | **Liquidity and Capital Resources**

The following table presents AIG Parent's liquidity sources:

| <i>(In millions)</i>   | <b>As of<br/>December 31, 2017</b> | <b>As of<br/>December 31, 2016</b> |
|--|------------------------------------|------------------------------------|
| Cash and short-term investments <sup>(a)</sup>                     | \$ 2,114                           | \$ 3,950                           |
| Unencumbered fixed maturity securities <sup>(b)</sup>              | 5,172                              | 4,470                              |
| <b>Total AIG Parent liquidity</b>                                  | <b>7,286</b>                       | <b>8,420</b>                       |
| Available capacity under syndicated credit facility <sup>(c)</sup> | 4,500                              | 4,500                              |
| <b>Total AIG Parent liquidity sources</b>                          | <b>\$ 11,786</b>                   | <b>\$ 12,920</b>                   |

(a) Cash and short-term investments include reverse repurchase agreements totaling \$1.7 billion and \$1.0 billion as of December 31, 2017 and 2016, respectively.

(b) Unencumbered securities consist of publicly traded, investment grade rated fixed maturity securities. Fixed maturity securities primarily include U.S. government and government sponsored entity securities, U.S. agency mortgage-backed securities, corporate and municipal bonds and certain other highly rated securities.

(c) For additional information relating to this syndicated credit facility see Credit Facilities below.

### Insurance Companies

We expect that our insurance companies will be able to continue to satisfy reasonably foreseeable future liquidity requirements and meet their obligations, including those arising from reasonably foreseeable contingencies or events, through cash from operations and, to the extent necessary, monetization of invested assets. Our insurance companies' liquidity resources are primarily held in the form of cash, short-term investments and publicly traded, investment grade rated fixed maturity securities.

Each of our material insurance companies' liquidity is monitored through various internal liquidity risk measures. The primary sources of liquidity are premiums, fees, reinsurance recoverables and investment income and maturities. The primary uses of liquidity are paid losses, reinsurance payments, benefit claims, surrenders, withdrawals, interest payments, dividends, expenses, investment purchases and collateral requirements.

Our General 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.

On January 20, 2017, certain of our General Insurance companies entered into an adverse development reinsurance agreement with NICO under which they transferred to NICO 80 percent of reserve risk on substantially all of their U.S. Commercial long-tail exposures for accident years 2015 and prior. Under this agreement, these General Insurance companies ceded to NICO 80 percent of the paid losses on subject business paid on or after January 1, 2016 in excess of \$25 billion of net paid losses, up to an aggregate limit of \$25 billion. The total consideration paid, including interest, was \$10.2 billion.

Management believes that because of the size and liquidity of our Life and Retirement companies' investment portfolios, normal deviations from projected claim or surrender experience would not create significant liquidity risk. Furthermore, our Life and Retirement companies' products contain certain features that mitigate surrender risk, including surrender charges. However, in times of extreme capital markets disruption, liquidity needs could outpace resources. As part of their risk management framework, our Life and Retirement companies continue to evaluate and, where appropriate, pursue strategies and programs to improve their liquidity position and facilitate their ability to maintain a fully invested asset portfolio.

Certain of our U.S. insurance companies are members of the Federal Home Loan Banks (FHLBs) in their respective districts. Borrowings from the FHLBs are used to supplement liquidity or for other uses deemed appropriate by management. Our U.S. General Insurance companies had outstanding borrowings from the FHLBs in an aggregate amount of approximately \$190 million and \$733 million at December 31, 2017 and December 31, 2016, respectively. The outstanding borrowings are being used primarily for interest rate risk management purposes in connection with certain reinsurance arrangements, and the related balances are expected to decline as underlying premiums are collected. Our U.S. Life and Retirement companies had no outstanding borrowings in the form of cash advances from the FHLBs at December 31, 2017, and aggregate borrowings in the form of cash advances of approximately \$2 million at December 31, 2016. In addition, \$606 million and \$429 million were due to the FHLB of Dallas at December 31, 2017 and December 31, 2016, respectively, under funding agreements issued by our Institutional Markets business, which were reported in Policyholder contract deposits.

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Certain of our U.S. Life and Retirement 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 and Retirement 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 and Retirement company is able to lend under its program at any time is limited to five percent of its general account statutory-basis admitted assets. Our U.S. Life and Retirement companies had \$2.9 billion and \$2.4 billion of securities subject to these agreements at December 31, 2017 and December 31, 2016, respectively, and \$3.0 billion and \$2.5 billion of liabilities to borrowers for collateral received at December 31, 2017 and December 31, 2016, respectively.

AIG generally manages capital between AIG Parent and our insurance companies through internal, Board-approved policies and limits, as well as management standards. In addition, AIG Parent has unconditional capital maintenance agreements (CMAs) in place with certain subsidiaries. Nevertheless, regulatory and other legal restrictions could limit our ability to transfer capital freely, either to or from our subsidiaries.

AIG Parent and/or certain subsidiaries are parties to several letter of credit agreements with various financial institutions. These financial institutions issue letters of credit from time to time to certain of our General Insurance companies for insurance regulatory and reinsurance collateral purposes or for capital support, and the total outstanding amount of issued letters of credit for these purposes was approximately \$3.1 billion at year end 2017. Letters of credit issued in support of the Life and Retirement companies totaled approximately \$900 million at year end 2017.

During 2016, we created a new Switzerland-domiciled international holding company, AIG International Holdings, GmbH (AIGIH), which is intended to be the ultimate holding company for all of our international entities. This international holding company structure is part of our ongoing efforts to simplify our organizational structure, and is expected to facilitate the optimization of our international capital strategy from both a regulatory and tax perspective. Through February 8, 2018, substantially all of our international operations have been transferred to AIGIH. We will continue to monitor our international holding company structure in light of regulatory, tax and other developments, to ensure that this strategy continues to be effective.

In 2017, our General Insurance companies paid approximately \$350 million in dividends in the form of cash and fixed maturity securities to AIG Parent. The fixed maturity securities primarily included U.S. government and government-sponsored entity securities, U.S. agency mortgage-backed securities, corporate and municipal bonds and certain other highly rated securities.

In 2017, our Life and Retirement companies collectively declared a total of \$2.4 billion of dividends, return of capital and loan repayments. Of this amount, \$1.1 billion was paid in the form of cash, \$387 million was paid in the form of fixed maturity securities, and \$890 million was retained at an intermediate life insurance holding company to fund tax sharing payments to AIG Parent. The Life and Retirement companies made tax sharing payments to AIG Parent in 2017 totaling \$3.3 billion in the form of cash and fixed maturity

securities, primarily as a result of the Life Insurance Reinsurance Transactions. Fixed maturity securities used to fund dividends and tax sharing payments included U.S. government and government sponsored entity securities, U.S. agency mortgage-backed securities, corporate and municipal bonds and certain other highly rated securities.

### **Credit Facilities**

We maintain a committed, revolving syndicated credit facility (the Facility) as a potential source of liquidity for general corporate purposes. The Facility provides for aggregate commitments by the bank syndicate to provide unsecured revolving loans and/or standby letters of credit of up to \$4.5 billion without any limits on the type of borrowings and is scheduled to expire in June 2022.

As of December 31, 2017, a total of \$4.5 billion remains available under the Facility. Our ability to utilize the Facility is not contingent on our credit ratings. However, our ability to utilize the Facility is conditioned on the satisfaction of certain legal, operating, administrative and financial covenants and other requirements contained in the Facility. These include covenants relating to our maintenance of a specified total consolidated net worth and total consolidated debt to total consolidated capitalization. Failure to satisfy these and other requirements contained in the Facility would restrict our access to the Facility and could have a material adverse effect on our financial condition, results of operations and liquidity. We expect to utilize the Facility from time to time, and may use the proceeds for general corporate purposes.



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The following table summarizes contractual obligations in total, and by remaining maturity:

**December 31, 2017**

| December 31, 2017                             | Payments due by Period |                  |                  |                  |                   |
|---|------------------------|------------------|------------------|------------------|-------------------|
| (in millions)                                 | Total<br>Payments      | 2018             | 2019 -<br>2020   | 2021 -<br>2022   | Thereafter        |
| <b>Insurance operations</b>                   |                        |                  |                  |                  |                   |
| Loss reserves                                 | \$ 80,237              | \$ 18,204        | \$ 23,033        | \$ 12,872        | \$ 26,128         |
| Insurance and investment contract liabilities | 242,108                | 15,804           | 30,283           | 28,563           | 167,458           |
| Borrowings                                    | 976                    | -                | 115              | 219              | 642               |
| Interest payments on borrowings               | 902                    | 50               | 99               | 99               | 654               |
| Operating leases                              | 708                    | 202              | 259              | 141              | 106               |
| Other long-term obligations                   | 11                     | 3                | 5                | 2                | 1                 |
| <b>Total</b>                                  | <b>\$ 324,942</b>      | <b>\$ 34,263</b> | <b>\$ 53,794</b> | <b>\$ 41,896</b> | <b>\$ 194,989</b> |
| <b>Other</b>                                  |                        |                  |                  |                  |                   |
| Borrowings                                    | \$ 24,445              | \$ 2,095         | \$ 2,636         | \$ 3,252         | \$ 16,462         |
| Interest payments on borrowings               | 14,340                 | 996              | 1,818            | 1,539            | 9,987             |
| Operating leases                              | 125                    | 41               | 57               | 13               | 14                |
| Other long-term obligations                   | 283                    | 50               | 106              | 84               | 43                |
| <b>Total</b>                                  | <b>\$ 39,193</b>       | <b>\$ 3,182</b>  | <b>\$ 4,617</b>  | <b>\$ 4,888</b>  | <b>\$ 26,506</b>  |
| <b>Consolidated</b>                           |                        |                  |                  |                  |                   |
| Loss reserves                                 | \$ 80,237              | \$ 18,204        | \$ 23,033        | \$ 12,872        | \$ 26,128         |
| Insurance and investment contract liabilities | 242,108                | 15,804           | 30,283           | 28,563           | 167,458           |
| Borrowings                                    | 25,421                 | 2,095            | 2,751            | 3,471            | 17,104            |
| Interest payments on borrowings               | 15,242                 | 1,046            | 1,917            | 1,638            | 10,641            |
| Operating leases                              | 833                    | 243              | 316              | 154              | 120               |
| Other long-term obligations <sup>(a)</sup>    | 294                    | 53               | 111              | 86               | 44                |
| <b>Total<sup>(b)</sup></b>                    | <b>\$ 364,135</b>      | <b>\$ 37,445</b> | <b>\$ 58,411</b> | <b>\$ 46,784</b> | <b>\$ 221,495</b> |

(a) Primarily includes contracts to purchase future services and other capital expenditures.

(b) Does not reflect obligations in connection with the agreement to purchase Validus Holdings, Ltd., which was entered into on January 21, 2018 and is expected to close mid-2018 subject to obtaining the relevant regulatory approvals and other customary closing conditions. *For further discussion of the purchase of Validus Holdings, Ltd. see Note 26 to the Consolidated Financial Statements.* Also does not reflect unrecognized tax benefits of \$4.7 billion. *See Note 23 to the Consolidated Financial Statements for additional information.*

**Loss Reserves**

Loss reserves relate to our General Insurance companies and represent estimates of future loss and loss adjustment expense payments estimated based on historical loss development payment patterns. Due to the significance of the assumptions used, the payments by period presented above could be materially

different from actual required payments. We believe that our General 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 and Retirement companies. These liabilities include various investment-type products with contractually scheduled maturities, including periodic payments. These liabilities also include benefit and claim liabilities, of which a significant portion represents policies and contracts that do not have stated contractual maturity dates and may not result in any future payment obligations. For these policies and contracts (i) we are not currently making payments until the occurrence of an insurable event, such as death or disability, (ii) payments are conditional on survivorship or (iii) payment may occur due to a surrender or other non-scheduled event beyond our control.

We have made significant assumptions to determine the estimated undiscounted cash flows of these contractual policy benefits. These assumptions include mortality, morbidity, future lapse rates, expenses, investment returns and interest crediting rates, offset by expected future deposits and premiums on in-force policies. Due to the significance of the assumptions, the periodic amounts presented could be materially different from actual required payments. The amounts presented in this table are undiscounted and exceed the future policy benefits and policyholder contract deposits included in the Consolidated Balance Sheets.

We believe that our Life and Retirement 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 and Retirement companies maintain significant levels of investment grade rated fixed maturity securities, including substantial

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holdings in government and corporate bonds, and could seek to monetize those holdings in the event operating cash flows are insufficient. We expect liquidity needs related to GIC liabilities to be funded through cash flows generated from maturities and sales of invested assets.

**Borrowings**

Our borrowings exclude those incurred by consolidated investments and include hybrid financial instrument liabilities recorded at fair value. We expect to repay the long-term debt maturities and interest accrued on borrowings by AIG through maturing investments and dispositions of invested assets, future cash flows from operations, cash flows generated from invested assets, future debt issuance and other financing arrangements. Borrowings supported by assets of AIG include various notes and bonds payable as well as GIAs that are supported by cash and investments held by AIG Parent and certain non-insurance subsidiaries for the repayment of those obligations.

**Off-Balance Sheet Arrangements and Commercial Commitments**

The following table summarizes Off-Balance Sheet Arrangements and Commercial Commitments in total, and by remaining maturity:

| December 31, 2017                           | Amount of Commitment Expiring |                 |                 |               |               |
|---|-------------------------------|-----------------|-----------------|---------------|---------------|
| (in millions)                               | Total Amounts Committed       | 2018            | 2019 - 2020     | 2021 - 2022   | Thereafter    |
| <b>Insurance operations</b>                 |                               |                 |                 |               |               |
| <b>Guarantees:</b>                          |                               |                 |                 |               |               |
| Standby letters of credit                   | \$ 160                        | \$ 138          | \$ 11           | \$ -          | \$ 11         |
| Guarantees of indebtedness                  | 63                            | 63              | -               | -             | -             |
| All other guarantees <sup>(a)</sup>         | 2                             | -               | -               | 2             | -             |
| <b>Commitments:</b>                         |                               |                 |                 |               |               |
| Investment commitments <sup>(b)</sup>       | 2,914                         | 1,893           | 813             | 166           | 42            |
| Commitments to extend credit                | 2,334                         | 1,633           | 323             | 285           | 93            |
| Letters of credit                           | 5                             | 5               | -               | -             | -             |
| <b>Total<sup>(c)</sup></b>                  | <b>\$ 5,478</b>               | <b>\$ 3,732</b> | <b>\$ 1,147</b> | <b>\$ 453</b> | <b>\$ 146</b> |
| <b>Other</b>                                |                               |                 |                 |               |               |
| <b>Guarantees:</b>                          |                               |                 |                 |               |               |
| Liquidity facilities <sup>(d)</sup>         | \$ 74                         | \$ -            | \$ -            | \$ -          | \$ 74         |
| Standby letters of credit                   | 139                           | 139             | -               | -             | -             |
| All other guarantees                        | 84                            | 7               | 28              | 28            | 21            |
| <b>Commitments:</b>                         |                               |                 |                 |               |               |
| Investment commitments <sup>(b)</sup>       | 264                           | 32              | 16              | 106           | 110           |
| Commitments to extend credit <sup>(e)</sup> | 200                           | -               | 200             | -             | -             |
| Letters of credit                           | 17                            | 17              | -               | -             | -             |
| <b>Total<sup>(c)(f)</sup></b>               | <b>\$ 778</b>                 | <b>\$ 195</b>   | <b>\$ 244</b>   | <b>\$ 134</b> | <b>\$ 205</b> |
| <b>Consolidated</b>                         |                               |                 |                 |               |               |

**Guarantees:**

|                                     |    |     |    |     |    |    |    |    |
|-------------------------------------|----|-----|----|-----|----|----|----|----|
| Liquidity facilities <sup>(d)</sup> | \$ | 74  | \$ | -   | \$ | -  | \$ | 74 |
| Standby letters of credit           |    | 299 |    | 277 |    | 11 |    | 11 |
| Guarantees of indebtedness          |    | 63  |    | 63  |    | -  |    | -  |
| All other guarantees <sup>(a)</sup> |    | 86  |    | 7   |    | 28 |    | 30 |

**Commitments:**

|   |    |              |    |              |    |              |    |            |
|---|----|--------------|----|--------------|----|--------------|----|------------|
| Investment commitments <sup>(b)</sup>       |    | 3,178        |    | 1,925        |    | 829          |    | 272        |
| Commitments to extend credit <sup>(e)</sup> |    | 2,534        |    | 1,633        |    | 523          |    | 285        |
| Letters of credit                           |    | 22           |    | 22           |    | -            |    | -          |
| <b>Total<sup>(c)(f)</sup></b>               | \$ | <b>6,256</b> | \$ | <b>3,927</b> | \$ | <b>1,391</b> | \$ | <b>587</b> |

(a) Includes construction guarantees connected to affordable housing investments by our Life and Retirement companies. Excludes potential amounts for indemnification obligations included in asset sales agreements. *For further information on indemnification obligations see Note 16 to the Consolidated Financial Statements.*

(b) Includes commitments to invest in private equity funds, hedge funds and other funds and commitments to purchase and develop real estate in the United States and abroad. The commitments to invest in private equity funds, hedge funds and other funds are called at the discretion of each fund, as needed for funding new investments or expenses of the fund. The expiration of these commitments is estimated in the table above based on the expected life cycle of the related fund, consistent with past trends of requirements for funding. Investors under these commitments are primarily insurance and real estate subsidiaries.

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### ITEM 7 | **Liquidity and Capital Resources**

(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 senior unsecured revolving credit facility between AerCap Ireland Capital Designated Activity Company (formerly AerCap Ireland Capital Limited), as borrower, and AIG Parent, as lender (the AerCap Credit Facility). The AerCap Credit Facility permits loans for general corporate purposes. In December 2017, the aggregate commitment under the AerCap Credit Facility was reduced to \$200 million from \$500 million and the termination date of the facility was extended to October 2019 from May 2019. At December 31, 2017, no amounts were outstanding under the AerCap Credit Facility.

(f) Excludes commitments with respect to pension plans. The annual pension contribution for 2018 is expected to be approximately \$64 million for U.S. and non-U.S. plans.

#### **Tax Matters**

If the settlement agreements in principle are concluded in our ongoing dispute related to the disallowance of foreign tax credits associated with cross border financing transactions, we will be required to make a payment to the U.S. Treasury. Although we can provide no assurance regarding whether the non-binding settlements will be finalized, the amount we currently expect to pay based on current proposed settlement terms is approximately \$1.3 billion. This amount is net of payments previously made with respect to cross border financing transactions involving matters dating back to 1997 and other matters largely related to the same tax years. There remains uncertainty with regard to whether the settlements in principle will ultimately be approved by the relevant authorities as well as the amount and timing of any potential payments, which are not likely to be made before sometime in 2019.

*For additional information regarding this matter see Note 23 to the Consolidated Financial Statements.*

#### **Arrangements with Variable Interest Entities**

We enter into various arrangements with variable interest entities (VIEs) in the normal course of business, and we consolidate a VIE when we are the primary beneficiary of the entity.

*For a further discussion of our involvement with VIEs see Note 10 to the Consolidated Financial Statements.*

#### **Indemnification Agreements**

We are subject to financial guarantees and indemnity arrangements in connection with our sales of businesses. These arrangements may be triggered by declines in asset values, specified business contingencies, the realization of contingent liabilities, litigation developments, or breaches of representations, warranties or covenants provided by us. These arrangements are typically subject to time

limitations, defined by contract or by operation of law, such as by prevailing statutes of limitation. Depending on the specific terms of the arrangements, the maximum potential obligation may or may not be subject to contractual limitations.

*For additional information regarding our indemnification agreements see Note 16 to the Consolidated Financial Statements.*

We have recorded liabilities for certain of these arrangements where it is possible to estimate them. These liabilities are not material in the aggregate. We are unable to develop a reasonable estimate of the maximum potential payout under some of these arrangements. Overall, we believe that it is unlikely we will have to make any material payments under these arrangements.

## Debt

The following table provides the rollforward of AIG's total debt outstanding:

|   | Balance at           |              | Maturities        | Effect of           |                   |
|---|----------------------|--------------|-------------------|---------------------|-------------------|
| <b>Year Ended December 31, 2017</b><br><i>(in millions)</i> | December 31,<br>2016 | Issuance     | and<br>Repayments | Foreign<br>Exchange | Other<br>Changes  |
| <b>Debt issued or guaranteed by AIG:</b>                    |                      |              |                   |                     |                   |
| <b>AIG general borrowings:</b>                              |                      |              |                   |                     |                   |
| Notes and bonds payable                                     | \$ 19,432            | \$ 1,505     | \$(890)           | \$ 274              | 18                |
| Junior subordinated debt                                    | 843                  | -            | (38)              | 35                  | 1                 |
| AIG Japan Holdings Kabushiki Kaisha                         | 330                  | -            | -                 | 4                   | -                 |
| AIGLH notes and bonds payable                               | 281                  | -            | -                 | -                   | -                 |
| AIGLH junior subordinated debt                              | 361                  | -            | -                 | -                   | -                 |
| <b>Total AIG general borrowings</b>                         | <b>21,247</b>        | <b>1,505</b> | <b>\$(928)</b>    | <b>313</b>          | <b>19</b>         |
| <b>AIG borrowings supported by assets:</b> <sup>(a)</sup>   |                      |              |                   |                     |                   |
| MIP notes payable   | 1,099                | -            | (786)             | 46                  | (3)               |
| Series AIGFP matched notes and bonds payable                | 32                   | -            | (10)              | -                   | (1)               |
| GIAs, at fair value   | 2,934                | 375          | (613)             | -                   | 11 <sup>(b)</sup> |
| Notes and bonds payable, at fair value                      | 494                  | 2            | (359)             | -                   | 44 <sup>(b)</sup> |
| <b>Total AIG borrowings supported by assets</b>             | <b>4,559</b>         | <b>377</b>   | <b>\$(1,768)</b>  | <b>46</b>           | <b>51</b>         |
| <b>Total debt issued or guaranteed by AIG</b>               | <b>25,806</b>        | <b>1,882</b> | <b>\$(2,696)</b>  | <b>359</b>          | <b>70</b>         |
|   | AIG   2017 Form 10-K |              |                   |                     | 135               |

### Debt not guaranteed by AIG:

Debt of consolidated investments<sup>(d)</sup>

### Total debt not guaranteed by AIG

## Total debt

|           |          |            |        |                    |           |
|-----------|----------|------------|--------|--------------------|-----------|
| 735       | -        | (543)      | -      | (2)                | 190       |
| 4,371     | 1,474    | (588)      | 22     | 750 <sup>(e)</sup> | 6,029     |
| 5,106     | 1,474    | (1,131)    | 22     | 748                | 6,219     |
| \$ 30.912 | \$ 3.356 | \$ (3.827) | \$ 381 | \$ 818             | \$ 31.640 |

(e) Includes the effect of consolidating previously unconsolidated partnerships.

## TOTAL DEBT OUTSTANDING

(in millions)

## Debt Maturities

The following table summarizes maturing debt at December 31, 2017 of AIG (excluding \$6.0 billion of borrowings of consolidated investments) for the next four quarters:

|   | First<br>Quarter<br>2018 | Second<br>Quarter<br>2018 | Third<br>Quarter<br>2018 | Fourth<br>Quarter<br>2018 | Total        |
|---|--------------------------|---------------------------|--------------------------|---------------------------|--------------|
| <i>(in millions)</i>  |                          |                           |                          |                           |              |
| AIG general borrowings  | \$ 1,107                 | \$ -                      | \$ -                     | \$ -                      | <b>1,107</b> |
| AIG borrowings supported by assets                            | 34                       | 349                       | 469                      | 136                       | <b>988</b>   |
| Other subsidiaries' notes, bonds, loans and mortgages payable | 190                      | -                         | -                        | -                         | <b>190</b>   |
| <b>Total</b>  | <b>\$ 1,331</b>          | <b>\$ 349</b>             | <b>\$ 469</b>            | <b>\$ 136</b>             | <b>2,285</b> |

See Note 15 to the Consolidated Financial Statements for additional details on 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 8, 2018. 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>                              |
| <b>AIG</b>  | <b>P-2 (2nd of 3)</b><br><i>Stable Outlook</i> | <b>A-2 (2nd of 8)</b> | <b>Baa 1 (4th of 9)</b><br><i>Stable Outlook</i> | <b>BBB+ (4th of 9)</b><br><i>Negative Outlook</i> | <b>BBB+ (4th of 9)</b><br><i>Negative Outlook</i> |
| <b>AIG Financial Products Corp.<sup>(d)</sup></b> | <b>P-2</b><br><i>Stable Outlook</i>            | <b>A-2</b>            | <b>Baa 1</b><br><i>Stable Outlook</i>            | <b>BBB+</b><br><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 our credit ratings see Note 11 to the Consolidated Financial Statements herein and Part I, Item 1A. Risk Factors – Liquidity, Capital and Credit.*

## FINANCIAL STRENGTH Ratings

**Financial Strength ratings estimate an insurance company's ability to pay its obligations under an insurance policy.** The following table presents the ratings of our significant insurance subsidiaries as of February 8, 2018.

|  | A.M. Best | S&P | Fitch | Moody's |
|--|-----------|-----|-------|---------|
| National Union Fire Insurance Company of Pittsburgh, Pa.     | A         | A+  | A     | A2      |
| Lexington Insurance Company                                  | A         | A+  | A     | A2      |
| American Home Assurance Company (US)                         | A         | A+  | A     | A2      |
| American General Life Insurance Company                      | A         | A+  | A+    | A2      |
| The Variable Annuity Life Insurance Company                  | A         | A+  | A+    | A2      |
| United States Life Insurance Company in the City of New York | A         | A+  | A+    | A2      |
| AIG Europe Limited   | A         | A+  | A     | A2      |
| AIG General Insurance Co. Ltd.                               | NR        | A+  | NR    | NR      |

These financial strength ratings are current opinions of the rating agencies. They may be changed, suspended or withdrawn at any time by the rating agencies as a result of changes in, or unavailability of, information or based on other circumstances.

*For a discussion of the effects of downgrades in our financial strength ratings see Note 11 to the Consolidated Financial Statements herein and Part I, Item 1A. Risk Factors – Liquidity, Capital and Credit.*

ITEM 7 | **Liquidity and Capital Resources****Regulation and Supervision**

*For a discussion of our regulation and supervision by different regulatory authorities in the United States and abroad, including with respect to our liquidity and capital resources see Item 1. Business — Regulation and Item 1A. Risk Factors — Regulation.*

**Dividends and Repurchases of AIG Common Stock**

On February 14, 2017, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.32 per share, payable on March 29, 2017 to shareholders of record on March 15, 2017. On May 3, 2017, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.32 per share, payable on June 28, 2017 to shareholders of record on June 14, 2017. On August 2, 2017, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.32 per share, payable on September 29, 2017 to shareholders of record on September 15, 2017. On November 2, 2017, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.32 per share, payable on December 22, 2017 to shareholders of record on December 8, 2017.

On February 8, 2018, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.32 per share, payable on March 29, 2018 to shareholders of record on March 15, 2018. The payment of any future dividends will be at the discretion of our Board of Directors and will depend on various factors, as discussed further in Note 17 to the Consolidated Financial Statements.

Our Board of Directors has authorized the repurchase of shares of AIG Common Stock and warrants to purchase shares of AIG Common Stock through a series of actions. On May 3, 2017, our Board of Directors approved an additional increase of \$2.5 billion to the share repurchase authorization. As of February 8, 2018, approximately \$2.3 billion remained under the 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. The timing of any future share repurchases will depend on market conditions, our business and strategic plans, financial condition, results of operations, liquidity and other factors.

During 2017, we repurchased approximately 100 million shares of AIG Common Stock for an aggregate purchase price of approximately \$6.3 billion pursuant to this authorization.

**Dividend Restrictions**

Payments of dividends to AIG by its insurance subsidiaries are subject to certain restrictions imposed by regulatory authorities.

*For a discussion of restrictions on payments of dividends by our subsidiaries see Note 19 to the Consolidated Financial Statements.*



ITEM 7 | **Enterprise Risk Management****Enterprise Risk Management**

Risk management includes the identification and measurement of various forms of risk, the establishment of risk thresholds and the creation of processes intended to maintain risks within these thresholds while optimizing returns. We consider risk management an integral part of managing our core businesses and a key element of our approach to corporate governance.

**Overview**

We have an integrated process for managing risks throughout our organization in accordance with our firm wide risk appetite. Our Board of Directors has oversight responsibility for the management of risk. Our Enterprise Risk Management (ERM) Department supervises and integrates the risk management functions in each of our business units, providing senior management with a consolidated view of AIG's major risk positions. Within each business unit, senior leaders and executives approve risk taking policies and targeted risk tolerance within the framework provided by ERM. ERM supports our businesses and management in the embedding of risk management in our key day-to-day business processes and in identifying, assessing, quantifying, managing, monitoring, reporting, and mitigating the risks taken by us and our businesses. Nevertheless, our risk management efforts may not always be successful and material adverse effects on our business, results of operations, cash flows, liquidity or financial condition may occur.

**Risk Governance Structure**

Our risk governance structure fosters the development and maintenance of a risk and control management culture that encompasses all significant risk categories impacting our lines of business and functions. Accountability for the implementation and oversight of risk policies is aligned with individual corporate executives, with the risk committees receiving regular reports regarding compliance with each policy to support risk governance at our corporate level as well as in each business unit. We review our governance and committee structure on a regular basis and make changes as appropriate to continue to effectively manage and govern our risks and risk-taking.

Our Board of Directors oversees the management of risk through its Risk and Capital Committee (RCC) and Audit Committee. Those committees regularly interact with other committees of the Board of Directors. Our Chief Risk Officer (CRO) reports to both the RCC and our Chief Executive Officer (CEO).

**The Group Risk Committee (GRC):** The GRC is the senior management group responsible for assessing all significant risk issues on a global basis to protect our financial strength, optimize our intrinsic value, and protect our reputation. The GRC is chaired by our CRO. Its membership includes our CEO, Chief Financial Officer (CFO), and other senior executives from across our corporate functions and business units. Our CRO reports periodically on behalf of the GRC to both the RCC and the Audit Committee of the Board of Directors. Our CRO is also a member of the Executive Leadership Team (ELT)

providing ERM the opportunity to contribute to, review, monitor and consider the impact of changes in strategy.

Management committees that support the GRC are described below. These committees are comprised of senior executives and experienced business representatives from a range of functions and business units throughout AIG and its subsidiaries. These committees are charged with identifying, analyzing and reviewing specific risk matters within their respective mandates.

**Financial Risk Group (FRG):** The FRG is responsible for the oversight of financial risks taken by AIG and our subsidiaries. Its mandate includes overseeing our aggregate credit, market, interest rate, capital, liquidity and model risks, as well as asset-liability management, derivatives activity, and foreign exchange transactions. It provides the primary corporate-level review function for all proposed transactions and business practices that are significant in size, complex in scope, or that present heightened legal, reputational, accounting or regulatory risks. The FRG is chaired by our CRO. Membership of the FRG also includes our CFO, Chief Investment Officer (CIO) and Treasurer.

**Technology, Operational Risk & Control Committee (TORCC):** This committee oversees technology and operational risk management and control issues and activities across our businesses, functions, and geographic locations. The TORCC reviews our risk management practices and monitors current and emerging technology and operational risks, as well as management actions taken to reduce such risks to acceptable levels within our risk appetite. It primarily focuses on establishing the firm-wide framework for identifying, assessing, measuring, managing and monitoring technology and operational risks. The TORCC addresses firm-wide, rather than business-specific issues and is mandated to prioritize technology and operational improvements that are significant and transformational. The TORCC also provides a forum for senior management to assess our business technology and operational risk profiles that may affect our strategic objectives.

ITEM 7 | **Enterprise Risk Management**

The scope of the TORCC includes, but is not limited to, Operational Risk Management, Technology Risk Management, Model Risk Management, Information Security, Compliance, Sarbanes Oxley, Disaster Recovery, Project Risk Management and Vendor Risk Management.

The TORCC is an authorized sub-committee of our GRC and supports the GRC in its risk management oversight role. The TORCC is co-chaired by our CRO and our CIO. Membership of the TORCC also includes Owners of the Control Agenda (OCA), Business Information Officers, and members of the various control and assurance functions.

In addition, the TORCC may form, and delegate authority to, sub-committees or working groups which oversee Technology and Operational risk-related matters on its behalf with periodic reporting to the TORCC.

**Business Unit Risk Committees:** Each of our major insurance businesses has established a risk committee that serves as the senior management committee responsible for risk oversight at the individual business unit level. The risk committees are responsible for the identification, assessment and monitoring of all sources of risk within their respective portfolios. Specific responsibilities include setting risk tolerances, reviewing the capital allocation framework, insurance portfolio optimization, and providing oversight of risk-adjusted metrics. In addition, each business unit has established subordinate committees at the legal entity level and has working groups in place that support these committees in executing their duties, such as ensuring policies are adhered to, and transactions are completed with risk appetite in mind. Together, these committees provide comprehensive risk oversight throughout the organization.





ITEM 7 | **Enterprise Risk Management****Risk Appetite, Limits, Identification, and Measurement****Risk Appetite Framework**

Our Risk Appetite Framework integrates stakeholder interests, strategic business goals and available financial resources. We balance these by seeking to take measured risks that are expected to generate repeatable, sustainable earnings and create long-term value for our shareholders. The framework includes our risk appetite statement approved by the Board of Directors or a committee thereof and a set of supporting tools, including risk tolerances, risk limits and policies, which we use to manage our risk profile and financial resources.

We articulate our aggregate risk-taking by setting risk tolerances and thresholds on capital and liquidity measures. These measures are set at the AIG Parent level as well as the legal entity level and cover consolidated and insurance company capital and liquidity ratios. We must comply with standards for capital adequacy and maintain sufficient liquidity to meet all our obligations as they come due in accordance with our internal capital management and liquidity policies. Our risk tolerances take into consideration regulatory requirements, rating agency expectations, and business needs. The GRC routinely reviews the level of risk taken by the consolidated organization in relation to the established risk tolerances. A consolidated risk report is also presented periodically, as required, to the RCC by our CRO.

**Risk Limits**

A key component of our Risk Appetite Framework is having a process in place that establishes and maintains appropriate limits on the material risks identified for our core businesses and facilitates monitoring and meeting of both internal and external stakeholder expectations. Our objectives include:

- Establishing risk monitoring, providing early warning indicators, and ensuring timely oversight and enforceability of limits;
- Defining a consistent and transparent approach to limits governance; and
- Aligning our business activities with our risk appetite statement.

To support the monitoring and management of AIG's and its business units' material risks, ERM has an established limits framework that employs a three-tiered hierarchy:

- **Board-level risk tolerances** are AIG's aggregate capital and liquidity limits. They define the minimum level of capital and liquidity that we should maintain. These board-level risk tolerances require RCC approval.

- **AIG management level limits** are risk type specific limits at the AIG consolidated level. These limits are defined and calibrated to constrain our concentration in specific risk types, to protect against taking risks that exceed the amount of overall capital AIG has available, and to protect against excess earnings volatility. These limits are approved by our CRO with consultation from the GRC.
- **BU and legal entity level limits** are set to address key risks identified by ERM for the business unit and legal entities, protect capital and liquidity at legal entities and/or meet legal entity specific requirements of regulators and rating agencies. These limits are defined by the business unit and legal entity risk officers.

All limits are reviewed by the FRG, GRC or relevant business unit risk committees on a periodic basis and revisions, if applicable, are approved by those committees.

The business units are responsible for measuring and monitoring their risk exposures. ERM is responsible for monitoring compliance with limits and providing regular, timely reporting to our senior management and risk committees. Limit breaches are required to be reported in a timely manner and are documented and escalated in accordance with their level of severity or materiality.

### **Risk Identification and Measurement**

One tool we use to inform our Risk Appetite Framework is risk identification. We conduct risk identification through a number of processes at the business unit and corporate level focused on capturing our material risks and key areas of focus for follow-up risk management actions. A key initiative is our integrated bottom-up risk identification and assessment process down to the product-line level. These processes are used as a critical input to enhance and develop our analytics for measuring and assessing risks across the organization.

We employ various approaches to measure, monitor, and manage risk exposures, including the utilization of a variety of metrics and early warning indicators. We use a proprietary internal capital and stress testing framework to measure our quantifiable risks for both insurance and non-insurance operations.

ITEM 7 | **Enterprise Risk Management**

The internal capital framework quantifies our aggregate economic risk at a given confidence interval, after taking into account a level of diversification benefits between risk factors and business lines. We leverage the internal capital framework to help inform our consolidated risk consumption and profile as well as risk and capital allocation for our businesses.

The stress testing framework measures risk over multiple time horizons and under different levels of stress. We develop a range of stress scenarios based on both internal experience and regulatory guidance. The stress tests are intended to ensure that sufficient resources are available under both idiosyncratic and systemic market stress conditions.

The stress testing framework assesses our aggregate exposure to our most significant financial and insurance risks, including the risk in each of our key insurance company subsidiaries in relation to its capital needs under stress, risks inherent in our non-insurance company subsidiaries, and risks to AIG consolidated capital. We use this information to determine the resources needed at the AIG Parent level to support our subsidiaries and capital resources required to maintain consolidated company target capitalization levels.

**We evaluate and manage risk in material topics as shown below. These topics are discussed in more detail in the following pages:**

- Credit Risk Management
- Liquidity Risk Management
- Insurance Risks
- Market Risk Management
- Operational Risk Management
- Other Business Risks

**Credit Risk Management****Overview**

Credit risk is defined as the risk that our customers or counterparties are unable or unwilling to repay their contractual obligations when they become due. Credit risk may also result from a downgrade of a counterparty's credit ratings or a widening of its credit spreads.

We devote considerable resources to managing our direct and indirect credit exposures. These exposures may arise from, but are not limited to, fixed income investments, equity securities, deposits, commercial paper investments, reverse repurchase agreements and repurchase agreements, corporate and consumer loans, leases, reinsurance recoverables, counterparty risk arising from derivatives activities, collateral extended to counterparties, insurance risk cessions to third parties, financial guarantees, letters of credit, and certain General Insurance businesses.

**Governance**

Our credit risks are managed by teams of credit professionals, subject to ERM oversight and various control processes. 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 credit 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.

*For further information on our credit concentrations and credit exposures see Investments – Available-for-Sale Investments.*

ITEM 7 | **Enterprise Risk Management****Our credit risk management framework incorporates the following elements:**

|  |   |
|--|---|
| <b>Risk Identification</b>                       | including the ongoing capture and monitoring of all existing, contingent, potential and emerging credit risk exposures, whether funded or unfunded  |
| <b>Risk Measurement</b>                          | comprising risk ratings, default probabilities, loss given default and expected loss parameters, exposure calculations, stress testing and other risk analytics   |
| <b>Risk Limits</b>                               | including, but not limited to, a system of single obligor or risk group-based AIG-wide house limits and sub-limits for corporates, financial institutions, sovereigns and sub-sovereigns when appropriate and a defined process for identifying, evaluating, documenting and approving, if appropriate, breaches of and exceptions to such limits |
| <b>Risk Delegations</b>                          | a comprehensive credit risk delegation framework from the CCO to authorized credit professionals throughout the company   |
| <b>Risk Evaluation, Monitoring and Reporting</b> | including the ongoing analysis and assessment of credit risks, trending of those risks and reporting of other key risk metrics and limits to the CCO and senior management, as may be required  |
| <b>Credit Reserving</b>                          | including but not limited to development of a proper framework, policies and procedures for establishing accurate identification of (i) Allowance for Loan and Lease Losses, and (ii) other-than-temporary impairments for securities portfolios  |
| <b>Market Risk Management</b>                    |   |

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 expose us to 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 Risk Officer within each business is responsible for creating a framework to properly identify these risks, then ensuring that they are appropriately measured, monitored and managed in accordance with the risk governance framework established by the Chief Market Risk Officer (CMRO).

The scope and magnitude of our market risk exposures is managed under a robust framework that contains defined risk limits and minimum standards for managing market risk in a manner consistent with our risk appetite statement. Our market risk management framework focuses on quantifying the financial repercussions of changes in these broad market observables, as opposed to the idiosyncratic risks associated with individual assets that are addressed through our credit risk management function.

Many of our market risk exposures related to interest rates and equity returns are associated with our Life and Retirement companies and relate to both asset and liability exposures. In addition, these exposures

are long-term in nature. Examples of liability-related exposures include interest rate sensitive surrenders in our fixed deferred annuity product portfolio. Also, we have equity market risk sensitive surrenders in our variable annuity product portfolio. These interactive asset-liability types of risk exposures are regularly monitored in accordance with the risk governance framework noted above.

ITEM 7 | **Enterprise Risk Management****Risk Identification**

Market risk focuses on quantifying the financial repercussions of changes in broad, external, predominantly market-observable risks. Financial repercussions can include an adverse impact on results of operations, financial condition, liquidity and capital.

**Each of the following systemic risks is considered a market risk:**

|  |   |
|--|---|
| <b>Equity prices</b>                                 | 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, indexed universal life insurance and variable universal life insurance.   |
| <b>Residential and commercial real estate values</b> | 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 and reinsurance contracts and commercial real estate investments.   |
| <b>Interest rates</b>                                | 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 some of our product offerings less attractive to investors. Conversely, higher interest rates are typically beneficial for the opposite reasons. However, when rates rise quickly, there can be a temporary asymmetric GAAP accounting effect where the existing securities lose market value, which is largely reported in Other comprehensive income, and the offsetting decrease in the value of related liabilities may not be recognized. Changes in interest rates can affect the valuation of fixed maturity securities, financial liabilities, insurance contracts including but not limited to universal life, fixed rate annuities, variable annuities and derivative contracts. |
| <b>Credit spreads</b>                                | Credit spreads measure an instrument's risk premium or yield relative to that of a comparable duration, default free instrument. Changes in credit spreads can affect the valuation of fixed maturity securities, including but not limited to corporate bonds, ABS, mortgage-backed securities, AIG-issued debt obligations, credit derivatives and derivative credit valuation adjustments. Much like higher interest rates, wider credit spreads with unchanged default losses mean more investment income in the long term. In the short term, quickly rising spreads will cause a loss in the value of existing fixed maturity securities, which is largely reported in Other comprehensive income. A precipitous widening of credit spreads may also signal a fundamental weakness in the credit worthiness of bond obligors, potentially resulting in default losses.  |

|                                    |  |
|------------------------------------|--|
| <b>Foreign exchange (FX) rates</b> | We are a globally diversified enterprise with income, assets and liabilities denominated in, and capital deployed in, a variety of currencies. Changes in FX rates can affect the valuation of a broad range of balance sheet and income statement items as well as the settlement of cash flows exchanged in specific transactions.                                       |
| <b>Commodity prices</b>            | 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. |
| <b>Inflation</b>                   | 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.                          |

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ITEM 7 | **Enterprise Risk Management****Governance**

Market risk is overseen at the corporate level within ERM through the CMRO, who reports directly to the CRO. The CMRO is supported by a dedicated team of professionals within ERM. Market Risk is managed by our finance, treasury and investment management corporate functions, collectively, and in partnership with ERM. The CMRO is primarily responsible for the development and maintenance of a risk management framework that includes the following key components:

- written policies that define the rules for our market risk-taking activities and provide clear guidance regarding their execution and management;
- a limit framework that aligns with our Board-approved risk appetite statement;
- independent measurement, monitoring and reporting for line of business, business unit and enterprise-wide market risks; and
- clearly defined authorities for all individuals and committee roles and responsibilities related to market risk management.
- These components facilitate the CMRO's identification, measurement, monitoring, reporting and management of our market risks.

**Risk Measurement**

Our market risk measurement framework was developed with the main objective of communicating the range and scale of our market risk exposures. At the firm wide level market risk is measured in a manner that is consistent with AIG's risk appetite statement. This is designed to ensure that we remain within our stated risk tolerance levels and can determine how much additional market risk taking capacity is available within our framework. Our risk appetite is currently defined in terms of capital and liquidity levels. At the market risk level, the framework measures our overall exposure to each systemic market risk change on an economic basis.

In addition, we continue to use enhanced economic, GAAP accounting and statutory capital based risk measures at the market risk level, business unit level and firm wide levels. This process aims to ensure that we have a comprehensive view of the impact of our market risk exposures.

**We use a number of approaches to measure our market risk exposure, including:**

**Sensitivity analysis**

measures the impact from a unit change in a market risk input

**Examples include:**

- a one basis point increase in yield on fixed maturity securities,

**Scenario analysis**

uses historical, hypothetical, or forward looking macroeconomic scenarios to assess and report exposures

- a one basis point increase in credit spreads of fixed maturity securities, and
- a one percent increase in prices of equity securities.
- a 100 basis point parallel shift in the yield curve, or
- a 20 percent immediate and simultaneous decrease in world wide equity markets.

**Stress testing**

a special form of scenario analysis in which the scenarios are designed to lead to a material adverse outcome

Scenarios may also utilize a stochastic framework to arrive at a probability distribution of losses.

- the stock market crash of October 1987 or the widening of yields or spreads of RMBS or CMBS during 2008.

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## Market Risk Sensitivities

The following table provides estimates of our sensitivity to changes in yield curves, equity prices and foreign currency exchange rates:

|   | Balance Sheet Exposure<br>December 31,<br>2017 | December 31,<br>2016            | Economic Effect<br>December 31,<br>2017   | December 31,<br>2016 |
|---|--|---------------------------------|---|----------------------|
| <i>(dollars in millions)</i>                        |  |                                 |   |                      |
| <b>Sensitivity factor</b>                           |  |                                 | <b>100 bps parallel increase in all yield curves</b>                                    |                      |
| <b>Interest rate sensitive assets:</b>              |  |                                 |   |                      |
| Fixed maturity securities                           | \$ 248,195                                     | \$ 251,784                      | \$ (14,998)   | \$ (14,745)          |
| Mortgage and other loans receivable                 | 28,799   | 25,113                          | (1,566)   | (1,352)              |
| Preferred stock                                     | 14   | 17                              | (1)   | (1)                  |
| Derivatives:  |  |                                 |   |                      |
| Interest rate contracts                             | (29)   | (749)                           | (1,343)   | (1,762)              |
| Equity contracts                                    | 501  | 286                             | 36  | 14                   |
| Foreign exchange contracts                          | (416)  | (49)                            | 42  | 14                   |
| Credit contracts                                    | (276)  | (329)                           | -   | -                    |
| Other contracts                                     | 17   | 16                              | -   | (1)                  |
| <b>Total interest rate sensitive assets</b>         | <b>\$ 276,805<sup>(a)</sup></b>                | <b>\$ 276,089<sup>(a)</sup></b> | <b>\$ (17,830)</b>  | <b>\$ (17,833)</b>   |
| <b>Interest rate sensitive liabilities:</b>         |  |                                 |   |                      |
| Policyholder contract deposits:                     |  |                                 |   |                      |
| Investment-type contracts                           | \$ 114,326                                     | \$ 112,705                      | \$ 506  | \$ 1,087             |
| Variable annuity and other embedded derivatives     | 4,148  | 3,058                           | (2,175)   | (2,061)              |
| Long-term debt <sup>(b)</sup>                       | 24,445   | 24,834                          | (1,803)   | (1,791)              |
| <b>Total interest rate sensitive liabilities</b>    | <b>\$ 142,919</b>                              | <b>\$ 140,597</b>               | <b>\$ (3,472)</b>   | <b>\$ (2,765)</b>    |
| <b>Sensitivity factor</b>                           |  |                                 | <b>20% decline in stock prices and value of derivatives and alternative investments</b> |                      |
| <b>Derivatives:</b>                                 |  |                                 |   |                      |
| Equity contracts <sup>(c)</sup>                     | \$ 501   | \$ 286                          | \$ (100)  | \$ (57)              |
| <b>Equity and alternative investments exposure:</b> |  |                                 |   |                      |
| Real estate investments                             | 8,258  | 6,900                           | (1,652)   | (1,380)              |
| Hedge funds   | 5,768  | 7,249                           | (1,153)   | (1,450)              |
| Private equity                                      | 5,540  | 6,130                           | (1,108)   | (1,226)              |
| Common equity                                       | 1,215  | 1,369                           | (243)   | (274)                |

|  |                      |                  |  |                   |
|--|----------------------|------------------|--|-------------------|
| PICC Investment  | 549                  | 439              | (110)  | (88)              |
| Aircraft asset investments   | 206                  | 321              | (41)   | (64)              |
| Other investments  | 555                  | 946              | (111)  | (189)             |
| <b>Total derivatives, equity and alternative investments exposure</b>      | <b>\$ 22,592</b>     | <b>\$ 23,640</b> | <b>\$ (4,518)</b>  | <b>\$ (4,728)</b> |
| <b>Policyholder contract deposits:</b>                                     |                      |                  |  |                   |
| Variable annuity and other embedded derivatives <sup>(c)</sup>             | <b>\$ 4,148</b>      | <b>\$ 3,058</b>  | <b>\$ 982</b>  | <b>\$ 888</b>     |
| <b>Total liability exposure</b>  | <b>\$ 4,148</b>      | <b>\$ 3,058</b>  | <b>\$ 982</b>  | <b>\$ 888</b>     |
| <b>Sensitivity factor</b>  |                      |                  | <b>10% depreciation of all foreign currency exchange rates against the U.S. dollar</b> |                   |
| <b>Foreign currency-denominated net asset position:</b>                    |                      |                  |  |                   |
| Great Britain pound  | <b>\$ 2,026</b>      | <b>\$ 2,274</b>  | <b>\$ (203)</b>  | <b>\$ (227)</b>   |
| Japanese yen   | <b>651</b>           | <b>2,345</b>     | <b>(65)</b>  | <b>(235)</b>      |
| Euro   | <b>1,349</b>         | <b>2,000</b>     | <b>(135)</b>   | <b>(200)</b>      |
| All other foreign currencies   | <b>2,533</b>         | <b>3,210</b>     | <b>(253)</b>   | <b>(321)</b>      |
| <b>Total foreign currency-denominated net asset position<sup>(d)</sup></b> | <b>\$ 6,559</b>      | <b>\$ 9,829</b>  | <b>\$ (656)</b>  | <b>\$ (983)</b>   |
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ITEM 7 | **Enterprise Risk Management**

(a) At December 31, 2017, the analysis covered \$276.8 billion of \$289.6 billion interest-rate sensitive assets. Excluded were \$8.2 billion of loans. In addition, \$4.6 billion of assets across various asset categories were excluded due to modeling limitations. At December 31, 2016, the analysis covered \$276.1 billion of \$291.7 billion interest-rate sensitive assets. Excluded were \$8.1 billion of loans and \$2.5 billion of investments in life settlements. In addition, \$5.0 billion of assets across various asset categories were excluded due to modeling limitations.

(b) At December 31, 2017, the analysis excluded \$6.0 billion of long-term debt related to debt of consolidated investments, \$642 million of AIGLH borrowings, \$190 million of borrowings from the FHLB and \$334 million of AIG Japan Holdings loans. At December 31, 2016, the analysis excluded \$4.4 billion of long-term debt related to debt of consolidated investments, \$642 million of AIGLH borrowings, \$735 million of borrowings from the FHLB and \$330 million of AIG Japan Holdings loans.

(c) The balance sheet exposures for equity contracts and variable annuity and other embedded derivatives are also reflected under “Interest rate sensitive liabilities” above, and are not additive.

(d) The majority of the foreign currency exposure is reported on a one quarter lag.

The sensitivity analysis is an estimate and should not be viewed as predictive of our future financial performance. We cannot ensure that our actual losses in any particular period will not exceed the amounts indicated above.

We use duration and convexity metrics to measure price sensitivity to interest rate changes for interest rate sensitive assets excluding derivatives and long-term debt. Duration measures the relative sensitivity of the fair value of a financial instrument to changes in interest rates. Convexity measures the rate of change of duration with respect to changes in interest rates.

Interest rate sensitivity of a derivative is calculated as change in its value with respect to plus a 100 basis point change in the interest rate environment, calculated as: scenario value minus base value, where base value is the value of the derivative under the yield curves as of the period end and scenario value is the value reflecting a 100 basis point parallel increase in all yield curves.

We evaluate our interest rate risk without the effect of any correlation among other key market risks or other assumptions used for calculating the fair value of our financial liabilities and embedded derivatives. This scenario does not measure changes in value resulting from non-parallel shifts in the yield curve, which could produce different results.

We evaluate our equity price risk without the effect of any correlation among other key market risks or other assumptions used for calculating the fair value of our financial liabilities and embedded derivatives. This scenario considers the direct impact of declines in equity prices and not changes in asset-based fees, changes in the estimated gross profits used for amortizing DAC, or changes in any other assumptions used

to calculate the fair value of the embedded derivatives related to the living benefit features within variable annuity products. In addition, this scenario does not reflect the impact of basis risk, such as projections about the future performance of the underlying contract holder funds and actual fund returns, which we use as a basis for developing our hedging strategy.

Foreign currency-denominated net asset position reflects our consolidated non U.S. dollar assets less our consolidated non U.S dollar liabilities on a GAAP basis, with certain adjustments. We use a bottom-up approach in managing our foreign currency exchange rate exposures with the objective of protecting statutory capital at the regulated insurance entity level. At the AIG Parent level, we monitor our foreign currency exposures against single currency and aggregate currency portfolio limits.

Our foreign currency-denominated net asset position at December 31, 2017, decreased by \$3.3 billion compared to December 31, 2016. The decrease was primarily due to a \$1.7 billion decrease in our Japanese yen position primarily due to the sale of Fuji Life and the unwinding of certain yen hedges; a \$0.7 billion decrease in our euro position primarily due to the issuance of €1.0 billion euro denominated debt; and a \$248 million decrease in our British pound position primarily due to an increase in reserves.

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 2017 and presented above were selected based on historical data from 1997 to 2017, as follows (*see the table below*):

- a 100 basis point parallel shift in the yield curve is consistent with a one standard deviation movement of the benchmark ten-year treasury yield;
- a 20 percent drop for equity and alternative investments is broadly consistent with a one standard deviation movement in the S&P 500; and
- a 10 percent depreciation of foreign currency exchange rates is consistent with a one standard deviation movement in the U.S. dollar (USD)/Japanese yen (JPY) exchange rate.

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|          |           | Standard<br>Period Deviation | Suggested<br>2017 Scenario | 2017 Scenario as<br>a Multiple of<br>Standard Deviation | 2017 Change/<br>Return | 2017 as a Multiple<br>of Standard<br>Deviation | Original 2016 Scenario<br>on Standard Dev<br>1996-201 |
|----------|-----------|------------------------------|----------------------------|---|------------------------|--|---|
| 10-Year  |           |                              |                            |   |                        |  |   |
| Treasury | 1997-2017 | 0.01                         | 0.01                       | 0.99  | -                      | 0.05   |   |
| S&P 500  | 1997-2017 | 0.18                         | 0.20                       | 1.14  | 0.19                   | 1.11   |   |
| USD/JPY  | 1997-2017 | 0.11                         | 0.10                       | 0.88  | 0.04                   | 0.33   |   |

**Risk Monitoring and Limits**

The risk monitoring responsibilities, owned by the business units, include ensuring compliance with market risk limits and escalation and remediation of limit breaches. Such activities must be reported to the ERM Market Risk team by the relevant business unit. This monitoring approach is aligned with our overall risk limits framework.

To control our exposure to market risk, we rely on a three-tiered hierarchy of limits that the CMRO closely monitors and reports to our CRO, senior management and risk committees.

*For further information on our three-tiered hierarchy of limits see Risk Appetite, Limits, Identification, and Measurement – Risk Limits herein.*

**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 both during the normal course of business and under defined liquidity stress scenarios to ensure that sufficient cash will be available to meet the obligations as they come due.

AIG Parent liquidity risk tolerance levels are designed to allow us to meet our financial obligations for a minimum of six months under a liquidity stress scenario. We maintain liquidity limits and minimum coverage ratios designed to ensure that funding needs are met under varying market conditions. If we project that we will breach these tolerances, we will assess and determine appropriate liquidity management actions. However, the market conditions in effect at that time may not permit us to achieve an increase in liquidity sources or a reduction in liquidity requirements.

**Risk Identification**

**The following sources of liquidity and funding risks could impact our ability to meet short-term financial obligations as they come due.**

|                                 |  |
|---------------------------------|--|
| <b>Market/Monetization Risk</b> | Assets may not be readily transformed into cash due to unfavorable market conditions. Market liquidity risk may limit our ability to sell assets at reasonable values to meet liquidity needs.   |
| <b>Cash Flow Mismatch Risk</b>  | Discrete and cumulative cash flow mismatches or gaps over short-term horizons under both expected and adverse business conditions may create future liquidity shortfalls.  |
| <b>Event Funding Risk</b>       | Additional funding may be required as the result of a trigger event. Event funding risk comes in many forms and may result from a downgrade in credit ratings, a market event, or some other event that creates a funding obligation or limits existing funding options. |
| <b>Financing Risk</b>           | We may be unable to raise additional cash on a secured or unsecured basis due to unfavorable market conditions, AIG-specific issues, or any other issue that impedes access to additional funding.   |

#### **Governance**

Liquidity risk is overseen at the corporate level within ERM. The 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.



ITEM 7 | **Enterprise Risk Management**

Our Liquidity Risk Management Framework includes a number of liquidity and funding policies and monitoring tools to address AIG-specific, broader industry and market-related liquidity events.

**Risk Measurement**

Comprehensive cash flow projections under normal conditions are the primary component for identifying and measuring liquidity risk. We produce comprehensive liquidity projections over varying time horizons that incorporate all relevant liquidity sources and uses and include known and likely cash inflows and outflows. In addition, we perform stress testing by identifying liquidity stress scenarios and assessing the effects of these scenarios on our cash flow and liquidity.

**We use a number of approaches to measure our liquidity risk exposure, including:**

|                                 |  |
|---------------------------------|--|
| <b>Minimum Liquidity Limits</b> | Minimum Liquidity Limits specify the amount of assets required to be maintained in specific liquidity portfolios to meet obligations as they arise over a specified time horizon under stressed liquidity conditions.  |
| <b>Coverage Ratios</b>          | 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. |
| <b>Cash Flow Forecasts</b>      | Cash Flow Forecasts measure the liquidity needed for a specific legal entity over a specified time horizon.  |
| <b>Stress Testing</b>           | Asset liquidity and Coverage Ratios are re-measured under defined liquidity stress scenarios that will impact net cash flows, liquid assets and/or other funding sources.  |

Relevant liquidity reporting is produced and reported regularly to AIG Parent and business unit risk committees. The frequency, content, and nature of reporting will vary for each business unit and legal entity, based on its complexity, risk profile, activities and size.

**Operational Risk Management****Overview**

Operational risk is defined as the risk of loss, or other adverse consequences, resulting from inadequate or failed internal processes, people, systems, or from external events. Operational risk includes legal, regulatory, and compliance risks, and excludes business and strategy risks.

Operational risk is inherent in each of our business units and functions and 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 and operational and business disruptions, and/or damage to customer relationships.

## Governance

Our operational risk governance sets the requirements necessary to embed a risk management culture throughout the organization. AIG and its consolidated subsidiaries establish and maintain operational risk and controls governance forums that include representatives from the relevant business units and corporate functions to appropriately manage significant operational risk exposures. At an enterprise level, the TORCC oversees operational risk. The TORCC addresses firm-wide rather than business-specific issues and is mandated to prioritize technology and operational improvements that are significant and transformational.

Operational risk is overseen at the corporate level within ERM through the Head of AIG Operational and Technology Controls, who reports directly to our CRO. The Head of AIG Operational and Technology Controls is responsible for the development and maintenance of the operational risk framework that includes policies, standards and deployment of systems.

## Risk Identification, Measurement and Monitoring

The ORM function within ERM oversees the operational risk policy and integrated risk and control framework, which includes risk identification, assessment, measurement, management and monitoring of operational risk exposures. ORM supports the TORCC and has responsibility to provide an aggregate view of our operational risk profile. As part of the framework, we employ a Three Lines of Defense model whereby the first line consists of business units and corporate functions that own and manage AIG risks, the second line consists of ERM and other control functions and serves as an independent advisor to the first line and has risk oversight

ITEM 7 | **Enterprise Risk Management**

responsibilities, and the third line consists of our Internal Audit Group that provides independent assurance covering aspects of the First and Second Lines of Defense, in each case, to strengthen the governance, capability and delivery of operational risk management tools and methods. A key area of ongoing development is to have business leaders assume ownership and accountability for the risks and controls in their operating units, including support functions, for the operational risks that arise in their own processes and activities. In line with the Three Lines of Defense Model, the ORM programs include, but are not limited to, several key components outlined below:

- Risk Event Capture – enables every employee to identify, document, and escalate operational risk events, with a view to enhancing processes and promoting lessons learned.
- Risk Assessments – allows for the assessment, measurement and management of the key operational risks within our business units and helps inform on the efficacy of our control environment.
- Key Risk Indicators – enhances the ongoing monitoring and mitigation of operational risks and facilitate risk reporting.
- Issues Management – enables a consistent tracking of issues across the firm, including policy and process exceptions, control deficiencies and findings from risk and control assessment activities.
- Scenario Analyses – executed by first- and second-line professionals to identify potential risks that could result in financial losses in order to identify the financial implications of the risk to the firm and support the prioritization of operational risk treatment.

ORM, working together with other control and assurance functions (e.g., Compliance, Financial Controls Unit / Sarbanes Oxley, Global Business Continuity, and Internal Audit) through the integrated risk and control framework, provides an independent view of operational risks for each business, and works with the business unit CRO and business unit OCA 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, identify and access management, data privacy and data security), third-party providers, as well as compliance and regulatory matters. Based on the results of the risk identification and assessment efforts above, business leaders are accountable for tracking and remediating identified issues in line with our risk-monitoring procedures. Governance committees support these efforts and promote transparency enabling improved management decision making.

**An integrated risk and control framework facilitates the identification and mitigation of operational risk issues. To accomplish this, our integrated risk and control framework is designed to:**

- ensure first line accountability and ownership of risks and controls;
- promote role clarity among the business and risk and control functions;

- enhance transparency, risk management governance and culture;
- foster greater consistency in identifying, measuring and ranking material risks;
- proactively address potential risk issues and assign clear ownership and accountability for risk treatment; and
- manage the development of technology solutions that support the objectives above.

### **Insurance Risks**

Insurance risk is defined as risk arising from the uncertainty around the actual experience and/or policyholder behavior being materially different than expected at the inception of an insurance contract. These uncertainties include the amount and timing of cash flows from premiums, commissions, expenses, claims and claim settlement expenses paid or received under a contract.

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;

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- modeling and reporting of aggregations and limit concentrations at multiple levels (policy, line of business, product group, country, individual/group, correlation and catastrophic risk events);
- compliance with financial reporting and capital and solvency targets;
- use of reinsurance, both internal and third-party; and
- review and challenge of reserves to ensure comprehensive analysis with established escalation procedures to provide appropriate transparency in reserving decisions and judgments made in the establishment of reserves.

We closely manage insurance risk by monitoring and controlling the nature and geographic location of the risks in each line of business underwritten, the terms and conditions of the underwriting and the premiums we charge for taking on the risk. We analyze concentrations of risk using various modeling techniques, including both probability distributions (stochastic) and/or single-point estimates (deterministic) approaches.

**Risk Identification**

- **General Insurance companies** — risks covered include property, casualty, fidelity/surety, accident and health, aviation, and management liability. We manage risks in the General Insurance business through aggregations and limitations of concentrations at multiple levels: policy, line of business, geography, industry and legal entity.
- **Life and Retirement companies** — risks include mortality and morbidity in the insurance-oriented products and insufficient cash flows to cover contract liabilities and longevity risk in the retirement savings-oriented products. We manage risks through product design, sound medical and non-medical underwriting, and external reinsurance programs.

**We purchase reinsurance for our insurance operations.** Reinsurance facilitates insurance risk management (retention, volatility, concentrations) and capital planning. We may purchase reinsurance on a pooled basis. Pooling of our reinsurance risks enables us to purchase reinsurance more efficiently at a consolidated level, manage global counterparty risk and relationships and manage global catastrophe risks.

**Governance**

Insurance risks are monitored at the business unit level within ERM and overseen by the business unit chief risk officer, who reports directly to our CRO. The framework includes the following key components:

- written policies that define the rules for our insurance risk-taking activities;

- a limit framework focused on key insurance risks that aligns with our Board-approved risk appetite statement; and
- clearly defined authorities for all individuals and committee roles and responsibilities related to insurance risk management.

### Risk Measurement, Monitoring and Limits

#### **We use a number of approaches to measure our insurance risk exposure, including:**

**Stochastic methods.** Stochastic methods are used to measure and monitor risks including natural catastrophe, reserve and premium risk. We develop probabilistic estimates of risk based on our exposures, historical observed volatility or industry-recognized models in the case of catastrophe risk.

**Scenario analysis.** Scenario or deterministic analysis is used to measure and monitor risks such as terrorism or to estimate losses due to man-made catastrophic scenarios.

In addition, we monitor concentrations of exposure through insurance limits aggregated along dimensions such as geography, industry, or counterparty.

The risk monitoring responsibilities of the business units include ensuring compliance with insurance risk limits and escalation and remediation of limit breaches. Such activities are reported to management by the relevant business unit for informative decision-making on a regular basis. This monitoring approach is aligned with our overall risk limits framework.

Risk limits have a consistent framework used across AIG, its business units, and legal entities. This includes escalation thresholds in cases where measurement is particularly challenging.

*For further information on our three-tiered hierarchy of limits see Risk Appetite, Limits, Identification, and Measurement – Risk Limits herein.*

ITEM 7 | **Enterprise Risk Management****General Insurance Companies' Key Risks**

We manage our 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 General Insurance companies, risks primarily include the following:

- **Loss Reserves** – The potential inadequacy of the liabilities we establish for unpaid losses and loss adjustment expenses is a key risk faced by the General 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. *For further information see Critical Accounting Estimates – Insurance Liabilities – Loss Reserves herein.*
- **Underwriting** – The potential inadequacy of premiums charged for future risk periods on risks underwritten in our portfolios can impact the General 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 due to either an inability or

unwillingness to pay, contracts that do not respond properly to the event or actual reinsurance coverage that is different than anticipated. The inability or unwillingness to pay is considered credit risk and is monitored through our credit risk management framework.

### **Natural Catastrophe Risk**

We manage catastrophe exposure with multiple approaches such as setting risk limits based on aggregate Probable Maximum Loss (PML) modeling, monitoring overall exposures and risk accumulations, and purchasing catastrophe reinsurance through both the traditional reinsurance and capital markets in addition to other reinsurance protections.

We use third-party catastrophe risk models and other tools to evaluate and simulate frequency and severity of catastrophic events and associated losses to our portfolios of exposures. We apply a proprietary multi-model approach to account for relative strengths and weaknesses of vendor models, and make adjustments to modeled losses to account for loss adjustment expenses, model biases, data quality and non-modeled risks.

We perform post-catastrophe event studies to identify model weaknesses, underwriting gaps, and improvement opportunities. Lessons learned from post-catastrophe event studies are incorporated into the modeling and underwriting processes of risk pricing and selection. The majority of policies exposed to catastrophic risks are one-year contracts that allow us to adjust our underwriting guidelines, pricing and exposure accumulation in a relatively short period.

We recognize that climate change has implications for insurance industry exposure to natural catastrophe risk. With multiple levels of risk management processes in place, we actively analyze the latest climate science and policy to anticipate potential changes to our risk profile, pricing models and strategic planning. For example, we continually consider changes in climate and weather patterns as an integral part of the underwriting process. In addition, we are committed to providing innovative insurance products and services to help our clients be proactive against the threat of climate change, including expanding natural disaster resilience, promoting adaptation, and reducing greenhouse gas emissions. Our internal product development, underwriting, modeling, and sustainability practices will continue to adapt to and evolve with the developing risk exposures attributed to climate change.



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Our natural catastrophe exposure is primarily driven by the U.S. and Japan, though our overall exposure is diversified across multiple countries. For example, we have exposures to additional perils such as European windstorms and floods and seismic events across the Pacific Rim. Within the U.S., we have significant hurricane exposure in Florida, the Gulf of Mexico, the 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, 2017</b><br><i>(in millions)</i> |          | Net of 2018 | Net of 2018                           | Percent of Total   |
|---|----------|-------------|---------------------------------------|--------------------|
|   | Gross    | Reinsurance | Reinsurance, After Tax <sup>(d)</sup> | Shareholder Equity |
| <b>Exposures:</b>                                   |          |             |                                       |                    |
| U.S. Hurricane (1-in-100) <sup>(a)</sup>            | \$ 4,767 | \$ 1,109    | 876                                   | 1.3%               |
| U.S. Earthquake (1-in-250) <sup>(b)</sup>           | 6,461    | 1,632       | 1,289                                 | 2.0                |
| Japanese Wind (1-in-100)                            | 1,028    | 495         | 346                                   | 0.5                |
| Japanese Earthquake (1-in-250) <sup>(c)</sup>       | \$ 1,043 | \$ 630      | 441                                   | 0.7%               |

(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.

(d) Taxed at statutory rate of 21 percent and 30 percent for the U.S. and Japanese modeled losses, respectively.

The OEP estimates provided above reflect our in-force portfolios at September 30, 2017, for both U.S. and Japan exposures. The catastrophe reinsurance program is as of January 1, 2018.

AIG, along with other property casualty insurance and reinsurance companies, uses industry-recognized catastrophe models and applies proprietary modeling processes and assumptions to arrive at loss estimates. The use of different methodologies and assumptions could materially change the projected

losses. Since there is no industry standard for assumptions and preparation of insured data for use in these models, our modeled losses may not be comparable to estimates made by other companies.

Also, the modeled results are based on the assumption that all reinsurers fulfill their obligations to us under the terms of the reinsurance arrangements and all catastrophe bonds attach and pay as modeled. However, reinsurance recoverable may not be fully collectible. In particular, the use of catastrophe bonds may not provide commensurate levels of protection compared to traditional reinsurance transactions. Therefore, these estimates are inherently uncertain and may not accurately reflect our exposure to these events.

Our 2018 catastrophe reinsurance program provides protection on both an aggregate and occurrence basis with respect to North American exposures including United States, Canada, Mexico and the Caribbean.

- **Aggregate protection** protects us against a high frequency of losses from certain events including windstorm, severe convective storm, earthquake, wildfire, and flood. Under this part of the program, AIG can recover up to \$2.75 billion of aggregate losses in excess of \$750 million. The event deductible is \$100 million initially, but increases to \$250 million for individual events greater than \$750 million after the \$750 million aggregate retention is exhausted. This protection will also cover a large event, providing coverage of up to \$2 billion after the aggregate retention of \$750 million is exhausted.
- **Occurrence protection** is provided primarily on a \$2 billion excess of \$2 billion basis, with one reinstatement, with an additional \$750 million excess of \$4 billion on top of that but with no reinstatement. The \$750 million excess of \$4 billion layer is shared with the top \$750 million layer of aggregate protections, such that, only a total of \$750 million of limit is available across those two layers.

Additional multi-year coverages purchased in prior years provide additional coverage at various points of the program, including \$125 million that is part of \$500 million excess of \$4.5 billion coverage from the catastrophe bond reinsurance contract we entered into with Tradewynd Re Ltd. in 2014.

In addition, we continue to purchase specific covers to protect against catastrophic events in Japan and have also purchased protection against severe losses for other international locations on a global basis.

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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.

*For additional information see also Item 1A. Risk Factors — Reserves and Exposures.*

**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 for various terrorism attack modes and scenarios. Adjustments are made to account for vendor model gaps and the nature of the General 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 (TRIP) and reinsurance recoveries are estimated to be \$2.4 billion as of September 30, 2017.

Our exposure to terrorism risk in the U.S. is mitigated by TRIP in addition to limited private reinsurance protections. TRIP 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 2018, TRIP covers 82 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 \$2.2 billion for 2017.

We offer terrorism coverage in many other countries through various insurance products and participate in country terrorism pools when applicable. International terrorism exposure is estimated using scenario-based modeling and exposure concentration is monitored routinely. Targeted reinsurance purchases are made for some lines of business to cover potential losses due to terrorist attacks. We also rely on the government-sponsored and government-arranged terrorism reinsurance programs, including pools, in force in applicable non-U.S. jurisdictions.

**Life and Retirement Companies' Key Risks**

We 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 Life and Retirement companies, risks include the following:

- **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 pension risk transfer, structured settlement, and annuity products.
- **Morbidity risk** – represents the risk arising from actual morbidity (i.e., illness, disability or disease) incidence being higher than expected or the length of the claims extending longer than expected resulting in a higher overall benefit payout. This risk could arise from longer-term medical advances in detection and treatment for various diseases and medical conditions, as well as other factors. This risk exists in certain product lines such as group benefits, health and long-term care businesses.
- **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.
- **Policyholder behavior risk including full and partial surrender/lapse risk** – represents the risk that actual policyholder behavior differs from expected behavior in a manner that has an adverse effect on our operating results. There are many related assumptions made when products are sold, including how long the contracts will persist and other assumptions which impact the expected utilization of contract benefits and features. Actual experience can vary significantly from these assumptions. This risk is impacted by a number of factors including changes in market conditions, especially changes in the levels of interest rate and equity markets, tax law, regulations, competitive landscape and policyholder preferences. This risk exists in the majority of our product lines.

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 Insurance Contracts and Critical Accounting Estimates – Guaranteed Benefit Features of Variable Annuity Products. For additional discussion of business risks see Item 1A. Risk Factors — Business and Operations.*

ITEM 7 | **Enterprise Risk Management****Variable Annuity Risk Management and Hedging Programs**

Our Individual and Group Retirement businesses offer variable annuity products with GMWB riders that guarantee a certain level of benefits. GMWB guaranteed living benefits are accounted for as embedded derivatives measured at fair value, with changes in the fair value recorded in Other realized capital gains (losses). GMWB features subject the Life and Retirement companies to market risk, including exposure to changes in interest rates, equity prices, credit spreads and market volatility.

Variable annuity product design is the first step in managing our exposure to these market risks. Risk mitigation features of our variable annuity product design include GMWB rider fees indexed to an equity market volatility index, which can provide additional fee assessments in periods of increased market volatility, required minimum allocations to fixed accounts to reduce overall equity exposure, and the utilization of volatility control funds, which reduce equity exposure in the funds in response to changes in market volatility, even under sudden or extreme market movements.

After reflecting our product risk-mitigating features, we hedge our remaining economic exposure to market risk within GMWB features through our variable annuity hedging program, which is designed to offset certain changes in the economic value of these GMWB embedded derivatives, within established thresholds. The hedging program is designed to provide additional protection against large and combined movements in interest rates, equity prices, credit spreads and market volatility under multiple scenarios.

Our hedging program utilizes an economic hedge target, which represents our estimate of the underlying economic risks in our GMWB riders, based on the present value of the future expected benefit payments for the GMWB, less the present value of future rider fees, over numerous stochastic scenarios. This stochastic projection method uses best estimate assumptions for policyholder behavior (including mortality, lapses, withdrawals and benefit utilization) in conjunction with market scenarios calibrated to observable equity and interest rate option prices. Policyholder behaviors are regularly evaluated to compare current assumptions to actual experience and, if appropriate, changes are made to the policyholder behavior assumptions. The risk of changes in policyholder behavior is not explicitly hedged and such differences between expected and actual policyholder behaviors will 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.

*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 see Insurance Reserves – Life and Annuity Reserves and DAC – Variable Annuity Guaranteed Benefits and Hedging Results.*

In designing our hedging portfolio for our variable annuity hedging program, we make assumptions and projections about the future performance of the underlying contract holder funds. To project future account value changes, we make assumptions about how each of the underlying funds will perform. We map the contract holder funds to a set of publicly traded indices that we believe best represent the liability to be hedged. Basis risk exists due to the variance between these assumptions and actual fund returns, which may result in variances between changes in the hedging portfolio and changes in the economic hedge target. Net hedge results and the cost of hedging are also impacted by differences between realized volatility and implied volatility.

For index annuity and universal life products, we have a hedging program designed to manage the index crediting strategies associated with index annuity and index life products. This hedging program is designed to offset the economic risk with respect to the index returns for the current crediting rate reset period, and utilizes derivative instruments, including but not limited to equity index options and futures contracts. Similarly as with the variable annuities, there are differences between the calculation of the economic hedge target and U.S. GAAP valuation of the index annuity and index life embedded derivatives, which can lead to variances in their relative movements.

To manage the capital market exposures embedded within the economic hedge target, we identify and hedge market sensitivities to changes in equity markets, interest rates, volatility and for variable annuities, credit spreads. Each hedge program purchases derivative instruments or securities having sensitivities that offset those in the economic hedge target, within internally defined threshold levels. Since the relative movements of the hedging portfolio and the economic hedge target vary over time or with market changes, the net exposure can be outside the threshold limits, and adjustments to the hedging portfolio are made periodically to return the net exposure to within threshold limits.

Our hedging programs utilize various derivative instruments, including but not limited to equity options, futures contracts, interest rate swaps and swaption contracts, as well as other hedging instruments. In addition, for variable annuities, we purchase certain fixed income securities and elect the fair value option as a capital efficient way to manage interest rate and credit spread exposures. To

**ITEM 7 | Enterprise Risk Management**

minimize counterparty credit risk, the majority of our derivative instrument hedges are implemented using exchange-traded futures and options, cleared through global exchanges. Over the counter derivatives are highly collateralized.

The hedging programs are monitored on a daily basis to ensure that the economic hedge target and derivative portfolio are within the threshold limits, pursuant to the approved hedge strategy. Daily risk monitoring verifies that the net risk exposures, as measured through sensitivities to a large set of market shocks, are within the approved net risk exposure threshold limits. In addition, monthly stress tests are performed to determine the program's effectiveness relative to the applicable limits, under an array of combined severe market stresses in equity prices, interest rates, volatility and credit spreads. Finally, hedge strategies are reviewed regularly to gauge their effectiveness in managing our market exposures in the context of our overall risk appetite.

**Reinsurance Activities**

Reinsurance is used primarily to manage overall capital adequacy and mitigate the insurance loss (Life and Non-Life) exposure related to certain events such as natural and man-made catastrophes or death events. Our subsidiaries operate worldwide primarily by underwriting and accepting risks for their direct account on a gross basis and reinsuring a portion of the exposure on either an individual risk or an aggregate basis to the extent those risks exceed the desired retention level. In addition, as a condition of certain direct underwriting transactions, we may be required by clients, agents or regulation to cede all or a portion of risks to specified reinsurance entities, such as captives, other insurers, local reinsurers and compulsory pools.

**Reinsurance markets include:**

- Traditional local and global reinsurance markets including those in the United States, Bermuda, London and Europe, accessed directly and through reinsurance intermediaries;
- Capital markets through insurance-linked securities and collateralized reinsurance transactions, such as catastrophe bonds, sidecars and similar vehicles; and
- Other insurers that engage in both direct and assumed reinsurance.

**The form of reinsurance we may choose from time to time will generally depend on whether we are seeking:**

- proportional reinsurance, whereby we cede a specified percentage of premiums and losses to reinsurers;

- non-proportional or excess of loss reinsurance, whereby we cede all or a specified portion of losses in excess of a specified amount on a per risk, per occurrence (including catastrophe reinsurance) or aggregate basis; or
- facultative contracts that reinsure individual policies.

We continually evaluate the relative attractiveness of different forms of reinsurance contracts and different markets that may be used to achieve our risk and profitability objectives.

Reinsurance contracts do not relieve our subsidiaries from their direct obligations to insureds. However, an effective reinsurance program substantially mitigates our exposure to potentially significant losses.

In certain markets, we are required to participate on a proportional basis in reinsurance pools based on our relative share of direct writings in those markets. Such mandatory reinsurance generally covers higher-risk consumer exposures such as assigned-risk automobile and earthquake, as well as certain commercial exposures such as workers' compensation.

### **Reinsurance Recoverable**

AIG's reinsurance recoverable assets are comprised of:

- Paid losses recoverable – balances due from reinsurers for losses and loss adjustment expenses paid by our subsidiaries and billed, but not yet collected.
- Ceded loss reserves – ultimate ceded reserves for losses and loss adjustment expenses, including reserves for claims reported but not yet paid and estimates for IBNR.
- Ceded reserves for unearned premiums.
- Life and Annuity reinsurance recoverables (ceded policy and claim reserves).



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At December 31, 2017, total reinsurance recoverable assets were \$33.0 billion. These assets include general reinsurance paid losses recoverable of \$1.4 billion, ceded loss reserves of \$26.9 billion including reserves for incurred but not reported (IBNR) claims, and ceded reserves for unearned premiums of \$3.1 billion, as well as life reinsurance recoverable of \$1.6 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, 2017 reflects a reasonable estimate of the ultimate losses recoverable. Actual losses may, however, differ 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 sets limits with regard to the amount and type of 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 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 relevant risk-based capital (RBC) ratios fall below certain levels. 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, 2017, we held \$20.5 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 AIG, 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, 2017**

| <i>(in millions)</i>                  | S&P<br>Rating <sup>(a)</sup> | A.M.<br>Best<br>Rating <sup>(a)</sup> | Gross<br>Reinsurance<br>Assets  | Percent of<br>Reinsurance<br>Assets <sup>(b)</sup> | Uncollateralized<br>Collateral<br>Held <sup>(c)</sup> | Reinsurance<br>Assets |
|---------------------------------------|------------------------------|---------------------------------------|---------------------------------|--|---|-----------------------|
| <b>Reinsurer:</b>                     |                              |                                       |                                 |  |   |                       |
| Berkshire Hathaway Group of Companies | <b>AA+</b>                   | <b>A++</b>                            | <b>\$ 13,707</b> <sup>(d)</sup> | <b>41.5%</b>                                       | <b>\$ 13,265</b>                                      | <b>442</b>            |

Swiss Reinsurance Group of Companies **AA-** **A+ \$ 4,341** **13.1% \$ 2,371 \$ 1,970**

(a) The financial strength ratings reflect the ratings of the various reinsurance subsidiaries of the companies listed as of February 8, 2018.

(b) Total reinsurance assets include both Property Casualty and Life and Retirement reinsurance recoverable.

(c) Excludes collateral held in excess of applicable treaty balances.

(d) Includes \$13.2 billion recoverable under the 2011 retroactive asbestos reinsurance transaction and the 2017 Adverse Development Reinsurance agreement.

At December 31, 2017, we had no significant reinsurance recoverable due from any individual reinsurer that was financially troubled. Reinsurer capital levels continued to increase in 2017, thereby increasing the industry's underwriting capacity, which resulted in continued competition and lower rates for 2018 renewals. Reduced profitability associated with lower rates could potentially result in reduced capacity or rating downgrades for some reinsurers. The RCD, in conjunction with the credit executives within ERM, reviews these developments, monitors 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.

*For further discussion of reinsurance recoverable see Critical Accounting Estimates – Reinsurance Assets*

TABLE OF CONTENTSITEM 7 | **Enterprise Risk Management****Other BUSINESS Risks****Derivative Transactions**

We utilize derivatives principally to enable us to hedge exposure to interest rates, currencies, credit, commodities, equities and other risks. Credit risk associated with derivative counterparties exists for a derivative contract when that contract has a positive fair value to us. The maximum potential exposure will increase or decrease during the life of the derivative commitments as a function of maturity and market conditions. All derivative transactions must be transacted within counterparty limits that have been approved by ERM.

We evaluate counterparty credit quality by internal analysis consistent with the AIG Credit Policy. We utilize various credit enhancements, including letters of credit, guarantees, collateral, credit triggers, credit derivatives, margin agreements and subordination to reduce the credit risk relating to outstanding financial derivative transactions. We require credit enhancements in connection with specific transactions based on, among other things, the creditworthiness of the counterparties, and transaction size and maturity. Furthermore, we enter into certain agreements that have the benefit of set-off and close-out netting provisions, such as ISDA Master Agreements. These provisions provide that, in the case of an early termination of a transaction, we can set off receivables from a counterparty against payables to the same counterparty arising out of all covered transactions. As a result, where a legally enforceable netting agreement exists, the fair value of the transaction with the counterparty represents the net sum of estimated fair values.

The fair value of our interest rate, currency, credit, commodity and equity swaps, options, swaptions, and forward commitments, futures, and forward contracts reported as a component of Other assets, was approximately \$0.9 billion at December 31, 2017 and \$1.8 billion at December 31, 2016. 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:**

|                         |    | <b>2017</b> |    | <b>2016</b> |
|-------------------------|----|-------------|----|-------------|
| AAA                     | \$ | <b>12</b>   | \$ | 68          |
| AA                      |    | <b>5</b>    |    | 12          |
| A                       |    | <b>151</b>  |    | 163         |
| BBB                     |    | <b>526</b>  |    | 1,338       |
| Below investment grade* |    | <b>228</b>  |    | 228         |
| <b>Total</b>            | \$ | <b>922</b>  | \$ | 1,809       |

\* Below investment grade includes not rated.

*For additional discussion related to derivative transactions see Note 11 to the Consolidated Financial Statements.*

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### **Glossary**

#### **Glossary**

**Accident year** The annual calendar accounting period in which loss events occurred, regardless of when the losses are actually reported, booked or paid.

**Accident year combined ratio, as adjusted** The combined ratio excluding catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting.

**Accident year loss ratio, as adjusted** The loss ratio excluding catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting.

**Acquisition ratio** Acquisition costs divided by net premiums earned. Acquisition costs are those costs incurred to acquire new and renewal insurance contracts and also include the amortization of VOBA and DAC. Acquisition costs vary with sales and include, but are not limited to, commissions, premium taxes, direct marketing costs and certain costs of personnel engaged in sales support activities such as underwriting.

**Additional premium** represents a premium on an insurance policy over and above the initial premium imposed at the beginning of the policy. An additional premium may be assessed if the insured's risk is found to have increased significantly.

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

**Assets under administration** include assets under management and Retail Mutual Funds and Group Retirement mutual fund assets that we sell or administer.

**Assets under management** include assets in the general and separate accounts of our subsidiaries that support liabilities and surplus related to our life and annuity insurance products and the notional value of stable value wrap contracts.

**Base Spread** Net investment income excluding income from alternative investments and other enhancements, less interest credited excluding amortization of sales inducement assets.

**Base Yield** Net investment income excluding income from alternative investments and other enhancements, as a percentage of average base invested asset portfolio, which excludes alternative investments, other bond securities and certain other investments for which the fair value option has been elected.

**Book value per common share, excluding accumulated other comprehensive income (AOCI) and Book value per common share, excluding AOCI and deferred tax assets (DTA) (Adjusted book value per common share)** are non-GAAP measures and are used to show the amount of our net worth on a per-share basis. Book value per common share excluding AOCI is derived by dividing total AIG shareholders' equity, excluding AOCI, by total common shares outstanding. Adjusted book value per common share is derived by dividing total AIG shareholders' equity, excluding AOCI and DTA (Adjusted Shareholders' Equity), by total common shares outstanding.

**Casualty insurance** Insurance that is primarily associated with the losses caused by injuries to third persons, i.e., not the insured, and the legal liability imposed on the insured as a result.

**Combined ratio** Sum of the loss ratio and the acquisition and general operating expense ratios.

**CSA** *Credit Support Annex* A legal document generally associated with an ISDA Master Agreement that provides for collateral postings which could vary depending on ratings and threshold levels.

**CVA** *Credit Valuation Adjustment* The CVA adjusts the valuation of derivatives to account for nonperformance risk of our counterparty with respect to all net derivative assets positions. Also, the CVA reflects the fair value movement in AIGFP's asset portfolio that is attributable to credit movements only, without the impact of other market factors such as interest rates and foreign exchange rates. Finally, the CVA also accounts for our own credit risk in the fair value measurement of all derivative net liability positions and liabilities where AIG has elected the fair value option, when appropriate.

**DAC** *Deferred Policy Acquisition Costs* Deferred costs that are incremental and directly related to the successful acquisition of new business or renewal of existing business.

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**DAC Related to Unrealized Appreciation (Depreciation) of Investments** An adjustment to DAC and Reserves for investment-oriented products, equal to the change in DAC and Unearned Revenue 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. An adjustment to benefit reserves for investment-oriented products is also recognized to reflect the application of the benefit ratio to the accumulated assessments 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 (collectively referred to as “shadow Investment-Oriented Adjustments”).

For long-duration traditional products, significant unrealized appreciation of investments in a sustained low interest rate environment may cause additional future policy benefit liabilities to be recorded (shadow loss reserves).

**Deferred Gain on Retroactive Reinsurance** Retroactive reinsurance is a reinsurance contract in which an assuming entity agrees to reimburse a ceding entity for liabilities incurred as a result of past insurable events. If the amount of premium paid by the ceding reinsurer is less than the related ceded loss reserves, the resulting gain is deferred and amortized over the settlement period of the reserves. Any related development on the ceded loss reserves recoverable under the contract would increase the deferred gain if unfavorable, or decrease the deferred gain if favorable.

**Expense ratio** Sum of acquisition expenses and general operating expenses, divided by net premiums earned.

**General operating expense ratio** General operating expenses divided by net premiums earned. General operating expenses are those costs that are generally attributed to the support infrastructure of the organization and include but are not limited to personnel costs, projects and bad debt expenses. General operating expenses exclude losses and loss adjustment expenses incurred, acquisition expenses, and investment expenses.

**GIC/GIA** *Guaranteed Investment Contract/Guaranteed Investment Agreement* A contract whereby the seller provides a guaranteed repayment of principal and a fixed or floating interest rate for a predetermined period of time.

**G-SII** *Global Systemically Important Insurer* An insurer that is deemed globally systemically important (that is, of such size, market importance and global interconnectedness that the distress or failure of the insurer would cause significant dislocation in the global financial system and adverse economic consequences across a range of countries) by the Financial Stability Board, in consultation with and based on a methodology developed by the International Association of Insurance Supervisors.

**IBNR** *Incurred But Not Reported* Estimates of claims that have been incurred but not reported to us.

**ISDA Master Agreement** An agreement between two counterparties, which may have multiple derivative transactions with each other governed by such agreement, that generally provides for the net settlement of all or a specified group of these derivative transactions, as well as pledged collateral, through a single payment, in a single currency, in the event of a default on, or affecting any, one derivative transaction or a termination event affecting all, or a specified group of, derivative transactions.

**LAE** *Loss Adjustment Expenses* The expenses directly attributed to settling and paying claims of insureds and include, but are not limited to, legal fees, adjuster's fees and the portion of general expenses allocated to claim settlement costs.

**Loss Ratio** Losses and loss adjustment expenses incurred divided by net premiums earned.

**Loss reserve development** The increase or decrease in incurred losses and loss adjustment expenses related to prior years as a result of the re-estimation of loss reserves at successive valuation dates for a given group of claims.

**Loss reserves** Liability for unpaid losses and loss adjustment expenses. The estimated ultimate cost of settling claims relating to insured events that have occurred on or before the balance sheet date, whether or not reported to the insurer at that date.

**Loan-to-Value Ratio** Principal amount of loan amount divided by appraised value of collateral securing the loan.

**Master netting agreement** An agreement between two counterparties who have multiple derivative contracts with each other that provides for the net settlement of all contracts covered by such agreement, as well as pledged collateral, through a single payment, in a single currency, in the event of default on or upon termination of any one such contract.

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

**Net premiums written** represent the sales of an insurer, adjusted for reinsurance premiums assumed and ceded, during a given period. Net premiums earned are the revenue of an insurer for covering risk during a given period. Net premiums written are a measure of performance for a sales period, while Net premiums earned are a measure of performance for a coverage period.



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### **Glossary**

**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.

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

**Prior year development** *See Loss reserve development.*

**RBC Risk-Based Capital** A formula designed to measure the adequacy of an insurer's statutory surplus compared to the risks inherent in its business.

**Reinstatement premium** Additional premiums payable to reinsurers to restore coverage limits that have been exhausted as a result of reinsured losses under certain excess of loss reinsurance treaties.

**Reinsurance** The practice whereby one insurer, the reinsurer, in consideration of a premium paid to that insurer, agrees to indemnify another insurer, the ceding company, for part or all of the liability of the ceding company under one or more policies or contracts of insurance which it has issued.

**Retroactive Reinsurance** *See Deferred Gain on Retroactive Reinsurance.*

**Return on equity – Adjusted after-tax income excluding AOCI and DTA (Adjusted Return on Equity)** is a non-GAAP measure and is used to show the rate of return on shareholders' equity. Adjusted Return on Equity is derived by dividing actual or annualized adjusted after-tax income attributable to AIG by average Adjusted Shareholders' Equity.

**Return premium** represents amounts given back to the insured in the case of a cancellation, an adjustment to the rate or an overpayment of an advance premium.

**Salvage** The amount that can be recovered by an insurer for the sale of damaged goods for which a policyholder has been indemnified (and to which title was transferred).

**Severe losses** are defined as non-catastrophic individual first-party losses, surety and trade credit losses greater than \$10 million, net of related reinsurance and salvage and subrogation.

**SIA Sales Inducement Asset** Represents enhanced crediting rates or bonus payments to contract holders on certain annuity and investment contract products that meet the criteria to be deferred and amortized over the life of the contract.

**Solvency II** Legislation in the European Union which reforms the insurance industry's solvency framework, including minimum capital and solvency requirements, governance requirements, risk management and public reporting standards. The Solvency II Directive (2009/138/EEC) was adopted on November 25, 2009 and became effective on January 1, 2016.

**Subrogation** The amount of recovery for claims we have paid our policyholders, generally from a negligent third party or such party's insurer.

**Surrender charge** A charge levied against an investor for the early withdrawal of funds from a life insurance or annuity contract, or for the cancellation of the agreement.

**Surrender rate** represents annualized surrenders and withdrawals as a percentage of average reserves and Group Retirement mutual fund assets under administration.

**Unearned premium reserve** Liabilities established by insurers and reinsurers to reflect unearned premiums, which are usually refundable to policyholders if an insurance or reinsurance contract is canceled prior to expiration of the contract term.

**VOBA Value of Business Acquired** Present value of projected future gross profits from in-force policies of acquired businesses.

**Acronyms**

**Acronyms**

|  |   |
|--|---|
| <b>A&amp;H</b> Accident and Health Insurance   | <b>GMWB</b> Guaranteed Minimum Withdrawal Benefits                |
| <b>ABS</b> Asset-Backed Securities   | <b>ISDA</b> International Swaps and Derivatives Association, Inc. |
| <b>CDO</b> Collateralized Debt Obligations   | <b>Moody's</b> Moody's Investors' Service Inc.                    |
| <b>CDS</b> Credit Default Swap   | <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>GMDB</b> Guaranteed Minimum Death Benefits  | <b>URR</b> Unearned revenue reserve                               |
|  | <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.:

*Opinions on the Financial Statements and Internal Control over Financial Reporting*

We have audited the accompanying consolidated balance sheets of American International Group, Inc. and its subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2017, including the related notes and financial statement schedules listed in the accompanying index (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

*Basis for Opinions*

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A in the Annual Report on the Form 10-K. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis,

evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. 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.

#### *Definition and Limitations of Internal Control over Financial Reporting*

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 16, 2018

We have served as the Company's auditor since 1980.



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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: 2017 - \$225,461; 2016 - \$232,241)

Other bond securities, at fair value *(See Note 6)*

Equity Securities:

Common and preferred stock available for sale, at fair value (cost: 2017 - \$1,305; 2016 - \$1,697)

Other common and preferred stock, at fair value *(See Note 6)*

Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2017 - \$5; 2016 - \$11)

Other invested assets (portion measured at fair value: 2017 - \$6,248; 2016 - \$6,946)

Short-term investments (portion measured at fair value: 2017 - \$2,615; 2016 - \$3,341)

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 \$317 in 2017 and \$193 in 2016

(portion measured at fair value: 2017 - \$922; 2016 - \$1,809)

Separate account assets, at fair value

Assets held for sale

**Total assets****Liabilities:**

Liability for unpaid losses and loss adjustment expenses

Unearned premiums

Future policy benefits for life and accident and health insurance contracts

Policyholder contract deposits (portion measured at fair value: 2017 - \$4,150; 2016 - \$3,058)

Other policyholder funds (portion measured at fair value: 2017 - \$0; 2016 - \$5)

Other liabilities (portion measured at fair value: 2017 - \$1,124; 2016 - \$2,016)

Long-term debt (portion measured at fair value: 2017 - \$2,888; 2016 - \$3,428)

Separate account liabilities

Liabilities held for sale

**Total liabilities****Contingencies, commitments and guarantees (see Note 16)****AIG shareholders' equity:**

Common stock, \$2.50 par value; 5,000,000,000 shares authorized; shares issued: 2017 - 1,906,671,492 and 2016 - 1,906,671,492

Treasury stock, at cost; 2017 - 1,007,626,835; 2016 - 911,335,651 shares of common stock

Additional paid-in capital

Retained earnings

Accumulated other comprehensive income

**Total AIG shareholders' equity**

**Non-redeemable noncontrolling interests**

**Total equity**

**Total liabilities and equity**

\$

*See accompanying Notes to Consolidated Financial Statements.*

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## American International Group, Inc.

## Consolidated Statements of Income

|   |    | Years Ended December 31, |               |               |
|---|----|--------------------------|---------------|---------------|
|   |    | 2017                     | 2016          | 2015          |
| <i>(dollars in millions, except per share data)</i>   |    |                          |               |               |
| <b>Revenues:</b>  |    |                          |               |               |
| Premiums  | \$ | 31,374                   | \$ 34,393     | \$ 36,655     |
| Policy fees   |    | 2,935                    | 2,732         | 2,755         |
| Net investment income   |    | 14,179                   | 14,065        | 14,053        |
| Net realized capital gains (losses):  |    |                          |               |               |
| Total other-than-temporary impairments on available for sale securities   |    | (196)                    | (458)         | (556)         |
| Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income (loss) |    | (31)                     | (29)          | (35)          |
| Net other-than-temporary impairments on available for sale securities recognized in net income (loss)                                       |    | (227)                    | (487)         | (591)         |
| Other realized capital gains (losses)   |    | (1,153)                  | (1,457)       | 1,367         |
| Total net realized capital gains (losses)   |    | (1,380)                  | (1,944)       | 776           |
| Other income  |    | 2,412                    | 3,121         | 4,088         |
| <b>Total revenues</b>   |    | <b>49,520</b>            | <b>52,367</b> | <b>58,327</b> |
| <b>Benefits, losses and expenses:</b>   |    |                          |               |               |
| Policyholder benefits and losses incurred   |    | 29,972                   | 32,437        | 31,345        |
| Interest credited to policyholder account balances  |    | 3,592                    | 3,705         | 3,731         |
| Amortization of deferred policy acquisition costs   |    | 4,288                    | 4,521         | 5,236         |
| General operating and other expenses  |    | 9,107                    | 10,989        | 12,686        |
| Interest expense  |    | 1,168                    | 1,260         | 1,281         |
| (Gain) loss on extinguishment of debt   |    | (5)                      | 74            | 756           |
| Net (gain) loss on sale of divested businesses  |    | (68)                     | (545)         | 11            |
| <b>Total benefits, losses and expenses</b>  |    | <b>48,054</b>            | <b>52,441</b> | <b>55,046</b> |
| <b>Income (loss) from continuing operations before income tax expense</b>   |    | <b>1,466</b>             | <b>(74)</b>   | <b>3,281</b>  |
| <b>Income tax expense:</b>  |    |                          |               |               |
| Current   |    | 636                      | 576           | 820           |
| Deferred  |    | 6,890                    | (391)         | 239           |
| <b>Income tax expense</b>   |    | <b>7,526</b>             | <b>185</b>    | <b>1,059</b>  |
| <b>Income (loss) from continuing operations</b>   |    | <b>(6,060)</b>           | <b>(259)</b>  | <b>2,222</b>  |
| <b>Income (loss) from discontinued operations, net of income tax expense</b>  |    | <b>4</b>                 | <b>(90)</b>   | <b>-</b>      |
| <b>Net income (loss)</b>  |    | <b>(6,056)</b>           | <b>(349)</b>  | <b>2,222</b>  |
| <b>Less:</b>  |    |                          |               |               |
| <b>Net income from continuing operations attributable to noncontrolling interests</b>   |    | <b>28</b>                | <b>500</b>    | <b>26</b>     |
| <b>Net income (loss) attributable to AIG</b>  | \$ | <b>(6,084)</b>           | <b>(849)</b>  | <b>2,196</b>  |
| <b>Net income (loss) attributable to AIG common shareholders</b>  | \$ | <b>(6,084)</b>           | <b>(849)</b>  | <b>2,196</b>  |

**Income (loss) per common share attributable to AIG:**

Basic:

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|   |    |             |    |               |    |               |
|---|----|-------------|----|---------------|----|---------------|
| Income (loss) from continuing operations    | \$ | (6.54)      | \$ | (0.70)        | \$ | 1.69          |
| Loss from discontinued operations           | \$ | -           | \$ | (0.08)        | \$ | -             |
| Net income (loss) attributable to AIG       | \$ | (6.54)      | \$ | (0.78)        | \$ | 1.69          |
| Diluted:                                    |    |             |    |               |    |               |
| Income (loss) from continuing operations    | \$ | (6.54)      | \$ | (0.70)        | \$ | 1.65          |
| Loss from discontinued operations           | \$ | -           | \$ | (0.08)        | \$ | -             |
| Net income (loss) attributable to AIG       | \$ | (6.54)      | \$ | (0.78)        | \$ | 1.65          |
| <b>Weighted average shares outstanding:</b> |    |             |    |               |    |               |
| Basic                                       |    | 930,561,286 |    | 1,091,085,131 |    | 1,299,825,350 |
| Diluted                                     |    | 930,561,286 |    | 1,091,085,131 |    | 1,334,464,883 |
| <b>Dividends declared per common share</b>  | \$ | 1.28        | \$ | 1.28          | \$ | 0.81          |

See accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc.

Consolidated Statements of Comprehensive Income (Loss)

|   | Years Ended December<br>31, |                |                  |
|---|-----------------------------|----------------|------------------|
| <i>(in millions)</i>  | 2017                        | 2016           | 2015             |
| <b>Net income (loss)</b>  | <b>\$(6,056)</b>            | <b>\$(349)</b> | <b>\$ 2,222</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 taken | <b>367</b>                  | (270)          | (347)            |
| Change in unrealized appreciation (depreciation) of all other investments   | <b>1,288</b>                | 839            | (6,762)          |
| Change in foreign currency translation adjustments  | <b>539</b>                  | 250            | (1,100)          |
| Change in retirement plan liabilities adjustment  | <b>41</b>                   | (126)          | 123              |
| <b>Other comprehensive income (loss)</b>  | <b>2,235</b>                | 693            | (8,086)          |
| <b>Comprehensive income (loss)</b>  | <b>(3,821)</b>              | 344            | (5,864)          |
| Comprehensive income attributable to noncontrolling interests   | <b>28</b>                   | 500            | 20               |
| <b>Comprehensive loss attributable to AIG</b>   | <b>\$(3,849)</b>            | <b>\$(156)</b> | <b>\$(5,884)</b> |

*See accompanying Notes to Consolidated Financial Statements.*

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American International Group, Inc.

## Consolidated Statements of Equity

|   |          |             |            | Accumulated |               |
|---|----------|-------------|------------|-------------|---------------|
|   | Common   | Treasury    | Additional | Retained    | Other         |
| (in millions)   | Stock    | Stock       | Paid-in    | Earnings    | Comprehensive |
|   |          |             | Capital    |             | Income        |
| <b>Balance, January 1, 2015</b>   | \$ 4,766 | \$ (19,218) | \$ 80,958  | \$ 29,775   | \$ 10,617     |
| Common stock issued under stock plans                                   | -        | 13          | (13)       | -           | -             |
| Purchase of common stock  | -        | (10,895)    | -          | -           | -             |
| Net income attributable to AIG or other noncontrolling interests        | -        | -           | -          | 2,196       | -             |
| Dividends   | -        | -           | -          | (1,028)     | -             |
| Other comprehensive loss  | -        | -           | -          | -           | (8,080)       |
| Deferred income taxes   | -        | -           | (9)        | -           | -             |
| Net increase due to acquisition and consolidations                      | -        | -           | -          | -           | -             |
| Contributions from noncontrolling interests                             | -        | -           | -          | -           | -             |
| Distributions to noncontrolling interests                               | -        | -           | -          | -           | -             |
| Other   | -        | 2           | 574        | -           | -             |
| <b>Balance, December 31, 2015</b>                                       | \$ 4,766 | \$ (30,098) | \$ 81,510  | \$ 30,943   | \$ 2,537      |
| Common stock issued under stock plans                                   | -        | 86          | (175)      | -           | -             |
| Purchase of common stock  | -        | (11,460)    | -          | -           | -             |
| Net income (loss) attributable to AIG or other noncontrolling interests | -        | -           | -          | (849)       | -             |
| Dividends   | -        | -           | -          | (1,372)     | -             |
| Other comprehensive income (loss)                                       | -        | -           | -          | -           | 693           |
| Current and deferred income taxes                                       | -        | -           | (208)      | -           | -             |
| Net increase due to acquisition and consolidations                      | -        | -           | -          | -           | -             |
| Contributions from noncontrolling interests                             | -        | -           | -          | -           | -             |
| Distributions to noncontrolling interests                               | -        | -           | -          | -           | -             |
| Other   | -        | 1           | (63)       | (11)        | -             |
| <b>Balance, December 31, 2016</b>                                       | \$ 4,766 | \$ (41,471) | \$ 81,064  | \$ 28,711   | \$ 3,230      |
| Common stock issued under stock plans                                   | -        | 147         | (325)      | -           | -             |
| Purchase of common stock  | -        | (6,275)     | -          | -           | -             |
| Net income (loss) attributable to AIG or other noncontrolling interests | -        | -           | -          | (6,084)     | -             |
| Dividends   | -        | -           | -          | (1,172)     | -             |
| Other comprehensive income (loss)                                       | -        | -           | -          | -           | 2,235         |
| Current and deferred income taxes                                       | -        | -           | (4)        | -           | -             |
| Net increase due to acquisitions and consolidations                     | -        | -           | -          | -           | -             |
| Contributions from noncontrolling interests                             | -        | -           | -          | -           | -             |
| Distributions to noncontrolling interests                               | -        | -           | -          | -           | -             |
| Other   | -        | 4           | 343        | 2           | -             |
| <b>Balance, December 31, 2017</b>                                       | \$ 4,766 | \$ (47,595) | \$ 81,078  | \$ 21,457   | \$ 5,465      |

See accompanying Notes to Consolidated Financial Statements.



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American International Group, Inc.

## Consolidated Statements of Cash Flows

*(in millions)***Cash flows from operating activities:**

Net income (loss)

(Income) loss from discontinued operations

**Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:****Noncash revenues, expenses, gains and losses included in income (loss):**

Net gains on sales of securities available for sale and other assets

Net (gains) losses on sales of divested businesses

(Gains) losses on extinguishment of debt

Unrealized (gains) losses in earnings – net

Equity in income from equity method investments, net of dividends or distributions

Depreciation and other amortization

Impairments of assets

**Changes in operating assets and liabilities:**

Insurance reserves

Premiums and other receivables and payables – net

Reinsurance assets, net of allowance

Capitalization of deferred policy acquisition costs

Current and deferred income taxes – net

Other, net

Total adjustments

**Net cash provided by (used in) operating activities****Cash flows from investing activities:**

Proceeds from (payments for)

Sales or distributions of:

Available for sale securities

Other securities

Other invested assets

Divested businesses, net

Maturities of fixed maturity securities available for sale

Principal payments received on and sales of mortgage and other loans receivable

Purchases of:

Available for sale securities

Other securities

Other invested assets

Mortgage and other loans receivable

Net change in restricted cash

Net change in short-term investments

Other, net

**Net cash provided by investing activities****Cash flows from financing activities:**

Proceeds from (payments for)

Policyholder contract deposits

Policyholder contract withdrawals



|  |             |
|--|-------------|
| Issuance of long-term debt                     | 3           |
| Repayments of long-term debt                   | (3,         |
| Purchase of common stock                       | (6,         |
| Dividends paid                                 | (1,         |
| Other, net                                     |             |
| <b>Net cash used in financing activities</b>   | <b>(5,</b>  |
| <b>Effect of exchange rate changes on cash</b> |             |
| Net increase (decrease) in cash                | 1           |
| Cash at beginning of year                      |             |
| Change in cash of businesses held for sale     |             |
| <b>Cash at end of year</b>                     | <b>\$ 2</b> |

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American International Group, Inc.

Consolidated Statements of Cash Flows

**Supplementary Disclosure of Consolidated Cash Flow Information**

|  | Years Ended<br>December 31, |          |          |
|--|-----------------------------|----------|----------|
| (in millions)  | 2017                        | 2016     | 2015     |
| <b>Cash paid during the period for:</b>  |                             |          |          |
| Interest   | \$ 1,282                    | \$ 1,331 | \$ 1,368 |
| Taxes  | \$ 544                      | \$ 493   | \$ 511   |
| <b>Non-cash investing/financing activities:</b>                                      |                             |          |          |
| Interest credited to policyholder contract deposits included in financing activities | \$ 3,309                    | \$ 3,430 | \$ 3,676 |
| Non-cash consideration received from sale of AerCap                                  | \$ -                        | \$ -     | \$ 500   |
| Non-cash consideration received from sale of United Guaranty                         | \$ -                        | \$ 1,101 | \$ -     |
| <i>See accompanying Notes to Consolidated Financial Statements.</i>                  |                             |          |          |

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ITEM 8 | **Notes to Consolidated Financial Statements | 1. Basis of Presentation****1. Basis of Presentation**

American International Group, Inc. (AIG) is a leading global insurance organization serving customers in more than 80 countries and jurisdictions. AIG companies serve commercial and individual customers through one of the most extensive worldwide property casualty networks of any insurer. In addition, AIG companies are leading providers of life insurance and retirement services in the United States. AIG Common Stock, par value \$2.50 per share (AIG Common Stock), is listed on the New York Stock Exchange (NYSE: AIG) and the Tokyo Stock Exchange. Unless the context indicates otherwise, the terms “AIG,” “we,” “us” or “our” mean American International Group, Inc. and its consolidated subsidiaries and the term “AIG Parent” means American International Group, Inc. and not any of its consolidated subsidiaries.

The consolidated financial statements include the accounts of AIG Parent, our controlled subsidiaries (generally through a greater than 50 percent ownership of voting rights and voting interests), and variable interest entities (VIEs) of which we are the primary beneficiary. Equity investments in entities that we do not consolidate, including corporate entities in which we have significant influence and partnership and partnership-like entities in which we have more than minor influence over the operating and financial policies, are accounted for under the equity method unless we have elected the fair value option.

Certain of our foreign subsidiaries included in the Consolidated Financial Statements report on different fiscal-period bases. The effect on our consolidated financial condition and results of operations of all material events occurring at these subsidiaries through the date of each of the periods presented in these Consolidated Financial Statements has been considered for adjustment and/or disclosure.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). All material intercompany accounts and transactions have been eliminated.

**Sales of Businesses****Sale of Certain Insurance Subsidiary Operations to Fairfax**

On October 18, 2016, we entered into agreements to sell certain insurance operations to Fairfax Financial Holdings Limited (Fairfax). The agreements include the sale of our subsidiary operations in Argentina, Chile, Colombia, Uruguay, Venezuela and Turkey. Fairfax will also acquire renewal rights for the portfolios of local business written by our operations in Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia, and assume certain of our operating assets and employees. Total cash consideration to us is expected to be approximately \$234 million. The transaction is closing on a country-by-country basis as the regulatory approvals are obtained. In the second quarter of 2017, the sale of operations in Turkey as well as the renewal rights in Bulgaria, the Czech Republic, Hungary, Poland and Slovakia were completed, which resulted in total cash proceeds of \$48 million. In the third quarter of 2017, the sale of the operations in Colombia, Chile and Argentina were completed, which resulted in cash proceeds of \$168 million. Substantially all of the operations and renewal rights that we agreed to sell Fairfax were sold by December 31, 2017.

## AIG Fuji Life Insurance

On November 14, 2016, we entered into an agreement to sell Fuji Life to FWD Group, the insurance arm of Pacific Century Group. Total cash consideration to us was approximately \$333 million. The transaction closed on April 30, 2017.

## United Guaranty

On December 31, 2016, we sold our 100 percent interest in United Guaranty Corporation (United Guaranty) and certain related affiliates to Arch Capital Group Ltd. (Arch) for total consideration of \$3.3 billion, consisting of \$2.2 billion of cash and approximately \$1.1 billion of newly issued Arch convertible non-voting common-equivalent preferred stock and reported a pre-tax gain of approximately \$697 million. We also received \$261 million in pre-closing dividends from United Guaranty in the fourth quarter of 2016. However, due to pending regulatory approvals, United Guaranty Asia was not included in the December 31, 2016 closing and \$40 million of cash consideration was retained by Arch. The sale of United Guaranty Asia was completed on July 1, 2017 and we received the \$40 million cash proceeds.

Concurrent with the closing, we entered into reinsurance agreements with Arch, including an amended and restated 50 percent quota share reinsurance agreement and an aggregate excess of loss reinsurance agreement, pursuant to which we will continue to be exposed to certain United Guaranty policies written between 2009 and 2016.

ITEM 8 | **Notes to Consolidated Financial Statements | 1. Basis of Presentation****Ascot**

On September 16, 2016, we entered into an agreement to sell our 20 percent interest in Ascot Underwriting Holdings Ltd. and our 100 percent interest in the related syndicate-funding subsidiary Ascot Corporate Name Ltd. to Canada Pension Plan Investment Board (CPPIB). Total consideration for the transaction was \$1.1 billion resulting in a pre-tax gain of approximately \$162 million attributable to AIG's controlling interest, inclusive of CPPIB's recapitalization of Syndicate 1414's Funds at Lloyd's (FAL) capital requirements. The transaction closed on November 18, 2016, and we received approximately \$244 million in net cash proceeds.

**Korea Fund**

On November 17, 2016, an AIG sponsored Fund (the Korea Fund), completed the sale of mixed-use commercial complex in Seoul, South Korea commonly known as the Seoul International Finance Center to Brookfield Properties for a total consideration of \$2.5 billion, of which \$1.2 billion was used to repay the fund's debt. The sale resulted in a pre-tax gain of \$1.1 billion included in Other Income, of which \$464 million was attributable to AIG's controlling interest.

**NSM**

On August 31, 2016, we sold our controlling interest in NSM Insurance Group LLC (NSM), a managing general agent to ABRY Partners, a private equity firm, for consideration of \$201 million resulting in a pre-tax gain of approximately \$105 million in the third quarter of 2016. We retained an equity interest in a newly formed joint venture and will continue to provide underwriting capacity to NSM.

**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:

- liability for unpaid losses and loss adjustment expenses (loss reserves);
- reinsurance assets;
- valuation of future policy benefit liabilities and timing and extent of loss recognition;
- valuation of liabilities for guaranteed benefit features of variable annuity products;
- estimated gross profits to value deferred policy acquisition costs for investment-oriented products;

- impairment charges, including other-than-temporary impairments on available for sale securities, impairments on other invested assets, including investments in life settlements, and goodwill impairment;
- allowances for loan losses;
- liability for legal contingencies;
- fair value measurements of certain financial assets and liabilities; and
- income tax assets and liabilities, including recoverability of our net deferred tax asset and the predictability of future tax operating profitability of the character necessary to realize the net deferred tax asset and provisional estimates associated with the Tax Act.

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

### Out of Period Adjustments

For the year ended December 31, 2016, we recorded out of period adjustments relating to prior years that increased Net loss attributable to AIG by \$174 million, increased Loss from continuing operations before income taxes by \$57 million and decreased adjusted pre-tax income by \$6 million. The out of period adjustments are primarily related to income tax liabilities and ceded loss adjustment expenses. Had these adjustments, which were determined not to be material, been recorded in their appropriate periods, Net Income attributable to AIG for the years ended December 31, 2015 and 2014 would have decreased by \$67 million and \$12 million, respectively.

For the year ended December 31, 2015, we recorded out of period adjustments relating to prior years that decreased Net income attributable to AIG by \$156 million, decreased Income from continuing operations before income taxes by \$376 million and decreased adjusted pre-tax income by \$235 million. The out of period adjustments are primarily related to impairments of Other invested assets

ITEM 8 | **Notes to Consolidated Financial Statements** | **1. Basis of Presentation**

and changes in loss reserves and income tax liabilities. Had these adjustments, which were determined not to be material, been recorded in their appropriate periods, Net income attributable to AIG for the year ended December 31, 2014 would have decreased by \$51 million.

**2. Summary of Significant Accounting Policies**

The following table identifies our significant accounting policies presented in other Notes to these Consolidated Financial Statements, with a reference to the Note where a detailed description can be found:

**Note 6. Investments**

- Fixed maturity and equity securities
- Other invested assets
- Short-term investments
- Net investment income
- Net realized capital gains (losses)
- Other-than-temporary impairments

**Note 7. Lending Activities**

- Mortgage and other loans receivable – net of allowance

**Note 8. Reinsurance**

- Reinsurance assets – net of allowance
- Retroactive reinsurance

**Note 9. Deferred Policy Acquisition Costs**

- Deferred policy acquisition costs
- Amortization of deferred policy acquisition costs

**Note 10. Variable Interest Entities**

**Note 11. Derivatives and Hedge Accounting**

- Derivative assets and liabilities, at fair value

**Note 12. Goodwill**

**Note 13. Insurance Liabilities**

- Liability for unpaid losses and loss adjustment expenses
- Discounting of reserves
- Future policy benefits
- Policyholder contract deposits
- Other policyholder funds

**Note 14. Variable Life and Annuity Contracts**

**Note 15. Debt**

- Long-term debt

**Note 16. Contingencies, Commitments and Guarantees**

- Legal contingencies

**Note 18. Earnings Per Share**

**Note 23. Income Taxes**

**Other significant accounting policies**

**Premiums** for short-duration contracts are recorded as written on the inception date of the policy. Premiums are earned primarily on a pro rata basis over the term of the related coverage. Sales of extended services contracts are reflected as premiums written and earned on a pro rata basis over the term of the related coverage. In addition, certain miscellaneous income is included as premiums written and earned. The reserve for unearned premiums includes the portion of premiums written relating to the unexpired terms of coverage. Reinsurance premiums are typically earned over the same period as the underlying policies or risks covered by the contract. As a result, the earnings pattern of a reinsurance contract may extend up to 24 months, reflecting the inception dates of the underlying policies throughout the year.

Reinsurance premiums ceded under prospective reinsurance agreements 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.

**Other income** includes advisory fee income from the Life and Retirement broker dealer business, as well as legal recoveries of \$27 million, \$44 million and \$94 million from legacy crisis and other matters in 2017, 2016 and 2015, respectively.

Other income from our Other Operations category consists of the following:

- Changes in fair value relating to financial assets and liabilities for which the fair value option has been elected.

ITEM 8 | **Notes to Consolidated Financial Statements | 2. Summary of Significant Accounting Policies**

- Interest income and related expenses, including amortization of premiums and accretion of discounts on bonds with changes in the timing and the amount of expected principal and interest cash flows reflected in the yield, as applicable.
- Dividend income from common and preferred stock and earnings distributions from other investments.
- Changes in the fair value of other securities sold but not yet purchased, futures, hybrid financial instruments, securities purchased under agreements to resell, and securities sold under agreements to repurchase.
- Income earned on real estate based investments and related realized gains and losses from sales, property level impairments and financing costs.
- Exchange gains and losses resulting from foreign currency transactions.
- Earnings from private equity funds and hedge fund investments accounted for under the equity method.
- Changes in the fair value of derivatives at AIG Financial Products Corp. and related subsidiaries (collectively AIGFP).

**Cash** represents cash on hand and non-interest-bearing demand deposits.

**Short-term investments** consist of interest bearing cash equivalents, time deposits, securities purchased under agreements to resell, and investments, such as commercial paper, with original maturities within one year from the date of purchase.

**Premiums and other receivables – net of allowance** include premium balances receivable, amounts due from agents and brokers and policyholders, trade receivables for the Direct Investment book (DIB) and Global Capital Markets (GCM) and other receivables. Trade receivables for GCM include cash collateral posted to derivative counterparties that is not eligible to be netted against derivative liabilities. The allowance for doubtful accounts on premiums and other receivables was \$236 million and \$279 million at December 31, 2017 and 2016, respectively.

**Other assets** consist of sales inducement assets, prepaid expenses, deposits, other deferred charges, real estate, other fixed assets, capitalized software costs, goodwill, intangible assets other than goodwill, restricted cash and derivative assets.

We offer sales inducements which include enhanced crediting rates or bonus payments to contract holders (bonus interest) on certain annuity and investment contract products. Sales inducements provided to the

contract holder are recognized in Policyholder contract deposits in the Consolidated Balance Sheets. Such amounts are deferred and amortized over the life of the contract using the same methodology and assumptions used to amortize DAC (*see Note 9 herein*). To qualify for such accounting treatment, the bonus interest must be explicitly identified in the contract at inception. We must also demonstrate that such amounts are incremental to amounts we credit on similar contracts without bonus interest, and are higher than the contract's expected ongoing crediting rates for periods after the bonus period. The deferred bonus interest and other deferred sales inducement assets totaled \$738 million and \$808 million at December 31, 2017 and 2016, 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 \$94 million, \$77 million and \$88 million for the years ended December 31, 2017, 2016 and 2015, respectively.

The cost of buildings and furniture and equipment is depreciated principally on the straight-line basis over their estimated useful lives (maximum of 40 years for buildings and 10 years for furniture and equipment). Expenditures for maintenance and repairs are charged to income as incurred and expenditures for improvements are capitalized and depreciated. We periodically assess the carrying amount of our real estate for purposes of determining any asset impairment. Capitalized software costs, which represent costs directly related to obtaining, developing or upgrading internal use software, are capitalized and amortized using the straight-line method over a period generally not exceeding five years. Real estate, fixed assets and other long-lived assets are assessed for impairment when impairment indicators exist.

**Separate accounts** represent funds for which investment income and investment gains and losses accrue directly to the policyholders who bear the investment risk. Each account has specific investment objectives and the assets are carried at fair value. The assets of each account are legally segregated and are not subject to claims that arise from any of our other businesses. The liabilities for these accounts are equal to the account assets. Separate accounts may also include deposits for funds held under stable value wrap funding agreements, although the majority of stable value wrap sales are measured based on the notional amount included in assets under management and do not include the receipt of funds. *For a more detailed discussion of separate accounts see Note 14 herein.*

**Other liabilities** consist of other funds on deposit, other payables, securities sold under agreements to repurchase, securities sold but not yet purchased, derivative liabilities and deferred gains on retroactive reinsurance agreements. We have entered into certain insurance and reinsurance contracts, primarily in our General Insurance companies, that do not contain sufficient insurance risk to be accounted for as insurance or reinsurance. Accordingly, the premiums received on such contracts, after deduction for certain related expenses, are recorded as deposits within Other liabilities in the Consolidated Balance Sheets. Net proceeds of these deposits are invested and generate Net investment income. As amounts are paid, consistent with the underlying contracts, the deposit liability is reduced. Also included in Other liabilities are trade payables for the DIB and GCM, which include option premiums received and

ITEM 8 | **Notes to Consolidated Financial Statements | 2. Summary of Significant Accounting Policies**

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 2017**

#### **Derivative Contract Novations**

In March 2016, the Financial Accounting Standards Board (FASB) issued an accounting standard that clarifies that a change in the counterparty (novation) to a derivative instrument that has been designated as a hedging instrument does not, in and of itself, require de-designation of that hedging relationship provided that all other hedge accounting criteria continue to be met.

We adopted the standard on its required effective date of January 1, 2017. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

#### **Contingent Put and Call Options in Debt Instruments**

In March 2016, the FASB issued an accounting standard that clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. The standard requires an evaluation of embedded call (put)

options solely on a four-step decision sequence that requires an entity to consider whether (1) the amount paid upon settlement is adjusted based on changes in an index, (2) the amount paid upon settlement is indexed to an underlying other than interest rates or credit risk, (3) the debt involves a substantial premium or discount and (4) the put or call option is contingently exercisable.

We adopted the standard on its required effective date of January 1, 2017. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

### **Simplifying the Transition to the Equity Method of Accounting**

In March 2016, the FASB issued an accounting standard that eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods during which the investment had been held.

We adopted the standard on its required effective date of January 1, 2017. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

### **Interest Held through Related Parties that are under Common Control**

In October 2016, the FASB issued an accounting standard that amends the consolidation analysis for a reporting entity that is the single decision maker of a variable interest entity (VIE). The new guidance will require the decision maker's evaluation of its interests held through related parties that are under common control on a proportionate basis (rather than in their entirety) when determining whether it is the primary beneficiary of that VIE. The amendment does not change the characteristics of a primary beneficiary.

We adopted the standard on its required effective date of January 1, 2017. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

ITEM 8 | **Notes to Consolidated Financial Statements | 2. Summary of Significant Accounting Policies****Clarifying the Definition of a Business**

In January 2017, the FASB issued an accounting standard that changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business. The new standard will require an entity to evaluate if substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar assets; if so, the set of transferred assets and activities is not a business. At a minimum, a set must include an input and a substantive process that together significantly contribute to the ability to create output.

We adopted the standard on October 1, 2017. The impact of the standard is primarily related to our investments in real estate. As a result of the adoption, we anticipate that future acquisitions of certain real estate investments will no longer meet the definition of a business and will be treated as asset acquisitions. As a result, no goodwill would be recognized from these investments and certain costs can be capitalized as part of asset acquisitions. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

**Future Application of Accounting Standards****Revenue Recognition**

In May 2014, the FASB issued an accounting standard that supersedes most existing revenue recognition guidance. The standard excludes from its scope the accounting for insurance contracts, leases, financial instruments, and certain other agreements that are governed under other GAAP guidance, but could affect the revenue recognition for certain of our other activities.

We will adopt this standard using the modified retrospective approach on its required effective date of January 1, 2018. Our analysis of revenues indicates that substantially all of our revenues are from sources excluded from the scope of the standard. For those revenue sources within the scope of the standard, there are no material changes in the timing or measurement of revenues based upon the guidance. As substantially all of our revenue sources are excluded from the scope of the standard, the adoption of the standard will not have a material effect on our reported consolidated financial condition, results of operations, cash flows or required disclosures.

**Recognition and Measurement of Financial Assets and Financial Liabilities**

In January 2016, the FASB issued an accounting standard that will require equity investments that do not follow the equity method of accounting or are not subject to consolidation to be measured at fair value with changes in fair value recognized in earnings, while financial liabilities for which fair value option accounting has been elected, changes in fair value due to instrument-specific credit risk will be presented separately in other comprehensive income. The standard allows the election to record equity investments without readily

determinable fair values at cost, less impairment, adjusted for subsequent observable price changes with changes in the carrying value of the equity investments recorded in earnings. The standard also updates certain fair value disclosure requirements for financial instruments carried at amortized cost.

We will adopt this standard on its effective date of January 1, 2018 using the modified retrospective approach. Based on our review, substantially all of our assets and liabilities are not within the scope of the standard. The adoption of the standard will not have a material effect on our reported consolidated financial condition, results of operations, cash flows or required disclosures.

## Leases

In February 2016, the FASB issued an accounting standard that will require lessees with lease terms of more than 12 months to recognize a right of use asset and a corresponding lease liability on their balance sheets. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating leases or finance leases.

We plan to adopt the standard on its effective date of January 1, 2019 using a modified retrospective approach upon adoption. We are currently quantifying the expected recognition on our balance sheet for a right to use asset and a lease liability as required by the standard. We do not expect the impact of the standard to have a material effect on our reported consolidated financial condition, results of operations, cash flows or required disclosures.

ITEM 8 | **Notes to Consolidated Financial Statements | 2. Summary of Significant Accounting Policies****Financial Instruments - Credit Losses**

In June 2016, the FASB issued an accounting standard that will change how entities account for credit losses for most financial assets, trade receivables and reinsurance receivables. The standard will replace the existing incurred loss impairment model with a new “current expected credit loss model” that generally will result in earlier recognition of credit losses. The standard will apply to financial assets subject to credit losses, including loans measured at amortized cost, reinsurance receivables and certain off-balance sheet credit exposures. Additionally, the impairment of available-for-sale debt securities, including purchased credit deteriorated securities, are subject to the new guidance and will be measured in a similar manner, except that losses will be recognized as allowances rather than reductions in the amortized cost of the securities. The standard will also require additional information to be disclosed in the footnotes.

The standard is effective on January 1, 2020, with early adoption permitted on January 1, 2019. We are continuing to develop our implementation plan to adopt the standard and are assessing the impact of the standard on our reported consolidated financial condition, results of operations, cash flows and required disclosures. While we expect an increase in our allowances for credit losses for the financial instruments within scope of the standard, given the objective of the new standard, the amount of any change will be dependent on our portfolios’ composition and quality at the adoption date as well as economic conditions and forecasts at that time.

**Classification of Certain Cash Receipts and Cash Payments**

In August 2016, the FASB issued an accounting standard that addresses diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide clarity on the treatment of eight specifically defined types of cash inflows and outflows.

We will adopt this standard retrospectively on its effective date of January 1, 2018. The standard addresses presentation in the statement of cash flows only and will have no effect on our reported consolidated financial condition, results of operations or required disclosures.

**Intra-Entity Transfers of Assets Other than Inventory**

In October 2016, the FASB issued an accounting standard that will require an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than when the asset is sold to a third party.

We will adopt the standard on its effective date of January 1, 2018 using a modified retrospective approach. The adoption of this standard will not have a material impact on our reported consolidated financial condition, results of operations, cash flows or required disclosures.



## Restricted Cash

In November 2016, the FASB issued an accounting standard that provides guidance on the presentation of restricted cash in the Statement of Cash Flows. Entities will be required to explain the changes during a reporting period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents in the statement of cash flows.

We will adopt the standard retrospectively on its effective date of January 1, 2018. The standard addresses presentation of restricted cash in the Statement of Cash Flows only and will have no effect on our reported consolidated financial condition, results of operations or required disclosures.

## Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued an accounting standard that eliminates the requirement to calculate the implied fair value of goodwill, through a hypothetical purchase price allocation, to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value not to exceed the total amount of goodwill allocated to that reporting unit. An entity should also consider income tax effects from tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable.

The standard is effective on January 1, 2020, with early adoption permitted. We are evaluating the timing of our adoption. Any impact of the standard will be dependent on the market conditions of the reporting units at the time of adoption.

ITEM 8 | **Notes to Consolidated Financial Statements | 2. Summary of Significant Accounting Policies****Gains and Losses from the Derecognition of Nonfinancial Assets**

In February 2017, the FASB issued an accounting standard that clarifies the scope of the derecognition guidance for the sale, transfer and derecognition of non-financial assets to noncustomers that aligns with the new revenue recognition principles. The standard also adds new accounting for partial sales of nonfinancial assets (including in substance real estate) that requires an entity to derecognize a nonfinancial asset when it 1) ceases to have a controlling financial interest in the legal entity that holds the asset based on the consolidation model and 2) transfers control of the asset based on the revenue recognition model.

We will adopt this standard on its effective date of January 1, 2018 under the modified retrospective approach. Based on our evaluation, we do not expect the standard to have a material impact on our reported consolidated financial condition, results of operations, cash flows or required disclosures.

**Improving the Presentation of Net Periodic Pension and Postretirement Benefit Cost**

In March 2017, the FASB issued an accounting standard that requires entities to report the service cost component of net periodic pension and postretirement benefit costs in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic benefit costs are required to be separately presented in the income statement. The amendments also allow only the service cost component to be eligible for capitalization when applicable.

We will adopt this standard on its effective date of January 1, 2018. The standard primarily addresses the presentation of the service cost component of net periodic benefit costs in the income statement. AIG's U.S. pension plans are frozen and no longer accrue benefits, which are reflected as service costs. Therefore, the standard will have no material effect on our reported consolidated financial condition, results of operations, cash flows or required disclosures.

**Premium Amortization on Purchased Callable Debt Securities**

In March 2017, the FASB issued an accounting standard that shortens the amortization period for certain callable debt securities held at a premium by requiring the premium to be amortized to the earliest call date. The standard does not require an accounting change for securities held at a discount, which continue to be amortized to maturity.

We plan to adopt the standard retrospectively on its effective date, January 1, 2019. We do not expect the standard to have a material impact on our reported consolidated financial condition, results of operations, cash flows or required disclosures.

**Modification of Share-Based Payment Awards**

In May 2017, the FASB issued an accounting standard that provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting.

We will prospectively adopt this standard on its effective date of January 1, 2018 and do not expect the standard to have a material effect on our reported consolidated financial condition, results of operations, cash flows or required disclosures.

### Derivatives and Hedging

In August 2017, the FASB issued an accounting standard that improves and expands hedge accounting for both financial and commodity risks. The provisions of the amendment are intended to better align the accounting with an entity's risk management activities, enhance the transparency on how the economic results are presented in the financial statements and the footnote, and simplify the application of hedge accounting treatment.

The standard is effective on January 1, 2019, with early adoption permitted. We are evaluating the timing of adoption and are assessing the impact of the standard on our reported consolidated financial condition, results of operations, cash flows and required disclosures.

### Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued an accounting standard that allows the optional reclassification of stranded tax effects within accumulated other comprehensive income to retained earnings that arise due to the enactment of the Tax Cuts and Jobs Act of 2017 (Tax Act). The amount of the reclassification would reflect the effect of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances, if any, at the date of enactment of the Tax Act and other income tax effects of the Tax Act on items remaining in accumulated other comprehensive income.

We plan to early adopt the standard using a retrospective approach effective January 1, 2018. *For more information on the adoption of the Tax Act, see Note 23.*

ITEM 8 | **Notes to Consolidated Financial Statements** | **3. Segment Information****3. Segment Information**

We report our results of operations consistent with the manner in which our chief operating decision makers review the business to assess performance and allocate resources.

In the fourth quarter of 2017, we finalized our plan to reorganize our operating model. Prior to the fourth quarter of 2017, we reported our results as follows:

- Commercial Insurance business included our Liability and Financial Lines and Property and Special Risks operating segments;
- Consumer Insurance business included our Individual Retirement, Group Retirement, Life Insurance and Personal Insurance operating segments
- Other Operations category consisted of businesses and items not allocated to our operating segments, including Institutional Markets, United Guaranty and Fuji Life.
- Legacy Portfolio segment consisted of Legacy Insurance Lines representing exited or discontinued product lines, policy forms or distribution channels.

We now report our results of operations as follows:

**General Insurance**

General Insurance business is presented as two operating segments:

- **North America** — consists of insurance businesses in the United States, Canada and Bermuda.
- **International** — consists of insurance businesses in Japan, United Kingdom, Europe, Asia Pacific, Latin America, Puerto Rico, Australia, the Middle East and Africa.

Results are presented before internal reinsurance transactions. North America and International operating segments consist of the following products:

- Commercial Lines — consists of Liability, Financial Lines, Property and Special Risks.
- Personal Insurance — consists of Personal Lines and Accident and Health.

**Life and Retirement**

Life and Retirement business is presented as four operating segments:

- **Individual Retirement** — consists of fixed annuities, fixed index annuities, variable annuities and retail mutual funds.
- **Group Retirement** — consists of group mutual funds, group fixed annuities, group variable annuities, individual annuity and investment products, financial planning and advisory services.
- **Life Insurance** — primary products in the U.S. include term life and universal life insurance. International operations include distribution of life and health products in the UK and Ireland.
- **Institutional Markets** — consists of stable value wrap products, structured settlement and pension risk transfer annuities, corporate- and bank-owned life insurance and guaranteed investment contracts (GICs).

### Other Operations

The Other Operations category consists of:

- Income from assets held by AIG Parent and other corporate subsidiaries.
- General operating expenses not attributable to specific reporting segments.
- Interest expense.
- **Blackboard** —a data-enabled, digital subsidiary that provides the commercial insurance industry with alternative solutions using digital technology, data analytics and automation
- **United Guaranty** — Mortgage insurance protects mortgage lenders and investors against the increased risk of borrower default related to high loan-to-value mortgages. The sale of this business was completed on December 31, 2016.
- **Fuji Life** — consists of term insurance, life insurance, endowment policies and annuities. The sale of this business was completed on April 30, 2017.

ITEM 8 | **Notes to Consolidated Financial Statements** | **3. Segment Information****Legacy Portfolio**

The Legacy Portfolio segment consists of:

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

- **Legacy General Insurance Run-Off Lines** ~~consists~~ of asbestos and environmental exposures and other exposures within certain Property and Casualty profit centers no longer actively marketed, including excess workers' compensation, environmental impairment liability, public entity liability, accident & health, physicians and surgeons professional liability, and various other workers' compensation and general liability exposures.
- **Legacy Life and Retirement Run-Off Lines** ~~include~~ whole life, long-term care and exited accident & health product lines. Also includes certain structured settlement, pension risk transfer annuities and single premium immediate annuities written prior to April 2012.
- **Legacy Investments** ~~include~~ investment classes that we have placed into run-off.

On December 31, 2016, we completed the sale of United Guaranty to Arch. *See Note 1 for a further discussion.*

In the second quarter of 2015, a United Guaranty subsidiary and certain of our General Insurance companies entered into a 50 percent quota share reinsurance agreement whereby the United Guaranty subsidiary (1) ceded 50 percent of the risk relating to policies written in 2014 that were current as of January 1, 2015 and (2) ceded 50 percent of the risk relating to all policies written in 2015 and 2016, each in exchange for a 30 percent ceding commission and reimbursements of 50 percent of the losses and loss adjustment expenses incurred on covered policies. Beginning in the third quarter of 2016, the effect of this intercompany reinsurance arrangements is included in the results of Property and Special Risks and Other Operations for all periods presented. Previously, this arrangement was eliminated for purposes of segment reporting. Concurrent with the closing of the sale of United Guaranty, we amended and restated this arrangement and expect the results of this arrangement to continue to be reported in Property and Special Risks.

Investment income of the General Insurance companies is attributed to the North America and International operating segments based on an internal investment income allocation model. The model estimates investable funds based primarily on loss reserves and unearned premiums. Investment income of the Life and Retirement companies is attributed to the Individual Retirement, Group Retirement, Life Insurance and Institutional Markets operating segments as well as the Legacy Life and Retirement Run-Off Lines based on invested assets in segregated product line portfolios; income from invested assets in excess of liabilities is allocated to product lines based on internal capital estimates.

We evaluate segment performance based on adjusted revenues and adjusted pre-tax income (loss). Adjusted revenues and adjusted pre-tax income (loss) are derived by excluding certain items from total revenues and net income (loss) attributable to AIG, respectively. *For the items excluded from adjusted revenues and adjusted pre-tax income (loss) see the table below.*

TABLE OF CONTENTSITEM 8 | **Notes to Consolidated Financial Statements** | **3. Segment Information**

The following table presents AIG's continuing operations by operating segment:

| <i>(in millions)</i>   | Total<br>Revenues | Net<br>Investment<br>Income | Interest<br>Expense | Amortization<br>of Intangible<br>Assets |
|--|-------------------|-----------------------------|---------------------|---|
| <b>2017</b>  |                   |                             |                     |   |
| <b>General Insurance</b>   |                   |                             |                     |   |
| North America  | \$ 14,600         | \$ 3,145                    | \$ 31               | \$ 1                                    |
| International  | 15,094            | 523                         | (9)                 | 2                                       |
| <b>Total General Insurance</b>   | <b>29,694</b>     | <b>3,668</b>                | <b>22</b>           | <b>3</b>                                |
| <b>Life and Retirement</b>   |                   |                             |                     |   |
| Individual Retirement  | 5,514             | 4,013                       | 58                  |   |
| Group Retirement   | 2,848             | 2,164                       | 32                  |   |
| Life Insurance   | 4,056             | 1,044                       | 13                  |   |
| Institutional Markets  | 3,168             | 595                         | 6                   |   |
| <b>Total Life and Retirement</b>   | <b>15,586</b>     | <b>7,816</b>                | <b>109</b>          |   |
| <b>Other Operations</b>  | <b>1,413</b>      | <b>53</b>                   | <b>968</b>          |   |
| <b>Legacy Portfolio</b>  | <b>4,391</b>      | <b>2,776</b>                | <b>122</b>          |   |
| <b>AIG Consolidation and elimination</b>   | <b>(308)</b>      | <b>(280)</b>                | <b>(53)</b>         |   |
| <b>Total AIG Consolidated adjusted revenues and adjusted pre-tax income</b>  | <b>\$ 50,776</b>  | <b>\$ 14,033</b>            | <b>\$ 1,168</b>     | <b>\$ 4</b>                             |
| <b>Reconciling Items from adjusted pre-tax income to pre-tax income (loss):</b>  |                   |                             |                     |   |
| Changes in fair value of securities used to hedge guaranteed living benefits   | 146               | 146                         | -                   |   |
| Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains  | -                 | -                           | -                   | (                                       |
| Other income (expense) - net   | (49)              | -                           | -                   |   |
| Gain on extinguishment of debt   | -                 | -                           | -                   |   |
| Net realized capital losses  | (1,380)           | -                           | -                   |   |
| Income from divested businesses  | -                 | -                           | -                   |   |
| Non-operating litigation reserves and settlements  | 27                | -                           | -                   |   |
| (Unfavorable) favorable prior year development and related amortization changes ceded under retroactive reinsurance agreements | -                 | -                           | -                   |   |
| Net loss reserve discount (benefit) charge   | -                 | -                           | -                   |   |
| Pension expense related to a one-time lump sum payment to former employees   | -                 | -                           | -                   |   |
| Restructuring and other costs  | -                 | -                           | -                   |   |
| <b>Revenues and Pre-tax income</b>   | <b>\$ 49,520</b>  | <b>\$ 14,179</b>            | <b>\$ 1,168</b>     | <b>\$ 4</b>                             |
| <b>2016</b>  |                   |                             |                     |   |
| <b>General Insurance</b>   |                   |                             |                     |   |
| North America  | \$ 17,005         | \$ 3,041                    | \$ 28               | \$ 1                                    |
| International  | 16,135            | 513                         | -                   | 2                                       |



|  |             |          |         |   |
|--|-------------|----------|---------|---|
| <b>Total General Insurance</b>   | 33,140      | 3,554    | 28      | 4 |
| <b>Life and Retirement</b>   |             |          |         |   |
| Individual Retirement  | 5,758       | 3,878    | 50      |   |
| Group Retirement   | 2,769       | 2,146    | 26      |   |
| Life Insurance   | 3,818       | 1,035    | 12      |   |
| Institutional Markets  | 1,433       | 563      | 4       |   |
| <b>Total Life and Retirement</b>   | 13,778      | 7,622    | 92      |   |
| <b>Other Operations</b>  | 2,517       | 207      | 978     |   |
| <b>Legacy Portfolio</b>  | 5,250       | 2,913    | 282     |   |
| <b>AIG Consolidation and elimination</b>   | (494)       | (351)    | (120)   | ( |
| <b>Total AIG Consolidated adjusted revenues and adjusted pre-tax income</b>  | \$ 54,191\$ | 13,945\$ | 1,260\$ | 4 |
| <b>Reconciling Items from adjusted pre-tax income to pre-tax income:</b>   |             |          |         |   |
| Changes in fair value of securities used to hedge guaranteed living benefits   | 120         | 120      | -       |   |
| Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains  | -           | -        | -       | ( |
| Other income (expense) - net   | (44)        | -        | -       |   |
| Loss on extinguishment of debt   | -           | -        | -       |   |
| Net realized capital losses  | (1,944)     | -        | -       |   |
| Loss from divested businesses  | -           | -        | -       |   |
| Non-operating litigation reserves and settlements  | 44          | -        | -       |   |
| (Unfavorable) favorable prior year development and related amortization changes ceded under retroactive reinsurance agreements | -           | -        | -       |   |
| Net loss reserve discount (benefit) charge   | -           | -        | -       |   |
| 182  |             |          |         |   |

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Pension expense related to a one-time lump sum payment to former employees

- - - - (147)

Restructuring and other costs

- - - - (694)

**Revenues and Pre-tax income**

\$ 52,367 \$ 14,065 \$ 1,260 \$ 4,521 \$ (74)

**2015**

**General Insurance**

North America

\$ 18,482 \$ 3,196 \$ 13 \$ 1,699 \$ 558

International

16,186 550 - 2,620 70

**Total General Insurance**

34,668 3,746 13 4,319 628

**Life and Retirement**

Individual Retirement

6,450 3,805 27 431 1,812

Group Retirement

2,834 2,192 15 50 1,100

Life Insurance

3,771 1,034 7 311 (51)

Institutional Markets

2,267 510 3 2 263

**Total Life and Retirement**

15,322 7,541 52 794 3,124

**Other Operations**

2,326 196 1,027 47 (825)

**Legacy Portfolio**

5,771 2,928 292 102 1,133

**AIG Consolidation and elimination**

(496) (315) (103) (26) (76)

**Total AIG Consolidated adjusted revenues and adjusted pre-tax income**

\$ 57,591 \$ 14,096 \$ 1,281 \$ 5,236 \$ 3,984

**Reconciling Items from adjusted pre-tax income to pre-tax income:**

Changes in fair value of securities used to hedge guaranteed living benefits

(43) (43) - - (43)

Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains

- - - - (15)

Other income (expense) - net

(43) - - - -

Loss on extinguishment of debt

- - - - (756)

Net realized capital gains

776 - - - 776

Loss from divested businesses

(48) - - - (59)

Non-operating litigation reserves and settlements

94 - - - 82

(Unfavorable) favorable prior year development and related amortization changes ceded under retroactive reinsurance agreements

- - - - (263)

Net loss reserve discount (benefit) charge

- - - - 71

Restructuring and other costs

- - - - (496)

**Revenues and Pre-tax income**

\$ 58,327 \$ 14,053 \$ 1,281 \$ 5,236 \$ 3,281

**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 |        |
|-------------------------------|------------------------------|------------|----------------------|--------|
|                               | 2017                         | 2016       | 2017                 | 2016   |
| General Insurance companies   | \$ 114,841                   | \$ 118,287 | \$ 239               | \$ 685 |
| Life and Retirement companies | 289,457                      | 269,813    | 88                   | 85     |

|                                   |                   |                   |               |                 |
|-----------------------------------|-------------------|-------------------|---------------|-----------------|
| Other                             | 105,425           | 122,016           | 156           | 349             |
| AIG Consolidation and Elimination | (11,422)          | (11,852)          | -             | -               |
| <b>Total Assets</b>               | <b>\$ 498,301</b> | <b>\$ 498,264</b> | <b>\$ 483</b> | <b>\$ 1,119</b> |

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,<br>Net of Accumulated Depreciation |                 |                 |
|----------------------|------------------|------------------|------------------|--|-----------------|-----------------|
|                      | 2017             | 2016             | 2015             | 2017   | 2016            | 2015            |
| North America        | \$ 34,149        | \$ 36,871        | \$ 41,680        | \$ 1,630   | \$ 1,326        | \$ 1,819        |
| International        | 15,371           | 15,496           | 16,647           | 892  | 1,334           | 1,316           |
| <b>Consolidated</b>  | <b>\$ 49,520</b> | <b>\$ 52,367</b> | <b>\$ 58,327</b> | <b>\$ 2,522</b>  | <b>\$ 2,660</b> | <b>\$ 3,135</b> |

\* Revenues are generally reported according to the geographic location of the reporting unit. International revenues consists of revenues from our General Insurance International operating segment.

ITEM 8 | **Notes to Consolidated Financial Statements | 4. Held-For-Sale Classification****4. Held-For-Sale Classification****Held-For-Sale Classification**

We report a business as held-for-sale when management has approved the sale or received approval to sell the business and is committed to a formal plan, the business is available for immediate sale, the business is being actively marketed, the sale is anticipated to occur during the next 12 months and certain other specified criteria are met. A business classified as held-for-sale is recorded at the lower of its carrying amount or estimated fair value less cost to sell. If the carrying amount of the business exceeds its estimated fair value, a loss is recognized.

Assets and liabilities related to the businesses classified as held-for-sale are separately reported in our Consolidated Balance Sheets beginning in the period in which the business is classified as held-for-sale.

At December 31, 2017, we had no businesses classified as held-for-sale. At December 31, 2016, the following businesses were reported as held-for-sale:

**United Guaranty Asia**

On August 15, 2016, we entered into a definitive agreement to sell our 100 percent interest in United Guaranty and certain related affiliates to Arch. This transaction closed on December 31, 2016 and we received proceeds of approximately \$3.3 billion, consisting of \$2.2 billion of cash, and approximately \$1.1 billion of newly issued Arch convertible non-voting common-equivalent preferred stock. We also received \$261 million in pre-closing dividends from United Guaranty in the fourth quarter of 2016. However, due to pending regulatory approvals, United Guaranty Asia was not included in the December 31, 2016 closing and \$40 million of cash consideration was retained by Arch. The sale of United Guaranty Asia was completed on July 1, 2017 and we received the \$40 million cash proceeds.

**Sale of Certain Insurance Subsidiary Operations to Fairfax**

On October 18, 2016, we entered into agreements to sell certain insurance operations to Fairfax Financial Holdings Limited (Fairfax). The agreements include the sale of our subsidiary operations in Argentina, Chile, Colombia, Uruguay, Venezuela and Turkey. Fairfax will also acquire renewal rights for the portfolios of local business written by our operations in Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia, and assume certain of our operating assets and employees. Total cash consideration to us is expected to be approximately \$234 million. The transaction is closing on a country-by-country basis as the regulatory approvals are obtained. In the second quarter of 2017, the sale of operations in Turkey as well as the renewal rights in Bulgaria, the Czech Republic, Hungary, Poland and Slovakia were completed, which resulted in total cash proceeds of \$48 million. In the third quarter of 2017, the sale of the operations in Colombia, Chile and Argentina were completed, which resulted in cash proceeds of \$168 million. Substantially all of the operations and renewal rights that we agreed to sell Fairfax were sold by December 31, 2017.

### AIG Fuji Life Insurance

On November 14, 2016, we entered into an agreement to sell Fuji Life to FWD Group, the insurance arm of Pacific Century Group. Total cash consideration to us was approximately \$333 million. The sale resulted in a pre-tax loss of \$591 million. The sale of Fuji Life was completed on April 30, 2017.

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**The following table summarizes the components of assets and liabilities held-for-sale on the Consolidated Balance Sheets at December 31, 2016:**

| <i>(in millions)</i>  | December 31,<br>2016 |
|---|----------------------|
| <b>Assets:</b>  |                      |
| Fixed maturity securities   | \$ 6,045             |
| Equity securities   | 149                  |
| Mortgage and other loans receivable, net                                    | 137                  |
| Other invested assets   | 2                    |
| Short-term investments  | 130                  |
| Cash  | 133                  |
| Accrued investment income   | 21                   |
| Premiums and other receivables, net of allowance                            | 351                  |
| Reinsurance assets, net of allowance  | 8                    |
| Deferred policy acquisition costs   | 471                  |
| Other assets  | 273                  |
| Assets of businesses held for sale  | 7,720                |
| Less: Loss Accrual  | (521)                |
| <b>Total assets held for sale</b>   | <b>\$ 7,199</b>      |
| <b>Liabilities:</b>   |                      |
| Liability for unpaid losses and loss adjustment expenses                    | \$ 402               |
| Unearned premiums   | 297                  |
| Future policy benefits for life and accident and health insurance contracts | 4,579                |
| Other policyholder funds  | 378                  |
| Long-term debt  | -                    |
| Other liabilities   | 450                  |
| <b>Total liabilities held for sale</b>                                      | <b>\$ 6,106</b>      |

**5. 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.

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.

ITEM 8 | **Notes to Consolidated Financial Statements | 5. Fair Value Measurements**

- **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 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.

ITEM 8 | **Notes to Consolidated Financial Statements | 5. Fair Value Measurements**

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.

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.

ITEM 8 | **Notes to Consolidated Financial Statements | 5. Fair Value Measurements****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 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.

ITEM 8 | **Notes to Consolidated Financial Statements | 5. Fair Value Measurements**

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 derivatives 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 our ability to adjust 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 and Retirement 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.

### Other Liabilities

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.

TABLE OF CONTENTSITEM 8 | **Notes to Consolidated Financial Statements | 5. Fair Value Measurements****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, 2017***(in millions)*

|  | Level 1      | Level 2        | Level 3       | Counterparty<br>Netting <sup>(b)</sup> | Cash<br>Collateral |
|--|--------------|----------------|---------------|--|--------------------|
| <b>Assets:</b>   |              |                |               |  |                    |
| <b>Bonds available for sale:</b>                                 |              |                |               |  |                    |
| U.S. government and government sponsored entities                | \$ 201       | \$ 2,455       | \$ -          | \$ -                                   | -                  |
| Obligations of states, municipalities and political subdivisions | -            | 16,240         | 2,404         | -                                      | -                  |
| Non-U.S. governments   | 20           | 15,631         | 8             | -                                      | -                  |
| Corporate debt   | -            | 133,003        | 1,173         | -                                      | -                  |
| RMBS   | -            | 21,098         | 16,136        | -                                      | -                  |
| CMBS   | -            | 13,217         | 624           | -                                      | -                  |
| CDO/ABS  | -            | 8,131          | 8,651         | -                                      | -                  |
| <b>Total bonds available for sale</b>                            | <b>221</b>   | <b>209,775</b> | <b>28,996</b> | -                                      | -                  |
| <b>Other bond securities:</b>                                    |              |                |               |  |                    |
| U.S. government and government sponsored entities                | 238          | 2,564          | -             | -                                      | -                  |
| Obligations of states, municipalities and political subdivisions | -            | -              | -             | -                                      | -                  |
| Non-U.S. governments   | -            | 57             | -             | -                                      | -                  |
| Corporate debt   | -            | 1,891          | 18            | -                                      | -                  |
| RMBS   | -            | 421            | 1,464         | -                                      | -                  |
| CMBS   | -            | 485            | 74            | -                                      | -                  |
| CDO/ABS  | -            | 604            | 4,956         | -                                      | -                  |
| <b>Total other bond securities</b>                               | <b>238</b>   | <b>6,022</b>   | <b>6,512</b>  | -                                      | -                  |
| <b>Equity securities available for sale:</b>                     |              |                |               |  |                    |
| Common stock   | 1,061        | -              | -             | -                                      | -                  |
| Preferred stock  | 18           | 515            | -             | -                                      | -                  |
| Mutual funds   | 110          | 4              | -             | -                                      | -                  |
| <b>Total equity securities available for sale</b>                | <b>1,189</b> | <b>519</b>     | -             | -                                      | -                  |
| <b>Other equity securities</b>                                   | <b>589</b>   | -              | -             | -                                      | -                  |
| <b>Mortgage and other loans receivable</b>                       | -            | -              | 5             | -                                      | -                  |
| <b>Other invested assets<sup>(a)</sup></b>                       | -            | 1              | 250           | -                                      | -                  |
| <b>Derivative assets:</b>  |              |                |               |  |                    |
| Interest rate contracts  | 1            | 2,170          | -             | -                                      | -                  |
| Foreign exchange contracts                                       | -            | 827            | 4             | -                                      | -                  |
| Equity contracts   | 188          | 252            | 82            | -                                      | -                  |
| Credit contracts   | -            | -              | 1             | -                                      | -                  |
| Other contracts  | -            | -              | 20            | -                                      | -                  |
| Counterparty netting and cash collateral                         | -            | -              | -             | (1,464)                                | (1,159)            |
| <b>Total derivative assets</b>                                   | <b>189</b>   | <b>3,249</b>   | <b>107</b>    | <b>(1,464)</b>                         | <b>(1,159)</b>     |



|  |                  |                  |                  |                   |                   |
|--|------------------|------------------|------------------|-------------------|-------------------|
| <b>Short-term investments</b>            | <b>2,078</b>     | <b>537</b>       | <b>-</b>         | <b>-</b>          | <b>-</b>          |
| <b>Separate account assets</b>           | <b>87,141</b>    | <b>5,657</b>     | <b>-</b>         | <b>-</b>          | <b>-</b>          |
| <b>Total</b>                             | <b>\$ 91,645</b> | <b>\$225,760</b> | <b>\$ 35,870</b> | <b>\$ (1,464)</b> | <b>\$ (1,159)</b> |
| <b>Liabilities:</b>                      |                  |                  |                  |                   |                   |
| <b>Policyholder contract deposits</b>    | <b>\$ -</b>      | <b>\$ 14</b>     | <b>\$ 4,136</b>  | <b>\$ -</b>       | <b>-</b>          |
| <b>Other policyholder funds</b>          | <b>-</b>         | <b>-</b>         | <b>-</b>         | <b>-</b>          | <b>-</b>          |
| <b>Derivative liabilities:</b>           |                  |                  |                  |                   |                   |
| Interest rate contracts                  | <b>2</b>         | <b>2,176</b>     | <b>22</b>        | <b>-</b>          | <b>-</b>          |
| Foreign exchange contracts               | <b>-</b>         | <b>1,241</b>     | <b>4</b>         | <b>-</b>          | <b>-</b>          |
| Equity contracts                         | <b>2</b>         | <b>19</b>        | <b>-</b>         | <b>-</b>          | <b>-</b>          |
| Credit contracts                         | <b>-</b>         | <b>14</b>        | <b>263</b>       | <b>-</b>          | <b>-</b>          |
| Other contracts                          | <b>-</b>         | <b>-</b>         | <b>5</b>         | <b>-</b>          | <b>-</b>          |
| Counterparty netting and cash collateral | <b>-</b>         | <b>-</b>         | <b>-</b>         | <b>(1,464)</b>    | <b>(1,249)</b>    |
| <b>Total derivative liabilities</b>      | <b>4</b>         | <b>3,450</b>     | <b>294</b>       | <b>(1,464)</b>    | <b>(1,249)</b>    |
| <b>Long-term debt</b>                    | <b>-</b>         | <b>2,888</b>     | <b>-</b>         | <b>-</b>          | <b>-</b>          |
| <b>Other liabilities</b>                 | <b>46</b>        | <b>43</b>        | <b>-</b>         | <b>-</b>          | <b>-</b>          |
| <b>Total</b>                             | <b>\$ 50</b>     | <b>\$ 6,395</b>  | <b>\$ 4,430</b>  | <b>\$ (1,464)</b> | <b>\$ (1,249)</b> |

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TABLE OF CONTENTSITEM 8 | **Notes to Consolidated Financial Statements | 5. Fair Value Measurements****December 31, 2016***(in millions)***Assets:****Bonds available for sale:**

|  | Level 1 | Level 2  | Level 3 | Counterparty<br>Netting <sup>(b)</sup> | Cash<br>Collateral |
|--|---------|----------|---------|--|--------------------|
| U.S. government and government sponsored entities                | \$ 63   | \$ 1,929 | \$ -    | \$ -                                   | -                  |
| Obligations of states, municipalities and political subdivisions | -       | 22,732   | 2,040   | -                                      | -                  |
| Non-U.S. governments   | 52      | 14,466   | 17      | -                                      | -                  |
| Corporate debt   | -       | 131,047  | 1,133   | -                                      | -                  |
| RMBS   | -       | 20,468   | 16,906  | -                                      | -                  |
| CMBS   | -       | 12,231   | 2,040   | -                                      | -                  |
| CDO/ABS  | -       | 8,578    | 7,835   | -                                      | -                  |

**Total bonds available for sale**

115 211,451 29,971 - -

**Other bond securities:**

|   |   |       |       |   |   |
|---|---|-------|-------|---|---|
| U.S. government and government sponsored entities | - | 2,939 | -     | - | - |
| Non-U.S. governments                              | - | 51    | -     | - | - |
| Corporate debt                                    | - | 1,755 | 17    | - | - |
| RMBS  | - | 420   | 1,605 | - | - |
| CMBS  | - | 448   | 155   | - | - |
| CDO/ABS   | - | 905   | 5,703 | - | - |

**Total other bond securities**

- 6,518 7,480 - -

**Equity securities available for sale:**

|                 |       |   |   |   |   |
|-----------------|-------|---|---|---|---|
| Common stock    | 1,056 | 9 | - | - | - |
| Preferred stock | 752   | - | - | - | - |
| Mutual funds    | 260   | 1 | - | - | - |

**Total equity securities available for sale**

2,068 10 - - -

**Other equity securities**

482 - - - -

**Mortgage and other loans receivable**

- - 11 - -

**Other invested assets<sup>(a)</sup>**

- 1 204 - -

**Derivative assets:**

|  |     |       |    |         |       |
|--|-----|-------|----|---------|-------|
| Interest rate contracts                  | -   | 2,328 | -  | -       | -     |
| Foreign exchange contracts               | -   | 1,320 | -  | -       | -     |
| Equity contracts                         | 188 | 59    | 58 | -       | -     |
| Credit contracts                         | -   | -     | 2  | -       | -     |
| Other contracts                          | -   | 6     | 16 | -       | -     |
| Counterparty netting and cash collateral | -   | -     | -  | (1,265) | (903) |

**Total derivative assets**

188 3,713 76 (1,265) (903)

**Short-term investments**

2,660 681 - - -

**Separate account assets**

77,318 5,654 - - -

**Total**

\$ 82,831 \$ 228,028 \$ 37,742 \$ (1,265) \$ (903)

**Liabilities:****Policyholder contract deposits**

\$ - \$ 25 \$ 3,033 \$ - -

**Other policyholder funds**

5 - - - -

**Derivative liabilities:**

|  |    |   |     |         |         |
|--|----|---|-----|---------|---------|
| Interest rate contracts                  | -  | 3,039                                     | 38  | -       | -       |
| Foreign exchange contracts               | -  | 1,358                                     | 11  | -       | -       |
| Equity contracts                         | 12 | 7   | -   | -       | -       |
| Credit contracts                         | -  | -   | 331 | -       | -       |
| Other contracts                          | -  | 1   | 5   | -       | -       |
| Counterparty netting and cash collateral | -  | -   | -   | (1,265) | (1,521) |
| <b>Total derivative liabilities</b>      | 12 | 4,405                                     | 385 | (1,265) | (1,521) |
| <b>Long-term debt</b>                    | -  | 3,357                                     | 71  | -       | -       |
| <b>Other liabilities</b>                 | -  | -   | -   | -       | -       |
| <b>Total</b>                             |    | \$ 17\$ 7,787\$ 3,489\$ (1,265)\$ (1,521) |     |         |         |

(a) Excludes investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent), which totaled \$6.0 billion and \$6.7 billion as of December 31, 2017 and December 31, 2016, respectively.

(b) Represents netting of derivative exposures covered by qualifying master netting agreements.

ITEM 8 | **Notes to Consolidated Financial Statements | 5. Fair Value Measurements****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, 2017 and 2016, we transferred \$0.4 billion and \$1.1 billion, 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, 2017 and 2016, we transferred \$113 million and \$34 million, respectively, of securities issued by the U.S. government and government sponsored entities from Level 1 to Level 2. Additionally, we transferred \$126 million of preferred stock from Level 1 to Level 2 during the year ended December 31, 2017. We had no material transfers of preferred stock from Level 1 to Level 2 during the year ended December 31, 2016. There were no material transfers from Level 2 to Level 1 during the years ended December 31, 2017 and 2016.

**Changes in Level 3 Recurring Fair Value Measurements**

The following tables present changes during the years ended December 31, 2017 and 2016 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, 2017 and 2016:

| <i>(in millions)</i>   | Fair Value<br>Beginning<br>of Year | Net<br>Realized and<br>Unrealized<br>Gains (Losses)<br>Included<br>in Income | Other<br>Comprehensive<br>Income (Loss) | Purchases,<br>Sales,<br>Issuances and<br>Settlements, Net | Gross<br>Transfers<br>In | Gross<br>Transfers<br>Out |
|--|------------------------------------|--|---|---|--------------------------|---------------------------|
| <b>December 31, 2017</b>   |                                    |  |   |   |                          |                           |
| <b>Assets:</b>   |                                    |  |   |   |                          |                           |
| <b>Bonds available for sale:</b>                                       |                                    |  |   |   |                          |                           |
| Obligations of states,<br>municipalities and<br>political subdivisions | \$ 2,040                           | \$ 5   | \$ 167                                  | \$ 216  | \$ 8                     | \$ (3)                    |
| Non-U.S. governments   | 17                                 | (9)  | 9                                       | (9)   | -                        | (6)                       |
| Corporate debt   | 1,133                              | (3)  | 20                                      | (259)   | 886                      | (3)                       |
| RMBS   | 16,906                             | 1,071  | 942                                     | (2,763)   | 19                       | (73)                      |
| CMBS   | 2,040                              | 35   | 11                                      | (748)   | 20                       | (6)                       |
| CDO/ABS  | 7,835                              | (19)   | 155                                     | 743   | -                        | (6)                       |
| <b>Total bonds available</b>   |                                    |  |   |   |                          |                           |

|                                    |                    |                |                |                  |              |                  |
|------------------------------------|--------------------|----------------|----------------|------------------|--------------|------------------|
| <b>for sale</b>                    | <b>29,971</b>      | <b>1,080</b>   | <b>1,304</b>   | <b>(2,820)</b>   | <b>933</b>   | <b>(1,477)</b>   |
| <b>Other bond securities:</b>      |                    |                |                |                  |              |                  |
| Corporate debt                     | 17                 | 3              | -              | 10               | -            | (7)              |
| RMBS                               | 1,605              | 191            | -              | (313)            | 14           | (3)              |
| CMBS                               | 155                | 4              | -              | 24               | 9            | (11)             |
| CDO/ABS                            | 5,703              | 841            | -              | (1,582)          | -            | (1)              |
| <b>Total other bond securities</b> | <b>7,480</b>       | <b>1,039</b>   | <b>-</b>       | <b>(1,861)</b>   | <b>23</b>    | <b>(16)</b>      |
| <b>Equity securities available</b> |                    |                |                |                  |              |                  |
| <b>for sale:</b>                   |                    |                |                |                  |              |                  |
| Common stock                       | -                  | -              | -              | 1                | -            | -                |
| <b>Total equity securities</b>     |                    |                |                |                  |              |                  |
| <b>available for sale</b>          | <b>-</b>           | <b>-</b>       | <b>-</b>       | <b>1</b>         | <b>-</b>     | <b>-</b>         |
| Other equity securities            | -                  | -              | -              | -                | -            | -                |
| Mortgage and other loans           |                    |                |                |                  |              |                  |
| receivable                         | 11                 | -              | -              | (6)              | -            | -                |
| Other invested assets              | 204                | 14             | (6)            | 39               | -            | -                |
| <b>Total</b>                       | <b>\$ 37,666\$</b> | <b>2,133\$</b> | <b>1,298\$</b> | <b>(4,647)\$</b> | <b>956\$</b> | <b>(1,647)\$</b> |

TABLE OF CONTENTSITEM 8 | **Notes to Consolidated Financial Statements | 5. Fair Value Measurements**

| <i>(in millions)</i>   | Fair Value<br>Beginning<br>of Year | Net<br>Realized and<br>Unrealized<br>(Gains) Losses<br>Included<br>in Income | Other<br>Comprehensive<br>Income (Loss) | Purchases,<br>Sales,<br>Issuances and<br>Settlements, Net | Gross<br>Transfers<br>In | Gross<br>Transfers<br>Out |
|--|------------------------------------|--|---|---|--------------------------|---------------------------|
| <b>Liabilities:</b>  |                                    |  |   |   |                          |                           |
| Policyholder contract deposits   | \$ 3,033                           | \$ 807   | \$ -                                    | \$ 296  | \$ -                     | \$ -                      |
| Derivative liabilities, net:   |                                    |  |   |   |                          |                           |
| Interest rate contracts  | 38                                 | (5)  | -                                       | (11)  | -                        | -                         |
| Foreign exchange<br>contracts  | 11                                 | (2)  | -                                       | (9)   | -                        | -                         |
| Equity contracts   | (58)                               | (41)   | -                                       | 17  | -                        | -                         |
| Credit contracts   | 329                                | (62)   | -                                       | (5)   | -                        | -                         |
| Other contracts  | (11)                               | (74)   | -                                       | 73  | (3)                      | -                         |
| <b>Total derivative<br/>liabilities, net<sup>(a)</sup></b>             | <b>309</b>                         | <b>(184)</b>   | <b>-</b>                                | <b>65</b>   | <b>(3)</b>               | <b>-</b>                  |
| <b>Long-term debt<sup>(b)</sup></b>                                    | <b>71</b>                          | <b>16</b>  | <b>-</b>                                | <b>(87)</b>   | <b>-</b>                 | <b>-</b>                  |
| <b>Total</b>   | <b>\$ 3,413</b>                    | <b>\$ 639</b>  | <b>\$ -</b>                             | <b>\$ 274</b>   | <b>(3)</b>               | <b>\$ -</b>               |
|  |                                    |  |   |   |                          |                           |
| <i>(in millions)</i>   | Fair Value<br>Beginning<br>of Year | Net<br>Realized and<br>Unrealized<br>Gains (Losses)<br>Included<br>in Income | Other<br>Comprehensive<br>Income (Loss) | Purchases,<br>Sales,<br>Issuances and<br>Settlements, Net | Gross<br>Transfers<br>In | Gross<br>Transfers<br>Out |
| <b>December 31, 2016</b>   |                                    |  |   |   |                          |                           |
| <b>Assets:</b>   |                                    |  |   |   |                          |                           |
| <b>Bonds available for sale:</b>                                       |                                    |  |   |   |                          |                           |
| Obligations of states,<br>municipalities and<br>political subdivisions | \$ 2,124                           | \$ 5   | \$ -                                    | \$ 61   | \$ 2                     | \$ (15)                   |
| Non-U.S. governments   | 32                                 | (3)  | (12)                                    | 7   | 1                        | (9)                       |
| Corporate debt   | 1,370                              | (13)   | (42)                                    | (111)   | 920                      | (97)                      |
| RMBS   | 16,537                             | 970  | (24)                                    | (878)   | 330                      | (2)                       |
| CMBS   | 2,585                              | 72   | (132)                                   | (323)   | 23                       | (18)                      |
| CDO/ABS  | 6,169                              | 34   | (111)                                   | 1,720   | 23                       | -                         |
| <b>Total bonds available<br/>for sale</b>                              | <b>28,817</b>                      | <b>1,065</b>   | <b>(321)</b>                            | <b>476</b>  | <b>1,299</b>             | <b>(1,34)</b>             |
| <b>Other bond securities:</b>  |                                    |  |   |   |                          |                           |
| Corporate debt   | 17                                 | -  | -                                       | -   | -                        | -                         |
| RMBS   | 1,581                              | 43   | -                                       | (1)   | -                        | (7)                       |
| CMBS   | 193                                | -  | -                                       | (38)  | -                        | -                         |
| CDO/ABS  | 7,055                              | 271  | -                                       | (1,623)   | 65                       | (6)                       |

|   |             |         |         |           |         |        |
|---|-------------|---------|---------|-----------|---------|--------|
| <b>Total other bond securities</b>                | 8,846       | 314     | -       | (1,662)   | 65      | (8)    |
| <b>Equity securities available for sale:</b>      |             |         |         |           |         |        |
| Common stock                                      | -           | -       | -       | -         | -       | -      |
| <b>Total equity securities available for sale</b> | -           | -       | -       | -         | -       | (5)    |
| Other equity securities                           | 14          | -       | -       | (14)      | -       | -      |
| Mortgage and other loans receivable               | 11          | -       | -       | -         | -       | -      |
| Other invested assets                             | 332         | 1       | -       | (75)      | -       | (5)    |
| <b>Total</b>                                      | \$ 38,020\$ | 1,380\$ | (321)\$ | (1,275)\$ | 1,364\$ | (1,48) |

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| <i>(in millions)</i>                                    | Fair Value<br>Beginning<br>of Year | Net<br>Realized and<br>Unrealized<br>(Gains) Losses<br>Included<br>in Income | Other<br>Comprehensive<br>Income (Loss) | Purchases,<br>Sales,<br>Issuances and<br>Settlements, Net | Gross<br>Transfers<br>In | Gross<br>Transfers<br>Out |
|---|------------------------------------|--|---|---|--------------------------|---------------------------|
| <b>Liabilities:</b>                                     |                                    |  |   |   |                          |                           |
| Policyholder contract deposits                          | \$ 2,289                           | \$ 441   | \$ -                                    | \$ 303  | \$ -                     | -                         |
| Derivative liabilities, net:                            |                                    |  |   |   |                          |                           |
| Interest rate contracts                                 | 50                                 | (8)  | -                                       | (4)   | -                        | -                         |
| Foreign exchange contracts                              | 7                                  | 5  | -                                       | (1)   | -                        | -                         |
| Equity contracts  | (54)                               | (10)   | -                                       | 6   | -                        | -                         |
| Credit contracts  | 505                                | (81)   | -                                       | (95)  | -                        | -                         |
| Other contracts   | 48                                 | (10)   | -                                       | (53)  | -                        | 4                         |
| <b>Total derivatives liabilities, net<sup>(a)</sup></b> | 556                                | (104)  | -                                       | (147)   | -                        | 4                         |
| <b>Long-term debt<sup>(b)</sup></b>                     | 183                                | 4  | -                                       | (3)   | -                        | (113)                     |
| <b>Total</b>  | \$ 3,028                           | \$ 341   | \$ -                                    | \$ 153  | \$ -                     | (109)                     |

(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.

**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<br>Investment<br>Income | Net Realized<br>Capital<br>Gains (Losses) | Other<br>Income | Total |
|--------------------------------------|-----------------------------|---|-----------------|-------|
| <b>December 31, 2017</b>             |                             |   |                 |       |
| <b>Assets:</b>                       |                             |   |                 |       |
| Bonds available for sale             | \$ 1,127                    | \$ (49)                                   | \$ 2            | 1,080 |
| Other bond securities                | 308                         | -   | 731             | 1,039 |
| Equity securities available for sale | -                           | -   | -               | -     |
| Other equity securities              | -                           | -   | -               | -     |
| Other invested assets                | 9                           | 6   | (1)             | 14    |
| <b>December 31, 2016</b>             |                             |   |                 |       |
| <b>Assets:</b>                       |                             |   |                 |       |
| Bonds available for sale             | \$ 1,180                    | \$ (118)                                  | \$ 3            | 1,065 |
| Other bond securities                | 110                         | 44  | 160             | 314   |
| Equity securities available for sale | -                           | -   | -               | -     |
| Other equity securities              | -                           | -   | -               | -     |



|                                |            |                |        |       |
|--------------------------------|------------|----------------|--------|-------|
| Other invested assets          | 13         | 39             | (51)   | 1     |
|                                | Net        | Net Realized   |        |       |
|                                | Investment | Capital        | Other  |       |
|                                | Income     | (Gains) Losses | Income | Total |
| <i>(in millions)</i>           |            |                |        |       |
| <b>December 31, 2017</b>       |            |                |        |       |
| <b>Liabilities:</b>            |            |                |        |       |
| Policyholder contract deposits | -          | 807            | -      | 807   |
| Derivative liabilities, net    | -          | (17)           | (167)  | (184) |
| Long-term debt                 | -          | -              | 16     | 16    |
| <b>December 31, 2016</b>       |            |                |        |       |
| <b>Liabilities:</b>            |            |                |        |       |
| Policyholder contract deposits | -          | 441            | -      | 441   |
| Derivative liabilities, net    | -          | (8)            | (96)   | (104) |
| Long-term debt                 | -          | -              | 4      | 4     |

TABLE OF CONTENTSITEM 8 | **Notes to Consolidated Financial Statements | 5. Fair Value Measurements**

The following table presents the gross components of purchases, sales, issuances and settlements, net, shown above for years ended December 31, 2017 and 2016 related to Level 3 assets and liabilities in the Consolidated Balance Sheet:

| <i>(in millions)</i>   | Purchases       | Sales             | Issuances and<br>Settlements <sup>(a)</sup> | Purchases<br>and<br>Settlements <sup>(a)</sup> |
|--|-----------------|-------------------|---|--|
| <b>December 31, 2017</b>   |                 |                   |   |  |
| <b>Assets:</b>   |                 |                   |   |  |
| <b>Bonds available for sale:</b>                                 |                 |                   |   |  |
| Obligations of states, municipalities and political subdivisions | \$ 286          | \$ (16)           | \$ (54)                                     |  |
| Non-U.S. governments   | 9               | (1)               | (17)  |  |
| Corporate debt   | 36              | (59)              | (236)                                       |  |
| RMBS   | 1,199           | (260)             | (3,702)                                     |  |
| CMBS   | 75              | (146)             | (677)                                       |  |
| CDO/ABS  | 2,099           | (243)             | (1,113)                                     |  |
| <b>Total bonds available for sale</b>                            | <b>3,704</b>    | <b>(725)</b>      | <b>(5,799)</b>                              |  |
| <b>Other bond securities:</b>                                    |                 |                   |   |  |
| Corporate debt   | 11              | -                 | (1)   |  |
| RMBS   | 167             | (218)             | (262)                                       |  |
| CMBS   | 42              | (11)              | (7)   |  |
| CDO/ABS  | 9               | (65)              | (1,526)                                     |  |
| <b>Total other bond securities</b>                               | <b>229</b>      | <b>(294)</b>      | <b>(1,796)</b>                              |  |
| Equity securities available for sale                             | 13              | -                 | (12)  |  |
| Other equity securities  | -               | -                 | -   |  |
| Mortgage and other loans receivable                              | -               | (6)               | -   |  |
| Other invested assets  | 107             | (46)              | (22)  |  |
| <b>Total assets</b>  | <b>\$ 4,053</b> | <b>\$ (1,071)</b> | <b>\$ (7,629)</b>                           |  |
| <b>Liabilities:</b>  |                 |                   |   |  |
| Policyholder contract deposits                                   | \$ -            | \$ 344            | \$ (48)                                     |  |
| Derivative liabilities, net                                      | (4)             | -                 | 69  |  |
| Long-term debt <sup>(b)</sup>                                    | -               | -                 | (87)  |  |
| <b>Total liabilities</b>   | <b>\$ (4)</b>   | <b>\$ 344</b>     | <b>\$ (66)</b>                              |  |
| <b>December 31, 2016</b>   |                 |                   |   |  |
| <b>Assets:</b>   |                 |                   |   |  |
| <b>Bonds available for sale:</b>                                 |                 |                   |   |  |
| Obligations of states, municipalities and political subdivisions | \$ 164          | \$ (8)            | \$ (95)                                     |  |
| Non-U.S. governments   | 13              | -                 | (6)   |  |
| Corporate debt   | 29              | (25)              | (115)                                       |  |
| RMBS   | 2,635           | (81)              | (3,432)                                     |  |
| CMBS   | 156             | (98)              | (381)                                       |  |
| CDO/ABS  | 2,460           | (99)              | (641)                                       |  |
| <b>Total bonds available for sale</b>                            | <b>5,457</b>    | <b>(311)</b>      | <b>(4,670)</b>                              |  |

|                                      |                 |                 |                   |
|--------------------------------------|-----------------|-----------------|-------------------|
| <b>Other bond securities:</b>        |                 |                 |                   |
| Corporate debt                       | -               | -               | -                 |
| RMBS                                 | 343             | (104)           | (240)             |
| CMBS                                 | 53              | (86)            | (5)               |
| CDO/ABS                              | 69              | (458)           | (1,234)           |
| <b>Total other bond securities</b>   | <b>465</b>      | <b>(648)</b>    | <b>(1,479)</b>    |
| Equity securities available for sale | -               | -               | -                 |
| Other equity securities              | 14              | -               | (28)              |
| Mortgage and other loans receivable  | 1               | (2)             | 1                 |
| Other invested assets                | 37              | (10)            | (102)             |
| <b>Total assets</b>                  | <b>\$ 5,974</b> | <b>\$ (971)</b> | <b>\$ (6,278)</b> |
| <b>Liabilities:</b>                  |                 |                 |                   |
| Policyholder contract deposits       | \$ -            | \$ 437          | \$ (134)          |
| Derivative liabilities, net          | (6)             | -               | (141)             |
| Long-term debt <sup>(b)</sup>        | -               | -               | (3)               |
| <b>Total liabilities</b>             | <b>\$ (6)</b>   | <b>\$ 437</b>   | <b>\$ (278)</b>   |

(a) There were no issuances during the years ended December 31, 2017 and 2016.

(b) Includes GIAs, notes, bonds, loans and mortgages payable.

ITEM 8 | **Notes to Consolidated Financial Statements | 5. Fair Value Measurements**

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, 2017 and 2016 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 classification 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) as shown in the table above excludes \$64 million and \$188 million of net losses related to assets and liabilities transferred into Level 3 during 2017 and 2016, respectively, and includes \$36 million and \$189 million of net losses related to assets and liabilities transferred out of Level 3 during 2017 and 2016, respectively.

**Transfers of Level 3 Assets**

During the years ended December 31, 2017 and 2016, transfers into Level 3 assets primarily included certain investments in private placement corporate debt, RMBS, CMBS and CDO/ABS. 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 security types.

During the years ended December 31, 2017 and 2016, transfers out of Level 3 assets primarily included private placement and other corporate debt, CMBS, RMBS, CDO/ABS and certain investments in municipal securities. 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.

**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, 2017 and 2016.

TABLE OF CONTENTSITEM 8 | **Notes to Consolidated Financial Statements | 5. Fair Value Measurements****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:

| <i>(in millions)</i>  | <b>Fair Value<br/>at<br/>December<br/>31,<br/>2017</b> | <b>Valuation<br/>Technique</b> | <b>Unobservable Input<sup>(b)</sup></b> | <b>Range<br/>(Weighted Average)</b> |
|---|--|--------------------------------|---|-------------------------------------|
| <b>Assets:</b>  |  |                                |   |                                     |
| Obligations of states,<br>municipalities and<br>political<br>subdivisions | \$ 1,620   | Discounted cash flow           | Yield                                   | 3.55% - 4.32%<br>(3.94%)            |
| Corporate debt  | 1,086  | Discounted cash flow           | Yield                                   | 3.26% - 12.22%<br>(7.74%)           |
| RMBS <sup>(a)</sup>   | 16,156   | Discounted cash flow           | Constant prepayment<br>rate             | 3.97% - 13.42%<br>(8.69%)           |
|   |  |                                | Loss severity                           | 43.15% - 77.15%<br>(60.15%)         |
|   |  |                                | Constant default rate                   | 3.31% - 8.30%<br>(5.80%)            |
|   |  |                                | Yield                                   | 2.73% - 5.19%<br>(3.96%)            |
| CDO/ABS <sup>(a)</sup>  | 5,254  | Discounted cash flow           | Yield                                   | 3.38% - 4.78%<br>(4.08%)            |
| CMBS  | 487  | Discounted cash flow           | Yield                                   | 2.22% - 7.77%<br>(4.99%)            |

**Liabilities:**

Embedded  
derivatives  
within Policyholder  
contract deposits:

|                 |       |                      |                                     |                  |
|-----------------|-------|----------------------|-------------------------------------|------------------|
| GMWB            | 1,994 | Discounted cash flow | Equity volatility                   | 6.45% - 51.25%   |
|                 |       |                      | Base lapse rate                     | 0.35% - 14.00%   |
|                 |       |                      | Dynamic lapse multiplier            | 30.00% - 170.00% |
|                 |       |                      | Mortality multiplier <sup>(c)</sup> | 40.00% - 153.00% |
|                 |       |                      | Utilization                         | 90.00% - 100.00% |
|                 |       |                      | Equity / interest-rate correlation  | 20.00% - 40.00%  |
| Index Annuities | 1,603 | Discounted cash flow | Lapse rate                          | 0.50% - 40.00%   |
|                 |       |                      | Mortality multiplier <sup>(c)</sup> | 42.00% - 162.00% |
|                 |       |                      | Option Budget                       | 1.00% - 4.00%    |
| Indexed Life    | 515   | Discounted cash flow | Base lapse rate                     | 2.00% - 19.00%   |
|                 |       |                      | Mortality rate                      | 0.00% - 40.00%   |

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| <i>(in millions)</i>  | <b>Fair Value<br/>at<br/>December<br/>31,<br/>2016</b> | Valuation<br>Technique | Unobservable Input <sup>(b)</sup>   | Range<br>(Weighted Average) |
|---|--|------------------------|-------------------------------------|-----------------------------|
| <b>Assets:</b>  |  |                        |                                     |                             |
| Obligations of states,<br>municipalities and<br>political<br>subdivisions | \$ 1,248   | Discounted cash flow   | Yield                               | 4.12% - 4.91%<br>(4.52%)    |
| Corporate debt  | 498  | Discounted cash flow   | Yield                               | 3.41% - 6.38%<br>(4.90%)    |
| RMBS <sup>(a)</sup>   | 17,412   | Discounted cash flow   | Constant prepayment<br>rate         | 3.95% - 6.54%<br>(5.25%)    |
|   |  |                        | Loss severity                       | 47.51% - 80.98%<br>(64.24%) |
|   |  |                        | Constant default rate               | 3.28% - 8.64%<br>(5.96%)    |
|   |  |                        | Yield                               | 3.28% - 5.87%<br>(4.57%)    |
| CDO/ABS <sup>(a)</sup>  | 4,368  | Discounted cash flow   | Yield                               | 3.67% - 5.85%<br>(4.76%)    |
| CMBS  | 1,511  | Discounted cash flow   | Yield                               | 0.48% - 10.21%<br>(5.34%)   |
| <b>Liabilities:</b>   |  |                        |                                     |                             |
| Embedded<br>derivatives<br>within Policyholder<br>contract deposits:      |  |                        |                                     |                             |
| GMWB  | 1,777  | Discounted cash flow   | Equity volatility                   | 13.00% - 50.00%             |
|   |  |                        | Base lapse rate                     | 0.50% - 20.00%              |
|   |  |                        | Dynamic lapse multiplier            | 30.00% - 170.00%            |
|   |  |                        | Mortality multiplier <sup>(c)</sup> | 42.00% - 161.00%            |
|   |  |                        | Utilization                         | 100.00%                     |

|                 |                          |                                     |                   |
|-----------------|--------------------------|-------------------------------------|-------------------|
|                 |                          | Equity / interest rate correlation  | 20.00% - 40.00%   |
| Index Annuities | 859 Discounted cash flow | Lapse rate                          | 1.00% - 66.00%    |
|                 |                          | Mortality multiplier <sup>(c)</sup> | 101.00% - 103.00% |
|                 |                          | Option Budget                       | 1.00% - 4.00%     |
| Indexed Life    | 381 Discounted cash flow | Base lapse rate                     | 2.00% - 19.00%    |
|                 |                          | Mortality rate                      | 0.00% - 40.00%    |

(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.



ITEM 8 | **Notes to Consolidated Financial Statements | 5. Fair Value Measurements**

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. 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.

ITEM 8 | **Notes to Consolidated Financial Statements | 5. Fair Value Measurements****Embedded derivatives within Policyholder contract deposits**

Embedded derivatives reported within Policyholder contract deposits include GMWB within variable annuity products and 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 be either a decrease or an increase, depending on the relative changes in projected rider fees and projected benefit payments.
- 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 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.
- 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, as estimated by the company, 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.
- 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 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 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.
- Option budget estimates the expected long-term cost of options used to hedge exposures associated with equity price changes. The level of option budgets determines future costs of the options, which impacts the growth in account value and the valuation of embedded derivatives.



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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, 2017  |                         | December 31, 2016  |                         |
|---|---|--|-------------------------|--|-------------------------|
|   |   | Fair Value<br>Using Net<br>Asset<br>Value Per<br>Share (or<br>its<br>equivalent) | Unfunded<br>Commitments | Fair Value<br>Using Net<br>Asset<br>Value Per<br>Share (or<br>its<br>equivalent) | Unfunded<br>Commitments |
| <i>(in millions)</i>                            | Investment Category Includes  |  |                         |  |                         |
| <b>Investment Category</b>                      |   |  |                         |  |                         |
| <b>Private equity funds:</b>                    |   |  |                         |  |                         |
| 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 | \$ 1,243   | \$ 706                  | \$ 1,424   | 750                     |
| Real Estate /<br>Infrastructure                 | Investments in real estate properties and infrastructure positions, including power plants and other energy generating facilities   | 210  | 187                     | 258  | 208                     |
| 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              | 134  | 73                      | 137  | 31                      |
| Distressed                                      | Securities of companies that are in default, under bankruptcy protection, or troubled   | 113  | 42                      | 123  | 44                      |
| Reference to Financial Statements and Schedules |   |  |                         |  | 421                     |

|                                   |  |                 |                 |                 |                 |
|-----------------------------------|--|-----------------|-----------------|-----------------|-----------------|
| Other                             | Includes multi-strategy, mezzanine, and other strategies   | 428             | 219             | 312             | 215             |
| <b>Total private equity funds</b> |  | <b>2,128</b>    | <b>1,227</b>    | 2,254           | 1,248           |
| <b>Hedge funds:</b>               |  |                 |                 |                 |                 |
| Event-driven                      | Securities of companies undergoing material structural changes, including mergers, acquisitions and other reorganizations                                      | 1,128           | -               | 1,453           | 9               |
| Long-short                        | Securities that the manager believes are undervalued, with corresponding short positions to hedge market risk  | 1,233           | -               | 1,429           | -               |
| Macro                             | Investments that take long and short positions in financial instruments based on a top-down view of certain economic and capital market conditions             | 1,011           | -               | 992             | -               |
| Distressed                        | Securities of companies that are in default, under bankruptcy protection or troubled   | 266             | 8               | 416             | 8               |
| Other                             | Includes investments held in funds that are less liquid, as well as other strategies which allow for broader allocation between public and private investments | 231             | 4               | 197             | 14              |
| <b>Total hedge funds</b>          |  | <b>3,869</b>    | <b>12</b>       | 4,487           | 31              |
| <b>Total</b>                      |  | <b>\$ 5,997</b> | <b>\$ 1,239</b> | <b>\$ 6,741</b> | <b>\$ 1,279</b> |

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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, 2017, assuming average original expected lives of 10 years for the funds, 58 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, 17 percent between four and six years and 25 percent between seven and 10 years.

The hedge fund investments included above, which are carried at fair value, are generally redeemable monthly (22 percent), quarterly (43 percent), semi-annually (12 percent) and annually (23 percent), with redemption notices ranging from one day to 180 days. At December 31, 2017, investments representing approximately 49 percent of the total fair value of these hedge fund investments had partial contractual redemption restrictions. These partial redemption restrictions are generally related to one or more investments held in the hedge funds that the fund manager deemed to be illiquid. 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. The majority of these restrictions are generally expected to be lifted by the end of 2018.

**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.

*For additional information related to embedded derivatives refer to Note 11 herein.*

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.

*For additional information on securities and other invested assets for which we have elected the fair value option refer to Note 6 herein.*

**The following table presents the gains or losses recorded related to the eligible instruments for which we elected the fair value option:**

| <b>Years Ended December 31,</b><br><i>(in millions)</i> | <b>Gain (Loss)</b> |             | <b>2015</b> |
|---|--------------------|-------------|-------------|
|   | <b>2017</b>        | <b>2016</b> |             |
| <b>Assets:</b>  |                    |             |             |
| Bond and equity securities                              | \$ 1,646           | \$ 447      | \$ 616      |
| Alternative investments <sup>(a)</sup>                  | 509                | 28          | 36          |
| Other, including Short-term investments                 | 1                  | -           | 2           |

**Liabilities:**

|                               |                 |               |               |
|-------------------------------|-----------------|---------------|---------------|
| Long-term debt <sup>(b)</sup> | (49)            | (9)           | (38)          |
| Other liabilities             | (2)             | -             | (3)           |
| <b>Total gain</b>             | <b>\$ 2,105</b> | <b>\$ 466</b> | <b>\$ 613</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 Other Operations 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.

*For additional information about our policies for recognition, measurement, and disclosure of interest and dividend income see Note 6 herein.*



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During 2017, 2016 and 2015, we recognized gains of \$4 million and \$22 million, and loss of \$4 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 debt for which the fair value option was elected:**

| (in millions)   | December 31, 2017 |                              |            | December 31, 2016 |                              |            |
|---|-------------------|------------------------------|------------|-------------------|------------------------------|------------|
|   | Fair Value        | Outstanding Principal Amount | Difference | Fair Value        | Outstanding Principal Amount | Difference |
| <b>Assets:</b>  |                   |                              |            |                   |                              |            |
| Mortgage and other loans receivable                         | \$ 5              | \$ 5                         | \$ -       | \$ 11             | \$ 8                         | \$ 3       |
| <b>Liabilities:</b>   |                   |                              |            |                   |                              |            |
| Long-term debt*   | \$ 2,888          | \$ 2,280                     | \$ 608     | \$ 3,428          | \$ 2,628                     | \$ 800     |
| * 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, 2017 or 2016.

### 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.

*For additional information about how we test various asset classes for impairment see Notes 6 and 7 herein.*

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 for the period ended December 31, 2015 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 for the period ended December 31, 2016 primarily 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 for Other investments for the period ended December 31, 2017 primarily relate to commercial mortgage loans, the fair values of which are determined based on independent broker quotations or valuation models using unobservable inputs, as well as the estimated fair value of the underlying collateral or the present value of the expected future cash flows. The rest of the impairments relate to real estate investments, the fair values of which are determined based on third-party independent appraisals or discounted cash-flow models, as well as 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 or the anticipated sale price, as appropriate. 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.

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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:

| (in millions)                   | Assets at Fair Value<br>Non-Recurring Basis |             |                 |                 | Impairment Charges<br>December 31, |               |               |
|---------------------------------|---|-------------|-----------------|-----------------|------------------------------------|---------------|---------------|
|                                 | Level 1                                     | Level 2     | Level 3         | Total           | 2017                               | 2016          | 2015          |
| <b>December 31, 2017</b>        |   |             |                 |                 |                                    |               |               |
| Other investments               | \$ -  | \$ -        | \$ 55           | \$ 55           | \$ 77                              | \$ 76         | \$ 189        |
| Investments in life settlements | -   | -           | -               | -               | 360                                | 397           | 540           |
| Other assets*                   | -   | -           | -               | -               | 157                                | 19            | 80            |
| <b>Total</b>                    | <b>\$ -</b>                                 | <b>\$ -</b> | <b>\$ 55</b>    | <b>\$ 55</b>    | <b>\$ 594</b>                      | <b>\$ 492</b> | <b>\$ 809</b> |
| <b>December 31, 2016</b>        |   |             |                 |                 |                                    |               |               |
| Other investments               | \$ -  | \$ -        | \$ 364          | \$ 364          |                                    |               |               |
| Investments in life settlements | -   | -           | 736             | 736             |                                    |               |               |
| Other assets                    | -   | -           | 2               | 2               |                                    |               |               |
| <b>Total</b>                    | <b>\$ -</b>                                 | <b>\$ -</b> | <b>\$ 1,102</b> | <b>\$ 1,102</b> |                                    |               |               |

\* Impairments include \$35 million related to other assets that were sold in 2017.

**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.
- **Other invested assets:** The majority of Other invested assets that are not measured at fair value in 2016 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. The majority of the Other invested assets that are not measured at fair value in 2017 represent time deposits with the original maturity at purchase greater than one year. The fair value of long-term time deposits is determined using the expected discounted future cash flow.

- **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.

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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:

| <i>(in millions)</i>   | Level 1 | Estimated Fair Value |           | Total     | Carrying Value |
|--|---------|----------------------|-----------|-----------|----------------|
|  |         | Level 2              | Level 3   |           |                |
| <b>December 31, 2017</b>   |         |                      |           |           |                |
| <b>Assets:</b>   |         |                      |           |           |                |
| Mortgage and other loans receivable                                      | \$ -    | \$ 117               | \$ 37,644 | \$ 37,761 | \$ 37,018      |
| Other invested assets  | -       | 590                  | 6         | 596       | 593            |
| Short-term investments   | -       | 7,771                | -         | 7,771     | 7,771          |
| Cash   | 2,362   | -                    | -         | 2,362     | 2,362          |
| <b>Liabilities:</b>  |         |                      |           |           |                |
| Policyholder contract deposits associated with investment-type contracts | -       | 387                  | 121,809   | 122,196   | 114,326        |
| Other liabilities  | -       | 4,494                | -         | 4,494     | 4,494          |
| Long-term debt   | -       | 23,930               | 4,313     | 28,243    | 28,752         |
| <b>December 31, 2016</b>   |         |                      |           |           |                |
| <b>Assets:</b>   |         |                      |           |           |                |
| Mortgage and other loans receivable                                      | \$ -    | \$ 161               | \$ 33,575 | \$ 33,736 | \$ 33,229      |
| Other invested assets  | -       | 955                  | 2,053     | 3,008     | 3,474          |
| Short-term investments   | -       | 8,961                | -         | 8,961     | 8,961          |
| Cash   | 1,868   | -                    | -         | 1,868     | 1,868          |
| <b>Liabilities:</b>  |         |                      |           |           |                |
| Policyholder contract deposits associated with investment-type contracts | -       | 382                  | 121,742   | 122,124   | 112,705        |
| Other liabilities  | -       | 4,196                | -         | 4,196     | 4,196          |
| Long-term debt   | -       | 23,117               | 3,333     | 26,450    | 27,484         |

**6. 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, 2017 or 2016.

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 Other Operations). 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 an effective 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 | **Notes to Consolidated Financial Statements | 6. 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<br>Cost or<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value    |
|--|------------------------------|------------------------------|-------------------------------|------------------|
| <b>December 31, 2017</b>   |                              |                              |                               |                  |
| <b>Bonds available for sale:</b>                                 |                              |                              |                               |                  |
| U.S. government and government sponsored entities                | \$ 2,532                     | \$ 160                       | \$ (36)                       | \$ 2,656         |
| Obligations of states, municipalities and political subdivisions | 17,377                       | 1,297                        | (30)                          | 18,644           |
| Non-U.S. governments   | 15,059                       | 717                          | (117)                         | 15,659           |
| Corporate debt   | 126,310                      | 8,666                        | (800)                         | 134,176          |
| <b>Mortgage-backed, asset-backed and collateralized:</b>         |                              |                              |                               |                  |
| RMBS   | 34,181                       | 3,273                        | (220)                         | 37,234           |
| CMBS   | 13,538                       | 408                          | (105)                         | 13,841           |
| CDO/ABS  | 16,464                       | 370                          | (52)                          | 16,782           |
| <b>Total mortgage-backed, asset-backed and collateralized</b>    | <b>64,183</b>                | <b>4,051</b>                 | <b>(377)</b>                  | <b>67,857</b>    |
| <b>Total bonds available for sale<sup>(b)</sup></b>              | <b>225,461</b>               | <b>14,891</b>                | <b>(1,360)</b>                | <b>238,992</b>   |
| <b>Equity securities available for sale:</b>                     |                              |                              |                               |                  |
| Common stock   | 703                          | 379                          | (21)                          | 1,061            |
| Preferred stock  | 504                          | 29                           | -                             | 533              |
| Mutual funds   | 98                           | 16                           | -                             | 114              |
| <b>Total equity securities available for sale</b>                | <b>1,305</b>                 | <b>424</b>                   | <b>(21)</b>                   | <b>1,708</b>     |
| <b>Total</b>   | <b>\$ 226,766</b>            | <b>15,315</b>                | <b>(1,381)</b>                | <b>\$240,700</b> |
| <b>December 31, 2016</b>   |                              |                              |                               |                  |
| <b>Bonds available for sale:</b>                                 |                              |                              |                               |                  |
| U.S. government and government sponsored entities                | \$ 1,870                     | \$ 148                       | \$ (26)                       | \$ 1,992         |
| Obligations of states, municipalities and political subdivisions | 24,025                       | 1,001                        | (254)                         | 24,772           |
| Non-U.S. governments   | 14,018                       | 773                          | (256)                         | 14,535           |
| Corporate debt   | 126,648                      | 7,271                        | (1,739)                       | 132,180          |
| <b>Mortgage-backed, asset-backed and collateralized:</b>         |                              |                              |                               |                  |
| RMBS   | 35,311                       | 2,541                        | (478)                         | 37,374           |
| CMBS   | 14,054                       | 409                          | (192)                         | 14,271           |
| CDO/ABS  | 16,315                       | 278                          | (180)                         | 16,413           |
| <b>Total mortgage-backed, asset-backed and collateralized</b>    | <b>65,680</b>                | <b>3,228</b>                 | <b>(850)</b>                  | <b>68,058</b>    |
| <b>Total bonds available for sale<sup>(b)</sup></b>              | <b>232,241</b>               | <b>12,421</b>                | <b>(3,125)</b>                | <b>241,537</b>   |
| <b>Equity securities available for sale:</b>                     |                              |                              |                               |                  |
| Common stock   | 708                          | 369                          | (12)                          | 1,065            |
| Preferred stock  | 748                          | 4                            | -                             | 752              |
| Mutual funds   | 241                          | 23                           | (3)                           | 261              |

|   |            |           |            |           |
|---|------------|-----------|------------|-----------|
| <b>Total equity securities available for sale</b> | 1,697      | 396       | (15)       | 2,078     |
| <b>Total</b>                                      | \$ 233,938 | \$ 12,817 | \$ (3,140) | \$243,615 |

(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, 2017 and 2016, bonds available for sale held by us that were below investment grade or not rated totaled \$31.5 billion and \$33.6 billion, respectively.



**TABLE OF CONTENTS**ITEM 8 | **Notes to Consolidated Financial Statements | 6. Investments****Securities Available for Sale in a Loss Position**

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               | Losses       | Value             | Losses       | Value             | L    |
| <b>December 31, 2017</b>   |                     |              |                   |              |                   |      |
| <b>Bonds available for sale:</b>                                 |                     |              |                   |              |                   |      |
| U.S. government and government sponsored entities                | \$ 770\$            | 23           | \$ 332\$          | 13           | \$ 1,102\$        |      |
| Obligations of states, municipalities and political subdivisions | 586                 | 6            | 646               | 24           | 1,232             |      |
| Non-U.S. governments   | 3,511               | 54           | 857               | 63           | 4,368             |      |
| Corporate debt   | 15,578              | 453          | 7,291             | 347          | 22,869            |      |
| RMBS   | 6,212               | 99           | 3,790             | 121          | 10,002            |      |
| CMBS   | 3,408               | 46           | 1,389             | 59           | 4,797             |      |
| CDO/ABS  | 1,455               | 24           | 822               | 28           | 2,277             |      |
| <b>Total bonds available for sale</b>                            | <b>31,520</b>       | <b>705</b>   | <b>15,127</b>     | <b>655</b>   | <b>46,647</b>     |      |
| <b>Equity securities available for sale:</b>                     |                     |              |                   |              |                   |      |
| Common stock   | 136                 | 21           | -                 | -            | 136               |      |
| Mutual funds   | 1                   | -            | -                 | -            | 1                 |      |
| <b>Total equity securities available for sale</b>                | <b>137</b>          | <b>21</b>    | <b>-</b>          | <b>-</b>     | <b>137</b>        |      |
| <b>Total</b>   | <b>\$31,657\$</b>   | <b>726</b>   | <b>\$15,127\$</b> | <b>655</b>   | <b>\$46,784\$</b> |      |
| <b>December 31, 2016</b>   |                     |              |                   |              |                   |      |
| <b>Bonds available for sale:</b>                                 |                     |              |                   |              |                   |      |
| U.S. government and government sponsored entities                | \$ 720\$            | 26           | \$ -              | -            | \$ 720\$          |      |
| Obligations of states, municipalities and political subdivisions | 5,814               | 221          | 231               | 33           | 6,045             |      |
| Non-U.S. governments   | 3,865               | 162          | 489               | 94           | 4,354             |      |
| Corporate debt   | 28,184              | 1,013        | 6,080             | 726          | 34,264            |      |
| RMBS   | 8,794               | 252          | 4,045             | 226          | 12,839            |      |
| CMBS   | 4,469               | 152          | 479               | 40           | 4,948             |      |
| CDO/ABS  | 5,362               | 102          | 1,961             | 78           | 7,323             |      |
| <b>Total bonds available for sale</b>                            | <b>57,208</b>       | <b>1,928</b> | <b>13,285</b>     | <b>1,197</b> | <b>70,493</b>     |      |
| <b>Equity securities available for sale:</b>                     |                     |              |                   |              |                   |      |
| Common stock   | 125                 | 12           | -                 | -            | 125               |      |
| Mutual funds   | 64                  | 3            | -                 | -            | 64                |      |
| <b>Total equity securities available for sale</b>                | <b>189</b>          | <b>15</b>    | <b>-</b>          | <b>-</b>     | <b>189</b>        |      |
| <b>Total</b>   | <b>\$57,397\$</b>   | <b>1,943</b> | <b>\$13,285\$</b> | <b>1,197</b> | <b>\$70,682\$</b> |      |

At December 31, 2017, we held 7,448 and 74 individual fixed maturity and equity securities, respectively, that were in an unrealized loss position, of which 1,920 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, 2017 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.

**TABLE OF CONTENTS**ITEM 8 | **Notes to Consolidated Financial Statements | 6. 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 in a Loss Position Available for Sale |                  |
|--|--|-------------------|---|------------------|
|  | Amortized Cost                                     | Fair Value        | Amortized Cost  | Fair Value       |
| <b>December 31, 2017</b><br>(in millions)        |  |                   |   |                  |
| Due in one year or less                          | \$ 7,932   | \$ 8,071          | \$ 1,526  | \$ 1,515         |
| Due after one year through five years            | 47,179   | 49,093            | 7,764   | 7,571            |
| Due after five years through ten years           | 42,617   | 43,944            | 11,559  | 11,143           |
| Due after ten years                              | 63,550   | 70,027            | 9,705   | 9,342            |
| Mortgage-backed, asset-backed and collateralized | 64,183   | 67,857            | 17,453  | 17,076           |
| <b>Total</b>                                     | <b>\$ 225,461</b>                                  | <b>\$ 238,992</b> | <b>\$ 48,007</b>  | <b>\$ 46,647</b> |
| <b>December 31, 2016</b>                         |  |                   |   |                  |
| Due in one year or less                          | \$ 7,796   | \$ 7,994          | \$ 604  | \$ 581           |
| Due after one year through five years            | 49,200   | 51,958            | 6,002   | 5,841            |
| Due after five years through ten years           | 43,308   | 44,226            | 16,045  | 15,332           |
| Due after ten years                              | 66,257   | 69,301            | 25,007  | 23,629           |
| Mortgage-backed, asset-backed and collateralized | 65,680   | 68,058            | 25,960  | 25,110           |
| <b>Total</b>                                     | <b>\$ 232,241</b>                                  | <b>\$ 241,537</b> | <b>\$ 73,618</b>  | <b>\$ 70,493</b> |

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, |                       |                      |                       |                      |                       |
|---------------------------|--------------------------|-----------------------|----------------------|-----------------------|----------------------|-----------------------|
|                           | 2017                     |                       | 2016                 |                       | 2015                 |                       |
|                           | Gross Realized Gains     | Gross Realized Losses | Gross Realized Gains | Gross Realized Losses | Gross Realized Gains | Gross Realized Losses |
| (in millions)             |                          |                       |                      |                       |                      |                       |
| Fixed maturity securities | \$ 725                   | \$ 300                | \$ 801               | \$ 800                | \$ 517               | \$ 423                |
| Equity securities         | 107                      | 19                    | 1,072                | 15                    | 1,060                | 28                    |
| <b>Total</b>              | <b>\$ 832</b>            | <b>\$ 319</b>         | <b>\$ 1,873</b>      | <b>\$ 815</b>         | <b>\$ 1,577</b>      | <b>\$ 451</b>         |

For the years ended December 31, 2017, 2016 and 2015, the aggregate fair value of available for sale securities sold was \$31.3 billion, \$30.2 billion and \$28.7 billion, which resulted in net realized capital gains of \$0.5 billion, \$1.1 billion and \$1.1 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,<br/>2017</b> |                  | <b>December 31,<br/>2016</b> |                  |
|--|------------------------------|------------------|------------------------------|------------------|
|  | Fair Value                   | Percent of Total | Fair Value                   | Percent of Total |
| <b>Fixed maturity securities:</b>                                |                              |                  |                              |                  |
| U.S. government and government sponsored entities                | \$ 2,802                     | 21 %             | \$ 2,939                     | 20%              |
| Obligations of states, municipalities and political subdivisions | -                            | -                | -                            | -                |
| Non-U.S. governments   | 57                           | 1                | 51                           | -                |
| Corporate debt   | 1,909                        | 14               | 1,772                        | 12               |
| <b>Mortgage-backed, asset-backed and collateralized:</b>         |                              |                  |                              |                  |
| RMBS   | 1,885                        | 14               | 2,025                        | 14               |
| CMBS   | 559                          | 4                | 603                          | 4                |
| CDO/ABS and other collateralized*                                | 5,560                        | 42               | 6,608                        | 47               |
| <b>Total mortgage-backed, asset-backed and collateralized</b>    | <b>8,004</b>                 | <b>60</b>        | <b>9,236</b>                 | <b>65</b>        |
| <b>Total fixed maturity securities</b>                           | <b>12,772</b>                | <b>96</b>        | <b>13,998</b>                | <b>97</b>        |
| <b>Equity securities</b>   | <b>589</b>                   | <b>4</b>         | <b>482</b>                   | <b>3</b>         |
| <b>Total</b>   | <b>\$ 13,361</b>             | <b>100 %</b>     | <b>\$ 14,480</b>             | <b>100%</b>      |

\* Includes \$251 million and \$421 million of U.S. government agency backed ABS at December 31, 2017 and 2016, 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) (b)</sup> | \$ 11,308        | \$ 13,379        |
| Investment real estate <sup>(c)</sup>      | 8,258            | 6,900            |
| Aircraft asset investments <sup>(d)</sup>  | 206              | 321              |
| Investments in life settlements            | -                | 2,516            |
| All other investments                      | 1,050            | 1,422            |
| <b>Total</b>                               | <b>\$ 20,822</b> | <b>\$ 24,538</b> |

(a) At December 31, 2017, included hedge funds of \$5.8 billion, private equity funds of \$5.0 billion, and affordable housing partnerships of \$543 million. At December 31, 2016, included hedge funds of \$7.2 billion, private equity funds of \$5.5 billion, and affordable housing partnerships of \$625 million.

(b) Approximately 75 percent of our hedge fund portfolio is available for redemption in 2018, an additional 25 percent will be available between 2019 and 2024.

- (c) Net of accumulated depreciation of \$515 million and \$451 million in 2017 and 2016, respectively.
- (d) Consists of investments in aircraft equipment held in a consolidated trust.

#### Other Invested Assets Carried at Fair Value

Certain hedge funds, private equity funds, 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 Other Operations, for which such changes are reported in Other income. Other investments in hedge funds, private equity funds 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 Accumulated other comprehensive income on such investments was \$45 million and \$32 million at December 31, 2017 and 2016, 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.

**TABLE OF CONTENTS**ITEM 8 | **Notes to Consolidated Financial Statements | 6. Investments****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 Other Operations, 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:**

|                   | 2017            | 2016            | 2015             |
|-------------------|-----------------|-----------------|------------------|
| Total revenues    | \$ 13,066       | \$ 9,512        | \$ 22,055        |
| Total expenses    | (6,835)         | (7,361)         | (3,898)          |
| <b>Net income</b> | <b>\$ 6,231</b> | <b>\$ 2,151</b> | <b>\$ 18,157</b> |

**At December 31,***(in millions)***Balance sheet:**

|                   | 2017        | 2016        |
|-------------------|-------------|-------------|
| Total assets      | \$ 132,708  | \$ 158,306  |
| Total liabilities | \$ (35,585) | \$ (37,336) |

The following table presents the carrying amount and ownership percentage of equity method investments at December 31, 2017 and 2016:

|  | 2017           |                      | 2016           |                      |
|--|----------------|----------------------|----------------|----------------------|
| <i>(in millions, except percentages)</i> | Carrying Value | Ownership Percentage | Carrying Value | Ownership Percentage |
| Equity method investments                | \$ 9,050       | Various              | \$ 10,756      | 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 a consolidated trust. These investments are reported at cost, less depreciation and are subject to impairment review, as discussed below.

### Investments in Life Settlements

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 2017, 2016 and 2015, income recognized on investments in life settlements was \$266 million, \$453 million and \$332 million, respectively, and is included in Net investment income in the Consolidated Statements of Income. We sold the remaining portion of our life settlements portfolio in 2017.

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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.
- 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.

The following table presents the components of Net investment income:

**Years Ended December 31,**

(in millions)

|  | <b>2017</b>      | <b>2016</b> | <b>2015</b> |
|--|------------------|-------------|-------------|
| Available for sale fixed maturity securities, including short-term investments | <b>\$ 10,435</b> | \$ 11,314   | \$ 11,331   |
| Other fixed maturity securities  | <b>660</b>       | 331         | 1           |
| Equity securities  | <b>34</b>        | (5)         | 99          |
| Interest on mortgage and other loans   | <b>1,661</b>     | 1,526       | 1,417       |
| Alternative investments*   | <b>1,475</b>     | 693         | 1,120       |
| Real estate  | <b>144</b>       | 150         | 181         |
| Other investments  | <b>290</b>       | 509         | 432         |
| <b>Total investment income</b>   | <b>14,699</b>    | 14,518      | 14,581      |
| <b>Investment expenses</b>   | <b>520</b>       | 453         | 528         |
| <b>Net investment income</b>   | <b>\$ 14,179</b> | \$ 14,065   | \$ 14,053   |

\* Includes income from hedge funds, private equity funds and affordable housing partnerships. Hedge funds for which we elected the fair value option are recorded as of the balance sheet date. Other hedge funds are generally reported on a one-month lag, while private equity funds are generally reported on a one-quarter lag.

**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 amortized 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.

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The following table presents the components of Net realized capital losses:

| <b>Years Ended December 31,</b><br><i>(in millions)</i>      | <b>2017</b>       | <b>2016</b>       | <b>2015</b>   |
|--|-------------------|-------------------|---------------|
| Sales of fixed maturity securities                           | \$ <b>425</b>     | \$ 1              | \$ 94         |
| Sales of equity securities <sup>(a)</sup>                    | <b>88</b>         | 1,057             | 1,032         |
| <b>Other-than-temporary impairments:</b>                     |                   |                   |               |
| Severity   | <b>(2)</b>        | (15)              | (13)          |
| Change in intent   | <b>(9)</b>        | (46)              | (233)         |
| Foreign currency declines                                    | <b>(11)</b>       | (18)              | (57)          |
| Issuer-specific credit events                                | <b>(234)</b>      | (433)             | (348)         |
| Adverse projected cash flows                                 | <b>(4)</b>        | (47)              | (20)          |
| Provision for loan losses                                    | <b>(50)</b>       | 10                | (58)          |
| Foreign exchange transactions                                | <b>489</b>        | (1,226)           | 416           |
| Variable annuity embedded derivatives, net of related hedges | <b>(1,374)</b>    | (1,243)           | 320           |
| All other derivatives and hedge accounting                   | <b>(368)</b>      | 299               | 78            |
| Impairments on investments in life settlements               | <b>(360)</b>      | (397)             | (540)         |
| Other <sup>(b)</sup>   | <b>30</b>         | 114               | 105           |
| <b>Net realized capital gains (losses)</b>                   | <b>\$ (1,380)</b> | <b>\$ (1,944)</b> | <b>\$ 776</b> |

(a) In 2016 and 2015 includes realized gains on the sale of a portion of our holdings in People's Insurance Company (Group) of China Limited and PICC Property & Casualty Company Limited (collectively, our PICC Investment).

(b) In 2016, primarily includes \$107 million of realized gains due to a purchase price adjustment on the sale of Class B shares of Prudential Financial, Inc. and losses of \$253 million from the sale of a portion of our Life Settlements portfolio. In 2015, primarily includes \$357 million of realized gains due to the sale of common shares of SpringLeaf Holdings (now known as OneMain Holdings, Inc.), \$428 million of realized gains due to the sale of Class B shares of Prudential Financial, Inc. and \$463 million of realized losses due to the sale of ordinary shares of AerCap.

### **Change in Unrealized Appreciation (Depreciation) of Investments**

The following table presents the increase (decrease) in unrealized appreciation (depreciation) of our available for sale securities and other investments:

| <i>(in millions)</i>   | <b>Years Ended<br/>December 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2017</b>                         | <b>2016</b> |
| <b>Increase (decrease) in unrealized appreciation (depreciation) of investments:</b> |                                     |             |
| Fixed maturity securities  | \$ <b>4,235</b>                     | \$ 2,019    |
| Equity securities  | <b>22</b>                           | (1,155)     |
| Other investments  | <b>(195)</b>                        | (259)       |

**Total increase (decrease) in unrealized appreciation (depreciation) of investments\*****\$ 4,062 \$ 605**

\* Excludes net unrealized gains (losses) attributable to businesses held for sale.

**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).

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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.

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:**

| <b>Years Ended December 31,</b><br><i>(in millions)</i>           | <b>2017</b>     | <b>2016</b>     | <b>2015</b>     |
|---|-----------------|-----------------|-----------------|
| <b>Balance, beginning of year</b>                                 | <b>\$ 1,098</b> | <b>\$ 1,747</b> | <b>\$ 2,659</b> |
| <b>Increases due to:</b>  |                 |                 |                 |
| Credit impairments on new securities subject to impairment losses | <b>122</b>      | 204             | 111             |
| Additional credit impairments on previously impaired securities   | <b>74</b>       | 212             | 109             |
| <b>Reductions due to:</b>   |                 |                 |                 |

|   |               |                 |                 |
|---|---------------|-----------------|-----------------|
| Credit impaired securities fully disposed of for which there was no prior intent or requirement to sell | (99)          | (296)           | (399)           |
| Credit impaired securities for which there is a current intent or anticipated requirement to sell       | -             | -               | 2               |
| Accretion on securities previously impaired due to credit*  | (669)         | (767)           | (735)           |
| Divested businesses   | -             | (2)             | -               |
| <b>Balance, end of year</b>   | <b>\$ 526</b> | <b>\$ 1,098</b> | <b>\$ 1,747</b> |

\* 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.

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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 12 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, 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 or by repricing to the anticipated sale price as appropriate.

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. We sold the remaining portion of our life settlements portfolio in 2017.

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 whether it is probable at acquisition that we will not collect all contractually required payments for these PCI securities, including both principal and interest. 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 an effective 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.

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**The following tables present information on our PCI securities, which are included in bonds available for sale:**

| <i>(in millions)</i>                                     | <b>At Date of Acquisition</b> |
|--|-------------------------------|
| Contractually required payments (principal and interest) | <b>\$ 36,642</b>              |
| Cash flows expected to be collected*                     | <b>30,040</b>                 |
| Recorded investment in acquired securities               | <b>20,267</b>                 |

\* Represents undiscounted expected cash flows, including both principal and interest.

| <i>(in millions)</i>          | <b>December 31,<br/>2017</b> | <b>December 31,<br/>2016</b> |
|-------------------------------|------------------------------|------------------------------|
| Outstanding principal balance | <b>\$ 14,718</b>             | <b>\$ 16,728</b>             |
| Amortized cost                | <b>10,492</b>                | <b>11,987</b>                |
| Fair value                    | <b>12,293</b>                | <b>12,922</b>                |

**The following table presents activity for the accretable yield on PCI securities:**

| <b>Years Ended December 31,</b><br><i>(in millions)</i>                                    | <b>2017</b>     | <b>2016</b>     |
|--|-----------------|-----------------|
| <b>Balance, beginning of year</b>  | <b>\$ 7,498</b> | <b>\$ 6,846</b> |
| Newly purchased PCI securities   | <b>190</b>      | <b>707</b>      |
| Disposals  | <b>(18)</b>     | <b>-</b>        |
| Accretion  | <b>(797)</b>    | <b>(842)</b>    |
| Effect of changes in interest rate indices   | <b>(34)</b>     | <b>39</b>       |
| Net reclassification from (to) non-accretable difference, including effects of prepayments | <b>662</b>      | <b>748</b>      |
| <b>Balance, end of year</b>  | <b>\$ 7,501</b> | <b>\$ 7,498</b> |
| <b>Pledged Investments</b>   |                 |                 |

**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. 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, 2017</b> | <b>December 31, 2016</b> |
|--|--------------------------|--------------------------|
| Fixed maturity securities available for sale | \$ <b>2,911</b>          | \$ 2,389                 |
| Other bond securities, at fair value         | \$ <b>1,585</b>          | \$ 1,799                 |

At December 31, 2017 and 2016, amounts borrowed under repurchase and securities lending agreements totaled \$4.5 billion and \$4.2 billion, respectively.

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The following table presents the fair value of securities pledged under our repurchase agreements by collateral type and by remaining contractual maturity:

|   | Remaining Contractual Maturity of the Agreements |                     |                    |                     |                           |          |
|---|--|---------------------|--------------------|---------------------|---------------------------|----------|
|   | Overnight<br>and<br>Continuous                   | up to<br>30<br>days | 31 -<br>90<br>days | 91 -<br>364<br>days | 365<br>days or<br>greater | Total    |
| (in millions)                                     |  |                     |                    |                     |                           |          |
| December 31, 2017                                 |  |                     |                    |                     |                           |          |
| Bonds available for sale:                         |  |                     |                    |                     |                           |          |
| Non-U.S. governments                              | \$ -   | \$ 7                | \$ 19              | \$ -                | \$ -                      | \$ 26    |
| Corporate debt                                    | -  | 13                  | 35                 | -                   | -                         | 48       |
| Other bond securities:                            |  |                     |                    |                     |                           |          |
| U.S. government and government sponsored entities | 44   | -                   | -                  | -                   | -                         | 44       |
| Non-U.S. governments                              | -  | -                   | 11                 | -                   | -                         | 11       |
| Corporate debt                                    | -  | 387                 | 1,065              | -                   | -                         | 1,452    |
| Total   | \$ 44  | \$ 407              | \$ 1,130           | \$ -                | \$ -                      | \$ 1,581 |

December 31, 2016

**Other bond securities:**

|                      |             |               |               |               |             |                 |
|----------------------|-------------|---------------|---------------|---------------|-------------|-----------------|
| Non-U.S. governments | \$ -        | \$ -          | \$ -          | \$ 51         | \$ -        | \$ 51           |
| Corporate debt       | -           | 163           | 860           | 725           | -           | 1,748           |
| <b>Total</b>         | <b>\$ -</b> | <b>\$ 163</b> | <b>\$ 860</b> | <b>\$ 776</b> | <b>\$ -</b> | <b>\$ 1,799</b> |

The following table presents the fair value of securities pledged under our securities lending agreements by collateral type and by remaining contractual maturity:

|  | Remaining<br>Overnight<br>and<br>Continuous | Contractual<br>up to<br>30<br>days | Maturity of the<br>31 -<br>90<br>days | 91 -<br>364<br>days | Agreements<br>365<br>days or<br>greater | Total           |
|--|---|------------------------------------|---------------------------------------|---------------------|---|-----------------|
| <i>(in millions)</i>   |   |                                    |                                       |                     |   |                 |
| <b>December 31, 2017</b>   |   |                                    |                                       |                     |   |                 |
| <b>Bonds available for sale:</b>                                 |   |                                    |                                       |                     |   |                 |
| Obligations of states, municipalities and political subdivisions | \$ -  | \$ -                               | \$ -                                  | \$ -                | \$ -                                    | -               |
| Non-U.S. governments   | -   | -                                  | 18                                    | -                   | -                                       | 18              |
| Corporate debt   | -   | 588                                | 2,231                                 | -                   | -                                       | 2,819           |
| CMBS   | -   | -                                  | -                                     | -                   | -                                       | -               |
| <b>Other bond securities:</b>                                    |   |                                    |                                       |                     |   |                 |
| Non-U.S. governments   | -   | -                                  | 22                                    | -                   | -                                       | 22              |
| Corporate debt   | -   | -                                  | 56                                    | -                   | -                                       | 56              |
| <b>Total</b>   | <b>\$ -</b>                                 | <b>\$ 588</b>                      | <b>\$ 2,327</b>                       | <b>\$ -</b>         | <b>\$ -</b>                             | <b>\$ 2,915</b> |

December 31, 2016

**Bonds available for sale:**

|  |    |   |        |          |      |      |          |
|--|----|---|--------|----------|------|------|----------|
| Obligations of states, municipalities and political subdivisions | \$ | - | \$ 21  | \$ -     | \$ - | \$ - | \$ 21    |
| Non-U.S. governments   |    | - | -      | 50       | -    | -    | 50       |
| Corporate debt   |    | - | 791    | 1,466    | -    | -    | 2,257    |
| CMBS   |    | - | -      | 61       | -    | -    | 61       |
| <b>Total</b>   | \$ | - | \$ 812 | \$ 1,577 | \$ - | \$ - | \$ 2,389 |

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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, 2017</b> | <b>December 31, 2016</b> |
|-------------------------------------|--------------------------|--------------------------|
| Securities collateral pledged to us | \$ <b>2,227</b>          | \$ 1,434                 |
| Amount sold or repledged by us      | <b>46</b>                | 11                       |

At December 31, 2017 and December 31, 2016, amounts loaned under reverse repurchase agreements totaled \$2.2 billion and \$1.4 billion, respectively.

We do not currently offset any secured financing transactions. All such transactions are collateralized and margined daily consistent with market standards and subject to enforceable master netting arrangements with rights of set off.

## Insurance – Statutory and Other Deposits

The total carrying value 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, was \$4.9 billion at both December 31, 2017 and 2016.

## 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 \$93 million and \$114 million of stock in FHLBs at December 31, 2017 and 2016, respectively. In addition, our subsidiaries have pledged securities available for sale and residential loans associated with advances from FHLB, with a fair value of \$2.7 billion and \$471 million, respectively, at December 31, 2017 and \$3.4 billion and \$17 million, respectively, at December 31, 2016, 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 billion and \$2.2 billion at December 31, 2017 and 2016, 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.

Investments held in escrow accounts or otherwise subject to restriction as to their use were \$255 million and \$523 million, comprised of bonds available for sale and short term investments at December 31, 2017 and 2016, respectively.

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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.

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:**

| <i>(in millions)</i>                               | <b>December 31,<br/>2017</b> | <b>December 31,<br/>2016</b> |
|--|------------------------------|------------------------------|
| Commercial mortgages*                              | <b>\$ 28,596</b>             | \$ 25,042                    |
| Residential mortgages                              | <b>5,398</b>                 | 3,828                        |
| Life insurance policy loans                        | <b>2,295</b>                 | 2,367                        |
| Commercial loans, other loans and notes receivable | <b>1,056</b>                 | 2,300                        |
| <b>Total mortgage and other loans receivable</b>   | <b>37,345</b>                | 33,537                       |
| <b>Allowance for credit losses</b>                 | <b>(322)</b>                 | (297)                        |
| <b>Mortgage and other loans receivable, net</b>    | <b>\$ 37,023</b>             | \$ 33,240                    |

\* Commercial mortgages primarily represent loans for offices, apartments and retail properties, with exposures in New York and California representing the largest geographic concentrations (aggregating approximately 23 percent and 12 percent, respectively, at December 31, 2017, and 24 percent and 12 percent, respectively, at December 31, 2016).

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.

**Credit Quality of Commercial Mortgages**

**The following table presents debt service coverage ratios and loan-to-value ratios for commercial mortgages:**

**Debt Service Coverage Ratios<sup>(a)</sup>**

| <i>(in millions)</i>                      | >1.20X           | 1.00X - 1.20X   | <1.00X        | Total            |
|---|------------------|-----------------|---------------|------------------|
| <b>December 31, 2017</b>                  |                  |                 |               |                  |
| <b>Loan-to-Value Ratios<sup>(b)</sup></b> |                  |                 |               |                  |
| Less than 65%                             | \$ 18,000        | \$ 1,525        | \$ 351        | \$ 19,876        |
| 65% to 75%                                | 6,038            | 193             | 184           | 6,415            |
| 76% to 80%                                | 569              | 40              | -             | 609              |
| Greater than 80%                          | 1,416            | 206             | 74            | 1,696            |
| <b>Total commercial mortgages</b>         | <b>\$ 26,023</b> | <b>\$ 1,964</b> | <b>\$ 609</b> | <b>\$ 28,596</b> |
| <b>December 31, 2016</b>                  |                  |                 |               |                  |
| <b>Loan-to-Value Ratios<sup>(b)</sup></b> |                  |                 |               |                  |
| Less than 65%                             | \$ 13,998        | \$ 1,694        | \$ 232        | \$ 15,924        |
| 65% to 75%                                | 5,946            | 575             | 62            | 6,583            |
| 76% to 80%                                | 1,246            | 174             | 47            | 1,467            |
| Greater than 80%                          | 471              | 392             | 205           | 1,068            |
| <b>Total commercial mortgages</b>         | <b>\$ 21,661</b> | <b>\$ 2,835</b> | <b>\$ 546</b> | <b>\$ 25,042</b> |

(a) The debt service coverage ratio compares a property's net operating income to its debt service payments, including principal and interest. Our weighted average debt service coverage ratio was 2.1X and 1.9X at December 31, 2017 and 2016, respectively.



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(b) The loan-to-value ratio compares the current unpaid principal balance of the loan to the estimated fair value of the underlying property collateralizing the loan. Our weighted average loan-to-value ratio was 57 percent and 58 percent at December 31, 2017, and 2016, respectively.

The following table presents the credit quality performance indicators for commercial mortgages:

| <b>December 31, 2017</b><br><i>(dollars in millions)</i> | Number of<br>Loans |                  |                |                     |                |                |                      | Percent<br>of<br>Total <sup>(c)</sup> |             |
|--|--------------------|------------------|----------------|---------------------|----------------|----------------|----------------------|---------------------------------------|-------------|
|  | Apartments         | Offices          | Retail         | Class<br>Industrial | Hotel          | Others         | Total <sup>(c)</sup> | Total \$                              |             |
| <b>Credit Quality Performance Indicator:</b>             |                    |                  |                |                     |                |                |                      |                                       |             |
| In good standing   | 778                | \$8,163\$        | 8,585\$        | 5,338\$             | 2,023\$        | 2,373\$        | 1,960\$              | 28,442                                | 99%         |
| Restructured <sup>(a)</sup>                              | 5                  | -                | 115            | 23                  | -              | 16             | -                    | 154                                   | 1           |
| 90 days or less delinquent                               | -                  | -                | -              | -                   | -              | -              | -                    | -                                     | -           |
| >90 days delinquent or in<br>process of foreclosure      | -                  | -                | -              | -                   | -              | -              | -                    | -                                     | -           |
| <b>Total<sup>(b)</sup></b>                               | <b>783</b>         | <b>\$8,163\$</b> | <b>8,700\$</b> | <b>5,361\$</b>      | <b>2,023\$</b> | <b>2,389\$</b> | <b>1,960\$</b>       | <b>28,596</b>                         | <b>100%</b> |
| <b>Allowance for credit losses:</b>                      |                    |                  |                |                     |                |                |                      |                                       |             |
| Specific   | -                  | 3                | 1              | -                   | 1              | -              | 5                    | -                                     | -%          |
| General  | 72                 | 94               | 37             | 6                   | 15             | 18             | 242                  | 1                                     | 1           |
| <b>Total allowance for credit losses</b>                 | <b>\$ 72\$</b>     | <b>97\$</b>      | <b>38\$</b>    | <b>6\$</b>          | <b>16\$</b>    | <b>18\$</b>    | <b>247</b>           | <b>1%</b>                             |             |
| <b>December 31, 2016</b><br><i>(dollars in millions)</i> |                    |                  |                |                     |                |                |                      |                                       |             |
| <b>Credit Quality Performance Indicator:</b>             |                    |                  |                |                     |                |                |                      |                                       |             |
| In good standing   | 784                | \$6,005\$        | 7,830\$        | 5,179\$             | 1,898\$        | 2,373\$        | 1,589\$              | 24,874                                | 99%         |
| Restructured <sup>(a)</sup>                              | 4                  | -                | 134            | 18                  | -              | 16             | -                    | 168                                   | 1           |
| 90 days or less delinquent                               | -                  | -                | -              | -                   | -              | -              | -                    | -                                     | -           |
| >90 days delinquent or in<br>process of foreclosure      | -                  | -                | -              | -                   | -              | -              | -                    | -                                     | -           |
| <b>Total<sup>(b)</sup></b>                               | <b>788</b>         | <b>\$6,005\$</b> | <b>7,964\$</b> | <b>5,197\$</b>      | <b>1,898\$</b> | <b>2,389\$</b> | <b>1,589\$</b>       | <b>25,042</b>                         | <b>100%</b> |
| <b>Allowance for credit losses:</b>                      |                    |                  |                |                     |                |                |                      |                                       |             |
| Specific   | \$ -               | 3\$              | 1\$            | 6\$                 | 1\$            | -              | 11                   | -                                     | -%          |
| General  | 35                 | 72               | 41             | 7                   | 13             | 15             | 183                  | 1                                     | 1           |
| <b>Total allowance for credit losses</b>                 | <b>\$ 35\$</b>     | <b>75\$</b>      | <b>42\$</b>    | <b>13\$</b>         | <b>14\$</b>    | <b>15\$</b>    | <b>194</b>           | <b>1%</b>                             |             |

(a) Loans that have been modified in troubled debt restructurings and are performing according to their restructured terms. For additional discussion of troubled debt restructurings see below.

(b) Does not reflect allowance for credit losses.

(c) Our commercial mortgage loan portfolio is current as to payments of principal and interest, for both periods presented. There were no significant amounts of nonperforming commercial mortgages (defined as those loans where payment of contractual principal or interest is more than 90 days past due) during any

of the periods presented.

### **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.

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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 losses on Mortgage and other loans receivable:**

| <b>Years Ended December 31,<br/>(in millions)</b> | <b>2017</b>                     |                        |               | <b>2016</b>                     |                        |               | <b>2015</b>                     |                        |
|---|---------------------------------|------------------------|---------------|---------------------------------|------------------------|---------------|---------------------------------|------------------------|
|   | <b>Commercial<br/>Mortgages</b> | <b>Other<br/>Loans</b> | <b>Total</b>  | <b>Commercial<br/>Mortgages</b> | <b>Other<br/>Loans</b> | <b>Total</b>  | <b>Commercial<br/>Mortgages</b> | <b>Other<br/>Loans</b> |
| <b>Allowance, beginning of year</b>               | <b>\$ 194</b>                   | <b>\$ 103</b>          | <b>\$ 297</b> | <b>\$ 171</b>                   | <b>\$ 137</b>          | <b>\$ 308</b> | <b>\$ 159</b>                   | <b>\$ 112</b>          |
| Loans charged off                                 | (22)                            | (3)                    | (25)          | (13)                            | (2)                    | (15)          | (23)                            | (6)                    |
| Recoveries of loans previously charged off        | -                               | 1                      | 1             | 11                              | -                      | 11            | 4                               | 1                      |
| <b>Net charge-offs</b>                            | <b>(22)</b>                     | <b>(2)</b>             | <b>(24)</b>   | <b>(2)</b>                      | <b>(2)</b>             | <b>(4)</b>    | <b>(19)</b>                     | <b>(5)</b>             |
| Provision for loan losses                         | 75                              | (26)                   | 49            | 25                              | (32)                   | (7)           | 31                              | 27                     |
| Other   | -                               | -                      | -             | -                               | -                      | -             | -                               | 3                      |
| <b>Allowance, end of year</b>                     | <b>\$ 247 *</b>                 | <b>\$ 75</b>           | <b>\$ 322</b> | <b>\$ 194 *</b>                 | <b>\$ 103</b>          | <b>\$ 297</b> | <b>\$ 171 *</b>                 | <b>\$ 137</b>          |

\* Of the total allowance at the end of the year, \$5 million, \$11 million and \$24 million relates to individually assessed credit losses on \$82 million, \$280 million and \$507 million of commercial mortgages as of December 31, 2017, 2016 and 2015, 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 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 the 12 month period ended December 31, 2017, loans with a carrying value of \$237 million were modified in troubled debt restructurings. Loans that had been modified in troubled debt restructurings during the 12 month period ended December 31, 2016 have been fully paid off.

**8. 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 \$187 million and \$207 million at December 31, 2017 and 2016, 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.

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**The following table provides supplemental information for loss and benefit reserves, gross and net of ceded reinsurance:**

**At December 31,**

*(in millions)*

|   | <b>2017</b>        |                           | <b>2016</b>        |                           |
|---|--------------------|---------------------------|--------------------|---------------------------|
|   | <b>As Reported</b> | <b>Net of Reinsurance</b> | <b>As Reported</b> | <b>Net of Reinsurance</b> |
| Liability for unpaid losses and loss adjustment expenses                    | <b>\$ (78,393)</b> | <b>\$ (51,685)</b>        | <b>\$ (77,077)</b> | <b>\$ (61,500)</b>        |
| Future policy benefits for life and accident and health insurance contracts | <b>(45,432)</b>    | <b>(44,457)</b>           | <b>(42,204)</b>    | <b>(41,100)</b>           |
| Reserve for unearned premiums   | <b>(19,030)</b>    | <b>(15,890)</b>           | <b>(19,634)</b>    | <b>(16,200)</b>           |
| Reinsurance assets <sup>(a)</sup>   | <b>30,823</b>      |                           | <b>19,950</b>      |                           |

(a) 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 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:**

|                          | <b>Years Ended December 31,</b> |                  |                  |
|--------------------------|---------------------------------|------------------|------------------|
| <i>(in millions)</i>     | <b>2017</b>                     | <b>2016</b>      | <b>2015</b>      |
| <b>Premiums written:</b> |                                 |                  |                  |
| Direct                   | <b>\$ 30,205</b>                | <b>\$ 33,970</b> | <b>\$ 37,698</b> |
| Assumed                  | <b>3,084</b>                    | <b>2,824</b>     | <b>2,972</b>     |
| Ceded                    | <b>(7,533)</b>                  | <b>(7,561)</b>   | <b>(7,604)</b>   |
| <b>Net</b>               | <b>\$ 25,756</b>                | <b>\$ 29,233</b> | <b>\$ 33,066</b> |
| <b>Premiums earned:</b>  |                                 |                  |                  |
| Direct                   | <b>\$ 30,904</b>                | <b>\$ 34,869</b> | <b>\$ 37,105</b> |

|            |                  |                  |                  |
|------------|------------------|------------------|------------------|
| Assumed    | 3,373            | 2,962            | 2,659            |
| Ceded      | (7,902)          | (7,284)          | (7,593)          |
| <b>Net</b> | <b>\$ 26,375</b> | <b>\$ 30,547</b> | <b>\$ 32,171</b> |

For the years ended December 31, 2017, 2016 and 2015, reinsurance recoveries, which reduced losses and loss adjustment expenses incurred, amounted to \$1.5 billion, \$2.1 billion and \$4.1 billion, respectively.

Retroactive reinsurance agreements are reinsurance agreements under which our reinsurer agrees to reimburse us as a result of past insurable events. For these agreements, the excess of the amounts ultimately collectible under the agreement over the consideration paid is recognized as a deferred gain liability and amortized into income over the settlement period of the ceded reserves. The amount of the deferral is recalculated each period based on loss payments and updated estimates. If the consideration paid exceeds the ultimate losses collectible under the agreement, the net loss on the agreement is recognized in income immediately. Ceded loss reserves under retroactive agreements were \$13.4 billion and \$1.7 billion, and the deferred gain liability was \$1.6 billion and \$384 million, as of December 31, 2017 and 2016, respectively. The effect on income from amortization of the deferred gain was \$316 million, \$30 million and \$8 million for the years ended December 31, 2017, 2016, and 2015, respectively.

In 2017, we entered into a retroactive reinsurance agreement with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc. (Berkshire), under which we transferred to NICO 80 percent of the reserve risk on substantially all of our U.S. commercial long-tail exposures for accident years 2015 and prior. Under this agreement, we ceded to NICO 80 percent of the paid losses on subject business paid on or after January 1, 2016 in excess of \$25 billion of net paid losses, up to an aggregate limit of \$25 billion. At NICO's 80 percent share, NICO's limit of liability under the contract is \$20 billion. The covered losses ceded to NICO were

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\$13.1 billion and the unexpired limit was \$6.9 billion at December 31, 2017. We paid total consideration, including interest, of \$10.2 billion. The consideration was placed into a collateral trust account as security for NICO's claim payment obligations, and Berkshire has provided a parental guarantee to secure the obligations of NICO under the agreement.

**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 life insurance and annuity operations:**

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

|                | <b>2017</b>     | <b>2016</b> | <b>2015</b> |
|----------------|-----------------|-------------|-------------|
| Gross premiums | \$ <b>5,338</b> | \$ 4,732    | \$ 5,240    |
| Ceded premiums | <b>(809)</b>    | (789)       | (756)       |
| <b>Net</b>     | \$ <b>4,529</b> | \$ 3,943    | \$ 4,484    |

Long-duration reinsurance recoveries, which reduced Policyholder benefits and losses incurred, was approximately \$1.0 billion for the years ended December 31, 2017, 2016 and 2015.

**The following table presents long-duration insurance in-force ceded to other insurance companies:**

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

|  | <b>2017</b>       | <b>2016</b> | <b>2015</b> |
|--|-------------------|-------------|-------------|
| Long-duration insurance in force ceded | \$ <b>202,402</b> | \$ 174,363  | \$ 177,025  |

Long-duration insurance in-force assumed as a percentage of gross long-duration insurance in-force was 0.03 percent at both December 31, 2017 and 2016, and 0.04 percent at December 31, 2015; and premiums assumed represented 5 percent, 3 percent and 0.1 percent of gross premiums for the years ended December 31, 2017, 2016 and 2015, respectively.

The U.S. Life and Retirement companies manage the capital impact of their statutory reserve requirements, including those resulting from the NAIC Model Regulation "Valuation of Life Insurance Policies" (Regulation XXX) and NAIC Actuarial Guideline 38 (Guideline AXXX), through unaffiliated and affiliated reinsurance transactions. Effective July 1, 2016, one of the U.S. Life and Retirement companies entered into an agreement to cede approximately \$5 billion of statutory reserves for certain whole life and universal life policies to an unaffiliated reinsurer. Effective December 31, 2016, the same life insurance subsidiary recaptured term and universal life reserves subject to Regulation XXX and Guideline AXXX, previously ceded to an affiliate, and ceded approximately \$14 billion of such statutory reserves to an unaffiliated reinsurer under an amendment to the July 1, 2016 agreement. Under GAAP, these unaffiliated reinsurance transactions use deposit accounting with a reinsurance risk charge recorded in income, whereas such

affiliated transactions are eliminated in consolidation. Under one affiliated reinsurance arrangement, one of the U.S. Life and Retirement companies obtains letters of credit to support statutory recognition of the ceded reinsurance. As of December 31, 2017, this subsidiary had two bilateral letters of credit totaling \$450 million, which were issued on February 7, 2014 and expire on February 7, 2021. The letters of credit are subject to reimbursement by AIG Parent in the event of a drawdown.

*For additional information on the use of affiliated reinsurance for Regulation XXX and Guideline AXXX reserves see Note 19.*

## 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 due from reinsurers exceeding 5 percent of our total reinsurance assets were approximately \$18 billion and \$8.2 billion at December 31, 2017 and 2016, respectively, of which approximately \$7.6 billion and \$4.4 billion at December 31, 2017 and 2016, respectively, was not secured by collateral.



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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 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 capital 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

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asset growth above or below long-term annual rate assumptions 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 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 are in a 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 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)

|   | <b>2017</b>      | <b>2016</b>      | <b>2015</b>      |
|---|------------------|------------------|------------------|
| <b>Balance, beginning of year</b>                     | <b>\$ 11,042</b> | <b>\$ 11,115</b> | <b>\$ 9,828</b>  |
| Dispositions  | (35)             | (110)            | -                |
| Acquisition costs deferred                            | 4,820            | 5,216            | 5,825            |
| Amortization expense                                  | (4,288)          | (4,521)          | (5,236)          |
| Change in net unrealized gains (losses) on securities | (505)            | (259)            | 848              |
| Other, including foreign exchange                     | (40)             | 72               | (150)            |
| Reclassified to Assets held for sale                  | -                | (471)            | -                |
| <b>Balance, end of year*</b>                          | <b>\$ 10,994</b> | <b>\$ 11,042</b> | <b>\$ 11,115</b> |

**Supplemental Information:**

|  |            |     |     |
|--|------------|-----|-----|
| VOBA amortization expense included in DAC amortization | <b>20</b>  | 40  | 64  |
| VOBA, end of year included in DAC balance              | <b>381</b> | 393 | 453 |

\* Net of reductions in DAC of \$1.3 billion, \$842 million, and \$583 million at December 31, 2017, 2016 and 2015, 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, 2017 expected to be amortized in 2018 through 2022 by year is: 8.4 percent, 7.8 percent, 7.2 percent, 6.1 percent and 5.9 percent, respectively, with 64.6 percent being amortized after five years. These projections are based on current estimates for investment income and spreads, persistency, mortality and morbidity assumptions.

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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 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.

**10. 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.

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<br>and<br>Investment<br>Entities <sup>(d)</sup> | Securitization<br>Vehicles <sup>(e)</sup> | Structured<br>Investment<br>Vehicle | Affordable<br>Housing<br>Partnerships | Other | Total |
|-------------------------------------|---|---|-------------------------------------|---------------------------------------|-------|-------|
| <i>(in millions)</i>                |   |   |                                     |                                       |       |       |
| <b>December 31, 2017</b>            |   |   |                                     |                                       |       |       |
| <b>Assets:</b>                      |   |   |                                     |                                       |       |       |
| Bonds available for sale            | \$  | -\$                                       | 9,632                               | \$                                    | -\$   | 9,632 |
| Other bond securities               | -   | 4,518                                     | -                                   | -                                     | 3     | 4,521 |
| Mortgage and other loans receivable | -   | 2,290                                     | -                                   | -                                     | -     | 2,290 |

|                                     |           |                |                 |              |                |              |               |
|-------------------------------------|-----------|----------------|-----------------|--------------|----------------|--------------|---------------|
| Other invested assets               |           | 1,365          | 206             | -            | 3,087          | 25           | 4,668         |
| Other <sup>(a)</sup>                |           | 302            | 1,481           | -            | 350            | 85           | 2,216         |
| <b>Total assets<sup>(b)</sup></b>   | <b>\$</b> | <b>1,667\$</b> | <b>18,127\$</b> | <b>-\$</b>   | <b>3,437\$</b> | <b>113\$</b> | <b>23,347</b> |
| <b>Liabilities:</b>                 |           |                |                 |              |                |              |               |
| Long-term debt                      | <b>\$</b> | <b>680\$</b>   | <b>1,624\$</b>  | <b>-\$</b>   | <b>1,825\$</b> | <b>5\$</b>   | <b>4,130</b>  |
| Other <sup>(c)</sup>                |           | 144            | 244             | -            | 181            | 26           | 595           |
| <b>Total liabilities</b>            | <b>\$</b> | <b>824\$</b>   | <b>1,868\$</b>  | <b>-\$</b>   | <b>2,006\$</b> | <b>31\$</b>  | <b>4,725</b>  |
| <b>December 31, 2016</b>            |           |                |                 |              |                |              |               |
| <b>Assets:</b>                      |           |                |                 |              |                |              |               |
| Bonds available for sale            | \$        | -\$            | 10,233\$        | -\$          | -\$            | -\$          | 10,233        |
| Other bond securities               |           | -              | 4,858           | 266          | -              | 5            | 5,124         |
| Mortgage and other loans receivable |           | 1              | 1,442           | -            | -              | 104          | 1,547         |
| Other invested assets               |           | 1,052          | 321             | -            | 2,821          | 28           | 4,201         |
| Other <sup>(a)</sup>                |           | 365            | 1,104           | 50           | 384            | 92           | 1,995         |
| <b>Total assets<sup>(b)</sup></b>   | <b>\$</b> | <b>1,418\$</b> | <b>17,958\$</b> | <b>316\$</b> | <b>3,205\$</b> | <b>229\$</b> | <b>23,126</b> |
| <b>Liabilities:</b>                 |           |                |                 |              |                |              |               |
| Long-term debt                      | <b>\$</b> | <b>444\$</b>   | <b>771\$</b>    | <b>56\$</b>  | <b>1,696\$</b> | <b>6\$</b>   | <b>2,973</b>  |
| Other <sup>(c)</sup>                |           | 224            | 203             | 1            | 211            | 38           | 667           |
| <b>Total liabilities</b>            | <b>\$</b> | <b>668\$</b>   | <b>974\$</b>    | <b>57\$</b>  | <b>1,907\$</b> | <b>44\$</b>  | <b>3,640</b>  |

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- (a) Comprised primarily of Short-term investments and Other assets at December 31, 2017 and 2016.
- (b) The assets of each VIE can be used only to settle specific obligations of that VIE.
- (c) Comprised primarily of Other liabilities at December 31, 2017 and 2016.
- (d) At December 31, 2017 and 2016, off-balance sheet exposure primarily consisting of commitments to real estate and investment entities was \$85.8 million and \$106 million, respectively.
- (e) At December 31, 2017 and 2016, \$17.6 billion and \$17.3 billion, respectively, of the total assets of consolidated securitization vehicles were owed to AIG Parent or its subsidiaries.

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:**

|  |                   | Maximum Exposure to Loss        |                   |     |                  |
|--|-------------------|---------------------------------|-------------------|-----|------------------|
|  | Total VIE Assets  | On-Balance Sheet <sup>(b)</sup> | Off-Balance Sheet |     | Total            |
| <i>(in millions)</i>                               |                   |                                 |                   |     |                  |
| <b>December 31, 2017</b>                           |                   |                                 |                   |     |                  |
| Real estate and investment entities <sup>(a)</sup> | \$ 380,030        | \$ 9,253                        | \$ 2,043          |     | \$ 11,296        |
| Affordable housing partnerships                    | 4,468             | 725                             | -                 |     | 725              |
| Other  | 2,703             | 254                             | 1,205             | (c) | 1,459            |
| <b>Total</b>                                       | <b>\$ 387,201</b> | <b>\$ 10,232</b>                | <b>\$ 3,248</b>   |     | <b>\$ 13,480</b> |
| <b>December 31, 2016</b>                           |                   |                                 |                   |     |                  |
| Real estate and investment entities <sup>(a)</sup> | \$ 409,087        | \$ 11,015                       | \$ 2,115          |     | \$ 13,130        |
| Affordable housing partnerships                    | 4,709             | 785                             | -                 |     | 785              |
| Other  | 2,869             | 314                             | 1,045             | (c) | 1,359            |
| <b>Total</b>                                       | <b>\$ 416,665</b> | <b>\$ 12,114</b>                | <b>\$ 3,160</b>   |     | <b>\$ 15,274</b> |

(a) Comprised primarily of hedge funds and private equity funds.

(b) At December 31, 2017 and 2016, \$9.8 billion and \$11.7 billion, respectively, of our total unconsolidated VIE assets were recorded as Other invested assets.

(c) 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.

### **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 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. Total assets of consolidated securitization vehicles are \$18.1 billion, of which \$17.6 billion represents amounts owed to Parent or its subsidiaries.



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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 Life and Retirement 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 5 and 6 herein.

**11. Derivatives and Hedge Accounting**

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 forwards and options) 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. We use credit derivatives to manage our credit exposures. 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 with respect to 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.

Derivatives, with the exception of embedded derivatives, are reported at fair value in the Consolidated Balance Sheets in Other assets and Other liabilities. Embedded derivatives are 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.

*For additional information on embedded derivatives see Notes 5 and 14 herein.*

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## ITEM 8 | Notes to Consolidated Financial Statements | 11. Derivatives and Hedge Accounting

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, 2017       |                 |                              |                 | December 31, 2016       |                 |                              |                 |
|--|-------------------------|-----------------|------------------------------|-----------------|-------------------------|-----------------|------------------------------|-----------------|
|  | Gross Derivative Assets |                 | Gross Derivative Liabilities |                 | Gross Derivative Assets |                 | Gross Derivative Liabilities |                 |
|  | Notional Amount         | Fair Value      | Notional Amount              | Fair Value      | Notional Amount         | Fair Value      | Notional Amount              | Fair Value      |
| <i>(in millions)</i>   |                         |                 |                              |                 |                         |                 |                              |                 |
| <b>Derivatives designated as hedging instruments:</b> <sup>(a)</sup>     |                         |                 |                              |                 |                         |                 |                              |                 |
| Interest rate contracts  | \$ -                    | \$ -            | \$ 838                       | \$ 15           | \$ 175                  | \$ -            | \$ 782                       | \$ 11           |
| Foreign exchange contracts   | 2,823                   | 173             | 4,783                        | 350             | 3,527                   | 385             | 2,602                        | 184             |
| Equity contracts   | -                       | -               | 159                          | 19              | -                       | -               | 113                          | 7               |
| <b>Derivatives not designated as hedging instruments:</b> <sup>(a)</sup> |                         |                 |                              |                 |                         |                 |                              |                 |
| Interest rate contracts  | 37,751                  | 2,171           | 26,461                       | 2,185           | 51,030                  | 2,328           | 44,211                       | 3,066           |
| Foreign exchange contracts   | 6,305                   | 658             | 11,093                       | 895             | 9,468                   | 935             | 7,674                        | 1,185           |
| Equity contracts   | 19,975                  | 522             | 1,130                        | 2               | 14,060                  | 305             | 8,633                        | 12              |
| Commodity contracts  | -                       | -               | -                            | -               | -                       | -               | -                            | -               |
| Credit contracts <sup>(b)</sup>  | 4                       | 1               | 1,365                        | 277             | 4                       | 2               | 861                          | 331             |
| Other contracts <sup>(c)</sup>   | 39,829                  | 20              | 59                           | 5               | 37,633                  | 22              | 62                           | 6               |
| <b>Total derivatives, gross</b>  | <b>\$ 106,687</b>       | <b>\$ 3,545</b> | <b>\$ 45,888</b>             | <b>\$ 3,748</b> | <b>\$ 115,897</b>       | <b>\$ 3,977</b> | <b>\$ 64,938</b>             | <b>\$ 4,802</b> |
| <b>Counterparty netting</b> <sup>(d)</sup>                               |                         | (1,464)         |                              | (1,464)         |                         | (1,265)         |                              | (1,265)         |
| <b>Cash collateral</b> <sup>(e)</sup>                                    |                         | (1,159)         |                              | (1,249)         |                         | (903)           |                              | (1,521)         |
| <b>Total derivatives on consolidated balance sheets</b> <sup>(f)</sup>   |                         | <b>\$ 922</b>   |                              | <b>\$ 1,035</b> |                         | <b>\$ 1,809</b> |                              | <b>\$ 2,016</b> |

(a) Fair value amounts are shown before the effects of counterparty netting adjustments and offsetting cash collateral.

(b) As of December 31, 2017 and 2016, included CDSs on super senior multi-sector CDOs with a net notional amount of \$685 million and \$801 million (fair value liability of \$254 million and \$308 million), respectively. The expected weighted average maturity as of December 31, 2017 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, 2017 and 2016, there were no super senior corporate debt/CLOs remaining.

(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, 2017 and December 31, 2016. Fair value of liabilities related to bifurcated Embedded derivatives was \$4.1 billion and \$3.1 billion, respectively, at December 31, 2017 and December 31, 2016. 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.

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Collateral posted by us to third parties for derivative transactions was \$2.9 billion and \$4.5 billion at December 31, 2017 and 2016, 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 \$1.3 billion and \$1.5 billion at December 31, 2017 and 2016, respectively. In the case of collateral provided to us under derivative transactions that are not subject to clearing, 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.

**Hedge Accounting**

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, 2017, 2016, and 2015 we recognized gains (losses) of \$(106) million, \$123 million and \$90 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.



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## ITEM 8 | Notes to Consolidated Financial Statements | 11. Derivatives and Hedge Accounting

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<br>in Earnings for: |                 | Including Gains/(Losses) Attributable<br>to: |                        |                      |
|---|---|-----------------|--|------------------------|----------------------|
|   | Hedging<br>Derivatives <sup>(a)</sup>         | Hedged<br>Items | Hedge<br>Ineffectiveness                     | Excluded<br>Components | Other <sup>(b)</sup> |
| <b>Year ended December 31, 2017</b>                   |   |                 |  |                        |                      |
| <b>Interest rate contracts:</b>                       |   |                 |  |                        |                      |
| Realized capital gains/(losses)                       | \$ (4)  | \$ 4            | \$ -   | \$ -                   | \$ -                 |
| Other income  | -   | -               | -  | -                      | -                    |
| Gain/(Loss) on extinguishment of debt                 | -   | -               | -  | -                      | -                    |
| <b>Foreign exchange contracts:</b>                    |   |                 |  |                        |                      |
| Realized capital gains/(losses)                       | (420)   | 393             | -  | (26)                   | -                    |
| Interest credited to policyholder<br>account balances | -   | -               | -  | -                      | -                    |
| Other income  | -   | 4               | -  | -                      | 4                    |
| Gain/(Loss) on extinguishment of debt                 | -   | -               | -  | -                      | -                    |
| <b>Equity contracts:</b>                              |   |                 |  |                        |                      |
| Realized capital gains/(losses)                       | (47)  | 42              | -  | (5)                    | -                    |
| <b>Year ended December 31, 2016</b>                   |   |                 |  |                        |                      |
| <b>Interest rate contracts:</b>                       |   |                 |  |                        |                      |
| Realized capital gains/(losses)                       | \$ (7)  | \$ 1            | \$ 1   | \$ -                   | \$ (7)               |
| Other income  | -   | 10              | -  | -                      | 10                   |
| Gain/(Loss) on extinguishment of debt                 | -   | -               | -  | -                      | -                    |
| <b>Foreign exchange contracts:</b>                    |   |                 |  |                        |                      |
| Realized capital gains/(losses)                       | 294   | (335)           | -  | (41)                   | -                    |
| Interest credited to policyholder<br>account balances | -   | -               | -  | -                      | -                    |
| Other income  | -   | 24              | -  | -                      | 24                   |
| Gain/(Loss) on extinguishment of debt                 | -   | -               | -  | -                      | -                    |
| <b>Equity contracts:</b>                              |   |                 |  |                        |                      |
| Realized capital gains/(losses)                       | 10  | (11)            | -  | (1)                    | -                    |
| <b>Year ended December 31, 2015</b>                   |   |                 |  |                        |                      |
| <b>Interest rate contracts:</b>                       |   |                 |  |                        |                      |
| Realized capital gains                                | \$ -  | \$ 1            | \$ 1   | \$ -                   | \$ -                 |
| Other income  | -   | 9               | -  | -                      | 9                    |
| Gain/(Loss) on extinguishment of debt                 | -   | 14              | -  | -                      | 14                   |
| <b>Foreign exchange contracts:</b>                    |   |                 |  |                        |                      |
| Realized capital gains/(losses)                       | 202   | (167)           | -  | 32                     | 3                    |
| Interest credited to policyholder<br>account balances | -   | (1)             | -  | -                      | (1)                  |
| Other income  | -   | 17              | -  | -                      | 17                   |

|                                       |      |    |   |   |    |
|---------------------------------------|------|----|---|---|----|
| Gain/(Loss) on extinguishment of debt | -    | 17 | - | - | 17 |
| <b>Equity contracts:</b>              |      |    |   |   |    |
| Realized capital gains/(losses)       | (45) | 45 | - | - | -  |

(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.



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## ITEM 8 | Notes to Consolidated Financial Statements | 11. Derivatives and Hedge Accounting

**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:

| Years Ended December 31,<br>(in millions)      | Gains (Losses) Recognized in Earnings |                 |               |
|--|---------------------------------------|-----------------|---------------|
|  | 2017                                  | 2016            | 2015          |
| <b>By Derivative Type:</b>                     |                                       |                 |               |
| Interest rate contracts                        | \$ 56                                 | \$ (229)        | \$ 339        |
| Foreign exchange contracts                     | (277)                                 | 293             | 416           |
| Equity contracts                               | (964)                                 | (902)           | (182)         |
| Commodity contracts                            | -                                     | -               | (1)           |
| Credit contracts                               | 58                                    | 81              | 186           |
| Other contracts                                | 75                                    | 80              | 69            |
| Embedded derivatives                           | (449)                                 | (48)            | 49            |
| <b>Total</b>                                   | <b>\$ (1,501)</b>                     | <b>\$ (725)</b> | <b>\$ 876</b> |
| <b>By Classification:</b>                      |                                       |                 |               |
| Policy fees                                    | \$ 77                                 | \$ 80           | \$ 78         |
| Net investment income                          | (11)                                  | 26              | 26            |
| Net realized capital gains (losses)            | (1,709)                               | (895)           | 365           |
| Other income                                   | 139                                   | 63              | 401           |
| Policyholder benefits and claims incurred      | 3                                     | 1               | 6             |
| <b>Total</b>                                   | <b>\$ (1,501)</b>                     | <b>\$ (725)</b> | <b>\$ 876</b> |
| <b>Credit Risk-Related Contingent Features</b> |                                       |                 |               |

We estimate that at December 31, 2017, based on our outstanding financial derivative transactions, a downgrade of our long-term senior debt ratings to BBB or BBB- by Standard & Poor's Financial Services LLC, a subsidiary of S&P Global Inc., and/or a downgrade to Baa2 or Baa3 by Moody's Investors' Service, Inc. would permit counterparties to make additional collateral calls and permit certain counterparties to elect early termination of contracts, resulting in corresponding collateral postings and termination payments in the total amount of up to approximately \$83 million. The aggregate fair value of our derivatives that were in a net liability position and that contain such credit risk-related contingencies which can be triggered below our long-term senior debt ratings of BBB+ or Baa1 was approximately \$572 million and \$848 million at December 31, 2017 and 2016, respectively. The aggregate fair value of assets posted as collateral under these contracts at December 31, 2017 and 2016, was approximately \$676 million and \$875 million, respectively.

**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 \$4.4 billion and \$4.8 billion at December 31, 2017 and 2016, respectively. These securities have par amounts of \$9.1 billion and \$10.1 billion at December 31, 2017 and 2016, respectively, and have remaining stated maturity dates that extend to 2052.

## 12. 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. At December 31, 2017, as a result of the 2017 segment changes, goodwill is reported within our General Insurance business – North America and International operating segments, our Life and Retirement business – Life Insurance operating segment and our Other Operations and Legacy Portfolio operating segments. When a business is transferred

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from one reporting unit to another, as occurred as part of the 2017 segment changes, goodwill from the original operating segment is allocated among reporting units based on the fair value of business transferred, relative to business retained by a reporting unit. As a result, at December 31, 2017, \$1.3 billion of goodwill was re-allocated to the General Insurance – North America and General Insurance – International operating segments based on their respective fair values.

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 an operating segment 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 an operating segment 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 operating segment and compare the estimated fair value with the carrying amount of the operating segment, including allocated goodwill. The estimate of an operating segment'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 an operating segment to be used in the impairment test.

If the estimated fair value of an operating segment exceeds its carrying amount, goodwill is not impaired. If the carrying value of an operating segment exceeds its estimated fair value, goodwill associated with that operating segment 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 operating segment over the amounts that would be assigned to the operating segment'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, 2017 based on the results of the goodwill impairment test.

**The following table presents the changes in goodwill by operating segment:**

| <i>(in millions)</i>               | North<br>America | International | Life<br>Insurance | Other<br>Operations | Legacy<br>Portfolio | Total    |
|------------------------------------|------------------|---------------|-------------------|---------------------|---------------------|----------|
| <b>Balance at January 1, 2015:</b> |                  |               |                   |                     |                     |          |
| Goodwill - gross                   | \$ 1,834         | \$ 2,887      | \$ 21             | \$ 7                | \$ 182              | \$ 4,931 |
| Accumulated impairments            | (1,264)          | (2,136)       | -                 | -                   | (77)                | (3,477)  |
| <b>Net goodwill</b>                | 570              | 751           | 21                | 7                   | 105                 | 1,454    |
| <b>Increase (decrease) due to:</b> |                  |               |                   |                     |                     |          |
| Acquisition                        | 50               | 46            | 55                | 20                  | 37                  | 208      |
| Other                              | -                | (50)          | 1                 | -                   | -                   | (49)     |

**Balance at December 31, 2015:**

|                         |            |            |           |           |            |              |
|-------------------------|------------|------------|-----------|-----------|------------|--------------|
| Goodwill - gross        | 1,884      | 2,883      | 77        | 27        | 219        | 5,090        |
| Accumulated impairments | (1,264)    | (2,136)    | -         | -         | (77)       | (3,477)      |
| <b>Net goodwill</b>     | <b>620</b> | <b>747</b> | <b>77</b> | <b>27</b> | <b>142</b> | <b>1,613</b> |

**Increase (decrease) due to:**

|              |     |      |   |   |     |      |
|--------------|-----|------|---|---|-----|------|
| Dispositions | (6) | (6)  | - | - | -   | (12) |
| Other        | -   | (70) | - | - | (3) | (73) |

**Balance at December 31, 2016:**

|                         |            |            |           |           |            |              |
|-------------------------|------------|------------|-----------|-----------|------------|--------------|
| Goodwill - gross        | 1,878      | 2,807      | 77        | 27        | 216        | 5,005        |
| Accumulated impairments | (1,264)    | (2,136)    | -         | -         | (77)       | (3,477)      |
| <b>Net goodwill</b>     | <b>614</b> | <b>671</b> | <b>77</b> | <b>27</b> | <b>139</b> | <b>1,528</b> |

**Increase (decrease) due to:**

|              |      |     |     |   |     |      |
|--------------|------|-----|-----|---|-----|------|
| Acquisition  | -    | -   | -   | 4 | -   | 4    |
| Dispositions | (10) | (7) | (6) | - | (2) | (25) |
| Other        | -    | 74  | 13  | - | -   | 87   |

**Balance at December 31, 2017:**

|                         |                |                |              |              |               |                 |
|-------------------------|----------------|----------------|--------------|--------------|---------------|-----------------|
| Goodwill - gross        | <b>1,868</b>   | <b>2,874</b>   | <b>84</b>    | <b>31</b>    | <b>214</b>    | <b>5,071</b>    |
| Accumulated impairments | <b>(1,264)</b> | <b>(2,136)</b> | <b>-</b>     | <b>-</b>     | <b>(77)</b>   | <b>(3,477)</b>  |
| <b>Net goodwill</b>     | <b>\$ 604</b>  | <b>\$ 738</b>  | <b>\$ 84</b> | <b>\$ 31</b> | <b>\$ 137</b> | <b>\$ 1,594</b> |

TABLE OF CONTENTSITEM 8 | **Notes to Consolidated Financial Statements** | **13. Insurance Liabilities****13. Insurance Liabilities****Liability for Unpaid Losses and Loss Adjustment Expenses (Loss Reserves)**

Loss reserves represent the accumulation of estimates of unpaid claims, including estimates for claims incurred but not reported and loss adjustment expenses (IBNR), less applicable discount. We regularly review and update the methods used to determine loss reserve estimates. Any adjustments resulting from this review are reflected currently in pre-tax income. Because these 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 \$12.8 billion at December 31, 2017 and 2016, 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, deductibles, retrospective programs, or captive arrangements, each referred to generically as “deductibles”), primarily for U.S. commercial casualty business. With respect to the deductible portion of the claim, we manage and pay the entire claim on behalf of the insured and are reimbursed by the insured for the deductible portion of the claim. Thus, these recoverable amounts represent a credit exposure to us. At December 31, 2017 and 2016, we held collateral of approximately \$9.5 billion and \$9.7 billion, respectively, for these deductible recoverable amounts, consisting primarily of letters of credit and funded trust agreements.

**The following table presents the roll-forward of activity in Loss Reserves:**

**Years Ended December 31,**

*(in millions)*

|  | <b>2017</b>      | <b>2016</b> | <b>2015</b> |
|--|------------------|-------------|-------------|
| Liability for unpaid loss and loss adjustment expenses, beginning of year            | <b>\$ 77,077</b> | \$ 74,942   | \$ 77,266   |
| Reinsurance recoverable  | <b>(15,532)</b>  | (14,339)    | (15,648)    |
| <b>Net Liability for unpaid loss and loss adjustment expenses, beginning of year</b> | <b>61,545</b>    | 60,603      | 61,618      |
| <b>Losses and loss adjustment expenses incurred:</b>                                 |                  |             |             |
| Current year   | <b>21,079</b>    | 20,232      | 20,300      |
| Prior years, excluding discount and amortization of deferred gain                    | <b>1,565</b>     | 5,788       | 4,119       |
| Prior years, discount charge (benefit)   | <b>187</b>       | (422)       | (71)        |
| Prior years, amortization of deferred gain on retroactive reinsurance <sup>(a)</sup> | <b>(284)</b>     | -           | -           |
| <b>Total losses and loss adjustment expenses incurred</b>                            | <b>22,547</b>    | 25,598      | 24,350      |
| <b>Losses and loss adjustment expenses paid:</b>                                     |                  |             |             |
| Current year   | <b>(5,323)</b>   | (5,825)     | (5,751)     |
| Prior years  | <b>(16,241)</b>  | (16,908)    | (18,205)    |
| <b>Total losses and loss adjustment expenses paid</b>                                | <b>(21,564)</b>  | (22,733)    | (23,956)    |
| <b>Other changes:</b>  |                  |             |             |
| Foreign exchange effect  | <b>788</b>       | (463)       | (1,429)     |

|   |                  |                  |                  |
|---|------------------|------------------|------------------|
| Acquisitions <sup>(b)</sup>   | 23               | -                |                  |
| Dispositions <sup>(c)</sup>   | (360)            | (1,058)          |                  |
| Retroactive reinsurance adjustment (net of discount) <sup>(d)</sup>           | (11,294)         | -                | 2                |
| Reclassified to liabilities held for sale <sup>(e)</sup>                      | -                | (402)            |                  |
| <b>Total other changes</b>  | <b>(10,843)</b>  | <b>(1,923)</b>   | <b>(1,409)</b>   |
| <b>Liability for unpaid losses and loss adjustment expenses, end of year:</b> |                  |                  |                  |
| Net liability for unpaid losses and loss adjustment expenses                  | 51,685           | 61,545           | 60,603           |
| Reinsurance recoverable   | 26,708           | 15,532           | 14,333           |
| <b>Total</b>  | <b>\$ 78,393</b> | <b>\$ 77,077</b> | <b>\$ 74,944</b> |

(a) Includes \$25 million for 2011 retroactive reinsurance agreement with NICO covering U.S. asbestos exposures for the year ended December 31, 2017.

(b) Includes amounts related to the acquisition of Blackboard U.S. Holdings Inc in 2017.

(c) Includes amounts related to dispositions through the date of disposition. Includes sale of insurance operations to Fairfax, United Guaranty and Ascot Underwriting Holdings Limited, and Ascot Employees Corporate Member Limited (Ascot).

(d) Includes discount on retroactive insurance in the amount of \$1.5 billion for the period ended December 31, 2017.

ITEM 8 | **Notes to Consolidated Financial Statements** | **13. Insurance Liabilities**

(e) Represents change in loss reserves included in our sale of certain of our insurance operations and certain assets to Fairfax for the period ended December 31, 2016. Upon consummation of the sale, we retained a portion of these reserves through reinsurance arrangements.

During 2017, we recognized unfavorable prior year loss reserve development of \$1.6 billion. This unfavorable development was primarily a result of the following:

- Unfavorable development in U.S. Casualty lines, driven primarily by increases in underlying severity and greater than expected emerging loss experience in accident year 2016 as well as increased development from claims related to construction defects and construction wrap business (largely from accident years 2006 and prior).
- Unfavorable development in U.S. Financial Lines, primarily from Directors & Officers (D&O) policies covering privately owned and not-for-profit insureds. This development was predominantly in accident year 2016 and resulted largely from increases in bankruptcy-related claims and fiduciary liability claims for large educational institutions.
- Higher than expected losses for Europe Casualty and Financial Lines. We observed a significant increase in large claims activity in our Europe long-tail business, with a large proportion emanating from accident year 2016. In addition, we increased our loss reserves as a result of the decision made by the U.K. Ministry of Justice to reduce the discount rate applied to lump-sum bodily injury payouts, known as the Ogden rate.
- In addition we also observed higher than expected losses in Europe property and special risks business driven by unexpected development on various large claims across the property, aviation, marine, and trade credit segments.

Our analyses and conclusions about prior year reserves also help inform our judgments about the current accident year loss and loss adjustment expense ratios we selected.

During 2016, we recognized adverse prior year loss reserve development of \$5.8 billion. This unfavorable development was primarily a result of the following:

- Higher than expected losses emerging across several casualty product lines, especially in the recent accident years (generally, 2011 to 2015) driven by increased frequency and severity of claims. This recent accident year loss emergence caused us to increase loss development factors applied across many accident years.
- Loss development factors including workers' compensation tail factors, also increased due to an observed lengthening of loss reporting patterns relative to prior expectations.
- Increases in loss trend assumptions to reflect the latest observed increases in frequency and severity and the impact of these increased loss trends on expected loss ratios.

- Changes in weights we apply to the various actuarial methods to better align with updated trends.

During 2015, we recognized unfavorable prior year loss reserve development of \$4.1 billion. This unfavorable development was primarily as a result of the following:

- Higher than expected loss emergence across U.S. Excess Casualty, U.S. Workers' Compensation, and U.S. Other Casualty lines as well as European Financial Lines.
- Updated loss development selections in U.S. Excess Casualty, U.S. Financial Lines and U.S. Run-off Casualty Insurance lines, most notably tail factor selections and incorporation of updated industry experience for asbestos liabilities.
- Revised estimates of expected future recoveries from risk-sharing policies in the U.S. Workers' Compensation business.
- Updated estimates for extra-contractual obligation claims and unallocated loss adjustment expenses.

The loss development tables below include loss development data by major lines of business for the last ten accident years. The drivers of prior year development are discussed following each of the loss development tables.



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The table below presents the reconciliation of the net liability for unpaid losses and loss adjustment expenses in the following tables to Loss Reserves in the Consolidated Balance Sheets for the year ended December 31, 2017:

|  | Net liability for                                       |   |  |
|--|---|---|--|
|  | unpaid losses<br>and loss<br>adjustment<br>expenses     | Reinsurance<br>recoverable on<br>unpaid losses and<br>loss adjustment<br>expenses | Gross liability for                              |
|  | as presented in<br>the<br>disaggregated<br>tables below | included in the<br>disaggregated<br>tables below                                  | unpaid losses and<br>loss adjustment<br>expenses |
| <i>(in millions)</i>                                     |   |   |  |
| U.S. Workers' Compensation (before discount)             | \$ 6,616  | \$ 6,513  | \$ 13,129  |
| U.S. Excess Casualty                                     | 4,802   | 4,053   | 8,855  |
| U.S. Other Casualty                                      | 5,149   | 4,793   | 9,942  |
| U.S. Financial Lines                                     | 5,104   | 1,962   | 7,066  |
| U.S. Property and Special risks                          | 5,410   | 968   | 6,378  |
| U.S. Personal Insurance                                  | 1,380   | 194   | 1,574  |
| Europe Casualty and Financial lines                      | 6,986   | 1,156   | 8,142  |
| Europe Property and Special risks                        | 2,022   | 632   | 2,654  |
| Europe and Japan Personal Insurance                      | 2,348   | 349   | 2,697  |
| U.S. Run-Off Long Tail Insurance Lines (before discount) | 5,383   | 3,675   | 9,058  |
| <b>Total</b>   | <b>\$ 45,200</b>  | <b>\$ 24,295</b>  | <b>\$ 69,495</b>                                 |
| <b>Reconciling Items</b>                                 |   |   |  |
| Discount on workers' compensation lines                  |   |   | (3,383)  |
| Other product lines                                      |   |   | 8,568  |
| Unallocated loss adjustment expenses                     |   |   | 3,713  |
| <b>Total Loss Reserves</b>                               |   |   | <b>\$ 78,393</b>                                 |

ITEM 8 | **Notes to Consolidated Financial Statements** | **13. Insurance Liabilities****Loss Development Information**

The following is information about incurred and paid loss developments as of December 31, 2017, net of reinsurance. The cumulative number of reported claims, the total of IBNR liabilities and expected development on reported loss included within the net incurred loss amounts are presented in the following section.

**Reserving Methodology**

We use a combination of methods to project ultimate losses for both long-tail and short-tail exposures, which include:

- **Paid Development method:** The Paid Development method estimates ultimate losses by reviewing paid loss patterns and selecting paid ultimate loss development factors. These factors are then applied to paid losses by applying them to accident years, with further expected changes in paid loss. Since the method does not rely on case reserves, it is not directly influenced by changes in the adequacy of case reserves.
- **Incurred Development method:** The Incurred Development method is similar to the Paid Development method, but it uses case incurred losses instead of paid losses. Since this method uses more data (case reserves in addition to paid losses) than the Paid Development method, the incurred development patterns may be less variable than paid development patterns.
- **Expected Loss Ratio method:** The Expected Loss Ratio method multiplies premiums by an expected loss ratio to produce ultimate loss estimates for each accident year. This method may be useful if loss development patterns are inconsistent, losses emerge very slowly, or there is relatively little loss history from which to estimate future losses.
- **Bornhuetter-Ferguson method:** The Bornhuetter-Ferguson method using premiums and paid losses is a combination of the Paid Development method and the Expected Loss Ratio method where the weight given to each method is the reciprocal of the loss development factor. This method normally determines expected loss ratios similar to the method used for the Expected Loss Ratio method. The Bornhuetter-Ferguson method using premiums and incurred losses is similar to the Bornhuetter-Ferguson method using premiums and paid losses except that it uses case-incurred losses.
- **Cape Cod method:** The Cape Cod method is mechanically similar to the Bornhuetter-Ferguson method with the difference being that the Expected Loss Ratio estimates are determined based on a weighting of the loss estimates that come from the Paid/Incurred Development Methods. This method may be more responsive to recent loss trends than the Bornhuetter-Ferguson method.
- **Average Loss method:** The Average Loss method multiplies a projected number of ultimate claims by an estimated ultimate severity average loss for each accident year to produce ultimate loss estimates. Since projections of the ultimate number of claims are often less variable than projections of ultimate loss,

this method can provide more reliable results for reserve categories where loss development patterns are inconsistent or too variable to be relied on exclusively.

In updating our loss reserve estimates, 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 product line. Our analyses produce a range of indications from various methods, from which we select our best estimate.

In determining the actual carried loss reserves, we consider both the internal actuarial best estimate and numerous other internal and external factors, including:

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

ITEM 8 | **Notes to Consolidated Financial Statements** | **13. Insurance Liabilities**

The following factors are relevant to the loss development information Included in the tables below:

- **Table organization:** The tables are organized by accident year and include policies written on an occurrence and claims- made basis. We note that for certain categories of claims (e.g., construction defect claims and environmental claims) and for reinsurance recoverable, losses may sometimes be reclassified to an earlier or later accident year as more information about the date of occurrence becomes available to us. These reclassifications are shown as development in the respective years in the tables below. Financial Lines business is primarily written on a claims-made basis, while the majority of the workers' compensation, excess casualty, other casualty, and run-off property and casualty lines of business are written on an occurrence basis. Primarily, all short-tail lines in Property and Special Risks and Personal Insurance are written on an occurrence basis.
- **Groupings:** We believe our groupings have homogenous risk characteristics with similar development patterns and would generally be subject to similar trends and reflect our reportable segments. The incurred losses and loss adjustment expenses and paid losses in the following tables for the current reporting year are allocated to the line of business and accident years based on an initial allocation methodology and updated for the final allocation in the subsequent reporting year. The difference between the initial and the final allocation does not have a material impact on the loss tables.
- **Reinsurance:** Our reinsurance program varies by exposure type and may change from year to year. This may affect the comparability of the data presented in our tables. Note that the impact of the Adverse Development Reinsurance Agreement is shown separately. For the lines of business covered by the agreement, an allocation of the loss recoveries to the line of business by accident year is presented separately in the loss tables. The allocation is based on the underlying distribution of the losses subject to the agreement.
- **Incurred but not reported liabilities (IBNR):** We include development from past reported losses in IBNR.
- **Data excluded from tables:** Information with respect to accident years older than ten years is excluded from the development tables. Unallocated loss adjustment expenses are also excluded.
- **Foreign exchange:** The loss development for operations outside of the U.S. is presented for all accident years using the current exchange rate at December 31, 2017. Although this approach requires restating all prior accident year information, the changes in exchange rates do not impact incurred and paid loss development trends.
- **Dispositions:** We exclude dispositions from all accident years presented in the tables.
- **Claim counts:** We consider a reported claim to be one claim for each claimant or feature for each loss occurrence. Claims relating to losses that are 100 percent reinsured are excluded from the reported claims in the tables below. Reported claims for losses from assumed reinsurance contracts are not available and hence not included in the reported claims.

- There are limitations that should be considered on the reported claim count data in the tables below, including:
  - Claim counts are presented only on a reported (not an ultimate) basis;
  - The tables below include lines of business and geographies at a certain aggregated level which may indicate different frequency and severity trends and characteristics, and may not be as meaningful as the claim count information related to the individual products within those lines of business and geographies;
  - Certain lines of business are more likely to be subject to occurrences involving multiple claimants and features, which can distort measures based on the reported claim counts in the table below; and
  - Reported claim counts are not adjusted for ceded reinsurance, which may distort the measure of frequency or severity.

**Supplemental Information:** The information about incurred and paid loss development for all periods preceding year ended December 31, 2017 and the related historical claims payout percentage disclosure is unaudited and is presented as supplementary information.

**The following tables present undiscounted, incurred and paid losses and allocated loss adjustment expenses by accident year, on a net basis after reinsurance, with a separate presentation of the Adverse Development Reinsurance Agreement excluding the related amortization of the deferred gain:**

#### **U.S. Workers' Compensation**

**During 2017, we recognized \$31 million of favorable prior year development.**

**During 2016, we recognized \$1.9 billion of unfavorable prior year development due to increased tail and loss development factors.**

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| Accident Year   | 2008     | 2009     | 2010     | 2011     | 2012      | 2013     | 2014     | 2015     | 2016     | 2017      | 2017 Prior Year Development Excluding the Impact of Adverse Development Reinsurance Agreements |
|---|----------|----------|----------|----------|-----------|----------|----------|----------|----------|-----------|--|
|   |          |          |          |          | Unaudited |          |          |          |          |           |  |
| 2008  | \$ 4,114 | \$ 4,184 | \$ 4,422 | \$ 4,425 | \$ 4,471  | \$ 4,398 | \$ 4,385 | \$ 4,398 | \$ 4,547 | \$ 4,536  | (11)   |
| 2009  |          | 3,466    | 3,633    | 3,608    | 3,666     | 3,639    | 3,616    | 3,606    | 3,708    | 3,714     | 0  |
| 2010  |          |          | 2,706    | 3,049    | 3,125     | 3,148    | 3,211    | 3,214    | 3,286    | 3,267     | (19)   |
| 2011  |          |          |          | 2,901    | 2,953     | 3,091    | 3,158    | 3,113    | 3,152    | 3,156     | 4  |
| 2012  |          |          |          |          | 2,382     | 2,194    | 2,286    | 2,260    | 2,334    | 2,308     | (26)   |
| 2013  |          |          |          |          |           | 1,932    | 1,880    | 1,950    | 2,060    | 2,032     | (28)   |
| 2014  |          |          |          |          |           |          | 1,729    | 1,764    | 1,866    | 1,862     | (4)  |
| 2015  |          |          |          |          |           |          |          | 1,708    | 1,864    | 1,866     | 2  |
| 2016  |          |          |          |          |           |          |          |          | 1,299    | 1,346     | 4  |
| 2017  |          |          |          |          |           |          |          |          |          | 789       |  |
| <b>Total</b>  |          |          |          |          |           |          |          |          |          | \$ 24,876 | (29)   |
| <b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>                       |          |          |          |          |           |          |          |          |          | (16,580)  |  |
| <b>Liabilities for losses and loss adjustment expenses and prior year development before accident year 2008, net of reinsurance</b> |          |          |          |          |           |          |          |          |          | 3,867     | 4  |
| <b>Unallocated loss adjustment expense prior year development</b>   |          |          |          |          |           |          |          |          |          |           | (6)  |
| <b>Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance</b>                      |          |          |          |          |           |          |          |          |          | \$ 12,163 | (31)   |

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance****Years Ended December 31, (dollars in millions)**

| Accident Year | 2008   | 2009     | 2010     | 2011     | 2012      | 2013     | 2014     | 2015     | 2016     | 2017     | Paid Impact of Adverse Development Reinsurance Agreements |
|---------------|--------|----------|----------|----------|-----------|----------|----------|----------|----------|----------|---|
|               |        |          |          |          | Unaudited |          |          |          |          |          |   |
| 2008          | \$ 785 | \$ 1,678 | \$ 2,252 | \$ 2,655 | \$ 3,044  | \$ 3,272 | \$ 3,476 | \$ 3,609 | \$ 3,707 | \$ 3,789 |   |
| 2009          |        | 630      | 1,328    | 1,756    | 2,120     | 2,390    | 2,621    | 2,780    | 2,887    | 2,968    |   |

|              |     |       |       |       |       |       |       |                   |
|--------------|-----|-------|-------|-------|-------|-------|-------|-------------------|
| 2010         | 550 | 1,093 | 1,537 | 1,855 | 2,126 | 2,288 | 2,426 | <b>2,532</b>      |
| 2011         |     | 519   | 1,129 | 1,561 | 1,884 | 2,129 | 2,285 | <b>2,388</b>      |
| 2012         |     |       | 415   | 804   | 1,089 | 1,272 | 1,440 | <b>1,563</b>      |
| 2013         |     |       |       | 282   | 619   | 879   | 1,067 | <b>1,214</b>      |
| 2014         |     |       |       |       | 231   | 558   | 786   | <b>930</b>        |
| 2015         |     |       |       |       |       | 234   | 524   | <b>725</b>        |
| 2016         |     |       |       |       |       |       | 147   | <b>378</b>        |
| 2017         |     |       |       |       |       |       |       | <b>93</b>         |
| <b>Total</b> |     |       |       |       |       |       |       | <b>\$16,580\$</b> |

### Reserving Process and Methodology

U.S. Workers' Compensation is an extremely long-tail line of business, with loss emergence extending for decades. We generally use a combination of loss development, frequency/severity and expected loss ratio methods for workers' compensation.

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 group guaranteed cost and excess of deductible business separately and then further by state and industry subset to the extent that meaningful differences are determined to exist. We also separately analyze certain subsets of the portfolio that have unique characteristics (e.g., U.S. government sub-contractor accounts and construction wrap-up business). For excess of deductible business, we also segment by size of deductible and whether the claim is handled by AIG or an outside third-party administrator (TPA). The proportion of large deductible business has increased over time, which has slowed the reporting pattern of claims.

ITEM 8 | **Notes to Consolidated Financial Statements | 13. Insurance Liabilities**

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) and New York (NY) businesses from the other states to reflect their different development patterns and changing percentage of the mix by state. The claims development tables above are impacted by two other significant initiatives, which offset each other. In recent years, we instituted claims strategy changes and loss mitigation efforts to accelerate settlements, which we believe results in an overall reduction in claim costs. This strategy resulted in an increase in paid losses along the latest diagonals relative to prior years. In addition, we have been reducing premium volume in recent years and shifting a greater proportion of business to insured risk retention structures such as high deductible policies. These mix and volume changes slowed paid and incurred development since excess of deductible claims will typically take longer to emerge and settle.

Expected loss ratio methods for business written in excess of a deductible may be given significant weight in the most recent five accident years. In the 2016 analysis, we increased our tail factor estimates for states other than NY and CA for guaranteed cost business in recognition of longer medical development patterns that we have been seeing in recent years. We reflected increases in legal costs we have seen across the portfolio, particularly in California.

Additionally, over the years we have written 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.

**Prior Year Development**

During 2017, we recognized \$31 million of favorable prior year development in U.S. workers' compensation business, particularly guaranteed cost business in the states of California and New York. Actual loss emergence during the year, particularly for guaranteed cost business in these two states, was significantly less than expected on a reported loss basis. We did recognize some offsetting unfavorable development in our Defense Based Act (DBA) business that covers government contractors in U.S. and non-U.S. military installations, as well as from a Pennsylvania Supreme Court decision that overturned a ruling that provided limitations on payments for certain permanent injuries (the Protz decision).

During 2016, we recognized \$1.9 billion of unfavorable prior year development in primary workers' compensation coverages primarily driven by the risk-sharing programs where we provide coverage in excess of large deductibles. For this excess of large deductible business, in 2016, we observed actual loss emergence and development at significantly greater levels than expected based on our previous experience in particular from losses in excess of \$1 million. Since these policies respond to larger claims, the loss reporting pattern is much longer than observed in guaranteed cost workers' compensation and it takes several years to discern credible changes in the pattern. Furthermore, implementation of claims settlement and loss mitigation strategies over the past several years has made the recent evaluation of



data more challenging as historical development patterns may not yet fully reflect these claim and mitigation activities. During 2016, we refined our actuarial methodology by combining data across previously segregated underwriting portfolios to improve our ability to analyze the loss development trends and patterns that had been altered by the mix, claims handling and loss mitigation changes we have made during the last five years. We also developed further segmentations by deductible size and other key parameters, such as claims handled by TPA staff and not our claims department. As a result, we determined that the loss emergence patterns had changed and lengthened significantly from our prior expectation and therefore, we increased our loss development factors.

In addition, for workers' compensation policies with no deductibles (guaranteed cost), we increased our tail factors for the all other states grouping to reflect the latest unfavorable experience in more mature accident years. This change increased the ultimate losses by approximately \$440 million in 2016. We also reflected the increasing cost trends for legal and cost containment services, especially in California, as recent trends in this sector have been unfavorable.

Furthermore, in 2016, the Florida Supreme Court issued two separate rulings that have increased the potential liability for workers' compensation claims in that state by undoing certain aspects of regulations in place since 2003. The Castellanos ruling eliminated statutory caps on claimant attorney fees in certain cases, and the Westphal ruling eliminated the 104-week limitation on temporary total disability benefits. Also in the second quarter, the Florida Court of Appeals issued the Miles decision, declaring unconstitutional certain restrictions on claimant-paid attorney fees. In in the second quarter 2016, we increased our workers' compensation reserves by \$100 million to reflect our estimate of the costs of these rulings on prior years' claims.

During 2015, we increased our reserves by \$234 million, primarily for accident years 2012 and prior in the U.S. Workers' Compensation line, to reflect estimated increased losses and reduced expectations of future recoveries from our insureds through risk-sharing features. We also recognized \$100 million of unfavorable prior year development in U.S. Workers' Compensation coverages sold to government contractors in U.S. and non-U.S. military installations as a result of unfavorable loss emergence from

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several large accounts in the recent accident years. In addition, we reacted to the unfavorable emergence by increasing our expected loss ratios in recent accident years. For the remainder of the primary workers' compensation portfolio, our 2015 analysis was based on the refined segmentation from 2014, and 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.

**U.S. Excess Casualty**

During 2017, we recognized \$254 million of unfavorable prior year development in Excess Casualty driven by higher than expected loss emergence.

During 2016, we recognized \$1.1 billion of unfavorable prior year development in Excess Casualty driven by continued higher than expected loss emergence.

**Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted**

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

| Accident<br>Year  | 2008     | 2009     | 2010     | 2011     | 2012      | 2013     | 2014     | 2015     | 2016     | 2017      | 2017 Prior<br>Year<br>Development<br>Excluding the<br>Impact of<br>Adverse<br>Development<br>Reinsurance<br>Agreement |
|---|----------|----------|----------|----------|-----------|----------|----------|----------|----------|-----------|---|
|   |          |          |          |          | Unaudited |          |          |          |          |           |   |
| 2008  | \$ 1,948 | \$ 1,968 | \$ 2,146 | \$ 1,933 | \$ 1,819  | \$ 1,875 | \$ 1,714 | \$ 1,662 | \$ 1,635 | \$ 1,658  | 23  |
| 2009  |          | 1,831    | 1,897    | 1,797    | 1,638     | 1,457    | 1,321    | 1,407    | 1,518    | 1,522     | 4   |
| 2010  |          |          | 1,863    | 2,076    | 2,076     | 1,771    | 1,640    | 1,723    | 1,719    | 1,706     | (13)  |
| 2011  |          |          |          | 1,766    | 1,807     | 1,581    | 1,416    | 1,521    | 1,606    | 1,623     | 17  |
| 2012  |          |          |          |          | 1,588     | 1,382    | 1,226    | 1,477    | 1,530    | 1,481     | (49)  |
| 2013  |          |          |          |          |           | 1,073    | 973      | 1,113    | 1,258    | 1,178     | (80)  |
| 2014  |          |          |          |          |           |          | 849      | 968      | 1,157    | 1,135     | (22)  |
| 2015  |          |          |          |          |           |          |          | 892      | 1,334    | 1,320     | (14)  |
| 2016  |          |          |          |          |           |          |          |          | 790      | 1,029     | 239   |
| 2017  |          |          |          |          |           |          |          |          |          | 758       |   |
| <b>Total</b>  |          |          |          |          |           |          |          |          |          | \$ 13,410 | 105   |
| <b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>                       |          |          |          |          |           |          |          |          |          | (7,120)   | -   |
| <b>Liabilities for losses and loss adjustment expenses and prior year development before accident year 2008, net of reinsurance</b> |          |          |          |          |           |          |          |          |          | 1,649     | 141   |
| <b>Unallocated loss adjustment expense prior year development</b>   |          |          |          |          |           |          |          |          |          |           | 8   |

**Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance****\$ 7,939\$****254****Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance****Years Ended December 31, (dollars in millions)**

| Accident Year | 2008  | 2009  | 2010   | 2011   | 2012      | 2013   | 2014     | 2015     | 2016     | 2017             | Paid Impact<br>of Adverse<br>Development<br>Reinsurance<br>Agreement |
|---------------|-------|-------|--------|--------|-----------|--------|----------|----------|----------|------------------|--|
|               |       |       |        |        | Unaudited |        |          |          |          |                  |  |
| 2008          | \$ 11 | \$ 97 | \$ 439 | \$ 667 | \$ 842    | \$ 954 | \$ 1,061 | \$ 1,172 | \$ 1,226 | <b>\$1,364\$</b> | -  |
| 2009          |       | 8     | 69     | 249    | 449       | 624    | 788      | 965      | 1,174    | <b>1,212</b>     | -  |
| 2010          |       |       | 10     | 197    | 475       | 654    | 795      | 946      | 1,052    | <b>1,217</b>     | -  |
| 2011          |       |       |        | 5      | 63        | 225    | 386      | 716      | 921      | <b>1,069</b>     | -  |
| 2012          |       |       |        |        | 3         | 106    | 288      | 495      | 649      | <b>887</b>       | -  |
| 2013          |       |       |        |        |           | 15     | 104      | 204      | 382      | <b>546</b>       | -  |
| 2014          |       |       |        |        |           |        | 3        | 68       | 202      | <b>397</b>       | -  |
| 2015          |       |       |        |        |           |        |          | 9        | 192      | <b>361</b>       | -  |
| 2016          |       |       |        |        |           |        |          |          | 14       | <b>66</b>        | -  |
| 2017          |       |       |        |        |           |        |          |          |          | <b>1</b>         | -  |
| <b>Total</b>  |       |       |        |        |           |        |          |          |          | <b>\$7,120\$</b> | -  |

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AIG | 2017 Form 10-K

ITEM 8 | **Notes to Consolidated Financial Statements** | **13. Insurance Liabilities****Reserving Process and Methodology**

U.S. Excess Casualty policies tend to attach at a high layer above underlying policies, which causes the loss development pattern to be lagged significantly. Many of the claims notified to the excess layers are closed without payment because the claims never reach our layer as a result of high deductibles and other underlying coverages, while the claims that reach our layer and close with payment can be large and highly variable in terms of reported timing and amount. For a portion of this business, the underlying primary policies are issued by other insurance companies, which can limit our access to relevant information to help inform our judgments as the loss events evolve and mature.

We generally use a combination of loss development methods and expected loss ratio methods for excess casualty product lines. We segment our analysis between automobile-related claims and non-automobile claims, due to the shorter-tail nature of the automobile claims. We then further segment the non-automobile claims for certain latent exposures such as construction defects and mass torts where losses have unique emergence patterns. Mass tort claims in particular may develop over an extended period of time and impact multiple accident years when they emerge. The more standard types of claims are then separately analyzed based on attachment point bands, to recognize that the impact of the level of the attachment point can significantly impact the delay in loss reporting and development. In our analyses, losses capped at \$10 million were first analyzed using traditional loss development and expected loss ratio methods and then this estimate was used to derive the expected loss estimate for losses above \$10 million reflecting the expected relationships between the layers, reflecting the attachment point and limit.

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 by attachment point. The expected loss ratios used for recent accident years are based on the projected ultimate loss ratios for older years adjusted for rate changes and loss trend.

**Prior Year Development**

During 2017, we recognized \$254 million of unfavorable prior year development driven in large part by emerging loss experience in accident year 2016 where frequency and severity to date has exceeded initial expectations and is coinciding with increased loss severity in the underlying primary auto and general liability segments. In addition, we experienced increased development from claims related to construction defects and construction wrap business. The majority of this experience came from accident years 2006 and prior.

During 2016, we recognized \$1.1 billion of unfavorable prior year development driven by continued higher than expected loss emergence due to increased frequency and severity in recent accident years for both automobile and general liability claims. Approximately \$250 million of the unfavorable development is attributable to a cohort of commercial automobile claims identified in 2015 which continued to increase in severity in 2016 beyond what was observed or reasonably expected in 2015. The most significant increases in incurred losses were for accident years 2011 and subsequent. In particular, the frequency and severity of loss events for accident years 2011 and subsequent showed a significant step change from

accident years 2010 and prior. We therefore gave limited credibility to accident year 2010 and prior in selecting our expected loss ratios for 2011 and subsequent accident years due to this shift in loss patterns that is now more evident and credible after examining 2016 data. As a result of the continued adverse emergence, we have increased our loss trend assumptions for general liability and automobile and increased our expected loss ratios for the most recent four accident years.

During 2015, U.S. Excess Casualty experienced \$1.4 billion of unfavorable prior year development largely driven by worse than expected loss emergence reported in 2015. 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 unfavorable development is related to automobile liability. Based on the adverse emergence we updated 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 automobile 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.

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U.S Other Casualty includes general liability, commercial auto, medical malpractice, and various other casualty lines of business.

In 2017, we recognized \$216 million of unfavorable prior year development in Other Casualty primarily as a result of increased loss severity in recent accident years.

In 2016, we recognized \$1.6 billion of unfavorable prior year development in Other Casualty as a result of increased frequency and severity in all three product lines.

**Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted**

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

| Accident<br>Year  | 2008     | 2009     | 2010     | 2011     | 2012      | 2013     | 2014     | 2015     | 2016     | 2017      | 2017 Prior<br>Year<br>Development<br>Excluding the<br>Impact of<br>Adverse<br>Development<br>Reinsurance<br>Agreement |
|---|----------|----------|----------|----------|-----------|----------|----------|----------|----------|-----------|---|
|   |          |          |          |          | Unaudited |          |          |          |          |           |   |
| 2008  | \$ 2,957 | \$ 2,773 | \$ 2,837 | \$ 2,901 | \$ 2,981  | \$ 2,983 | \$ 3,087 | \$ 3,154 | \$ 3,193 | \$ 3,175  | (18)  |
| 2009  |          | 2,416    | 2,517    | 2,586    | 2,582     | 2,697    | 2,818    | 2,880    | 2,863    | 2,855     | (8)   |
| 2010  |          |          | 2,132    | 2,109    | 2,243     | 2,192    | 2,341    | 2,384    | 2,503    | 2,494     | (9)   |
| 2011  |          |          |          | 2,052    | 2,222     | 2,321    | 2,458    | 2,601    | 2,639    | 2,596     | (43)  |
| 2012  |          |          |          |          | 2,012     | 2,162    | 2,218    | 2,229    | 2,371    | 2,430     | 5   |
| 2013  |          |          |          |          |           | 1,662    | 1,739    | 1,918    | 2,152    | 2,183     | 3   |
| 2014  |          |          |          |          |           |          | 1,756    | 1,729    | 1,973    | 2,017     | 4   |
| 2015  |          |          |          |          |           |          |          | 1,340    | 1,778    | 1,847     | 6   |
| 2016  |          |          |          |          |           |          |          |          | 1,348    | 1,352     | 4   |
| 2017  |          |          |          |          |           |          |          |          |          | 616       |   |
| <b>Total</b>  |          |          |          |          |           |          |          |          |          | \$ 21,565 | 12  |
| <b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>                       |          |          |          |          |           |          |          |          |          | (15,521)  |   |
| <b>Liabilities for losses and loss adjustment expenses and prior year development before accident year 2008, net of reinsurance</b> |          |          |          |          |           |          |          |          |          | 1,406     | 1   |
| <b>Unallocated loss adjustment expense prior year development</b>   |          |          |          |          |           |          |          |          |          |           | 7   |
| <b>Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance</b>                      |          |          |          |          |           |          |          |          |          | \$ 7,450  | 21  |

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance****Years Ended December 31, (dollars in millions)**

| Accident Year | 2008      | 2009   | 2010     | 2011     | 2012     | 2013     | 2014     | 2015     | 2016     | 2017            | Paid Impact<br>of Advers<br>Development<br>Reinsurance<br>Agreement |
|---------------|-----------|--------|----------|----------|----------|----------|----------|----------|----------|-----------------|---|
|               | Unaudited |        |          |          |          |          |          |          |          |                 |   |
| 2008          | \$ 277    | \$ 791 | \$ 1,251 | \$ 1,771 | \$ 2,119 | \$ 2,396 | \$ 2,586 | \$ 2,731 | \$ 2,835 | \$ 2,895        |   |
| 2009          |           | 393    | 842      | 1,253    | 1,650    | 2,002    | 2,241    | 2,386    | 2,607    | 2,664           |   |
| 2010          |           |        | 295      | 661      | 985      | 1,358    | 1,640    | 1,824    | 1,972    | 2,087           |   |
| 2011          |           |        |          | 235      | 726      | 1,109    | 1,488    | 1,822    | 2,048    | 2,220           |   |
| 2012          |           |        |          |          | 413      | 743      | 1,048    | 1,395    | 1,690    | 1,882           |   |
| 2013          |           |        |          |          |          | 169      | 592      | 956      | 1,243    | 1,483           |   |
| 2014          |           |        |          |          |          |          | 210      | 621      | 871      | 1,157           |   |
| 2015          |           |        |          |          |          |          |          | 111      | 321      | 783             |   |
| 2016          |           |        |          |          |          |          |          |          | 77       | 299             |   |
| 2017          |           |        |          |          |          |          |          |          |          | 51              |   |
| <b>Total</b>  |           |        |          |          |          |          |          |          |          | <b>\$15,521</b> |   |

ITEM 8 | **Notes to Consolidated Financial Statements** | **13. Insurance Liabilities****Reserving Process and Methodology**

U.S. Other Casualty includes general liability, automobile liability, environmental, medical malpractice, and other casualty lines of business. These lines of business are all long-tail in nature and while somewhat diverse in terms of exposures, these lines are often subject to similar trends. These lines are often significantly impacted by the underwriting cycle and external judicial trends. Many of our 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 a combination of loss development methods, frequency/severity and expected loss ratio methods for primary general liability or products liability product lines. 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 subsets of claims. The segmentation of the data reflects state differences, industry groups, deductible/non-deductible programs and type of claim.

We segment our analysis by line of business and key coverage structures (claims-made vs. occurrence, large deductible policies, retrospective-rated policies, captives, etc.). Additionally, certain subsets, such as construction defect for general liability, auto liability policies for trucking business, hospital policies for medical malpractice and underground storage tanks for environmental are generally reviewed separately from business in other subsets. We continually refine our loss reserving techniques for the domestic primary casualty product lines and adopt further segmentations based on our analysis of the differing emerging loss patterns for certain subsets of insureds. Due to the long-tail nature of general liability business, and the many subsets 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.

For certain product lines 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 subsets of business and excess of a large deductible business, loss development methods may be given limited weight for the five or more recent accident years. Expected loss ratio methods are used for the more recent accident years for these subsets. 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. For other subsets, such as environmental, we utilize a combination of claim analysts' loss projections and actuarial methods to estimate ultimate losses.

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 of the most recent accident years. In recent years, the impact of the increase in the 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.

**Prior Year Development**



## Primary General Liability

In 2017, we increased our ultimate loss estimates for prior accident years by \$330 million. This was driven by reported loss development being greater than expected as a result of increased loss severity. We revised our loss trend assumptions which also contributed to increased estimates for the more recent accident years. For older accident years, we experienced increased loss development from construction defect claims and construction wrap business.

In 2016, we increased our ultimate loss estimates for prior accident years by \$754 million. We increased our assumptions about loss development and expected loss ratios based on the adverse actual versus expected loss emergence driven by increases in severity, especially in the risk-sharing excess of deductible programs. In addition, our segmentation separately evaluated key structural drivers recently identified in the data. As a result, we noted the unfavorable development that was driven by construction defect claims which continue to increase in severity and which exhibit continued higher development at later ages than previously observed. We also identified and separately analyzed in 2016 certain mass tort claims and increased reserves for such claims due to their much longer claim emergence and loss development patterns than previously observed.

In 2015, we increased our ultimate loss estimates for prior accident years by \$172 million largely related to coverage sold to the construction sectors as we reacted to adverse loss emergence throughout the year, by changing our assumptions about loss development and expected loss ratios. For construction, the unfavorable development was driven by construction defect claims. The construction class was re-underwritten to reduce New York and U.S. residential exposures.

ITEM 8 | **Notes to Consolidated Financial Statements** | **13. Insurance Liabilities****Primary Commercial Auto Liability**

In 2017, we increased our ultimate loss estimates for prior accident years by \$42 million. A majority of this development related to accident year 2016 where reported loss experience has been emerging greater than expected, driven by an increase in the frequency of large claims. We have experienced severity trends in recent accident years that have been at much higher levels than what has been reflected in the historic data, although we did see some signs of abatement during the second half of the year.

In 2016, we continued to observe increases in both the frequency and severity of claims occurring in accident years since the recent U.S. economic downturn. These claims have significantly outpaced both our accident year loss ratio assumptions made in 2015 and the pricing rate increases implemented during the same period. As a result, we recognized \$352 million of unfavorable development during 2016 as we increased the expected loss ratios for recent accident years to reflect continued market deterioration in the trends observed in 2016 and the higher reported losses in very recent accident years.

For primary commercial auto liability in 2015, we 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 \$105 million of unfavorable development during 2015 as we increased the expected loss ratios for recent accident years to reflect the deteriorating trends.

In 2015, we also reassessed the reasonableness of our primary general liability and commercial auto 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. general liability. The balance was distributed among other product lines.

**Medical Malpractice**

During 2017, we recognized favorable loss development of \$23 million. Reported loss development was less than expected in aggregate; although we did continue to see higher loss severity in the more recent accident years. Premium volume has declined significantly over the last several years and certain segments such as physicians and surgeons, medical products, and nursing homes business (in certain jurisdictions) have been exited entirely.

During 2016, we recognized \$428 million of unfavorable development in U.S. Other Casualty medical malpractice comprising primary and excess hospitals and nursing homes coverages. This was in reaction to a continued increase in the frequency of unusually large claims in these classes that drove the adverse actual versus expected loss emergence observed in 2016. Based on the observed adverse emergence and its sustained levels over the last several years, we increased our expected incurred losses and loss ratios for accident years 2011 and subsequent to reflect the distinct step change in the loss ratios from accident years 2010 and prior.

During 2015, we recognized \$202 million of unfavorable development in U.S. Other Casualty hospitals coverages 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. Based on the review of these large claims, we increased our expected loss ratios for recent accident years and classified physicians and surgeons and pharmaceutical and medical products classes into runoff.

### Other Lines

During 2017, we recognized favorable loss development of \$133 million. The key drivers of this activity were favorable development on loss-sensitive casualty business, environmental impairment liability business, extra-contractual obligations, and business internally reinsured from other business units.

During 2016, we recognized adverse loss development of \$50 million. The key drivers of this activity were adverse development on liabilities related to commuted and insolvent reinsurers, environmental impairment liability business, and extra-contractual obligations, partially offset by favorable development on loss-sensitive casualty business, residual market business, and reserves for unallocated loss adjustment expenses.

During 2015, we recognized adverse loss development of \$514 million. This was primarily related to an increase in estimated liabilities related to our loss-sensitive casualty business.

### U.S. Financial Lines

**During 2017, we recognized \$345 million of unfavorable prior year development in U.S. Financial Lines primarily due to adverse experience in the Directors and Officers (D&O) subset of business.**

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During 2016, we recognized \$306 million of unfavorable prior year development in U.S. Financial Lines primarily due to higher than expected settlements on large claims from the financial crisis.

The mix of business has been changing in recent years as we write more cyber and mergers and acquisitions business, which generally report claims faster.

**Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted**

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

| Accident Year   | 2008     | 2009     | 2010     | 2011     | 2012      | 2013     | 2014     | 2015     | 2016     | 2017      | 2017 Prior Year Development Excluding the Impact of Adverse Development Reinsurance Agreements |
|---|----------|----------|----------|----------|-----------|----------|----------|----------|----------|-----------|--|
|   |          |          |          |          | Unaudited |          |          |          |          |           |  |
| 2008  | \$ 1,871 | \$ 2,045 | \$ 2,017 | \$ 1,847 | \$ 1,961  | \$ 1,897 | \$ 1,933 | \$ 2,066 | \$ 2,096 | \$ 2,106  | 1,000  |
| 2009  |          | 1,693    | 1,780    | 1,845    | 1,904     | 2,097    | 2,189    | 2,183    | 2,273    | 2,310     | 3,000  |
| 2010  |          |          | 1,552    | 1,509    | 1,406     | 1,366    | 1,370    | 1,472    | 1,514    | 1,541     | 2,000  |
| 2011  |          |          |          | 1,816    | 1,734     | 1,902    | 1,902    | 1,935    | 1,965    | 1,997     | 3,000  |
| 2012  |          |          |          |          | 1,572     | 1,739    | 1,777    | 1,892    | 1,986    | 1,987     | 1,000  |
| 2013  |          |          |          |          |           | 1,767    | 1,691    | 1,643    | 1,597    | 1,541     | (56)   |
| 2014  |          |          |          |          |           |          | 1,767    | 1,736    | 1,849    | 1,898     | 4,000  |
| 2015  |          |          |          |          |           |          |          | 1,705    | 1,744    | 1,719     | (25)   |
| 2016  |          |          |          |          |           |          |          |          | 1,593    | 1,841     | 24   |
| 2017  |          |          |          |          |           |          |          |          |          | 1,560     | 24   |
| <b>Total</b>  |          |          |          |          |           |          |          |          |          | \$ 18,500 | 32   |
| <b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>                       |          |          |          |          |           |          |          |          |          | (12,615)  |  |
| <b>Liabilities for losses and loss adjustment expenses and prior year development before accident year 2008, net of reinsurance</b> |          |          |          |          |           |          |          |          |          | 88        | (44)   |
| <b>Unallocated loss adjustment expense prior year development</b>   |          |          |          |          |           |          |          |          |          |           | 6  |
| <b>Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance</b>                      |          |          |          |          |           |          |          |          |          | \$ 5,973  | 34   |

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

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

| Accident Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---------------|------|------|------|------|------|------|------|------|------|------|
|---------------|------|------|------|------|------|------|------|------|------|------|

**Paid Impact  
of Adverse  
Development  
Reinsurance  
Agreement**

|              | Unaudited |        |        |          |          |          |          |          |          |                 |          |
|--------------|-----------|--------|--------|----------|----------|----------|----------|----------|----------|-----------------|----------|
| 2008         | \$ 32     | \$ 420 | \$ 888 | \$ 1,183 | \$ 1,385 | \$ 1,590 | \$ 1,712 | \$ 1,897 | \$ 1,990 | \$ 2,016        | -        |
| 2009         |           | 129    | 499    | 887      | 1,273    | 1,614    | 1,838    | 1,964    | 2,056    | 2,092           | -        |
| 2010         |           |        | 31     | 285      | 566      | 800      | 1,017    | 1,180    | 1,280    | 1,361           | -        |
| 2011         |           |        |        | 165      | 494      | 886      | 1,210    | 1,528    | 1,732    | 1,862           | -        |
| 2012         |           |        |        |          | 76       | 406      | 815      | 1,252    | 1,497    | 1,625           | -        |
| 2013         |           |        |        |          |          | 43       | 333      | 686      | 945      | 1,142           | -        |
| 2014         |           |        |        |          |          |          | 66       | 371      | 853      | 1,159           | -        |
| 2015         |           |        |        |          |          |          |          | 66       | 393      | 792             | -        |
| 2016         |           |        |        |          |          |          |          |          | 76       | 500             | -        |
| 2017         |           |        |        |          |          |          |          |          |          | 66              | -        |
| <b>Total</b> |           |        |        |          |          |          |          |          |          | <b>\$12,615</b> | <b>-</b> |

**Reserving Process and Methodology**

U.S. Financial Lines business includes D&O, Errors and Omissions (E&O), Employment Practices Liability Insurance (EPLI) and various professional liability subsets of business, as well as the fidelity book of business. This includes cyber coverage and mergers and acquisitions coverage, which have been a growing and evolving portion of this portfolio. These product lines are predominantly claims-made in nature, losses are characterized by low frequency and high severity, and results are often significantly impacted by external economic conditions.

ITEM 8 | **Notes to Consolidated Financial Statements** | **13. Insurance Liabilities**

Our analysis is segmented by major coverages, such as D&O, E&O, etc. and then further segmented by major industry groups (e.g. corporate accounts, national accounts, financial institutions, private/not-for-profit, etc.). We also separately review primary business from excess business for certain product lines.

We generally use a combination of loss development methods and expected loss ratio methods for D&O, E&O, EPLI, and professional liability. These product lines generally are offered on a claims-made basis, and losses are characterized by low frequency and high severity. In general, expected loss ratio methods are given more weight in the more recent accident years, and loss development methods are given more weight in more mature accident years. The loss development factors for the different segments differ significantly in some cases, based on specific coverage characteristics and other factors such as industry group, attachment points, and limits offered. Individual claims projections for accident years ended over eighteen months prior are also used in the analysis.

Frequency/severity methods are generally not used in isolation for these product lines 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.

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 whereby frequency/severity methods, loss development methods, and IBNR factor methods are used alone or in combination to set reserves.

Expected loss ratio methods are also given weight for the more recent accident years. IBNR factor methods are used, when the nature of losses is 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.

**Prior Year Development**

During 2017, we recognized \$345 million of unfavorable prior year development particularly in accident year 2016. The largest share of the unfavorable development came from D&O for privately owned and not-for-profit insureds and resulted largely from increases in bankruptcy-related claims and fiduciary liability claims for large educational institutions. Other segments of the portfolio contributed largely offsetting favorable and unfavorable development; notably, development was unfavorable for excess D&O and employment practices liability while development was favorable for fidelity and D&O for corporate and

national accounts.

During 2016, we recognized \$306 million of unfavorable prior year development as we reacted to the unfavorable actual versus expected in 2016 driven by higher than expected settlements on several large claims from the financial crisis for accident years 2006 to 2010, as well as unfavorable emergence of errors and omissions losses relative to historical expectations. In addition to the unfavorable emergence, we also updated our loss development factor assumptions, expected loss ratio assumptions and the weights given to the various methods in recent accident years.

During 2015, we recognized \$502 million of unfavorable prior year development driven largely by the unfavorable loss emergence that we saw in 2015, 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 also updated our loss development factor assumptions as well as expected loss ratio assumptions.

### **U.S. Property and Special Risks**

**During 2017, we recognized \$115 million of unfavorable prior year development in U.S. Property and Special Risks mainly due to unfavorable development from the commercial auto portion of the Program business unit, which offers multiline policies to small and mid-sized insureds.**

**During 2016, we recognized \$396 million of unfavorable prior year development in U.S. Property and Special Risks. The increase was mainly due to the U.S. program product line which is a collection of programs offering package policies to small and middle market insureds.**

TABLE OF CONTENTSITEM 8 | **Notes to Consolidated Financial Statements** | **13. Insurance Liabilities****Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted****Years Ended December 31, (dollars in millions)**

| Accident Year   | 2008     | 2009     | 2010     | 2011     | 2012      | 2013     | 2014     | 2015     | 2016     | 2017      | 2017 Prior Year Development Excluding the Impact of Adverse Development Reinsurance Agreements |
|---|----------|----------|----------|----------|-----------|----------|----------|----------|----------|-----------|--|
|   |          |          |          |          | Unaudited |          |          |          |          |           |  |
| 2008  | \$ 3,531 | \$ 3,789 | \$ 3,747 | \$ 3,700 | \$ 3,659  | \$ 3,609 | \$ 3,585 | \$ 3,581 | \$ 3,576 | \$ 3,575  | (1)  |
| 2009  |          | 1,919    | 1,704    | 1,689    | 1,700     | 1,662    | 1,665    | 1,656    | 1,664    | 1,663     | (1)  |
| 2010  |          |          | 2,275    | 2,042    | 2,009     | 2,049    | 2,061    | 2,038    | 2,043    | 2,058     | 1  |
| 2011  |          |          |          | 3,045    | 2,917     | 2,872    | 2,878    | 2,867    | 2,910    | 2,919     | 9  |
| 2012  |          |          |          |          | 3,470     | 3,617    | 3,585    | 3,576    | 3,697    | 3,691     | (6)  |
| 2013  |          |          |          |          |           | 1,975    | 1,972    | 1,859    | 1,926    | 1,949     | 23   |
| 2014  |          |          |          |          |           |          | 2,355    | 2,143    | 2,220    | 2,213     | (7)  |
| 2015  |          |          |          |          |           |          |          | 2,398    | 2,312    | 2,299     | (13)   |
| 2016  |          |          |          |          |           |          |          |          | 2,516    | 2,580     | 6  |
| 2017  |          |          |          |          |           |          |          |          |          | 4,085     |  |
| <b>Total</b>  |          |          |          |          |           |          |          |          |          | \$ 27,032 | 8  |
| <b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>                       |          |          |          |          |           |          |          |          |          | (21,589)  |  |
| <b>Liabilities for losses and loss adjustment expenses and prior year development before accident year 2008, net of reinsurance</b> |          |          |          |          |           |          |          |          |          | 318       | 1  |
| <b>Unallocated loss adjustment expense prior year development</b>   |          |          |          |          |           |          |          |          |          |           | 2  |
| <b>Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance</b>                      |          |          |          |          |           |          |          |          |          | \$ 5,761  | 11   |

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance****Years Ended December 31, (dollars in millions)**

| Accident Year | 2008     | 2009     | 2010     | 2011     | 2012      | 2013     | 2014     | 2015     | 2016     | 2017     | Paid in Excess of Reinsurance Agreements |
|---------------|----------|----------|----------|----------|-----------|----------|----------|----------|----------|----------|--|
|               |          |          |          |          | Unaudited |          |          |          |          |          |  |
| 2008          | \$ 1,323 | \$ 2,679 | \$ 3,150 | \$ 3,342 | \$ 3,457  | \$ 3,487 | \$ 3,498 | \$ 3,515 | \$ 3,530 | \$ 3,540 |  |
| 2009          |          | 495      | 1,044    | 1,288    | 1,443     | 1,528    | 1,580    | 1,597    | 1,618    | 1,633    |  |



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|              |     |       |       |       |       |       |       |                   |
|--------------|-----|-------|-------|-------|-------|-------|-------|-------------------|
| 2010         | 654 | 1,391 | 1,657 | 1,799 | 1,880 | 1,940 | 1,978 | 2,001             |
| 2011         |     | 880   | 1,988 | 2,417 | 2,593 | 2,734 | 2,812 | 2,840             |
| 2012         |     |       | 734   | 2,410 | 2,978 | 3,273 | 3,456 | 3,565             |
| 2013         |     |       |       | 586   | 1,275 | 1,469 | 1,620 | 1,732             |
| 2014         |     |       |       |       | 745   | 1,452 | 1,713 | 1,869             |
| 2015         |     |       |       |       |       | 820   | 1,501 | 1,766             |
| 2016         |     |       |       |       |       |       | 799   | 1,689             |
| 2017         |     |       |       |       |       |       |       | 954               |
| <b>Total</b> |     |       |       |       |       |       |       | <b>\$21,589\$</b> |

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ITEM 8 | **Notes to Consolidated Financial Statements** | **13. Insurance Liabilities****Reserving Process and Methodology**

U.S. Property products include commercial, industrial and energy-related property insurance products and services that cover exposures to manmade and natural disasters, including business interruption. U.S. Special Risk products include aerospace, environmental, political risk, trade credit, surety and marine insurance, and program business for various small and medium sized enterprises insurance lines. The program segments include both property and casualty exposures.

We primarily segment our analysis by line of business. Additionally, we separately review various subsets, including hull, cargo, and liability for marine business, aviation and satellite for aerospace business, and various other specific programs and product lines.

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 U.S. Property.

IBNR factor methods are used when the nature of losses is 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.

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 is used for all but the latest accident year to determine the loss reserves. Frequency/severity methods are not employed due to the high severity nature of the claims and different mix of claims from year to year.

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. The claims staff also provides specific estimates to assist in the setting of reserves for natural catastrophe losses.

For program business, we use methods which vary by line of business. For property classes, we use methods similar to those noted above. For liability classes, we use methods similar to those described in the casualty sections detailed above.

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.

**Prior Year Development**

During 2017, we recognized \$115 million of unfavorable prior year development primarily driven by commercial auto business in the program business unit. A significant portion of this development came from accident year 2016 with much of it related to programs that have been terminated over the past year. We also experienced some individual severe loss experience, also mostly related to accident year 2016 in other lines of business including aviation, surety, and marine; however, this was largely offset by favorable development in commercial property.

During 2016, we recognized \$396 million of unfavorable prior year development driven by our U.S. program business where we recognized \$350 million of unfavorable prior year development due to higher than expected claim emergence in certain automobile, habitation and professional liability programs that resulted in our increasing expected loss ratios and loss development factors for several program subsets.

During 2015, we recognized \$132 million of favorable prior year development from a number of large individual property claims.

### **U.S. Personal Insurance**

**During 2017, we recognized \$16 million of unfavorable prior year development in U.S. Personal Insurance mainly due to homeowners business in accident year 2016. This was partially offset by favorable development in accident and health business.**

**During 2016, we recognized \$32 million of favorable prior year development in U.S. Personal Insurance.**

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| Accident Year   | 2008     | 2009     | 2010     | 2011     | 2012      | 2013     | 2014     | 2015     | 2016     | 2017      | 2017 Prior Year Development Excluding the Impact of Adverse Development Reinsurance Agreements |
|---|----------|----------|----------|----------|-----------|----------|----------|----------|----------|-----------|--|
|   |          |          |          |          | Unaudited |          |          |          |          |           |  |
| 2008  | \$ 1,630 | \$ 1,638 | \$ 1,640 | \$ 1,654 | \$ 1,654  | \$ 1,654 | \$ 1,663 | \$ 1,666 | \$ 1,664 | \$ 1,668  | 4  |
| 2009  |          | 1,763    | 1,697    | 1,649    | 1,663     | 1,664    | 1,664    | 1,668    | 1,667    | 1,671     | 4  |
| 2010  |          |          | 1,843    | 1,809    | 1,819     | 1,819    | 1,820    | 1,819    | 1,817    | 1,817     |  |
| 2011  |          |          |          | 1,886    | 1,908     | 1,896    | 1,891    | 1,890    | 1,886    | 1,881     | (5)  |
| 2012  |          |          |          |          | 2,208     | 2,128    | 2,109    | 2,083    | 2,077    | 2,094     | 1  |
| 2013  |          |          |          |          |           | 1,887    | 1,816    | 1,803    | 1,782    | 1,780     | (2)  |
| 2014  |          |          |          |          |           |          | 1,552    | 1,562    | 1,572    | 1,572     |  |
| 2015  |          |          |          |          |           |          |          | 1,511    | 1,498    | 1,494     | (4)  |
| 2016  |          |          |          |          |           |          |          |          | 1,536    | 1,533     | (3)  |
| 2017  |          |          |          |          |           |          |          |          |          | 2,028     |  |
| <b>Total</b>  |          |          |          |          |           |          |          |          |          | \$ 17,538 | 1  |
| <b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>                       |          |          |          |          |           |          |          |          |          | (16,053)  |  |
| <b>Liabilities for losses and loss adjustment expenses and prior year development before accident year 2008, net of reinsurance</b> |          |          |          |          |           |          |          |          |          | (65)      | 5  |
| <b>Unallocated loss adjustment expense prior year development</b>   |          |          |          |          |           |          |          |          |          |           |  |
| <b>Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance</b>                      |          |          |          |          |           |          |          |          |          | \$ 1,420  | 1  |

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance****Years Ended December 31, (dollars in millions)**

| Accident Year | 2008     | 2009     | 2010     | 2011     | 2012      | 2013     | 2014     | 2015     | 2016     | 2017     | Paid in Advance of Development Reinsurance Agreements |
|---------------|----------|----------|----------|----------|-----------|----------|----------|----------|----------|----------|---|
|               |          |          |          |          | Unaudited |          |          |          |          |          |   |
| 2008          | \$ 1,151 | \$ 1,493 | \$ 1,569 | \$ 1,609 | \$ 1,634  | \$ 1,644 | \$ 1,656 | \$ 1,660 | \$ 1,663 | \$ 1,665 |   |
| 2009          |          | 1,129    | 1,563    | 1,567    | 1,618     | 1,639    | 1,650    | 1,658    | 1,663    | 1,664    |   |

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|              |       |       |       |       |       |       |       |                   |
|--------------|-------|-------|-------|-------|-------|-------|-------|-------------------|
| 2010         | 1,205 | 1,669 | 1,736 | 1,772 | 1,794 | 1,803 | 1,808 | <b>1,810</b>      |
| 2011         |       | 1,204 | 1,752 | 1,814 | 1,840 | 1,860 | 1,869 | <b>1,873</b>      |
| 2012         |       |       | 1,238 | 1,936 | 1,996 | 2,035 | 2,065 | <b>2,079</b>      |
| 2013         |       |       |       | 1,109 | 1,634 | 1,705 | 1,744 | <b>1,759</b>      |
| 2014         |       |       |       |       | 959   | 1,380 | 1,463 | <b>1,507</b>      |
| 2015         |       |       |       |       |       | 931   | 1,320 | <b>1,411</b>      |
| 2016         |       |       |       |       |       |       | 857   | <b>1,344</b>      |
| 2017         |       |       |       |       |       |       |       | <b>941</b>        |
| <b>Total</b> |       |       |       |       |       |       |       | <b>\$16,053\$</b> |

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ITEM 8 | **Notes to Consolidated Financial Statements | 13. Insurance Liabilities****Reserving Process and Methodology**

U.S. Personal Insurance consists of accident and health and personal lines. 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. Personal lines include automobile and homeowners' insurance, extended warranty, and consumer specialty products, such as identity theft and credit card protection. Personal lines also provides insurance for high net worth individuals offered through AIG Private Client Group, including auto, homeowners, umbrella, yacht, fine art and collections insurance. Personal lines are generally short-tail in nature.

We primarily segment our analysis by line of business and may separately review various sub-segments, such as specific accident and health products and property damage versus liability for personal lines products.

Frequency/severity methods, loss development methods, and IBNR factor methods are used alone or in combination to set reserves for short-tail product lines such as personal property.

Frequency/severity and loss development methods are utilized for domestic personal auto product lines.

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.

In general, development for U.S. Personal Insurance classes has been very stable, with only modest changes in the initial selected loss ratios for this business.

**Prior Year Development**

During 2017, we recognized \$16 million of unfavorable prior year development in U.S. Personal Insurance mainly due to homeowners business in accident year 2016, particularly from catastrophe activity. This was partially offset by favorable development in accident and health business.

During 2016 and 2015, we recognized \$32 million, and \$69 million of favorable development, respectively, mainly driven by accident and health business.

**Europe Casualty and Financial Lines**

**During 2017, we recognized \$507 million of unfavorable prior year development in Europe Casualty and Financial Lines driven by continued higher than expected loss emergence.**

**During 2016, we recognized \$320 million of unfavorable prior year development, largely from accident years 2014 and 2015.**



TABLE OF CONTENTSITEM 8 | **Notes to Consolidated Financial Statements** | **13. Insurance Liabilities****Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance****Years Ended December 31, (dollars in millions)**

| Accident Year   | 2008     | 2009     | 2010     | 2011     | 2012      | 2013     | 2014     | 2015     | 2016     | 2017      | 2017 Prior Year Development |
|---|----------|----------|----------|----------|-----------|----------|----------|----------|----------|-----------|-----------------------------|
|   |          |          |          |          | Unaudited |          |          |          |          |           |                             |
| 2008  | \$ 1,511 | \$ 1,615 | \$ 1,632 | \$ 1,580 | \$ 1,595  | \$ 1,599 | \$ 1,649 | \$ 1,605 | \$ 1,604 | \$ 1,604  | -                           |
| 2009  |          | 1,746    | 1,844    | 1,858    | 1,856     | 1,885    | 1,906    | 1,912    | 1,996    | 2,030     | 34                          |
| 2010  |          |          | 1,484    | 1,436    | 1,432     | 1,457    | 1,380    | 1,420    | 1,377    | 1,445     | 68                          |
| 2011  |          |          |          | 1,414    | 1,352     | 1,426    | 1,465    | 1,552    | 1,554    | 1,597     | 43                          |
| 2012  |          |          |          |          | 1,224     | 1,193    | 1,150    | 1,222    | 1,263    | 1,232     | (31)                        |
| 2013  |          |          |          |          |           | 1,221    | 1,277    | 1,257    | 1,258    | 1,305     | 47                          |
| 2014  |          |          |          |          |           |          | 1,280    | 1,267    | 1,302    | 1,303     | 1                           |
| 2015  |          |          |          |          |           |          |          | 1,337    | 1,515    | 1,538     | 23                          |
| 2016  |          |          |          |          |           |          |          |          | 1,563    | 1,716     | 153                         |
| 2017  |          |          |          |          |           |          |          |          |          | 1,587     |                             |
| <b>Total</b>  |          |          |          |          |           |          |          |          |          | \$ 15,357 | 338                         |
| <b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>                       |          |          |          |          |           |          |          |          |          | (8,965)   | -                           |
| <b>Liabilities for losses and loss adjustment expenses and prior year development before accident year 2008, net of reinsurance</b> |          |          |          |          |           |          |          |          |          | 594       | 169                         |
| <b>Unallocated loss adjustment expense prior year development</b>   |          |          |          |          |           |          |          |          |          |           | -                           |
| <b>Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance</b>                      |          |          |          |          |           |          |          |          |          | \$ 6,986  | 507                         |

\* The losses reported in the table are not covered by the Adverse Development Reinsurance Agreement.

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance\***

| Accident Year | 2008   | 2009   | 2010   | 2011   | 2012      | 2013     | 2014     | 2015     | 2016     | 2017     |
|---------------|--------|--------|--------|--------|-----------|----------|----------|----------|----------|----------|
|               |        |        |        |        | Unaudited |          |          |          |          |          |
| 2008          | \$ 130 | \$ 477 | \$ 726 | \$ 961 | \$ 1,118  | \$ 1,245 | \$ 1,323 | \$ 1,375 | \$ 1,455 | \$ 1,471 |
| 2009          |        | 139    | 418    | 708    | 970       | 1,139    | 1,274    | 1,442    | 1,581    | 1,681    |
| 2010          |        |        | 147    | 420    | 635       | 808      | 947      | 1,042    | 1,109    | 1,162    |
| 2011          |        |        |        | 140    | 376       | 564      | 811      | 963      | 1,108    | 1,224    |
| 2012          |        |        |        |        | 121       | 334      | 484      | 677      | 809      | 897      |
| 2013          |        |        |        |        |           | 105      | 375      | 543      | 736      | 877      |



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|              |    |     |     |                 |
|--------------|----|-----|-----|-----------------|
| 2014         | 86 | 299 | 494 | <b>628</b>      |
| 2015         |    | 80  | 286 | <b>486</b>      |
| 2016         |    |     | 140 | <b>426</b>      |
| 2017         |    |     |     | <b>113</b>      |
| <b>Total</b> |    |     |     | <b>\$ 8,965</b> |

\* The losses reported in the table are not covered by the Adverse Development Reinsurance Agreement.

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ITEM 8 | **Notes to Consolidated Financial Statements** | **13. Insurance Liabilities****Reserving Process and Methodology**

Europe is our largest non-U.S. region for Liability and Financial Lines. Europe Casualty and Financial Lines is composed of third-party coverages including general liability, auto liability, D&O, professional liability and various other lines of business throughout both the UK and Continental Europe. These lines of business are all long-tail in nature and while somewhat diverse in terms of exposures, these lines are often subject to similar trends. These lines are impacted by the underwriting cycle and external judicial trends. The largest share of business is in the UK, but significant business is also written in other European countries such as Germany, France, and Italy.

We primarily segment our analysis by country and line of business. Additionally, we separately review various product lines, including excess versus primary casualty, commercial versus financial institutions management liability, and other specific programs and subsets of business. We maintain a database of detailed historical premium and loss transactions in original currency for business written outside of the U.S. which allows our actuaries to determine loss reserves without foreign exchange distorting development.

We generally use a combination of loss development methods and expected loss ratio methods. For countries and lines of business with sufficient loss volume, loss development methods may be given significant weight for all but the most recent accident years. For smaller countries and more volatile product lines, loss development methods are typically given limited weight for recent accident years. Further, we may rely on larger data subsets in determining the loss development factors and *a priori* loss ratio assumptions.

In general, the loss development for long-tail lines in Europe has been more stable than the development in U.S. long-tail lines, although some underlying drivers have affected the results in a similar manner (e.g. the impact of the financial crisis in accident years 2008 and 2009).

**Prior Year Development**

During 2017 we recognized \$507 million of unfavorable prior year development in Europe casualty and Financial Lines. We observed a significant increase in large claims activity across multiple segments, notably excess casualty business and D&O and professional liability coverages for financial institutions. This experience was spread across multiple accident years but had the largest impact on accident year 2016 and accident years 2008 and prior. We increased loss development assumptions for Financial Lines business in consideration of the increased loss activity experienced in older accident years and increased expected loss ratios for more recent accident years. For Casualty lines, we increased loadings for large losses, particularly in the more recent accident years. In addition, we increased our loss reserves as a result of the decision made by the U.K. Ministry of Justice to reduce the discount rate applied to lump-sum bodily injury payouts, known as the Ogden rate.

During 2016, we recognized \$320 million of unfavorable prior year development. Within Europe Financial Lines, we recognized \$232 million of unfavorable development primarily from the D&O line in UK and

Continental Europe as result of the unfavorable actual versus expected loss emergence in 2016 due to increased frequency and severity resulting from increasing litigation. In Europe Casualty we recognized \$123 million of unfavorable development primarily from the unexpected emergence of several large excess casualty claims. The actual versus expected loss emergence for Europe Casualty and Financial Lines was more than expected.

During 2015, we recognized \$142 million of unfavorable prior year development, primarily due to primary casualty and professional liability in Continental Europe and the UK. During 2015, we implemented an enhanced claims operating model in Europe 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.

### **Europe Property and Special Risks**

**During 2017, we recognized \$157 million of unfavorable prior year development in the Europe Property and Special Risks segment driven primarily by unexpected development on large claims, primarily from accident years 2015 and 2016.**

**During 2016, we recognized \$11 million of unfavorable prior year development.**

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## ITEM 8 | Notes to Consolidated Financial Statements | 13. Insurance Liabilities

**Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance****Years Ended December 31, (dollars in millions)**

| Accident Year   | 2008      | 2009   | 2010   | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017            | 2017 Prior Year Development | December 31, 2017 Total of IBNR Liabilities, Prior Year Expected Development on Reported Losses |
|---|-----------|--------|--------|--------|--------|--------|--------|--------|--------|-----------------|-----------------------------|---|
|   | Unaudited |        |        |        |        |        |        |        |        |                 |                             |   |
| 2008  | \$ 633    | \$ 636 | \$ 644 | \$ 643 | \$ 632 | \$ 626 | \$ 620 | \$ 618 | \$ 614 | \$ 613          | (1)                         | \$  |
| 2009  |           | 738    | 666    | 675    | 674    | 666    | 680    | 655    | 655    | 655             | -                           |   |
| 2010  |           |        | 788    | 747    | 719    | 703    | 712    | 703    | 706    | 707             | 1                           |   |
| 2011  |           |        |        | 763    | 687    | 648    | 642    | 631    | 628    | 628             | -                           |   |
| 2012  |           |        |        |        | 728    | 682    | 648    | 630    | 615    | 627             | 12                          |   |
| 2013  |           |        |        |        |        | 914    | 915    | 842    | 840    | 842             | 2                           |   |
| 2014  |           |        |        |        |        |        | 994    | 1,046  | 1,052  | 1,050           | (2)                         |   |
| 2015  |           |        |        |        |        |        |        | 1,226  | 1,219  | 1,248           | 29                          |   |
| 2016  |           |        |        |        |        |        |        |        | 1,118  | 1,239           | 121                         |   |
| 2017  |           |        |        |        |        |        |        |        |        | 1,377           |                             |   |
| <b>Total</b>  |           |        |        |        |        |        |        |        |        | <b>\$ 8,986</b> | <b>162</b>                  |   |
| <b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>                       |           |        |        |        |        |        |        |        |        | <b>(6,971)</b>  | <b>-</b>                    |   |
| <b>Liabilities for losses and loss adjustment expenses and prior year development before accident year 2008, net of reinsurance</b> |           |        |        |        |        |        |        |        |        | <b>7</b>        | <b>(5)</b>                  |   |
| <b>Unallocated loss adjustment expense prior year development</b>   |           |        |        |        |        |        |        |        |        |                 | <b>-</b>                    |   |
| <b>Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance</b>                      |           |        |        |        |        |        |        |        |        | <b>\$ 2,022</b> | <b>157</b>                  |   |

\* The losses reported in the table are not covered by the Adverse Development Reinsurance Agreement.

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance\***

| Accident Year | 2008      | 2009   | 2010   | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   |
|---------------|-----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|               | Unaudited |        |        |        |        |        |        |        |        |        |
| 2008          | \$ 148    | \$ 399 | \$ 511 | \$ 546 | \$ 577 | \$ 590 | \$ 596 | \$ 596 | \$ 598 | \$ 599 |
| 2009          |           | 183    | 429    | 532    | 585    | 613    | 620    | 632    | 634    | 635    |
| 2010          |           |        | 187    | 489    | 584    | 634    | 672    | 686    | 690    | 693    |

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|              |     |     |     |     |     |     |                 |
|--------------|-----|-----|-----|-----|-----|-----|-----------------|
| 2011         | 181 | 444 | 543 | 581 | 591 | 599 | 604             |
| 2012         |     | 154 | 410 | 511 | 549 | 572 | 580             |
| 2013         |     |     | 193 | 535 | 700 | 751 | 786             |
| 2014         |     |     |     | 220 | 669 | 885 | 939             |
| 2015         |     |     |     |     | 290 | 778 | 1,005           |
| 2016         |     |     |     |     |     | 300 | 894             |
| 2017         |     |     |     |     |     |     | 236             |
| <b>Total</b> |     |     |     |     |     |     | <b>\$ 6,971</b> |

\* The losses reported in the table are not covered by the Adverse Development Reinsurance Agreement.

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ITEM 8 | **Notes to Consolidated Financial Statements** | **13. Insurance Liabilities****Reserving Process and Methodology**

Europe Property products include commercial, industrial and energy-related property insurance products and services that cover exposures to manmade and natural disasters, including business interruption. Europe Special Risk products include aerospace, environmental, political risk, trade credit, surety and marine insurance, and various small and medium sized enterprises insurance lines.

We primarily segment our analysis by line of business. Additionally, we separately review various subsets, including hull, cargo, and liability for marine business, aviation and satellite for aerospace business, and various other specific programs and product lines.

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 Europe Property.

IBNR factor methods are used when the nature of losses is 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.

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 is used for all but the latest accident year to determine the loss reserves. Frequency/severity methods are not employed due to the high severity nature of the claims and different mix of claims from year to year.

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. The claims staff also provides specific estimates to assist in the setting of reserves for natural catastrophe losses.

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.

**Prior Year Development**

During 2017, we recognized \$157 million of unfavorable prior year development, primarily from accident years 2015 and 2016. This was largely driven by large individual claim development in the property, aviation, marine, and trade credit lines of business

During 2016, we recognized \$11 million of unfavorable prior year development, primarily from the property segment.

During 2015, we recognized \$4 million of unfavorable prior year development from a number of large individual property claims.

### **Europe and Japan Personal Insurance**

**During 2017, we recognized \$58 million of favorable prior year development in Europe and Japan Personal Insurance mainly due to accident and health business.**

**During 2016, we recognized \$82 million of favorable prior year development in Europe and Japan Personal Insurance mainly due to accident and health business.**

TABLE OF CONTENTSITEM 8 | **Notes to Consolidated Financial Statements** | **13. Insurance Liabilities****Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance****Years Ended December 31, (dollars in millions)**

| Accident Year   | 2008     | 2009     | 2010     | 2011     | 2012      | 2013     | 2014     | 2015     | 2016     | 2017      | 2017 Prior Year Development |
|---|----------|----------|----------|----------|-----------|----------|----------|----------|----------|-----------|-----------------------------|
|   |          |          |          |          | Unaudited |          |          |          |          |           |                             |
| 2008  | \$ 2,869 | \$ 2,911 | \$ 2,904 | \$ 2,908 | \$ 2,915  | \$ 2,919 | \$ 2,913 | \$ 2,916 | \$ 2,912 | \$ 2,914  |                             |
| 2009  |          | 2,913    | 2,900    | 2,901    | 2,920     | 2,909    | 2,907    | 2,900    | 2,902    | 2,902     |                             |
| 2010  |          |          | 2,969    | 3,007    | 3,015     | 3,003    | 3,004    | 2,999    | 3,027    | 3,030     |                             |
| 2011  |          |          |          | 3,274    | 3,324     | 3,293    | 3,295    | 3,284    | 3,288    | 3,287     | (1)                         |
| 2012  |          |          |          |          | 2,898     | 2,867    | 2,851    | 2,836    | 2,845    | 2,846     |                             |
| 2013  |          |          |          |          |           | 2,747    | 2,736    | 2,705    | 2,706    | 2,702     | (4)                         |
| 2014  |          |          |          |          |           |          | 2,717    | 2,716    | 2,698    | 2,690     | (8)                         |
| 2015  |          |          |          |          |           |          |          | 2,795    | 2,756    | 2,746     | (10)                        |
| 2016  |          |          |          |          |           |          |          |          | 2,734    | 2,692     | (42)                        |
| 2017  |          |          |          |          |           |          |          |          |          | 2,659     |                             |
| <b>Total</b>  |          |          |          |          |           |          |          |          |          | \$ 28,468 | (59)                        |
| <b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>                       |          |          |          |          |           |          |          |          |          | (26,161)  |                             |
| <b>Liabilities for losses and loss adjustment expenses and prior year development before accident year 2008, net of reinsurance</b> |          |          |          |          |           |          |          |          |          | 41        |                             |
| <b>Unallocated loss adjustment expense prior year development</b>   |          |          |          |          |           |          |          |          |          |           |                             |
| <b>Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance</b>                      |          |          |          |          |           |          |          |          |          | \$ 2,348  | (58)                        |

\* The losses reported in the table are not covered by the Adverse Development Reinsurance Agreement.

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance\***

| Accident Year | 2008     | 2009     | 2010     | 2011     | 2012      | 2013     | 2014     | 2015     | 2016     | 2017     |
|---------------|----------|----------|----------|----------|-----------|----------|----------|----------|----------|----------|
|               |          |          |          |          | Unaudited |          |          |          |          |          |
| 2008          | \$ 1,602 | \$ 2,421 | \$ 2,655 | \$ 2,773 | \$ 2,829  | \$ 2,865 | \$ 2,880 | \$ 2,887 | \$ 2,896 | \$ 2,899 |
| 2009          |          | 1,627    | 2,412    | 2,656    | 2,765     | 2,821    | 2,850    | 2,867    | 2,879    | 2,886    |
| 2010          |          |          | 1,703    | 2,497    | 2,741     | 2,852    | 2,909    | 2,944    | 2,963    | 2,975    |
| 2011          |          |          |          | 1,987    | 2,787     | 3,022    | 3,134    | 3,198    | 3,227    | 3,244    |
| 2012          |          |          |          |          | 1,614     | 2,363    | 2,591    | 2,698    | 2,754    | 2,785    |
| 2013          |          |          |          |          |           | 1,503    | 2,246    | 2,462    | 2,569    | 2,625    |



|              |       |       |       |                 |
|--------------|-------|-------|-------|-----------------|
| 2014         | 1,476 | 2,225 | 2,447 | <b>2,558</b>    |
| 2015         |       | 1,501 | 2,270 | <b>2,493</b>    |
| 2016         |       |       | 1,500 | <b>2,231</b>    |
| 2017         |       |       |       | <b>1,465</b>    |
| <b>Total</b> |       |       |       | <b>\$26,161</b> |

\* The losses reported in the table are not covered by the Adverse Development Reinsurance Agreement.

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ITEM 8 | **Notes to Consolidated Financial Statements | 13. Insurance Liabilities****Reserving Process and Methodology**

Europe and Japan Personal Insurance lines consist of accident and health and personal lines. 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. Personal lines include automobile and homeowners' insurance, extended warranty, and consumer specialty products, such as identity theft and credit card protection. Personal lines are generally short-tail in nature.

We primarily segment our analysis by line of business (and by country for Europe and Japan business) and may separately review various sub-segments, such as specific accident and health products and property damage versus liability for other personal lines products.

Frequency/severity methods, loss development methods, and IBNR factor methods are used alone or in combination to set reserves for short-tail product lines such as personal property.

Frequency/severity and loss development methods are utilized for domestic personal auto product lines.

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.

In general, development for Europe and Japan Personal Insurance classes has been very stable, with only modest changes in the initial selected loss ratios for this business.

**Prior Year Development**

During 2017, 2016 and 2015, we recognized \$58 million and \$82 million of favorable development, and \$15 million of unfavorable development, respectively, mainly driven by the accident and health business.

**U.S. Run-Off Long Tail Insurance Lines**

**During 2017, the U.S. Run-Off Long Tail Insurance Lines experienced favorable prior year development of \$30 million driven primarily by favorable asbestos development.**

**During 2016, the U.S. Run-Off Long Tail Insurance Lines experienced unfavorable prior year development of \$390 million driven by Legacy pre-1986 pollution losses and the Run-Off public entity casualty business.**

**Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance**

December  
Total of IBNR  
Liabilities  
Plus  
Expected  
Development  
on Reported  
Losses

| Accident Year   | 2008   | 2009     | 2010   | 2011   | 2012      | 2013   | 2014   | 2015   | 2016   | 2017     | 2017 Prior Year Development | Development on Reported Losses Expected |
|---|--------|----------|--------|--------|-----------|--------|--------|--------|--------|----------|-----------------------------|---|
|   |        |          |        |        | Unaudited |        |        |        |        |          |                             |   |
| 2008  | \$ 945 | \$ 1,035 | \$ 884 | \$ 868 | \$ 909    | \$ 926 | \$ 978 | \$ 976 | \$ 983 | \$ 985   | \$ 2                        | \$ 6                                    |
| 2009  |        | 553      | 532    | 544    | 579       | 635    | 602    | 599    | 580    | 576      | (4)                         | 7                                       |
| 2010  |        |          | 640    | 528    | 534       | 557    | 585    | 582    | 611    | 565      | (46)                        | 6                                       |
| 2011  |        |          |        | 534    | 542       | 576    | 641    | 676    | 685    | 700      | 15                          | 9                                       |
| 2012  |        |          |        |        | 629       | 678    | 741    | 786    | 751    | 752      | 1                           | 10                                      |
| 2013  |        |          |        |        |           | 482    | 533    | 589    | 570    | 528      | (42)                        | 8                                       |
| 2014  |        |          |        |        |           |        | 379    | 475    | 453    | 459      | 6                           | 16                                      |
| 2015  |        |          |        |        |           |        |        | 439    | 523    | 550      | 27                          | 17                                      |
| 2016  |        |          |        |        |           |        |        |        | 294    | 285      | (9)                         | 9                                       |
| 2017  |        |          |        |        |           |        |        |        |        | 197      |                             | 16                                      |
| <b>Total</b>  |        |          |        |        |           |        |        |        |        | \$ 5,597 | \$ (50)                     |   |
| <b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of</b>          |        |          |        |        |           |        |        |        |        |          |                             |   |
| <b>Reinsurance from the table below</b>   |        |          |        |        |           |        |        |        |        | (3,830)  | -                           |   |
| <b>Liabilities for losses and loss adjustment expenses and prior year development</b> |        |          |        |        |           |        |        |        |        |          |                             |   |
| <b>before accident year 2008, net of reinsurance</b>                                  |        |          |        |        |           |        |        |        |        | 3,616    | (46)                        |   |
| <b>Unallocated loss adjustment expense prior year development</b>                     |        |          |        |        |           |        |        |        |        |          | 66                          |   |
| <b>Liabilities for losses and loss adjustment expenses and prior year loss</b>        |        |          |        |        |           |        |        |        |        |          |                             |   |
| <b>development, net of reinsurance</b>  |        |          |        |        |           |        |        |        |        | \$ 5,383 | \$ (30)                     |   |

\* The losses reported in the table are not covered by the Adverse Development Reinsurance Agreement.

### Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance\*

| Accident Year | Years Ended December 31, (dollars in millions) |        |        |        |           |        |        |        |        | 2017   |
|---------------|--|--------|--------|--------|-----------|--------|--------|--------|--------|--------|
|               | 2008   | 2009   | 2010   | 2011   | 2012      | 2013   | 2014   | 2015   | 2016   |        |
|               |  |        |        |        | Unaudited |        |        |        |        |        |
| 2008          | \$ 133   | \$ 370 | \$ 497 | \$ 572 | \$ 657    | \$ 726 | \$ 787 | \$ 832 | \$ 846 | \$ 866 |
| 2009          |  | 42     | 134    | 231    | 286       | 368    | 409    | 429    | 447    | 461    |
| 2010          |  |        | 57     | 149    | 243       | 321    | 404    | 435    | 455    | 464    |

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|              |    |     |     |     |     |     |                 |
|--------------|----|-----|-----|-----|-----|-----|-----------------|
| 2011         | 21 | 140 | 259 | 385 | 449 | 532 | 549             |
| 2012         |    | 86  | 194 | 286 | 414 | 481 | 498             |
| 2013         |    |     | 87  | 154 | 261 | 321 | 368             |
| 2014         |    |     |     | 21  | 96  | 185 | 233             |
| 2015         |    |     |     |     | 35  | 132 | 238             |
| 2016         |    |     |     |     |     | 53  | 140             |
| 2017         |    |     |     |     |     |     | 13              |
| <b>Total</b> |    |     |     |     |     |     | <b>\$ 3,830</b> |

\* The losses reported in the table are not covered by the Adverse Development Reinsurance Agreement.

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ITEM 8 | **Notes to Consolidated Financial Statements | 13. Insurance Liabilities****Reserving Process and Methodology**

U.S. Run-Off Long Tail Insurance lines include run-off lines for asbestos and environmental (1986 and prior), excess workers' compensation, and other casualty coverages consisting of environmental impairment liability and related coverages, medical malpractice, workers' compensation, and general liability. In some cases, the exposures in the more recent years have declined since the portfolio is in run-off.

**Asbestos and Environmental (1986 and prior)**

Asbestos coverage has been excluded from AIG policies commencing in 1985. Most of AIG's asbestos claims exposures are ceded to National Indemnity Company (NICO) under a retroactive reinsurance arrangement entered into in 2011. Many of other asbestos-related exposures are very long-tailed in nature and with exposures dating back 30 years or more. We consider a number of factors and recent experience in addition to the results of both external and internal analyses, to estimate asbestos and pre-1986 environmental loss reserves. We primarily base our determination of these loss reserves on a combination of ground-up and top-down analyses of historical claims and available insurance coverages. 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, and pollution events occurring undetected over many years, 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.

Loss 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.

**Excess Workers' Compensation**

Excess workers' compensation has an extremely long tail and is one of the most challenging lines 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 (for example — in the rate of medical inflation or the longevity of injured workers) which can have a significant effect on the

ultimate reserve cost estimate.

Excess Workers' Compensation business was written over qualified self-insurance by various divisions beginning in the 1980's. In 1992, this business was consolidated into one division where it continued writing business up until 2011, when it was effectively put into runoff. In this book of business, the claims are not handled (or administered) by AIG General Insurance claims personnel, but are administered by the client's designated TPA. However, AIG General Insurance claims personnel maintain an oversight role over these TPAs and claims.

Loss and loss adjustment expense liability estimates for excess workers' compensation exposures are subject to additional uncertainties, due to the following:

- claim settlement time is longer than most other casualty lines, due to the lifetime benefits that can be expected to payout on certain claims;
- coverage statutes that vary by state; and
- future medical inflation costs are difficult to estimate

For this business, a combination of traditional methods (paid and incurred loss development) and non-traditional methods (individual claim annuity model, report year incurred loss development, and pure IBNR count/severity methods) are used to estimate loss and loss expense liability estimates. Loss data is segmented so as to reflect the anomalies in the historical data due to the various loss mitigation initiatives employed over the last several years.

### Other Casualty Run-Off

As noted above, other legacy exposures include environmental impairment liability and related coverages, medical malpractice, workers' compensation, and general liability. Depending on the individual class or lines of business reviewed, either traditional methods (i.e. paid loss development, incurred loss development), non-traditional methods (such as paid survival ratio or IBNR-to-case ratio methods) or a combination of the two are used. In addition, for some of the environmental impairment liability related coverage,

ITEM 8 | **Notes to Consolidated Financial Statements** | **13. Insurance Liabilities**

approaches based on individual claim department estimates for large remediation sites are extensively included as part of the overall actuarial estimates for environmental impairment liability related exposures.

**Prior Year Development**

During 2017, the U.S. Run-Off long tail insurance lines recognized \$30 million of favorable prior year development.

During 2016, the U.S. Run-Off long tail insurance lines recognized \$390 million of unfavorable prior year development.

**Asbestos and Environmental (1986 and prior)**

In 2017, we recognized favorable net prior year development of \$37 million on the retained portion of asbestos claims. This was primarily due to additional reinsurance recoveries identified for this portfolio. The development on the portion of the asbestos business ceded to NICO was unfavorable by \$50 million on a gross basis, but had no net impact. For environmental, we recognized \$22 million in unfavorable prior year development in consideration of activity related to several large clean-up sites and related accounts as well as a result of top-down actuarial analyses performed during the year. As part of this analysis, we increased our estimates of unallocated loss adjustment expense reserves for such claims, which were partially offset by a decrease in indemnity reserves.

In 2016, we increased gross undiscounted asbestos incurred losses by \$106 million and decreased net undiscounted asbestos incurred losses by \$20 million. The gross undiscounted change reflects an increase in estimates related to our accounts retroceded to NICO. The favorable development of the net incurred losses was largely a result of higher estimated external reinsurance recoveries on our retained asbestos exposures. For environmental, we increased incurred losses by \$211 million primarily due to unfavorable development on several large clean-up sites and related accounts as well as a result of top down actuarial analyses performed during the year.

During 2015, the reported claim activity on the assumed claims increased. We responded to this by modifying certain of our loss-reserve-related assumptions to better reflect our loss development. Additionally, we considered recent industry-wide trends regarding expanding coverage theories for liability. In 2015, 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.

**Excess Workers' Compensation**

We did not recognize any material development in this segment during 2017, 2016 or 2015. The proactive management of settlement negotiations and other claims mitigation strategies minimized the volatility observed during this period.

### Other Casualty Run-Off

In 2017, the net prior year development for the remaining legacy was favorable by \$15 million. We experienced favorable development on runoff medical malpractice and environmental impairment liability business, which was partially offset by net unfavorable development on other casualty segments.

We increased the reserves for these coverages by \$190 million and \$636 million during 2016 and 2015, respectively, to reflect updated assumptions about future loss development. The 2016 increase was driven by runoff public entity business where we reacted to the adverse emergence over the last year by increasing our loss development factors to reflect the portfolio's experience especially in the loss tail instead of relying on the overall excess casualty loss development factors.



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The previous development tables include only accident years 2008 to 2017. The following table summarizes (favorable) unfavorable development, of incurred losses and loss adjustment expenses for accident year 2007 and prior by operating segment and major class of business:

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

|   | 2017          | 2016            | 2015            |
|---|---------------|-----------------|-----------------|
| <b>2007 and prior accident year development, excluding the impact of Adverse Development Reinsurance Agreement, by major class of business and driver of development:</b> |               |                 |                 |
| U.S. Workers' compensation (before discount)  | \$ 4          | \$ 1,009        | \$ 100          |
| U.S. Excess casualty  | 141           | 107             | 450             |
| U.S. Other casualty   | 10            | 338             | 440             |
| U.S. Financial lines  | (44)          | 31              | 191             |
| U.S. Property and Special risks   | 12            | 12              | 26              |
| U.S. Personal Insurance   | 5             | (13)            | 33              |
| Europe Casualty and Financial lines   | 169           | (6)             | (2)             |
| Europe Property and Special risks   | (5)           | 1               | (1)             |
| Europe and Japan Personal Insurance   | 1             | (5)             | 1               |
| U.S. Long Tail Insurance lines (before discount)  | (46)          | 363             | 621             |
| All Other including unallocated loss adjustment expenses  | 177           | 3               | (11)            |
| <b>Total prior year unfavorable development</b>   | <b>\$ 424</b> | <b>\$ 1,840</b> | <b>\$ 1,848</b> |

**Claims Payout Patterns**

The following table presents the historical average annual percentage claims payout on an accident year basis at the same level of disaggregation as presented in the claims development table.

**Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance (Unaudited)**

| Year                                | 1     | 2     | 3     | 4    | 5    | 6    | 7    | 8    | 9    | 10   |
|-------------------------------------|-------|-------|-------|------|------|------|------|------|------|------|
| U.S. Workers' compensation          | 14.7% | 17.6% | 12.4% | 9.1% | 7.7% | 5.3% | 4.1% | 3.0% | 2.2% | 1.8% |
| U.S. Excess casualty                | 0.6   | 7.0   | 13.0  | 13.4 | 12.5 | 11.0 | 8.4  | 10.0 | 2.8  | 8.3  |
| U.S. Other casualty                 | 9.9   | 16.3  | 15.4  | 14.5 | 11.8 | 8.2  | 5.9  | 5.6  | 2.6  | 1.9  |
| U.S. Financial lines                | 4.0   | 17.9  | 21.1  | 16.7 | 13.2 | 9.3  | 6.1  | 6.0  | 3.0  | 1.2  |
| U.S. Property and Special risks     | 30.2  | 35.7  | 13.0  | 7.2  | 4.6  | 2.5  | 1.0  | 0.9  | 0.7  | 0.3  |
| U.S. Personal Insurance             | 61.4  | 27.6  | 3.8   | 2.2  | 1.2  | 0.6  | 0.4  | 0.2  | 0.1  | 0.2  |
| Europe Casualty and Financial lines | 7.9   | 17.0  | 13.7  | 13.7 | 9.8  | 7.5  | 6.3  | 4.6  | 5.0  | 1.0  |
| Europe Property and Special risks   | 24.0  | 41.6  | 17.2  | 6.3  | 4.0  | 1.5  | 1.0  | 0.2  | 0.2  | 0.2  |

|                                     |      |      |      |      |      |     |     |     |     |     |
|-------------------------------------|------|------|------|------|------|-----|-----|-----|-----|-----|
| Europe and Japan                    |      |      |      |      |      |     |     |     |     |     |
| Personal Insurance                  | 56.0 | 26.9 | 8.0  | 3.8  | 2.0  | 1.1 | 0.6 | 0.3 | 0.3 | 0.1 |
| U.S. Long Tail                      |      |      |      |      |      |     |     |     |     |     |
| Insurance lines                     | 9.8  | 18.3 | 16.9 | 12.5 | 10.7 | 6.7 | 4.0 | 3.1 | 1.9 | 2.0 |
| <b>Discounting of Loss Reserves</b> |      |      |      |      |      |     |     |     |     |     |

At December 31, 2017, the loss reserves reflect a net loss reserve discount of \$1.8 billion, including tabular and non-tabular calculations based upon the following assumptions:

Certain asbestos claims were 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 the claims. At December 31, 2016, the discount for asbestos reserves was fully amortized.

The tabular workers' compensation discount is calculated based on a 3.5 percent interest rate and the mortality rate 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 5 percent interest rate and the companies' own payout patterns. For the Pennsylvania companies, the statute specifies discount factors for accident years 2001 and prior, which are based on a 6 percent interest rate and an industry payout pattern. For accident years 2002 and subsequent, the discount is based on the payout patterns and investment yields of the companies.

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In 2013, our Pennsylvania regulator approved use of a consistent discount rate (U.S. Treasury rate plus a liquidity premium) to all of our workers' compensation reserves in our Pennsylvania-domiciled companies, as well as our use of updated payout patterns specific to our primary and excess workers' compensation portfolios.

The discount consists of \$622 million of tabular discount for workers' compensation and \$1,222 million of non-tabular discount for workers' compensation. During the years ended December 31, 2017, 2016 and 2015 the benefit/(charge) from changes in discount of (\$187) million, \$422 million and \$71 million, respectively, were recorded as part of the policyholder benefits and losses incurred in the Consolidated Statement of Income.

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

|                                | December 31, 2017                        |  |                 | December 31, 2016                        |  |                 |
|--------------------------------|--|--|-----------------|--|--|-----------------|
|                                |  | Legacy<br>Portfolio -<br>General         |                 |  | Legacy<br>Portfolio -<br>General         |                 |
|                                | North America<br>Commercial<br>Insurance | Insurance Run-<br>Off Insurance<br>Lines | Total           | North America<br>Commercial<br>Insurance | Insurance Run-<br>Off Insurance<br>Lines | Total           |
| <i>(in millions)</i>           |  |  |                 |  |  |                 |
| U.S. Workers' compensation     | \$ 2,465                                 | \$ 918                                   | \$ 3,383        | \$ 2,583                                 | \$ 987                                   | \$ 3,570        |
| Retroactive reinsurance        | (1,539)                                  | -  | (1,539)         | -  | -  | -               |
| <b>Total reserve discount*</b> | <b>\$ 926</b>                            | <b>\$ 918</b>                            | <b>\$ 1,844</b> | <b>\$ 2,583</b>                          | <b>\$ 987</b>                            | <b>\$ 3,570</b> |

\* Excludes \$173 million and \$181 million of discount related to certain long tail liabilities in the United Kingdom at December 31, 2017 and December 31, 2016, respectively.

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

| Years Ended December 31,                                     | 2017                                     |   |        | 2016                                     |   |        | 2015                                     |
|--|--|---|--------|--|---|--------|--|
|  |  | Legacy<br>Portfolio -<br>General        |        |  | Legacy<br>Portfolio -<br>General        |        | P  |
|  | North America<br>Commercial<br>Insurance | Insurance Run-Off<br>Insurance<br>Lines | Total  | North America<br>Commercial<br>Insurance | Insurance Run-Off<br>Insurance<br>Lines | Total  | North America<br>Commercial<br>Insurance |
| <i>(in millions)</i>   |  |   |        |  |   |        |  |
| Current accident year  | \$ 114                                   | \$ -                                    | \$ 114 | \$ 177                                   | \$ -                                    | \$ 177 | \$ 182                                   |
| Accretion and other<br>adjustments to prior<br>year discount | (186)                                    | (44)                                    | (230)  | 287                                      | 64                                      | 351    | (262)                                    |
| Effect of interest rate<br>changes                           | (46)                                     | (25)                                    | (71)   | (58)                                     | (48)                                    | (106)  | 148                                      |
| <b>Net reserve discount</b>                                  |  |   |        |  |   |        |  |

|   |                |             |                |        |        |        |       |
|---|----------------|-------------|----------------|--------|--------|--------|-------|
| <b>benefit (charge)</b>   | <b>(118)</b>   | <b>(69)</b> | <b>(187)</b>   | 406    | 16     | 422    | 68    |
| Amount transferred to run-off insurance lines                           | -              | -           | -              | -      | -      | -      | (39)  |
| Change in discount on loss reserves ceded under retroactive reinsurance | <b>(1,539)</b> | -           | <b>(1,539)</b> | -      | -      | -      | -     |
| <b>Net change in total reserve discount*</b>                            | <b>(1,657)</b> | <b>(69)</b> | <b>(1,726)</b> | 406    | 16     | 422    | 29    |
| <b>Comprised of:</b>  |                |             |                |        |        |        |       |
| U.S. Workers' compensation  | \$ (1,657)     | \$ (69)     | \$ (1,726)     | \$ 406 | \$ 23  | \$ 429 | \$ 29 |
| Asbestos  | \$ -           | \$ -        | \$ -           | \$ -   | \$ (7) | \$ (7) | \$ -  |

\* Excludes \$8 million and \$20 million of discount related to certain long tail liabilities in the United Kingdom at December 31, 2017 and 2016, respectively.

During 2017 and 2016, effective interest rates declined due to a decrease in the forward yield curve component of the discount rates reflecting a decline U.S. Treasury rates along the changes in payout pattern assumptions. This resulted in a decrease in the loss reserve discount by \$71 million in 2017 and \$106 million in 2016.

During 2015, the effective interest rate increased due to the increase in Treasury rates and credit spreads that resulted in an increase in the loss reserve discount by \$225 million.

ITEM 8 | **Notes to Consolidated Financial Statements** | **13. Insurance Liabilities****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. In addition, reserves for contracts in loss recognition are adjusted to reflect the effect of unrealized gains on fixed maturity and equity securities available for sale, with related changes recognized through Other comprehensive income.

Future policy benefits also include certain guaranteed benefits of variable annuity products that are not considered embedded derivatives, primarily guaranteed minimum death benefits.

*For additional information on guaranteed minimum death benefits see Note 14.*

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 0.1 percent to 14 percent. Mortality and surrender rate assumptions are generally based on actual experience when the liability is established.

**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, 2017, 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.

*For additional information on guaranteed benefits accounted for as embedded derivatives see Note 14 herein.*

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. These additional liabilities are also adjusted to reflect the effect of unrealized gains or losses on fixed maturity and equity securities available for sale on accumulated assessments, with related changes recognized through Other comprehensive income.

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 and Retirement companies through our Institutional Markets business.

**The following table presents Policyholder contract deposits by product line:**

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

**Policyholder contract deposits:**

|   | 2017              | 2016              |
|---|-------------------|-------------------|
| Fixed Annuities                             | \$ 49,979         | \$ 51,278         |
| Group Retirement                            | 40,422            | 39,578            |
| Life Insurance                              | 12,448            | 11,855            |
| Variable and Index Annuities                | 19,690            | 16,934            |
| Institutional Markets                       | 8,077             | 7,286             |
| Legacy Portfolio                            | 4,986             | 5,285             |
| <b>Total Policyholder contract deposits</b> | <b>\$ 135,602</b> | <b>\$ 132,216</b> |

ITEM 8 | **Notes to Consolidated Financial Statements** | **13. Insurance Liabilities****Other Policyholder Funds**

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. Similar to Shadow DAC, URR 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 URR).

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 1.9 percent of gross insurance in force at December 31, 2017 and 1.8 percent of gross domestic premiums and other considerations in 2017. The amount of annual dividends to be paid is approved locally by the boards of directors of the Life and Retirement companies. 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.

**14. 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 primarily include guaranteed minimum withdrawal benefits (GMWB). 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 (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.



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**Account balances of variable annuity contracts with guarantees were invested in separate account investment options as follows:**

**At December 31,**

*(in millions)*

|                    | <b>2017</b>      | <b>2016</b> |
|--------------------|------------------|-------------|
| Equity funds       | <b>\$ 48,594</b> | \$ 42,266   |
| Bond funds         | <b>7,793</b>     | 7,798       |
| Balanced funds     | <b>27,656</b>    | 25,365      |
| Money market funds | <b>730</b>       | 840         |
| <b>Total</b>       | <b>\$ 84,773</b> | \$ 76,269   |

**GMDB**

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. GMDB is our most widely offered benefit.

The liability for GMDB, which is recorded in Future policy benefits, represents 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,**

|   | <b>2017</b>                              |                                    | <b>2016</b>                              |                                    |
|---|--|------------------------------------|--|------------------------------------|
|   | Net Deposits<br>Plus a Minimum<br>Return | Highest Contract<br>Value Attained | Net Deposits<br>Plus a Minimum<br>Return | Highest Contract<br>Value Attained |
| <i>(dollars in billions)</i>                        |  |                                    |  |                                    |
| Account value                                       | <b>\$ 99</b>                             | <b>\$ 17</b>                       | <b>\$ 91</b>                             | <b>\$ 17</b>                       |
| Net amount at risk                                  | <b>1</b>                                 | <b>-</b>                           | <b>1</b>                                 | <b>-</b>                           |
| Average attained age of contract holders by product | <b>63</b>                                | <b>68</b>                          | <b>63</b>                                | <b>68</b>                          |
| Range of guaranteed minimum return rates            | <b>0%-4.5%</b>                           |                                    | <b>0%-4.5%</b>                           |                                    |

**The following summarizes GMDB liability related to variable annuity contracts, excluding assumed reinsurance:**

**Years Ended December 31,**

*(in millions)*

|   | <b>2017</b>   | <b>2016</b>   | <b>2015</b>   |
|---|---------------|---------------|---------------|
| <b>Balance, beginning of year</b>                                     | <b>\$ 402</b> | <b>\$ 491</b> | <b>\$ 420</b> |
| Reserve increase (decrease)   | <b>(14)</b>   | <b>(32)</b>   | <b>127</b>    |
| Benefits paid   | <b>(42)</b>   | <b>(57)</b>   | <b>(56)</b>   |
| Changes in reserves related to unrealized appreciation of investments | <b>6</b>      | <b>-</b>      | <b>-</b>      |
| <b>Balance, end of year</b>   | <b>\$ 352</b> | <b>\$ 402</b> | <b>\$ 491</b> |

Assumptions used to determine the GMDB 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**

Certain of our variable annuity contracts contain optional GMWB benefits and, to a lesser extent, guaranteed minimum accumulation 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

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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.

The liabilities for GMWB, which are recorded in Policyholder contract deposits, are accounted for as embedded derivatives measured at fair value, with changes in the fair value of the liabilities recorded in Other net realized capital gains (losses). The fair value of these embedded derivatives was a net liability of \$2.0 billion and \$1.8 billion at December 31, 2017 and 2016, respectively.

*For discussion of the fair value measurement of guaranteed benefits that are accounted for as embedded derivatives see Note 5.*

We had account values subject to GMWB that totaled \$45 billion and \$41 billion at December 31, 2017 and 2016, 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 related to the GMWB guarantees was \$450 million and \$834 million at December 31, 2017 and 2016, respectively. We use derivative instruments and other financial instruments to mitigate a portion of our exposure that arises from GMWB benefits.

**15. 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 following table lists our total debt outstanding at December 31, 2017 and 2016. The interest rates presented in the following table are the range of contractual rates in effect at December 31, 2017, including fixed and variable-rates:**

| <b>At December 31, 2017</b><br><i>(in millions)</i> | <b>Range of<br/>Interest Rate(s)</b> | <b>Maturity<br/>Date(s)</b> | <b>Balance<br/>at<br/>December<br/>31,<br/>2017</b> | <b>Balance<br/>at<br/>December<br/>31,<br/>2016</b> |
|---|--------------------------------------|-----------------------------|---|---|
| <b>Debt issued or guaranteed by AIG:</b>            |                                      |                             |   |   |
| <b>AIG general borrowings:</b>                      |                                      |                             |   |   |
| Notes and bonds payable                             | 0% - 8.13%                           | 2018 - 2097                 | <b>\$ 20,339</b>                                    | \$ 19,432   |
| Junior subordinated debt                            | 4.88% - 8.63%                        | 2037 - 2058                 | <b>841</b>  | 843   |
| AIG Japan Holdings Kabushiki Kaisha                 | 0.28% - 0.44%                        | 2020 - 2021                 | <b>334</b>  | 330   |
| AIGLH notes and bonds payable                       | 6.63% - 7.50%                        | 2025 - 2029                 | <b>281</b>  | 281   |
| AIGLH junior subordinated debt                      | 7.57% - 8.50%                        | 2030 - 2046                 | <b>361</b>  | 361   |
| <b>Total AIG general borrowings</b>                 |                                      |                             | <b>22,156</b>                                       | 21,247  |

**AIG borrowings supported by assets:**<sup>(a)</sup>

|  |               |             |              |       |
|--|---------------|-------------|--------------|-------|
| MIP notes payable                            | 2.72% - 2.95% | 2018        | <b>356</b>   | 1,099 |
| Series AIGFP matched notes and bonds payable | 1.21% - 1.30% | 2046 - 2047 | <b>21</b>    | 32    |
| GIAs, at fair value                          | 0.50% - 7.62% | 2018 - 2053 | <b>2,707</b> | 2,934 |
| Notes and bonds payable, at fair value       | 0.50% - 9.97% | 2018 - 2040 | <b>181</b>   | 494   |

**Total AIG borrowings supported by assets****Total debt issued or guaranteed by AIG**

**3,265** 4,559  
**25,421** 25,806

**Debt not guaranteed by AIG:**

Other subsidiaries notes, bonds, loans and

|   |               |             |              |       |
|---|---------------|-------------|--------------|-------|
| mortgages payable                               | 1.40% - 1.57% | 2018        | <b>190</b>   | 735   |
| Debt of consolidated investments <sup>(b)</sup> | 0% - 9.31%    | 2018 - 2065 | <b>6,029</b> | 4,371 |

**Total debt not guaranteed by AIG**

**6,219** 5,106  
**\$ 31,640** \$ 30,912

(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 \$2.0 billion and \$2.2 billion at December 31, 2017 and December 31, 2016, 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, 2017, includes debt of consolidated investment vehicles related to real estate investments of \$2.5 billion, affordable housing partnership investments of \$1.8 billion and other securitization vehicles of \$1.7 billion. At December 31, 2016, includes debt of consolidated investment vehicles related to real estate investments of \$1.9 billion, affordable housing partnership investments of \$1.7 billion and other securitization vehicles of \$771 million.

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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 \$6.0 billion in borrowings of debt of consolidated investments:

| <b>December 31, 2017</b><br><i>(in millions)</i>             | <b>Year Ending</b> |                 |                 |                 |                 |                 |                   |
|--|--------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------|
|  | <b>Total</b>       | <b>2018</b>     | <b>2019</b>     | <b>2020</b>     | <b>2021</b>     | <b>2022</b>     | <b>Thereafter</b> |
| <b>Debt issued or guaranteed by AIG:</b>                     |                    |                 |                 |                 |                 |                 |                   |
| <b>AIG general borrowings:</b>                               |                    |                 |                 |                 |                 |                 |                   |
| Notes and bonds payable                                      | \$ 20,339          | \$ 1,107        | \$ 998          | \$ 1,343        | \$ 1,496        | \$ 1,507        | \$ 13,888         |
| Junior subordinated debt                                     | 841                | -               | -               | -               | -               | -               | 841               |
| AIG Japan Holdings Kabushiki Kaisha                          | 334                | -               | -               | 115             | 219             | -               | -                 |
| AIGLH notes and bonds payable                                | 281                | -               | -               | -               | -               | -               | 281               |
| AIGLH junior subordinated debt                               | 361                | -               | -               | -               | -               | -               | 361               |
| <b>Total AIG general borrowings</b>                          | <b>22,156</b>      | <b>1,107</b>    | <b>998</b>      | <b>1,458</b>    | <b>1,715</b>    | <b>1,507</b>    | <b>15,371</b>     |
| <b>AIG borrowings supported by assets:</b>                   |                    |                 |                 |                 |                 |                 |                   |
| MIP notes payable  | 356                | 356             | -               | -               | -               | -               | -                 |
| Series AIGFP matched notes and bonds payable                 | 21                 | -               | -               | -               | -               | -               | 21                |
| GIAs, at fair value  | 2,707              | 506             | 265             | 30              | 202             | 47              | 1,657             |
| Notes and bonds payable, at fair value                       | 181                | 126             | -               | -               | -               | -               | 55                |
| <b>Total AIG borrowings supported by assets</b>              | <b>3,265</b>       | <b>988</b>      | <b>265</b>      | <b>30</b>       | <b>202</b>      | <b>47</b>       | <b>1,733</b>      |
| <b>Total debt issued or guaranteed by AIG</b>                | <b>25,421</b>      | <b>2,095</b>    | <b>1,263</b>    | <b>1,488</b>    | <b>1,917</b>    | <b>1,554</b>    | <b>17,104</b>     |
| Other subsidiaries notes, bonds, loans and mortgages payable | 190                | 190             | -               | -               | -               | -               | -                 |
| <b>Total</b>   | <b>\$ 25,611</b>   | <b>\$ 2,285</b> | <b>\$ 1,263</b> | <b>\$ 1,488</b> | <b>\$ 1,917</b> | <b>\$ 1,554</b> | <b>\$ 17,104</b>  |

Uncollateralized and collateralized notes, bonds, loans and mortgages payable consisted of the following:

| <b>At December 31, 2017</b><br><i>(in millions)</i>           | <b>Uncollateralized</b>  |                | <b>Collateralized</b> |                          |              |
|---|--------------------------|----------------|-----------------------|--------------------------|--------------|
|   | <b>Notes/Bonds/Loans</b> | <b>Payable</b> | <b>Loans and</b>      | <b>Mortgages Payable</b> | <b>Total</b> |
| AIG general borrowings  | \$                       | 334            | \$                    | -                        | \$ 334       |
| Other subsidiaries notes, bonds, loans and mortgages payable* |                          | -              |                       | 190                      | 190          |
| <b>Total</b>  | \$                       | 334            | \$                    | 190                      | \$ 524       |

\* AIG does not guarantee any of these borrowings.

### **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, 2017, the junior subordinated debentures outstanding consisted of \$113 million of 8.5 percent junior subordinated debentures due July 2030, \$211 million of 8.125 percent junior subordinated debentures due March 2046 and \$37 million of 7.57 percent junior subordinated debentures due December 2045, each guaranteed by AIG Parent.

### Credit Facilities

We maintain a committed, revolving syndicated credit facility (the Facility) as a potential source of liquidity for general corporate purposes. The Facility provides for aggregate commitments by the bank syndicate to provide unsecured revolving loans and/or standby letters of credit of up to \$4.5 billion without any limits on the type of borrowings and is scheduled to expire in June 2022.

#### At December 31, 2017

(in millions)

|                            | Size     | Available<br>Amount | Expiration | Effective<br>Date |
|----------------------------|----------|---------------------|------------|-------------------|
| Syndicated Credit Facility | \$ 4,500 | \$ 4,500            | June 2022  | 6/27/2017         |

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

Additionally, from time to time, various regulatory and governmental agencies review the transactions and practices of AIG and our subsidiaries in connection with industry-wide and other inquiries into, among other matters, the 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 such 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).

As noted below, all of the actions relating to the Subprime Exposure Issues have been resolved.

**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 (SDNY) 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.

In 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 paid the settlement amount of \$960 million. 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.



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**Individual Securities Litigations.** Between November 18, 2011 and February 9, 2015, eleven separate, though similar, securities actions (Individual Securities Litigations) were filed in or transferred to the SDNY, asserting claims substantially similar to those in the Consolidated 2008 Securities Litigation against AIG and certain directors and officers of AIG and AIGFP. Two of the actions were voluntarily dismissed, and the remaining nine have now been settled.

**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 May 9, 2017, the Court of Appeals for the Federal Circuit: (i) vacated the Court of Federal Claims judgment on the Credit Agreement Shareholder Class and remanded with instructions for dismissal of that class, and (ii) affirmed the finding of no liability with respect to the Reverse Stock Split Class.

On October 6, 2017, SICO filed a petition for writ of certiorari with the United States Supreme Court.

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.

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

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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.

**Tax Litigation.**

We are party to pending tax litigation before the Southern District of New York. *For additional information see Note 23 to the Consolidated Financial Statements.*

**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, 2017:**

*(in millions)*

|                            |           |            |
|----------------------------|-----------|------------|
| 2018                       | \$        | 243        |
| 2019                       |           | 179        |
| 2020                       |           | 137        |
| 2021                       |           | 95         |
| 2022                       |           | 59         |
| Remaining years after 2022 |           | 120        |
| <b>Total</b>               | <b>\$</b> | <b>833</b> |

Rent expense was \$269 million, \$331 million and \$327 million for the years ended December 31, 2017, 2016 and 2015, 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 \$3.2 billion at December 31, 2017.

**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, 2017 was \$139 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.

AIG Parent 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 (IRS). AIG Parent and its subsidiaries have adopted, pursuant to a written agreement, a method of allocating consolidated federal income taxes. Under an Amended and Restated Tax Payment Allocation Agreement dated June 6, 2011 between AIG Parent and one of its Bermuda-domiciled insurance subsidiaries, AIG Life of Bermuda, Ltd. (AIGB), AIG Parent has agreed to indemnify AIGB for any tax liability (including interest and penalties) resulting from adjustments made by the IRS or other appropriate authorities to taxable income, special deductions or credits in connection with investments made by AIGB in certain affiliated entities.

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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**

- 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 11 to the Consolidated Financial Statements.
- For additional disclosures about guarantees of outstanding debt see Note 25 to the Consolidated Financial Statements.

**17. Equity****Shares Outstanding**

The following table presents a rollforward of outstanding shares:

|                                     | Common<br>Stock Issued | Treasury<br>Stock | Common Stock<br>Outstanding |
|-------------------------------------|------------------------|-------------------|-----------------------------|
| <b>Year Ended December 31, 2015</b> |                        |                   |                             |
| <b>Shares, beginning of year</b>    | 1,906,671,492          | (530,744,521)     | 1,375,926,971               |
| Shares issued                       | -                      | 371,806           | 371,806                     |
| Shares repurchased                  | -                      | (182,382,160)     | (182,382,160)               |
| <b>Shares, end of year</b>          | 1,906,671,492          | (712,754,875)     | 1,193,916,617               |
| <b>Year Ended December 31, 2016</b> |                        |                   |                             |
| <b>Shares, beginning of year</b>    | 1,906,671,492          | (712,754,875)     | 1,193,916,617               |
| Shares issued                       | -                      | 2,069,110         | 2,069,110                   |

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|                                     |                      |                        |                    |
|-------------------------------------|----------------------|------------------------|--------------------|
| Shares repurchased                  | -                    | (200,649,886)          | (200,649,886)      |
| <b>Shares, end of year</b>          | 1,906,671,492        | (911,335,651)          | 995,335,841        |
| <b>Year Ended December 31, 2017</b> |                      |                        |                    |
| <b>Shares, beginning of year</b>    | <b>1,906,671,492</b> | <b>(911,335,651)</b>   | <b>995,335,841</b> |
| Shares issued                       | -                    | 3,386,462              | 3,386,462          |
| Shares repurchased                  | -                    | (99,677,646)           | (99,677,646)       |
| <b>Shares, end of year</b>          | <b>1,906,671,492</b> | <b>(1,007,626,835)</b> | <b>899,044,657</b> |

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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 on 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.

**The following table presents record date, payment date and dividends paid per share on AIG Common Stock:**

| <b>Record Date</b> | <b>Payment Date</b> | <b>Dividends Paid<br/>Per Share</b> |
|--------------------|---------------------|-------------------------------------|
| December 8, 2017   | December 22, 2017   | \$ <b>0.32</b>                      |
| September 15, 2017 | September 29, 2017  | <b>0.32</b>                         |
| June 14, 2017      | June 28, 2017       | <b>0.32</b>                         |
| March 15, 2017     | March 29, 2017      | <b>0.32</b>                         |
| December 8, 2016   | December 22, 2016   | 0.32                                |
| September 15, 2016 | September 29, 2016  | 0.32                                |
| June 13, 2016      | June 27, 2016       | 0.32                                |
| March 14, 2016     | March 28, 2016      | 0.32                                |
| December 7, 2015   | December 21, 2015   | 0.28                                |
| September 14, 2015 | September 28, 2015  | 0.28                                |
| June 11, 2015      | June 25, 2015       | 0.125                               |
| March 12, 2015     | March 26, 2015      | 0.125                               |

**Repurchase of AIG Common Stock**

**The following table presents repurchases of AIG Common Stock and warrants to purchase shares of AIG Common Stock:**

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

|   | <b>2017</b>     | 2016      | 2015 <sup>(a)</sup> |
|---|-----------------|-----------|---------------------|
| Aggregate repurchases of common stock               | \$ <b>6,275</b> | \$ 11,460 | \$ 10,691           |
| Total number of common shares repurchased           | <b>100</b>      | 201       | 182                 |
| Aggregate repurchases of warrants                   | \$ <b>3</b>     | \$ 309    | -                   |
| Total number of warrants repurchased <sup>(b)</sup> | -               | 17        | -                   |

(a) 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 accelerated stock repurchase (ASR) agreement executed in the

fourth quarter of 2014.

(b) In 2017, we repurchased 185,000 warrants to purchase shares of AIG Common Stock.

Our Board of Directors has authorized the repurchase of shares of AIG Common Stock and warrants to purchase shares of AIG Common Stock through a series of actions. On May 3, 2017, our Board of Directors authorized an additional increase of \$2.5 billion to its previous share repurchase authorization. As of December 31, 2017, approximately \$2.3 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.

The timing of any future repurchases will depend on market conditions, our business and strategic plans, financial condition, results of operations, liquidity and other factors.



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The following table presents a rollforward of Accumulated other comprehensive income:

|  | Unrealized<br>Appreciation<br>(Depreciation)<br>of<br>Fixed<br>Maturity<br>Securities<br>on<br>Which<br>Other-Than-<br>Temporary<br>Credit<br>Impairments<br>Were<br>Taken | Unrealized<br>Appreciation<br>(Depreciation)<br>of All Other<br>Investments | Foreign<br>Currency<br>Translation<br>Adjustments | Retirement<br>Plan<br>Liabilities<br>Adjustment | Total    |
|--|--|---|---|---|----------|
| <i>(in millions)</i>   |  |   |   |   |          |
| <b>Balance, January 1, 2015, net of tax</b>                      | \$ 1,043\$   | 12,327\$  | (1,784)\$   | (969)\$   | 10,617   |
| 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)  |
| Change in net actuarial gain                                     | -  | -   | -   | 413   | 413      |
| Change in prior service credit                                   | -  | -   | -   | (239)   | (239)    |
| Change in deferred tax asset (liability)                         | 195  | 1,380   | 29  | (51)  | 1,553    |
| <b>Total other comprehensive income (loss)</b>                   | (347)  | (6,762)   | (1,100)   | 123   | (8,086)  |
| <b>Noncontrolling interests</b>                                  | -  | (1)   | (5)   | -   | (6)      |
| <b>Balance, December 31, 2015, net of tax</b>                    | \$ 696\$   | 5,566\$   | (2,879)\$   | (846)\$   | 2,537    |
| Change in unrealized appreciation (depreciation) of investments  | (326)  | 931   | -   | -   | 605      |
| Change in deferred policy acquisition costs adjustment and other | (19)   | 286   | -   | -   | 267      |
| Change in future policy benefits                                 | -  | (676)   | -   | -   | (676)    |
| Change in foreign currency translation adjustments               | -  | -   | 93  | -   | 93       |
| Change in net actuarial loss                                     | -  | -   | -   | (151)   | (151)    |
| Change in prior service credit                                   | -  | -   | -   | (22)  | (22)     |
| Change in deferred tax asset                                     | 75   | 298   | 157   | 47  | 577      |

|  |                 |                |                  |                |                |
|--|-----------------|----------------|------------------|----------------|----------------|
| <b>Total other comprehensive income (loss)</b> | (270)           | 839            | 250              | (126)          | 693            |
| <b>Noncontrolling interests</b>                | -               | -              | -                | -              | -              |
| <b>Balance, December 31, 2016, net of tax</b>  | <b>\$ 426\$</b> | <b>6,405\$</b> | <b>(2,629)\$</b> | <b>(972)\$</b> | <b>3,230</b>   |
| Change in unrealized                           |                 |                |                  |                |                |
| appreciation of investments                    | <b>394</b>      | <b>3,668</b>   | -                | -              | <b>4,062</b>   |
| Change in deferred policy                      |                 |                |                  |                |                |
| acquisition costs adjustment and other         | <b>23</b>       | <b>(1,282)</b> | -                | -              | <b>(1,259)</b> |
| Change in future policy benefits               | -               | <b>(1,102)</b> | -                | -              | <b>(1,102)</b> |
| Change in foreign currency                     |                 |                |                  |                |                |
| translation adjustments                        | -               | -              | <b>547</b>       | -              | <b>547</b>     |
| Change in net actuarial gain                   | -               | -              | -                | <b>110</b>     | <b>110</b>     |
| Change in prior service cost                   | -               | -              | -                | <b>9</b>       | <b>9</b>       |
| Change in deferred tax asset (liability)       | <b>(50)</b>     | <b>4</b>       | <b>(8)</b>       | <b>(78)</b>    | <b>(132)</b>   |
| <b>Total other comprehensive income</b>        | <b>367</b>      | <b>1,288</b>   | <b>539</b>       | <b>41</b>      | <b>2,235</b>   |
| <b>Noncontrolling interests</b>                | -               | -              | -                | -              | -              |
| <b>Balance, December 31, 2017, net of tax</b>  | <b>\$ 793\$</b> | <b>7,693\$</b> | <b>(2,090)\$</b> | <b>(931)\$</b> | <b>5,465</b>   |

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The following table presents the other comprehensive income (loss) reclassification adjustments for the years ended December 31, 2017, 2016 and 2015:

| <i>(in millions)</i>  |    | Unrealized Appreciation<br>(Depreciation) of Fixed<br>Maturity Securities<br>on Which Other-<br>Than-Temporary Credit<br>Impairments Were Taken | Unrealized<br>Appreciation<br>(Depreciation)<br>of All Other<br>Investments | Foreign<br>Currency<br>Translation<br>Adjustments | Retirement<br>Plan<br>Liabilities<br>Adjustments |
|---|----|---|---|---|--|
| <b>December 31, 2015</b>  |    |   |   |   |  |
| Unrealized change arising during period   | \$ | (471)\$   | (7,068)\$   | (1,129)\$   | 28   |
| Less: Reclassification adjustments<br>included in net income                            |    | 71  | 1,074   | -   | 11   |
| <b>Total other comprehensive income (loss),<br/>before income tax expense (benefit)</b> |    | (542)   | (8,142)   | (1,129)   | 17   |
| Less: Income tax expense (benefit)  |    | (195)   | (1,380)   | (29)  | 5  |
| <b>Total other comprehensive income (loss),<br/>net of income tax expense (benefit)</b> | \$ | (347)\$   | (6,762)\$   | (1,100)\$   | 12   |
| <b>December 31, 2016</b>  |    |   |   |   |  |
| Unrealized change arising during period   | \$ | (222)\$   | 1,769\$   | 93\$  | (344)  |
| Less: Reclassification adjustments<br>included in net income                            |    | 123   | 1,228   | -   | (171)  |
| <b>Total other comprehensive income (loss),<br/>before income tax expense (benefit)</b> |    | (345)   | 541   | 93  | (173)  |
| Less: Income tax benefit  |    | (75)  | (298)   | (157)   | (47)   |
| <b>Total other comprehensive income (loss),<br/>net of income tax benefit</b>           | \$ | (270)\$   | 839\$   | 250\$   | (126)  |
| <b>December 31, 2017</b>  |    |   |   |   |  |
| Unrealized change arising during period   | \$ | 467\$   | 2,052\$   | 547\$   | 2  |
| Less: Reclassification adjustments<br>included in net income                            |    | 50  | 768   | -   | (95)   |
| <b>Total other comprehensive income,<br/>before income tax expense</b>                  |    | 417   | 1,284   | 547   | 11   |
| Less: Income tax expense (benefit)  |    | 50  | (4)   | 8   | 7  |
| <b>Total other comprehensive income,<br/>net of income tax expense (benefit)</b>        | \$ | 367\$   | 1,288\$   | 539\$   | 4  |

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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,<br>(in millions)  | Amount Reclassified<br>from Accumulated<br>Other<br>Comprehensive<br>Income |                |                | Affected Line Item<br>Consolidated Statements of Income |
|--|---|----------------|----------------|---|
|  | 2017  | 2016           | 2015           |   |
| <b>Unrealized appreciation (depreciation) of fixed maturity securities on which other-than-temporary credit impairments were taken</b> |   |                |                |   |
| Investments  | \$ 50   | \$ 123         | \$ 71          | Other realized capital gains                            |
| <b>Total</b>   | <b>50</b>   | <b>123</b>     | <b>71</b>      |   |
| <b>Unrealized appreciation (depreciation) of all other investments</b>   |   |                |                |   |
| Investments  | 463   | 935            | 1,054          | Other realized capital gains                            |
| Deferred acquisition costs adjustment  | 305   | 293            | 3              | Amortization of deferred policy acquisition costs       |
| Future policy benefits   | -   | -              | 17             | Policyholder benefits and losses incurred               |
| <b>Total</b>   | <b>768</b>  | <b>1,228</b>   | <b>1,074</b>   |   |
| <b>Change in retirement plan liabilities adjustment</b>  |   |                |                |   |
| Prior-service credit   | 5   | 15             | 214            | *   |
| Actuarial losses   | (100)   | (186)          | (103)          | *   |
| <b>Total</b>   | <b>(95)</b>   | <b>(171)</b>   | <b>111</b>     |   |
| <b>Total reclassifications for the period</b>  | <b>\$ 723</b>   | <b>\$1,180</b> | <b>\$1,256</b> |   |

\* These Accumulated other comprehensive income components are included in the computation of net periodic pension cost. See Note 21 to the Consolidated Financial Statements.

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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:

| <b>Years Ended December 31,</b><br><i>(dollars in millions, except per share data)</i>  | <b>2017</b>       | <b>2016</b>     | <b>2015</b>     |
|---|-------------------|-----------------|-----------------|
| <b>Numerator for EPS:</b>   |                   |                 |                 |
| Income (loss) from continuing operations  | \$ (6,060)        | \$ (259)        | \$ 2,222        |
| Less: Net income from continuing operations attributable to noncontrolling interests    | 28                | 500             | 26              |
| <b>Income (loss) attributable to AIG common shareholders from continuing operations</b> | <b>(6,088)</b>    | <b>(759)</b>    | <b>2,196</b>    |
| Income (loss) from discontinued operations, net of income tax expense                   | 4                 | (90)            | -               |
| <b>Net income (loss) attributable to AIG common shareholders</b>                        | <b>\$ (6,084)</b> | <b>\$ (849)</b> | <b>\$ 2,196</b> |
| <b>Denominator for EPS:</b>   |                   |                 |                 |
| Weighted average shares outstanding — basic   | 930,561,286       | 1,091,085,131   | 1,299,825,350   |
| Dilutive shares   | -                 | -               | 34,639,533      |
| Weighted average shares outstanding — diluted <sup>(a)(b)</sup>                         | 930,561,286       | 1,091,085,131   | 1,334,464,883   |
| <b>Income (loss) per common share attributable to AIG:</b>                              |                   |                 |                 |
| <b>Basic:</b>   |                   |                 |                 |
| Income (loss) from continuing operations  | \$ (6.54)         | \$ (0.70)       | \$ 1.69         |
| Income from discontinued operations   | \$ -              | \$ (0.08)       | \$ -            |
| Income (loss) attributable to AIG   | \$ (6.54)         | \$ (0.78)       | \$ 1.69         |
| <b>Diluted:</b>   |                   |                 |                 |
| Income (loss) from continuing operations  | \$ (6.54)         | \$ (0.70)       | \$ 1.65         |
| Income from discontinued operations   | \$ -              | \$ (0.08)       | \$ -            |
| Income (loss) attributable to AIG   | \$ (6.54)         | \$ (0.78)       | \$ 1.65         |

(a) Shares in the diluted EPS calculation represent basic shares for 2017 and 2016 due to the net losses in those periods. The shares excluded from the calculation were 22,412,682 shares and 30,326,772 shares for the years ended December 31, 2017 and 2016, respectively.

(b) Dilutive shares included our share-based employee compensation plans and a weighted average portion of the warrants issued to AIG shareholders as part of AIG's recapitalization in January 2011. The number of shares excluded from diluted shares outstanding were 1.7 million, 0.2 million and 0.2 million for the years ended December 31, 2017, 2016 and 2015, 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 General Insurance companies and our Life and Retirement companies in accordance with statutory accounting practices:

| <i>(in millions)</i>   | 2017             | 2016              | 2015            |
|--|------------------|-------------------|-----------------|
| <b>Years Ended December 31,</b>                                  |                  |                   |                 |
| <b>Statutory net income (loss)<sup>(a)(b)(c)</sup>:</b>          |                  |                   |                 |
| <b>General Insurance companies:</b>                              |                  |                   |                 |
| Domestic <sup>(c)</sup>  | \$ (622)         | \$ 260            | \$ 1,444        |
| Foreign  | (333)            | (1,326)           | 594             |
| <b>Total General Insurance companies</b>                         | <b>\$ (955)</b>  | <b>\$ (1,066)</b> | <b>\$ 2,038</b> |
| <b>Life and Retirement companies:</b>                            |                  |                   |                 |
| Domestic   | \$ 932           | \$ 2,252          | \$ 2,200        |
| Foreign  | 21               | 47                | (5)             |
| <b>Total Life and Retirement companies</b>                       | <b>\$ 953</b>    | <b>\$ 2,299</b>   | <b>\$ 2,195</b> |
| <b>At December 31,</b>   |                  |                   |                 |
| <b>Statutory capital and surplus<sup>(a)(b)(c)</sup>:</b>        |                  |                   |                 |
| <b>General Insurance companies:</b>                              |                  |                   |                 |
| Domestic <sup>(c)</sup>  | \$ 21,514        | \$ 21,665         |                 |
| Foreign  | 11,695           | 12,587            |                 |
| <b>Total General Insurance companies</b>                         | <b>\$ 33,209</b> | <b>\$ 34,252</b>  |                 |
| <b>Life and Retirement companies:</b>                            |                  |                   |                 |
| Domestic   | \$ 11,872        | \$ 12,314         |                 |
| Foreign  | 446              | 490               |                 |
| <b>Total Life and Retirement companies</b>                       | <b>\$ 12,318</b> | <b>\$ 12,804</b>  |                 |
| <b>Aggregate minimum required statutory capital and surplus:</b> |                  |                   |                 |
| <b>General Insurance companies:</b>                              |                  |                   |                 |
| Domestic   | \$ 5,307         | \$ 5,183          |                 |
| Foreign  | 6,166            | 7,257             |                 |
| <b>Total General Insurance companies</b>                         | <b>\$ 11,473</b> | <b>\$ 12,440</b>  |                 |
| <b>Life and Retirement companies:</b>                            |                  |                   |                 |
| Domestic   | \$ 3,148         | \$ 3,088          |                 |
| Foreign  | 121              | 234               |                 |
| <b>Total Life and Retirement companies</b>                       | <b>\$ 3,269</b>  | <b>\$ 3,322</b>   |                 |

(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) In aggregate, the 2016 General Insurance companies and Life and Retirement companies statutory net income increased by \$479 million and the 2016 General Insurance companies and Life and Retirement companies statutory capital and surplus decreased by \$305 million, compared to the amounts

previously reported in our Annual Report on Form 10-K for the year ended December 31, 2016, due to finalization of statutory filings.

(c) General Insurance companies recognized \$200 million of capital contributions from AIG Parent in their statutory financial statements as of December 31, 2016 related to the reserve strengthening in the fourth quarter. This capital contribution was received in February 2017.

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, 2017 and 2016, 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.



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At December 31, 2017 and 2016, our domestic insurance subsidiaries used the following permitted practices that resulted 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 state regulator been followed in all respects:

- 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. In 2017, the permitted practice was expanded to include additional derivative instruments utilized for the same purpose and to also include an additional domestic life insurance subsidiary domiciled in Texas. This permitted practice resulted in an increase in the statutory surplus of our subsidiaries of \$407 million and \$645 million at December 31, 2017 and 2016, respectively.
- In 2016, certain domestic property and casualty subsidiaries domiciled in New York, Pennsylvania and Delaware applied a permitted practice to present the inception date effects of the 2017 adverse loss development cover in their 2016 statutory-basis financial statements. This permitted practice resulted in an increase in the subsidiaries' aggregate surplus as of December 31, 2016 of \$1.1 billion.
- As described in Note 13, our domestic property and casualty insurance subsidiaries domiciled in New York, Pennsylvania and Delaware discount non-tabular workers' compensation reserves based on applicable prescribed or approved regulations, or in the case of our Delaware subsidiary, based on a permitted practice. This practice did not have a material impact on our statutory surplus, statutory net income (loss) or risk-based capital.

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 life insurance subsidiaries manage the capital impact of statutory reserve requirements under Regulation XXX and Guideline AXXX through unaffiliated and affiliated 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. One of these affiliated reinsurance arrangements, under which certain Regulation XXX and Guideline AXXX reserves related to new and in-force business were ceded to an affiliated U.S. life insurer, was recaptured effective December 31, 2016 and these reserves were ceded to an unaffiliated reinsurer.

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.

*For additional information regarding these letters of credit see Note 8.*

### **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, 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 \$44.8 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, 2017.

To our knowledge, no AIG insurance company is currently on any regulatory or similar "watch list" with regard to solvency.

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At December 31, 2017, our ability to pay dividends is not subject to any significant contractual restrictions, but remains subject to regulatory restrictions.

*For additional information about our ability to pay dividends to our shareholders see Note 17 herein.*

**20. Share-Based Compensation Plans**

**The following table presents our total share based compensation expense:**

**Years Ended December 31,**

*(in millions)*

|  | <b>2017</b>   | <b>2016</b>   | <b>2015</b>   |
|--|---------------|---------------|---------------|
| Share-based compensation expense - pre-tax*  | <b>\$ 353</b> | <b>\$ 237</b> | <b>\$ 365</b> |
| Share-based compensation expense - after tax | <b>229</b>    | <b>154</b>    | <b>237</b>    |

\* We recognized \$141 million, \$105 million and \$147 million for immediately vested stock-settled awards issued to retirement eligible employees in 2017, 2016 and 2015, respectively. We also recognized \$40 million of excess tax benefits due to share settlements occurring in 2017.

**Employee Plans**

The Company sponsors several Long Term Incentive (LTI) programs under the AIG 2013 Long Term Incentive Plan and its successor plan, the AIG Long Term Incentive Plan (each as applicable, the LTIP), which are governed by the AIG 2013 Omnibus Incentive Plan (Omnibus Plan). The Omnibus 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 Omnibus Plan is currently the only plan under which share-settled awards can be made. Our share-settled awards are settled with previously acquired shares held in AIG's treasury.

**AIG 2013 Omnibus Incentive Plan**

The Omnibus 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 Omnibus 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 Omnibus Plan became effective, plus 3) the number of shares of AIG Common Stock relating to outstanding awards under the 2010 Plan at the time the Omnibus Plan became effective that subsequently are forfeited, expired, terminated or otherwise lapse or are settled in cash. Each share-based unit granted under the Omnibus 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 awards) are returned to the reserve.

During 2017, performance share units (PSUs), restricted stock units (RSUs), stock options and deferred stock units (DSUs) (collectively, units) were granted under the Omnibus Plan and 42,780,716 shares are available for future grants as of December 31, 2017. Units are issued to employees as part of our long-term incentive program, generally in March of any given year, and are also issued for off-cycle grants, which are made from time to time during the year generally 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 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 Omnibus Plan in May 2013, no additional grants were made under the 2010 Plan.

### **AIG Long Term Incentive Plan**

#### ***LTI Awards***

The LTIP provides for an annual award to certain employees, including our senior executive officers and other highly compensated employees. In 2017, each award recipient was granted PSUs and/or RSUs, and in 2013 through 2016, each award recipient was granted PSUs.

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The number of PSUs issued on the grant date (the target) provides the opportunity for the LTIP participant 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 (CMRC) for each annual grant and may differ from year to year. The actual number of PSUs earned can vary from zero to 200 percent of the target for the 2017 awards, or zero to 150 percent of the target for the 2013 through 2016 awards, depending on AIG's performance relative to a specified peer group. RSUs are earned based on continued service by the participant. For the 2017 awards, vesting occurs on January 1 of the year immediately following the end of the three-year performance period. For awards granted prior to 2017, 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 eligibility or death during the vesting period.

LTI awards granted in 2015 and thereafter accrue dividend equivalent units (DEUs) in the form of additional PSUs and/or RSUs 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 unit.

***Unit Valuation***

The value of each award is based on the nature of the performance goals and the price per unit is fixed as of the grant date. PSUs granted in 2017 and 2016 are measured based on AIG's relative total shareholder return (TSR). PSUs granted in 2015 and 2014 are measured based on AIG's relative TSR and credit default swap (CDS) spread, weighted 75 percent and 25 percent, respectively. PSUs granted in 2013 are measured based on AIG's relative TSR and relative growth in tangible book value per common share (TBVPS) (excluding accumulated other comprehensive income) weighted 50 percent each.

The fair value of RSUs as well as PSUs earned based on AIG's CDS spreads and relative TBVPS 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 relative TSR was determined on the grant date using a Monte Carlo simulation.

**The following table presents the assumptions used to estimate the fair value of PSUs that vest based on AIG's TSR:**

|  | <b>2017</b>   | <b>2016</b> | <b>2015</b> |
|--|---------------|-------------|-------------|
| Expected dividend yield <sup>(a)</sup> | <b>2.37%</b>  | 2.17%       | 1.78%       |
| Expected volatility <sup>(b)</sup>     | <b>17.58%</b> | 24.55%      | 22.71%      |
| Risk-free interest rate <sup>(c)</sup> | <b>2.00%</b>  | 1.30%       | 1.01%       |

(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 historical volatility of the stock price for the 360 most recent trading days prior to the valuation date 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.

#### *Modification of LTI awards*

During the fourth quarter of 2017, the Company modified certain outstanding LTI awards by concurrently issuing service-based RSUs and canceling some previously granted PSUs. The change applied to most recipients who participate in the 2015, 2016 and 2017 LTI awards, excluding certain of the Company's most senior executives. In addition, the Company also issued supplemental RSU grants to certain active employees, which vest in installments over a period of up to three years. We incurred incremental compensation expense of \$142 million as a result of these actions. We recognized \$71 million in 2017 and the remainder will be recognized through December 2020.

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The following table summarizes outstanding share-settled LTI awards<sup>(a)</sup>:

| As of or for the Year                        | Number of Units  |                  |                  |                |                | Weighted-Average Grant-Date Fair Value |                |                |
|--|------------------|------------------|------------------|----------------|----------------|--|----------------|----------------|
|  | 2017 LTI         | 2016 LTI         | 2015 LTI         | 2014 LTI       | 2013 LTI       | 2017 LTI                               | 2016 LTI       | 2015 LTI       |
| <b>Ended December 31, 2017<sup>(b)</sup></b> |                  |                  |                  |                |                |  |                |                |
| <b>Unvested, beginning of year</b>           | -                | 2,588,598        | 2,176,555        | 1,732,616      | 1,581,904      | \$ -                                   | \$51.12        | \$55.00        |
| Granted                                      | 3,996,978        | 2,806            | -                | 122,378        | -              | 64.83                                  | 36.49          | 55.00          |
| Vested <sup>(c)</sup>                        | (971,945)        | (182,938)        | (201,256)        | (957,045)      | (968,930)      | 64.09                                  | 60.29          | 55.00          |
| Forfeited                                    | (84,987)         | (138,263)        | (121,456)        | (74,638)       | (36,764)       | 65.24                                  | 51.10          | 55.00          |
| <b>Unvested, at modification date</b>        | <b>2,940,046</b> | <b>2,270,203</b> | <b>1,853,843</b> | <b>823,311</b> | <b>576,210</b> | <b>\$65.07</b>                         | <b>\$50.37</b> | <b>\$55.00</b> |
| Cancelled at modification date               | (1,082,417)      | (2,951,417)      | (2,229,873)      | -              | -              | 67.47                                  | 52.00          | 55.00          |
| Granted at modification date                 | 1,082,417        | 2,646,866        | 2,094,629        | -              | -              | 62.13                                  | 62.13          | 62.13          |
| <b>Sub-total, net impact of modification</b> | <b>-</b>         | <b>(304,551)</b> | <b>(135,244)</b> | <b>-</b>       | <b>-</b>       | <b>-</b>                               | <b>55.01</b>   | <b>55.00</b>   |
| Vested - post-modification <sup>(c)</sup>    | (766,931)        | (495,222)        | (424,788)        | -              | -              | 64.01                                  | 62.13          | 62.13          |
| Forfeited - post-modification                | -                | (2,685)          | (2,023)          | -              | -              | -                                      | 62.13          | 62.13          |
| <b>Unvested, end of year<sup>(d)</sup></b>   | <b>2,173,115</b> | <b>1,467,745</b> | <b>1,291,788</b> | <b>823,311</b> | <b>576,210</b> | <b>\$62.78</b>                         | <b>\$60.90</b> | <b>\$60.90</b> |

(a) Excludes stock options and DSUs, which are discussed under Stock Options and Non-Employee Plan, respectively.

(b) Except for the 2013 and 2014 LTI award, PSUs represent target amount granted, and does not reflect potential increases or decreases that could result from the final outcome of the performance goals for the respective awards, which is determined in the quarter after the applicable performance period ends.

(c) Also reflects units that vest as a result of an accelerated vesting event that occurred prior to the specified vesting date.

(d) At December 31, 2017, the total unrecognized compensation cost for outstanding LTI awards was \$237 million and the weighted-average and expected period of years over which that cost is expected to be recognized are 1.02 years and 3 years.

### ***Stock Option Awards***

The Company issued 2.5 million stock options to two senior executives who joined the Company in 2017. The options vest in installments based on a combination of service requirements of up to three years and/or AIG stock price achieving specified hurdles, and will expire in 2024. The fair value of the options were estimated on the grant date using the Black Scholes model for the time-vesting options, and a Monte Carlo simulation for the hurdle-vesting options using the assumptions noted in the following table.

The following weighted-average assumptions were used for stock options granted:

|   |                             |
|---|-----------------------------|
| Expected annual dividend yield <sup>(a)</sup> | <b>2017</b><br><b>2.03%</b> |
|---|-----------------------------|

|  |          |
|--|----------|
| Expected volatility <sup>(b)</sup>     | 20.96%   |
| Risk-free interest rate <sup>(c)</sup> | 1.94%    |
| Expected term <sup>(d)</sup>           | 4.5years |

(a) The dividend yield is based on the current quarterly dividend payment of \$0.32 and the Valuation Date stock price.

(b) The expected volatility is the 1080-day implied volatility as seen in the open marketplace on the Valuation Date.

(c) The risk-free interest rate range is 1.76 percent to 2.14 percent.

(d) The contractual term of the option is 7 years from the grant date.

The following table provides a rollforward of stock option activity:

| As of or for the Year<br>Ended December 31, 2017 | Units     | Weighted<br>Average<br>Exercise Price | Weighted Average<br>Remaining<br>Contractual Life | Aggregate<br>Intrinsic Values<br>(in millions) |   |
|--|-----------|---------------------------------------|---|--|---|
| Outstanding, beginning of year                   | -         | \$ -                                  |   |  |   |
| Granted  | 2,500,000 | 62.90                                 |   |  |   |
| Exercised  | -         | -                                     |   |  |   |
| Forfeited or expired                             | -         | -                                     |   |  |   |
| Outstanding, end of year                         | 2,500,000 | \$ 62.90                              | 6.48  | \$   | - |
| Exercisable, end of year                         | -         | \$ -                                  | -   | \$   | - |



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The weighted average grant-date fair value of stock options granted during 2017 was \$10.54. As of December 31, 2017, we recognized \$7.3 million of expense, while \$19 million was unrecognized and is expected to be amortized up to 2.75 years.

**Non-Employee Plan**

Our non-employee directors, who serve on our Board of Directors, receive share-based compensation in the form of fully vested DSUs with delivery deferred until retirement from the Board. DSUs granted in 2017, 2016 and 2015 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 2017, 2016 and 2015, we granted to non-employee directors 32,067, 41,974 and 32,342 DSUs, respectively, under the 2013 Plan, and recognized expense of \$2.0 million, \$2.4 million and \$1.9 million, respectively.

**21. 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 on or before December 1, 2014 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. 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. Employees satisfying certain age and service requirements (i.e., grandfathered employees) remain covered under the average pay formula that was in effect prior to the conversion to the cash balance formula. The final average pay formula 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 benefit under the cash balance formula or the final average pay formula at retirement. Non-U.S. defined benefit plans generally are 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.

In the U.S. we also sponsor non-qualified unfunded defined benefit plans, such as the AIG Non-Qualified Retirement Income Plan (AIG NQRIP) for certain employees, including key executives, designed to supplement pension benefits provided by the qualified plan. The AIG NQRIP 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.

**Plan Freeze**

Effective January 1, 2016, the U.S. defined benefit pension plans were frozen. Consequently, these plans are closed to new participants and current participants no longer earn benefits. 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 generally is 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 generally are 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.

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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<br>December 31,<br>(in millions)                | Pension         |                   |                 |                 | Postretirement  |                 |                |                |
|--|-----------------|-------------------|-----------------|-----------------|-----------------|-----------------|----------------|----------------|
|  | U.S. Plans*     |                   | Non-U.S. Plans* |                 | U.S. Plans      |                 | Non-U.S. Plans |                |
|  | 2017            | 2016              | 2017            | 2016            | 2017            | 2016            | 2017           | 2016           |
| <b>Change in projected benefit obligation:</b>                               |                 |                   |                 |                 |                 |                 |                |                |
| Benefit obligation, beginning of year  | \$ 4,948        | \$ 5,324          | \$ 1,246        | \$ 1,146        | \$ 196          | \$ 208          | \$ 80          | \$ 75          |
| Service cost   | 11              | 19                | 29              | 31              | 2               | 2               | 3              | 3              |
| Interest cost  | 166             | 181               | 16              | 21              | 6               | 7               | 3              | 3              |
| Actuarial (gain) loss  | 372             | 118               | (29)            | 98              | -               | (2)             | (2)            | -              |
| <b>Benefits paid:</b>  |                 |                   |                 |                 |                 |                 |                |                |
| AIG assets   | (19)            | (24)              | (10)            | (12)            | (13)            | (14)            | (1)            | (1)            |
| Plan assets  | (161)           | (332)             | (26)            | (35)            | -               | -               | -              | -              |
| Plan amendment   | -               | -                 | -               | 1               | -               | -               | (6)            | -              |
| Curtailments   | -               | -                 | (7)             | (2)             | -               | (1)             | -              | -              |
| Settlements  | (226)           | (338)             | (12)            | (16)            | -               | -               | -              | -              |
| Foreign exchange effect  | -               | -                 | 37              | 19              | -               | -               | 1              | -              |
| Other  | -               | -                 | (42)            | (5)             | (1)             | (4)             | (15)           | -              |
| <b>Projected benefit obligation, end of year</b>                             | <b>\$ 5,091</b> | <b>\$ 4,948</b>   | <b>\$ 1,202</b> | <b>\$ 1,246</b> | <b>\$ 190</b>   | <b>\$ 196</b>   | <b>\$ 63</b>   | <b>\$ 80</b>   |
| <b>Change in plan assets:</b>  |                 |                   |                 |                 |                 |                 |                |                |
| Fair value of plan assets, beginning of year                                 | \$ 3,843        | \$ 4,359          | \$ 803          | \$ 773          | \$ -            | \$ -            | \$ -           | \$ -           |
| Actual return on plan assets, net of expenses                                | 584             | 154               | 67              | 19              | -               | -               | -              | -              |
| AIG contributions  | 329             | 24                | 60              | 71              | 13              | 14              | 1              | 1              |
| <b>Benefits paid:</b>  |                 |                   |                 |                 |                 |                 |                |                |
| AIG assets   | (19)            | (24)              | (10)            | (12)            | (13)            | (14)            | (1)            | (1)            |
| Plan assets  | (161)           | (332)             | (26)            | (35)            | -               | -               | -              | -              |
| Settlements  | (226)           | (338)             | (12)            | (16)            | -               | -               | -              | -              |
| Foreign exchange effect  | -               | -                 | 19              | 6               | -               | -               | -              | -              |
| Dispositions   | -               | -                 | -               | (4)             | -               | -               | -              | -              |
| Other  | -               | -                 | (26)            | 1               | -               | -               | -              | -              |
| <b>Fair value of plan assets, end of year</b>                                | <b>\$ 4,350</b> | <b>\$ 3,843</b>   | <b>\$ 875</b>   | <b>\$ 803</b>   | <b>\$ -</b>     | <b>\$ -</b>     | <b>\$ -</b>    | <b>\$ -</b>    |
| <b>Funded status, end of year</b>  | <b>\$ (741)</b> | <b>\$ (1,105)</b> | <b>\$ (327)</b> | <b>\$ (443)</b> | <b>\$ (190)</b> | <b>\$ (196)</b> | <b>\$ (63)</b> | <b>\$ (80)</b> |
| <b>Amounts recognized in the balance sheet:</b>                              |                 |                   |                 |                 |                 |                 |                |                |
| Assets   | \$ -            | \$ -              | \$ 68           | \$ 53           | \$ -            | \$ -            | \$ -           | \$ -           |
| Liabilities  | (741)           | (1,105)           | (395)           | (496)           | (190)           | (196)           | (63)           | (80)           |
| <b>Total amounts recognized</b>  | <b>\$ (741)</b> | <b>\$ (1,105)</b> | <b>\$ (327)</b> | <b>\$ (443)</b> | <b>\$ (190)</b> | <b>\$ (196)</b> | <b>\$ (63)</b> | <b>\$ (80)</b> |
| <b>Pre-tax amounts recognized in Accumulated other comprehensive income:</b> |                 |                   |                 |                 |                 |                 |                |                |

|                                 |                   |            |                 |          |              |       |                |         |
|---------------------------------|-------------------|------------|-----------------|----------|--------------|-------|----------------|---------|
| Net gain (loss)                 | <b>\$ (1,373)</b> | \$ (1,405) | <b>\$ (170)</b> | \$ (251) | <b>\$ 17</b> | \$ 17 | <b>\$ (11)</b> | \$ (15) |
| Prior service (cost) credit     | -                 | -          | <b>(22)</b>     | (28)     | <b>1</b>     | 2     | <b>5</b>       | -       |
| <b>Total amounts recognized</b> | <b>\$ (1,373)</b> | \$ (1,405) | <b>\$ (192)</b> | \$ (279) | <b>\$ 18</b> | \$ 19 | <b>\$ (6)</b>  | \$ (15) |

\* Includes non-qualified unfunded plans of which the aggregate projected benefit obligation was \$272 million and \$278 million for the U.S. at December 31, 2017 and 2016, respectively, and \$211 million and \$199 million for the non-U.S at December 31, 2017 and 2016, respectively.

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The following table presents the accumulated benefit obligations for U.S. and non-U.S. pension benefit plans:

At December 31,

(in millions)

|                                | 2017     | 2016     |
|--------------------------------|----------|----------|
| U.S. pension benefit plans     | \$ 5,091 | \$ 4,948 |
| Non-U.S. pension benefit plans | \$ 1,188 | \$ 1,215 |

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:

At December 31,

(in millions)

|                                | PBO Exceeds Fair Value of Plan Assets |          | ABO Exceeds Fair Value of Plan Assets |          |
|--------------------------------|---------------------------------------|----------|---------------------------------------|----------|
|                                | U.S. Plans                            |          | Non-U.S. Plans                        |          |
|                                | 2017                                  | 2016     | 2017                                  | 2016     |
| Projected benefit obligation   | \$ 5,091                              | \$ 4,948 | \$ 1,054                              | \$ 1,121 |
| Accumulated benefit obligation | 5,091                                 | 4,948    | 979                                   | 1,016    |
| Fair value of plan assets      | 4,350                                 | 3,843    | 596                                   | 545      |

The following table presents the components of net periodic benefit cost with respect to pensions and other postretirement benefits:

Years Ended December 31,

(in millions)

|   | Pension    |          |        | Postretirement |          |         |
|---|------------|----------|--------|----------------|----------|---------|
|   | U.S. Plans |          |        | Non-U.S. Plans |          |         |
|   | 2017       | 2016     | 2015   | 2017           | 2016     | 2015    |
| Service cost*   | \$ 11      | \$ 19    | \$ 192 | \$ 29          | \$ 31    | \$ 43   |
| Interest cost   | 166        | 181      | 220    | 16             | 21       | 25      |
| Expected return on assets   | (266)      | (292)    | (295)  | (24)           | (26)     | (25)    |
| Amortization of prior service credit  | -          | -        | (22)   | -              | -        | (2)     |
| Amortization of net (gain) loss   | 26         | 25       | 92     | 12             | 7        | 9       |
| Net periodic benefit cost (credit)  | (63)       | (67)     | 187    | 33             | 33       | 50      |
| Curtailment gain  | -          | -        | (179)  | (6)            | (6)      | (1)     |
| Settlement loss   | 60         | 149      | -      | 1              | 2        | 1       |
| Net benefit cost (credit)   | \$ (3)     | \$ 82    | \$ 8   | \$ 28          | \$ 29    | \$ 50   |
| Total recognized in Accumulated other comprehensive income (loss)                   | \$ 32      | \$ (82)  | \$ 143 | \$ 87          | \$ (101) | \$ 38   |
| Total recognized in net periodic benefit cost and other comprehensive income (loss) | \$ 35      | \$ (164) | \$ 135 | \$ 59          | \$ (130) | \$ (12) |

\* Reflects administrative fees for the U.S. pension plans.



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The estimated net loss and prior service cost that will be amortized from Accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$35 million and \$2 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 \$3 million credit in the aggregate.

As of 2016, interest cost for pension and postretirement benefits for our U.S. plans and largest non-U.S. plans is measured by applying the specific spot rates along the yield curve to the plans' corresponding discounted cash flows that comprise the obligation (the Spot Rate Approach). This method provides a more precise measurement of interest cost by aligning the timing of the plans' discounted cash flows to the corresponding spot rates on the yield curve. Previously, interest cost was measured utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligations.

A 100 basis point increase in the discount rate or expected long-term rate of return would decrease the 2018 pension expense by approximately \$4 million and \$51 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 2018 pension expense by approximately \$23 million and \$51 million, respectively, with all other items remaining the same.

**Assumptions**

**The following table summarizes the weighted average assumptions used to determine the benefit obligations:**

|                               | Pension      |                               | Postretirement |                               |
|-------------------------------|--------------|-------------------------------|----------------|-------------------------------|
|                               | U.S. Plans   | Non-U.S. Plans <sup>(a)</sup> | U.S. Plans     | Non-U.S. Plans <sup>(a)</sup> |
| <b>December 31, 2017</b>      |              |                               |                |                               |
| Discount rate                 | <b>3.61%</b> | <b>1.60%</b>                  | <b>3.53%</b>   | <b>3.59%</b>                  |
| Rate of compensation increase | <b>N/A</b>   | <b>2.27%</b>                  | <b>N/A</b>     | <b>3.00%</b>                  |
| <b>December 31, 2016</b>      |              |                               |                |                               |
| Discount rate                 | 4.14%        | 1.50%                         | 4.02%          | 3.95%                         |
| Rate of compensation increase | N/A          | 2.50%                         | N/A            | 3.38%                         |

(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 January 1, 2016.

**The following table summarizes assumed health care cost trend rates for the U.S. plans:**

| <b>At December 31,<br/>Following year:</b> | <b>2017</b>  | <b>2016</b> |
|--|--------------|-------------|
| Medical (before age 65)                    | <b>6.12%</b> | 6.31%       |

|   |              |       |
|---|--------------|-------|
| Medical (age 65 and older)  | <b>5.00%</b> | 5.00% |
| <b>Ultimate rate to which cost increase is assumed to decline</b> | <b>4.50%</b> | 4.50% |
| <b>Year in which the ultimate trend rate is reached:</b>          |              |       |
| Medical (before age 65)   | <b>2038</b>  | 2038  |
| Medical (age 65 and older)  | <b>2038</b>  | 2038  |

**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><br><i>(in millions)</i> | <b>One Percent Increase</b> |             | <b>One Percent Decrease</b> |             |
|--|-----------------------------|-------------|-----------------------------|-------------|
|  | <b>2017</b>                 | <b>2016</b> | <b>2017</b>                 | <b>2016</b> |
| U.S. plans                                     | \$ 4                        | \$ 4        | \$ (4)                      | \$ (3)      |
| Non-U.S. plans                                 | \$ 14                       | \$ 19       | \$ (10)                     | \$ (14)     |

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:

|   | Pension    |                 | Postretirement |                 |
|---|------------|-----------------|----------------|-----------------|
|   | U.S. Plans | Non-U.S. Plans* | U.S. Plans     | Non-U.S. Plans* |
| <b>For the Year Ended December 31, 2017</b> |            |                 |                |                 |
| Discount rate                               | 4.15%      | 1.50%           | 4.01%          | 3.95%           |
| Rate of compensation increase               | N/A        | 2.50%           | N/A            | 3.38%           |
| Expected return on assets                   | 7.00%      | 2.92%           | N/A            | N/A             |
| <b>For the Year Ended December 31, 2016</b> |            |                 |                |                 |
| Discount rate                               | 4.33%      | 2.17%           | 4.21%          | 4.09%           |
| Rate of compensation increase               | N/A        | 2.64%           | N/A            | 3.43%           |
| Expected return on assets                   | 7.00%      | 3.28%           | N/A            | N/A             |
| <b>For the Year Ended December 31, 2015</b> |            |                 |                |                 |
| 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             |

\* 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 U.S. Pension Discount Yield Curve at December 31, 2017 and 2016, which resulted in a single discount rate that would produce the same liability at the respective measurement dates. The discount rates were 3.61 percent at December 31, 2017 and 4.15 percent at December 31, 2016. The methodology was consistently applied for the respective years in determining the discount rates for the other U.S. pension plans.

In general, the discount rates for the non-U.S. plans were developed using a similar methodology to the U.S. AIG Retirement plan, by using country-specific Mercer Yield Curves.

The projected benefit obligation for AIG's Japan pension plans represents approximately 50 percent and 54 percent of the total projected benefit obligations for our non-U.S. pension plans at December 31, 2017 and 2016, respectively. The weighted average discount rate of 0.66 percent and 0.47 percent at December 31, 2017 and 2016, respectively, was selected by reference to the Mercer Yield Curve for Japan.

**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, liquidity, diversification and concentration, and incorporates the risk/return 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, 2017 or 2016.

### **U.S. Pension Plan**

The assets of the qualified plan are monitored by the AIG U.S. Investment Committee and actively managed by the investment managers, which 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 focus is on de-risking the Plan via regular monitoring. This was 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.

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The following table presents the asset allocation percentage by major asset class for the U.S. qualified plan and the target allocation for 2017 based on the plan's funded status at December 31, 2017:

| At December 31,<br>Asset class: | Target<br>2018 | Actual<br>2017 | Actual<br>2016 |
|---------------------------------|----------------|----------------|----------------|
| Equity securities               | 46%            | 45%            | 43%            |
| Fixed maturity securities       | 44%            | 36%            | 36%            |
| Other investments               | 10%            | 19%            | 21%            |
| <b>Total</b>                    | 100%           | 100%           | 100%           |

The expected long-term rate of return for the plan was 7.0 percent for both 2017 and 2016. 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:

| At December 31,<br>Asset class: | Target<br>2018 | Actual<br>2017 | Actual<br>2016 |
|---------------------------------|----------------|----------------|----------------|
| Equity securities               | 30%            | 49%            | 44%            |
| Fixed maturity securities       | 52%            | 32%            | 36%            |
| Other investments               | 17%            | 13%            | 14%            |
| Cash and cash equivalents       | 1%             | 6%             | 6%             |
| <b>Total</b>                    | 100%           | 100%           | 100%           |

The assets of AIG's Japan pension plans represent approximately 56 percent of total non-U.S. assets at December 31 for both 2017 and 2016. The expected long term rate of return was 2.43 percent and 2.61 percent, for 2017 and 2016, 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.

The expected weighted average long-term rate of return for all our non-U.S. pension plans was 2.92 percent and 3.28 percent for the years ended December 31, 2017 and 2016, 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.

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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 5 herein.

|   | U.S. Plans |          |         |          | Non-U.S. Plans |         |         |        |
|---|------------|----------|---------|----------|----------------|---------|---------|--------|
|   | Level 1    | Level 2  | Level 3 | Total    | Level 1        | Level 2 | Level 3 | Total  |
| (in millions)                                 |            |          |         |          |                |         |         |        |
| At December 31, 2017                          |            |          |         |          |                |         |         |        |
| Assets:                                       |            |          |         |          |                |         |         |        |
| Cash and cash equivalents                     | \$ 397     | \$ -     | \$ -    | \$ 397   | \$ 51          | \$ -    | \$ -    | \$ 51  |
| Equity securities:                            |            |          |         |          |                |         |         |        |
| U.S.(a)                                       | 1,300      | -        | -       | 1,300    | -              | -       | -       | -      |
| International(b)                              | 265        | -        | -       | 265      | 362            | 64      | -       | 426    |
| Fixed maturity securities:                    |            |          |         |          |                |         |         |        |
| U.S. investment grade(c)                      | -          | 1,006    | 12      | 1,018    | -              | -       | -       | -      |
| International investment grade(c)             | -          | 204      | -       | 204      | -              | 97      | -       | 97     |
| U.S. and international high yield(d)          | -          | 212      | -       | 212      | -              | 171     | -       | 171    |
| Mortgage and other asset-backed securities(e) | -          | 142      | -       | 142      | -              | -       | -       | -      |
| Other fixed maturity securities               | -          | -        | -       | -        | -              | 16      | -       | 16     |
| Other investment types(g):                    |            |          |         |          |                |         |         |        |
| Direct private equity(f)                      | -          | -        | 15      | 15       | -              | -       | -       | -      |
| Insurance contracts                           | -          | 20       | -       | 20       | -              | -       | 113     | 113    |
| Total   | \$ 1,962   | \$ 1,584 | \$ 27   | \$ 3,573 | \$ 413         | \$ 348  | \$ 113  | \$ 874 |
| At December 31, 2016                          |            |          |         |          |                |         |         |        |
| Assets:                                       |            |          |         |          |                |         |         |        |
| Cash and cash equivalents                     | \$ 228     | \$ -     | \$ -    | \$ 228   | \$ 50          | \$ -    | \$ -    | \$ 50  |
| Equity securities:                            |            |          |         |          |                |         |         |        |
| U.S.(a)                                       | 838        | 1        | -       | 839      | -              | -       | -       | -      |
| International(b)                              | 377        | -        | -       | 377      | 298            | 58      | -       | 356    |
| Fixed maturity securities:                    |            |          |         |          |                |         |         |        |
| U.S. investment grade(c)                      | -          | 1,174    | 2       | 1,176    | -              | -       | -       | -      |
| International investment grade(c)             | -          | -        | -       | -        | -              | 90      | -       | 90     |
| U.S. and international high yield(d)          | -          | 218      | -       | 218      | -              | 186     | -       | 186    |
| Mortgage and other asset-backed securities(e) | -          | -        | -       | -        | -              | -       | -       | -      |
| Other fixed maturity securities               | -          | -        | -       | -        | -              | 13      | -       | 13     |
| Other investment types(g):                    |            |          |         |          |                |         |         |        |
| Direct private equity(f)                      | -          | -        | 24      | 24       | -              | -       | -       | -      |
| Insurance contracts                           | -          | 21       | -       | 21       | -              | -       | 108     | 108    |

**Total** \$ 1,443 \$ 1,414 \$ 26 \$ 2,883 \$ 348 \$ 347 \$ 108 \$ 803

(a) Includes passive and active U.S. Large Cap and Small Cap strategies, as well as mutual funds, and exchange traded funds.

(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. asset backed securities and collateralized loan obligations.

(f) Comprised of private capital financing including private debt and private equity securities.

(g) Excludes investments that are measured at fair value using the NAV per share (or its equivalent), which totaled \$777 million and \$960 million at December 31, 2017 and 2016, respectively.

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, 2017.

The U.S. pension plan holds a group annuity contract with U.S. Life, one of our subsidiaries, which totaled \$20 million and \$21 million at December 31, 2017 and 2016, respectively.

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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, 2017</b><br><i>(in millions)</i> | Balance<br>Beginning<br>of year | Net<br>Realized and<br>Unrealized<br>Gains (Losses) | Purchases | Sales  | Issuances | Settlements | Transfers |
|---|---------------------------------|---|-----------|--------|-----------|-------------|-----------|
| <b>U.S. Plan Assets:</b>                            |                                 |   |           |        |           |             |           |
| Fixed maturity securities                           |                                 |   |           |        |           |             |           |
| U.S. investment grade                               | \$ 2\$                          | -\$   | 17\$      | (7)\$  | -\$       | -\$         | -\$       |
| Direct private equity                               | 24                              | (3)   | 1         | (7)    | -         | -           | -         |
| <b>Total</b>  | \$ 26\$                         | (3)\$   | 18\$      | (14)\$ | -\$       | -\$         | -\$       |
| <b>Non-U.S. Plan Assets:</b>                        |                                 |   |           |        |           |             |           |
| Other fixed maturity securities                     | \$ -\$                          | -\$   | -\$       | -\$    | -\$       | -\$         | -\$       |
| Insurance contracts                                 | 108                             | 4   | 1         | -      | -         | -           | -         |
| <b>Total</b>  | \$ 108\$                        | 4\$   | 1\$       | -\$    | -\$       | -\$         | -\$       |

| <b>At December 31, 2016</b><br><i>(in millions)</i> | Balance<br>Beginning<br>of year | Net<br>Realized and<br>Unrealized<br>Gains (Losses) | Purchases | Sales  | Issuances | Settlements | Transfers |
|---|---------------------------------|---|-----------|--------|-----------|-------------|-----------|
| <b>U.S. Plan Assets:</b>                            |                                 |   |           |        |           |             |           |
| Fixed maturity securities                           |                                 |   |           |        |           |             |           |
| U.S. investment grade                               | \$ 9\$                          | 1\$   | 2\$       | (10)\$ | -\$       | -\$         | -\$       |
| Direct private equity                               | 28                              | (4)   | 4         | (4)    | -         | -           | -         |
| <b>Total</b>  | \$ 37\$                         | (3)\$   | 6\$       | (14)\$ | -\$       | -\$         | -\$       |
| <b>Non-U.S. Plan Assets:</b>                        |                                 |   |           |        |           |             |           |
| Other fixed maturity securities                     | \$ -\$                          | -\$   | -\$       | -\$    | -\$       | -\$         | -\$       |
| Insurance contracts                                 | 95                              | 12  | 1         | -      | -         | -           | -         |
| <b>Total</b>  | \$ 95\$                         | 12\$  | 1\$       | -\$    | -\$       | -\$         | -\$       |

**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 material transfers between Level 1 and Level 2 during the years ended December 31, 2017 and 2016.

**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, 2017, we had no transfers in or out of Level 3.

### Expected Cash Flows

Funding for the qualified 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 2018 for the AIG Retirement Plan. The non-qualified and postretirement plans' benefit payments are deductible when paid to participants.

Our annual pension contribution in 2018 is expected to be approximately \$64 million for our U.S. and non-U.S. pension plans. This estimate is subject to change, since contribution decisions are affected by various factors including our liquidity, market performance and management's discretion.



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**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:**

| <i>(in millions)</i> | Pension       |                   | Postretirement |                   |
|----------------------|---------------|-------------------|----------------|-------------------|
|                      | U.S.<br>Plans | Non-U.S.<br>Plans | U.S.<br>Plans  | Non-U.S.<br>Plans |
| 2018                 | \$ 291        | \$ 36             | \$ 13          | \$ 1              |
| 2019                 | 287           | 40                | 13             | 1                 |
| 2020                 | 297           | 42                | 13             | 1                 |
| 2021                 | 294           | 43                | 13             | 2                 |
| 2022                 | 291           | 41                | 13             | 2                 |
| 2023-2027            | 1,407         | 235               | 60             | 11                |

**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 matching contribution is 100 percent of the first six percent of a participant's contributions, subject to the IRS-imposed limitations. Effective January 1, 2016, participants in the AIG Incentive Savings Plan receive an additional fully vested, non-elective, non-discretionary contribution equal to three 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. Our pre-tax expenses associated with these plans were \$209 million, \$236 million and \$166 million in 2017, 2016 and 2015, respectively.

**22. Ownership**

A Schedule 13G/A filed on February 14, 2018 reports aggregate ownership of 57,556,990 shares, or approximately 6.4 percent (based on the AIG Common Stock outstanding) of AIG Common Stock as of December 31, 2017, by Capital Research Global Investors, a division of Capital Research and Management Company.

A Schedule 13G/A filed on February 12, 2018 reports aggregate ownership of 61,323,039 shares, or approximately 6.8 percent (based on the AIG Common Stock outstanding) of AIG Common Stock as of December 31, 2017, by The Vanguard Group, Inc. and various subsidiaries thereof.

A Schedule 13G/A filed on February 8, 2018 reports aggregate ownership of 64,406,363 shares, or approximately 7.2 percent (based on the AIG Common Stock outstanding) of AIG Common Stock as of December 31, 2017, by Blackrock, 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.

## 23. Income Taxes

### U.S. Tax Reform Overview

On December 22, 2017, the U.S. enacted Public Law 115-97, known informally as the Tax Cuts and Jobs Act (the Tax Act). The Tax Act reduces the statutory rate of U.S. federal corporate income tax to 21 percent and enacts numerous other changes impacting AIG and the insurance industry.

Changes specific to the insurance industry include the calculation of insurance tax reserves and related transition adjustments, amortization of specified policy acquisition expenses, treatment of separate account dividends received deductions, and computation of pro-rata adjustments. Provisions of the Tax Act with broader application include reductions or elimination of deductions for certain items, e.g., reductions to corporate dividends received deductions, disallowance of entertainment expenses, and limitations on the deduction of certain executive compensation costs. These provisions, generally, will result in an increase in AIG's taxable income in the years beginning after December 31, 2017.

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ITEM 8 | **Notes to Consolidated Financial Statements** | **23. Income Taxes**

The SEC staff issued Staff Accounting Bulletin 118 (SAB 118), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 addresses situations where accounting for certain income tax effects of the Tax Act under ASC 740 may be incomplete upon issuance of an entity's financial statements and provides a one-year measurement period from the enactment date to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the following:

- Income tax effects of those aspects of the Tax Act for which accounting under ASC 740 is complete
- Provisional estimate of income tax effects of the Tax Act to the extent accounting is incomplete but a reasonable estimate is determinable
- If a provisional estimate cannot be determined, ASC 740 should still be applied on the basis of tax law provisions that were in effect immediately before the enactment of the Tax Act.

Consistent with current income tax accounting requirements, we have remeasured our deferred tax assets and liabilities with reference to the statutory income tax rate of 21 percent and taking into consideration other provisions of the Tax Act. As of December 31, 2017, we had not fully completed our accounting for the tax effects of the Tax Act. Our provision for income taxes for the period ended December 31, 2017, is based in part on a reasonable estimate of the effects on existing deferred tax balances and of certain provisions of the Tax Act. To the extent a reasonable estimate of the impact of certain provisions was determinable, we recorded provisional estimates as a component of our provision for income taxes on continuing operations. To the extent a reasonable estimate of the impact of certain provisions was not determinable, we have not recorded any adjustments and have continued accounting for them in accordance with ASC 740 on the basis of the tax laws in effect before enactment of the Tax Act.

The Tax Act includes provisions for Global Intangible Low-Taxed Income (GILTI) under which taxes on foreign income are imposed on the excess of a deemed return on tangible assets of certain foreign subsidiaries and for Base Erosion and Anti-Abuse Tax (BEAT) under which taxes are imposed on certain base eroding payment to affiliated foreign companies. Consistent with accounting guidance, we will treat BEAT as an in period tax charge when incurred in future periods for which no deferred taxes need to be provided and have made an accounting policy election to treat GILTI taxes in a similar manner. Accordingly, no provision for income taxes related to GILTI or BEAT was recorded as of December 31, 2017.

For the period ended December 31, 2017, we recognized a provisional estimate of income tax effects of the Tax Act of \$6.7 billion, including a tax charge of \$6.7 billion attributable to the reduction in the U.S. corporate income tax rate and tax benefit of \$38 million related to the deemed repatriation tax.

**Tax effects for which a reasonable estimate can be determined****Deemed Repatriation Tax**

The Tax Act requires companies to pay a one-time transition tax, net of tax credits related to applicable foreign taxes paid, on previously untaxed current and accumulated earnings and profits (E&P) of certain of our foreign subsidiaries. In the determination of the deemed repatriation tax, we reviewed estimated post-1986 E&P of certain material relevant foreign subsidiaries, and any related non-U.S. income tax paid on such earnings. Based on this analysis, we were able to determine a reasonable estimate and we have recorded a provisional estimate tax benefit of \$38 million. While the IRS has issued some guidance on the calculation of the deemed repatriation tax, there are still certain aspects of the calculation that require further clarification. We are continuing to gather additional information to more precisely compute the amount of deemed repatriation tax.

ITEM 8 | **Notes to Consolidated Financial Statements** | **23. Income Taxes****Other Provisions**

The Tax Act modified computations of insurance reserves for both life and general insurance companies. For life insurance companies, tax reserves are now computed with reference to NAIC reserves. For general insurance companies, the Tax Act extends the discount period for certain long-tail lines of business from 10 years to 24 years and increases the discount rate, replacing the applicable federal rate for a higher-yield corporate bond rate, and eliminates the election allowing companies to use their historical loss payment patterns for loss reserve discounting. Adjustments related to the differences in insurance reserves balances computed under the old tax law versus the Tax Act have to be taken into income over eight years by both life and general insurance companies. Accordingly, at December 31, 2017, these changes give rise to new deferred tax liabilities. We have recorded a provisional estimate of \$1.9 billion with respect to such deferred tax liabilities. This increase in deferred tax liabilities is offset by an increase in the deferred tax asset related to insurance reserves as a result of applying the new provisions of the Tax Act.

**Provisions Impacting Projections of Taxable Income and Valuation Allowance Considerations**

Certain provisions of the Tax Act impact our projections of future taxable income used in analyzing realizability of our U.S. tax attribute deferred tax asset. As discussed above, there are specific insurance industry provisions, including changes in computations of insurance reserves, amortization of specified policy acquisition expenses, and treatment of separate account dividends received deduction. Provisional estimates have been included in our future taxable income projections for these insurance industry specific provisions to reflect application of the new tax law.

Because we have made provisional estimates related to the impact of certain aspects of the Tax Act on our future taxable income, corresponding determination of the need for a valuation allowance is also provisional. Generally, the Tax Act provisions result in an increase in our taxable income and, thus, accelerate utilization of our tax attribute deferred tax asset. Accordingly, we do not currently anticipate that our reliance on provisional estimates would have a material impact on our determination of the realizability of our deferred tax assets.

**Tax effects for which no estimate can be determined**

Our accounting for the following elements of the Tax Act is incomplete and we continued accounting for them in accordance with ASC 740 on the basis of the tax laws in effect before enactment of the Tax Act.

The Tax Act may affect the results in certain investments and partnerships in which we are a non-controlling interest owner. The information needed to determine a provisional estimate is not currently available (such as for interest deduction limitations in those entities and the changed definition of a U.S. Shareholder). Accordingly, no provisional estimates were recorded.

Due to minimal formal guidance issued from state and local jurisdictions, provisional estimates have not been recorded for the impact of any state and local corporate income tax implications of the Tax Act.

Guidance from state and local jurisdictions is expected during 2018 and the impact, if any, will be recorded at the appropriate time.

## EFFECTIVE TAX RATE

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)*

|              | <b>2017</b>     | <b>2016</b> | <b>2015</b> |
|--------------|-----------------|-------------|-------------|
| U.S.         | \$ <b>1,940</b> | \$ 1,041    | \$ 1,950    |
| Foreign      | <b>(474)</b>    | (1,115)     | 1,331       |
| <b>Total</b> | <b>\$ 1,466</b> | \$ (74)     | \$ 3,281    |

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The following table presents the income tax expense (benefit) attributable to pre-tax income (loss) from continuing operations:

| <b>Years Ended December 31,</b><br><i>(in millions)</i>          | <b>2017</b>     | <b>2016</b>   | <b>2015</b>     |
|--|-----------------|---------------|-----------------|
| <b>Foreign and U.S. components of actual income tax expense:</b> |                 |               |                 |
| <b>Foreign:</b>  |                 |               |                 |
| Current  | \$ 209          | \$ 436        | \$ 391          |
| Deferred   | 25              | (121)         | (95)            |
| <b>U.S.:</b>   |                 |               |                 |
| Current  | 427             | 140           | 429             |
| Deferred   | 6,865           | (270)         | 334             |
| <b>Total</b>   | <b>\$ 7,526</b> | <b>\$ 185</b> | <b>\$ 1,059</b> |

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><br><i>(dollars in millions)</i> | <b>Pre-Tax<br/>Income</b><br><i>(Loss)</i> | <b>2017<br/>Tax<br/>Expense/<br/>(Benefit)</b> | <b>Percent of<br/>Pre-Tax<br/>Income (Loss)</b> | <b>Pre-Tax<br/>Income</b><br><i>(Loss)</i> | <b>2016<br/>Tax<br/>Expense/<br/>(Benefit)</b> | <b>Percent of<br/>Pre-Tax<br/>Income<br/>(Loss)</b> |
|---|--|--|---|--|--|---|
| <b>U.S. federal income tax at statutory rate</b>                | <b>\$ 1,476</b>                            | <b>\$ 517</b>                                  | <b>35.0%</b>                                    | <b>\$ (159)</b>                            | <b>\$ (56)</b>                                 | <b>35.0%</b>  |
| <b>Adjustments:</b>   |  |  |   |  |  |   |
| Tax exempt interest   |  | (111)  | (7.5)   |  | (178)  | 111.9   |
| Uncertain tax positions   |  | 660  | 44.7  |  | 268  | (168.6)   |
| Reclassifications from accumulated other comprehensive income   |  | (184)  | (12.5)  |  | (132)  | 83.0  |
| Dispositions of Subsidiaries                                    |  | 17   | 1.2   |  | 118  | (74.2)  |
| Tax Attribute Restoration                                       |  | -  | -   |  | (164)  | 103.1   |
| Non-controlling Interest  |  | (7)  | (0.5)   |  | (81)   | 50.9  |
| Non-deductible transfer pricing charges                         |  | 35   | 2.4   |  | 102  | (64.2)  |
| Dividends received deduction                                    |  | (90)   | (6.1)   |  | (75)   | 47.2  |
| Effect of foreign operations                                    |  | 69   | 4.7   |  | 234  | (147.2)   |
| Share-based compensation payments excess tax deduction          |  | (40)   | (2.7)   |  | -  | -   |
| State income taxes  |  | (9)  | (0.6)   |  | 23   | (14.5)  |
| Impact of Tax Act   |  | 6,687  | 453.0   |  | -  | -   |
| Other   |  | (58)   | (3.9)   |  | 13   | (8.2)   |
| Effect of discontinued operations                               |  | 3  | 0.2   |  | 35   | (22.0)  |

**Valuation allowance:**

|  |                 |                 |               |                |               |                 |
|--|-----------------|-----------------|---------------|----------------|---------------|-----------------|
| Continuing operations                                |                 | <b>43</b>       | <b>2.9</b>    |                | 83            | (52.2)          |
| <b>Consolidated total amounts</b>                    | <b>1,476</b>    | <b>7,532</b>    | <b>510.3</b>  | (159)          | 190           | (119.5)         |
| Amounts attributable to discontinued operations      | <b>10</b>       | <b>6</b>        | <b>60.0</b>   | (85)           | 5             | (5.9)           |
| <b>Amounts attributable to continuing operations</b> | <b>\$ 1,466</b> | <b>\$ 7,526</b> | <b>513.4%</b> | <b>\$ (74)</b> | <b>\$ 185</b> | <b>(250.0)%</b> |



ITEM 8 | **Notes to Consolidated Financial Statements** | **23. Income Taxes**

For the year ended December 31, 2017, the effective tax rate on income from continuing operations was not meaningful. The effective tax rate differs from the 2017 statutory tax rate of 35 percent primarily due to tax charges of \$6.7 billion associated with the enactment of the Tax Act discussed above, \$660 million of tax charges and related interest associated with increases in uncertain tax positions primarily related to cross border financing transactions and other open tax issues, \$69 million associated with the effect of foreign operations, and \$35 million of non-deductible transfer pricing charges, partially offset by tax benefits of \$201 million of tax exempt income, \$184 million of reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities, and \$40 million of excess tax deductions related to share based compensation payments recorded through the income statement in accordance with relevant accounting literature. Effect of foreign operations is primarily related to losses incurred in our European operations taxed at a statutory tax rate lower than 35 percent and other foreign taxes.

For the year ended December 31, 2016, the effective tax rate on loss from continuing operations was not meaningful. The effective tax rate on loss from continuing operations differs from the statutory tax rate of 35 percent primarily due to tax charges of \$234 million associated with effect of foreign operations, \$216 million of tax charges and related interest associated with increases in uncertain tax positions related to cross border financing transactions, \$118 million related to disposition of subsidiaries, \$102 million related to non-deductible transfer pricing charges, and \$83 million related to increases in the deferred tax asset valuation allowances associated with U.S. federal and certain foreign jurisdictions, partially offset by tax benefits of \$253 million of tax exempt income, \$164 million associated with a portion of the U.S. Life Insurance companies capital loss carryforwards previously treated as expired that was restored and utilized, \$116 million related to the impact of an agreement reached with the Internal Revenue Service (IRS) related to certain tax issues under audit, and \$132 million of reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities. Effect of foreign operations is primarily related to foreign exchange losses incurred by our foreign subsidiaries related to the weakening of the British pound following the Brexit vote taxed at a statutory tax rate lower than 35 percent.

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

As a result of the Tax Act, the majority of accumulated foreign earnings that were previously untaxed will become subject to a one-time deemed repatriation tax. Going forward, certain foreign earnings of our

foreign affiliates will be exempt from U.S. tax upon repatriation. Notwithstanding the changes, U.S. tax on foreign exchange gain or loss and certain non-U.S. withholding taxes will continue to be applicable upon future repatriations of foreign earnings.

For the year ended December 31, 2017, our repatriation assumptions with respect to certain operations in Canada, South Africa, as well as European and Asia Pacific regions remain unchanged and related foreign earnings remain indefinitely reinvested. Due to a change in the legal entity ownership through a contribution of certain affiliates to AIG International Holdings GmbH, our repatriation assumptions related to certain operations in the Far East, Latin America, Bermuda and Middle East region have changed and related foreign earnings are now considered to be indefinitely reinvested. These earnings relate to ongoing operations and have been reinvested in active business operations. Deferred taxes have been provided on earnings of non-U.S. affiliates whose earnings are not indefinitely reinvested.

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The following table presents the components of the net deferred tax assets (liabilities):

| December 31,<br>(in millions)                                  | 2017             | 2016             |
|--|------------------|------------------|
| <b>Deferred tax assets:</b>                                    |                  |                  |
| Losses and tax credit carryforwards                            | \$ 11,931        | \$ 16,448        |
| Basis differences on investments                               | 2,133            | 4,985            |
| Life policy reserves   | 1,996            | 3,040            |
| Accruals not currently deductible, and other                   | 532              | 1,128            |
| Investments in foreign subsidiaries                            | 159              | 103              |
| Loss reserve discount  | 526              | 1,151            |
| Loan loss and other reserves                                   | 34               | 39               |
| Unearned premium reserve reduction                             | 566              | 924              |
| Fixed assets and intangible assets                             | 442              | 478              |
| Other  | 731              | 710              |
| Employee benefits  | 601              | 1,171            |
| <b>Total deferred tax assets</b>                               | <b>19,651</b>    | <b>30,177</b>    |
| <b>Deferred tax liabilities:</b>                               |                  |                  |
| Deferred policy acquisition costs                              | (2,313)          | (3,790)          |
| Unrealized gains related to available for sale debt securities | (2,151)          | (2,844)          |
| <b>Total deferred tax liabilities</b>                          | <b>(4,464)</b>   | <b>(6,634)</b>   |
| <b>Net deferred tax assets before valuation allowance</b>      | <b>15,187</b>    | <b>23,543</b>    |
| Valuation allowance  | (1,374)          | (2,831)          |
| <b>Net deferred tax assets (liabilities)</b>                   | <b>\$ 13,813</b> | <b>\$ 20,712</b> |

The following table presents our U.S. consolidated income tax group tax losses and credits carryforwards as of December 31, 2017.

| December 31, 2017<br>(in millions)   | Gross     | Tax<br>Effect    | Expiration<br>Periods |
|--|-----------|------------------|-----------------------|
| Net operating loss carryforwards   | \$ 35,592 | \$ 7,474         | 2028-2037             |
| Capital loss carryforwards   | 305       | 64               | 2022                  |
| Foreign tax credit carryforwards   |           | 4,481            | 2018-2022             |
| Other carryforwards  |           | 1,154            | Various               |
| <b>Total AIG U.S. consolidated income tax group tax losses and credits carryforwards on a tax return basis</b> |           | <b>13,173</b>    |                       |
| Unrecognized tax benefit   |           | (2,543)          |                       |
| <b>Total AIG U.S. consolidated income tax group tax losses and credits carryforwards on a U.S. GAAP basis*</b> |           | <b>\$ 10,630</b> |                       |

\* Includes other carryforwards, e.g. general business credits, of \$118 million on a U.S. GAAP basis.

We have U.S. federal consolidated net operating loss and tax credit carryforwards of approximately \$10.6 billion. The carryforward periods for our foreign tax credits begin to expire in 2019. 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.

### **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.

ITEM 8 | **Notes to Consolidated Financial Statements** | **23. Income Taxes**

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, 2017, 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 year ended December 31, 2017, recent changes in market conditions, including interest rate fluctuations, impacted the unrealized tax gains and losses in the U.S. life insurance companies' available for sale securities portfolio, resulting in a deferred tax liability related to net unrealized tax capital gains. As of June 30, 2017, based on all available evidence, we concluded that the valuation allowance should be

released. As a result, for the six-month period ended June 30, 2017, we released \$468 million of valuation allowance associated with the unrealized tax losses in the U.S. life insurance companies' available for sale securities portfolio, all of which was allocated to other comprehensive income. As of December 31, 2017, we continue to be in an overall unrealized tax gain position with respect to the U.S. life insurance companies' available for sale securities portfolio and thus concluded no valuation allowance is necessary in the U.S. life insurance companies' available for sale securities portfolio.

For the year ended December 31, 2017, recent changes in market conditions, including interest rate fluctuations, impacted the unrealized tax gains and losses in the U.S. non-life companies' available for sale securities portfolio, resulting in a deferred tax liability related to net unrealized tax capital gains. As of June 30, 2017, based on all available evidence, we concluded that the valuation allowance should be released. As a result, for the six-month period ended June 30, 2017, we released \$260 million of valuation allowance associated with the unrealized tax losses in the U.S. non-life companies' available for sale securities portfolio, all of which was allocated to other comprehensive income. As of December 31, 2017, we continue to be in an overall unrealized tax gain position with respect to the U.S. non-life companies' available for sale securities portfolio and thus concluded no valuation allowance is necessary in the U.S. non-life companies' available for sale securities portfolio.

During the year ended December 31, 2017, we recognized a net increase of \$43 million in our deferred tax asset valuation allowance associated with certain foreign jurisdictions, primarily attributable to current year activity.

During the year ended December 31, 2017, we recognized a \$26 million decrease in our deferred tax asset valuation allowance associated with certain state jurisdictions, primarily as a result of the beneficial impact of tax law changes enacted in the third quarter of 2017. We also recognized a \$634 million decrease in our deferred tax asset valuation allowance associated with certain state jurisdictions, primarily attributable to a corresponding reduction in state and local deferred tax assets.

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**The following table presents the net deferred tax assets (liabilities) at December 31, 2017 and 2016 on a U.S. GAAP basis:**

|   |                  |             |
|---|------------------|-------------|
| December 31,<br>(in millions)   | <b>2017</b>      | <b>2016</b> |
| Net U.S. consolidated return group deferred tax assets                                      | <b>\$ 15,603</b> | \$ 24,134   |
| Net deferred tax assets (liabilities) in accumulated other comprehensive income             | <b>(2,070)</b>   | (2,384)     |
| Valuation allowance   | <b>(86)</b>      | (874)       |
| <b>Subtotal</b>   | <b>13,447</b>    | 20,876      |
| Net foreign, state and local deferred tax assets  | <b>1,874</b>     | 2,413       |
| Valuation allowance   | <b>(1,288)</b>   | (1,957)     |
| <b>Subtotal</b>   | <b>586</b>       | 456         |
| <b>Subtotal - Net U.S., foreign, state and local deferred tax assets</b>                    | <b>14,033</b>    | 21,332      |
| Net foreign, state and local deferred tax liabilities                                       | <b>(220)</b>     | (620)       |
| <b>Total AIG net deferred tax assets (liabilities)</b>                                      | <b>\$ 13,813</b> | \$ 20,712   |
| <b>Deferred Tax Asset Valuation Allowance of U.S. Consolidated FEDERAL Income Tax Group</b> |                  |             |

At December 31, 2017 and 2016, our U.S. consolidated income tax group had net deferred tax assets after valuation allowance of \$13.4 billion and \$20.9 billion, respectively. At December 31, 2017 and 2016, our U.S. consolidated income tax group had valuation allowances of \$86 million and \$874 million, respectively.

### **Deferred Tax ASSET — Foreign, State and Local**

At December 31, 2017 and 2016, we had net deferred tax assets (liabilities) of \$366 million and \$(164) million, respectively, related to foreign subsidiaries, state and local tax jurisdictions, and certain domestic subsidiaries that file separate tax returns.

At December 31, 2017 and 2016, we had deferred tax asset valuation allowances of \$1.3 billion and \$2.0 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.

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 in the Southern District of New York. The Southern District of New York denied our summary judgment motion and upon AIG's appeal, the U.S. Court of Appeals for the Second Circuit (the Second Circuit) affirmed the denial. AIG's petition for certiorari to the U.S. Supreme Court from the decision of the Second Circuit was denied on March 7, 2016. As a result, the case has been remanded back to the Southern District of New York for a jury trial.



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In January 2018, the parties reached non-binding agreements in principle on issues presented in the dispute and are currently reviewing the computations reflecting the settlement terms. The resolution is not final and is subject to various reviews. The litigation has been stayed pending the outcome of the review process. We can provide no assurance regarding the outcome of any such litigation or whether binding compromised settlements with the parties will ultimately be reached. We currently believe that we have adequate reserves for the potential liabilities that may result from these matters.

**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>2017</b>     | <b>2016</b>     | <b>2015</b>     |
|---|-----------------|-----------------|-----------------|
| <b>Gross unrecognized tax benefits, beginning of year</b> | <b>\$ 4,530</b> | <b>\$ 4,331</b> | <b>\$ 4,395</b> |
| Increases in tax positions for prior years                | <b>210</b>      | 235             | 162             |
| Decreases in tax positions for prior years                | <b>(33)</b>     | (39)            | (209)           |
| Increases in tax positions for current year               | -               | 3               | -               |
| Lapse in statute of limitations                           | -               | -               | (4)             |
| Settlements   | -               | -               | (13)            |
| Activity of discontinued operations                       | -               | -               | -               |
| <b>Gross unrecognized tax benefits, end of year</b>       | <b>\$ 4,707</b> | <b>\$ 4,530</b> | <b>\$ 4,331</b> |

At December 31, 2017, 2016 and 2015, our unrecognized tax benefits, excluding interest and penalties, were \$4.7 billion, \$4.5 billion and \$4.3 billion, respectively. The activity for the year includes increases for amounts associated with cross border financing transactions and the impact of settlement discussions with the IRS related to certain other open tax issues unrelated to the cross border financing transactions. With respect to cross border financing transactions, the increase is the result of consideration of recent court decisions upholding the disallowance of foreign tax credits claimed by other corporate entities not affiliated with AIG in addition to the agreement reached in the fourth quarter of 2017 by the parties in the cross border financing dispute to pursue a potential settlement.

At December 31, 2017, 2016 and 2015, 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 \$28 million, \$66 million and \$115 million, respectively. Accordingly, at December 31, 2017, 2016 and 2015, the amounts of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate were \$4.7 billion, \$4.4 billion and \$4.2 billion, respectively.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense. At December 31, 2017, 2016, and 2015, we had accrued liabilities of \$2.0 billion, \$1.2 billion, and \$1.2 billion, respectively, for the payment of interest (net of the federal benefit) and penalties. For the years ended

December 31, 2017, 2016, and 2015, we accrued expense of \$776 million, \$26 million and \$156 million, respectively, for the payment of interest and penalties. The current year activity is primarily related to a decrease in the expected federal benefit of interest due to the U.S. corporate tax rate reduction and to an increase in interest and penalties associated with cross border financing transactions.

We believe it is reasonably possible that our unrecognized tax benefits could decrease within the next 12 months by as much as \$3.9 billion, principally as a result of potential resolutions or settlements of prior years' tax items. The prior years' tax items include unrecognized tax benefits related to the deductibility of certain expenses and matters related to cross border financing transactions.

**Listed below are the tax years that remain subject to examination by major tax jurisdictions:**

| <b>At December 31, 2017</b>   | <b>Open Tax Years</b> |
|-------------------------------|-----------------------|
| <b>Major Tax Jurisdiction</b> |                       |
| United States                 | 2000-2016             |
| Australia                     | 2013-2016             |
| France                        | 2015-2016             |
| Japan                         | 2011-2016             |
| Korea                         | 2012-2016             |
| Singapore                     | 2012-2016             |
| United Kingdom                | 2015-2016             |

**TABLE OF CONTENTS**ITEM 8 | **Notes to Consolidated Financial Statements | 24. Quarterly Financial Information (Unaudited)****24. Quarterly Financial Information (Unaudited)****Consolidated Statements of Income (Loss)**

| <i>(dollars in millions, except per share data)</i>                                   | Three Months Ended |                 |                 |                 |                   |               |                   |                   |
|---|--------------------|-----------------|-----------------|-----------------|-------------------|---------------|-------------------|-------------------|
|   | March 31,          |                 | June 30,        |                 | September 30,     |               | December 31,      |                   |
|   | 2017               | 2016            | 2017            | 2016            | 2017              | 2016          | 2017              | 2016              |
| Total revenues  | \$12,632           | \$11,779        | \$12,502        | \$14,724        | \$11,751          | \$12,854      | \$12,635          | \$13,010          |
| Income (loss) from continuing operations before income taxes*                         | 1,727              | (214)           | 1,667           | 2,858           | (2,803)           | 737           | 875               | (3,455)           |
| Income (loss) from discontinued operations, net of income taxes                       | -                  | (47)            | 8               | (10)            | (1)               | 3             | (3)               | (36)              |
| Net income (loss)   | 1,211              | (203)           | 1,118           | 1,924           | (1,713)           | 436           | (6,672)           | (2,506)           |
| Net income (loss) from continuing operations attributable to noncontrolling interests | 26                 | (20)            | (12)            | 11              | 26                | (26)          | (12)              | 535               |
| <b>Net income (loss) attributable to AIG*</b>   | <b>\$ 1,185</b>    | <b>\$ (183)</b> | <b>\$ 1,130</b> | <b>\$ 1,913</b> | <b>\$ (1,739)</b> | <b>\$ 462</b> | <b>\$ (6,660)</b> | <b>\$ (3,041)</b> |
| <b>Income (loss) per common share attributable to AIG:</b>                            |                    |                 |                 |                 |                   |               |                   |                   |
| <b>Basic:</b>   |                    |                 |                 |                 |                   |               |                   |                   |
| Income (loss) from continuing operations  | \$ 1.21            | \$ (0.12)       | \$ 1.21         | \$ 1.73         | \$ (1.91)         | \$ 0.43       | \$ (7.33)         | \$ (2.93)         |
| Income (loss) from discontinued operations  | \$ -               | \$ (0.04)       | \$ 0.01         | \$ (0.01)       | \$ -              | \$ -          | \$ -              | \$ (0.03)         |
| <b>Diluted:</b>   |                    |                 |                 |                 |                   |               |                   |                   |
| Income (loss) from continuing operations  | \$ 1.18            | \$ (0.12)       | \$ 1.18         | \$ 1.69         | \$ (1.91)         | \$ 0.42       | \$ (7.33)         | \$ (2.93)         |
| Income (loss) from discontinued operations  | \$ -               | \$ (0.04)       | \$ 0.01         | \$ (0.01)       | \$ -              | \$ -          | \$ -              | \$ (0.03)         |
| <b>Weighted average shares outstanding:</b>   |                    |                 |                 |                 |                   |               |                   |                   |
| Basic   | 980,777,256        | 925,548,425     | 985,751,083     | 928,587,928     | 928,667,071       | 925,295,902   | 908,115,029       | 929,886,592       |
| Diluted   | 1,005,315,056      | 925,548,425     | 959,248,770     | 928,045,908     | 928,667,071       | 925,295,902   | 908,115,029       | 929,886,592       |
| <b>Noteworthy quarterly items - (income) expense:</b>                                 |                    |                 |                 |                 |                   |               |                   |                   |
| Other-than-temporary impairments  | 68                 | 204             | 67              | 108             | 88                | 102           | 37                | 145               |
| Net (gain) loss on sale of divested businesses  | 100                | 2               | 60              | (225)           | 13                | (128)         | (241)             | (194)             |
| Federal and foreign valuation allowance for deferred tax assets                       | (13)               | (37)            | (8)             | 35              | 24                | (2)           | 40                | 87                |
| Net (gain) loss on extinguishment of  |                    |                 |                 |                 |                   |               |                   |                   |

|                                    |     |      |     |    |     |      |       |       |
|------------------------------------|-----|------|-----|----|-----|------|-------|-------|
| debt                               | (1) | 83   | (4) | 7  | 1   | (14) | (1)   | (2)   |
| Prior year unfavorable (favorable) |     |      |     |    |     |      |       |       |
| development                        | 61  | (66) | 391 | 7  | 901 | 273  | 212   | 5,574 |
| Restructuring and other costs      | 181 | 188  | 47  | 90 | 31  | 210  | 154   | 206   |
| Impact of Tax Act                  | -   | -    | -   | -  | -   | -    | 6,687 | -     |

\* For the three months ended December 31, 2016, we recorded out of period adjustments related to prior periods that increased Net loss attributable to AIG by \$154 million, increased AIG's Loss from continuing operations before income taxes by \$12 million and decreased adjusted pre-tax income by \$1 million. The out of period adjustments are primarily related to income tax liabilities and ceded loss adjustment expenses. Had these adjustments, which were determined not to be material, been recorded in their appropriate periods, Net income attributable to AIG for the three-month periods ended September 30, 2016, June 30, 2016 and March 31, 2016 would have decreased by \$65 million, increased by \$66 million and increased by \$19 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<br>International<br>Group, Inc.<br>(As<br>Guarantor) |        | Reclassifications<br>Other<br>Subsidiaries |            | Eliminations<br>Consolidated<br>AIG |           |
|---|---|--------|--|------------|-------------------------------------|-----------|
| <i>(in millions)</i>  |   |        |  |            |                                     |           |
| <b>December 31, 2017</b>  |   |        |  |            |                                     |           |
| <b>Assets:</b>  |   |        |  |            |                                     |           |
| Short-term investments  | \$  | 2,541  | \$ -                                       | \$ 11,559  | \$(3,714)                           | \$ 10,386 |
| Other investments <sup>(a)</sup>                                  |   | 6,004  | -  | 305,902    | -                                   | 311,906   |
| <b>Total investments</b>  |   | 8,545  | -  | 317,461    | (3,714)                             | 322,292   |
| Cash  |   | 3      | 20   | 2,339      | -                                   | 2,362     |
| Loans to subsidiaries <sup>(b)</sup>                              |   | 35,004 | -  | 517        | (35,521)                            | -         |
| Investment in consolidated subsidiaries <sup>(b)</sup>            |   | 40,135 | 30,359                                     | -          | (70,494)                            | -         |
| Other assets, including deferred income taxes                     |   | 16,016 | 170  | 159,594    | (2,133)                             | 173,647   |
| Assets held for sale  |   | -      | -  | -          | -                                   | -         |
| <b>Total assets</b>   | \$  | 99,703 | \$30,549                                   | \$ 479,911 | \$(111,862)                         | \$498,301 |
| <b>Liabilities:</b>   |   |        |  |            |                                     |           |
| Insurance liabilities   | \$  | -      | \$ -                                       | \$ 282,105 | -                                   | \$282,105 |
| Long-term debt  |   | 21,557 | 642  | 9,441      | -                                   | 31,640    |
| Other liabilities, including intercompany balances <sup>(a)</sup> |   | 12,458 | 143  | 112,275    | (6,028)                             | 118,848   |
| Loans from subsidiaries <sup>(b)</sup>                            |   | 517    | -  | 35,004     | (35,521)                            | -         |
| Liabilities held for sale   |   | -      | -  | -          | -                                   | -         |
| <b>Total liabilities</b>  |   | 34,532 | 785  | 438,825    | (41,549)                            | 432,593   |
| <b>Total AIG shareholders' equity</b>                             |   | 65,171 | 29,764                                     | 40,549     | (70,313)                            | 65,171    |
| <b>Non-redeemable noncontrolling interests</b>                    |   | -      | -  | 537        | -                                   | 537       |
| <b>Total equity</b>   |   | 65,171 | 29,764                                     | 41,086     | (70,313)                            | 65,708    |
| <b>Total liabilities and equity</b>                               | \$  | 99,703 | \$30,549                                   | \$ 479,911 | \$(111,862)                         | \$498,301 |
| <b>December 31, 2016</b>  |   |        |  |            |                                     |           |
| <b>Assets:</b>  |   |        |  |            |                                     |           |
| Short-term investments  | \$  | 4,424  | \$ -                                       | \$ 13,218  | \$(5,340)                           | \$ 12,302 |
| Other investments <sup>(a)</sup>                                  |   | 7,154  | -  | 308,719    | -                                   | 315,873   |
| <b>Total investments</b>  |   | 11,578 | -  | 321,937    | (5,340)                             | 328,175   |
| Cash  |   | 2      | 34   | 1,832      | -                                   | 1,868     |

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|   |                   |                 |                   |                     |                  |
|---|-------------------|-----------------|-------------------|---------------------|------------------|
| Loans to subsidiaries <sup>(b)</sup>                              | 34,692            | -               | 576               | (35,268)            | -                |
| Investment in consolidated subsidiaries <sup>(b)</sup>            | 42,582            | 27,309          | -                 | (69,891)            | -                |
| Other assets, including deferred income taxes                     | 24,099            | 239             | 140,743           | (4,059)             | 161,022          |
| Assets held for sale  | -                 | -               | 7,199             | -                   | 7,199            |
| <b>Total assets</b>   | <b>\$ 112,953</b> | <b>\$27,582</b> | <b>\$ 472,287</b> | <b>\$ (114,558)</b> | <b>\$498,264</b> |
| <b>Liabilities:</b>   |                   |                 |                   |                     |                  |
| Insurance liabilities   | \$ -              | \$ -            | 275,120           | \$ -                | \$275,120        |
| Long-term debt  | 21,405            | 642             | 8,865             | -                   | 30,912           |
| Other liabilities, including intercompany balances <sup>(a)</sup> | 14,671            | 194             | 103,975           | (9,572)             | 109,268          |
| Loans from subsidiaries <sup>(b)</sup>                            | 577               | -               | 34,691            | (35,268)            | -                |
| Liabilities held for sale   | -                 | -               | 6,106             | -                   | 6,106            |
| <b>Total liabilities</b>  | <b>36,653</b>     | <b>836</b>      | <b>428,757</b>    | <b>(44,840)</b>     | <b>421,406</b>   |
| <b>Total AIG shareholders' equity</b>                             | <b>76,300</b>     | <b>26,746</b>   | <b>42,972</b>     | <b>(69,718)</b>     | <b>76,300</b>    |
| <b>Non-redeemable noncontrolling interests</b>                    | <b>-</b>          | <b>-</b>        | <b>558</b>        | <b>-</b>            | <b>558</b>       |
| <b>Total equity</b>   | <b>76,300</b>     | <b>26,746</b>   | <b>43,530</b>     | <b>(69,718)</b>     | <b>76,858</b>    |
| <b>Total liabilities and equity</b>                               | <b>\$ 112,953</b> | <b>\$27,582</b> | <b>\$ 472,287</b> | <b>\$ (114,558)</b> | <b>\$498,264</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 | Notes to Consolidated Financial Statements | 25. Information Provided in Connection with Outstanding Debt****Condensed Consolidating Statements of Income (Loss)**

|   | American<br>International<br>Group, Inc.<br>(As Guarantor) | AIGLH           | Other<br>Subsidiaries |
|---|--|-----------------|-----------------------|
| <i>(in millions)</i>  |  |                 |                       |
| <b>Year Ended December 31, 2017</b>   |  |                 |                       |
| <b>Revenues:</b>  |  |                 |                       |
| Equity in earnings of consolidated subsidiaries*                                      | \$ (149)   | \$ 1,978        | \$ -                  |
| Other income  | 891  | -               | 48,802                |
| <b>Total revenues</b>   | <b>742</b>   | <b>1,978</b>    | <b>48,802</b>         |
| <b>Expenses:</b>  |  |                 |                       |
| Interest expense  | 949  | 50              | 176                   |
| Loss on extinguishment of debt  | 2  | -               | (7)                   |
| Other expenses  | 952  | 2               | 46,116                |
| <b>Total expenses</b>   | <b>1,903</b>   | <b>52</b>       | <b>46,285</b>         |
| Income (loss) from continuing operations before income tax expense (benefit)          | (1,161)  | 1,926           | 2,517                 |
| Income tax expense (benefit)  | 4,922  | (3)             | 2,607                 |
| <b>Income (loss) from continuing operations</b>                                       | <b>(6,083)</b>   | <b>1,929</b>    | <b>(90)</b>           |
| <b>Income (loss) from discontinued operations, net of income taxes</b>                | <b>(1)</b>   | <b>-</b>        | <b>5</b>              |
| <b>Net income (loss)</b>  | <b>(6,084)</b>   | <b>1,929</b>    | <b>(85)</b>           |
| <b>Less:</b>  |  |                 |                       |
| <b>Net income from continuing operations attributable to noncontrolling interests</b> | <b>-</b>   | <b>-</b>        | <b>28</b>             |
| <b>Net income (loss) attributable to AIG</b>  | <b>\$ (6,084)</b>  | <b>\$ 1,929</b> | <b>(113)</b>          |
| <b>Year Ended December 31, 2016</b>   |  |                 |                       |
| <b>Revenues:</b>  |  |                 |                       |
| Equity in earnings of consolidated subsidiaries*                                      | \$ (1,269)   | \$ (197)        | \$ -                  |
| Other income  | 516  | 5               | 52,875                |
| <b>Total revenues</b>   | <b>(753)</b>   | <b>(192)</b>    | <b>52,875</b>         |
| <b>Expenses:</b>  |  |                 |                       |
| Interest expense  | 988  | 51              | 227                   |
| Loss on extinguishment of debt  | 77   | -               | (3)                   |
| Other expenses  | 295  | 16              | 51,819                |
| <b>Total expenses</b>   | <b>1,360</b>   | <b>67</b>       | <b>52,043</b>         |
| Income (loss) from continuing operations before income tax expense (benefit)          | (2,113)  | (259)           | 832                   |
| Income tax expense (benefit)  | (1,301)  | (21)            | 1,507                 |
| <b>Income (loss) from continuing operations</b>                                       | <b>(812)</b>   | <b>(238)</b>    | <b>(675)</b>          |
| <b>Loss from discontinued operations, net of income taxes</b>                         | <b>(37)</b>  | <b>-</b>        | <b>(53)</b>           |

|  |                      |         |         |           |
|--|----------------------|---------|---------|-----------|
| <b>Net income (loss)</b>   |                      | (849)   | (238)   | (728)     |
| <b>Less:</b>   |                      |         |         |           |
| <b>Net income (loss) from continuing operations attributable to noncontrolling interests</b> |                      | -       | -       | 500       |
| <b>Net income (loss) attributable to AIG</b>   | \$                   | (849)\$ | (238)\$ | (1,228)\$ |
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**TABLE OF CONTENTS****ITEM 8 | Notes to Consolidated Financial Statements | 25. Information Provided in Connection with Outstanding Debt****Year Ended December 31, 2015****Revenues:**

|  |          |         |        |           |        |
|--|----------|---------|--------|-----------|--------|
| Equity in earnings of consolidated subsidiaries* | \$ 3,954 | \$1,936 | \$ -   | \$(5,890) | \$ -   |
| Other income                                     | 88       | -       | 58,953 | (714)     | 58,327 |

**Total revenues**

|       |       |        |         |        |
|-------|-------|--------|---------|--------|
| 4,042 | 1,936 | 58,953 | (6,604) | 58,327 |
|-------|-------|--------|---------|--------|

**Expenses:**

|                                |       |    |        |       |        |
|--------------------------------|-------|----|--------|-------|--------|
| Other interest expense         | 1,049 | 58 | 302    | (128) | 1,281  |
| Loss on extinguishment of debt | 703   | -  | 46     | 7     | 756    |
| Other expenses                 | 1,178 | 44 | 52,374 | (587) | 53,009 |

**Total expenses**

|       |     |        |       |        |
|-------|-----|--------|-------|--------|
| 2,930 | 102 | 52,722 | (708) | 55,046 |
|-------|-----|--------|-------|--------|

Income (loss) from continuing operations before income tax expense (benefit)

|       |       |       |         |       |
|-------|-------|-------|---------|-------|
| 1,112 | 1,834 | 6,231 | (5,896) | 3,281 |
|-------|-------|-------|---------|-------|

Income tax expense (benefit)

|         |      |       |   |       |
|---------|------|-------|---|-------|
| (1,086) | (73) | 2,218 | - | 1,059 |
|---------|------|-------|---|-------|

**Income (loss) from continuing operations**

|       |       |       |         |       |
|-------|-------|-------|---------|-------|
| 2,198 | 1,907 | 4,013 | (5,896) | 2,222 |
|-------|-------|-------|---------|-------|

**Income (loss) from discontinued operations, net of income taxes**

|     |   |   |   |   |
|-----|---|---|---|---|
| (2) | - | 2 | - | - |
|-----|---|---|---|---|

**Net income (loss)**

|       |       |       |         |       |
|-------|-------|-------|---------|-------|
| 2,196 | 1,907 | 4,015 | (5,896) | 2,222 |
|-------|-------|-------|---------|-------|

**Less:****Net income from continuing operations attributable to noncontrolling interests**

|   |   |    |   |    |
|---|---|----|---|----|
| - | - | 26 | - | 26 |
|---|---|----|---|----|

**Net income (loss) attributable to AIG**

|          |         |          |           |          |
|----------|---------|----------|-----------|----------|
| \$ 2,196 | \$1,907 | \$ 3,989 | \$(5,896) | \$ 2,196 |
|----------|---------|----------|-----------|----------|

\* Eliminated in consolidation.

**TABLE OF CONTENTS****ITEM 8 | Notes to Consolidated Financial Statements | 25. Information Provided in Connection with Outstanding Debt****Condensed Consolidating Statements of Comprehensive Income (Loss)**

|   | American<br>International<br>Group, Inc.<br>(As Guarantor) | AIGLH           | Other<br>Subsidiaries | Recla<br>E |
|---|--|-----------------|-----------------------|------------|
| <i>(in millions)</i>  |  |                 |                       |            |
| <b>Year Ended December 31, 2017</b>                                 |  |                 |                       |            |
| Net income (loss)   | \$ (6,084)   | \$ 1,929        | \$ (85)               |            |
| Other comprehensive income (loss)                                   | 2,235  | 7,851           | 17,857                |            |
| <b>Comprehensive income (loss)</b>                                  | <b>(3,849)</b>   | <b>9,780</b>    | <b>17,772</b>         |            |
| Total comprehensive income attributable to noncontrolling interests | -  | -               | 28                    |            |
| <b>Comprehensive income (loss) attributable to AIG</b>              | <b>\$ (3,849)</b>  | <b>\$ 9,780</b> | <b>\$ 17,744</b>      |            |
| <b>Year Ended December 31, 2016</b>                                 |  |                 |                       |            |
| Net income (loss)   | \$ (849)   | \$ (238)        | \$ (728)              |            |
| Other comprehensive income (loss)                                   | 693  | 4,080           | 52,153                |            |
| <b>Comprehensive income (loss)</b>                                  | <b>(156)</b>   | <b>3,842</b>    | <b>51,425</b>         |            |
| Total comprehensive income attributable to noncontrolling interests | -  | -               | 500                   |            |
| <b>Comprehensive income (loss) attributable to AIG</b>              | <b>\$ (156)</b>  | <b>\$ 3,842</b> | <b>\$ 50,925</b>      |            |
| <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                |            |
| <b>Comprehensive income (loss)</b>                                  | <b>(5,884)</b>   | <b>4,227</b>    | <b>58,772</b>         |            |
| Total comprehensive income attributable to noncontrolling interests | -  | -               | 20                    |            |
| <b>Comprehensive income (loss) attributable to AIG</b>              | <b>\$ (5,884)</b>  | <b>\$ 4,227</b> | <b>\$ 58,752</b>      |            |

**TABLE OF CONTENTS****ITEM 8 | Notes to Consolidated Financial Statements | 25. Information Provided in Connection with Outstanding Debt****Condensed Consolidating Statements of Cash Flows**

| <i>(in millions)</i>                                       | American<br>International<br>Group, Inc.<br>(As Guarantor) | AIGLH           | Other<br>Subsidiaries | Reclassifications<br>and<br>Eliminations |
|--|--|-----------------|-----------------------|--|
| <b>Year Ended December 31, 2017</b>                        |  |                 |                       |  |
| <b>Net cash (used in) provided by operating activities</b> | <b>\$ 36</b>   | <b>\$ 1,413</b> | <b>\$ (7,426)</b>     | <b>\$ (2,608)</b>                        |
| <b>Cash flows from investing activities:</b>               |  |                 |                       |  |
| Sales of investments                                       | 5,821  | -               | 75,228                | (3,758)                                  |
| Sales of divested businesses, net                          | 40   | -               | 752                   | -  |
| Purchase of investments                                    | (2,465)  | -               | (64,539)              | 3,758                                    |
| Loans to subsidiaries – net                                | 199  | -               | 63                    | (262)                                    |
| Contributions from (to) subsidiaries - net                 | 2,446  | -               | -                     | (2,446)                                  |
| Net change in restricted cash                              | -  | -               | (121)                 | -  |
| Net change in short-term investments                       | 1,990  | -               | 108                   | -  |
| Other, net   | (183)  | (5)             | (1,955)               | -  |
| <b>Net cash (used in) provided by investing activities</b> | <b>7,848</b>   | <b>(5)</b>      | <b>9,536</b>          | <b>(2,708)</b>                           |
| <b>Cash flows from financing activities:</b>               |  |                 |                       |  |
| Issuance of long-term debt                                 | 1,505  | -               | 1,851                 | -  |
| Repayments of long-term debt                               | (1,724)  | -               | (1,974)               | -  |
| Purchase of common stock                                   | (6,275)  | -               | -                     | -  |
| Intercompany loans - net                                   | (63)   | -               | (199)                 | 262                                      |
| Cash dividends paid  | (1,172)  | (1,422)         | (1,186)               | 2,608                                    |
| Other, net   | (154)  | -               | (200)                 | 2,446                                    |
| <b>Net cash (used in) financing activities</b>             | <b>(7,883)</b>   | <b>(1,422)</b>  | <b>(1,708)</b>        | <b>5,316</b>                             |
| Effect of exchange rate changes on cash                    | -  | -               | (28)                  | -  |
| <b>Change in cash</b>                                      | <b>1</b>   | <b>(14)</b>     | <b>374</b>            | <b>-</b>                                 |
| <b>Cash at beginning of year</b>                           | <b>2</b>   | <b>34</b>       | <b>1,832</b>          | <b>-</b>                                 |
| <b>Change in cash of businesses held for sale</b>          | <b>-</b>   | <b>-</b>        | <b>133</b>            | <b>-</b>                                 |
| <b>Cash at end of year</b>                                 | <b>\$ 3</b>  | <b>\$ 20</b>    | <b>\$ 2,339</b>       | <b>\$ -</b>                              |
| <b>Year Ended December 31, 2016</b>                        |  |                 |                       |  |
| <b>Net cash (used in) provided by operating activities</b> | <b>\$ 2,112</b>  | <b>\$ 1,707</b> | <b>\$ 2,515</b>       | <b>\$ (3,951)</b>                        |
| <b>Cash flows from investing activities:</b>               |  |                 |                       |  |
| Sales of investments                                       | 5,769  | -               | 81,560                | (11,685)                                 |
| Sales of divested businesses, net                          | 2,160  | -               | 649                   | -  |
| Purchase of investments                                    | (1,002)  | -               | (80,668)              | 11,685                                   |
| Loans to subsidiaries – net                                | 1,525  | -               | (3)                   | (1,522)                                  |
| Contributions from (to) subsidiaries - net                 | 1,637  | -               | -                     | (1,637)                                  |
| Net change in restricted cash                              | -  | -               | 385                   | -  |
| Net change in short-term investments                       | (789)  | -               | (2,300)               | -  |

|  |                      |                |                 |                |
|--|----------------------|----------------|-----------------|----------------|
| Other, net   | (141)                | -              | (879)           | -              |
| <b>Net cash (used in) provided by investing activities</b> | <b>9,159</b>         | <b>-</b>       | <b>(1,256)</b>  | <b>(3,159)</b> |
| <b>Cash flows from financing activities:</b>               |                      |                |                 |                |
| Issuance of long-term debt                                 | 3,831                | -              | 2,123           | -              |
| Repayments of long-term debt                               | (1,996)              | (63)           | (2,023)         | -              |
| Purchase of common stock                                   | (11,460)             | -              | -               | -              |
| Intercompany loans - net                                   | 3                    | (3)            | (1,522)         | 1,522          |
| Cash dividends paid  | (1,372)              | (1,723)        | (2,228)         | 3,951          |
| Other, net   | (309)                | -              | 2,799           | 1,637          |
| <b>Net cash (used in) provided by financing activities</b> | <b>(11,303)</b>      | <b>(1,789)</b> | <b>(851)</b>    | <b>7,110</b>   |
| Effect of exchange rate changes on cash                    | -                    | -              | 52              | -              |
| <b>Change in cash</b>                                      | <b>(32)</b>          | <b>(82)</b>    | <b>460</b>      | <b>-</b>       |
| <b>Cash at beginning of year</b>                           | <b>34</b>            | <b>116</b>     | <b>1,479</b>    | <b>-</b>       |
| <b>Change in cash of businesses held for sale</b>          | <b>-</b>             | <b>-</b>       | <b>(107)</b>    | <b>-</b>       |
| <b>Cash at end of year</b>                                 | <b>\$ 2</b>          | <b>\$ 34</b>   | <b>\$ 1,832</b> | <b>-\$</b>     |
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**TABLE OF CONTENTS****ITEM 8 | Notes to Consolidated Financial Statements | 25. Information Provided in Connection with Outstanding Debt****Year Ended December 31, 2015**

**Net cash (used in) provided by operating activities** \$ 4,443 \$ 2,314 \$ 1,112 \$ (4,992) \$ 2,877

**Cash flows from investing activities:**

|  |              |          |            |              |              |
|--|--------------|----------|------------|--------------|--------------|
| Sales of investments                                       | 7,767        | -        | 69,726     | (4,877)      | 72,616       |
| Purchase of investments                                    | (1,881)      | -        | (68,261)   | 4,877        | (65,265)     |
| Loans to subsidiaries – net                                | (83)         | -        | 367        | (284)        | -            |
| Contributions to subsidiaries                              | 565          | -        | -          | (565)        | -            |
| Net change in restricted cash                              | -            | -        | 1,457      | -            | 1,457        |
| Net change in short-term investments                       | 2,300        | -        | (1,137)    | -            | 1,163        |
| Other, net   | (175)        | -        | (1,334)    | -            | (1,509)      |
| <b>Net cash (used in) provided by investing activities</b> | <b>8,493</b> | <b>-</b> | <b>818</b> | <b>(849)</b> | <b>8,462</b> |

**Cash flows from financing activities:**

|  |                 |                |                |              |                 |
|--|-----------------|----------------|----------------|--------------|-----------------|
| Issuance of long-term debt                                 | 5,540           | -              | 1,327          | -            | 6,867           |
| Repayments of long-term debt                               | (6,504)         | (114)          | (3,187)        | -            | (9,805)         |
| Intercompany loans - net                                   | (201)           | 3              | (86)           | 284          | -               |
| Purchase of common stock                                   | (10,691)        | -              | -              | -            | (10,691)        |
| Cash dividends paid to shareholders                        | (1,028)         | (2,178)        | (2,814)        | 4,992        | (1,028)         |
| Other, net   | (44)            | -              | 2,707          | 565          | 3,228           |
| <b>Net cash (used in) provided by financing activities</b> | <b>(12,928)</b> | <b>(2,289)</b> | <b>(2,053)</b> | <b>5,841</b> | <b>(11,429)</b> |

Effect of exchange rate changes on cash - - (39) - (39)

**Change in cash** 8 25 (162) - (129)

**Cash at beginning of year** 26 91 1,641 - 1,758

**Cash at end of year** \$ 34 \$ 116 \$ 1,479 \$ -\$ 1,629

**TABLE OF CONTENTS****ITEM 8 | Notes to Consolidated Financial Statements | 25. Information Provided in Connection with Outstanding Debt****Supplementary Disclosure of Condensed Consolidating Cash Flow Information**

| <i>(in millions)</i>   | American<br>International<br>Group, Inc.<br>(As Guarantor) | AIGLH  | Other<br>Subsidiaries |
|--|--|--------|-----------------------|
| <b>Cash (paid) received during the year ended December 31, 2017 for:</b> |  |        |                       |
| <b>Interest:</b>   |  |        |                       |
| Third party  | \$ (948)\$   | (48)\$ | (286)\$               |
| Intercompany   | -  | (1)    | 1                     |
| <b>Taxes:</b>  |  |        |                       |
| Income tax authorities   | \$ (329)\$   | -\$    | (215)\$               |
| Intercompany   | 614  | -      | (614)                 |
| <b>Cash (paid) received during the year ended December 31, 2016 for:</b> |  |        |                       |
| <b>Interest:</b>   |  |        |                       |
| Third party  | \$ (975)\$   | (52)\$ | (304)\$               |
| Intercompany   | 2  | -      | (2)                   |
| <b>Taxes:</b>  |  |        |                       |
| Income tax authorities   | \$ (15)\$  | -\$    | (478)\$               |
| Intercompany   | 479  | -      | (479)                 |
| <b>Cash (paid) received during the year ended December 31, 2015 for:</b> |  |        |                       |
| <b>Interest:</b>   |  |        |                       |
| Third party*   | \$ (1,030)\$   | (59)\$ | (279)\$               |
| Intercompany   | -  | -      | -                     |
| <b>Taxes:</b>  |  |        |                       |
| Income tax authorities   | \$ (11)\$  | -\$    | (500)\$               |
| Intercompany   | 829  | -      | (829)                 |

**American International Group, Inc. (As Guarantor) supplementary disclosure of non-cash activities:**

| <b>Years Ended December 31,</b><br><i>(in millions)</i>              | <b>2017</b> | <b>2016</b> | <b>2015</b> |
|--|-------------|-------------|-------------|
| <b>Intercompany non-cash financing and investing activities:</b>     |             |             |             |
| Capital contributions  | \$ 259 \$   | 3,245 \$    | 494         |
| Dividends received in the form of securities                         | 735         | 5,234       | 2,326       |
| Return of capital  | 26          | -           | -           |
| Fixed maturity securities received in exchange for equity securities | -           | 440         | -           |
| <b>Non-cash financing/investing activities:</b>                      |             |             |             |
| Non-cash consideration received from sale of shares of AerCap        | -           | -           | 500         |
| Non-cash consideration received from sale of United Guaranty         | -           | 1,101       | -           |



ITEM 8 | **Notes to Consolidated Financial Statements** | **26. Subsequent Events****26. Subsequent Events****DIVIDENDS DECLARED AND SHARE REPURCHASE AUTHORIZATION**

On February 8, 2018, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.32 per share, payable on March 29, 2018 to shareholders of record on March 15, 2018.

**ACQUISITION OF BUSINESS**

On January 21, 2018, we entered into an agreement to purchase Validus Holdings, Ltd. (Validus), a leading provider of reinsurance, primary insurance, and asset management services, for approximately \$5.6 billion in cash. The transaction is expected to close mid-2018 and is subject to customary closing conditions, including, among others, obtaining the relevant regulatory approvals (including the expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and receipt of the approval of the Bermuda Monetary Authority, the New Hampshire Department of Insurance, the Prudential Regulatory Authority, Lloyd's, the Texas Department of Insurance and the Swiss Financial Market Supervisory Authority) and obtaining the approval of the shareholders of Validus. In connection with the transaction, the board of directors of Validus approved, and recommended that Validus' shareholders approve, an amendment to Validus' bye-laws that would reduce the Validus shareholder vote required to approve a merger with another company (including the transaction) from the affirmative vote of three-fourths of those voting at a general meeting of the shareholders to the affirmative vote of a majority of those voting at such general meeting (the Bye-Law Amendment). If the Bye-Law Amendment is approved by holders of a majority in voting power of the aggregate voting power of the common stock of Validus, Validus must then obtain the affirmative vote of a majority of its shareholders voting at a general meeting to approve and adopt the transaction. If the Bye-Law Amendment is not so approved, then Validus must obtain the affirmative vote of three-fourths of its shareholders voting at a general meeting to approve and adopt the transaction.

**REINSURANCE TRANSACTIONS**

In February 2018, we closed a series of affiliated reinsurance transactions impacting the Legacy Portfolio. These transactions were designed to consolidate the bulk of the Legacy Insurance Run-Off Lines into a single legal entity, DSA Reinsurance Company, Ltd. (DSA Re), a Bermuda domiciled composite reinsurer, 100 percent owned by AIG. The transactions include the cession of approximately \$32 billion of reserves from the Legacy Life and Retirement Run-off Lines and approximately \$5 billion of reserves from the Legacy General Insurance Run-off Lines relating to business written by multiple AIG legal entities. This represented over 80 percent of the insurance reserves in the Legacy Portfolio as of December 31, 2017. DSA Re will have approximately \$40 billion of invested assets, managed by AIG Investments and will become AIG's main run-off reinsurer with its own dedicated management team.

Following the close of the DSA Re transactions, Eaglestone Reinsurance Company will continue to reinsure the AIG property casualty pool companies for their asbestos liabilities and benefit from the retroactive reinsurance agreement entered into with NICO in 2011.



As part of the transaction, AIG Parent has provided DSA Re with a CMA that requires AIG Parent to restore capital of each of the long term business fund and general business accounts of DSA Re to a specified minimum enhanced capital ratio measured for each fund on a quarterly basis. We will maintain the CMA so long as we have more than 50 percent voting control of DSA Re.

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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, 2017. 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, 2017.

### **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, 2017 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, 2017, 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, 2017 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.

### **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, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

AIG | 2017 Form 10-K

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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 2018 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.*

#### ITEM 16 | [Form 10-K Summary](#)

None.

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| <b>Exhibit Number</b> | <b>Description</b>   | <b>Location</b>  |
|-----------------------|--|--|
| 2                     | <p>Plan of acquisition, reorganization, arrangement, liquidation or succession</p> <p>(1) <u>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</u></p> <p>(2) <u>Stock Purchase Agreement dated as of August 15, 2016 between American International Group, Inc. and Arch Capital Group Ltd.</u></p> <p>(3) <u>First Amendment to Stock Purchase Agreement, dated as of December 29, 2016 between American International Group, Inc. and Arch Capital Group Ltd.</u></p> <p>(4) <u>Agreement and Plan of Merger, by and among AIG, Venus Holdings Limited and Validus Holdings, Ltd., dated January 21, 2018</u></p> | <p>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).</p> <p>Incorporated by reference to Exhibit 2.1 to AIG's Current Report on Form 8-K filed with the SEC on August 16, 2016 (File No. 1-8787).</p> <p>Incorporated by reference to Exhibit 10.51 to AIG's Annual Report on Form 10-K for the year ended December 31, 2016 (File No. 1-8787).</p> <p>Incorporated by reference to Exhibit 2.1 to AIG's Current Report on Form 8-K filed with the SEC on January 22, 2018 (File No. 1-8787).</p> |
| 3                     | Articles of incorporation and by laws  |  |
| 3(i)                  | <u>Amended and Restated Certificate of Incorporation of AIG</u>  | Incorporated by reference to Exhibit 3.1 to AIG's Current Report on Form 8-K filed with the SEC on June 28, 2017 (File No. 1-8787).  |
| 3(ii)                 | <u>AIG By-laws, amended November 16, 2015</u>  | 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                     | <p>Instruments defining the rights of security holders, including indentures</p> <p>(1) <u>Credit Agreement, dated as of September 22, 2008, between AIG and Federal Reserve Bank of New York</u></p> <p>(2) <u>Warrant Agreement (including Form of Warrant), dated as of January 6, 2011.</u></p>  | <p>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.</p> <p>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).</p> <p>Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8 K filed with</p>   |

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| <u>between AIG and Wells Fargo Bank, N.A., as Warrant Agent</u>  | the SEC on January 7, 2011 (File No. 1 8787).   |
| (3) <u>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</u> | 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).     |
| (4) <u>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</u>   | 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).   |
| (5) <u>Amendment No. 2, dated as of December 14, 2016, to Tax Asset Protection Plan, between AIG and Wells Fargo Bank, National Association, as Rights Agent</u>   | Incorporated by reference to Exhibit 4.1 to AIG's Current Report on Form 8-K filed with the SEC on December 14, 2016 (File No. 1-8787). |
| Voting Trust Agreement   | None.   |

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| Material contracts   |   |
| (1) <u>AIG Executive Deferred Compensation Plan*</u>   | Incorporated by reference to Exhibit 4(a) to AIG's Registration Statement on Form S-8 (File No. 333-101640).  |
| (2) <u>AIG Supplemental Incentive Savings Plan*</u>  | Incorporated by reference to Exhibit 4(b) to AIG's Registration Statement on Form S-8 (File No. 333-101640).  |
| (3) <u>Amended and Restated American General Supplemental Thrift Plan (December 31, 1998)*</u>   | 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). |
| (4) <u>AIG Amended and Restated Executive Severance Plan*</u>  | 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).                       |
| (5) <u>Assurance Agreement, by AIG in favor of eligible employees, dated as of June 27, 2005, relating to certain obligations of Starr International Company, Inc.*</u>                              | 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).                       |
| (6) <u>AIG Amended and Restated 2007 Stock Incentive Plan*</u>   | 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).                          |
| (7) <u>AIG Form of Stock Option Award Agreement*</u>   | Incorporated by reference to Exhibit 10.A to AIG's Registration Statement on Form S-8 (File No. 333-148148).  |
| (8) <u>AIG Amended and Restated Form of Non-Employee Director Deferred Stock Units Award Agreement*</u>  | 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).                          |
| (9) <u>Memorandum of Understanding, dated November 25, 2009, between AIG, Maurice R. Greenberg, Howard I. Smith, C.V. Starr and Star International Company, Inc.</u>                                 | 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).                        |
| (10) <u>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</u>              | 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).                         |
| (11) <u>Asset Purchase Agreement, dated as of December 12, 2008, among the Sellers party thereto, AIG Securities Lending Corp., AIG, Maiden Lane II LLC and the Federal Reserve Bank of New York</u> | 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).                        |

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| <p>(12) <u>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</u></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>(13) <u>Fourth Amended and Restated Credit Agreement, dated as of June 27, 2017, 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</u></p> | <p>Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on June 27, 2017 (File No. 1-8787).</p>      |
| <p>(14) <u>American International Group, Inc. 2010 Stock Incentive Plan*</u></p>   | <p>Incorporated by reference to AIG's Definitive Proxy Statement, dated April 12, 2010 (Filed No. 1-8787).</p>                                   |
| <p>(15) <u>AIG Amended Form of 2010 Stock Incentive Plan DSU Award Agreement*</u></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>(16) <u>Release and Restrictive Covenant Agreement between AIG and Peter Hancock*</u></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>   |
| <p>(17) <u>Non-Competition and Non-Solicitation Agreement between AIG and Peter Hancock, dated February 8, 2010*</u></p>   | <p>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).</p>   |



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| (18) <u>Letter Agreement, dated August 14, 2013, between AIG and Kevin Hogan*</u>  | 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).                              |
| (19) <u>Non-Solicitation and Non-Disclosure Agreement, dated August 14, 2013, between AIG and Kevin Hogan*</u>   | 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).                              |
| (20) <u>Introductory Bonus Agreement, dated August 14, 2013, between AIG and Kevin Hogan*</u>  | 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).                              |
| (21) <u>Executive Officer Form of Release and Restrictive Covenant Agreement*</u>  | Incorporated by reference to Exhibit 10.5 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 (File No. 1-8787).                              |
| (22) <u>AIG Non-Qualified Retirement Income Plan (as amended)*</u>   | 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).                          |
| (23) <u>AIG Supplemental Executive Retirement Plan (as amended)*</u>   | 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).                          |
| (24) <u>American General Corporation Supplemental Executive Retirement Plan*</u>   | 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). |
| (25) <u>Amendment Number One to the American General Corporation Supplemental Executive Retirement Plan*</u>   | 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).                                |
| (26) <u>Amendment Number Two to the American General Corporation' Supplemental Executive Retirement Plan*</u>  | 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).                                |
| (27) <u>Master Transaction Agreement, dated as of April 19, 2011, by and among American Home Assurance Company, Chartis Casualty Company (f/k/a American International South Insurance Company), Chartis</u> | Incorporated by reference to Exhibit 10.6 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (File No. 1-8787).                              |

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

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| (28) <u>AIG 2013 Long-Term Incentive Plan (as amended)*</u>  | Incorporated by reference to Exhibit 10.35 to AIG's Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 1-8787).              |
| (29) <u>Form of 2013 Long-Term Incentive Plan Performance Share Units Award Agreement*</u>   | 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).               |
| (30) <u>Form of 2015 Performance Share Units Award Agreement*</u>  | 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).            |
| (31) <u>AIG Clawback Policy*</u>   | 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).               |
| (32) <u>AIG 2013 Short-Term Incentive Plan*</u>  | 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).        |
| (33) <u>Form of 2013 Short-Term Incentive Plan Award Letter*</u>   | Incorporated by reference to Exhibit 10.5 of AIG's Current Report on Form 8-K filed with the SEC on March 27, 2013 (File No. 1-8787).               |
| (34) <u>AIG Annual Short-Term Incentive Plan (as amended)*</u>   | Incorporated by reference to Exhibit 10.43 on AIG's Annual Report on Form 10-K for the year ended December 31, 2016 (File No. 1-8787).              |
| (35) <u>AIG 2013 Omnibus Incentive Plan*</u>   | Incorporated by reference to Appendix B in AIG's Definitive Proxy Statement on Schedule 14A, dated April 4, 2013 (File No. 1-8787).                 |
| (36) <u>Description of Non-Management Director Compensation*</u>   | Incorporated by reference to "Compensation of Directors" in AIG's Definitive Proxy Statement on Schedule 14A, dated May 19, 2017 (File No. 1-8787). |
| (37) <u>AIG 2012 Executive Severance Plan (as amended)*</u>  | Incorporated by reference to Exhibit 10.1 of AIG's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 (File No. 1-8787).             |
| (38) <u>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</u> | 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).            |

N.V., as guarantors

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| <p>(39) <u>Nomination Agreement, dated February 11, 2016, by and among High River Limited Partnership, Icahn Partners Master Fund LP, Icahn Partners LP, Carl C. Icahn and American International Group, Inc.</u></p> <p>(40) <u>Investor Rights Agreement, dated as of December 31, 2016, between American International Group, Inc. and Arch Capital Group Ltd. Group Ltd.</u></p> <p>(41) <u>Amendment No. 1 to the Investor Rights Agreement, dated as of June 8, 2017, among Arch Capital Group Ltd., American International Group, Inc. American Home Assurance Company, Lexington Insurance Company and National Union Fire Insurance Company of Pittsburgh, Pa.</u></p> <p>(42) <u>Form of AIG 2013 Omnibus Incentive Plan Non-Employee Director DSU Award Agreement*</u></p> | <p>Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on February 11, 2016 (File No. 1-8787).</p> <p>Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on June 12, 2017 (File No. 1-8787).</p> <p>Incorporated by reference to Exhibit 10.2 to AIG's Current Report on Form 8-K filed with the SEC on June 12, 2017 (File No. 1-8787).</p> <p>Incorporated by reference to Exhibit 10.52 to AIG's Annual Report on Form 10-K for the year ended December 31, 2016 (File No. 1-8787).</p> |
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| (43) <u>Aggregate Excess of Loss Reinsurance Agreement, dated January 20, 2017, by and between AIG Assurance Company, AIG Property Casualty Company, AIG Specialty Insurance Company, AIU Insurance Company, American Home Assurance Company, Commerce and Industry Insurance Company, Granite State Insurance Company, Illinois National Insurance Co., Lexington Insurance Company, National Union Fire Insurance Company of Pittsburgh, Pa., New Hampshire Insurance Company and The Insurance Company Of The State Of Pennsylvania and National Indemnity Company (portions of this exhibit have been redacted pursuant to a request for confidential treatment).</u> | Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on February 14, 2017 (File No. 1-8787). |
| (44) <u>Trust Agreement, dated January 20, 2017, by and among National Union Fire Insurance Company of Pittsburgh, Pa., National Indemnity Company, and Wells Fargo Bank, National Association (portions of this exhibit have been redacted pursuant to a request for confidential treatment).</u>  | Incorporated by reference to Exhibit 10.2 to AIG's Current Report on Form 8-K filed with the SEC on February 14, 2017 (File No. 1-8787). |
| (45) <u>Parental Guarantee Agreement, dated January 20, 2017, by Berkshire Hathaway Inc. in favor of National Union Fire Insurance Company of Pittsburgh, Pa.</u>   | Incorporated by reference to Exhibit 10.3 to AIG's Current Report on Form 8-K filed with the SEC on February 14, 2017 (File No. 1-8787). |
| (46) <u>American International Group, Inc. Long Term Incentive Plan*</u>  | Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on March 17, 2017 (File No. 1-8787).    |
| (47) <u>Form of AIG Long Term Incentive Award Agreement*</u>  | Incorporated by reference to Exhibit 10.2 to AIG's Current Report on Form 8-K filed with the SEC on March 17, 2017 (File No. 1-8787).    |
| (48) <u>Letter Agreement between American International Group, Inc. and Peter D. Hancock, dated March 17, 2017*</u>   | Incorporated by reference to Exhibit 10.3 to AIG's Current Report on Form 8-K filed with the SEC on March 17, 2017 (File No. 1-8787).    |
| (49) <u>Letter Agreement, dated November 3, 2010, between AIG and Siddhartha Sankaran*</u>  | Incorporated by reference to Exhibit 10.7 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (File No. 1-8787). |

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| <p>(50) <u>Non-Competition, Non-Solicitation and Non-Disclosure Agreement, dated November 5, 2010, between AIG and Siddhartha Sankaran*</u></p> | <p>Incorporated by reference to Exhibit 10.8 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (File No. 1-8787).</p>  |
| <p>(51) <u>Letter Agreement, dated July 22, 2015, between AIG and Douglas A. Dachille*</u></p>  | <p>Incorporated by reference to Exhibit 10.9 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (File No. 1-8787).</p>  |
| <p>(52) <u>Non-Solicitation and Non-Disclosure Agreement, dated July 22, 2015, between AIG and Douglas A. Dachille*</u></p>                     | <p>Incorporated by reference to Exhibit 10.10 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (File No. 1-8787).</p> |
| <p>(53) <u>Letter Agreement, dated May 14, 2017, between American International Group, Inc. and Brian Duperreault*</u></p>                      | <p>Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on May 15, 2017 (File No. 1-8787).</p>       |
| <p>(54) <u>Form of Stock Option Award Agreement, between American International Group, Inc. and Brian Duperreault*</u></p>                      | <p>Incorporated by reference to Exhibit 10.2 to AIG's Current Report on Form 8-K filed with the SEC on May 15, 2017 (File No. 1-8787).</p>       |
| <p>(55) <u>Letter Agreement, dated July 3, 2017, between American International Group, Inc. and Peter Zaffino*</u></p>                          | <p>Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on July 6, 2017 (File No. 1-8787).</p>       |

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|       | <u>(56) Non-Solicitation and Non-Disclosure Agreement, dated July 5, 2017, between American International Group, Inc. and Peter Zaffino*</u>   | Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on July 6, 2017 (File No. 1-8787).  |
|       | <u>(57) Form of Stock Option Award Agreement, between American International Group, Inc. and Peter Zaffino*</u>  | Incorporated by reference to Exhibit 10.2 to AIG's Current Report on Form 8-K filed with the SEC on July 6, 2017 (File No. 1-8787).  |
|       | <u>(58) Letter Agreement, dated June 28, 2017, between American International Group, Inc. and Seraina Macia*</u>   | Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on July 18, 2017 (File No. 1-8787). |
|       | <u>(59) Non-Solicitation and Non-Disclosure Agreement, dated July 12, 2017, between American International Group, Inc. and Seraina Macia*</u>  | Incorporated by reference to Exhibit 10.2 to AIG's Current Report on Form 8-K filed with the SEC on July 18, 2017 (File No. 1-8787). |
|       | <u>(60) Form of Long Term Incentive Stock Option Award Agreement*</u>  | Filed herewith.  |
| 11    | <u>Statement re: Computation of Per Share Earnings</u>   | Included in Note 18 to Consolidated Financial Statements.  |
| 12    | <u>Computation of Ratios of Earnings to Fixed Charges</u>  | Filed herewith.  |
| 21    | <u>Subsidiaries of Registrant</u>  | Filed herewith.  |
| 23    | <u>Consent of Independent Registered Public Accounting Firm</u>  | Filed herewith.  |
| 24    | <u>Powers of attorney</u>  | Included on signature page and filed herewith.   |
| 31    | <u>Rule 13a-14(a)/15d-14(a) Certifications</u>   | Filed herewith.  |
| 32    | <u>Section 1350 Certifications**</u>   | Filed herewith.  |
| 99.02 | <u>Securities Registered pursuant to Section 12(b) of the Act</u>  | Filed herewith.  |
| 101   | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of December 31, 2017 and December 31, 2016, (ii) the Consolidated Statements of Income for the three years ended December 31, 2017, (iii) the Consolidated Statements of Equity for the three years ended December 31, 2017, (iv) the Consolidated Statements of Cash Flows for the three years ended December 31, 2017, (v) the | Filed herewith.  |

Consolidated Statements of Comprehensive  
Income (Loss) for the three years ended  
December 31, 2017 and (vi) the Notes to the  
Consolidated Financial Statements.

\* 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****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 16th of February, 2018.

**GROUP, INC.****AMERICAN INTERNATIONAL**DUPERREULTBy /S/ BRIAN

and Chief Executive Officer)

(Brian Duperreault, President

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Brian Duperreault and Siddhartha Sankaran, 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 16th of February, 2018.

| <b>SIGNATURE</b>  | <b>TITLE</b>  |
|---|---|
| <b>/S/ BRIAN DUPERREULT</b><br>(Brian Duperreault)      | <b>President, Chief Executive Officer and Director</b><br><b>(Principal Executive Officer)</b>                              |
| <b>/S/ SIDDHARTHA SANKARAN</b><br>(Siddhartha Sankaran) | <b>Executive Vice President and Chief Financial Officer</b><br><b>(Principal Financial Officer)</b>                         |
| <b>/S/ ELIAS F. HABAYEB</b><br>(Elias F. Habayeb)       | <b>Senior Vice President – Deputy Chief Financial Officer and Group Controller</b><br><b>(Principal Accounting Officer)</b> |

|                          |                 |
|--------------------------|-----------------|
| /S/ W. DON CORNWELL      |                 |
| (W. Don Cornwell)        | <b>Director</b> |
| /S/ PETER R. FISHER      |                 |
| (Peter R. Fisher)        | <b>Director</b> |
| /S/ JOHN H. FITZPATRICK  |                 |
| (John H. Fitzpatrick)    | <b>Director</b> |
| /S/ WILLIAM G. JURGENSEN |                 |
| (William G. Jurgensen)   | <b>Director</b> |
| /S/ CHRISTOPHER S. LYNCH |                 |
| (Christopher S. Lynch)   | <b>Director</b> |

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|                           |  |                 |
|---------------------------|--|-----------------|
| /S/ SAMUEL J. MERKSAMER   |  |                 |
| (Samuel J. Merksamer)     |  | <b>Director</b> |
| /S/ HENRY S. MILLER       |  |                 |
| (Henry S. Miller)         |  | <b>Director</b> |
| /S/ LINDA A. MILLS        |  |                 |
| (Linda A. Mills)          |  | <b>Director</b> |
| /S/ SUZANNE NORA JOHNSON  |  |                 |
| (Suzanne Nora Johnson)    |  | <b>Director</b> |
| /S/ RONALD A. RITTENMEYER |  |                 |
| (Ronald A. Rittenmeyer)   |  | <b>Director</b> |
| /S/ DOUGLAS M. STEENLAND  |  |                 |
| (Douglas M. Steenland)    |  | <b>Director</b> |
| /S/ THERESA M. STONE      |  |                 |
| (Theresa M. Stone)        |  | <b>Director</b> |

**TABLE OF CONTENTS****Summary of Investments — Other than Investments in Related Parties****Schedule I****At December 31, 2017***(in millions)***Fixed maturities:**

|  | Cost <sup>(a)</sup> | Fair Value     | Amount at<br>which shown in<br>the Balance Sheet |
|--|---------------------|----------------|--|
| U.S. government and government sponsored entities                | \$ 5,334            | \$ 5,458       | 5,458  |
| Obligations of states, municipalities and political subdivisions | 17,377              | 18,644         | 18,644   |
| Non-U.S. governments   | 15,116              | 15,716         | 15,716   |
| Public utilities   | 17,654              | 18,870         | 18,870   |
| All other corporate debt securities                              | 110,565             | 117,215        | 117,215  |
| Mortgage-backed, asset-backed and collateralized                 | 72,187              | 75,861         | 75,861   |
| <b>Total fixed maturity securities</b>                           | <b>238,233</b>      | <b>251,764</b> | <b>251,764</b>                                   |

**Equity securities and mutual funds:**

|  |                   |                   |                |
|--|-------------------|-------------------|----------------|
| Common stock:  |                   |                   |                |
| Public utilities   | 1                 | 1                 | 1              |
| Banks, trust and insurance companies                             | 924               | 1,126             | 1,126          |
| Industrial, miscellaneous and all other                          | 326               | 483               | 483            |
| <b>Total common stock</b>  | <b>1,251</b>      | <b>1,610</b>      | <b>1,610</b>   |
| Preferred stock  | 504               | 533               | 533            |
| Mutual funds   | 139               | 154               | 154            |
| <b>Total equity securities and mutual funds</b>                  | <b>1,894</b>      | <b>2,297</b>      | <b>2,297</b>   |
| <b>Mortgage and other loans receivable, net of allowance</b>     | <b>37,023</b>     | <b>37,766</b>     | <b>37,023</b>  |
| <b>Other invested assets</b>                                     | <b>20,682</b>     | <b>20,824</b>     | <b>20,822</b>  |
| <b>Short-term investments, at cost (approximates fair value)</b> | <b>10,386</b>     | <b>10,386</b>     | <b>10,386</b>  |
| <b>Derivative assets<sup>(b)</sup></b>                           | <b>922</b>        | <b>922</b>        | <b>922</b>     |
| <b>Total investments</b>   | <b>\$ 309,140</b> | <b>\$ 323,959</b> | <b>323,214</b> |

(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 II</b> |                   |
|--|--------------------|-------------------|
| <b>December 31,</b><br><i>(in millions)</i>  | <b>2017</b>        | <b>2016</b>       |
| <b>Assets:</b>   |                    |                   |
| Short-term investments   | \$ 2,541           | \$ 4,424          |
| Other investments  | 6,004              | 7,154             |
| <b>Total investments</b>   | <b>8,545</b>       | <b>11,578</b>     |
| Cash   | 3                  | 2                 |
| Loans to subsidiaries*   | 35,004             | 34,692            |
| Due from affiliates - net*   | 1,585              | 3,460             |
| Intercompany tax receivable*   | 3,058              | 5,129             |
| Deferred income taxes  | 11,030             | 15,169            |
| Investments in consolidated subsidiaries*  | 40,135             | 42,582            |
| Other assets   | 343                | 341               |
| <b>Total assets</b>  | <b>\$ 99,703</b>   | <b>\$ 112,953</b> |
| <b>Liabilities:</b>  |                    |                   |
| Due to affiliate*  | \$ 4,340           | \$ 6,083          |
| Intercompany tax payable*  | 4,577              | 4,152             |
| Deferred tax liabilities   | -                  | -                 |
| Notes and bonds payable  | 20,339             | 19,432            |
| Junior subordinated debt   | 841                | 843               |
| MIP notes payable  | 356                | 1,099             |
| Series AIGFP matched notes and bonds payable   | 21                 | 31                |
| Loans from subsidiaries*   | 517                | 577               |
| Other liabilities (includes intercompany derivative liabilities of \$63 in 2017 and \$419 in 2016) | 3,541              | 4,436             |
| <b>Total liabilities</b>   | <b>34,532</b>      | <b>36,653</b>     |
| <b>AIG Shareholders' equity:</b>   |                    |                   |
| Common stock   | 4,766              | 4,766             |
| Treasury stock   | (47,595)           | (41,471)          |
| Additional paid-in capital   | 81,078             | 81,064            |
| Retained earnings  | 21,457             | 28,711            |
| Accumulated other comprehensive income   | 5,465              | 3,230             |
| <b>Total AIG shareholders' equity</b>  | <b>65,171</b>      | <b>76,300</b>     |
| <b>Total liabilities and equity</b>  | <b>\$ 99,703</b>   | <b>\$ 112,953</b> |

\* 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)***Revenues:**

|   | 2017             | 2016       | 2015       |
|---|------------------|------------|------------|
| Equity in undistributed net income (loss) of consolidated subsidiaries <sup>(a)</sup> | <b>\$(2,375)</b> | \$ (8,633) | \$ (2,929) |
| Dividend income from consolidated subsidiaries <sup>(a)</sup>                         | <b>2,226</b>     | 7,364      | 6,883      |
| Interest income <sup>(b)</sup>  | <b>656</b>       | 411        | 342        |
| Net realized capital gains (losses)   | <b>46</b>        | 2          | (587)      |
| Other income  | <b>189</b>       | 103        | 333        |

**Expenses:**

|   |            |       |       |
|---|------------|-------|-------|
| Interest expense  | <b>949</b> | 988   | 1,049 |
| Net loss on extinguishment of debt                            | <b>2</b>   | 77    | 703   |
| Net (gain) loss on sale of divested businesses <sup>(c)</sup> | <b>30</b>  | (690) | 11    |
| Other expenses  | <b>922</b> | 985   | 1,167 |

**Income (loss) from continuing operations before income tax expense (benefit)** **(1,161)** (2,113) 1,112

Income tax expense (benefit) **4,922** (1,301) (1,086)

**Net income (loss)** **(6,083)** (812) 2,198

Loss from discontinued operations **(1)** (37) (2)

**Net income (loss) attributable to AIG Parent Company** **\$(6,084)** \$ (849) \$ 2,196

(a) Eliminated in consolidation.

(b) Includes interest income on intercompany borrowings of \$512 million, \$294 million and \$163 million on December 31, 2017, 2016 and 2015, respectively, eliminated in consolidation.

(c) Primarily includes pre-tax gain of \$697 million on the sale of United Guaranty on December 31, 2016. 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)*

|   | 2017              | 2016     | 2015       |
|---|-------------------|----------|------------|
| Net income  | <b>\$ (6,084)</b> | \$ (849) | \$ 2,196   |
| Other comprehensive income                          | <b>2,235</b>      | 693      | (8,080)    |
| <b>Total comprehensive loss attributable to AIG</b> | <b>\$ (3,849)</b> | \$ (156) | \$ (5,884) |

See accompanying Notes to Condensed Financial Information of Registrant.

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**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>2017</b>    | <b>2016</b>     | <b>2015</b>     |
|--|----------------|-----------------|-----------------|
| <b>Net cash provided by operating activities</b>                 | <b>\$ 36</b>   | <b>\$ 2,112</b> | <b>\$ 4,443</b> |
| <b>Cash flows from investing activities:</b>                     |                |                 |                 |
| Sales and maturities of investments                              | <b>5,714</b>   | 5,598           | 7,609           |
| Sales of divested businesses                                     | <b>40</b>      | 2,160           | -               |
| Purchase of investments  | <b>(2,465)</b> | (1,002)         | (1,881)         |
| Net change in short-term investments                             | <b>1,990</b>   | (789)           | 2,300           |
| Contributions to subsidiaries - net                              | <b>2,446</b>   | 1,637           | 565             |
| Mortgage and other loan receivables - originations and purchases | <b>-</b>       | (85)            | -               |
| Payments received on mortgages and other loan receivables        | <b>107</b>     | 171             | 158             |
| Loans to subsidiaries - net                                      | <b>199</b>     | 1,525           | (83)            |
| Other, net   | <b>(183)</b>   | (56)            | (175)           |
| <b>Net cash provided by investing activities</b>                 | <b>7,848</b>   | 9,159           | 8,493           |
| <b>Cash flows from financing activities:</b>                     |                |                 |                 |
| Issuance of long-term debt                                       | <b>1,505</b>   | 3,831           | 5,540           |
| Repayment of long-term debt                                      | <b>(1,724)</b> | (1,996)         | (6,504)         |
| Cash dividends paid  | <b>(1,172)</b> | (1,372)         | (1,028)         |
| Loans from subsidiaries - net                                    | <b>(63)</b>    | 3               | (201)           |
| Purchase of Common Stock   | <b>(6,275)</b> | (11,460)        | (10,691)        |
| Other, net   | <b>(154)</b>   | (309)           | (44)            |
| <b>Net cash used in financing activities</b>                     | <b>(7,883)</b> | (11,303)        | (12,928)        |
| <b>Change in cash</b>  | <b>1</b>       | (32)            | 8               |
| <b>Cash at beginning of year</b>                                 | <b>2</b>       | 34              | 26              |
| <b>Cash at end of year</b>                                       | <b>\$ 3</b>    | <b>\$ 2</b>     | <b>\$ 34</b>    |

**Supplementary disclosure of cash flow information:**

|  | <b>Years Ended December 31,</b> |                 |                |
|--|---------------------------------|-----------------|----------------|
| <i>(in millions)</i>   | <b>2017</b>                     | <b>2016</b>     | <b>2015</b>    |
| <b>Cash (paid) received during the period for:</b>               |                                 |                 |                |
| <b>Interest:</b>   |                                 |                 |                |
| Third party  | <b>\$ (948)</b>                 | <b>\$ (975)</b> | <b>(1,030)</b> |
| Intercompany   | <b>-</b>                        | <b>2</b>        | <b>-</b>       |
| <b>Taxes:</b>  |                                 |                 |                |
| Income tax authorities   | <b>(329)</b>                    | (15)            | (11)           |
| Intercompany   | <b>614</b>                      | 479             | 829            |
| <b>Intercompany non-cash financing and investing activities:</b> |                                 |                 |                |
| Capital contributions  | <b>259</b>                      | 3,245           | 494            |
| Return of capital  | <b>26</b>                       | -               | -              |
| Dividends received in the form of securities                     | <b>735</b>                      | 5,234           | 2,326          |

|  |   |       |     |
|--|---|-------|-----|
| Fixed maturity securities received in exchange for equity securities | - | 440   | -   |
| <b>Non-cash financing/investing activities</b>                       |   |       |     |
| Non-cash consideration received from sale of shares of AerCap        | - | -     | 500 |
| Non-cash consideration received from sale of United Guaranty         | - | 1,101 | -   |

*See accompanying Notes to Condensed Financial Information of Registrant.*

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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 2017 Annual Report on Form 10-K for the year ended December 31, 2017 (Annual Report on Form 10-K) filed with the Securities and Exchange Commission on February 16, 2018.

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 15 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 and deferred taxes related to tax attribute carryforwards of AIG's U.S. consolidated income tax group.

*For additional information see Note 23 to the Consolidated Financial Statements.*

The consolidated U.S. deferred tax asset for net operating loss, capital loss and tax credit carryforwards 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, 2017 and 2016**

| <b>Segment</b> <i>(in millions)</i> |    | Deferred<br>Policy<br>Acquisition<br>Costs | Liability<br>for Unpaid<br>Losses and<br>Loss<br>Adjustment<br>Expenses,<br>Future Policy<br>Benefits | Unearned<br>Premiums | Policy<br>and<br>Contract<br>Claims |
|-------------------------------------|----|--|---|----------------------|-------------------------------------|
| <b>2017</b>                         |    |  |   |                      |                                     |
| General Insurance companies         | \$ | 2,587\$                                    | 73,530\$  | 18,795\$             | -                                   |
| Life and Retirement companies       |    | 8,407                                      | 44,615  | -                    | 851                                 |
| Other <sup>(a)</sup>                |    | -  | 5,680   | 235                  | 9                                   |
|                                     | \$ | 10,994\$                                   | 123,825\$   | 19,030\$             | 860                                 |
| <b>2016</b>                         |    |  |   |                      |                                     |
| General Insurance companies         | \$ | 2,563\$                                    | 71,926\$  | 19,348\$             | -                                   |
| Life and Retirement companies       |    | 8,466                                      | 41,383  | -                    | 836                                 |
| Other <sup>(a)</sup>                |    | 13   | 5,972   | 286                  | 11                                  |
|                                     | \$ | 11,042\$                                   | 119,281\$   | 19,634\$             | 847                                 |

**For the years ended December 31, 2017, 2016 and 2015**

| <b>Segment</b> <i>(in millions)</i> |    | Premiums<br>and<br>Policy<br>Fees | Net<br>Investment<br>Income | Losses<br>and Loss<br>Expenses<br>Incurred,<br>Benefits | Amortization<br>of Deferred<br>Policy<br>Acquisition<br>Costs | Other<br>Operating<br>Expenses | Net<br>Premiums<br>Written <sup>(b)</sup> |
|-------------------------------------|----|-----------------------------------|-----------------------------|---|---|--------------------------------|---|
| <b>2017</b>                         |    |                                   |                             |   |   |                                |   |
| General Insurance                   | \$ | 26,026\$                          | 3,668\$                     | 21,642\$  | 3,765\$   | 5,100\$                        | 25,438                                    |
| Life and Retirement                 |    | 6,844                             | 7,816                       | 8,607   | 743   | 2,296                          | -   |
| Other Operations <sup>(a)</sup>     |    | 712                               | (81)                        | 1,076   | (296)   | -                              | 314                                       |
| Legacy Operations                   |    | 727                               | 2,776                       | 2,239   | 76  | -                              | 4   |
|                                     | \$ | 34,309\$                          | 14,179\$                    | 33,564\$  | 4,288\$   | 7,396\$                        | 25,756                                    |
| <b>2016</b>                         |    |                                   |                             |   |   |                                |   |
| General Insurance                   | \$ | 29,586\$                          | 3,554\$                     | 25,103\$  | 4,121\$   | 5,967\$                        | 28,393                                    |
| Life and Retirement                 |    | 4,878                             | 7,622                       | 6,945   | 613   | 2,700                          | -   |
| Other Operations <sup>(a)</sup>     |    | 1,845                             | (24)                        | 743   | (321)   | -                              | 819                                       |

|                                 |             |          |          |         |          |        |
|---------------------------------|-------------|----------|----------|---------|----------|--------|
| Legacy Operations               | 816         | 2,913    | 3,351    | 108     | -        | 21     |
|                                 | \$ 37,125\$ | 14,065\$ | 36,142\$ | 4,521\$ | 8,667\$  | 29,233 |
| <b>2015</b>                     |             |          |          |         |          |        |
| General Insurance               | \$ 30,922\$ | 3,746\$  | 22,873\$ | 4,319\$ | 6,848\$  | 32,199 |
| Life and Retirement             | 5,677       | 7,541    | 7,745    | 794     | 3,607    | -      |
| Other Operations <sup>(a)</sup> | 1,641       | (162)    | 854      | 21      | -        | 668    |
| Legacy Operations               | 1,170       | 2,928    | 3,604    | 102     | -        | 199    |
|                                 | \$ 39,410\$ | 14,053\$ | 35,076\$ | 5,236\$ | 10,455\$ | 33,066 |

(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, 2017, 2016 and 2015 and for the years then ended**

| <i>(in millions)</i>                    | Gross<br>Amount     | Ceded to<br>Other<br>Companies | Assumed<br>from Other<br>Companies | Net Amount        | Percent of<br>Amount<br>Assumed<br>to Net |
|---|---------------------|--------------------------------|------------------------------------|-------------------|---|
| <b>2017</b>                             |                     |                                |                                    |                   |   |
| <b>Long-duration insurance in force</b> | <b>\$ 1,061,095</b> | <b>\$ 202,402</b>              | <b>\$ 321</b>                      | <b>\$ 859,014</b> | <b>-%</b>                                 |
| <b>Premiums:</b>                        |                     |                                |                                    |                   |   |
| General Insurance companies             | \$ 30,205           | \$ 7,533                       | \$ 3,084                           | \$ 25,756         | 12.0%                                     |
| Life and Retirement companies           | 5,053               | 809                            | 285                                | 4,529             | 6.3                                       |
| Other                                   | -                   | -                              | -                                  | -                 | -   |
| <b>Total</b>                            | <b>\$ 35,258</b>    | <b>\$ 8,342</b>                | <b>\$ 3,369</b>                    | <b>\$ 30,285</b>  | <b>11.1%</b>                              |
| <b>2016</b>                             |                     |                                |                                    |                   |   |
| <b>Long-duration insurance in force</b> | <b>\$ 1,025,653</b> | <b>\$ 174,363</b>              | <b>\$ 339</b>                      | <b>\$ 851,629</b> | <b>-%</b>                                 |
| <b>Premiums:</b>                        |                     |                                |                                    |                   |   |
| General Insurance companies             | \$ 33,970           | \$ 7,561                       | \$ 2,824                           | \$ 29,233         | 9.7%                                      |
| Life and Retirement companies           | 4,609               | 789                            | 123                                | 3,943             | 3.1                                       |
| Other                                   | -                   | -                              | -                                  | -                 | -   |
| <b>Total</b>                            | <b>\$ 38,579</b>    | <b>\$ 8,350</b>                | <b>\$ 2,947</b>                    | <b>\$ 33,176</b>  | <b>8.9%</b>                               |
| <b>2015</b>                             |                     |                                |                                    |                   |   |
| <b>Long-duration insurance in force</b> | <b>\$ 1,051,571</b> | <b>\$ 177,025</b>              | <b>\$ 372</b>                      | <b>\$ 874,918</b> | <b>-%</b>                                 |
| <b>Premiums:</b>                        |                     |                                |                                    |                   |   |
| General Insurance companies             | \$ 37,698           | \$ 7,604                       | \$ 2,972                           | \$ 33,066         | 9.0%                                      |
| Life and Retirement companies           | 5,233               | 756                            | 7                                  | 4,484             | 0.2                                       |
| Other                                   | -                   | -                              | -                                  | -                 | -   |
| <b>Total</b>                            | <b>\$ 42,931</b>    | <b>\$ 8,360</b>                | <b>\$ 2,979</b>                    | <b>\$ 37,550</b>  | <b>7.9%</b>                               |

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**TABLE OF CONTENTS****Valuation and Qualifying Accounts****For the years ended December 31, 2017, 2016 and 2015**

| <i>(in millions)</i>  | Balance,<br>Beginning<br>of year | Additions<br>Charged to<br>Costs and<br>Expenses | Charge Offs | Reclassified<br>to Assets of<br>Businesses<br>Held for Sale | Divested<br>Businesses | Other<br>Changes |
|---|----------------------------------|--|-------------|---|------------------------|------------------|
| <b>2017</b>   |                                  |  |             |   |                        |                  |
| Allowance for mortgage and other loans receivable               | \$ 297                           | \$ 49  | (25)        | \$ -  | \$ -                   |                  |
| Allowance for premiums and insurances balances receivable       | 262                              | 36   | (58)        | -   | (8)                    |                  |
| Allowance for reinsurance assets                                | 207                              | 33   | (50)        | -   | -                      |                  |
| Federal and foreign valuation allowance for deferred tax assets | 2,831                            | 43   | -           | -   | -                      | (1,500)          |
| <b>2016</b>   |                                  |  |             |   |                        |                  |
| Allowance for mortgage and other loans receivable               | \$ 308                           | (7)  | (15)        | \$ -  | \$ -                   |                  |
| Allowance for premiums and insurances balances receivable       | 333                              | 26   | (88)        | (2)   | (7)                    |                  |
| Allowance for reinsurance assets                                | 272                              | (23)   | (34)        | (8)   | -                      |                  |
| Federal and foreign valuation allowance for deferred tax assets | 3,012                            | 83   | -           | -   | -                      | (260)            |
| <b>2015</b>   |                                  |  |             |   |                        |                  |
| Allowance for mortgage and other loans receivable               | \$ 271                           | \$ 58  | (29)        | \$ -  | \$ 3                   |                  |
| Allowance for premiums and insurances balances receivable       | 431                              | 35   | (120)       | -   | -                      | (100)            |
| Allowance for reinsurance assets                                | 258                              | 90   | (67)        | -   | -                      |                  |
| Federal and foreign valuation allowance for deferred tax assets | 1,739                            | 110  | -           | -   | -                      | 1,100            |

\* Includes recoveries of amounts previously charged off and reclassifications to/from other accounts.