



**American International Group, Inc.**  
2016 Annual Report





# Financial Highlights<sup>1</sup>

## Years Ended December 31,

(dollars in millions, except per share data)

|                                                                                       | 2016       | 2015       | 2014       |
|---------------------------------------------------------------------------------------|------------|------------|------------|
| <b>Operating results:</b>                                                             |            |            |            |
| Total revenues                                                                        | \$ 52,367  | \$ 58,327  | \$ 64,406  |
| Net income (loss) attributable to AIG                                                 | \$ (849)   | \$ 2,196   | \$ 7,529   |
| Aftertax operating income attributable to AIG <sup>2</sup>                            | \$ 406     | \$ 2,872   | \$ 6,941   |
| Net income (loss) per common share attributable to AIG (diluted)                      | \$ (0.78)  | \$ 1.65    | \$ 5.20    |
| Aftertax operating income per common share attributable to AIG (diluted) <sup>2</sup> | \$ 0.36    | \$ 2.15    | \$ 4.79    |
| <b>Balance sheet (year-end):</b>                                                      |            |            |            |
| Total assets                                                                          | \$ 498,264 | \$ 496,842 | \$ 515,500 |
| Total AIG shareholders' equity                                                        | \$ 76,300  | \$ 89,658  | \$ 106,898 |
| <b>Key metrics:</b>                                                                   |            |            |            |
| Book value per common share                                                           | \$ 76.66   | \$ 75.10   | \$ 77.69   |
| Adjusted book value per common share, including dividend growth <sup>3</sup>          | \$ 59.79   | \$ 59.26   | \$ 58.23   |
| Return on equity (ROE)                                                                | (1.0)%     | 2.2 %      | 7.1 %      |
| Adjusted ROE <sup>4</sup>                                                             | 0.6 %      | 3.7 %      | 8.8 %      |
| Core Normalized ROE <sup>5</sup>                                                      | 7.8 %      | 7.2 %      | n/a        |
| <b>Commercial Insurance:</b>                                                          |            |            |            |
| Combined ratio <sup>6</sup>                                                           | 133.1      | 114.5      | 100.0      |
| Accident year combined ratio, as adjusted <sup>7</sup>                                | 95.8       | 94.7       | 94.9       |
| <b>Consumer Insurance:</b>                                                            |            |            |            |
| Personal Insurance combined ratio                                                     | 96.4       | 102.3      | 99.9       |
| Personal Insurance accident year combined ratio, as adjusted <sup>7</sup>             | 96.2       | 101.1      | 99.5       |
| Individual Retirement premiums and deposits <sup>8</sup>                              | \$ 16,062  | \$ 18,376  | \$ 17,324  |
| Group Retirement premiums and deposits <sup>8</sup>                                   | \$ 7,570   | \$ 6,920   | \$ 6,743   |
| Life Insurance premiums and deposits <sup>8</sup>                                     | \$ 3,519   | \$ 3,370   | \$ 3,174   |

<sup>1</sup> The non-GAAP financial measures presented herein may not be comparable to similarly-named measures reported by other companies. The reconciliations of such measures to the most comparable GAAP measures in accordance with Regulation G are included within this Annual Report, AIG's Annual Report on Form 10K for the fiscal year ended December 31, 2016 (included herein) or in the Fourth Quarter 2016 Financial Supplement available in the Investor Information section of AIG's website, [www.aig.com](http://www.aig.com).

<sup>2</sup> Aftertax operating income attributable to AIG and Aftertax operating income per common share attributable to AIG (diluted) are reconciled on pages 64 and 65 of the Annual Report on Form 10K (included herein).

<sup>3</sup> Book value per common share excluding Accumulated other comprehensive income (loss) (AOCI) and Deferred tax assets (DTA), including dividend growth, is reconciled on page 35 of the Annual Report on Form 10K (included herein).

<sup>4</sup> Return on equity – aftertax operating income excluding AOCI and DTA is reconciled on page 35 of the Annual Report on Form 10K (included herein).

<sup>5</sup> Normalized return on attributed equity is defined and reconciled on pages 330 and 334 of this Annual Report. Normalized return on attributed equity is only available for fiscal years 2015 and 2016, and not prior.

<sup>6</sup> Consistent with our definition of pre-tax operating income, excludes loss reserve discount.

<sup>7</sup> Accident year combined ratios, as adjusted, are reconciled on pages 70 and 94 for Commercial and Personal Insurance, respectively, in the Annual Report on Form 10K (included herein).

<sup>8</sup> Premiums and deposits are reconciled on pages 86, 90, and 93 for Individual Retirement, Group Retirement, and Life Insurance, respectively, in the Annual Report on Form 10K (included herein).

American International Group, Inc. (AIG) is a leading global insurance organization. Founded in 1919, today AIG member companies provide a wide range of property casualty insurance, life insurance, retirement products, and other financial services to customers in more than 80 countries and jurisdictions.

These diverse offerings include products and services that help businesses and individuals protect their assets, manage risks and provide for retirement security.

AIG's core businesses include Commercial Insurance and Consumer Insurance, as well as Other Operations. Commercial Insurance comprises two modules – Liability and Financial Lines, and Property and Special Risks. Consumer Insurance comprises four modules – Individual Retirement, Group Retirement, Life Insurance and Personal Insurance.

AIG common stock is listed on the New York Stock Exchange and the Tokyo Stock Exchange.

# Letter from the Chairman

**DOUGLAS M. STEENLAND**  
Non-Executive Chairman of the Board

## Dear AIG Shareholder,

I would like to start my letter to you by thanking Peter Hancock for his service as President and Chief Executive Officer. During his tenure at AIG, Peter has tackled the company's most complex issues, including his role in the repayment of AIG's obligations to the U.S. Treasury in full and with a profit. He set the course for AIG to deliver higher quality, more sustainable earnings and dramatically reduced reserve risk. The Board of Directors and I are grateful for his leadership over the seven years he has been with the company.

Peter brought together a highly talented Executive Leadership Team. The Board has great confidence in this team to continue executing against the two-year Strategic Plan as announced in January 2016. We remain committed to our financial targets and objectives, including the return of capital to our shareholders and exceeding our expense reduction targets.

The Board and management team believe strongly that we are on the right strategic path. In fulfilling our fiduciary duties to you, the Board regularly examines strategic options. We previously rejected a potential split of the company between our Commercial and Consumer businesses as the analysis showed this to be value-destructive. This analysis still stands. Beyond the capital demands of such a scenario, we would also be sacrificing the value of AIG's global franchise. Across our Commercial and Consumer platforms, we see opportunities to serve our customers through our broad offering of product solutions.

For example, we offer bespoke products that utilize the Commercial Multinational platform for individuals in the Private Client Group and Commercial/Consumer combined solutions for clients serving the shared economy.

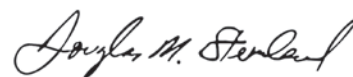
Looking ahead, I have great confidence in the future of the company. Our balance sheet remains strong, and we expect to gain the benefit from actions taken in 2016, with a significantly improved risk profile and a more efficient cost base. Within the businesses, we expect our Consumer business to continue to perform well, and for the operating improvements in Commercial to positively impact financial performance.

The Board is actively engaged in the process of identifying the right individual to serve as CEO and lead the company at this important time. AIG is a world-class insurance company with its best years ahead of it.

The Board and I would like to thank our diligent and hard-working employees around the world for continuing to provide the highest levels of service to our clients. To AIG customers, thank you for choosing AIG as your partner to navigate an ever-changing and challenging world. Everyone at AIG is committed to continually improving our service and products to be our clients' most valued insurer.

Finally, to our shareholders, thank you for your support. We are committed to delivering value to you, both today and long into the future.

Sincerely,



**DOUGLAS M. STEENLAND**  
Non-Executive Chairman of the Board

# Letter from the President and CEO



**PETER D. HANCOCK**  
President and Chief Executive Officer

## Dear Fellow Shareholders,

It has been an incredible privilege working alongside so many talented and dedicated AIG colleagues on your behalf over the past seven years, and I am deeply honored to have been entrusted with the role of CEO.

When my predecessor, Bob Benmosche, recruited me to AIG in early 2010, the company was still reeling from the financial crisis. Strategic priorities were centered on three areas: (i) de-risking AIG's balance sheet, including unwinding nearly one trillion dollars of complex derivatives; (ii) retaining customers and talent to preserve our franchises; and (iii) paying back the U.S. government and returning quickly to market ownership. Few expected AIG to survive, let alone deliver nearly a \$23 billion profit to America.

Four years after repaying the government, AIG has completed another significant step in the transformation on which Bob and I embarked. Over the course of 2016, our team has taken decisive actions to address the issues of the past and place the company on sounder financial footing for the future. As a result, I am confident that AIG is better positioned today than at any time in the past quarter-century to deliver sustainable earnings growth, with dramatically lower reserve risk.

## A Year of Execution

We are at or ahead of plan on a number of our two-year financial targets set in the January 2016 Strategic Update. We expect to meet our \$25 billion capital return target, subject to regulatory and rating agency considerations, and future profitability improvements, having returned over \$13 billion in capital last year. The company continues to maintain strong capital and liquidity ratios to meet the expectations of key stakeholders, including clients and rating agencies. For the full year 2016, general operating and other expenses (GOE), operating basis, decreased by almost 10% year-over-year, on a constant-dollar basis, or \$1 billion in total, exceeding our 2016 target by roughly \$400 million and putting us on track to exceed our two-year reduction target of \$1.4 billion.

Our Consumer business, led by Kevin Hogan, performed very well, and I am particularly proud of the tremendous turnaround in Personal Insurance, where strategic portfolio actions and cost reductions led to a \$600 million improvement in pre-tax operating income (PTOI), and Normalized return on attributed equity (ROE) increasing from (-3%) in 2015 to over 10% in 2016.

Within Commercial Insurance, led by Rob Schimek, the changes in business mix and other initiatives that were implemented to improve underwriting performance are beginning to take hold, as demonstrated by a 4 percentage-point improvement in the accident year loss ratio (AYLR), as adjusted in 2016, after adjusting 2015 for prior year development (PYD), a significant achievement given the scale of our business. Through the end of 2017, Commercial AYLR, as adjusted, and Core Normalized ROE are expected to improve by 9 percentage points and 350 basis points, respectively, as compared to 6 percentage points and 300 basis points when we established the Strategic Plan.



Supporting our objective to transform AIG into a leaner, more profitable and focused insurer, we made significant progress in sculpting our portfolio around those assets, geographies, businesses, product lines, risks, customers and distribution channels that offer the greatest potential to earn sustainable economic profits. We executed against this strategy with speed, but with care to ensure that any actions taken were consistent with our vision of becoming our clients' most valued insurer.

In 2016 alone, AIG completed or announced over 10 transactions, which in aggregate will generate approximately \$10 billion of liquidity, most of which was received in 2016. These included the divestitures of United Guaranty, Fuji Life, Ascot, a number of country subsidiary operations and other assets, and several life reinsurance transactions. Since I joined AIG seven years ago, the disposal of complex assets and liabilities totaled 48 transactions and \$91 billion in value.

### **Dramatically Improving Our Reserve Risk Profile**

The steps we took this past year were radical.

Ten years of sizable reserve additions largely related to older accident years culminated in the disappointing fourth quarter reserve charge. Following an in-depth review of our Commercial business's reserve position that took place throughout 2016, we felt it prudent to make adjustments recognizing unexpected developments in prior accident years in our U.S. Casualty book, as well as to shift a majority of the further reserve risk to those lines away from AIG's balance sheet. Having spent considerable time analyzing what happened, we concluded that we had historically been slow to recognize the depth of issues within our U.S. Casualty business.

Over the past several years these ranged from the macro issues of investment returns depressed by persistently low interest rates; the use of a hurdle rate for new business, which was in hindsight below investor expectations; and more micro issues like the slow exit of troubled lines such as pollution-legal-liability and buffer-trucking.

Once identified, we responded decisively through the reserve strengthening in the fourth quarter; the purchase of an adverse development reinsurance agreement (ADC); and increasing the levels at which we book loss picks for 2016 and 2017. The vast majority of the reserve strengthening is covered by the ADC, and roughly 93% of the adverse PYD was related to lines we are already remediating or improving under the transformation plan. While we continue to support valued clients by underwriting certain long-tail risks, we've also drastically reduced the net premiums written volume of U.S. Casualty, from approximately \$15 billion in 2004 to just \$3.5 billion in 2016. I am confident that we will continue to successfully transform the Commercial business under Rob's forward-thinking leadership, blending elements of traditional underwriting judgment with the use of advanced data and analytics where appropriate.

While ADCs are not new to the insurance industry, the agreement with Berkshire Hathaway is the largest and most comprehensive reinsurance transaction in history. The agreement radically reduces AIG's risk of significant future adverse development and covers our most unpredictable, long-tail U.S. Commercial exposures for accident years 2015 and prior, whereby Berkshire is responsible for 80% of future potential losses, up to a limit of \$20 billion. This transaction generated a \$2.6 billion pre-tax gain that will be recognized over time, beginning in the first quarter of 2017. Through the ADC, and consistent with our focus on Intrinsic Value, we lowered our near-term Core

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# \$13B

**CAPITAL RETURNED TO SHAREHOLDERS IN 2016**

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# 10+

**COMPLETED OR ANNOUNCED TRANSACTIONS IN 2016**



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“Our actions have been guided by an unrelenting focus on maximizing Intrinsic Value – our ‘true north’ – and associated decisions that carefully weigh the trade-offs among growth, profitability and risk.”

# Letter from the President and CEO

Continued

Normalized ROE target by 50 basis points, due to foregone investment income, in exchange for a significant reduction in uncertainty.

Another unique and critical feature of the agreement is that it allows AIG to retain control of claims management, preserving our client relationships, while also demonstrating the strength and quality of our claims expertise.

I believe the fourth quarter results represented a critical inflection point in our journey of value creation. In a highly cyclical industry with inherent volatility of GAAP results, it is important to distinguish between one-off adjustments to book value in contrast to improvements in earnings quality that can be sustained over the long term. From the perspective of quality of earnings, risk and cost of capital, I'm optimistic that AIG can emerge from this period of transformation with significantly greater stability, focus and potential to serve the needs of our many stakeholders.

## A More Transparent Operating Structure

We also executed against our plan to reorganize the company into "modular," more self-contained business units to enhance customer-centricity, transparency, accountability, operating performance and strategic flexibility throughout the organization.

In the fourth quarter of 2016, we formalized the reporting of six modular units within our Commercial and Consumer Core Operating segments. Historical financials for each business unit were reported with the release of our 2016 annual results, and include internal capital allocation, operating profit, ROE and other relevant metrics.

In 2016, we also created a third segment – Legacy – to manage non-core assets and liabilities, and businesses in run-off, with the objective of balancing the benefits of return of capital or capital redeployment, with potential near-term reductions in book value.

Our new model facilitates decentralized decision making and drives greater accountability for performance improvement to business leaders down in the organization, while also fostering collaboration across the company. These leaders

are responsible for providing end-to-end service to their customers, developing strategic growth plans, and contributing to AIG's overall financial targets.

In summary, in 2016, the leadership team executed diligently against the Strategic Plan.

## The Year Ahead

As we look to the future, AIG is well positioned – now more than ever – to drive sustainable increases in operating profits and book value. Of course, further work is required to complete AIG's transformation.

While Commercial is poised to deliver a significant improvement in our AYLR, we must continue to invest in talent and technology to realize sustainable gains in underwriting performance. Within our Consumer segment, our retirement and life businesses are well positioned to respond to an uncertain regulatory environment, while in Japan consolidated operations of AIU Insurance Company and The Fuji Fire and Marine Insurance Company, Ltd. began under a pre-merger structure effective April 1, 2017 as the companies enter the final phase of preparation ahead of the launch of AIG General Insurance on January 1, 2018. And through our Legacy segment, we are continuing to reduce our exposure to non-core assets and liabilities, while carefully balancing the trade-off between associated improvements in ROE and potential impacts to book value.

We expect the completion of our Strategic Plan will generate a competitive Core Normalized ROE of 9.5% and grow Core adjusted book value per share. When combined with the greater transparency afforded by our new modular reporting structure and more stable book value owing to the ADC, we expect these financial results should enable us to meet most of our ambitious financial and operating goals set out in January 2016.

The critical ingredients for the successful completion of our plan are stability and focus, and I am extremely proud to have brought together our talented Executive Leadership Team. I have the utmost confidence that they will ensure a seamless transition for all of our critical stakeholders.





# “We are also grateful for the dedication and hard work of our talented employees...”

And while we complete our transformation, we will continue to provide our clients and distribution partners our unwavering support through AIG’s risk expertise, financial strength and global reach. We are also grateful for the dedication and hard work of our talented employees, who remain focused on delivering our vision to be our clients’ most valued insurer.

## Personal Reflections on my Seven Years at AIG

Writing this final letter to my fellow AIG shareholders has caused me to reflect on my own time at the company, including the challenges we have faced and the obstacles we have overcome, but also the dramatic progress we have made since 2010.

I cannot talk about my seven years at AIG without some mention of how the leadership approach of the company has evolved from its traditional roots of “command and control.” When Tom Russo, then General Counsel, and I joined Bob Benmosche shortly after he arrived at AIG, it was clear that we needed to model a collaborative and transparent approach to leadership. Over time, we embedded leadership practices and a culture that will guide decisions throughout this large and diverse company for years to come. Bob’s inclusion of Tom and me in strategic decision making throughout his tenure highlights this as a period of continuous transformation.

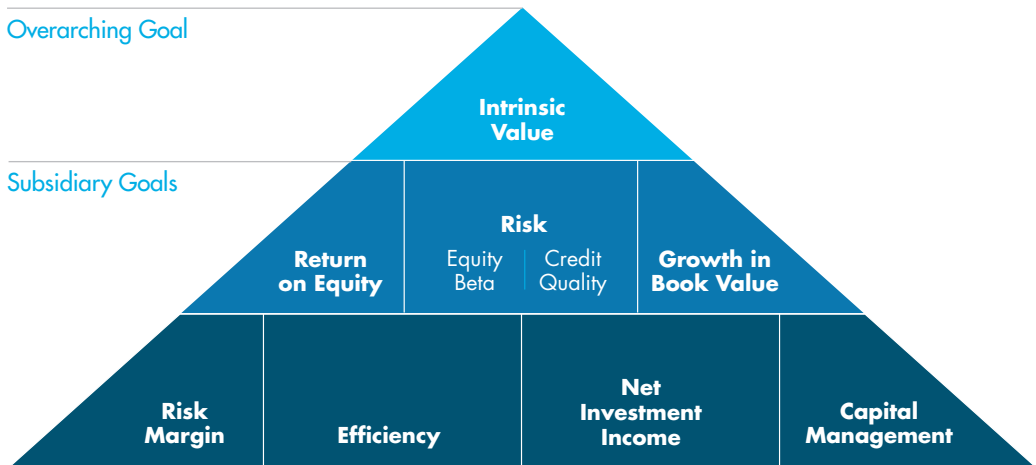
I will also leave behind a leadership team that I have included in strategic decisions, and who have developed the mutual trust and collaboration essential to effectively run what is still a large and complex organization.

Throughout my tenure with AIG, our actions have been guided by an unrelenting focus on maximizing Intrinsic Value – our “true north” – and associated decisions that carefully weigh the trade-offs among growth, profitability and risk.

We put this approach into action in a number of ways, beginning with allocating capital to our businesses; implementing a measure of economic profitability through the business cycle – risk-adjusted profit projected over a reasonable time; refocusing our life and retirement businesses on the value of new business versus the volume-based metric of premiums, deposits and other considerations; setting up a Legacy segment with inherently different value-based objectives than ongoing business franchises; and changing incentive compensation arrangements accordingly.

Since I joined the company in 2010, AIG ranks second among the 25 peers identified in our proxy statement with respect to total shareholder return (TSR). Through the end of 2016, AIG delivered a TSR of 265% versus 141% for an investment in an equal-weight portfolio of our peers and 142% for the S&P 500.

## HIERARCHY OF GOALS



# Letter from the President and CEO

Continued

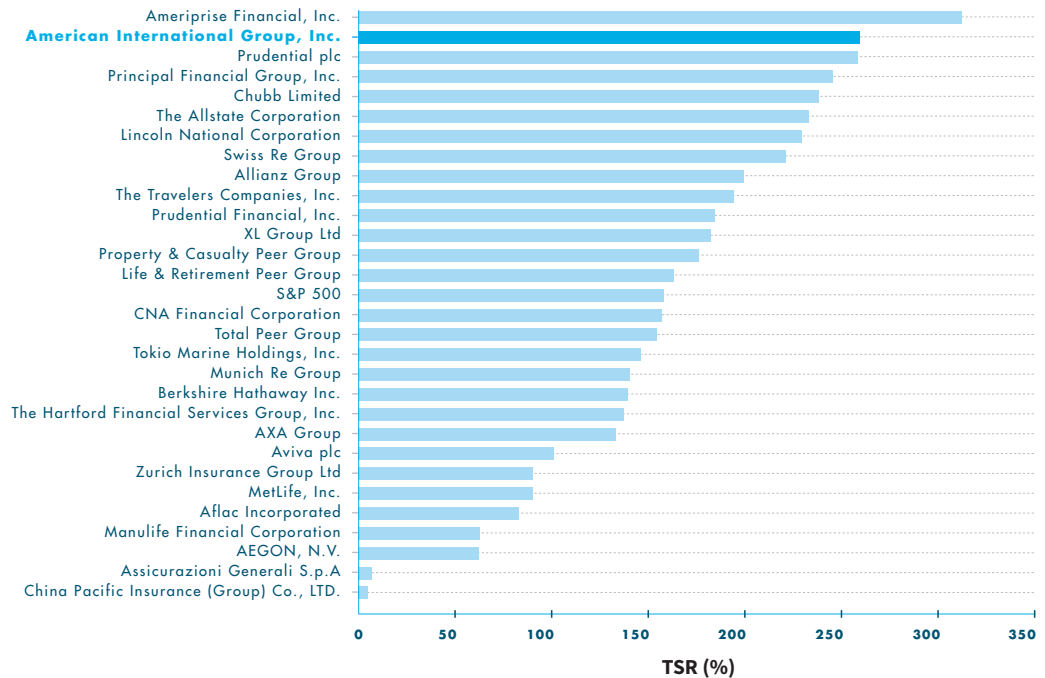
## AIG TOTAL SHAREHOLDER RETURN (TSR) AMONG IDENTIFIED PEERS

February 5, 2010 –  
March 3, 2017

Source: FactSet Research Systems, Inc.

# 265%

TSR DELIVERED THROUGH 2016



The path of this exceptional value creation has never been a straight line. And value creation has always been about navigating extraordinary challenges with a persistent focus on the long term.

If Intrinsic Value is our true north, then our vision to be our clients' most valued insurer is the compass that leads us there. As I stated in my letter to you last year, we can only realize value for shareholders if we generate real value for our clients. Our employees' specialized risk expertise and AIG's unique data assets are being combined to help clients not only transfer risk, but mitigate risk by preventing losses from occurring in the first place. We are also building more integrated customer experiences, where products and services are selectively bundled for targeted customer segments, enhancing the value and sustainability of our relationships.

We believe that the right combination of experienced, client-focused experts armed with strong analytical tools provides our clients with a highly differentiated experience, and gives us the ability to serve them in a way that cements our role as their most valued insurer.

The financial services industry, including insurance and retirement markets, is certain to undergo further

dramatic change in the foreseeable future. Advancements in the collection and analysis of data, digital distribution of financial products, and continued migration from labor-intensive processes to technology-enabled automation will create opportunities for disruption throughout the value chain. I am highly confident that AIG's talented people, scale, relationships, unparalleled data assets, and investments in science and technology provide the company with an exceptional opportunity to lead this disruption. I look forward to working as hard as ever on your behalf to ensure a smooth transition in the coming months.

To my AIG colleagues, it has been an honor to lead such a talented team of people at all levels of the company. Your support, courage, warmth, determination, and teamwork have been a continued source of inspiration for me over the last seven years. Thank you.

Sincerely,

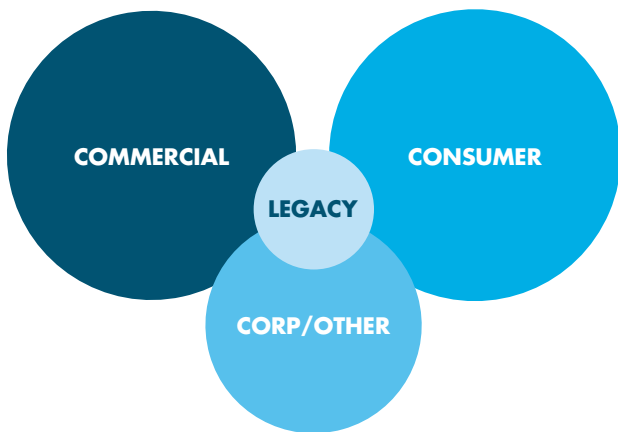
**Peter D. Hancock**  
President and Chief Executive Officer



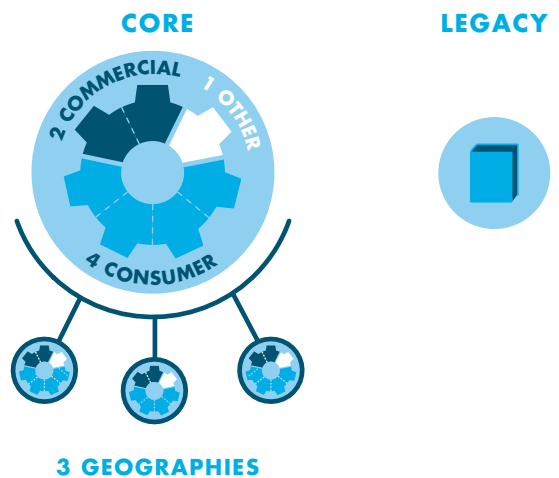
# Modularity: The New Management Reporting Framework

This simpler structure enables us to keep a sharper focus on how we manage the company and capitalize on significant future business opportunities – empowering us to become our clients’ most valued insurer.

## BEFORE



## AFTER



## KEY BENEFITS



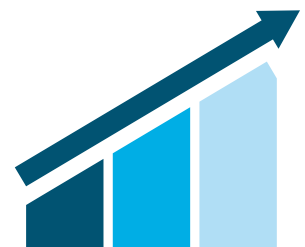
### GREATER TRANSPARENCY

Granular measurement and financial disclosure highlights specific performance of each module. We can amplify our competitive strengths, and move quickly to address challenges.



### MORE EMPOWERED

Each module combines the services and capabilities required to efficiently meet our clients’ needs, further empowering leaders to make decisions for the future success of the businesses and AIG as a whole.



### EFFICIENCY AND PROFITABILITY

Modularity reduces complexity, eliminates duplication, and promotes greater efficiency so we can focus more on profitability.

# Board of Directors



## From left:

### **GEORGE L. MILES, JR.**

Chairman Emeritus  
The Chester Group, Inc.

Former President and Chief Executive Officer  
WQED Multimedia

### **PETER R. FISHER**

Senior Fellow,  
Center for Business, Government and Society,  
and Senior Lecturer  
Tuck School of Business at Dartmouth College

Former Head of Fixed Income Portfolio Management  
BlackRock, Inc.

### **THERESA M. STONE**

Former Executive Vice President and Treasurer  
Massachusetts Institute of Technology

Former Executive Vice President and  
Chief Financial Officer  
Jefferson-Pilot Corporation

Former President  
Chubb Life Insurance Company

### **ROBERT S. MILLER**

President and Chief Executive Officer  
International Automotive Components Group S.A.

Chairman  
MidOcean Partners

Former Chief Executive Officer  
Hawker Beechcraft, Inc.

Former Executive Chairman  
Delphi Corporation

### **HENRY S. MILLER**

Chairman  
Marblegate Asset Management, LLC

Former Chairman and Managing Director  
Miller Buckfire & Co., LLC

### **JOHN H. FITZPATRICK**

Chairman  
White Oak Global Advisors LLC

Former Secretary General  
The Geneva Association

Former Chief Financial Officer,  
Head of the Life and Health Reinsurance  
Business Group and Head of Financial Services  
Swiss Re

### **JOHN A. PAULSON**

President and Portfolio Manager  
Paulson & Co. Inc.

### **RONALD A. RITTENMEYER**

Chairman and Chief Executive Officer  
Millennium Health, LLC

Former Chairman, Chief Executive Officer  
and President  
Electronic Data Systems Corporation

### **LINDA A. MILLS**

Former Corporate Vice President of Operations  
Northrop Grumman Corporation

### **SAMUEL J. MERKSAMER**

Former Managing Director  
Icahn Capital LP

### **W. DON CORNWELL**

Former Chairman of the Board  
and Chief Executive Officer  
Granite Broadcasting Corporation

### **WILLIAM G. JURGENSEN**

Former Chief Executive Officer  
Nationwide Insurance

### **SUZANNE NORA JOHNSON**

Former Vice Chairman  
The Goldman Sachs Group, Inc.

### **CHRISTOPHER S. LYNCH**

Former National Partner in Charge  
of Financial Services  
KPMG LLP

### **DOUGLAS M. STEENLAND**

Non-Executive Chairman of the Board  
American International Group, Inc.

Former President and Chief Executive Officer  
Northwest Airlines Corporation

### **PETER D. HANCOCK**

President and Chief Executive Officer  
American International Group, Inc.





**American International Group, Inc.**

Form 10-K

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

FORM 10-K

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



**American International Group, Inc.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

13-2592361

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

175 Water Street, New York, New York

(Address of principal executive offices)

10038

(Zip Code)

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

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

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

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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

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

**DOCUMENTS INCORPORATED BY REFERENCE**

**Document of the Registrant**

Form 10-K/A to be filed no later than 120 days after the end of the fiscal year

**Form 10-K Reference Locations**

Part II, Item 5 and Part III, Items 10, 11, 12, 13 and 14



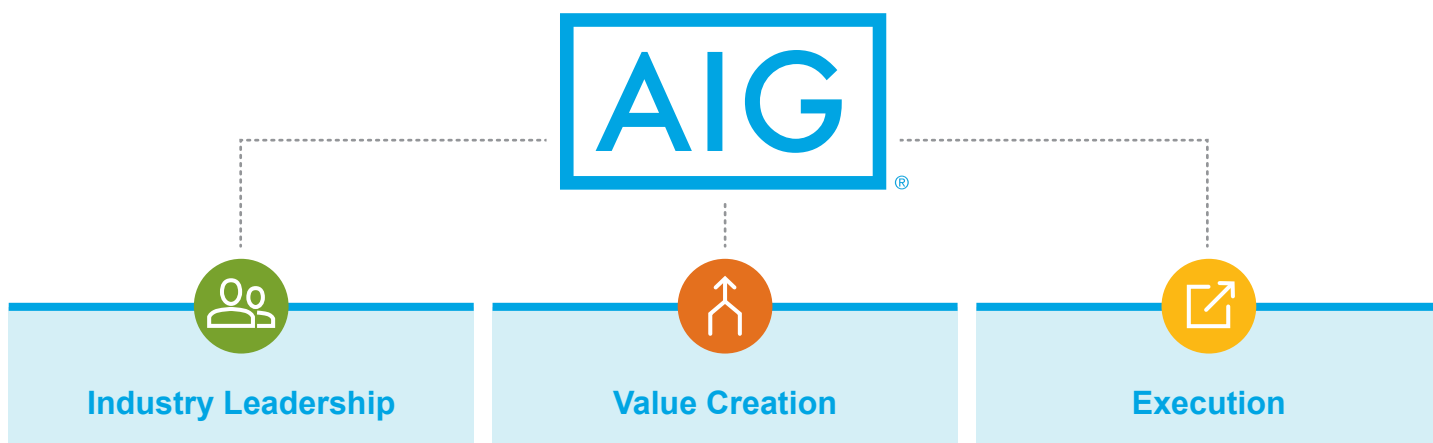
**AMERICAN INTERNATIONAL GROUP, INC.**  
**ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2016**  
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# Part I

## ITEM 1 | Business



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

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

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

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

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



## AIG's Industry Leadership

### World Class

#### Insurance Franchises

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

### Balance Sheet

#### Quality and Strength

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

### Effective

#### Capital Management

of the largest shareholders' equity of any insurance company in the world<sup>(a)</sup>, supported by enhanced risk management.

### Breadth of Customers

We serve over 87 percent of companies included in the Fortune Global 500<sup>(b)</sup> and 83 percent of the Forbes 2000<sup>(b)</sup>.

### A Diverse Mix of Businesses

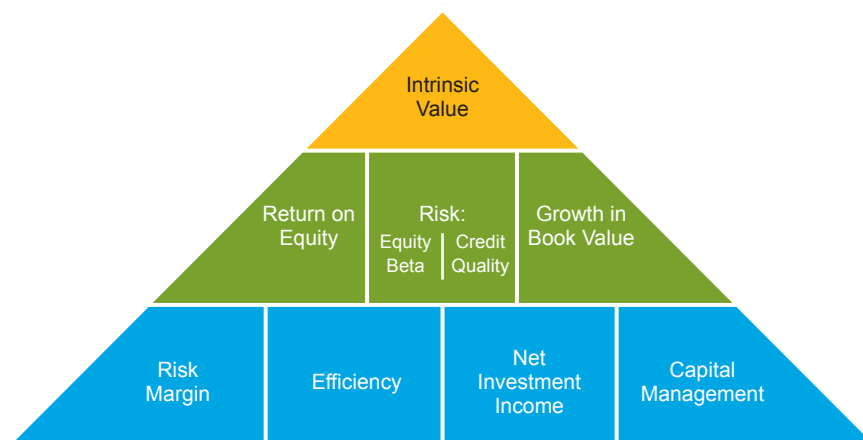
with a presence in most international markets.

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

(b) At November 1, 2016.



## AIG's Value Creation



### AIG Priorities for 2017

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

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



## AIG's Execution: Accomplishments for 2015 and 2016



### Returned

**\$24.9B** of capital to shareholders since end of 2014 through dividends and share and warrant repurchases



### Completed or Announced

17 divestitures and monetization transactions valued at over **\$13B**



### Reduced

General operating and other expenses by **over \$2.1B** and General operating expenses, operating basis\* by **over \$2.0B** since end of 2014, which included a foreign exchange benefit of **\$0.5B**

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



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## OUR MODULAR MANAGEMENT FRAMEWORK

### AIG'S NEW OPERATING MODEL

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

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

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

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

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

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

## Business Modules

### Commercial Insurance

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



### Consumer Insurance

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



### Other Operations

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

### Legacy Portfolio

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

## Geography Modules

### United States

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

### Europe

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

### Japan

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



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

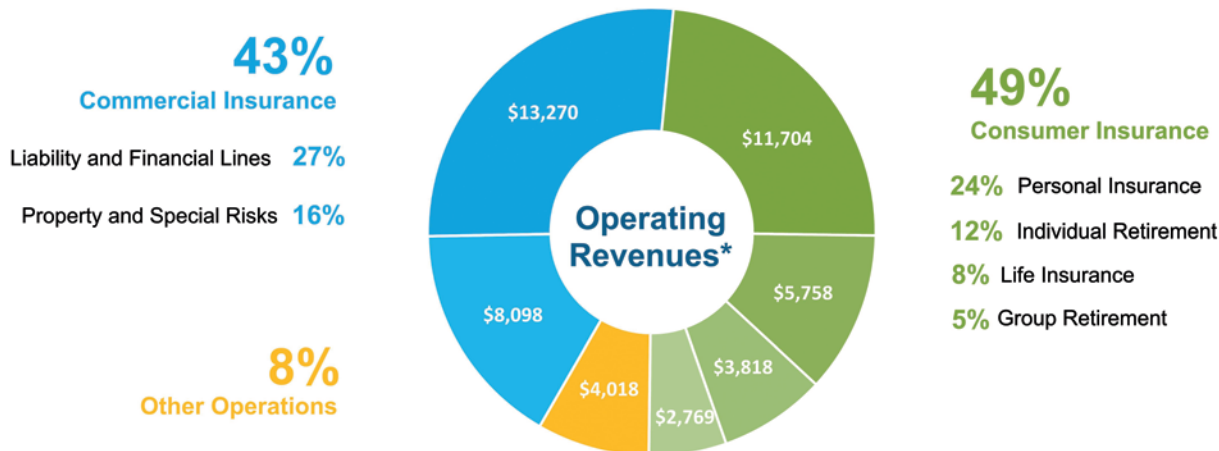
(b) Other includes AIG Insurance Company of Canada, American International Reinsurance Company, Ltd., AIG Asia Pacific Insurance, Pte, Ltd., Fuji Life, United Guaranty, various non-insurance subsidiaries and AIG Parent.

## Geographic Concentration

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

## Diversified Mix of Businesses

(dollars in millions)



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

## How We Generate Revenues and Profitability

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

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

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



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## Investment Activities of Our Insurance Operations

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

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

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

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## Loss Reserve Development Process

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

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

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

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## Our Employees

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

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## Regulation

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

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

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

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### U.S. FEDERAL REGULATION

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

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

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

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

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

- enhanced prudential standards for nonbank SIFIs (including minimum leverage and risk-based capital requirements, capital planning, stress tests, liquidity requirements, corporate governance requirements, contingent capital requirements, counterparty credit limits, an early remediation regime process and resolution planning);
- limitations on proprietary trading or covered fund activities, if the FRB decides to impose certain elements of Section 619 of Dodd-Frank (referred to as the "Volcker Rule") on nonbank SIFIs;
- financial sector concentration limits; and
- increased regulation and restrictions on derivatives markets and transactions.

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

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## U.S. STATE REGULATION

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

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

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## FOREIGN REGULATION

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

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

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

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

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## FEDERAL RESERVE REGULATION AND SUPERVISION

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

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

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

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

On June 3, 2016, the FRB released for public comment an advance notice of proposed rulemaking (ANPR) outlining two conceptual insurance group capital frameworks that could apply to insurance groups supervised by the FRB - a building block approach, proposed for insurance institutions that are savings and loan holding companies or bank holding companies by virtue of owning



depository institutions, and a consolidated approach for insurer nonbank SIFIs. In general, the consolidated approach would consolidate an insurance company's assets and insurance liabilities into risk segments tailored to account for the liability structure and unique features of the insurance company, apply risk factors to each segment and then set minimum capital requirements. The ANPR does not provide details on specific risk segments, risk factors, capital adequacy ratios and other important elements that could be applied to us under the consolidated approach, and we cannot predict how such an approach would affect our business, results of operations, financial condition or capital requirements. The comment period has closed and we anticipate that the FRB will issue a NPR after evaluating all comments received.

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

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

### Other Effects of Dodd-Frank

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

- As a nonbank SIFI, we are currently required to provide on an annual basis to the FRB and Federal Deposit Insurance Corporation (FDIC) a plan for our rapid and orderly resolution in the event of material financial distress or failure, which must provide a detailed resolution strategy and analyses of our material entities, organizational structure, interconnections and interdependencies, and management information systems. In accordance with an extension of the annual deadline provided by the FRB and FDIC to 38 firms including AIG in 2016, we plan to submit our next resolution plan to regulators on December 31, 2017. If the FRB and FDIC jointly were to determine, based on their review of the plan, that it is not credible or would not facilitate our orderly resolution under Title 11 of the United States Code (the Bankruptcy Code), the FRB and FDIC may require us to re-submit an amended plan. If the re-submitted plan also were to fail to meet regulatory expectations, the FRB and FDIC may exercise their authority under Dodd-Frank to impose more stringent capital, leverage, or liquidity requirements, restrict our growth, activities, or operations, require us to divest assets and operations, or otherwise increase their level of supervision of us.
- The Council may recommend that state insurance regulators or other regulators apply new or heightened standards and safeguards for activities or practices that we and other insurers or other financial services companies engage in.
- Title II of Dodd-Frank (Orderly Liquidation Authority) provides that a financial company whose largest United States subsidiary is an insurer may be subject to a special orderly liquidation process outside the Bankruptcy Code. That process is to be administered by the FDIC upon a determination that the company is in default or in danger of default, is not likely to attract private sector alternatives to default and is not suitable for resolution under the Bankruptcy Code. Our U.S. insurance subsidiaries, however, would be subject to rehabilitation and liquidation proceedings under state insurance law.
- Title VII of Dodd-Frank provides for significantly increased regulation of and restrictions on derivatives markets and transactions that have affected and, as additional regulations come into effect, could affect various activities of AIG and its insurance and financial services subsidiaries, including (i) regulatory reporting for swaps and security-based swaps, (ii) mandated clearing through central counterparties and execution through regulated swap execution facilities for certain swaps and security-based swaps and (iii) margin and collateral requirements. Although the CFTC has finalized many of its requirements, the SEC has yet to finalize the majority of rules comprising its security-based swap regulatory regime.
- Similar regulations have been proposed or adopted outside the United States. For instance, the EU has also established a set of new regulatory requirements for EU derivatives activities under EMIR. These requirements include, among other things, various risk mitigation, risk management, margin posting and regulatory reporting requirements that have already become effective and clearing requirements that were outlined in EU delegated legislation at the end of 2015 and are phased in over three years. These requirements could result in increased administrative costs with respect to our EU derivatives activities and overlapping or inconsistent regulation depending on the ultimate application of cross-border regulatory requirements between and among U.S. and non-U.S. jurisdictions.
- Dodd-Frank mandated a study to determine whether stable value contracts should be included in the definition of "swap." If that study concludes that stable value contracts are swaps, Dodd-Frank authorizes certain federal regulators to determine whether an exemption from the definition of a swap for stable value contracts is appropriate and in the public interest. Certain of our affiliates

participate in the stable value contract business. We cannot predict what regulations might emanate from the aforementioned study or be promulgated applicable to this business in the future.

- Dodd-Frank established the Federal Insurance Office (FIO) within the United States Department of the Treasury (Department of the Treasury) headed by a director appointed by the Secretary of the Treasury. The director of the FIO performs various public policy functions with respect to insurance, including serving as a non-voting member of the Council.
- On November 20, 2015, the Department of the Treasury, assisted by the FIO, and the United States Trade Representative announced their intention to negotiate an agreement between the U.S. and the EU regarding prudential measures with respect to insurance and reinsurance. On January 13, 2017, the U.S. and EU announced that they had successfully negotiated terms of such an agreement. For additional information, see Regulation – Other Regulatory Developments.
- Dodd-Frank established the Consumer Financial Protection Bureau (CFPB) within the FRB to regulate consumer financial products and services offered primarily for personal, family or household purposes. Insurance products and services are not within the CFPB's general jurisdiction. Broker-dealers and investment advisers are not subject to the CFPB's jurisdiction when acting in their registered capacity.

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

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

## OTHER REGULATORY DEVELOPMENTS

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

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

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

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

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

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

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

## ERISA Considerations

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

On April 8, 2016, the DOL published its final fiduciary duty rule (the DOL Fiduciary Rule), substantially expanding the definition of fiduciary investment advice. As a result, the circumstances under which financial services providers and financial advisors could be deemed a fiduciary under ERISA or the Internal Revenue Code when providing investment advice with respect to ERISA plans or Individual Retirement Accounts (IRAs) are greatly expanded. The DOL Fiduciary Rule contains revisions to and adoptions of new

prohibited transaction exemptions under ERISA, including revisions to a prohibited transaction exemption historically available in conjunction with the sale of fixed and variable annuity contracts to ERISA covered plans, commonly referred to as “84-24”, and the adoption of the “best interest contract exemption”. The initial compliance date of the DOL Fiduciary Rule is April 10, 2017, with full compliance required by January 1, 2018. On February 3, 2017, the new U.S. administration issued a memo requiring the DOL to review the DOL Fiduciary Rule and determine whether it will adversely impact the ability of retirement savers to access information and financial advice. Accordingly, the DOL announced that it would consider legal options for postponing the applicability date of the DOL Fiduciary Rule while the DOL considers the issues raised in the referenced memo. We are closely following the DOL’s pronouncements about further delays to the DOL Fiduciary Rule’s applicability date. *For additional information, see Item 7. MD&A — Executive Summary – AIG’s Outlook – Industry and Economic Factors- Department of Labor Fiduciary Rule and Part I, Item 1A. Risk Factors.*

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

## REGULATION OF INSURANCE SUBSIDIARIES

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

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

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

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

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



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

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

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

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

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## 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

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

### MARKET CONDITIONS

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

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

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

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

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

## INVESTMENT PORTFOLIO, CONCENTRATION OF INVESTMENTS, INSURANCE AND OTHER EXPOSURES

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

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

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

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



## RESERVES AND EXPOSURES

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

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

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

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

- widespread claim costs associated with property, workers' compensation, A&H, business interruption and mortality and morbidity claims;
- loss resulting from a decline in the value of our invested assets;
- limitations on our ability to recover deferred tax assets;
- loss resulting from actual policy experience that is adverse compared to the assumptions made in product pricing;
- declines in value and/or losses with respect to companies and other entities whose securities we hold and counterparties we transact business with and have credit exposure to, including reinsurers, and declines in the value of investments; and
- significant interruptions to our systems and operations.

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

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

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

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

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

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

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

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

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

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

consumer casualty. We also rely on the government sponsored and government arranged terrorism reinsurance programs, including pools, in force in applicable non-U.S. jurisdictions.

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

## LIQUIDITY, CAPITAL AND CREDIT

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

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

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

**Our subsidiaries may not be able to generate cash to meet their needs due to the illiquidity of some of their investments.**

Our subsidiaries have investments in certain securities that may be illiquid, including certain fixed income securities and certain structured securities, private company securities, investments in private equity funds and hedge funds, mortgage loans, finance receivables and real estate. Collectively, investments in these assets had a fair value of \$58 billion at December 31, 2016. Adverse real estate and capital markets, and wider credit spreads, have in the past, and may in the future, materially adversely affect the liquidity of our other securities portfolios, including our residential and commercial mortgage-related securities portfolios. In the event additional liquidity is required by one or more of our subsidiaries and AIG Parent is unable to provide it, it may be difficult for these subsidiaries to generate additional liquidity by selling, pledging or otherwise monetizing these less liquid investments.

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

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

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

## BUSINESS AND OPERATIONS

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

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

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

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

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

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



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

**We may experience difficulty in marketing and distributing products through our current and future distribution channels.**

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

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

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

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

In addition, we routinely transmit, receive and store personal, confidential and proprietary information by email and other electronic means. Although we attempt to keep such information confidential, we may be unable to do so in all events, especially with clients, vendors, service providers, counterparties and other third parties who may not have or use appropriate controls to protect personal, confidential or proprietary information. Furthermore, certain of our businesses are subject to compliance with laws and regulations

enacted by U.S. federal and state governments, the European Union or other jurisdictions or enacted by various regulatory organizations or exchanges relating to the privacy and security of the information of clients, employees or others. The compromise of personal, confidential or proprietary information could result in remediation costs, legal liability, regulatory action and reputational harm.

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

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

## REGULATION

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

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

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

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

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

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

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

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

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

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

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

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

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

Our domestic Life Insurance Companies manage the capital impact of statutory reserve requirements under Regulation XXX and Guideline AXXX through reinsurance transactions, to maintain their ability to offer competitive pricing and successfully market such products. If regulations change with respect to our ability to manage the capital impact of certain statutory reserve requirements, our statutory reserve requirements could increase, or our ability to take reserve credit for reinsurance transactions could be reduced or eliminated. As a result, we could be required to increase prices on our products, raise capital to replace the reserve credit provided by

the reinsurance transactions or incur higher expenses to obtain reinsurance, each of which could adversely affect our competitive position, financial condition or results of operations. If our actions to efficiently manage the impact of Regulation XXX or Guideline AXXX on future sales of term and universal life insurance products are not successful, we may incur higher operating costs or our sales of these products may be affected. See Note 19 to the Consolidated Financial Statements for additional information on statutory reserving requirements under Regulation XXX and Guideline AXXX and our use of reinsurance.

**New regulations may affect our businesses, results of operations, financial condition and ability to compete effectively.**

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

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

On March 9, 2011, our Board adopted our Tax Asset Protection Plan (the Plan) to help protect these tax loss and credit carryforwards, and on December 14, 2016, the Board adopted an amendment to the Plan, extending its expiration date to December 14, 2019. The Board intends to submit the amendment of the Plan to our shareholders for ratification at our 2017 Annual Meeting of Shareholders. At our 2011 Annual Meeting of Shareholders, shareholders adopted a protective amendment to our Restated Certificate of Incorporation (Protective Amendment), which is designed to prevent certain transfers of AIG Common Stock that could result in an “ownership change” and currently expires on May 12, 2017. The Board intends to submit to our shareholders for approval at our 2017 Annual Meeting of Shareholders an amendment to our Amended and Restated Certificate of Incorporation to adopt a successor to the Protective Amendment that contains substantially the same terms as the Protective Amendment but would expire on the third anniversary of the date of our 2017 Annual Meeting of Shareholders.

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

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



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

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

## COMPETITION AND EMPLOYEES

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

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

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

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

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

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

## ESTIMATES AND ASSUMPTIONS

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

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

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

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

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

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

## ITEM 1B | Unresolved Staff Comments

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

## ITEM 2 | Properties

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

### Property Casualty Insurance Companies:

- Stevens Point, Wisconsin

### Life Insurance Companies:

- Amarillo and Houston, Texas

### Other Operations:

- 175 Water Street in New York, New York
- Livingston, New Jersey
- Stowe, Vermont
- Ft. Worth, Texas

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

## LOCATIONS OF CERTAIN ASSETS

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

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

## ITEM 3 | Legal Proceedings

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

## ITEM 4 | Mine Safety Disclosures

Not applicable.

## Part II

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

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

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

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

### Dividends

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

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

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

### Equity Compensation Plans

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



## Purchases of Equity Securities

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

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

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

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

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

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

## Common Stock Performance Graph

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

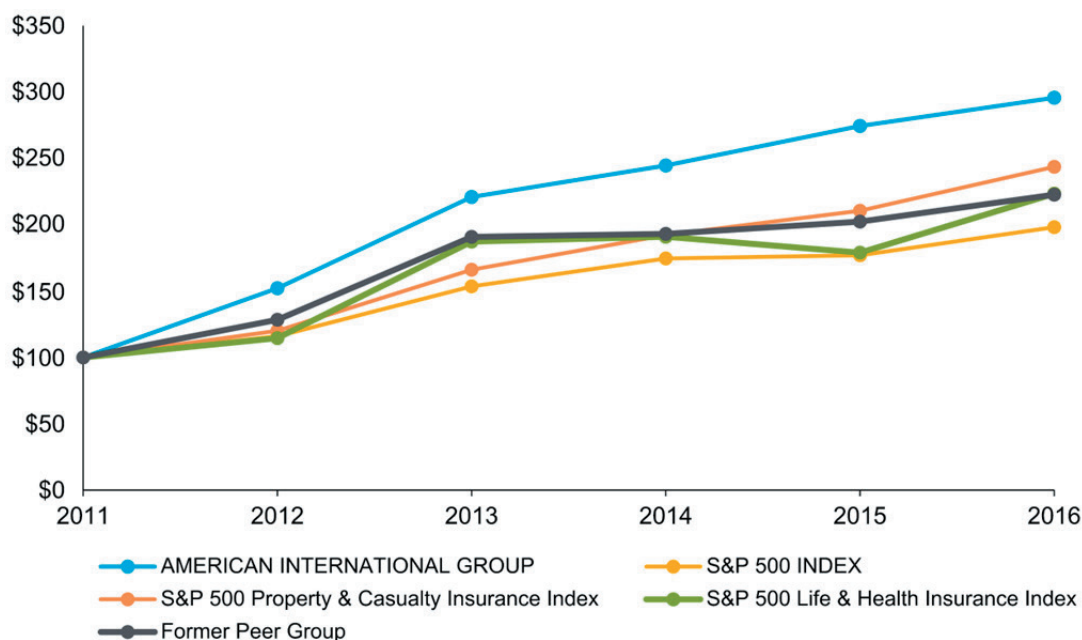
The Performance Graph also compares the cumulative total shareholder return on AIG Common Stock to the return of a group of companies (the Former Peer Group) consisting of 14 insurance companies to which we compared our business and operations in our Annual Report on Form 10-K for the year ended December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

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

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

### Value of \$100 Invested on December 31, 2011

(All \$ as of December 31st)



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

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

## ITEM 6 | Selected Financial Data

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

| <i>(in millions, except per share data)</i>                                                  | Years Ended December 31, |               |               |               |               |
|----------------------------------------------------------------------------------------------|--------------------------|---------------|---------------|---------------|---------------|
|                                                                                              | 2016                     | 2015          | 2014          | 2013          | 2012          |
| <b>Revenues:</b>                                                                             |                          |               |               |               |               |
| Premiums                                                                                     | \$ 34,393                | \$ 36,655     | \$ 37,254     | \$ 37,499     | \$ 38,189     |
| Policy fees                                                                                  | 2,732                    | 2,755         | 2,615         | 2,340         | 2,192         |
| Net investment income                                                                        | 14,065                   | 14,053        | 16,079        | 15,810        | 20,343        |
| Net realized capital gains (losses)                                                          | (1,944)                  | 776           | 739           | 1,939         | 1,087         |
| Aircraft leasing revenue                                                                     | -                        | -             | 1,602         | 4,420         | 4,504         |
| Other income                                                                                 | 3,121                    | 4,088         | 6,117         | 6,866         | 4,899         |
| <b>Total revenues</b>                                                                        | <b>52,367</b>            | <b>58,327</b> | <b>64,406</b> | <b>68,874</b> | <b>71,214</b> |
| <b>Benefits, losses and expenses:</b>                                                        |                          |               |               |               |               |
| Policyholder benefits and losses incurred                                                    | 32,437                   | 31,345        | 28,281        | 29,503        | 32,036        |
| Interest credited to policyholder account balances                                           | 3,705                    | 3,731         | 3,768         | 3,892         | 4,340         |
| Amortization of deferred policy acquisition costs                                            | 4,521                    | 5,236         | 5,330         | 5,157         | 5,709         |
| General operating and other expenses                                                         | 10,989                   | 12,686        | 13,138        | 13,564        | 13,013        |
| Interest expense                                                                             | 1,260                    | 1,281         | 1,718         | 2,142         | 2,319         |
| Aircraft leasing expenses                                                                    | -                        | -             | 1,585         | 4,549         | 4,138         |
| Net loss on extinguishment of debt                                                           | 74                       | 756           | 2,282         | 651           | 32            |
| Net (gain) loss on sale of properties and divested businesses                                | (545)                    | 11            | (2,197)       | 48            | 6,736         |
| <b>Total benefits, losses and expenses</b>                                                   | <b>52,441</b>            | <b>55,046</b> | <b>53,905</b> | <b>59,506</b> | <b>68,323</b> |
| Income (loss) from continuing operations before income taxes                                 | (74)                     | 3,281         | 10,501        | 9,368         | 2,891         |
| Income tax expense (benefit)                                                                 | 185                      | 1,059         | 2,927         | 360           | (808)         |
| Income (loss) from continuing operations                                                     | (259)                    | 2,222         | 7,574         | 9,008         | 3,699         |
| Income (loss) from discontinued operations, net of taxes                                     | (90)                     | -             | (50)          | 84            | 1             |
| <b>Net income (loss)</b>                                                                     | <b>(349)</b>             | <b>2,222</b>  | <b>7,524</b>  | <b>9,092</b>  | <b>3,700</b>  |
| <b>Net income (loss) from continuing operations attributable to noncontrolling interests</b> | <b>500</b>               | <b>26</b>     | <b>(5)</b>    | <b>7</b>      | <b>262</b>    |
| <b>Net income (loss) attributable to AIG</b>                                                 | <b>(849)</b>             | <b>2,196</b>  | <b>7,529</b>  | <b>9,085</b>  | <b>3,438</b>  |
| <b>Income (loss) per common share attributable to AIG common shareholders</b>                |                          |               |               |               |               |
| <b>Basic</b>                                                                                 |                          |               |               |               |               |
| Income (loss) from continuing operations                                                     | (0.70)                   | 1.69          | 5.31          | 6.11          | 2.04          |
| Income (loss) from discontinued operations                                                   | (0.08)                   | -             | (0.04)        | 0.05          | -             |
| Net income (loss) attributable to AIG                                                        | (0.78)                   | 1.69          | 5.27          | 6.16          | 2.04          |
| <b>Diluted</b>                                                                               |                          |               |               |               |               |
| Income (loss) from continuing operations                                                     | (0.70)                   | 1.65          | 5.24          | 6.08          | 2.04          |
| Income (loss) from discontinued operations                                                   | (0.08)                   | -             | (0.04)        | 0.05          | -             |
| Net income (loss) attributable to AIG                                                        | (0.78)                   | 1.65          | 5.20          | 6.13          | 2.04          |
| Dividends declared per common share                                                          | 1.28                     | 0.81          | 0.50          | 0.20          | -             |

**Year-end balance sheet data:**

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

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

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

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

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

## Items Affecting Comparability Between Periods

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

### ASSET DISPOSITIONS IN 2014, 2015 AND 2016

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



## Reconciliation of Non-GAAP measures included in Selected Financial Data

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

| <i>(in millions, except per share data)</i>                               | At December 31,  |               |               |               |               |
|---------------------------------------------------------------------------|------------------|---------------|---------------|---------------|---------------|
|                                                                           | 2016             | 2015          | 2014          | 2013          | 2012          |
| Total AIG shareholders' equity                                            | \$ 76,300        | \$ 89,658     | \$ 106,898    | \$ 100,470    | \$ 98,002     |
| Accumulated other comprehensive income                                    | 3,230            | 2,537         | 10,617        | 6,360         | 12,574        |
| <b>Total AIG shareholders' equity, excluding AOCI</b>                     | <b>73,070</b>    | 87,121        | 96,281        | 94,110        | 85,428        |
| Deferred tax assets                                                       | 14,770           | 16,751        | 16,158        | 17,797        | 18,549        |
| <b>Adjusted shareholders' equity</b>                                      | <b>58,300</b>    | 70,370        | 80,123        | 76,313        | 66,879        |
| Add: Cumulative quarterly common stock dividends above \$0.125 per share* | 1,216            | 378           | -             | -             | -             |
| <b>Adjusted shareholders' equity, including dividend growth</b>           | <b>\$ 59,516</b> | \$ 70,748     | \$ 80,123     | \$ 76,313     | \$ 66,879     |
| Total common shares outstanding                                           | 995,335,841      | 1,193,916,617 | 1,375,926,971 | 1,464,063,323 | 1,476,321,935 |
| <b>Book value per common share</b>                                        | <b>\$ 76.66</b>  | \$ 75.10      | \$ 77.69      | \$ 68.62      | \$ 66.38      |
| <b>Book value per common share, excluding AOCI</b>                        | <b>73.41</b>     | 72.97         | 69.98         | 64.28         | 57.87         |
| <b>Adjusted book value per common share</b>                               | <b>58.57</b>     | 58.94         | 58.23         | 52.12         | 45.30         |
| <b>Adjusted book value per common share, including dividend growth</b>    | <b>\$ 59.79</b>  | \$ 59.26      | \$ 58.23      | \$ 52.12      | \$ 45.30      |

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

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

| Years Ended December 31,                                 | 2016          | 2015      | 2014      | 2013      | 2012      |
|----------------------------------------------------------|---------------|-----------|-----------|-----------|-----------|
| <i>(dollars in millions)</i>                             |               |           |           |           |           |
| Net income (loss) attributable to AIG                    | \$ (849)      | \$ 2,196  | \$ 7,529  | \$ 9,085  | \$ 3,438  |
| After-tax operating income attributable to AIG           | 406           | 2,872     | 6,941     | 6,449     | 6,501     |
| Average AIG Shareholders' equity                         | 86,617        | 101,558   | 105,589   | 98,850    | 101,873   |
| Average AOCI                                             | 5,722         | 7,598     | 9,781     | 8,865     | 9,718     |
| Average AIG Shareholders' equity, excluding average AOCI | 80,895        | 93,960    | 95,808    | 89,985    | 92,155    |
| Average DTA                                              | 15,905        | 15,803    | 16,611    | 18,150    | 19,250    |
| Average adjusted Shareholders' equity                    | \$ 64,990     | \$ 78,157 | \$ 79,197 | \$ 71,835 | \$ 72,905 |
| <b>ROE</b>                                               | <b>(1.0)%</b> | 2.2 %     | 7.1 %     | 9.2 %     | 3.4 %     |
| <b>Adjusted Return on Equity</b>                         | <b>0.6</b>    | 3.7       | 8.8       | 9.0       | 8.9       |

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

## Cautionary Statement Regarding Forward-Looking Information

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

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

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

- changes in market conditions;
- negative impacts on customers, business partners and other stakeholders;
- the occurrence of catastrophic events, both natural and man-made;
- significant legal proceedings;
- the timing and applicable requirements of any new regulatory framework to which we are subject as a nonbank systemically important financial institution (SIFI) and as a global systemically important insurer (G-SII);
- concentrations in our investment portfolios;
- actions by credit rating agencies;
- judgments concerning casualty insurance underwriting and insurance liabilities;
- our ability to successfully manage Legacy portfolios;
- our ability to successfully reduce costs and expenses and make business and organizational changes without negatively impacting client relationships or our competitive position;
- our ability to successfully dispose of, or monetize, businesses or assets;
- judgments concerning the recognition of deferred tax assets;
- judgments concerning estimated restructuring charges and estimated cost savings; and
- such other factors discussed in:
  - Part I, Item 1A. Risk Factors of this Annual Report; 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.

## Use of Non-GAAP Measures

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

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

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

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

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

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

We use the following operating performance measures because we believe they enhance the understanding of the underlying profitability of continuing operations and trends of our business segments. We believe they also allow for more meaningful



comparisons with our insurance competitors. When we use these measures, reconciliations to the most comparable GAAP measure are provided on a consolidated basis in the Results of Operations section of this MD&A.

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

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

- changes in fair value of securities used to hedge guaranteed living benefits;
  - changes in benefit reserves and deferred policy acquisition costs (DAC), value of business acquired (VOBA), and sales inducement assets (SIA) related to net realized capital gains and losses;
  - other income and expense — net, related to Legacy Portfolio run-off insurance lines;
  - loss (gain) on extinguishment of debt;
  - net realized capital gains and losses;
  - non-qualifying derivative hedging activities, excluding net realized capital gains and losses;
  - income or loss from discontinued operations;
  - net loss reserve discount benefit (charge)
  - pension expense related to a one-time lump sum payment to former employees;
  - income and loss from divested businesses;
  - non-operating litigation reserves and settlements;
  - reserve development related to non-operating run-off insurance business; and
  - restructuring and other costs related to initiatives designed to reduce operating expenses, improve efficiency and simplify our organization.
- **Commercial Insurance: Liability and Financial Lines, Property and Special Risks; Consumer Insurance: Personal Insurance**
    - **Ratios:** We, along with most property and casualty insurance companies, use the loss ratio, the expense ratio and the combined ratio as measures of underwriting performance. These ratios are relative measurements that describe, for every \$100 of net premiums earned, the amount of losses and loss adjustment expenses (which for Commercial Insurance excludes net loss reserve discount), and the amount of other underwriting expenses that would be incurred. A combined ratio of less than 100 indicates underwriting income and a combined ratio of over 100 indicates an underwriting loss. Our ratios are calculated using the relevant segment information calculated under GAAP, and thus may not be comparable to similar ratios calculated for regulatory reporting purposes. The underwriting environment varies across countries and products, as does the degree of litigation activity, all of which affect such ratios. In addition, investment returns, local taxes, cost of capital, regulation, product type and competition can have an effect on pricing and consequently on profitability as reflected in underwriting income and associated ratios.
    - **Accident year loss and combined ratios, as adjusted:** both the accident year loss and combined ratios, as adjusted, exclude catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting. Natural catastrophe losses are generally weather or seismic events having a net impact in excess of \$10 million each. Catastrophes also include certain man-made events, such as terrorism and civil disorders that meet the \$10 million threshold. We believe the as adjusted ratios are meaningful measures of our underwriting results on an on-going basis as they exclude catastrophes and the impact of reserve discounting which are outside of management's control. We also exclude prior year development to provide transparency related to current accident year results.
  - **Consumer Insurance: Individual Retirement, Group Retirement, and Life Insurance; Other Operations: Institutional Markets**
    - **Premiums and deposits:** includes direct and assumed amounts received and earned on traditional life insurance policies, group benefit policies and life-contingent payout annuities, as well as deposits received on universal life, investment-type annuity contracts and mutual funds.

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

## Critical Accounting Estimates

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

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

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

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

## INSURANCE LIABILITIES

### Loss Reserves

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

- the determination of the actuarial models used as the basis for these estimates;
- the relative weights given to these models by product line;
- the underlying assumptions used in these models; and
- the determination of the appropriate groupings of similar product lines and, in some cases, the groupings of dissimilar losses within a product line.

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

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

## OVERVIEW OF LOSS RESERVING PROCESS AND METHODS

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

### Short-Tail Reserves

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

### Long-Tail Reserves

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

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

- **Loss cost trend factors** are used to establish expected loss ratios for subsequent accident years based on the projected loss ratios for prior accident years.
- **Expected loss ratios** are used for the latest accident year (i.e., accident year 2016 for the year-end 2016 loss reserve analysis) and, in some cases for accident years prior to the latest accident year. The expected loss ratio generally reflects the projected loss ratio from prior accident years, adjusted for the loss cost trend and the effect of rate changes and other quantifiable factors on the loss ratio. For low-frequency, high-severity lines of business such as excess casualty, expected loss ratios generally are used for at least the three most recent accident years.
- **Loss development factors** are used to project the reported losses for each accident year to an ultimate basis. Generally, the actual loss development factors observed from prior accident years would be used as a basis to determine the loss development factors for the subsequent accident years.
- **Tail Factors are development factors** used for certain longer tailed lines of business (for example, excess casualty, workers' compensation and general liability), to project future loss development for periods that extend beyond the available development data. The development of losses to the ultimate loss for a given accident year for these lines may take decades and the projection of ultimate losses for an accident year is very sensitive to the tail factors selected beyond a certain age.

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

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## Details of the Loss Reserving Process

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

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

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

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

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

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



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

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

## Actuarial and Other Methods for Major Lines of Business

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

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

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

loss experience to date. In the example above, loss development methods would typically indicate an ultimate loss estimate of \$10 million, as the reported losses of \$1 million would be estimated to reflect only 10 percent of the ultimate losses.

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

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

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

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

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

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

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

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

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

## Discussion of Key Assumptions of our Actuarial Methods

| Line of Business or Category      | Key Assumptions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|-----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>U.S. Workers' Compensation</b> | <p>We generally use a combination of loss development methods and expected loss ratio methods for U.S. Workers' Compensation. U.S. Workers' Compensation is a long-tail class of business, and our business reflects a very significant volume of losses, particularly in more recent accident years.</p> <p>The loss cost trend assumption is not believed to be material with respect to our loss reserves. This is primarily because our actuaries are generally able to use loss development projections for all but the most recent accident year's reserves, so there is limited need to rely on loss cost trend assumptions for primary workers' compensation business.</p> <p>The tail factor is typically the most critical assumption, and small changes in the selected tail factor can have a material effect on our carried reserves. For example, the tail factors beyond twenty years for guaranteed cost business could vary by one percent above or below those actually indicated in the 2016 loss reserve review. For excess of deductible business, in our judgment, it is reasonably likely that tail factors beyond twenty years could vary by five percent above or below those actually indicated in the 2016 loss reserve review.</p> |

| Line of Business or Category                      | Key Assumptions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|---------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>U.S. Excess 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 2016 loss reserve review for U.S. Excess Casualty may range five percent lower or higher than this estimated loss trend. The loss cost trend assumption is critical for the U.S. Excess Casualty class of business due to the long-tail nature of the losses, and is applied across many accident years. Thus, there is the potential for the loss reserves with respect to a number of accident years (the expected loss ratio years) to be significantly affected by changes in loss cost trends that were initially relied upon in setting the loss reserves. These changes in loss trends could be attributable to changes in inflation or in the judicial environment, or in other social or economic conditions affecting losses.</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 2016 reserve review. This would impact projections both for accident years where the selections were directly based on loss development methods as well as the a priori loss ratio assumptions for accident years with selections based on Bornhuetter-Ferguson or Cape Cod methods. Similar to loss cost trends, these changes in loss development factors could be attributable to changes in inflation or in the judicial environment, or in other social or economic conditions affecting losses.</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 judgment, it is reasonably likely that the actual variation in loss cost levels for these subsets could vary by approximately 15 percent lower or higher on a year-over-year basis than the assumptions actually utilized in the year-end 2016 reserve review. Because U.S. D&amp;O business has exhibited highly volatile loss trends from one accident year to the next, there is the possibility of an exceptionally high deviation. In our analysis, the effects of loss cost trend assumptions affect the results through the a priori loss ratio assumptions used for the Bornhuetter-Ferguson and Cape Cod methods, which impact the projections for the two most recent two accident years.</p> <p>The assumed loss development factors are also an important assumption, but are less critical than for U.S. Excess Casualty. Because these classes are written on a claims made basis, the loss reporting and development tail is much shorter than for U.S. Excess Casualty. However, the high severity nature of the losses does create the potential for significant deviations in loss development patterns from one year to the next. Similar to Excess Casualty, after evaluating the historical loss development factors from prior accident years since the early 1990s, in our judgment, it is reasonably likely that actual loss development factors could change by an amount equivalent to a shift by six months from those actually utilized in the year-end 2016 reserve review.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Europe Casualty and Financial Lines</b>        | <p>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.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>U.S. and Europe Property and Special Risks</b> | <p>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.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>U.S., Europe, and Japan Personal Insurance</b> | <p>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.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

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

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

| December 31, 2016<br>(in millions)    | Increase (Decrease)<br>to Loss Reserves | Increase (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                    | \$ 1,300                                | 6-months slower                                                   | \$ 1,650 |
| 5 percent decrease                    | (950)                                   | 6-months faster                                                   | (1,100)  |
| <b>U.S. Financial Lines (D&amp;O)</b> |                                         | <b>U.S. Financial Lines (D&amp;O)</b>                             |          |
| 15 percent increase                   | 475                                     | 6-months slower                                                   | 700      |
| 15 percent decrease                   | (400)                                   | 6-months faster                                                   | (450)    |
|                                       |                                         | <b>U.S. Run-off P&amp;C Lines (Excess Workers' Compensation):</b> |          |
|                                       |                                         | 10% tail factor increase                                          | 400      |
|                                       |                                         | 10% tail factor decrease                                          | (400)    |
|                                       |                                         | <b>U.S. Workers' Compensation:</b>                                |          |
|                                       |                                         | Tail factor increase <sup>(a)</sup>                               | 675      |
|                                       |                                         | Tail factor decrease <sup>(a)</sup>                               | (675)    |

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



## FUTURE POLICY BENEFITS FOR LIFE AND ACCIDENT AND HEALTH INSURANCE CONTRACTS

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

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

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

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

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

- For mortality assumptions, key judgments include the extent of industry versus own experience to base future assumptions as well as the extent of expected mortality improvements in the future. The latter judgment is based on a combination of historical mortality trends and advice from industry, public health and demography specialists that were consulted by AIG's actuaries and published industry information.
- For surrender rates, a key judgment involves the correlation between expected increases/decreases in interest rates and increases/decreases in surrender rates. To support this judgment, we compare crediting rates on our products relative to expected rates on competing products under different interest rate scenarios.
- For in-force long-term care insurance, rate increases are allowed but must be approved by state insurance regulators. Consequently, the extent of rate increases that may be assumed requires judgment. In establishing our assumption for rate increases for long-term care insurance, we consider historical experience as to the frequency and level of rate increases approved by state regulators.

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

## GUARANTEED BENEFIT FEATURES OF VARIABLE ANNUITY PRODUCTS

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

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

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

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

| Guaranteed Benefit Feature | Reserving Methodology & Assumptions and Accounting Judgments                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <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. See Note 14 to the Consolidated Financial Statements for additional information on how we reserve for variable annuity products with guaranteed benefit features.</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. For a description of this methodology, see Estimated Gross Profits for Investment-Oriented Products (Life Insurance Companies) below.</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. See Note 14 to the Consolidated Financial Statements for additional information on how we reserve for variable annuity products with guaranteed benefit features, and Note 5 to the Consolidated Financial Statements for information on fair value measurement of these embedded derivatives, including how we incorporate our own non-performance risk.</p> <p>The fair value of the embedded derivatives is based on actuarial and capital market assumptions related to projected cash flows over the expected lives of the contracts. Key assumptions include:</p> <ul style="list-style-type: none"> <li>• Interest rates</li> <li>• Equity market returns</li> <li>• Market volatility</li> <li>• Credit spreads</li> <li>• Equity / interest rate correlation</li> <li>• Benefits and related fees assessed, when applicable</li> <li>• Policyholder behavior, including mortality, lapses, withdrawals and benefit utilization. Estimates of future policyholder behavior are subjective and based primarily on our historical experience</li> <li>• In applying asset growth assumptions for the valuation of GMWBs, we use market-consistent assumptions consistent with fair value measurement, which are calibrated to observable interest rate and equity option prices</li> <li>• Allocation of fees between the embedded derivative and host contract.</li> </ul> |

## ESTIMATED GROSS PROFITS FOR INVESTMENT-ORIENTED PRODUCTS

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

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

In estimating future gross profits for variable annuity products as of December 31, 2016, a long-term annual asset growth assumption of 7.5 percent (before expenses that reduce the asset base from which future fees are projected) was applied to estimate the future growth in assets and related asset-based fees. In determining the asset growth rate, the effect of short-term fluctuations in the equity markets is partially mitigated through the use of a reversion to the mean methodology, whereby short-term asset growth above or

below the long-term annual rate assumption impacts the growth assumption applied to the five-year period subsequent to the current balance sheet date. The reversion to the mean methodology allows us to maintain our long-term growth assumptions, while also giving consideration to the effect of actual investment performance. When actual performance significantly deviates from the annual long-term growth assumption, as evidenced by growth assumptions for the five-year reversion to the mean period falling below a certain rate (floor) or above a certain rate (cap) for a sustained period, judgment may be applied to revise or “unlock” the growth rate assumptions to be used for both the five-year reversion to the mean period as well as the long-term annual growth assumption applied to subsequent periods. The use of a reversion to the mean assumption is common within the industry; however, the parameters used in the methodology are subject to judgment and vary within the industry. See Insurance Reserves – Life and Annuity Reserves and DAC – Reversion to the Mean for additional discussion.

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

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

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

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

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

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

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

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

## REINSURANCE ASSETS

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

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

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

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

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

## IMPAIRMENT CHARGES

### Impairments of Investments

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

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

### Impairments on Investments in Life Settlements

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

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

### Goodwill Impairment

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

## LIABILITY FOR LEGAL CONTINGENCIES

We estimate and record a liability for potential losses that may arise from litigation and regulatory proceedings to the extent such losses are probable and can be estimated. Determining a reasonable estimate of the amount of such losses requires significant management judgment. In many cases, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the matter is close to resolution. In view of the inherent difficulty of predicting the outcome of



such matters, particularly in cases that are in the early stages of litigation or in which claimants seek substantial or indeterminate damages, we often cannot predict the outcome or estimate the eventual loss or range of reasonably possible losses related to such matters. Given the inherent unpredictability of litigation, the outcome of certain matters could, from time to time, have a material adverse effect on the company's consolidated financial condition, results of operations or cash flows.

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

## FAIR VALUE MEASUREMENTS OF CERTAIN FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

| December 31, 2016<br><i>(in billions)</i>                       | Fair<br>Value | Percent<br>of Total |
|-----------------------------------------------------------------|---------------|---------------------|
| Fair value based on external sources <sup>(a)</sup>             | \$ 240        | 93 %                |
| Fair value based on internal sources                            | 18            | 7                   |
| <b>Total fixed maturity and equity securities<sup>(b)</sup></b> | <b>\$ 258</b> | <b>100 %</b>        |

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

(b) Includes available for sale and other securities.

### Level 3 Assets and Liabilities

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

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

| <i>(in billions)</i> | December 31,<br>2016 | Percentage<br>of Total | December 31,<br>2015 | Percentage<br>of Total |
|----------------------|----------------------|------------------------|----------------------|------------------------|
| Assets               | \$ 37.7              | 7.6 %                  | \$ 38.1              | 7.7 %                  |
| Liabilities          | 3.5                  | 0.8                    | 3.1                  | 0.8                    |

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

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

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

## INCOME TAXES

### Recoverability of Net Deferred Tax Asset

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

We consider a number of factors to reliably estimate future taxable income so we can determine the extent of our ability to realize net operating losses (NOLs), foreign tax credits (FTCs), realized capital loss and other carryforwards. These factors include forecasts of future income for each of our businesses and actual and planned business and operational changes, both of which include

assumptions about future macroeconomic and AIG-specific conditions and events. We subject the forecasts to stresses of key assumptions and evaluate the effect on tax attribute utilization. We also apply stresses to our assumptions about the effectiveness of relevant prudent and feasible tax planning strategies. Our income forecasts, coupled with our tax planning strategies, all resulted in sufficient taxable income to achieve realization of the U.S. tax attributes prior to their expiration. We assess the recoverability of our net deferred tax asset related to unrealized tax capital losses in the non-life Companies' available for sale portfolio. The deferred tax asset relates to the unrealized losses for which the carryforward period has not yet begun. As of December 31, 2016, based on all available evidence, we concluded that a valuation allowance should be established on a portion of the deferred tax asset related to unrealized losses that are not more-likely-than-not to be realized.

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

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

### Uncertain Tax Positions

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

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

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

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

## Executive Summary

### OVERVIEW

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

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

### DIVESTITURES, ASSET SALES AND REINSURANCE TRANSACTION HIGHLIGHTS

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

#### Completed Divestitures and Asset Sales

- In May 2016, we completed the sale of AIG Advisor Group to investment funds affiliated with Lightyear Capital LLC and PSP Investments.
- In August 2016, we entered into an agreement to sell our 100 percent interest in United Guaranty Corporation (UGC) and certain related companies to Arch Capital Group Ltd. (Arch). The sale of UGC and its subsidiaries closed on December 31, 2016, and we received proceeds of approximately \$3.3 billion. Concurrent with the closing, we entered into reinsurance agreements with Arch, including an amended and restated 50 percent quota share reinsurance agreement and an aggregate excess of loss reinsurance agreement, pursuant to which we will continue to be exposed to certain UGC policies written between 2009 and 2016. We expect the results of these reinsurance arrangements to continue to be reported in Commercial Insurance.
- In August 2016, we sold our controlling interest in NSM, a managing general agent, to ABRY Partners for consideration of \$201 million. We retained an equity interest in a newly formed joint venture and we continue to provide underwriting capacity to NSM.
- In September 2016, we entered into an agreement to sell our 20 percent interest in Ascot Underwriting Holdings Ltd. and our 100 percent interest in the related syndicate-funding subsidiary Ascot Corporate Name Ltd. to Canada Pension Plan Investment Board (CPPIB). Total consideration for the transaction was \$1.1 billion, inclusive of CPPIB's recapitalization of Syndicate 1414's Funds at Lloyd's (FAL) capital requirements. The transaction closed on November 18, 2016, and we received approximately \$244 million in net cash proceeds.
- On November 17, 2016, an AIG sponsored Fund (the Korea Fund), completed the sale of a mixed-use commercial complex in Seoul, South Korea commonly known as the Seoul International Finance Center to Brookfield Properties for a total consideration of \$2.5 billion, of which \$1.2 billion was used to repay the fund's debt. The remaining cash proceeds were allocated between AIG and the noncontrolling interests in accordance with the Korea Fund's partnership agreement.
- On December 30, 2016, we sold a portion of our life settlements portfolio with face value (death benefits) of approximately \$4.5 billion, which was 30 percent of the face value of the life settlements portfolio. As of December 31, 2016, our life settlements portfolio carrying value was \$2.5 billion, with a face value (death benefits) of \$9.8 billion.

#### Pending Divestitures

- In October 2016, we entered into an agreement with Fairfax Financial Holdings Limited (Fairfax), as part of a strategic partnership that we believe will further focus and streamline our global insurance operations. We agreed to sell to Fairfax our country subsidiary operations in Argentina, Chile, Colombia, Uruguay, Venezuela, as well as insurance operations in Turkey. Fairfax will also acquire renewal rights for the portfolios of local business written by our operations in Bulgaria, Czech Republic, Hungary, Poland, Romania, and Slovakia, and assume certain of our operating assets and employees. Total cash consideration to us is expected to be approximately \$240 million. The transactions are subject to obtaining the relevant regulatory approvals and other customary closing conditions.
- On November 14, 2016, we entered into an agreement to sell our Japan life insurance business AIG Fuji Life Insurance Company, Ltd. (AFLI) to FWD Group, the insurance arm of Pacific Century Group.

## Reinsurance Transactions

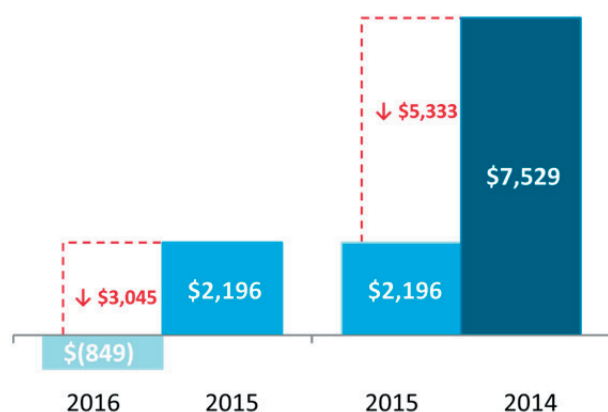
- Effective January 1, 2016, we entered into a two-year reinsurance arrangement with the Swiss Reinsurance Company Ltd., under which we ceded a proportional share of our new and renewal U.S. Casualty portfolio.
- Effective July 1, 2016, we entered into a reinsurance agreement with Hannover Life Reassurance Company of America, involving certain whole life and universal life businesses of one of our domestic life insurance subsidiaries. This transaction uses deposit accounting for purposes of U.S. GAAP, reduced certain statutory reserves that were above economic requirements, which released excess statutory capital of approximately \$1.0 billion that was included in 2016 dividend payments to AIG Parent.
- Effective December 31, 2016, our domestic life insurance subsidiary amended the July 1, 2016 reinsurance agreement discussed above to also cede certain statutory reserves for term and universal life products that are above economic requirements, which were previously managed through affiliated reinsurance. This transaction is expected to result in a tax sharing payment by the Life Insurance Companies to AIG Parent in 2017.
- Our catastrophe reinsurance program includes coverage for natural catastrophes and some coverage for terrorism events. It consists of a large North American occurrence cover (without reinstatement) to protect against large North America losses, and Japan covers to protect against losses in Japan. Effective January 1, 2017, the attachment point for this reinsurance program is at \$1.5 billion for the North American cover (\$3 billion in 2016) and varies for the Japan covers. The North American cover has reduced the U.S. Hurricane (1-in-100) OEP net of reinsurance from \$3.1 billion under the 2016 reinsurance program to \$2.0 billion under the 2017 program.
- In January 2017, we announced that we have entered into an adverse development reinsurance agreement with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc., under which we transferred to NICO 80 percent of reserve risk on substantially all of our U.S. Commercial long-tail exposures for accident years 2015 and prior. Under this agreement, we ceded to NICO 80 percent of net paid losses on subject business on or after January 1, 2016 in excess of \$25 billion of net paid losses, up to an aggregate limit of \$25 billion. At NICO's 80 percent share, NICO's limit of liability under the contract is \$20 billion. We will account for this transaction as retroactive reinsurance. The consideration for this agreement is \$9.8 billion plus interest at four percent per annum from January 1, 2016 to the date of payment, which was paid in full as of February 17, 2017. The consideration paid to NICO will be placed into a collateral trust account as security for NICO's claim payment obligations, and Berkshire Hathaway, Inc. has provided a parental guarantee to secure NICO's obligations under the agreement.

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

## FINANCIAL PERFORMANCE SUMMARY

### Net Income (Loss) Attributable To AIG

(\$ in millions)



#### 2016 and 2015 Comparison

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

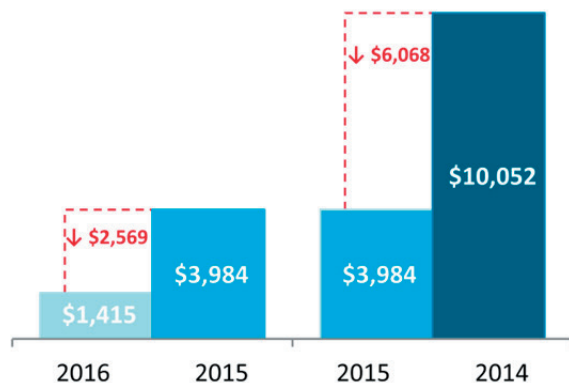
#### 2015 and 2014 Comparison

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

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

**Pre-Tax Operating Income (Loss)\***

(\$ in millions)

**2016 and 2015 Comparison**

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

This decrease was partially offset by:

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

**2015 and 2014 Comparison**

Decreased primarily due to:

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

This decrease was partially offset by lower general operating expenses.

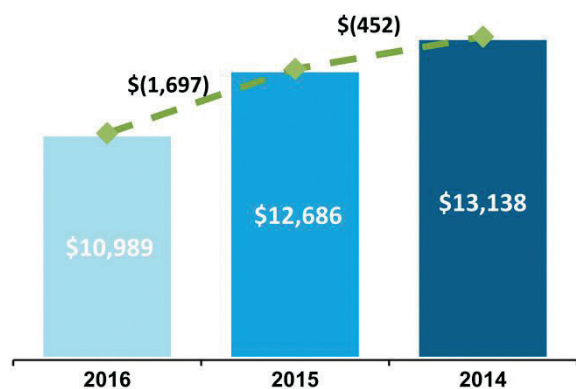
See MD&A – Business Segment Operations for further discussion.

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



## General Operating and Other Expenses

(\$ in millions)



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

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

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

## General Operating Expenses, Operating Basis\*

(\$ in millions)

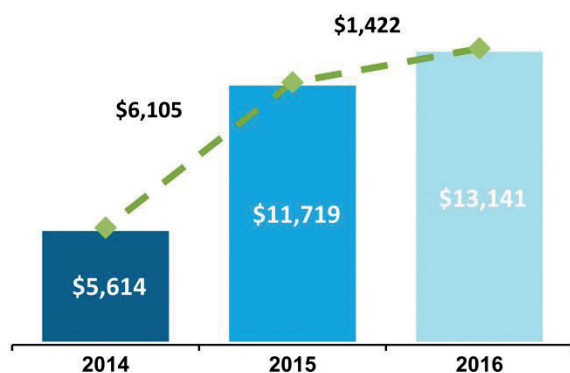


Declined \$2.0 billion since 2014, which included a foreign exchange benefit of \$0.5 billion, due to lower employee-related expenses, rationalized employee benefits and professional fee reductions related to our ongoing efficiency program.

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

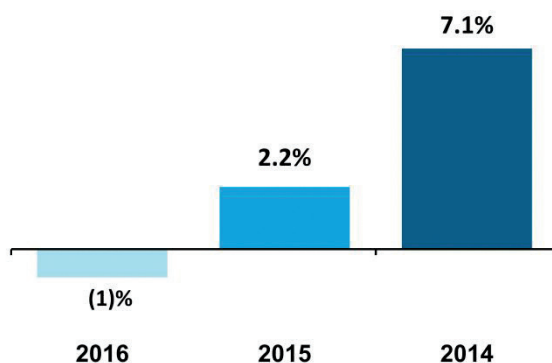
## Capital Returned to Shareholders

(\$ in billions)

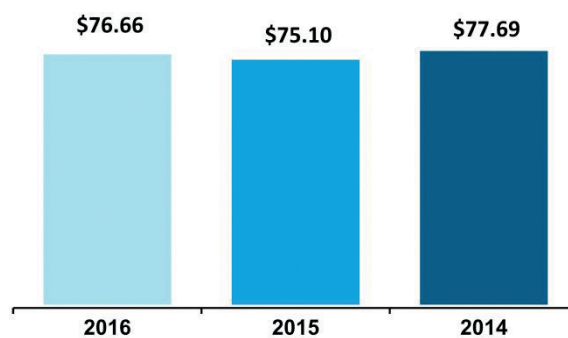


We have returned \$30.4 billion in capital to our shareholders through dividends and share and warrant repurchases since the beginning of 2014 as a result of our strategy to actively return capital to shareholders.

## Return on Equity



## Book Value Per Share



## AIG'S OUTLOOK – INDUSTRY AND ECONOMIC FACTORS

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

### Impact of Changes in the Interest Rate Environment

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

## Annuity Sales and Surrenders

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

## Reinvestment and Spread Management

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

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

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

| Years Ended December 31,<br>(in millions) | 2016         | 2015  | 2014  |
|-------------------------------------------|--------------|-------|-------|
| <b>Base net investment spread</b>         |              |       |       |
| Fixed Annuities                           | <b>2.19%</b> | 2.20% | 2.31% |
| Group Retirement                          | <b>1.87</b>  | 2.01  | 1.99  |

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

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

As shown in the table below, 73 percent of the fixed account values of our Individual Retirement and Group Retirement annuity products in the aggregate were crediting at the contractual minimum guaranteed interest rate at December 31, 2016. As a result of disciplined pricing on new business and the run-off of older business with higher crediting rates, the percentage of fixed account values of our annuity products that are currently crediting at rates above one percent decreased to 70 percent at December 31, 2016,

compared to 74 percent at December 31, 2015 and 79 percent at December 31, 2014. These businesses continue to focus on pricing discipline and strategies to reduce the minimum guaranteed interest crediting rates offered on new sales. In the Core universal life business in our Life Insurance segment, 70 percent of the account values were crediting at the contractual minimum guaranteed interest rate at December 31, 2016.

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

| December 31, 2016<br>Contractual Minimum Guaranteed<br>Interest Rate<br>(in millions) | Current Crediting Rates                |                                              |                                                            | Total             |
|---------------------------------------------------------------------------------------|----------------------------------------|----------------------------------------------|------------------------------------------------------------|-------------------|
|                                                                                       | At Contractual<br>Minimum<br>Guarantee | 1-50<br>Points Above<br>Minimum<br>Guarantee | More than 50<br>Basis Points<br>Above Minimum<br>Guarantee |                   |
| <b>Individual Retirement*</b>                                                         |                                        |                                              |                                                            |                   |
| 1%                                                                                    | \$ 5,531                               | \$ 4,404                                     | \$ 12,350                                                  | \$ 22,285         |
| > 1% - 2%                                                                             | 6,866                                  | 279                                          | 1,881                                                      | 9,026             |
| > 2% - 3%                                                                             | 14,767                                 | 41                                           | 495                                                        | 15,303            |
| > 3% - 4%                                                                             | 10,753                                 | 45                                           | 7                                                          | 10,805            |
| > 4% - 5%                                                                             | 567                                    | -                                            | 4                                                          | 571               |
| > 5% - 5.5%                                                                           | 32                                     | -                                            | 5                                                          | 37                |
| <b>Total Individual Retirement</b>                                                    | <b>\$ 38,516</b>                       | <b>\$ 4,769</b>                              | <b>\$ 14,742</b>                                           | <b>\$ 58,027</b>  |
| <b>Group Retirement*</b>                                                              |                                        |                                              |                                                            |                   |
| 1%                                                                                    | \$ 1,273                               | \$ 1,642                                     | \$ 3,072                                                   | \$ 5,987          |
| > 1% - 2%                                                                             | 6,428                                  | 736                                          | 399                                                        | 7,563             |
| > 2% - 3%                                                                             | 15,024                                 | -                                            | 382                                                        | 15,406            |
| > 3% - 4%                                                                             | 926                                    | -                                            | -                                                          | 926               |
| > 4% - 5%                                                                             | 7,116                                  | -                                            | -                                                          | 7,116             |
| > 5% - 5.5%                                                                           | 163                                    | -                                            | -                                                          | 163               |
| <b>Total Group Retirement</b>                                                         | <b>\$ 30,930</b>                       | <b>\$ 2,378</b>                              | <b>\$ 3,853</b>                                            | <b>\$ 37,161</b>  |
| <b>Universal life insurance</b>                                                       |                                        |                                              |                                                            |                   |
| 1%                                                                                    | \$ -                                   | \$ -                                         | \$ 7                                                       | \$ 7              |
| > 1% - 2%                                                                             | 11                                     | 186                                          | 199                                                        | 396               |
| > 2% - 3%                                                                             | 503                                    | 319                                          | 1,160                                                      | 1,982             |
| > 3% - 4%                                                                             | 1,688                                  | 459                                          | 4                                                          | 2,151             |
| > 4% - 5%                                                                             | 3,440                                  | 208                                          | -                                                          | 3,648             |
| > 5% - 5.5%                                                                           | 307                                    | -                                            | -                                                          | 307               |
| <b>Total universal life insurance</b>                                                 | <b>\$ 5,949</b>                        | <b>\$ 1,172</b>                              | <b>\$ 1,370</b>                                            | <b>\$ 8,491</b>   |
| <b>Total</b>                                                                          | <b>\$ 75,395</b>                       | <b>\$ 8,319</b>                              | <b>\$ 19,965</b>                                           | <b>\$ 103,679</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 structured settlements and payout annuities, are exposed to reduced earnings and potential loss recognition reserve increases in a sustained low interest rate environment. See Insurance Reserves – Life and Annuity Reserves and DAC – Update of Actuarial Assumptions for discussion of such adjustments recorded in 2016, 2015 and 2014 in our Consumer Insurance and Legacy Life Insurance Run-Off Lines.

### Commercial Insurance

The impact of low interest rates on our Commercial Insurance segment is primarily on our long-tail Casualty line of business. We expect limited impacts on our existing long-tail Casualty business as the duration of our assets is slightly longer than that of our liabilities. We do expect sustained low interest rates will impact new and renewal business for the long-tail Casualty line as we may

not be able to adjust our future pricing consistent with our profitability objectives to fully offset the impact of investing at lower rates. However, we will continue to maintain pricing discipline and risk selection.

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

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

### Department of Labor Fiduciary Rule

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

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

### Impact of Currency Volatility

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

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

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

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

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



## Consolidated Results of Operations

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

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

| Years Ended December 31,<br>(in millions)                               | 2016            | 2015            | 2014            | Percentage Change |               |
|-------------------------------------------------------------------------|-----------------|-----------------|-----------------|-------------------|---------------|
|                                                                         |                 |                 |                 | 2016 vs. 2015     | 2015 vs. 2014 |
| <b>Revenues:</b>                                                        |                 |                 |                 |                   |               |
| Premiums                                                                | \$ 34,393       | \$ 36,655       | \$ 37,254       | (6)%              | (2)%          |
| Policy fees                                                             | 2,732           | 2,755           | 2,615           | (1)               | 5             |
| Net investment income                                                   | 14,065          | 14,053          | 16,079          | -                 | (13)          |
| Net realized capital gains (losses)                                     | (1,944)         | 776             | 739             | NM                | 5             |
| Aircraft leasing revenue                                                | -               | -               | 1,602           | NM                | NM            |
| Other income                                                            | 3,121           | 4,088           | 6,117           | (24)              | (33)          |
| <b>Total revenues</b>                                                   | <b>52,367</b>   | <b>58,327</b>   | <b>64,406</b>   | <b>(10)</b>       | <b>(9)</b>    |
| <b>Benefits, losses and expenses:</b>                                   |                 |                 |                 |                   |               |
| Policyholder benefits and losses incurred                               | 32,437          | 31,345          | 28,281          | 3                 | 11            |
| Interest credited to policyholder account balances                      | 3,705           | 3,731           | 3,768           | (1)               | (1)           |
| Amortization of deferred policy acquisition costs                       | 4,521           | 5,236           | 5,330           | (14)              | (2)           |
| General operating and other expenses                                    | 10,989          | 12,686          | 13,138          | (13)              | (3)           |
| Interest expense                                                        | 1,260           | 1,281           | 1,718           | (2)               | (25)          |
| Aircraft leasing expenses                                               | -               | -               | 1,585           | NM                | NM            |
| Loss on extinguishment of debt                                          | 74              | 756             | 2,282           | (90)              | (67)          |
| Net (gain) loss on sale of divested businesses                          | (545)           | 11              | (2,197)         | NM                | NM            |
| <b>Total benefits, losses and expenses</b>                              | <b>52,441</b>   | <b>55,046</b>   | <b>53,905</b>   | <b>(5)</b>        | <b>2</b>      |
| <b>Income (loss) from continuing operations before</b>                  |                 |                 |                 |                   |               |
| <b>income tax expense</b>                                               | <b>(74)</b>     | <b>3,281</b>    | <b>10,501</b>   | <b>NM</b>         | <b>(69)</b>   |
| <b>Income tax expense</b>                                               | <b>185</b>      | <b>1,059</b>    | <b>2,927</b>    | <b>(83)</b>       | <b>(64)</b>   |
| <b>Income (loss) from continuing operations</b>                         | <b>(259)</b>    | <b>2,222</b>    | <b>7,574</b>    | <b>NM</b>         | <b>(71)</b>   |
| <b>Income (loss) from discontinued operations,</b>                      |                 |                 |                 |                   |               |
| <b>net of income tax expense</b>                                        | <b>(90)</b>     | <b>-</b>        | <b>(50)</b>     | <b>NM</b>         | <b>NM</b>     |
| <b>Net income (loss)</b>                                                | <b>(349)</b>    | <b>2,222</b>    | <b>7,524</b>    | <b>NM</b>         | <b>(70)</b>   |
| <b>Less: Net income (loss) attributable to noncontrolling interests</b> | <b>500</b>      | <b>26</b>       | <b>(5)</b>      | <b>NM</b>         | <b>NM</b>     |
| <b>Net income (loss) attributable to AIG</b>                            | <b>\$ (849)</b> | <b>\$ 2,196</b> | <b>\$ 7,529</b> | <b>NM%</b>        | <b>(71)%</b>  |

| Years Ended December 31,  | 2016   | 2015  | 2014  |
|---------------------------|--------|-------|-------|
| Return on equity          | (1.0)% | 2.2 % | 7.1 % |
| Adjusted Return on equity | 0.6    | 3.7   | 8.8   |

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

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

| Years Ended December 31,<br>(in millions)                                              |                 |           |           | Percentage Change |               |
|----------------------------------------------------------------------------------------|-----------------|-----------|-----------|-------------------|---------------|
|                                                                                        | 2016            | 2015      | 2014      | 2016 vs. 2015     | 2015 vs. 2014 |
| <b>General operating and other expenses</b>                                            | \$ 10,989       | \$ 12,686 | \$ 13,138 | (13)%             | (3)%          |
| Restructuring and other costs                                                          | (694)           | (496)     | -         | (40)              | NM            |
| Other (income) expense related to retroactive reinsurance agreement                    | 18              | (233)     | -         | NM                | NM            |
| Pension expense related to a one-time lump sum payment to former employees             | (147)           | -         | -         | NM                | NM            |
| Non-operating litigation reserves                                                      | (3)             | (12)      | (546)     | 75                | 98            |
| <b>Total general operating and other expenses included in pre-tax operating income</b> | <b>10,163</b>   | 11,945    | 12,592    | (15)              | (5)           |
| Loss adjustment expenses, reported as policyholder benefits and losses incurred        | 1,345           | 1,632     | 1,667     | (18)              | (2)           |
| Advisory fee expenses                                                                  | (645)           | (1,349)   | (1,315)   | 52                | (3)           |
| Non-deferrable insurance commissions                                                   | (467)           | (504)     | (522)     | 7                 | 3             |
| Direct marketing and acquisition expenses, net of deferrals                            | (501)           | (659)     | (570)     | 24                | (16)          |
| Investment expenses reported as net investment income and other                        | 57              | 76        | 88        | (25)              | (14)          |
| <b>Total general operating expenses, operating basis</b>                               | <b>\$ 9,952</b> | \$ 11,141 | \$ 11,940 | (11)%             | (7)%          |

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

| Years Ended December 31,<br>(in millions)                                                        | 2016           |                            |                 | 2015            |                            |                 | 2014             |                            |                 |
|--------------------------------------------------------------------------------------------------|----------------|----------------------------|-----------------|-----------------|----------------------------|-----------------|------------------|----------------------------|-----------------|
|                                                                                                  | Pre-tax        | Total Tax (Benefit) Charge | After Tax       | Pre-tax         | Total Tax (Benefit) Charge | After Tax       | Pre-tax          | Total Tax (Benefit) Charge | After Tax       |
| <b>Pre-tax income/net income (loss), including noncontrolling interests</b>                      | \$ (74)        | \$ 185                     | \$ (288)        | \$ 3,281        | \$ 1,059                   | \$ 2,193        | \$ 10,501        | \$ 2,927                   | \$ 7,514        |
| Noncontrolling interest                                                                          |                |                            | (561)           |                 |                            | 3               |                  |                            | 15              |
| <b>Pre-tax income/net income (loss) attributable to AIG</b>                                      | <b>\$ (74)</b> | <b>\$ 185</b>              | <b>\$ (849)</b> | <b>\$ 3,281</b> | <b>\$ 1,059</b>            | <b>\$ 2,196</b> | <b>\$ 10,501</b> | <b>\$ 2,927</b>            | <b>\$ 7,529</b> |
| Uncertain tax positions and other tax adjustments                                                |                | 63                         | (63)            |                 | (112)                      | 112             |                  | (59)                       | 59              |
| Deferred income tax valuation allowance (releases) charges                                       |                | (83)                       | 83              |                 | (110)                      | 110             |                  | 181                        | (181)           |
| Changes in fair value of securities used to hedge guaranteed living benefits                     | (120)          | (42)                       | (78)            | 43              | 15                         | 28              | (260)            | (91)                       | (169)           |
| Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses) | (195)          | (68)                       | (127)           | 15              | 5                          | 10              | 217              | 76                         | 141             |
| Other (income) expense - net                                                                     | (42)           | (15)                       | (27)            | 233             | 82                         | 151             | -                | -                          | -               |
| Loss on extinguishment of debt                                                                   | 74             | 26                         | 48              | 756             | 265                        | 491             | 2,282            | 799                        | 1,483           |
| Net realized capital (gains) losses                                                              | 1,944          | 561                        | 1,383           | (776)           | (271)                      | (505)           | (739)            | (259)                      | (480)           |
| Noncontrolling interest on net realized capital (gains) losses                                   |                |                            | (61)            |                 |                            | 29              |                  |                            | 10              |
| Loss from discontinued operations                                                                |                |                            | 90              |                 |                            | -               |                  |                            | 50              |
| (Income) loss from divested businesses                                                           | (545)          | (309)                      | (236)           | 59              | 43                         | 16              | (2,169)          | (707)                      | (1,462)         |
| Non-operating litigation reserves and settlements                                                | (41)           | (14)                       | (27)            | (82)            | (29)                       | (53)            | (258)            | 92                         | (350)           |
| Reserve development related to certain non-operating run-off insurance business                  | -              | -                          | -               | 30              | 10                         | 20              | -                | -                          | -               |
| Net loss reserve discount benefit (charge)                                                       | (427)          | (150)                      | (277)           | (71)            | (16)                       | (55)            | 478              | 167                        | 311             |
| Pension expense related to a one-time lump sum payment to former employees                       | 147            | 51                         | 96              | -               | -                          | -               | -                | -                          | -               |
| Restructuring and other costs                                                                    | 694            | 243                        | 451             | 496             | 174                        | 322             | -                | -                          | -               |

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

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

## PRE-TAX INCOME (LOSS) COMPARISON FOR 2016 AND 2015

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

- adverse prior year loss reserve development in Commercial Insurance of \$5.6 billion in 2016 compared to \$3.3 billion in 2015; and
- net realized losses compared to net realized gains in the prior-year period due to:
  - foreign exchange losses in 2016 compared to foreign exchange gains in 2015 primarily due to \$910 million of remeasurement losses for a short-term intercompany balance;
  - the sale of Class B shares of Prudential Financial Inc. and common shares of Springleaf Holdings, Inc. (Springleaf, now known as OneMain Holdings, Inc.) in 2015; and
  - a net decrease of \$1.4 billion related to guaranteed living benefits, net of hedges, primarily due to movement in the non-performance or “own credit” risk adjustment (NPA) component of the embedded derivative fair value measurement and 2016 actuarial assumption updates to surrender and mortality assumptions (see Insurance Reserves – Life and Annuity Reserves and DAC – Variable Annuity Guaranteed Benefits and Hedging Results).

These decreases were partially offset by:

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

## PRE-TAX INCOME COMPARISON FOR 2015 AND 2014

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

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

These decreases were partially offset by:

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

- higher net realized gains compared to prior period due to:
  - a \$264 million increase from the change in the fair value of GMWB embedded derivatives related to variable annuity guaranteed living benefits, net of all related economic hedges (See Insurance Reserves –Life and Annuity Reserves and DAC – Variable Annuity Guaranteed Benefits and Hedging Results for additional discussion); and
  - higher net realized capital gains from sales of investments, which included realized gains on the sales of Class B shares of Prudential Financial, Inc., a portion of our holdings in People’s Insurance Company (Group) of China Limited and PICC Property & Casualty Company Limited (collectively, our PICC Investment), and common shares of OneMain Holdings, Inc., mostly offset by a realized loss on the sale of ordinary shares of AerCap and an increase in other-than-temporary impairment charges.

## INCOME TAX EXPENSE ANALYSIS

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

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

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

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

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

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

## Business Segment Operations

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

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

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

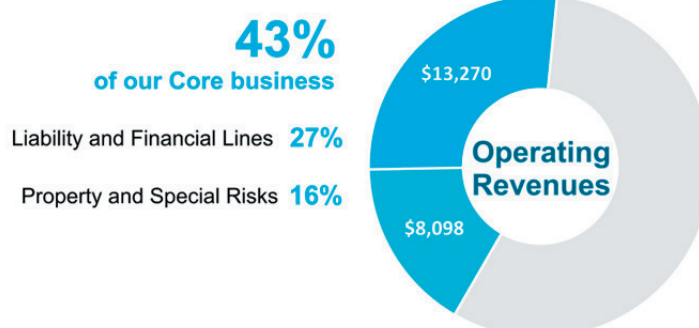
See Note 3 to the Consolidated Financial Statements for further information on our segment changes.

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

| Years Ended December 31,<br>(in millions)          | 2016            | 2015            | 2014             |
|----------------------------------------------------|-----------------|-----------------|------------------|
| <b>Core business:</b>                              |                 |                 |                  |
| <b>Commercial Insurance</b>                        |                 |                 |                  |
| Liability and Financial Lines                      | \$ (2,649)      | \$ (661)        | \$ 3,044         |
| Property and Special Risks                         | (86)            | 1,226           | 1,203            |
| <b>Commercial Insurance</b>                        | <b>(2,735)</b>  | 565             | 4,247            |
| <b>Consumer Insurance</b>                          |                 |                 |                  |
| Individual Retirement                              | 2,269           | 1,812           | 2,306            |
| Group Retirement                                   | 931             | 1,100           | 1,229            |
| Life Insurance                                     | (37)            | (51)            | 290              |
| Personal Insurance                                 | 686             | 68              | 381              |
| <b>Consumer Insurance</b>                          | <b>3,849</b>    | 2,929           | 4,206            |
| Other Operations                                   | (748)           | (567)           | (958)            |
| Total Core                                         | 366             | 2,927           | 7,495            |
| Legacy Portfolio                                   | 1,007           | 1,133           | 2,576            |
| Consolidations, eliminations and other adjustments | 42              | (76)            | (19)             |
| <b>Pre-tax operating income</b>                    | <b>\$ 1,415</b> | <b>\$ 3,984</b> | <b>\$ 10,052</b> |



## Commercial Insurance



## PRODUCTS AND DISTRIBUTION

### Liability and Financial Lines

**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 and Special Risks

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

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

## Distribution

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

## BUSINESS STRATEGY

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

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

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

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

## COMPETITION AND CHALLENGES

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

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

Our challenges include:

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

## OUTLOOK—INDUSTRY AND ECONOMIC FACTORS

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

### Liability and Financial Lines

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

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

### Property and Special Risks

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

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

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

## COMMERCIAL INSURANCE RESULTS

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

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

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

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

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

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

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

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

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

| <b>Years Ended December 31,</b><br><i>(in millions)</i> | # of<br>Events | U.S.          | Japan       | Europe        | Other         | Total      |
|---------------------------------------------------------|----------------|---------------|-------------|---------------|---------------|------------|
| <b>2016</b>                                             | <b>22 \$</b>   | <b>183 \$</b> | <b>- \$</b> | <b>191 \$</b> | <b>31 \$</b>  | <b>405</b> |
| <b>2015</b>                                             | <b>29 \$</b>   | <b>260 \$</b> | <b>- \$</b> | <b>317 \$</b> | <b>122 \$</b> | <b>699</b> |
| <b>2014</b>                                             | <b>30 \$</b>   | <b>169 \$</b> | <b>- \$</b> | <b>- \$</b>   | <b>423 \$</b> | <b>592</b> |

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

## LIABILITY AND FINANCIAL LINES RESULTS

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

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

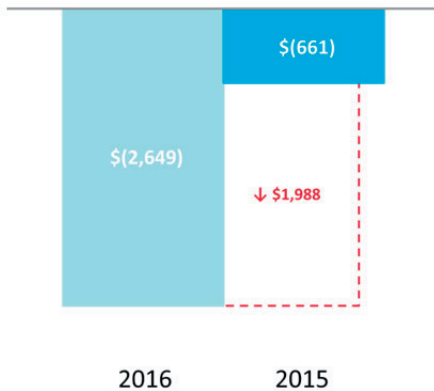
### Business and Financial Highlights

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

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

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



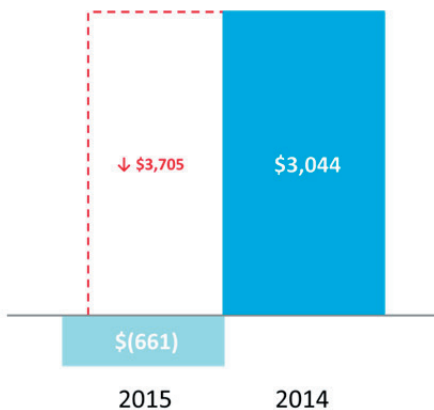
**Liability and Financial Lines Pre-Tax Operating (Loss)***(in millions)***2016 and 2015 Comparison**

Pre-tax operating loss increased primarily due to:

- higher adverse prior year reserve development (increase by \$1.8 billion);
- lower net premiums earned primarily driven by reinsurance and portfolio optimization; and
- lower net investment income due to lower income on alternative investments and lower interest and dividends.

These increases were partially offset by:

- lower general operating expenses primarily due to lower employee-related expenses and other expense reduction initiatives; and
- lower acquisition expenses primarily due to the ceding commissions related to the reinsurance arrangement with Swiss Re Group which became effective in the first quarter of 2016.

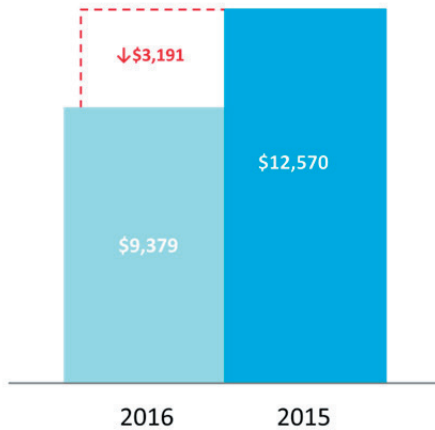
**Liability and Financial Lines Pre-Tax Operating Income (Loss)***(in millions)***2015 and 2014 Comparison**

Pre-tax operating income decreased primarily due to:

- higher net adverse prior year loss reserve development (increase by \$2.9 billion); and
- lower net investment income driven by lower income on alternative investments as well as lower return on assets due to decreases in interest rates.

These decreases were partially offset by:

- lower general operating expenses primarily due to lower employee-related expenses resulting from actions to streamline our management structure and general cost containment measures commenced in 2015; and
- lower total acquisition expense driven primarily by lower commission rates.

**Liability and Financial Lines Net Premiums Written***(in millions)***2016 and 2015 Comparison**

Net premiums written decreased primarily due to:

- the effect of the reinsurance arrangement with the Swiss Re Group;
- continued execution of our strategy to enhance risk selection and optimize our product portfolio, including non-renewals, and revising rates, terms and conditions in certain underperforming products, particularly U.S. casualty;
- lower new and renewal business reflecting efforts to adhere to underwriting discipline in the current competitive environment; and
- the renewal of a multi-year E&O policy in the U.S. in 2015.

These decreases were partially offset by growth in certain targeted lines of business.

**Liability and Financial Lines Net Premiums Written***(in millions)***2015 and 2014 Comparison**

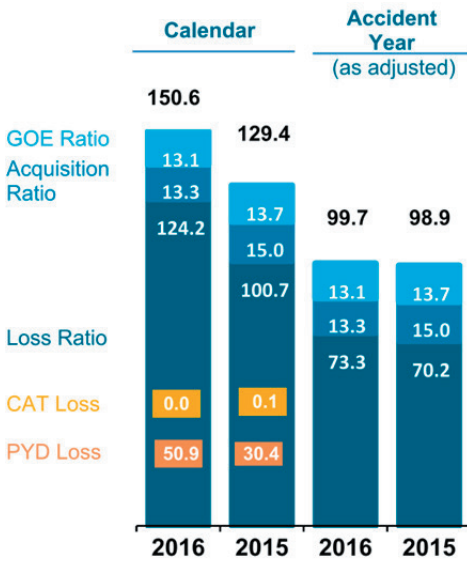
Net premiums written decreased primarily due to:

- declines in Liability reflecting:
  - continued execution of our strategy to enhance our portfolio mix, including reduced production in certain underperforming products such as excess casualty; and
  - a decrease in loss sensitive business.

This decrease was partially offset by:

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

**Liability and Financial Lines Combined Ratios**



**2016 and 2015 Comparison**

The increase in combined ratio reflects:

- an increase in the loss ratio partially offset by a decrease in the expense ratio.

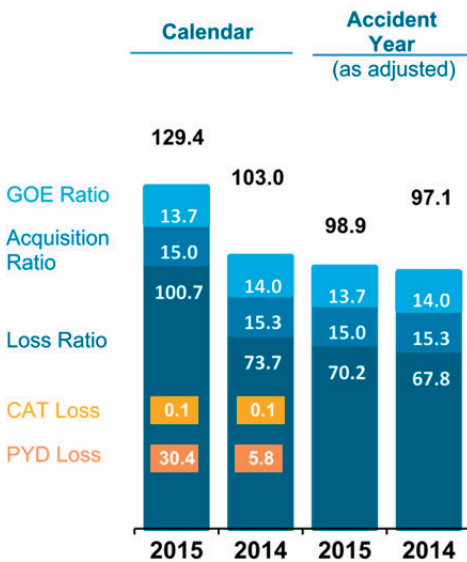
The increase in the loss ratio reflects:

- reserve strengthening mainly in U.S. Workers' compensation U.S. Other casualty and Financial lines; and
- higher accident year loss ratio, as adjusted, in Liability.

The decrease in the expense ratio reflects:

- a decrease in general operating expense ratio due to our ongoing focus on cost efficiency; and
- lower acquisition expense ratio driven by higher commission income through new reinsurance transactions.

**Liability and Financial Lines Combined Ratios**



**2015 and 2014 Comparison**

The increase in combined ratio reflects:

- an increase in the loss ratio partially offset by a decrease in the expense ratio.

The increase in loss ratio reflects:

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

The decrease in the expense ratio reflects:

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

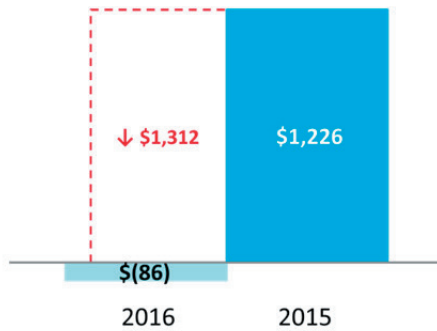
## PROPERTY AND SPECIAL RISKS RESULTS

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

### Business and Financial Highlights

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

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

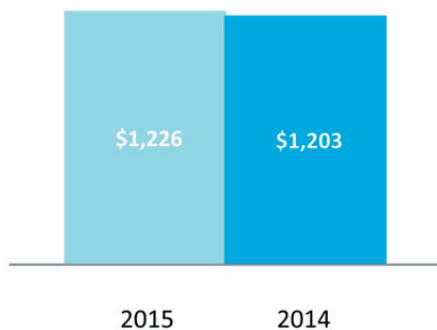
**Property and Special Risks Pre-Tax Operating Income (Loss)***(in millions)***2016 and 2015 Comparison**

Pre-tax operating income decreased primarily due to:

- higher adverse prior year development primarily due to an increase in the U.S. Programs business;
- increased catastrophe losses by approximately \$600 million; and
- lower net investment income due to lower income on alternative investments.

These declines were partially offset by:

- lower severe losses;
- the effect of the 50 percent quota share reinsurance agreement with UGC; and
- slightly lower general operating expenses primarily due to lower employee-related expenses and other expense reduction initiatives.

**Property and Special Risks Pre-Tax Operating Income***(in millions)***2015 and 2014 Comparison**

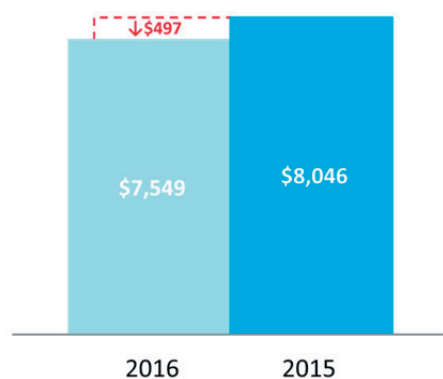
Pre-tax operating income increased slightly primarily due to:

- favorable impact of \$87 million from the 50 percent quota share reinsurance agreement with UGC which became effective in the first quarter of 2015; and
- lower attritional losses due to enhanced risk selection.

This was partially offset by:

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



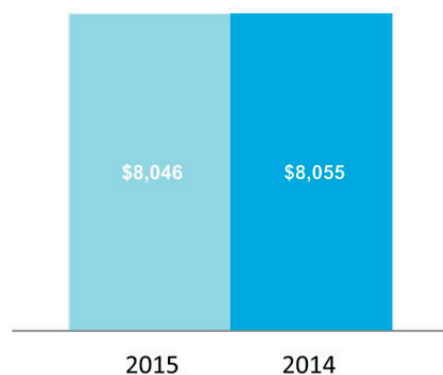
**Property and Special Risks Net Premiums Written***(in millions)***2016 and 2015 Comparison**

Net premiums written decreased primarily due to:

- continued execution of our strategy to optimize our portfolio mix;
- increases in rate pressure, significant competition and challenging market conditions;
- lower new and renewal business reflecting the continued adherence to our underwriting discipline in the current competitive environment; and
- lower premiums related to the 50 percent quota share reinsurance agreement with UGC.

These decreases were partially offset by:

- increases in target growth business in Special Risks.

**Property and Special Risks Net Premiums Written***(in millions)***2015 and 2014 Comparison**

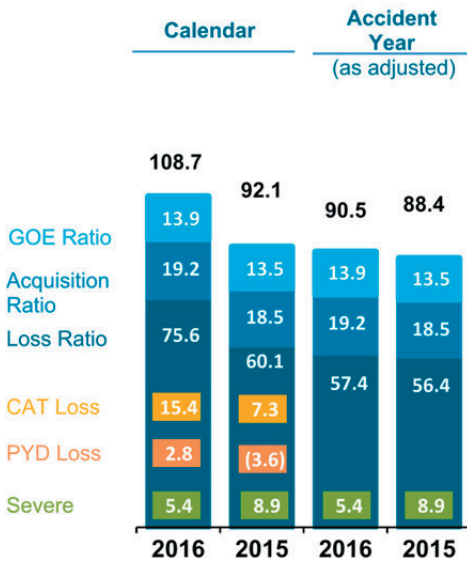
Net premiums written decreased slightly primarily due to:

- portfolio optimization and continued challenging market conditions; and
- reduced production in certain products due to enhanced risk selection.

These decreases were partially offset by:

- the favorable impact of \$392 million from the 50 percent quota share reinsurance agreement with UGC which became effective in the first quarter of 2015

**Property and Special Risks Combined Ratios**



**2016 and 2015 Comparison**

The increase in combined ratio reflected:

- an increase in the loss ratio and expense ratio.

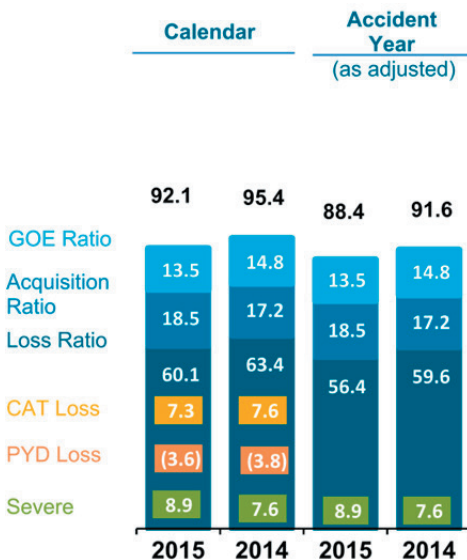
The increase in the loss ratio reflected:

- higher accident year loss ratio, as adjusted, driven by higher attritional loss ratio in the U.S. Programs business;
- higher catastrophe losses;
- higher net adverse prior year development; and
- partially offset by lower severe losses, as well as the effect of the 50 percent quota share reinsurance agreement with UGC.

The increase in expense ratio reflected:

- higher general operating expense ratio due to timing of premium reduction, which more than offset expense reduction; and
- higher acquisition ratios driven by change in business mix.

**Property and Special Risks Combined Ratios**



**2015 and 2014 Comparison**

The decrease in combined ratio reflected:

- decrease in the loss ratio partially offset by an increase in the acquisition ratio.

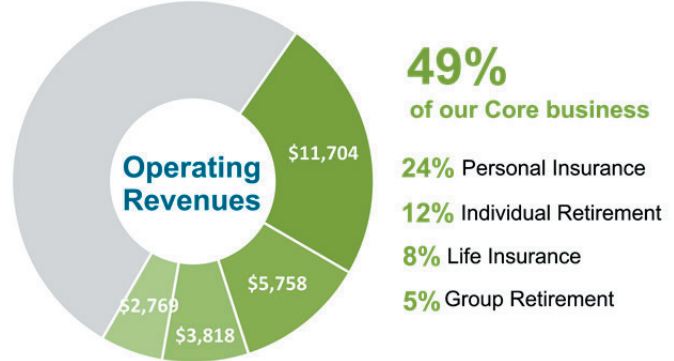
The decrease in both loss ratio and accident year loss ratio, as adjusted, reflected:

- lower attritional loss ratio from U.S. Property;
- lower attritional loss ratio in Special Risks which reflected the effect of the 50 percent quota share reinsurance agreement with UGC; and
- partially offset by an increase of 1.3 points in severe losses.

The expense ratio remained unchanged reflecting:

- higher acquisition ratio due to an increase in net commission expenses in certain classes of businesses, as well as higher premium taxes and other assessments reflecting change in business mix; and
- partially offset by lower general operating expense ratio due to lower employee-related expenses, and other expense reduction initiatives.

## Consumer Insurance



## PRODUCTS AND DISTRIBUTION

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

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

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

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



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

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





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



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

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

## BUSINESS STRATEGY

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

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

**Individual Retirement** will continue to capitalize on the opportunity to meet consumer demand for guaranteed income by maintaining innovative variable and index annuity products, while also managing risk from guarantee features through risk-mitigating product design and well-developed economic hedging capabilities.

Our fixed annuity products provide diversity in our annuity product suite by offering stable returns for retirement savings.

**Group Retirement** continues to enhance its technology platform to improve the customer experience for plan sponsors and individual participants. VALIC's self-service tools paired with its career financial advisors provide a compelling service platform.

**Life Insurance** continues to invest to position itself for growth, while executing on strategies to enhance returns.

Life Insurance is focused on rationalizing its product portfolio, aligning distribution with its most productive channels, consolidating systems to state-of-the-art platforms, and employing innovative underwriting enhancements.

**Personal Insurance** aims to provide clients with valuable solutions, delivered through the channels they prefer. We continue to focus and invest in the most profitable markets and segments, while narrowing our footprint where appropriate.

We are also leveraging our multinational capabilities to meet the increasing demand for cross-border coverage and services. Personal Insurance will continue to use our strong risk management and market expertise to foster growth by providing innovative and competitive solutions to its customers and distributors.

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

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

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

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## COMPETITION AND CHALLENGES

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

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

Our primary challenges include:

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

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## OUTLOOK—INDUSTRY AND ECONOMIC FACTORS

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

### Individual Retirement

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

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

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



## Group Retirement

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

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

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

## Life Insurance

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

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

## Personal Insurance

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

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

## CONSUMER INSURANCE RESULTS

| Years Ended December 31,<br>(in millions)          | 2016            | 2015            | 2014            | Percentage Change |               |
|----------------------------------------------------|-----------------|-----------------|-----------------|-------------------|---------------|
|                                                    |                 |                 |                 | 2016 vs. 2015     | 2015 vs. 2014 |
| <b>Revenues:</b>                                   |                 |                 |                 |                   |               |
| Premiums                                           | \$ 13,015       | \$ 12,620       | \$ 13,444       | 3 %               | (6)%          |
| Policy fees                                        | 2,411           | 2,450           | 2,347           | (2)               | 4             |
| Net investment income                              | 7,345           | 7,356           | 7,924           | -                 | (7)           |
| Other income                                       | 1,278           | 2,104           | 1,998           | (39)              | 5             |
| Total operating revenue                            | 24,049          | 24,530          | 25,713          | (2)               | (5)           |
| <b>Benefits and expenses:</b>                      |                 |                 |                 |                   |               |
| Policyholder benefits and losses incurred          | 8,858           | 8,760           | 8,809           | 1                 | (1)           |
| Interest credited to policyholder account balances | 3,205           | 3,207           | 3,246           | -                 | (1)           |
| Amortization of deferred policy acquisition costs  | 2,681           | 2,762           | 2,655           | (3)               | 4             |
| General operating and other expenses*              | 5,456           | 6,872           | 6,797           | (21)              | 1             |
| Total operating expenses                           | 20,200          | 21,601          | 21,507          | (6)               | -             |
| <b>Pre-tax operating income</b>                    | <b>\$ 3,849</b> | <b>\$ 2,929</b> | <b>\$ 4,206</b> | <b>31 %</b>       | <b>(30)%</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 modules in Consumer Insurance are subject to variances in net investment income on the asset portfolios that support insurance liabilities and surplus. See Investments for additional information on our investment strategy, asset-liability management process and invested asset composition.

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

## Individual Retirement Results

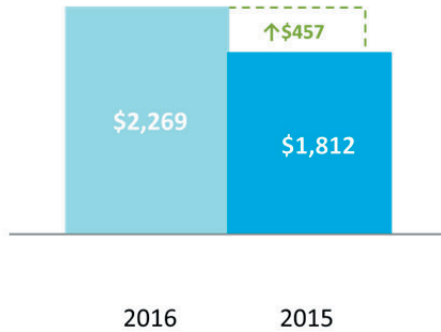
The following table presents individual retirement results:

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

## Business and Financial Highlights

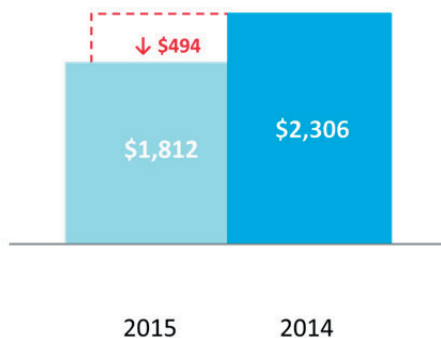
A diverse product portfolio enabled Individual Retirement to maintain industry-leading positions in annuity sales despite a challenging environment, which included an industry-wide slowdown primarily driven by uncertainty about the DOL Fiduciary Rule, compared to strong Variable and Index Annuity sales growth in 2015 and 2014. Our total sales of Index Annuities slowed in 2016 but continued to outpace the industry. Fixed Annuities sales increased in 2016 as customers chose the safety of fixed returns in a period of equity volatility, but the sustained low interest rate environment, together with aggressive pricing by private equity-backed annuity writers, resulted in a modest decline in market share in 2016 and negative net flows for Fixed Annuities in 2016, 2015 and 2014.

Reinvestment in the low interest rate environment contributed to spread compression in Fixed Annuities, and net investment income results included volatility from alternative investments, mortgage loan prepayments, and fair value option assets. Pre-tax operating income also included adjustments in each year to update actuarial assumptions, particularly from lower surrenders across all product lines. Excluding such adjustments, net growth in average assets for Variable and Index Annuities drove higher fee income, partially offset by increased DAC amortization. The sale of AIG Advisor Group in May 2016 resulted in decreases in advisory fee income, advisory fee expense and general operating expenses in 2016 compared to 2015, but did not result in a significant decrease in pre-tax operating income.

**Individual Retirement Pre-Tax Operating Income***(in millions)***2016 and 2015 Comparison**

Pre-tax operating income increased in 2016 compared to 2015 primarily due to:

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

**Individual Retirement Pre-Tax Operating Income***(in millions)***2015 and 2014 Comparison**

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

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

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

## INDIVIDUAL RETIREMENT GAAP PREMIUMS, PREMIUMS AND DEPOSITS, SURRENDERS AND NET FLOWS

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

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

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

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

| Years Ended December 31,<br>(in millions) | 2016             | 2015             | 2014             |
|-------------------------------------------|------------------|------------------|------------------|
| Premiums                                  | \$ 163           | \$ 137           | \$ 242           |
| Deposits                                  | 15,898           | 18,238           | 17,248           |
| Other                                     | 1                | 1                | (166)            |
| <b>Premiums and deposits</b>              | <b>\$ 16,062</b> | <b>\$ 18,376</b> | <b>\$ 17,324</b> |

### Surrender Rates

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

| Years Ended December 31,                              | 2016  | 2015  | 2014  |
|-------------------------------------------------------|-------|-------|-------|
| <b>Surrenders as a percentage of average reserves</b> |       |       |       |
| Fixed Annuities                                       | 7.6 % | 7.2 % | 7.3 % |
| Variable and Index Annuities                          | 5.2   | 6.0   | 7.1   |

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

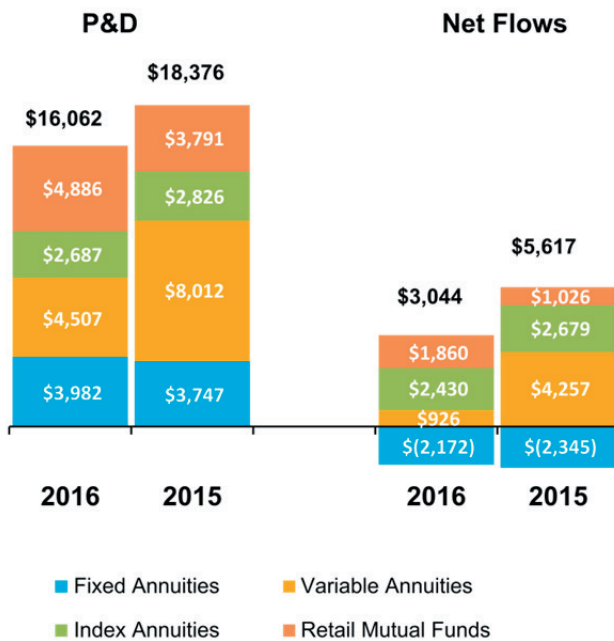
| At December 31,       | 2016             |                              | 2015             |                              |
|-----------------------|------------------|------------------------------|------------------|------------------------------|
| (in millions)         | Fixed Annuities  | Variable and Index Annuities | Fixed Annuities  | Variable and Index Annuities |
| No surrender charge   | \$ 34,674        | \$ 15,338                    | \$ 34,317        | \$ 13,549                    |
| Greater than 0% - 2%  | 857              | 4,558                        | 1,543            | 4,314                        |
| Greater than 2% - 4%  | 2,221            | 5,741                        | 2,284            | 4,361                        |
| Greater than 4%       | 12,599           | 34,966                       | 13,133           | 32,741                       |
| Non-surrenderable     | 1,606            | 380                          | 1,342            | 342                          |
| <b>Total reserves</b> | <b>\$ 51,957</b> | <b>\$ 60,983</b>             | <b>\$ 52,619</b> | <b>\$ 55,307</b>             |

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

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

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

(in millions)



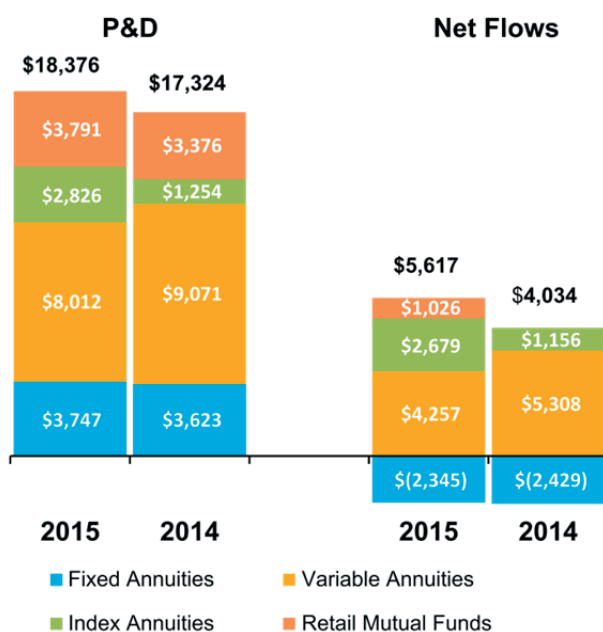
**2016 and 2015 Comparison**

- **Fixed Annuities** deposits increased in 2016 primarily due to higher sales in the bank and broker-dealer distribution channels as a result of customers favoring the safety of fixed annuities in response to equity market volatility. Net flows were negative in 2016, but improved compared to 2015 due to higher sales.
- **Variable and Index Annuities** net flows in 2016 were significantly lower due to a decrease in premiums and deposits, primarily due to lower sales of variable annuities, which reflected a strategic decision to scale back living benefits during the period of very low interest rates, as well as an industry-wide slowdown and uncertainty around the effect of the new DOL Fiduciary Rule.
- **Retail Mutual Funds** net flows increased in 2016 due to improvement in the level of deposits, which was partially offset by higher surrenders, both driven by activity within the Focused Dividend Strategy Portfolio fund.



## Individual Retirement Premiums and Deposits and Net Flows

(in millions)



### 2015 and 2014 Comparison

- **Fixed Annuities** premiums and deposits increased in 2015 due to new product offerings and increases in market interest rates driven by widening credit spreads in the second half of the year, while net flows continued to be negative, primarily due to the sustained relatively low interest rate environment.
- **Variable and Index Annuities** premiums and deposits and net flows reflected lower Variable Annuities sales in 2015, due to market uncertainty around the DOL Fiduciary Rule and equity market volatility, partially offset by an increase in Index Annuity sales.
- **Retail Mutual Funds** deposits increased in 2015, driven primarily by activity within the Focused Dividend Strategy Portfolio fund. In 2015, sales and withdrawals for this fund improved compared to a decline in 2014, due to a return to strong performance levels, which drove the growth in Retail Mutual Funds net flows.

## GROUP RETIREMENT RESULTS

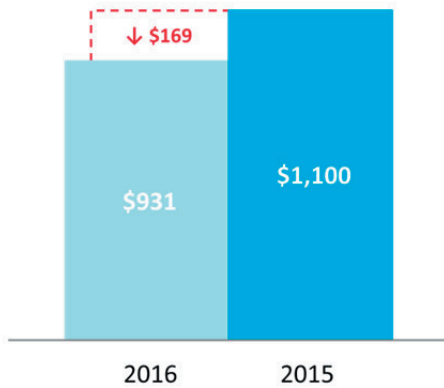
Years Ended December 31,

(in millions)

|                                                    | 2016          | 2015            | 2014            | Percentage Change |               |
|----------------------------------------------------|---------------|-----------------|-----------------|-------------------|---------------|
|                                                    |               |                 |                 | 2016 vs. 2015     | 2015 vs. 2014 |
| <b>Revenues:</b>                                   |               |                 |                 |                   |               |
| Premiums                                           | \$ 27         | \$ 22           | \$ 44           | 23 %              | (50)%         |
| Policy fees                                        | 383           | 401             | 405             | (4)               | (1)           |
| Net investment income                              | 2,146         | 2,192           | 2,349           | (2)               | (7)           |
| Advisory fee and other income                      | 213           | 219             | 207             | (3)               | 6             |
| <b>Benefits and expenses:</b>                      |               |                 |                 |                   |               |
| Policyholder benefits and losses incurred          | 28            | 33              | 79              | (15)              | (58)          |
| Interest credited to policyholder account balances | 1,135         | 1,113           | 1,134           | 2                 | (2)           |
| Amortization of deferred policy acquisition costs  | 129           | 50              | 31              | 158               | 61            |
| Non deferrable insurance commissions               | 85            | 71              | 78              | 20                | (9)           |
| Advisory fee expenses                              | 75            | 73              | 56              | 3                 | 30            |
| General operating expenses                         | 386           | 394             | 398             | (2)               | (1)           |
| <b>Pre-tax operating income</b>                    | <b>\$ 931</b> | <b>\$ 1,100</b> | <b>\$ 1,229</b> | <b>(15)%</b>      | <b>(10)%</b>  |

### Business and Financial Highlights

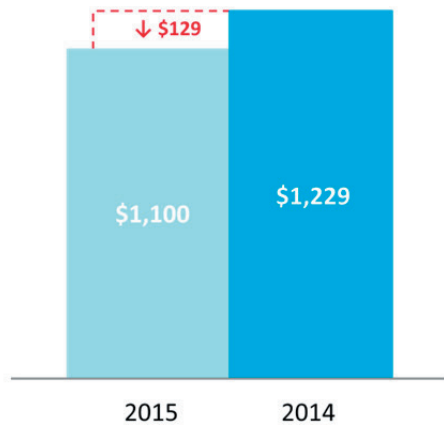
Group Retirement showed significant improvement in net flows in 2016 compared to 2015 and 2014, due to lower surrenders as well as record sales, resulting in part from its investment in talent, group plan administration record-keeping capabilities and digital functionality. Pressure on investment spread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

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

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

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

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

**Group Retirement Pre-Tax Operating Income***(in millions)***2015 and 2014 Comparison**

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

- lower net investment income primarily due to lower returns on alternative investments in hedge funds and lower reinvestment yields in the low interest rate environment, partially offset by additional accretion income, higher bond call and tender income and gains on securities for which the fair value option was elected;
- higher DAC amortization (excluding adjustments to reflect assumption updates) due to higher run rate from assumptions updated in the prior year; and
- lower policy fee income due to a decrease in separate account assets, which reflected negative net flows.

These decreases were partially offset by:

- lower interest credited due to effective crediting rate management and lower volume of fixed account values;
- lower policyholder benefits due to favorable mortality on immediate annuities; and
- lower general operating expenses due primarily to lower legal expenses, partially offset by higher pension costs and higher taxes, licenses and fees.

## GROUP RETIREMENT GAAP PREMIUMS, PREMIUMS AND DEPOSITS, SURRENDERS AND NET FLOWS

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

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

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

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

| Years Ended December 31,<br>(in millions) | 2016            | 2015            | 2014            |
|-------------------------------------------|-----------------|-----------------|-----------------|
| Premiums                                  | \$ 27           | \$ 22           | \$ 44           |
| Deposits                                  | 7,543           | 6,899           | 6,699           |
| Other                                     | -               | (1)             | -               |
| <b>Premiums and deposits</b>              | <b>\$ 7,570</b> | <b>\$ 6,920</b> | <b>\$ 6,743</b> |

### Surrender Rates

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

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

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

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

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

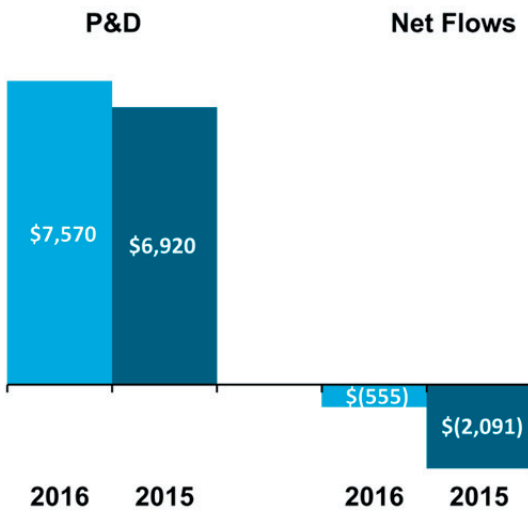
(b) Group Retirement amounts in this category include reserves of approximately \$6.3 billion and \$6.2 billion, at December 31, 2016 and 2015, respectively, that are subject to 20 percent annual withdrawal limitations.

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

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

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

(in millions)

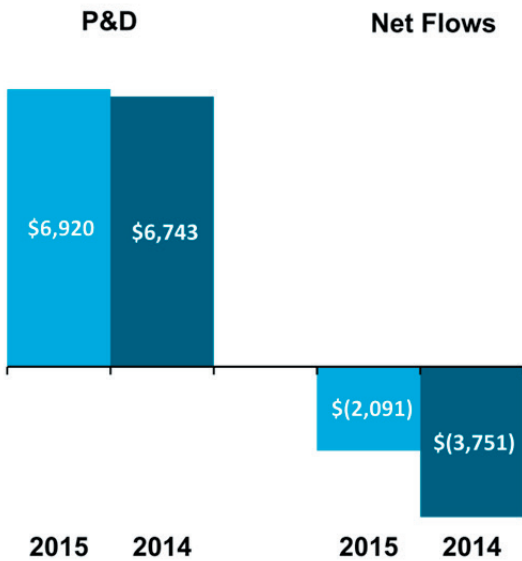


**2016 and 2015 Comparison**

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

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

(in millions)



**2015 and 2014 Comparison**

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

## LIFE INSURANCE RESULTS

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

### Business and Financial Highlights

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

### Life Insurance Pre-Tax Operating Income (Loss)

(in millions)

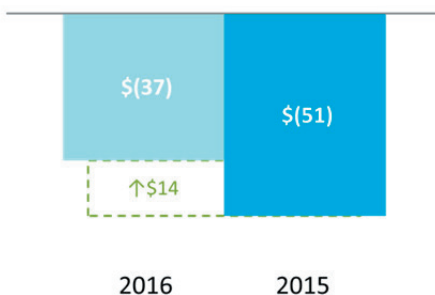
#### 2016 and 2015 Comparison

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

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

These improvements were partially offset by:

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





**Life Insurance Pre-Tax Operating Income (Loss)***(in millions)***2015 and 2014 Comparison**

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

- lower net investment income primarily due to lower returns on alternative investments in hedge funds and, to a lesser extent, a decrease due to lower yields on the base portfolio;
- individual and group mortality experience that was less favorable than 2014;
- a higher net negative adjustment to reflect updated actuarial assumptions, which was \$118 million in 2015 compared to \$32 million in 2014; and
- international pre-tax operating losses in 2015, including higher general operating expenses, related to the expansion through the acquisitions of AIG Life Limited and Laya Healthcare. The increase in expenses from these acquisitions was partially offset by domestic savings from organizational changes.

The increase in other income was due to commission and profit sharing revenues received by Laya Healthcare, acquired in March 2015, which was offset by related operating expenses.

**LIFE INSURANCE GAAP PREMIUMS AND PREMIUMS AND DEPOSITS**

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

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

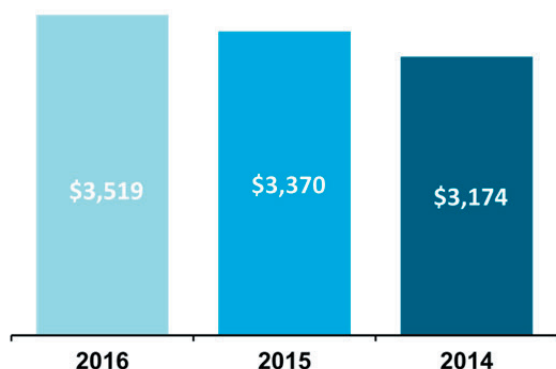
The following table presents a reconciliation of Life Insurance premiums and deposits to GAAP premiums:

| <b>Years Ended December 31,</b> |             |              |             |                 |
|---------------------------------|-------------|--------------|-------------|-----------------|
| <i>(in millions)</i>            |             |              |             |                 |
|                                 | <b>2016</b> |              | <b>2015</b> |                 |
| Premiums                        | \$          | <b>1,407</b> | \$          | 1,311           |
| Deposits                        |             | <b>1,419</b> |             | 1,451           |
| Other                           |             | <b>693</b>   |             | 608             |
| <b>Premiums and deposits</b>    | <b>\$</b>   | <b>3,519</b> | <b>\$</b>   | <b>3,370</b>    |
|                                 |             |              |             | <b>\$ 1,191</b> |
|                                 |             |              |             | <b>1,441</b>    |
|                                 |             |              |             | <b>542</b>      |
|                                 |             |              |             | <b>3,174</b>    |

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

## Life Insurance Premiums and Deposits

(\$ in millions)



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

## Personal Insurance Results

| Years Ended December 31,<br>(in millions)                                                                    | 2016          | 2015      | 2014      | Change        |               |
|--------------------------------------------------------------------------------------------------------------|---------------|-----------|-----------|---------------|---------------|
|                                                                                                              |               |           |           | 2016 vs. 2015 | 2015 vs. 2014 |
| <b>Underwriting results:</b>                                                                                 |               |           |           |               |               |
| Net premiums written                                                                                         | \$ 11,465     | \$ 11,583 | \$ 12,408 | (1)%          | (7)%          |
| Increase in unearned premiums                                                                                | (47)          | (433)     | (441)     | 89            | 2             |
| <b>Net premiums earned</b>                                                                                   | <b>11,418</b> | 11,150    | 11,967    | 2             | (7)           |
| Losses and loss adjustment expenses incurred                                                                 | 6,205         | 6,151     | 6,502     | 1             | (5)           |
| Acquisition expenses:                                                                                        |               |           |           |               |               |
| Amortization of deferred policy acquisition                                                                  | 2,072         | 1,970     | 2,088     | 5             | (6)           |
| Other acquisition expenses                                                                                   | 936           | 1,202     | 1,171     | (22)          | 3             |
| <b>Total acquisition expenses</b>                                                                            | <b>3,008</b>  | 3,172     | 3,259     | (5)           | (3)           |
| General operating expenses                                                                                   | 1,805         | 2,084     | 2,197     | (13)          | (5)           |
| <b>Underwriting income (loss)</b>                                                                            | <b>400</b>    | (257)     | 9         | NM            | NM            |
| Net investment income                                                                                        | 286           | 325       | 372       | (12)          | (13)          |
| <b>Pre-tax operating income</b>                                                                              | <b>686</b>    | 68        | 381       | NM            | (82)          |
| <b>Loss ratio</b>                                                                                            | <b>54.3</b>   | 55.2      | 54.3      | (0.9)         | 0.9           |
| Acquisition ratio                                                                                            | 26.3          | 28.4      | 27.2      | (2.1)         | 1.2           |
| General operating expense ratio                                                                              | 15.8          | 18.7      | 18.4      | (2.9)         | 0.3           |
| <b>Expense ratio</b>                                                                                         | <b>42.1</b>   | 47.1      | 45.6      | (5.0)         | 1.5           |
| <b>Combined ratio</b>                                                                                        | <b>96.4</b>   | 102.3     | 99.9      | (5.9)         | 2.4           |
| <b>Adjustments for accident year loss ratio, as adjusted, and accident year combined ratio, as adjusted:</b> |               |           |           |               |               |
| Catastrophe losses and reinstatement premiums                                                                | (1.4)         | (1.3)     | (1.0)     | (0.1)         | (0.3)         |
| Prior year development net of premium adjustments                                                            | 1.2           | 0.1       | 0.6       | 1.1           | (0.5)         |
| <b>Accident year loss ratio, as adjusted</b>                                                                 | <b>54.1</b>   | 54.0      | 53.9      | 0.1           | 0.1           |
| <b>Accident year combined ratio, as adjusted</b>                                                             | <b>96.2</b>   | 101.1     | 99.5      | (4.9)         | 1.6           |

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

| Years Ended December 31,<br>(in millions) | 2016      | 2015      | 2014      | Percentage Change in<br>U.S. dollars |               | Percentage Change in<br>Original Currency |               |
|-------------------------------------------|-----------|-----------|-----------|--------------------------------------|---------------|-------------------------------------------|---------------|
|                                           |           |           |           | 2016 vs. 2015                        | 2015 vs. 2014 | 2016 vs. 2015                             | 2015 vs. 2014 |
| <b>Net premiums written</b>               | \$ 11,465 | \$ 11,583 | \$ 12,408 | (1)%                                 | (7)%          | (2)%                                      | 3%            |

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

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

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

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

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

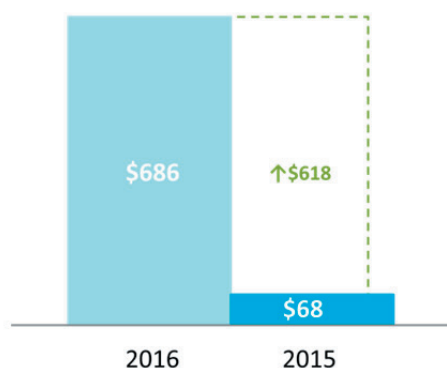
### Severe Losses<sup>(c)</sup>

| <i>(in millions)</i> | # of<br>Events | U.S.         | Japan       | Europe      | Other       | Total     |
|----------------------|----------------|--------------|-------------|-------------|-------------|-----------|
| <b>2016</b>          | <b>2 \$</b>    | <b>28 \$</b> | <b>- \$</b> | <b>- \$</b> | <b>- \$</b> | <b>28</b> |
| <b>2015</b>          | <b>1 \$</b>    | <b>12 \$</b> | <b>- \$</b> | <b>- \$</b> | <b>- \$</b> | <b>12</b> |
| <b>2014</b>          | <b>4 \$</b>    | <b>50 \$</b> | <b>- \$</b> | <b>- \$</b> | <b>4 \$</b> | <b>54</b> |

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

### Business and Financial Highlights

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

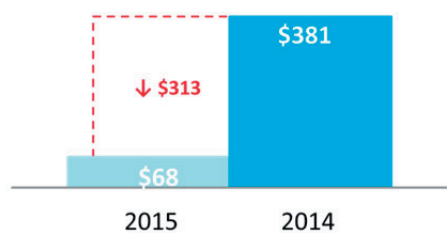
**Personal Insurance Pre-Tax Operating Income***(in millions)***2016 and 2015 Comparison**

Pre-tax operating income increased due to:

- improved underwriting results driven by:
  - strategic actions to reduce expenses and refocus direct marketing activities; and
  - higher net favorable prior year loss reserve development.

These increases were partially offset by:

- lower net investment income reflecting reduced income on alternative investments; and
- higher catastrophe losses.

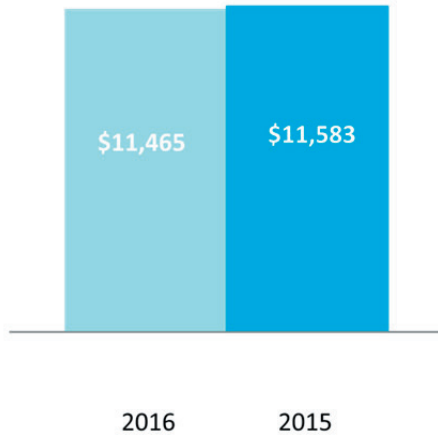
**Personal Insurance Pre-Tax Operating Income***(in millions)***2015 and 2014 Comparison**

Pre-tax operating income decreased due to:

- lower underwriting results and lower net investment income reflecting reduced income on alternative investments. The lower underwriting results were driven by:
  - lower earned premiums;
  - higher catastrophe losses;
  - lower net favorable prior year loss reserve development; and
  - increase in other acquisition expenses, primarily related to investments to grow automobile and property businesses and higher profit share expenses related to warranty service programs, partially offset by a decrease in direct marketing expenses.

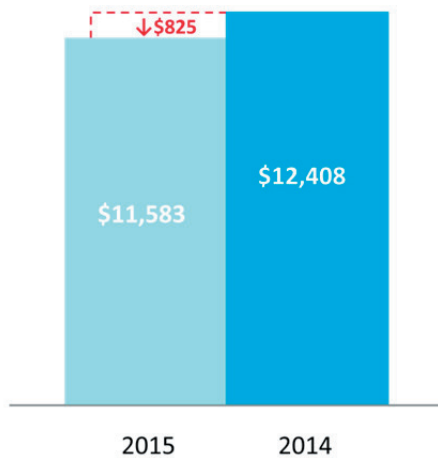
These decreases were partially offset by:

- lower general operating expenses reflecting an ongoing focus on cost efficiency.

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

Net premiums written decreased both on a reported basis and after excluding the effect of foreign exchange. The decrease in net premiums written on a constant dollar basis was due to the following:

- decreased production in Accident and Health primarily due to continued underwriting actions to strengthen our portfolio and maintain pricing discipline, with lower sales as a result of refocusing our direct marketing activities; and
- decreased production in personal property primarily due to the impact of a duration restriction on long-term fire insurance put in place in the fourth quarter of 2015 in Japan, partially offset by new business growth in the AIG Private Client Group (AIG PCG) business.

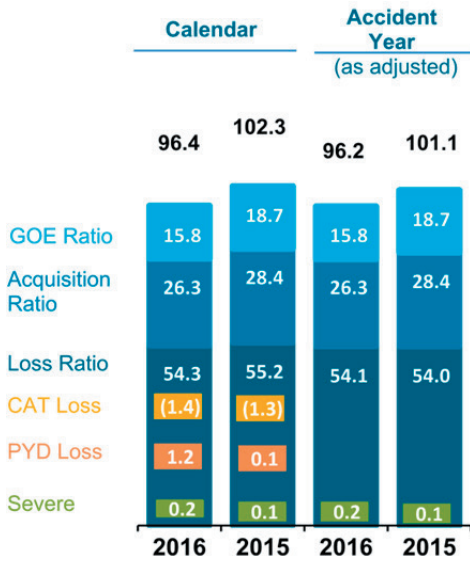
**Personal Insurance Net Premiums Written***(in millions)***2015 and 2014 Comparison**

Net premiums written decreased on a reported basis. Net premiums written increased excluding the effect of foreign exchange. The increase in net premiums written on a constant dollar basis was due to the following:

- increased production in Accident and Health primarily due to a sales increase in Japan, partially offset by a decrease in the U.S., due to continued underwriting discipline;
- increased production in personal property attributable to new business sales and improved retention in AIG PCG;
- increase in Japan new housing starts and heightened demand before the duration restriction on long-term fire insurance became effective in October 2015; and
- retention of more favorable risks in U.S. personal property through optimization in reinsurance structure, while continuing to manage aggregate exposure.



## Personal Insurance Combined Ratios



## 2016 and 2015 Comparison

The decrease in combined ratio reflects:

- a decrease in expense ratio due to strategic actions to reduce expenses; and
- a decrease in loss ratio primarily due to higher net favorable prior year loss reserve development.

The slight increase in accident year loss ratio, as adjusted, reflects:

- higher severe losses and higher number of large but not severe losses in the U.S. personal property business.

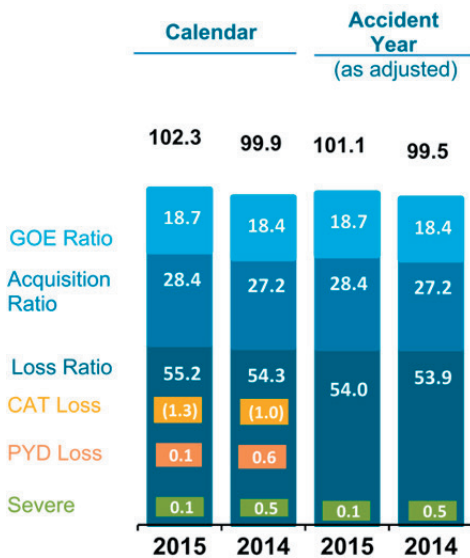
The decrease in acquisition ratio reflects:

- lower direct marketing expenses as we refocused our activities.

The decrease in general operating expense ratio reflects:

- lower employee-related expenses arising from organization realignment together with lower strategic investment expenditures.

## Personal Insurance Combined Ratios



## 2015 and 2014 Comparison

The increase in combined ratio reflects:

- higher loss ratio and expense ratio.

The increase in accident year loss ratio, as adjusted, reflects:

- higher large but not severe losses in automobile and personal property businesses, partially offset by a decrease in losses in warranty service programs and lower severe losses.

The increase in acquisition ratio reflects:

- higher acquisition costs in warranty service programs and in the automobile business, partially offset by lower direct marketing expenses in Accident and Health business.

The increase in general operating expense ratio reflects:

- higher investment in strategic initiatives and technology-related expenses, partially offset by ongoing focus on cost efficiency.

## Other Operations

The following table presents Other Operations results:

| Years Ended December 31,<br>(in millions)         | 2016            | 2015            | 2014            | Percentage Change |               |
|---------------------------------------------------|-----------------|-----------------|-----------------|-------------------|---------------|
|                                                   |                 |                 |                 | 2016 vs. 2015     | 2015 vs. 2014 |
| <b>Pre-tax operating loss by activities:</b>      |                 |                 |                 |                   |               |
| United Guaranty                                   | \$ 522          | \$ 537          | \$ 592          | (3)%              | (9)%          |
| Institutional Markets                             | 263             | 259             | 409             | 2                 | (37)          |
| Fuji Life                                         | 14              | (33)            | (8)             | NM                | (313)         |
| Parent and Other:                                 |                 |                 |                 |                   |               |
| Corporate General operating expenses              | (666)           | (411)           | (629)           | (62)              | 35            |
| Interest expense                                  | (983)           | (1,030)         | (1,291)         | 5                 | 20            |
| Other income (expense), net                       | 102             | 111             | (31)            | (8)               | NM            |
| Total Parent and Other                            | (1,547)         | (1,330)         | (1,951)         | (16)              | 32            |
| <b>Pre-tax operating loss before eliminations</b> | <b>(748)</b>    | <b>(567)</b>    | <b>(958)</b>    | <b>(32)</b>       | <b>41</b>     |
| Consolidation, eliminations and other adjustments | 42              | (76)            | (19)            | NM                | (300)         |
| <b>Pre-tax operating loss</b>                     | <b>\$ (706)</b> | <b>\$ (643)</b> | <b>\$ (977)</b> | <b>(10)%</b>      | <b>34 %</b>   |

### 2016 AND 2015 COMPARISON

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

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

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

### 2015 AND 2014 COMPARISON

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

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

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

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## Legacy Portfolio

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

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

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

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

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### BUSINESS STRATEGY

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

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

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

## LEGACY PORTFOLIO RESULTS

The following table presents Legacy Portfolio results:

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

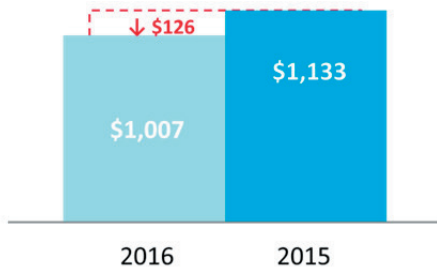
### Business and Financial Highlights

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

- On November 17, 2016, an AIG sponsored Fund (the Korea Fund) completed the sale of a mixed-use commercial complex in Seoul, South Korea commonly known as the Seoul International Finance Center, to Brookfield Properties for total consideration of \$2.5 billion, of which \$1.2 billion was used to repay the fund's debt. The remaining cash proceeds were allocated between AIG and the noncontrolling interests in accordance with the Korea Fund's partnership agreement.
- On December 30, 2016, we sold a portion of our life settlements portfolio with face value (death benefits) of approximately \$4.5 billion.
- For certain attractive, high-yielding assets, a series of internal securitizations were completed with the insurance companies over the last two years.

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

### Legacy Portfolio Pre-Tax Operating Income (in millions)

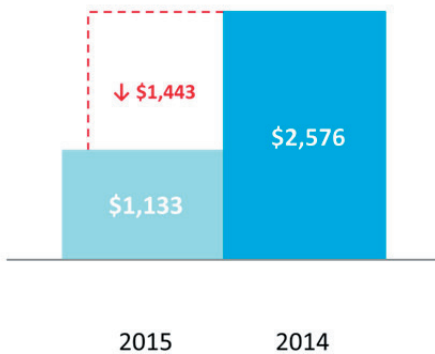


#### 2016 and 2015 Comparison

Pre-tax operating income remained relatively stable; however, there were fluctuations within the portfolios due to:

- lower Legacy Life earnings in 2016 compared to 2015 primarily due to lower net investment income on investments and higher loss recognition on certain payout annuities from the update of actuarial assumptions;
- lower Legacy Property and Casualty pre-tax operating loss driven primarily by lower underwriting losses due to a decrease in net adverse prior year loss reserve development; and
- higher Legacy Investment pre-tax operating income driven mainly by asset sales, partially offset by fair value losses on certain investments.

### Legacy Portfolio Pre-Tax Operating Income (in millions)



#### 2015 and 2014 Comparison

Pre-tax operating income decreased due to the following:

- lower Legacy Life earnings in 2015 compared to 2014 primarily due to lower returns on alternative investments in hedge funds and lower bond call and tender income. This was partially offset by a \$20 million reduction in the reserve for IBNR death claims related to enhanced claims practices, compared with a \$104 million increase in this reserve in 2014;
- lower Legacy Property and Casualty pre-tax operating income driven primarily by higher underwriting losses due to an increase in net adverse prior year loss reserve development; and
- lower Legacy Investment pre-tax operating income driven primarily by lower appreciation on assets for which the fair value option was elected and lower fair value income on derivative positions.

## Investments

### OVERVIEW

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

### Investment Highlights in 2016

- Narrowing of credit spreads more than offset the rise in interest rates, resulting in a net unrealized gain position in our investment portfolio. Net unrealized gains in our available for sale portfolio increased to approximately \$9.7 billion as of December 31, 2016 from approximately \$8.8 billion as of December 31, 2015.
- We continued to make investments in structured securities and other fixed maturity securities and increased lending activities in mortgage loans with favorable risk versus return characteristics to improve yields and increase net investment income.
- During 2016, we reduced our hedge fund portfolio by \$3.2 billion as a result of redemptions consistent with our planned reduction of exposure. Our alternative investments portfolio performance also experienced a decline in 2016 due to increased volatility in equity markets, primarily in the first quarter of 2016.
- Blended investment yields on new investments were lower than blended rates on investments that were sold, matured or called.
- Other-than-temporary impairments decreased due to lower impairments in our equity securities, available for sale.
- We recognized gains on sales of securities in 2016, primarily due to the sale of a portion of our PICC Investment.
- The U.S. election and Brexit vote have created increased volatility in credit markets and exchange rates as well as within the equity markets, which may continue for some time.

### Investment Strategies

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

Some of our key investment strategies are as follows:

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



The following table presents the components of Net Investment Income:

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

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

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

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

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

#### Attribution of Net Investment Income to Product Lines

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

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

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

#### Asset Liability Measurement

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

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

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

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

taxable municipal bonds, government and agency bonds, and corporate bonds. The majority of these high quality investments are rated A or higher based on composite ratings.

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

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

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

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

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

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

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

#### *NAIC Designations of Fixed Maturity Securities*

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

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

December 31, 2016

(in millions)

| NAIC Designation                                 | Total Investment  |                  |                   |                 |                 |                 | Total Below Investment |                  | Total             |
|--------------------------------------------------|-------------------|------------------|-------------------|-----------------|-----------------|-----------------|------------------------|------------------|-------------------|
|                                                  | 1                 | 2                | Grade             | 3               | 4               | 5               | 6                      | Grade            |                   |
| Other fixed maturity securities                  | \$ 80,257         | \$ 67,076        | \$ 147,333        | \$ 6,814        | \$ 4,143        | \$ 1,432        | \$ 103                 | \$ 12,492        | \$ 159,825        |
| Mortgage-backed, asset-backed and collateralized | 65,767            | 2,956            | 68,723            | 244             | 116             | 84              | 2,650                  | 3,094            | 71,817            |
| <b>Total<sup>*</sup></b>                         | <b>\$ 146,024</b> | <b>\$ 70,032</b> | <b>\$ 216,056</b> | <b>\$ 7,058</b> | <b>\$ 4,259</b> | <b>\$ 1,516</b> | <b>\$ 2,753</b>        | <b>\$ 15,586</b> | <b>\$ 231,642</b> |

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

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

December 31, 2016

(in millions)

| Composite AIG Credit Rating                      | Total Investment  |                  |                   |                 |                 |                  | Total Below Investment |                   | Total |
|--------------------------------------------------|-------------------|------------------|-------------------|-----------------|-----------------|------------------|------------------------|-------------------|-------|
|                                                  | AAA/AA/A          | BBB              | Grade             | BB              | B               | CCC and Lower    | Grade                  |                   |       |
| Other fixed maturity securities                  | \$ 81,571         | \$ 66,364        | \$ 147,935        | \$ 6,151        | \$ 4,334        | \$ 1,405         | \$ 11,890              | \$ 159,825        |       |
| Mortgage-backed, asset-backed and collateralized | 42,776            | 5,182            | 47,958            | 1,443           | 931             | 21,485           | 23,859                 | 71,817            |       |
| <b>Total<sup>*</sup></b>                         | <b>\$ 124,347</b> | <b>\$ 71,546</b> | <b>\$ 195,893</b> | <b>\$ 7,594</b> | <b>\$ 5,265</b> | <b>\$ 22,890</b> | <b>\$ 35,749</b>       | <b>\$ 231,642</b> |       |

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

## Credit Ratings

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

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

## Composite AIG Credit Ratings

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

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

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

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

### Available-for-Sale Investments

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

| (in millions)                                                    | Fair Value at December 31, 2016 | Fair Value at December 31, 2015 |
|------------------------------------------------------------------|---------------------------------|---------------------------------|
| <b>Bonds available for sale:</b>                                 |                                 |                                 |
| U.S. government and government sponsored entities                | \$ 1,992                        | \$ 1,844                        |
| Obligations of states, municipalities and political subdivisions | 24,772                          | 27,323                          |
| Non-U.S. governments                                             | 14,535                          | 18,195                          |
| Corporate debt                                                   | 132,180                         | 135,988                         |
| Mortgage-backed, asset-backed and collateralized:                |                                 |                                 |
| RMBS                                                             | 37,374                          | 36,227                          |
| CMBS                                                             | 14,271                          | 13,571                          |
| CDO/ABS                                                          | 16,413                          | 15,097                          |
| <b>Total mortgage-backed, asset-backed and collateralized</b>    | <b>68,058</b>                   | <b>64,895</b>                   |
| <b>Total bonds available for sale</b>                            | <b>241,537</b>                  | <b>248,245</b>                  |

**Equity securities available for sale:**

|                                                   |                   |                   |
|---------------------------------------------------|-------------------|-------------------|
| Common stock                                      | 1,065             | 2,401             |
| Preferred stock                                   | 752               | 22                |
| Mutual funds                                      | 261               | 492               |
| <b>Total equity securities available for sale</b> | <b>2,078</b>      | <b>2,915</b>      |
| <b>Total</b>                                      | <b>\$ 243,615</b> | <b>\$ 251,160</b> |

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

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

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

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

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

| <i>(in millions)</i>               | December 31, 2016 |                          |                                 |                        |                  | December 31,<br>2015<br>Total |
|------------------------------------|-------------------|--------------------------|---------------------------------|------------------------|------------------|-------------------------------|
|                                    | Sovereign         | Financial<br>Institution | Non-<br>Financial<br>Corporates | Structured<br>Products | Total            |                               |
| <b>Euro-Zone countries:</b>        |                   |                          |                                 |                        |                  |                               |
| France                             | \$ 667            | \$ 1,034                 | \$ 2,086                        | \$ 1                   | \$ 3,788         | \$ 4,018                      |
| Germany                            | 1,168             | 152                      | 1,906                           | 1                      | 3,227            | 3,365                         |
| Netherlands                        | 445               | 778                      | 1,275                           | 160                    | 2,658            | 3,404                         |
| Ireland                            | 9                 | -                        | 520                             | 734                    | 1,263            | 1,274                         |
| Belgium                            | 98                | 119                      | 858                             | -                      | 1,075            | 855                           |
| Spain                              | 13                | 50                       | 855                             | -                      | 918              | 1,102                         |
| Italy                              | -                 | 99                       | 732                             | 11                     | 842              | 1,009                         |
| Luxembourg                         | -                 | 14                       | 415                             | 1                      | 430              | 496                           |
| Finland                            | 79                | 55                       | 64                              | -                      | 198              | 229                           |
| Austria                            | 79                | 3                        | 13                              | -                      | 95               | 124                           |
| Other - EuroZone                   | 831               | 34                       | 239                             | -                      | 1,104            | 929                           |
| <b>Total Euro-Zone</b>             | <b>\$ 3,389</b>   | <b>\$ 2,338</b>          | <b>\$ 8,963</b>                 | <b>\$ 908</b>          | <b>\$ 15,598</b> | <b>\$ 16,805</b>              |
| <b>Remainder of Europe</b>         |                   |                          |                                 |                        |                  |                               |
| United Kingdom                     | \$ 815            | \$ 2,927                 | \$ 7,762                        | \$ 3,789               | \$ 15,293        | \$ 15,286                     |
| Switzerland                        | 45                | 1,101                    | 1,214                           | -                      | 2,360            | 2,519                         |
| Sweden                             | 117               | 409                      | 165                             | -                      | 691              | 827                           |
| Norway                             | 456               | 33                       | 93                              | -                      | 582              | 688                           |
| Russian Federation                 | 58                | 13                       | 98                              | -                      | 169              | 122                           |
| Other - Remainder of Europe        | 122               | 91                       | 72                              | -                      | 285              | 443                           |
| <b>Total - Remainder of Europe</b> | <b>\$ 1,613</b>   | <b>\$ 4,574</b>          | <b>\$ 9,404</b>                 | <b>\$ 3,789</b>        | <b>\$ 19,380</b> | <b>\$ 19,885</b>              |
| <b>Total</b>                       | <b>\$ 5,002</b>   | <b>\$ 6,912</b>          | <b>\$ 18,367</b>                | <b>\$ 4,697</b>        | <b>\$ 34,978</b> | <b>\$ 36,690</b>              |

## Investments in Municipal Bonds

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

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

| (in millions)                   | December 31, 2016              |                                |                  |                        | December 31, 2015<br>Total Fair Value |
|---------------------------------|--------------------------------|--------------------------------|------------------|------------------------|---------------------------------------|
|                                 | State<br>General<br>Obligation | Local<br>General<br>Obligation | Revenue          | Total<br>Fair<br>Value |                                       |
| <b>State:</b>                   |                                |                                |                  |                        |                                       |
| New York                        | \$ 20                          | \$ 597                         | \$ 3,553         | \$ 4,170               | 4,613                                 |
| California                      | 683                            | 454                            | 2,334            | 3,471                  | 3,841                                 |
| Texas                           | 275                            | 1,512                          | 1,500            | 3,287                  | 3,415                                 |
| Massachusetts                   | 710                            | -                              | 686              | 1,396                  | 1,387                                 |
| Illinois                        | 102                            | 151                            | 918              | 1,171                  | 1,486                                 |
| Washington                      | 407                            | 90                             | 562              | 1,059                  | 1,359                                 |
| Florida                         | 129                            | -                              | 887              | 1,016                  | 1,135                                 |
| Virginia                        | 46                             | 5                              | 738              | 789                    | 878                                   |
| Georgia                         | 181                            | 213                            | 353              | 747                    | 870                                   |
| Pennsylvania                    | 280                            | 24                             | 415              | 719                    | 676                                   |
| Washington DC                   | 180                            | -                              | 491              | 671                    | 705                                   |
| Arizona                         | -                              | 65                             | 493              | 558                    | 576                                   |
| Ohio                            | 94                             | -                              | 442              | 536                    | 531                                   |
| All other states <sup>(a)</sup> | 896                            | 494                            | 3,792            | 5,182                  | 5,851                                 |
| <b>Total<sup>(b)(c)</sup></b>   | <b>\$ 4,003</b>                | <b>\$ 3,605</b>                | <b>\$ 17,164</b> | <b>\$ 24,772</b>       | <b>27,323</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 \$1.7 billion of pre-refunded municipal bonds.

## Investments in Corporate Debt Securities

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

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

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



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

## Investments in RMBS

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

| <i>(in millions)</i>               | Fair Value at<br>December 31,<br>2016 |        | Fair Value at<br>December 31,<br>2015 |        |
|------------------------------------|---------------------------------------|--------|---------------------------------------|--------|
| <b>Total RMBS</b>                  |                                       |        |                                       |        |
| 2016                               | \$                                    | 4,464  | \$                                    | -      |
| 2015                               |                                       | 2,667  |                                       | 2,273  |
| 2014                               |                                       | 943    |                                       | 1,096  |
| 2013                               |                                       | 1,842  |                                       | 2,178  |
| 2012                               |                                       | 1,257  |                                       | 1,944  |
| 2011 and prior*                    |                                       | 26,201 |                                       | 28,736 |
| <b>Total RMBS</b>                  | \$                                    | 37,374 | \$                                    | 36,227 |
| <b>Agency</b>                      |                                       |        |                                       |        |
| 2016                               | \$                                    | 3,651  | \$                                    | -      |
| 2015                               |                                       | 2,404  |                                       | 2,025  |
| 2014                               |                                       | 825    |                                       | 1,000  |
| 2013                               |                                       | 1,749  |                                       | 2,094  |
| 2012                               |                                       | 1,247  |                                       | 1,877  |
| 2011 and prior                     |                                       | 3,978  |                                       | 5,555  |
| <b>Total Agency</b>                | \$                                    | 13,854 | \$                                    | 12,551 |
| <b>Alt-A</b>                       |                                       |        |                                       |        |
| 2016                               | \$                                    | -      | \$                                    | -      |
| 2015                               |                                       | -      |                                       | -      |
| 2014                               |                                       | 16     |                                       | -      |
| 2013                               |                                       | -      |                                       | -      |
| 2012                               |                                       | -      |                                       | -      |
| 2011 and prior                     |                                       | 12,371 |                                       | 12,831 |
| <b>Total Alt-A</b>                 | \$                                    | 12,387 | \$                                    | 12,831 |
| <b>Subprime</b>                    |                                       |        |                                       |        |
| 2016                               |                                       | -      |                                       | -      |
| 2015                               |                                       | -      |                                       | -      |
| 2014                               |                                       | -      |                                       | -      |
| 2013                               |                                       | -      |                                       | -      |
| 2012                               |                                       | -      |                                       | -      |
| 2011 and prior                     | \$                                    | 2,905  | \$                                    | 2,376  |
| <b>Total Subprime</b>              | \$                                    | 2,905  | \$                                    | 2,376  |
| <b>Prime non-agency</b>            |                                       |        |                                       |        |
| 2016                               | \$                                    | 738    | \$                                    | -      |
| 2015                               |                                       | 12     |                                       | -      |
| 2014                               |                                       | 3      |                                       | -      |
| 2013                               |                                       | 18     |                                       | 8      |
| 2012                               |                                       | -      |                                       | 53     |
| 2011 and prior                     |                                       | 6,651  |                                       | 7,589  |
| <b>Total Prime non-agency</b>      | \$                                    | 7,422  | \$                                    | 7,650  |
| <b>Total Other housing related</b> | \$                                    | 806    | \$                                    | 819    |

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

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

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

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

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

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

## Investments in CMBS

The following table presents our CMBS available for sale investments:

| <i>(in millions)</i> | Fair Value at<br>December 31,<br>2016 | Fair Value at<br>December 31,<br>2015 |
|----------------------|---------------------------------------|---------------------------------------|
| CMBS (traditional)   | \$ 11,782                             | \$ 11,132                             |
| Agency               | 1,737                                 | 1,622                                 |
| Other                | 752                                   | 817                                   |
| <b>Total</b>         | <b>\$ 14,271</b>                      | <b>\$ 13,571</b>                      |

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

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

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

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

\* Includes Non-U.S. locations.

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

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

\* Includes Agency-backed CMBS.

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

## Investments in CDOs

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

| <i>(in millions)</i>    | Fair value at<br>December 31,<br>2016 | Fair value at<br>December 31,<br>2015 |
|-------------------------|---------------------------------------|---------------------------------------|
| <b>Collateral Type:</b> |                                       |                                       |
| Bank loans (CLO)        | \$ 8,548                              | \$ 7,962                              |
| Other                   | 129                                   | 153                                   |
| <b>Total</b>            | <b>\$ 8,677</b>                       | <b>\$ 8,115</b>                       |

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

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

### Commercial Mortgage Loans

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

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

| <i>(dollars in millions)</i> | Number<br>of<br>Loans | Class           |                 |                 |                 |                 |                 |                  | Total        | Percent<br>of<br>Total |
|------------------------------|-----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|--------------|------------------------|
|                              |                       | Apartments      | Offices         | Retail          | Industrial      | Hotel           | Others          |                  |              |                        |
| <b>December 31, 2016</b>     |                       |                 |                 |                 |                 |                 |                 |                  |              |                        |
| <b>State:</b>                |                       |                 |                 |                 |                 |                 |                 |                  |              |                        |
| 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>               | <b>59</b>             | <b>707</b>      | <b>906</b>      | <b>784</b>      | <b>245</b>      | <b>532</b>      | <b>596</b>      | <b>3,770</b>     | <b>15</b>    |                        |
| <b>Total</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>December 31, 2015</b>     |                       |                 |                 |                 |                 |                 |                 |                  |              |                        |
| <b>State:</b>                |                       |                 |                 |                 |                 |                 |                 |                  |              |                        |
| New York                     | 97                    | \$ 823          | \$ 2,968        | \$ 516          | \$ 301          | \$ 166          | \$ 186          | \$ 4,960         | 22 %         |                        |
| California                   | 95                    | 87              | 547             | 433             | 533             | 788             | 308             | 2,696            | 12           |                        |
| Texas                        | 60                    | 120             | 696             | 106             | 147             | 187             | 48              | 1,304            | 6            |                        |
| New Jersey                   | 45                    | 441             | 338             | 324             | -               | 29              | 33              | 1,165            | 5            |                        |
| Florida                      | 78                    | 187             | 113             | 374             | 116             | 20              | 146             | 956              | 4            |                        |
| Illinois                     | 21                    | 174             | 369             | 21              | 32              | 36              | 23              | 655              | 3            |                        |
| Massachusetts                | 19                    | 56              | 168             | 360             | -               | -               | 33              | 617              | 3            |                        |
| Connecticut                  | 20                    | 314             | 152             | 23              | 81              | -               | -               | 570              | 3            |                        |
| Pennsylvania                 | 28                    | 6               | 29              | 436             | 62              | 27              | 4               | 564              | 3            |                        |
| Ohio                         | 37                    | 122             | 28              | 211             | 67              | -               | 5               | 433              | 2            |                        |
| Other states                 | 302                   | 1,118           | 1,203           | 1,514           | 414             | 595             | 229             | 5,073            | 23           |                        |
| <b>Foreign</b>               | <b>47</b>             | <b>471</b>      | <b>1,234</b>    | <b>520</b>      | <b>161</b>      | <b>250</b>      | <b>438</b>      | <b>3,074</b>     | <b>14</b>    |                        |
| <b>Total</b>                 | <b>849</b>            | <b>\$ 3,919</b> | <b>\$ 7,845</b> | <b>\$ 4,838</b> | <b>\$ 1,914</b> | <b>\$ 2,098</b> | <b>\$ 1,453</b> | <b>\$ 22,067</b> | <b>100 %</b> |                        |

\* Does not reflect allowance for credit losses.

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

## Impairments

The following table presents impairments by investment type:

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

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

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

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

### Other-Than-Temporary Impairments

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



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

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

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

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

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

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

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

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

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

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

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

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

| December 31, 2016                                          | Less Than or Equal<br>to 20% of Cost <sup>(b)</sup> |          |                      | Greater Than 20%<br>to 50% of Cost <sup>(b)</sup> |        |                      | Greater Than 50%<br>of Cost <sup>(b)</sup> |       |                      | Total               |                     |                      |
|------------------------------------------------------------|-----------------------------------------------------|----------|----------------------|---------------------------------------------------|--------|----------------------|--------------------------------------------|-------|----------------------|---------------------|---------------------|----------------------|
|                                                            | Unrealized                                          |          |                      | Unrealized                                        |        |                      | Unrealized                                 |       |                      | Unrealized          |                     |                      |
|                                                            | 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 <sup>(e)</sup> |
| <b>Aging<sup>(a)</sup></b><br><i>(dollars in millions)</i> |                                                     |          |                      |                                                   |        |                      |                                            |       |                      |                     |                     |                      |
| <b>Investment grade</b>                                    |                                                     |          |                      |                                                   |        |                      |                                            |       |                      |                     |                     |                      |
| bonds                                                      |                                                     |          |                      |                                                   |        |                      |                                            |       |                      |                     |                     |                      |
| 0-6 months                                                 | \$ 52,562                                           | \$ 1,726 | 7,610                | \$ 11                                             | \$ 2   | 6                    | \$ -                                       | \$ -  | -                    | \$ 52,573           | \$ 1,728            | 7,616                |
| 7-11 months                                                | 2,063                                               | 57       | 229                  | -                                                 | -      | -                    | -                                          | -     | -                    | 2,063               | 57                  | 229                  |
| 12 months or more                                          | 6,883                                               | 402      | 788                  | 693                                               | 211    | 53                   | 19                                         | 11    | 6                    | 7,595               | 624                 | 847                  |
| <b>Total</b>                                               | \$ 61,508                                           | \$ 2,185 | 8,627                | \$ 704                                            | \$ 213 | 59                   | \$ 19                                      | \$ 11 | 6                    | \$ 62,231           | \$ 2,409            | 8,692                |
| <b>Below investment</b>                                    |                                                     |          |                      |                                                   |        |                      |                                            |       |                      |                     |                     |                      |
| grade bonds                                                |                                                     |          |                      |                                                   |        |                      |                                            |       |                      |                     |                     |                      |
| 0-6 months                                                 | \$ 3,462                                            | \$ 73    | 1,386                | \$ 8                                              | \$ 3   | 19                   | \$ 3                                       | \$ 3  | 1                    | \$ 3,473            | \$ 79               | 1,406                |
| 7-11 months                                                | 955                                                 | 40       | 170                  | 63                                                | 15     | 5                    | 9                                          | 9     | 4                    | 1,027               | 64                  | 179                  |
| 12 months or more                                          | 6,393                                               | 411      | 883                  | 474                                               | 150    | 54                   | 20                                         | 12    | 11                   | 6,887               | 573                 | 948                  |
| <b>Total</b>                                               | \$ 10,810                                           | \$ 524   | 2,439                | \$ 545                                            | \$ 168 | 78                   | \$ 32                                      | \$ 24 | 16                   | \$ 11,387           | \$ 716              | 2,533                |
| <b>Total bonds</b>                                         |                                                     |          |                      |                                                   |        |                      |                                            |       |                      |                     |                     |                      |
| 0-6 months                                                 | \$ 56,024                                           | \$ 1,799 | 8,996                | \$ 19                                             | \$ 5   | 25                   | \$ 3                                       | \$ 3  | 1                    | \$ 56,046           | \$ 1,807            | 9,022                |
| 7-11 months                                                | 3,018                                               | 97       | 399                  | 63                                                | 15     | 5                    | 9                                          | 9     | 4                    | 3,090               | 121                 | 408                  |
| 12 months or more                                          | 13,276                                              | 813      | 1,671                | 1,167                                             | 361    | 107                  | 39                                         | 23    | 17                   | 14,482              | 1,197               | 1,795                |
| <b>Total<sup>(e)</sup></b>                                 | \$ 72,318                                           | \$ 2,709 | 11,066               | \$ 1,249                                          | \$ 381 | 137                  | \$ 51                                      | \$ 35 | 22                   | \$ 73,618           | \$ 3,125            | 11,225               |
| <b>Equity securities</b>                                   |                                                     |          |                      |                                                   |        |                      |                                            |       |                      |                     |                     |                      |
| 0-11 months                                                | \$ 194                                              | \$ 12    | 103                  | \$ 10                                             | \$ 3   | 10                   | \$ -                                       | \$ -  | -                    | \$ 204              | \$ 15               | 113                  |
| <b>Total</b>                                               | \$ 194                                              | \$ 12    | 103                  | \$ 10                                             | \$ 3   | 10                   | \$ -                                       | \$ -  | -                    | \$ 204              | \$ 15               | 113                  |

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

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

(c) For bonds, represents amortized cost.

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

(e) Item count is by CUSIP by subsidiary.

## Change in Unrealized Gains and Losses on Investments

The change in net unrealized gains and losses on investments in 2016 was primarily attributable to increases in the fair value of fixed maturity securities. For 2016, net unrealized gains related to fixed maturity and equity securities increased by \$0.9 billion due primarily to a narrowing of credit spreads, which more than offset the rise in rates.

The change in net unrealized gains and losses on investments in 2015 was primarily attributable to decreases in the fair value of fixed maturity securities. For 2015, net unrealized gains related to fixed maturity and equity securities decreased by \$10.2 billion due primarily to the rise in rates, widening of credit spreads, and the sale of equity securities.

See also Note 6, Investments to the Consolidated Financial Statements for further discussion of our investment portfolio.

## Net Realized Capital Gains and Losses

The following table presents the components of Net realized capital gains (losses):

| Years Ended December 31,<br>(in millions)      | 2016              | 2015          | 2014          |
|------------------------------------------------|-------------------|---------------|---------------|
| Sales of fixed maturity securities             | \$ 1              | \$ 94         | \$ 585        |
| Sales of equity securities <sup>(a)</sup>      | 1,057             | 1,032         | 111           |
| <b>Other-than-temporary impairments:</b>       |                   |               |               |
| Severity                                       | (15)              | (13)          | (3)           |
| Change in intent                               | (46)              | (233)         | (40)          |
| Foreign currency declines                      | (18)              | (57)          | (19)          |
| Issuer-specific credit events                  | (433)             | (348)         | (169)         |
| Adverse projected cash flows                   | (47)              | (20)          | (16)          |
| Provision for loan losses                      | 10                | (58)          | (1)           |
| Foreign exchange transactions                  | (1,226)           | 416           | 598           |
| Derivatives and hedge accounting               | (944)             | 341           | (177)         |
| Impairments on investments in life settlements | (397)             | (540)         | (201)         |
| Other <sup>(b)</sup>                           | 114               | 162           | 71            |
| <b>Net realized capital gains (losses)</b>     | <b>\$ (1,944)</b> | <b>\$ 776</b> | <b>\$ 739</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 in 2016 were primarily related to foreign exchange losses, derivative losses, and impairments, which were higher than the gain recognized on the sale of a portion of our PICC Investment.

Foreign exchange gains (losses) were primarily due to \$910 million of remeasurement losses in 2016 for a short term intercompany balance that was matched with available for sale investments in fixed maturity securities denominated in the same foreign currencies. Unrealized gains and losses on the available for sale investments were recorded in other comprehensive income resulting in an immaterial impact on our overall equity or book value per share from this arrangement.

Derivative and hedge accounting losses were primarily a result of the fair value changes in derivative instruments used to economically hedge market risk from variable annuities with guaranteed minimum withdrawal benefits (GMWB), which were adversely impacted by rising interest rates and equity market performance late in the fourth quarter of 2016. See Enterprise Risk Management – Life Insurance Companies Key Insurance Risks – Variable Annuity Risk Management and Hedging Program for additional discussion of market risk management related to these product features and Insurance Reserves – Life and Annuity Reserves and DAC – Variable Annuity Guaranteed Benefits and Hedging Results for more information on the economic hedging target and the impact to pre-tax income of this program.

Net realized capital gains in 2015 were primarily driven by foreign exchange gains which included \$243 million of gains in 2015, related to the intercompany notional cash pooling arrangement, discussed above and net gains on the sales of various securities such as the Class B shares of Prudential Financial, Inc., common shares of OneMain Holdings and sales of our PICC Investment. These realized gains were partially offset by realized losses related to the sale of ordinary shares of AerCap.

Net realized capital gains in 2014 were primarily driven by capital gains from sales of investments related to capital loss carryforward utilization and fair value losses on embedded derivatives related to variable annuity guarantee features, net of hedges.

See also Note 6 to the Consolidated Financial Statements for further discussion of our investment portfolio.

## Insurance Reserves

### LIABILITY FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES (LOSS RESERVES)

The following table presents the components of our gross and net loss reserves by segment and major lines of business<sup>(a)(b)</sup>:

| At December 31,                                                               | 2016                                                         |                                                                       |                                                                | 2015                                                         |                                                                       |                                                                |
|-------------------------------------------------------------------------------|--------------------------------------------------------------|-----------------------------------------------------------------------|----------------------------------------------------------------|--------------------------------------------------------------|-----------------------------------------------------------------------|----------------------------------------------------------------|
|                                                                               | 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>Commercial Insurance:</b>                                                  |                                                              |                                                                       |                                                                |                                                              |                                                                       |                                                                |
| <b>Liability and Financial Lines:</b>                                         |                                                              |                                                                       |                                                                |                                                              |                                                                       |                                                                |
| U.S. Workers' Compensation (net of discount)                                  | \$ 10,486                                                    | \$ 2,879                                                              | \$ 13,365                                                      | \$ 9,929                                                     | \$ 1,462                                                              | \$ 11,391                                                      |
| U.S. Excess Casualty                                                          | 8,749                                                        | 1,115                                                                 | 9,864                                                          | 8,386                                                        | 2,299                                                                 | 10,685                                                         |
| U.S. Other Casualty                                                           | 8,746                                                        | 3,209                                                                 | 11,955                                                         | 7,986                                                        | 2,252                                                                 | 10,238                                                         |
| U.S. Financial Lines                                                          | 6,102                                                        | 1,195                                                                 | 7,297                                                          | 6,133                                                        | 588                                                                   | 6,721                                                          |
| Europe Casualty and Financial Lines                                           | 5,587                                                        | 1,313                                                                 | 6,900                                                          | 5,251                                                        | 1,406                                                                 | 6,657                                                          |
| Other product lines                                                           | 2,279                                                        | 986                                                                   | 3,265                                                          | 2,398                                                        | 667                                                                   | 3,066                                                          |
| Unallocated loss adjustment expenses                                          | 2,260                                                        | 252                                                                   | 2,512                                                          | 2,197                                                        | 348                                                                   | 2,545                                                          |
| <b>Total Liability and Financial Lines</b>                                    | <b>44,209</b>                                                | <b>10,949</b>                                                         | <b>55,158</b>                                                  | <b>42,280</b>                                                | <b>9,022</b>                                                          | <b>51,303</b>                                                  |
| <b>Property and Special Risks:</b>                                            |                                                              |                                                                       |                                                                |                                                              |                                                                       |                                                                |
| U.S. and Europe                                                               | 5,913                                                        | 1,596                                                                 | 7,509                                                          | 5,417                                                        | 2,394                                                                 | 7,811                                                          |
| Other product lines                                                           | 1,139                                                        | 536                                                                   | 1,675                                                          | 1,719                                                        | 460                                                                   | 2,179                                                          |
| Unallocated loss adjustment expenses                                          | 279                                                          | 47                                                                    | 326                                                            | 242                                                          | 61                                                                    | 303                                                            |
| <b>Total Property and Special Risks</b>                                       | <b>7,331</b>                                                 | <b>2,179</b>                                                          | <b>9,510</b>                                                   | <b>7,378</b>                                                 | <b>2,915</b>                                                          | <b>10,293</b>                                                  |
| <b>Total Commercial Insurance</b>                                             | <b>51,540</b>                                                | <b>13,128</b>                                                         | <b>64,668</b>                                                  | <b>49,658</b>                                                | <b>11,937</b>                                                         | <b>61,596</b>                                                  |
| <b>Consumer Personal Insurance:</b>                                           |                                                              |                                                                       |                                                                |                                                              |                                                                       |                                                                |
| U.S. Europe and Japan                                                         | 3,454                                                        | 377                                                                   | 3,831                                                          | 3,389                                                        | 313                                                                   | 3,702                                                          |
| Other product lines                                                           | 744                                                          | 184                                                                   | 928                                                            | 765                                                          | 71                                                                    | 836                                                            |
| Unallocated loss adjustment expenses                                          | 202                                                          | 4                                                                     | 206                                                            | 170                                                          | 6                                                                     | 176                                                            |
| <b>Total Consumer Personal Insurance</b>                                      | <b>4,400</b>                                                 | <b>565</b>                                                            | <b>4,965</b>                                                   | <b>4,324</b>                                                 | <b>390</b>                                                            | <b>4,714</b>                                                   |
| <b>Legacy Portfolio - Run-off Property and Casualty Insurance Lines:</b>      |                                                              |                                                                       |                                                                |                                                              |                                                                       |                                                                |
| U.S. Long Tail Insurance lines (net of discount)                              | 4,980                                                        | 1,679                                                                 | 6,659                                                          | 5,401                                                        | 1,823                                                                 | 7,224                                                          |
| Other run-off product lines                                                   | 160                                                          | 46                                                                    | 206                                                            | 113                                                          | 42                                                                    | 154                                                            |
| Unallocated loss adjusted expenses                                            | 347                                                          | 114                                                                   | 461                                                            | 341                                                          | 128                                                                   | 469                                                            |
| <b>Total Legacy Portfolio - Run-off Property and Casualty Insurance Lines</b> | <b>5,487</b>                                                 | <b>1,839</b>                                                          | <b>7,326</b>                                                   | <b>5,855</b>                                                 | <b>1,993</b>                                                          | <b>7,847</b>                                                   |
| <b>Other Operations</b>                                                       | <b>118</b>                                                   | <b>-</b>                                                              | <b>118</b>                                                     | <b>766</b>                                                   | <b>19</b>                                                             | <b>785</b>                                                     |
| <b>Total</b>                                                                  | <b>\$ 61,545</b>                                             | <b>\$ 15,532</b>                                                      | <b>\$ 77,077</b>                                               | <b>\$ 60,603</b>                                             | <b>\$ 14,339</b>                                                      | <b>\$ 74,942</b>                                               |

(a) Includes \$1.7 billion and \$1.8 billion of asbestos reinsurance recoverable under a retroactive reinsurance agreement at December 31, 2016, and December 31, 2015, respectively.

(b) Includes loss reserve discount of \$3.6 billion and \$3.1 billion for the years ended December 31, 2016, and 2015, respectively. See Note 13 to the Consolidated Financial Statements for discussion of loss reserve discount.

## PRIOR YEAR DEVELOPMENT

The following table summarizes incurred (favorable) unfavorable prior year development net of reinsurance by segment and major lines of business:

| Years Ended December 31,<br>(in millions)                                     | 2016            | 2015            | 2014          |
|-------------------------------------------------------------------------------|-----------------|-----------------|---------------|
| <b>Commercial Insurance</b>                                                   |                 |                 |               |
| <b>Liability and Financial Lines:</b>                                         |                 |                 |               |
| U.S. Workers' compensation                                                    | \$ 1,920        | \$ 234          | \$ 113        |
| U.S. Excess casualty                                                          | 1,058           | 1,374           | (106)         |
| U.S. Other casualty                                                           | 1,563           | 1,196           | 754           |
| U.S. Financial lines                                                          | 306             | 502             | 160           |
| Europe Casualty and financial lines                                           | 355             | 139             | 24            |
| Other product lines                                                           | 150             | 133             | (229)         |
| <b>Total Liability and Financial Lines</b>                                    | <b>5,352</b>    | <b>3,578</b>    | <b>716</b>    |
| <b>Property and Special Risks:</b>                                            |                 |                 |               |
| U.S. and Europe                                                               | 402             | (128)           | (82)          |
| Other product lines                                                           | (177)           | (157)           | (131)         |
| <b>Total Property and Special Risks</b>                                       | <b>225</b>      | <b>(285)</b>    | <b>(213)</b>  |
| <b>Total Commercial Insurance</b>                                             | <b>5,577</b>    | <b>3,293</b>    | <b>503</b>    |
| <b>Consumer Personal Insurance</b>                                            |                 |                 |               |
| U.S., Europe and Japan                                                        | (114)           | (47)            | (89)          |
| Other product lines                                                           | (21)            | 29              | 13            |
| <b>Total Consumer Personal Insurance</b>                                      | <b>(135)</b>    | <b>(18)</b>     | <b>(76)</b>   |
| <b>Legacy Portfolio - Property and Casualty Run-off Insurance Lines:</b>      |                 |                 |               |
| U.S. Long tail insurance lines                                                | 390             | 893             | 490           |
| Other product lines                                                           | 12              | 20              | 3             |
| <b>Total Legacy Portfolio - Property and Casualty Run off Insurance Lines</b> | <b>402</b>      | <b>913</b>      | <b>493</b>    |
| <b>Other Operations</b>                                                       | <b>(56)</b>     | <b>(69)</b>     | <b>(217)</b>  |
| <b>Total prior year unfavorable development</b>                               | <b>\$ 5,788</b> | <b>\$ 4,119</b> | <b>\$ 703</b> |
| Premium adjustments on U.S. loss sensitive business                           | 33              | 49              | (105)         |
| <b>Total prior year development, net of premium adjustments</b>               | <b>\$ 5,821</b> | <b>\$ 4,168</b> | <b>\$ 598</b> |

## Net Loss Development

As discussed more fully below, in 2016, we recognized adverse prior year loss reserve development of \$5.8 billion, primarily as a result of the following:

- Higher than expected losses emerging across several casualty classes, especially in the recent accident years (generally, 2011 to 2015) driven by increased frequency and severity of claims. This recent accident year loss emergence caused us to increase loss development factors applied across many accident years.
- Loss development factors including workers compensation tail factors, also increased due to an observed lengthening of loss reporting patterns relative to prior expectations.
- Increases in loss trend assumptions to reflect the latest observed increases in frequency and severity and the impact of these increased loss trends on expected loss ratios.
- Changes in weights we apply to the various actuarial methods to better align with updated trends.

As discussed above, we observed higher than expected loss emergence in several casualty classes as follows:

- U.S. Workers' Compensation 9 percent greater than expected
- U.S. Excess Casualty 22 percent greater than expected
- U.S. Other Casualty – Primary general liability 21 percent greater than expected
- U.S. Other Casualty – Primary Commercial Auto Liability 14 percent greater than expected



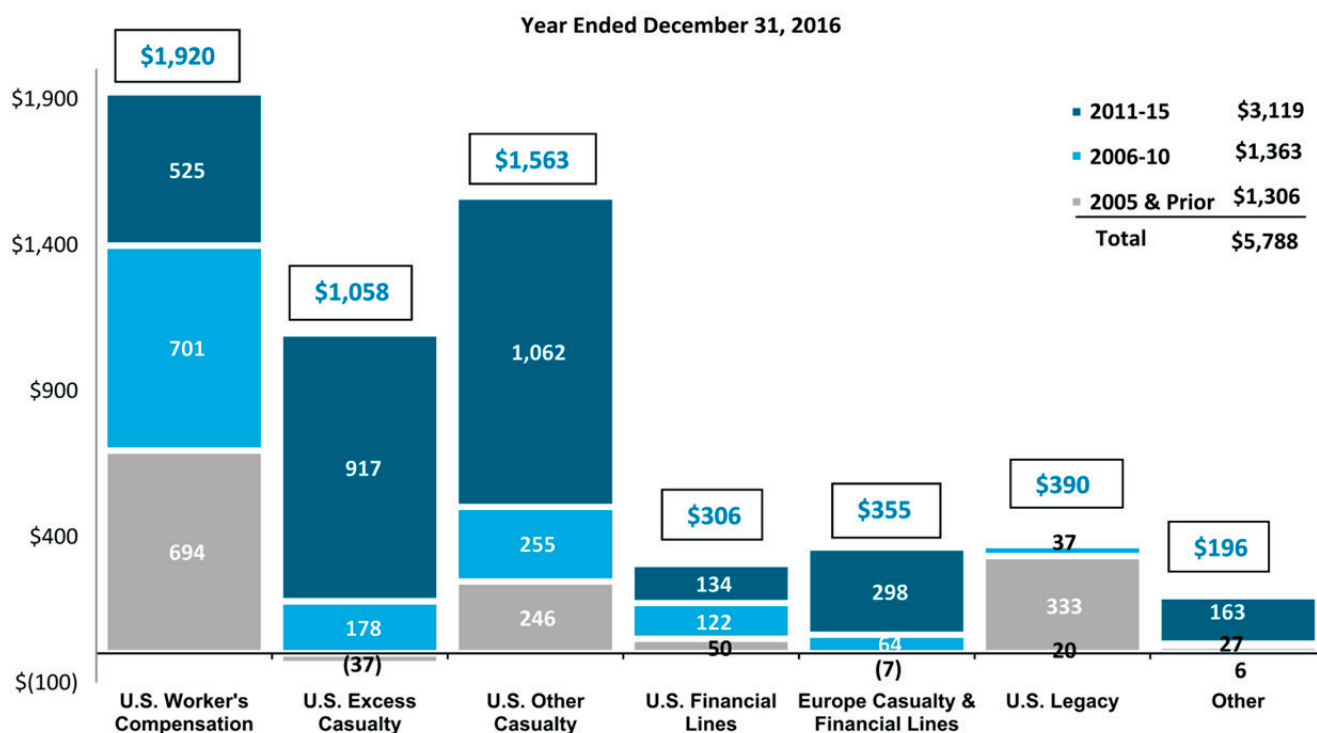
- U.S. Other Casualty – Medical Malpractice 16 percent greater than expected

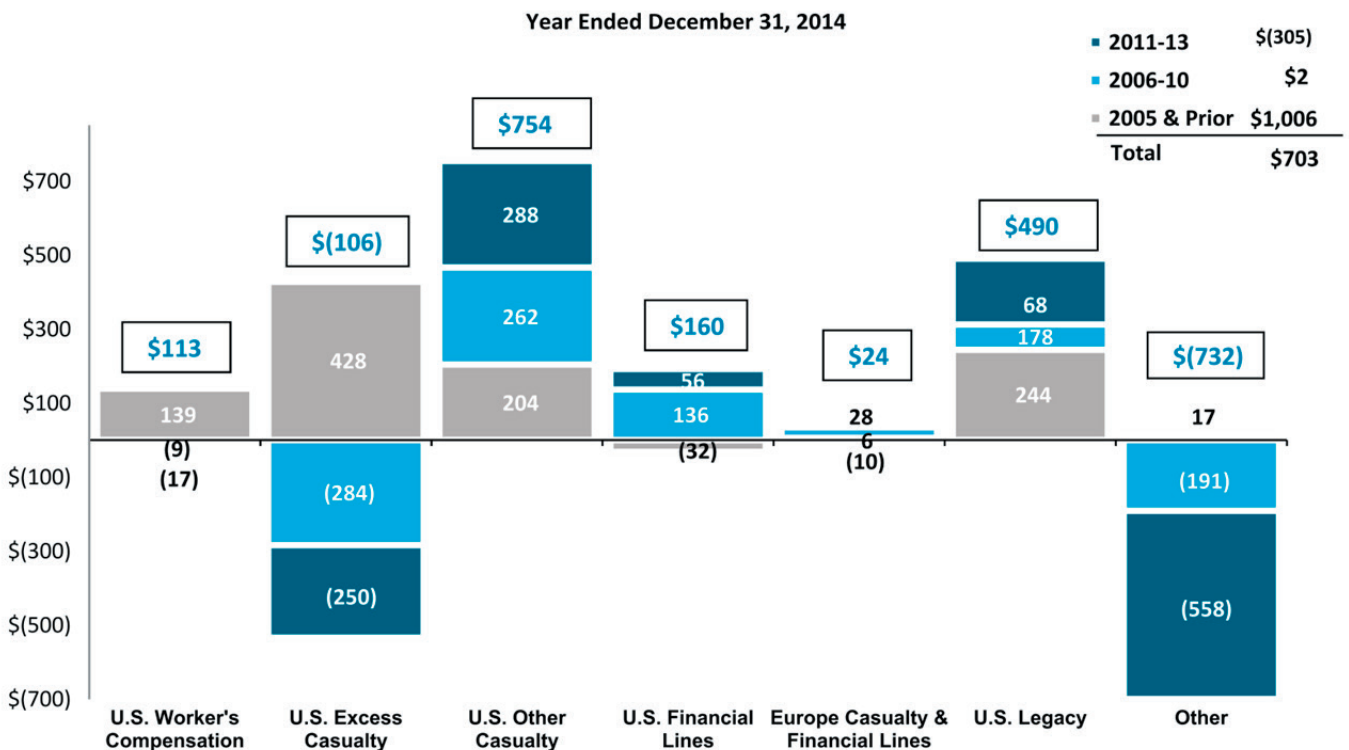
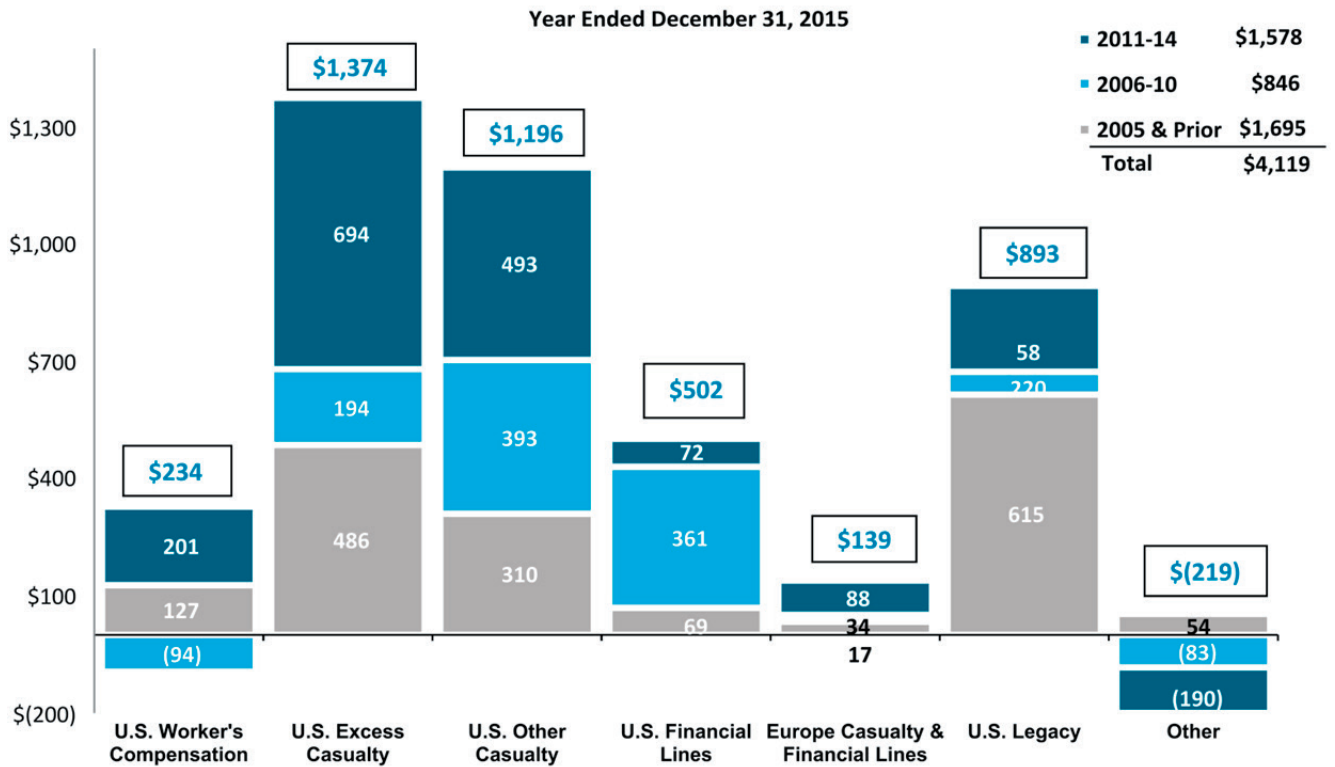
Our analyses and conclusions about prior year reserves also help inform our judgments about the current accident year loss and loss adjustment expense ratios we select. In 2016, we increased our selections in the third quarter and again in the fourth quarter. The effect of these increases on year-to-date premiums resulted in a \$700 million increase in net losses incurred.

In the tables below, we present prior year development in accident year groupings of 2005 and prior, 2006 – 2010 and 2011 – 2015. The grouping 2005 and prior represents the period ending with the 2005 restatement of our consolidated financial statements. The period 2006 – 2010 includes the years leading up to and immediately following the financial crisis. The period in 2011 – 2015 includes the periods during which we completed the recapitalization of AIG and began exiting U.S. Government ownership which was completed in 2012.

See Note 13 to the Consolidated Financial Statements for further details of prior year development by line of business. See also Critical Accounting Estimates for a discussion of actuarial methods employed for major classes of business.

**The following graphs summarize incurred (favorable) or unfavorable prior year development net of reinsurance, by accident year groupings (in millions):**





## Net Loss Development by Accident Years

For 2016, the adverse prior year development was primarily driven by:

- **Accident years 2011 to 2015** – adverse development of \$3.1 billion were primarily driven by U.S. Other Casualty (commercial automobile liability, general liability and medical malpractice), U.S. Excess Casualty, U.S. Workers' Compensation, and U.S. Special Risks programs business. As discussed more fully in Note 13 to the Consolidated Financial Statements these lines experienced adverse actual versus expected loss activity and higher loss trends, and we responded by increasing our expected loss development tail factors.
- **Accident years 2006 to 2010** – adverse development of \$1.4 billion were driven by increases in large losses in U.S. Financial Lines and increases in U.S. Workers' Compensation loss development factors.
- **Accident years 2005 and prior** – adverse development of \$1.3 billion was driven by increased loss development factors in U.S. Workers' Compensation and U.S. Other Casualty general liability.

For 2015, the adverse prior year development was primarily driven by:

- **Accident years 2011 to 2014** – adverse development of \$1.6 billion was driven by significantly higher actual versus expected loss emergence. We responded by increasing expected loss ratios for U.S. Excess Casualty, U.S. Other Casualty, International Liability and Financial Lines and U.S. Workers' Compensation. In addition, our updated assumptions for bad-faith claims and unallocated loss adjustment expenses disproportionately impacted these years.
- **Accident years 2006 to 2010** – adverse development of \$846 million were largely impacted by updated loss development selections in U.S. Financial Lines and revised estimates on expected future recoveries from risk-sharing policies in the U.S. Workers' Compensation business.
- **Accident years 2005 and prior** – adverse development of \$1.7 billion was driven by U.S. Excess Casualty revised tail factor selections, updated loss development selections for various U.S. Run-off Casualty Insurance Lines, including updated industry experience for asbestos and revised estimates on expected future recoveries from risk-sharing policies.

For 2014, the adverse prior year development was primarily driven by:

- **Accident years 2011 to 2013** – favorable development of \$305 million were driven by U.S. Financial Lines, U.S. Property and Special Risks and U.S., Europe and Japan Personal Insurance.
- **Accident years 2006 to 2010** – adverse development of \$2 million were driven by U.S. Financial lines and U.S. Excess Casualty.
- **Accident years 2005 and prior** – adverse development of \$1.0 billion was driven by the U.S. Excess Casualty results of the mass-tort segmentation analysis, the updated U.S. Workers' Compensation development selections (principally in California, New York and the excess of deductible segments) as well as the U.S. Run-Off Casualty Insurance Lines pollution products business (1987-2004) and the asbestos and environmental (1986 and prior) exposure.

For certain categories of claims (e.g., construction defect claims and environmental claims) and for reinsurance recoverable, losses may sometimes be reclassified to an earlier or later accident year as more information about the date of occurrence becomes available to us. These reclassifications are shown as development in the respective years in the tables above. This may affect the comparability of the data presented in our tables.

## Significant New Reinsurance Agreements

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

On January 20, 2017, we entered into an adverse development reinsurance agreement with NICO, a subsidiary of Berkshire Hathaway Inc., under which we transferred to NICO 80 percent of the reserve risk on substantially all of our U.S. Commercial long-tail exposures for accident years 2015 and prior. Under this agreement, we ceded to NICO 80 percent of the paid losses on subject business paid on or after January 1, 2016 in excess of \$25 billion of net paid losses, up to an aggregate limit of \$25 billion. At NICO's 80 percent share, NICO's limit of liability under the contract is \$20 billion. We will account for this transaction as retroactive reinsurance. The consideration for this agreement is \$9.8 billion plus interest at 4 percent per annum from January 1, 2016 to date of payment, which was paid in full as of February 17, 2017. The consideration paid to NICO will be placed into a collateral trust account as security for NICO's claim payment obligations, and Berkshire Hathaway Inc. has provided a parental guarantee to secure the obligations of NICO under the agreement.

The following table calculates the amount of the deferred gain expected to be recorded in the first quarter of 2017, on a nominal and net basis and showing the effect of discounting of loss reserves, using the reserve position of December 31, 2016. The stated effective date of the agreement is January 1, 2016, and therefore losses paid on subject business during 2016 are included in the calculation. The deferred gain will be amortized over the settlement period of the reinsured losses.

| <i>(in billions)</i>                                      | Nominal       | Discount        | Net           |
|-----------------------------------------------------------|---------------|-----------------|---------------|
| Subject reserve, December 31, 2016                        | \$ 33.5       | \$ (2.0)        | \$ 31.5       |
| Subject losses paid in 2016                               | 7.5           | -               | 7.5           |
| <b>Total subject losses</b>                               | <b>41.0</b>   | <b>(2.0)</b>    | <b>39.0</b>   |
| Subject losses below the attachment point                 | 25.0          | (0.1)           | 24.9          |
| <b>Total subject losses above attachment point</b>        | <b>16.0</b>   | <b>(1.9)</b>    | <b>14.1</b>   |
| Ceded reserves, December 31, 2016, at 80%                 | 12.8          | (1.5)           | 11.3          |
| Consideration, including accrued interest through closing | 10.2          | -               | 10.2          |
| <b>Pre-tax gain at inception, deferred</b>                | <b>\$ 2.6</b> | <b>\$ (1.5)</b> | <b>\$ 1.1</b> |

The lines of business subject to this agreement have been the source of substantially all of the prior year adverse development charges over the past several years. The agreement is expected to result in lower capital charges for reserve risks at our U.S. insurance subsidiaries. Under U.S. GAAP, any potential future prior year development would be recognized immediately as losses are incurred; however, the related recoveries under the reinsurance agreement would be deferred and recognized over the expected recovery period. In addition, we would expect future net investment income to decline as a result of lower invested assets.

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

## LIFE AND ANNUITY RESERVES AND DAC

The following section provides discussion of life and annuity reserves and deferred policy acquisition costs.

### Update of Actuarial Assumptions

The Life Insurance Companies review and update estimated gross profit assumptions used to amortize DAC and related items for investment-oriented products at least annually. Estimated gross profit assumptions include net investment income and spreads, net realized capital gains and losses, fees, surrender charges, expenses, and mortality gains and losses. If the assumptions used for estimated gross profits change significantly, DAC and related reserves (which may include VOBA, SIA, guaranteed benefit reserves and unearned revenue reserves) are recalculated using the new assumptions, and any resulting adjustment is included in income. Updating such assumptions may result in acceleration of amortization in some products and deceleration of amortization in other products. The update of actuarial assumptions in 2016, 2015 and 2014 also included adjustments to reserves for universal life with secondary guarantees.

The update of actuarial assumptions in 2016, 2015 and 2014 included adjustments for products now reported in the Legacy Portfolio, primarily loss recognition expense related to pre-2010 payout annuities and certain long-term care products. Assumptions related to investment yields, mortality experience and expenses for long-duration traditional products are reviewed periodically and updated as appropriate, which could result in additional loss recognition reserves.

The update of actuarial assumptions in 2016, 2015 and 2014 included adjustments to the valuation of variable annuity GMWB features that are accounted for as embedded derivatives and measured at fair value, which are primarily in Variable Annuities and Group Retirement products. Changes in the fair value of such embedded derivatives are recorded in net realized capital gains (losses) and, together with related DAC adjustments and fair value changes in the GMWB hedging portfolio, are excluded from pre-tax operating income. See Note 5 to the Consolidated Financial Statements for more information on the measurement of fair value for GMWB embedded derivatives, and Variable Annuity Guaranteed Benefit and Hedging Results for additional discussion of the assumption updates for variable annuity GMWB.

The following table presents the increase (decrease) in pre-tax operating income resulting from the update of actuarial assumptions for the domestic life insurance companies, by segment and product line:

| Years Ended December 31,<br>(in millions)                                               | 2016            | 2015          | 2014          |
|-----------------------------------------------------------------------------------------|-----------------|---------------|---------------|
| <b>Consumer Insurance:</b>                                                              |                 |               |               |
| Individual Retirement:                                                                  |                 |               |               |
| Fixed Annuities                                                                         | \$ 330          | \$ 92         | \$ 196        |
| Variable and Index Annuities                                                            | 39              | -             | 4             |
| Total Individual Retirement                                                             | 369             | 92            | 200           |
| Group Retirement                                                                        | (47)            | 48            | 46            |
| Life Insurance                                                                          | (92)            | (118)         | (32)          |
| <b>Total Consumer Insurance</b>                                                         | <b>230</b>      | <b>22</b>     | <b>214</b>    |
| Legacy Portfolio                                                                        | (614)           | (28)          | (85)          |
| <b>Total increase (decrease) in pre-tax operating income from update of assumptions</b> | <b>\$ (384)</b> | <b>\$ (6)</b> | <b>\$ 129</b> |

The following table presents the increase (decrease) in pre-tax income resulting from the update of actuarial assumptions in the domestic life insurance companies, by line item as reported in Results of Operations:

| Years Ended December 31,<br>(in millions)                    | 2016            | 2015        | 2014          |
|--------------------------------------------------------------|-----------------|-------------|---------------|
| Policy fees                                                  | \$ (54)         | \$ 21       | \$ 27         |
| Interest credited to policyholder account balances           | 65              | 74          | 90            |
| Amortization of deferred policy acquisition costs            | 325             | 79          | 181           |
| Policyholder benefits and losses incurred                    | (720)           | (180)       | (169)         |
| <b>Increase (decrease) in pre-tax operating income</b>       | <b>(384)</b>    | <b>(6)</b>  | <b>129</b>    |
| Change in DAC related to net realized capital gains (losses) | 13              | 11          | (12)          |
| Net realized capital gains (losses)                          | (56)            | (2)         | 51            |
| <b>Increase (decrease) in pre-tax income</b>                 | <b>\$ (427)</b> | <b>\$ 3</b> | <b>\$ 168</b> |

In 2016, pre-tax operating income included a net negative adjustment of \$384 million, primarily driven by \$622 million of loss recognition reserves for pre-2010 payout annuities in the Legacy Portfolio, and an increase in Life Insurance reserves for universal life with secondary guarantees. These negative adjustments were partially offset by positive adjustments, primarily lower surrender assumptions in Fixed Annuities.

In 2015, pre-tax operating income in the aggregate was reduced by \$6 million as a result of the update of actuarial assumptions. This aggregate net adjustment of \$6 million included a net negative adjustment of \$118 million in Life Insurance, which was offset in large part by net positive adjustments of \$92 million in Fixed Annuities and \$48 million in Group Retirement.

In 2014, pre-tax operating income in the aggregate was increased by \$129 million as a result of the update of assumptions, primarily due to net positive adjustments related to investment spread assumptions in the Fixed Annuities and Group Retirement businesses, partially offset by loss recognition for long-term care business in the Legacy Portfolio and additions to reserves for universal life with secondary guarantees in Life Insurance.

The adjustments related to the update of actuarial assumptions in each period are discussed by business module below.

## Update of Actuarial Assumptions by Business Module

### Individual Retirement

The update of actuarial assumptions resulted in net positive adjustments to pre-tax operating income of Individual Retirement of \$369 million, \$92 million and \$200 million in 2016, 2015 and 2014, respectively.

In Fixed Annuities, the update of estimated gross profit assumptions resulted in a net positive adjustment of \$330 million in 2016, which reflected lower surrender assumptions, primarily due to lower long-term interest rates, as well as updates to investment yield and crediting rate assumptions compared to those previously modeled. In 2015, the update of estimated gross profit assumptions in Fixed Annuities resulted in a net positive adjustment of \$92 million, which reflected refinements to investment spread assumptions, lower terminations than previously assumed and decreases to expense assumptions. In 2014, a net positive adjustment of \$196 million in Fixed Annuities was primarily due to better spreads than previously assumed.

In Variable and Index Annuities, the update of estimated gross profit assumptions resulted in a net positive adjustment of \$39 million in 2016, primarily due to favorable updates to assumptions for long-term volatility, surrenders, mortality and policy expenses, partially offset by a decrease in the separate account long-term asset growth rate assumption from 8.5 percent to 7.5 percent (before expenses that reduce the asset base from which future fees are projected). The net positive adjustment in 2016 included a net negative adjustment of approximately \$24 million in connection with the conversion to a more robust modeling platform for variable annuities, primarily due to refinements to assumptions for guaranteed minimum interest rates and investment fees, partially offset by the impact of other refinements identified during the conversion. In 2015, there were offsetting updates to assumed investment fees, modeled expenses, and terminations, resulting in no net adjustment to pre-tax operating income in Variable and Index Annuities compared to a \$4 million net positive adjustment in 2014, which reflected the update of estimated gross profit assumptions.

### Group Retirement

In Group Retirement, the update of estimated gross profit assumptions resulted in a net negative adjustment of \$47 million in 2016, primarily due to refinements in surrender and partial withdrawal assumptions and a decrease in the separate account long-term asset growth rate assumption from 8.5 percent to 7.5 percent (before expenses that reduce the asset base from which future fees are projected). In 2015, a net positive adjustment from the update of estimated gross profit assumptions of \$48 million in Group Retirement was primarily due to revisions to mortality and surrender assumptions, partially offset by decreased spread assumptions. In 2014, a net positive adjustment of \$46 million in Group Retirement was primarily due to more favorable assumptions for investment spreads and surrenders than previously assumed.

### Life Insurance

In Life Insurance, the update of actuarial assumptions resulted in a net negative adjustment of \$92 million in 2016. This adjustment was primarily due to refinement to reserves for universal life insurance with secondary guarantees due to lower assumed surrender rates. The update to Life Insurance assumptions also included lower yield and interest credited assumptions.

In 2015, the net negative adjustment of \$118 million related to the update of actuarial assumptions in Life Insurance was primarily due to lower assumed surrender rates for certain later-duration universal life with secondary guarantees. The net negative adjustment also reflected lower investment spread assumptions, partially offset by more favorable than expected mortality.

A net negative adjustment of \$32 million in Life Insurance in 2014 was primarily due to additions to reserves for universal life with secondary guarantees, as a result of lower investment spread and mortality assumptions which, while higher than previously assumed, were still within pricing assumptions.

### Legacy Portfolio

The update of actuarial assumptions resulted in \$622 million of loss recognition expense in 2016 on payout annuities in the Legacy Life Insurance Run-Off Lines. The loss recognition reflected the establishment of additional reserves primarily as a result of mortality experience studies, which indicated increased longevity, particularly on injured lives on a block of structured settlements underwritten prior to 2010. The mortality assumption update did not impact reserves for structured settlements and terminal funding annuities written after April 2012, which are in the Institutional Markets business.

Legacy Life Insurance Run-Off Lines recorded loss recognition expense of \$28 million and \$87 million to increase reserves for certain long-term care business in 2015 and 2014, respectively, which reduced pre-tax operating income in those periods. The loss recognition for both periods was primarily a result of lower future premium increase assumptions and, in 2014, lower yield assumptions.

### Variable Annuity Guaranteed Benefits and Hedging Results

Our Individual Retirement and Group Retirement businesses offer variable annuity products with GMWB riders that provide guaranteed living benefit features. The liabilities for GMWB are accounted for as embedded derivatives measured at fair value. The fair value of the embedded derivatives may fluctuate significantly based on market interest rates, equity prices, credit spreads and market volatility.

In addition to risk-mitigating features in our variable annuity product design, we have an economic hedging program designed to manage market risk from GMWB, including exposures to changes in interest rates, equity prices, credit spreads and volatilities. The hedging program utilizes derivative instruments, including but not limited to equity options, futures contracts and interest rate swap and swaption contracts, as well as fixed maturity securities with a fair value election. See Enterprise Risk Management – Life Insurance Companies Key Insurance Risks – Variable Annuity Risk Management and Hedging Program for additional discussion of market risk management related to these product features.



### Differences in Valuation of Embedded Derivatives and Economic Hedge Target

The variable annuity hedging program utilizes an economic hedge target, which represents an estimate of the underlying economic risks in our GMWB riders. The economic hedge target differs from the U.S. GAAP valuation of the GMWB embedded derivatives due to the following:

- The economic hedge target includes 100 percent of rider fees in present value calculations; the U.S. GAAP valuation reflects only those fees attributed to the embedded derivative such that the initial value at contract issue equals zero;
- The economic hedge target uses best estimate actuarial assumptions and excludes explicit risk margins used for U.S. GAAP valuation, such as margins for policyholder behavior, mortality, and volatility; and
- The economic hedge target excludes the non-performance or “own credit” risk adjustment (NPA) used in the U.S. GAAP valuation, which reflects a market participant’s view of our claims-paying ability by incorporating an additional spread (the NPA spread) to the swap curve used to discount projected benefit cash flows. See Note 5 to the Consolidated Financial Statements for more information on our valuation methodology for embedded derivatives within policyholder contract deposits. Because the discount rate includes the NPA spread and other explicit risk margins, the U.S. GAAP valuation is generally less sensitive to movements in interest rates and other market factors, and to changes from actuarial assumption updates, than the economic hedge target.

The market value of the hedge portfolio compared to the economic hedge target at any point in time may be different and is not expected to be fully offsetting. In addition to the derivatives held in conjunction with the variable annuity hedging program, the Life Insurance Companies have cash and invested assets available to cover future claims payable under these guarantees. The primary sources of difference between the change in the fair value of the hedging portfolio and the economic hedge target include:

- Basis risk due to the variance between expected and actual fund returns, which may be either positive or negative;
- Realized volatility versus implied volatility;
- Actual versus expected changes in the hedge target driven by assumptions not subject to hedging, particularly policyholder behavior; and
- Risk exposures that we have elected not to explicitly or fully hedge.

The following table presents a reconciliation between the fair value of the U.S. GAAP embedded derivatives and the value of our economic hedge target:

| December 31,<br>(in millions)                                            | 2016            | 2015            |
|--------------------------------------------------------------------------|-----------------|-----------------|
| <b>Reconciliation of embedded derivatives and economic hedge target:</b> |                 |                 |
| Embedded derivative liability                                            | \$ 1,777        | \$ 1,234        |
| Exclude non-performance risk adjustment (NPA)                            | (3,148)         | (3,153)         |
| <b>Embedded derivative liability, excluding NPA</b>                      | <b>4,925</b>    | <b>4,387</b>    |
| Adjustments for risk margins and differences in valuation                | (2,251)         | (2,449)         |
| <b>Economic hedge target liability</b>                                   | <b>\$ 2,674</b> | <b>\$ 1,938</b> |

### Impact on Pre-tax Income (Loss)

The impact on our pre-tax income (loss) of the variable annuity guaranteed living benefits and related hedging results include changes in the fair value of the GMWB embedded derivatives, and changes in the fair value of related derivative hedging instruments, both of which are recorded in Other realized capital gains (losses). Realized capital gains (losses), as well as net investment income from changes in the fair value of fixed maturity securities used in the hedging program, are excluded from pre-tax operating income of Individual Retirement and Group Retirement.

The change in the fair value of the embedded derivatives and the change in the value of the hedging portfolio are not expected to be fully offsetting, primarily due to the differences in valuation between the economic hedge target, the U.S. GAAP embedded derivatives, and changes in the fair value of the hedging portfolio, as discussed above. When corporate credit spreads widen, the change in the NPA spread generally reduces the fair value of the embedded derivative liabilities, resulting in a gain, and when corporate credit spreads narrow or tighten, the change in the NPA spread generally increases the fair value of the embedded derivative liabilities, resulting in a loss. In addition to changes driven by credit market-related movements in the NPA spread, the NPA balance also reflects changes in business activity and in the net amount at risk from the underlying guaranteed living benefits.

The following table presents the net increase (decrease) to consolidated pre-tax income (loss) from changes in the fair value of the GMWB embedded derivatives and related hedges, excluding related DAC amortization:

| Years Ended December 31,<br>(in millions)                                                   | 2016              | 2015            | 2014            |
|---------------------------------------------------------------------------------------------|-------------------|-----------------|-----------------|
| <b>Change in fair value of embedded derivatives, excluding NPA spread</b>                   | <b>\$ 156</b>     | <b>\$ (435)</b> | <b>\$ (831)</b> |
| <b>Change in fair value of variable annuity hedging portfolio:</b>                          |                   |                 |                 |
| Fixed maturity securities                                                                   | 120               | (43)            | 260             |
| Interest rate derivative contracts                                                          | (194)             | 343             | 742             |
| Equity derivative contracts                                                                 | (919)             | (86)            | (230)           |
| <b>Change in fair value of variable annuity hedging portfolio</b>                           | <b>(993)</b>      | <b>214</b>      | <b>772</b>      |
| Change in fair value of embedded derivatives excluding NPA spread, net of hedging portfolio | (837)             | (221)           | (59)            |
| Change in fair value of embedded derivatives due to NPA spread                              | (286)             | 498             | 72              |
| <b>Net impact on pre-tax income (loss)</b>                                                  | <b>\$ (1,123)</b> | <b>\$ 277</b>   | <b>\$ 13</b>    |

The net impact on pre-tax income from the GMWB and related hedges in 2016 (excluding related DAC amortization) was primarily driven by actuarial assumption updates to surrender and mortality assumptions. The 2015 and 2014 net impacts were primarily driven by changes in the NPA spread. In addition, the impact of rising interest rates and equity markets late in the fourth quarter of 2016 resulted in fair value losses in the hedging portfolio, which were not offset by decreases in the embedded derivative liabilities, because risk margins and other assumptions used for U.S. GAAP valuation cause the embedded derivatives to be less sensitive to changes in market rates than the hedge portfolio. The changes in the economic hedge target and the largely offsetting changes in the fair value of the hedge portfolio were primarily driven by changes in equity markets and interest rates, as discussed below.

#### Change in Economic Hedge Target

The increase in the economic hedge target in 2016 was primarily due to the update of actuarial assumptions offset by reductions from positive equity markets and increases in market interest rates, particularly in the fourth quarter of 2016. A decrease in market interest rates, lower equity market performance and the update of actuarial assumptions in 2015 resulted in increases in economic hedge target, which were significantly offset by changes in the value of the hedging portfolio. The increases in the economic hedge target in 2014 were primarily due to declines in interest rates and the update of actuarial assumptions, partially offset by higher equity market returns.

#### Change in Fair Value of the Hedging Portfolio

The changes in the fair value of the economic hedge target and, to a lesser extent, the embedded derivatives, were offset in part by the following changes in the fair value of the variable annuity hedging portfolio:

- Changes in the fair value of fixed maturity securities, for which the fair value option has been elected, are used as a capital-efficient way to economically hedge interest rate and credit spread-related risk. Effective June 30, 2015, we discontinued our U.S. Treasury bond interest rate hedging program and initiated a corporate bond hedging program, which is intended to provide the same capital efficiency as the previous U.S. Treasury bond hedging program. The change in the fair value of the corporate bond hedging program in 2016 included gains, primarily due to credit spreads tightening and decreases in market interest rates in the first nine months of 2016, partially offset by an increase in rates in the fourth quarter of 2016. The change in the fair value of the corporate bond hedging program in 2015 reflected losses, primarily due to increases in market interest rates in the first six months of 2015 and credit spreads widening. The gains in 2014 from the change in the fair value of the fixed maturities securities were due to decreases in market interest rates in 2014. The change in the fair value of the hedging bonds, which is excluded from the pre-tax operating income of the Individual Retirement and Group Retirement segments, is reported in net investment income on the Consolidated Statements of Income (Loss).
- Changes in the fair value of interest rate derivative contracts, which included swaps, swaptions and futures, resulted in net losses in 2016 as increases in rates in the fourth quarter of 2016 more than offset the impact of interest rate declines in the first nine months of 2016. The net gains in 2015 on interest rate contracts reflected decreases in market interest rates in the latter half of 2015, partially offset by the impact of increases in rates in the first six months of 2015. In 2014, rates declined throughout the year, resulting in gains from interest rate derivative contracts.
- The change in the fair value of equity derivative contracts, which included futures and options, resulted in losses in 2016, 2015 and 2014, which varied based on the relative growth in equity market returns in the respective years.

## Change in NPA Spread

In 2016, tightening of credit spreads resulted in a negative impact on pre-tax income from the change in the NPA spread. In 2015, the impact of widening credit spreads resulted in a significant gain from the change in NPA spread, which was the primary driver of the net positive impact on pre-tax income, compared to a less significant gain from the change in NPA spread in 2014.

## Update of Actuarial Assumptions

The change in embedded derivatives included increases in 2016 due to the update of actuarial assumptions, which primarily reflected lower surrender and mortality assumptions, partially offset by a decrease due to updated assumptions for utilization of withdrawal benefits. The impact of these updated assumptions, which were based on experience studies, was less significant to the embedded derivative liabilities than to the economic hedge target, because the discount rates used to value the embedded derivatives include the additional adjustment for the NPA spread, as well as other explicit risk margins. In addition, the increase in the embedded derivative liabilities from the assumption updates was largely offset by a reduction due to an update of these risk margins. See Update of Actuarial Assumptions for the amount of adjustments included in net capital realized gains (losses) related to the update of actuarial assumptions for GMWB.

## DAC

The following table summarizes the major components of the changes in DAC, including VOBA, within the life insurance companies, excluding DAC of Institutional Markets and Legacy Portfolio:

| Years Ended December 31,                                                |                 |          |          |  |
|-------------------------------------------------------------------------|-----------------|----------|----------|--|
| <i>(in millions)</i>                                                    |                 |          |          |  |
|                                                                         | 2016            | 2015     | 2014     |  |
| <b>Balance, beginning of year</b>                                       | <b>\$ 7,149</b> | \$ 5,928 | \$ 5,560 |  |
| Acquisition costs deferred                                              | 1,019           | 1,200    | 988      |  |
| Amortization expense:                                                   |                 |          |          |  |
| Update of assumptions included in pre-tax operating income              | 315             | 79       | 181      |  |
| Related to realized capital gains and losses                            | 276             | (2)      | (56)     |  |
| All other operating amortization                                        | (924)           | (871)    | (748)    |  |
| Increase (decrease) in DAC due to foreign exchange                      | (40)            | (11)     | -        |  |
| Change related to unrealized depreciation (appreciation) of investments | (252)           | 826      | (340)    |  |
| Other <sup>(a)</sup>                                                    | -               | -        | 343      |  |
| <b>Balance, end of year<sup>(b)</sup></b>                               | <b>\$ 7,543</b> | \$ 7,149 | \$ 5,928 |  |

(a) DAC Other in 2014 represents VOBA related to the acquisition of AIG Life Limited.

(b) DAC balance excluding the amount related to unrealized depreciation (appreciation) of investments was \$8.4 billion, \$7.7 billion and \$7.3 billion at December 31, 2016, 2015 and 2014, respectively.

The net adjustments to DAC amortization from the update of actuarial assumptions for estimated gross profits, including those reported within change in DAC related to net realized capital gains (losses), represented four percent and one percent of the DAC balance excluding the amount related to unrealized depreciation (appreciation) of investments as of December 31, 2016 and 2015, respectively.

## Reversion to the Mean

In 2016, we updated the long-term annual growth assumption applied to subsequent periods used in our reversion to the mean methodology for estimating future estimated gross profits for variable annuity products, from 8.5 percent to 7.5 percent (before expenses that reduce the asset base from which future fees are projected). The five-year reversion to the mean period has not met the criteria for adjustment in 2016, 2015 or 2014; however, sustained favorable equity market performance in excess of long-term assumptions could result in unlocking in the Individual Retirement or Group Retirement variable annuity product lines in the future, with a positive effect on pre-tax income in the period of the unlocking. See Critical Accounting Estimates – Estimated Gross Profits for Investment-Oriented Products (Life Insurance Companies) for additional discussion of assumptions related to our reversion to the mean methodology.

## DAC and Reserves Related to Unrealized Appreciation of Investments

DAC for universal life and investment-type products (collectively, investment-oriented products) is adjusted at each balance sheet date to reflect the change in DAC as if securities available for sale had been sold at their stated aggregate fair value and the proceeds reinvested at current yields (shadow DAC). Shadow DAC generally moves in the opposite direction of the change in unrealized appreciation of the available for sale securities portfolio, reducing the reported DAC balance when market interest rates decline. Market interest rates as of December 31, 2016 decreased compared to December 31, 2015 as a result of narrowing spreads in 2016. As a result, the unrealized appreciation of fixed maturity securities held in the Life Insurance Companies that support the Core Portfolio businesses at December 31, 2016 increased by \$2.1 billion compared to December 31, 2015, which resulted in a decrease in DAC to reflect the shadow DAC adjustment.

## Reserves

The following table presents a rollforward of insurance reserves for Individual Retirement, Group Retirement and Life Insurance modules, including future policy benefits, policyholder contract deposits, other policy funds, and separate account liabilities, as well as Retail Mutual Funds and Group Retirement mutual fund assets under administration:

| Years Ended December 31,<br>(in millions)                                           | 2016              | 2015       | 2014       |
|-------------------------------------------------------------------------------------|-------------------|------------|------------|
| <b>Individual Retirement</b>                                                        |                   |            |            |
| Balance at beginning of year, gross                                                 | \$ 121,474        | \$ 115,831 | \$ 106,943 |
| Premiums and deposits                                                               | 16,062            | 18,376     | 17,324     |
| Surrenders and withdrawals                                                          | (10,027)          | (9,742)    | (10,500)   |
| Death and other contract benefits                                                   | (2,991)           | (3,016)    | (2,792)    |
| <b>Subtotal</b>                                                                     | <b>3,044</b>      | 5,618      | 4,032      |
| Change in fair value of underlying assets and reserve accretion, net of policy fees | 3,657             | (1,775)    | 3,086      |
| Cost of funds*                                                                      | 1,614             | 1,613      | 1,644      |
| Other reserve changes                                                               | (468)             | 187        | 126        |
| <b>Balance at end of year</b>                                                       | <b>129,321</b>    | 121,474    | 115,831    |
| Reserves related to unrealized appreciation of investments                          | -                 | -          | 10         |
| Reinsurance ceded                                                                   | (371)             | (336)      | (341)      |
| <b>Total Individual Retirement insurance reserves and mutual fund assets</b>        | <b>\$ 128,950</b> | \$ 121,138 | \$ 115,500 |
| <b>Group Retirement</b>                                                             |                   |            |            |
| Balance at beginning of year, gross                                                 | \$ 84,145         | \$ 85,861  | \$ 85,254  |
| Premiums and deposits                                                               | 7,570             | 6,920      | 6,743      |
| Surrenders and withdrawals                                                          | (7,589)           | (8,505)    | (10,003)   |
| Death and other contract benefits                                                   | (536)             | (506)      | (491)      |
| <b>Subtotal</b>                                                                     | <b>(555)</b>      | (2,091)    | (3,751)    |
| Change in fair value of underlying assets and reserve accretion, net of policy fees | 3,923             | (657)      | 3,213      |
| Cost of funds*                                                                      | 1,109             | 1,106      | 1,130      |
| Other reserve changes                                                               | -                 | (74)       | 15         |
| <b>Balance at end of year</b>                                                       | <b>88,622</b>     | 84,145     | 85,861     |
| Reserves related to unrealized appreciation of investments                          | -                 | -          | -          |
| Reinsurance ceded                                                                   | -                 | -          | -          |
| <b>Total Group Retirement insurance reserves and mutual fund assets</b>             | <b>\$ 88,622</b>  | \$ 84,145  | \$ 85,861  |

| <b>Life Insurance</b>                                                               |                   |                   |                   |
|-------------------------------------------------------------------------------------|-------------------|-------------------|-------------------|
| Balance at beginning of year, gross                                                 | \$ 18,006         | \$ 17,464         | \$ 17,136         |
| Premiums and deposits                                                               | 3,391             | 3,353             | 3,157             |
| Surrenders and withdrawals                                                          | (650)             | (440)             | (488)             |
| Death and other contract benefits                                                   | (522)             | (577)             | (522)             |
| <b>Subtotal</b>                                                                     | <b>2,219</b>      | <b>2,336</b>      | <b>2,147</b>      |
| Change in fair value of underlying assets and reserve accretion, net of policy fees | (1,033)           | (1,026)           | (948)             |
| Cost of funds*                                                                      | 386               | 394               | 405               |
| Other reserve changes                                                               | (1,181)           | (1,162)           | (1,276)           |
| <b>Balance at end of year</b>                                                       | <b>18,397</b>     | <b>18,006</b>     | <b>17,464</b>     |
| Reserves related to unrealized appreciation of investments                          | -                 | -                 | -                 |
| Reinsurance ceded                                                                   | (1,085)           | (1,121)           | (1,000)           |
| <b>Total Life Insurance reserves</b>                                                | <b>\$ 17,312</b>  | <b>\$ 16,885</b>  | <b>\$ 16,464</b>  |
| <b>Total insurance reserves and mutual fund assets</b>                              |                   |                   |                   |
| Balance at beginning of year, gross                                                 | \$ 223,625        | \$ 219,156        | \$ 209,333        |
| Premiums and deposits                                                               | 27,023            | 28,649            | 27,224            |
| Surrenders and withdrawals                                                          | (18,266)          | (18,687)          | (20,991)          |
| Death and other contract benefits                                                   | (4,049)           | (4,099)           | (3,805)           |
| <b>Subtotal</b>                                                                     | <b>4,708</b>      | <b>5,863</b>      | <b>2,428</b>      |
| Change in fair value of underlying assets and reserve accretion, net of policy fees | 6,547             | (3,458)           | 5,351             |
| Cost of funds*                                                                      | 3,109             | 3,113             | 3,179             |
| Other reserve changes                                                               | (1,649)           | (1,049)           | (1,135)           |
| <b>Balance at end of year</b>                                                       | <b>236,340</b>    | <b>223,625</b>    | <b>219,156</b>    |
| Reserves related to unrealized appreciation of investments                          | -                 | -                 | 10                |
| Reinsurance ceded                                                                   | (1,456)           | (1,457)           | (1,341)           |
| <b>Total insurance reserves and mutual fund assets</b>                              | <b>\$ 234,884</b> | <b>\$ 222,168</b> | <b>\$ 217,825</b> |

\* Excludes amortization of deferred sales inducements

**Insurance reserves of Individual Retirement, Group Retirement and Life Insurance modules, and Retail Mutual Funds and Group Retirement mutual fund assets under administration, were comprised of the following balances:**

| <b>At December 31,</b>                                 |                   |                   |
|--------------------------------------------------------|-------------------|-------------------|
| <i>(in millions)</i>                                   | 2016              | 2015              |
| Future policy benefits                                 | \$ 7,380          | \$ 6,945          |
| Policyholder contract deposits                         | 119,644           | 115,575           |
| Other policy funds                                     | 378               | 398               |
| Separate account liabilities                           | 76,619            | 72,972            |
| <b>Total insurance reserves</b>                        | <b>204,021</b>    | <b>195,890</b>    |
| Mutual fund assets                                     | 32,319            | 27,735            |
| <b>Total insurance reserves and mutual fund assets</b> | <b>\$ 236,340</b> | <b>\$ 223,625</b> |

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## Liquidity and Capital Resources

### OVERVIEW

**Liquidity** refers to the ability to generate sufficient cash resources to meet our payment obligations. It is defined as cash and unencumbered assets that can be monetized in a short period of time at a reasonable cost. We manage our liquidity prudently through various risk committees, policies and procedures, and a stress testing and liquidity risk framework established by Enterprise Risk Management (ERM). Our liquidity risk framework is designed to manage liquidity at both AIG Parent and subsidiaries to meet our financial obligations for a minimum of six-months under a liquidity stress scenario. See Enterprise Risk Management — Risk Appetite, Limits, Identification, and Measurement and Enterprise Risk Management — Liquidity Risk Management below for additional information.

**Capital** refers to the long-term financial resources available to support the operation of our businesses, fund business growth, and cover financial and operational needs that arise from adverse circumstances. Our primary source of ongoing capital generation is the profitability of our insurance subsidiaries. We must comply with numerous constraints on our minimum capital positions. These constraints drive the requirements for capital adequacy for both AIG and the individual businesses and are based on internally-defined risk tolerances, regulatory requirements, rating agency and creditor expectations and business needs. Actual capital levels are monitored on a regular basis, and using ERM's stress testing methodology, we evaluate the capital impact of potential macroeconomic, financial and insurance stresses in relation to the relevant capital constraints of both AIG and our insurance subsidiaries.

We believe that we have sufficient liquidity and capital resources to satisfy future requirements and meet our obligations to policyholders, customers, creditors and debt-holders, including those arising from reasonably foreseeable contingencies or events.

Nevertheless, some circumstances may cause our cash or capital needs to exceed projected liquidity or readily deployable capital resources as was the case in 2008. Additional collateral calls, deterioration in investment portfolios or reserve strengthening affecting statutory surplus, higher surrenders of annuities and other policies, downgrades in credit ratings, or catastrophic losses may result in significant additional cash or capital needs and loss of sources of liquidity and capital. In addition, regulatory and other legal restrictions could limit our ability to transfer funds freely, either to or from our subsidiaries.

Depending on market conditions, regulatory and rating agency considerations and other factors, we may take various liability and capital management actions. Liability management actions may include, but are not limited to, repurchasing or redeeming outstanding debt, issuing new debt or engaging in debt exchange offers. Capital management actions may include, but are not limited to, paying dividends to our shareholders and share repurchases.



## LIQUIDITY AND CAPITAL RESOURCES ACTIVITY FOR 2016

### SOURCES

#### AIG Parent Funding from Subsidiaries

During 2016, AIG Parent received \$7.5 billion in dividends and loan repayments from subsidiaries. Of this amount, \$2.2 billion was dividends in the form of cash and fixed maturity securities from our Property Casualty Insurance Companies, \$4.7 billion was dividends and loan repayments in the form of cash and fixed maturity securities from our Life Insurance Companies and \$571 million was dividends in the form of cash and fixed maturity securities from UGC.

AIG Parent also received a net amount of \$1.6 billion in tax sharing payments in the form of cash and fixed maturity securities from our insurance businesses in 2016, reflecting \$608 million that was reimbursed by AIG Parent to our insurance businesses during the fourth quarter of 2016 as a result of adjustments made to prior-year tax sharing payments. The tax sharing payments may continue to be subject to adjustment in future periods.

The dividends and tax sharing payments from our Property Casualty Companies and Life Insurance Companies were funded, in part, by proceeds from the sale of 740 million ordinary H shares of PICC Property & Casualty Company Limited for approximately \$1.25 billion in May 2016 and by the sale of AIG Advisor Group in May 2016.

#### Debt Issuances

In February 2016, we issued \$1.5 billion aggregate principal amount of 3.300% Notes due 2021.

In March 2016, we issued \$1.5 billion aggregate principal amount of 3.900% Notes due 2026.

In June 2016, we issued €750 million aggregate principal amount of 1.500% Notes due 2023.

#### UGC Sale

In December 2016, we received proceeds from the sale of our 100 percent interest in UGC and certain related affiliates to Arch for total consideration of approximately \$3.3 billion, consisting of \$2.2 billion of cash, and approximately \$1.1 billion of newly issued Arch convertible non-voting common-equivalent preferred stock.

#### Legacy Investments

During 2016, we generated approximately \$3.6 billion in return of capital from Legacy Investments.

### USES

#### Debt Reduction

In March 2016, we repurchased, through a cash tender offer, approximately \$736 million aggregate principal amount of certain notes and debentures issued or guaranteed by AIG for an aggregate purchase price of approximately \$825 million.

We also made other repurchases and repayments of approximately \$3.5 billion during 2016. AIG Parent made interest payments on our debt instruments totaling \$975 million during 2016.

#### Dividend

We paid a cash dividend of \$0.32 per share on AIG Common Stock during each quarter of 2016.

#### Repurchase of Common Stock\*

We repurchased approximately 201 million shares of AIG Common Stock during 2016, for an aggregate purchase price of approximately \$11.5 billion.

#### Repurchase of Warrants

We repurchased approximately 17 million warrants to purchase shares of AIG Common Stock during 2016 for an aggregate purchase price of approximately \$309 million.

#### AIG Parent Funding to Subsidiaries

In January 2016, AIG Parent made a capital contribution of approximately \$2.9 billion to our Property Casualty Insurance Companies.

\* Under Exchange Act Rule 10b5-1 repurchase plans, from January 1 to February 14, 2017, we repurchased approximately \$1.2 billion of additional shares of AIG Common Stock. As of February 14, 2017, approximately \$4.7 billion remained under our share repurchase authorization.

## ANALYSIS OF SOURCES AND USES OF CASH

The following table presents selected data from AIG's Consolidated Statements of Cash Flows:

| Years Ended December 31,<br>(in millions)       | 2016            | 2015            | 2014*           |
|-------------------------------------------------|-----------------|-----------------|-----------------|
| <b>Sources:</b>                                 |                 |                 |                 |
| Net cash provided by operating activities       | \$ 2,383        | \$ 2,877        | \$ 5,007        |
| Net cash provided by changes in restricted cash | 385             | 1,457           | -               |
| Net cash provided by other investing activities | 4,359           | 7,005           | 15,731          |
| Changes in policyholder contract balances       | 4,059           | 2,410           | 1,719           |
| Issuance of long-term debt                      | 5,954           | 6,867           | 6,687           |
| Net cash provided by other financing activities | 377             | 818             | -               |
| <b>Total sources</b>                            | <b>17,517</b>   | <b>21,434</b>   | <b>29,144</b>   |
| <b>Uses:</b>                                    |                 |                 |                 |
| Change in restricted cash                       | -               | -               | (1,447)         |
| Change in policyholder contract balances        | -               | -               | -               |
| Repayments of long-term debt                    | (4,082)         | (9,805)         | (16,160)        |
| Purchases of AIG Common Stock                   | (11,460)        | (10,691)        | (4,902)         |
| Dividends paid                                  | (1,372)         | (1,028)         | (712)           |
| Purchases of warrants                           | (309)           | -               | -               |
| Net cash provided by other financing activities | -               | -               | (6,420)         |
| <b>Total uses</b>                               | <b>(17,223)</b> | <b>(21,524)</b> | <b>(29,641)</b> |
| Effect of exchange rate changes on cash         | 52              | (39)            | (74)            |
| <b>Increase (decrease) in cash</b>              | <b>\$ 346</b>   | <b>\$ (129)</b> | <b>\$ (571)</b> |

\* For 2014, cash decreased by \$162 million due to reclassification of \$289 million to restricted cash presented in Other assets, partially offset by a \$127 million reclassification from Short-term investments, to correct prior period presentation.

The following table presents a summary of AIG's Consolidated Statement of Cash Flows:

| Years Ended December 31,<br>(in millions)  | 2016            | 2015            | 2014            |
|--------------------------------------------|-----------------|-----------------|-----------------|
| <b>Summary:</b>                            |                 |                 |                 |
| Net cash provided by operating activities  | \$ 2,383        | \$ 2,877        | \$ 5,007        |
| Net cash provided by investing activities  | 4,744           | 8,462           | 14,284          |
| Net cash used in financing activities      | (6,833)         | (11,429)        | (19,788)        |
| Effect of exchange rate changes on cash    | 52              | (39)            | (74)            |
| <b>Increase (decrease) in cash</b>         | <b>346</b>      | <b>(129)</b>    | <b>(571)</b>    |
| Cash at beginning of year                  | 1,629           | 1,758           | 2,241           |
| Change in cash of businesses held for sale | (107)           | -               | 88              |
| <b>Cash at end of year</b>                 | <b>\$ 1,868</b> | <b>\$ 1,629</b> | <b>\$ 1,758</b> |

### Operating Cash Flow Activities

Insurance companies generally receive most premiums in advance of the payment of claims or policy benefits. The ability of insurance companies to generate positive cash flow is affected by the frequency and severity of losses under their insurance policies, policy retention rates and operating expenses.

Interest payments totaled \$1.3 billion in 2016 compared to \$1.4 billion in 2015 and \$3.4 billion in 2014. Excluding interest payments, AIG generated positive operating cash flow of \$3.7 billion in 2016 compared to \$4.2 billion and \$8.4 billion in 2015 and 2014, respectively.

## Investing Cash Flow Activities

Net cash provided by investing activities in 2016 included approximately \$2.8 billion of net cash proceeds from the sale of UGC, Ascot and AIG Advisor Group. Net cash provided by investing activities for 2015 included approximately \$4.2 billion of net cash proceeds from the sale of ordinary shares of AerCap. Net cash provided by investing activities in 2014 included a reduction in net investment purchase activity and approximately \$2.4 billion of net cash proceeds from the sale of ILFC.

## Financing Cash Flow Activities

Net cash used in financing activities in 2016 included:

- approximately \$1.4 billion in the aggregate to pay a dividend of \$0.32 per share on AIG Common Stock in each quarter of 2016;
- approximately \$11.5 billion to repurchase approximately 201 million shares of AIG Common Stock;
- approximately \$309 million to repurchase approximately 17 million warrants to purchase shares of AIG Common Stock; and
- approximately \$4.1 billion to repay long-term debt.

These items were partially offset by approximately \$6.0 billion in proceeds from the issuance of long-term debt.

Net cash used in financing activities in 2015 included:

- approximately \$1.0 billion in the aggregate to pay a dividend of \$0.125 per share on AIG Common Stock in each of the first and second quarters of 2015 and \$0.28 per share on AIG Common Stock in each of the third and fourth quarters of 2015;
- approximately \$10.7 billion to repurchase approximately 182 million shares of AIG Common Stock; and
- approximately \$9.9 billion to repay long-term debt.

These items were partially offset by approximately \$6.9 billion in proceeds from the issuance of long-term debt.

Net cash used in financing activities for 2014 included:

- approximately \$712 million in the aggregate to pay dividends of \$0.125 per share on AIG Common Stock in each quarter of 2014;
- approximately \$4.9 billion to repurchase approximately 88 million shares of AIG Common Stock;
- approximately \$271 million to repay long-term debt of business held-for-sale; and
- approximately \$16.2 billion to repay long-term debt.

## LIQUIDITY AND CAPITAL RESOURCES OF AIG PARENT AND SUBSIDIARIES

### AIG Parent

As of December 31, 2016, AIG Parent had approximately \$12.9 billion in liquidity sources. AIG Parent's liquidity sources are primarily held in the form of cash, short-term investments and publicly traded, investment grade rated fixed maturity securities. Fixed maturity securities primarily include U.S. government and government sponsored entity securities, U.S. agency mortgage-backed securities, corporate and municipal bonds and certain other highly rated securities. AIG Parent actively manages its assets and liabilities in terms of products, counterparties and duration. Based upon an assessment of funding needs, the liquidity sources can be readily monetized through sales, repurchase agreements or contributed as admitted assets to regulated insurance companies. AIG Parent liquidity is monitored through the use of various internal liquidity risk measures. AIG Parent's primary sources of liquidity are dividends, distributions, loans and other payments from subsidiaries and credit facilities. AIG Parent's primary uses of liquidity are for debt service, capital and liability management, and operating expenses.

We believe that we have sufficient liquidity and capital resources to satisfy our reasonably foreseeable future requirements and meet our obligations to our creditors, debt-holders and insurance company subsidiaries. We expect to access the debt markets from time to time to meet funding requirements as needed.

We utilize our capital resources to support our businesses, with the majority of capital allocated to our insurance operations. Should we have or generate more capital than is needed to support our business strategies (including organic growth or acquisition opportunities) or mitigate risks inherent to our business, we may develop plans to distribute such capital to shareholders via dividends or share repurchase authorizations or deploy such capital towards liability management.

In the normal course, it is expected that a portion of the capital released by our insurance operations or through the utilization of AIG's deferred tax assets may be available for distribution to shareholders. Additionally, it is expected that a portion of the capital associated

with businesses or investments that do not directly support our insurance operations may be available for distribution to shareholders or deployment towards liability management upon its monetization.

In developing plans to distribute capital, AIG considers a number of factors, including, but not limited to: AIG's business and strategic plans, expectations for capital generation and utilization, AIG's funding capacity and capital resources in comparison to internal benchmarks, as well as rating agency expectations, regulatory standards and internal stress tests for capital.

In January 2016, AIG Parent made a capital contribution of approximately \$2.9 billion to our Property Casualty Insurance Companies as a result of our fourth quarter 2015 reserve strengthening.

The following table presents AIG Parent's liquidity sources:

| <i>(In millions)</i>                                               | <b>As of</b>             | <b>As of</b>             |
|--------------------------------------------------------------------|--------------------------|--------------------------|
|                                                                    | <b>December 31, 2016</b> | <b>December 31, 2015</b> |
| Cash and short-term investments <sup>(a)</sup>                     | \$ 3,950                 | \$ 3,497                 |
| Unencumbered fixed maturity securities <sup>(b)</sup>              | 4,470                    | 5,723                    |
| <b>Total AIG Parent liquidity</b>                                  | <b>8,420</b>             | <b>9,220</b>             |
| Available capacity under syndicated credit facility <sup>(c)</sup> | 4,500                    | 4,500                    |
| <b>Total AIG Parent liquidity sources</b>                          | <b>\$ 12,920</b>         | <b>\$ 13,720</b>         |

(a) Cash and short-term investments include reverse repurchase agreements totaling \$1.0 billion and \$1.5 billion as of December 31, 2016 and 2015, respectively.

(b) Unencumbered securities consist of publicly traded, investment grade rated fixed maturity securities. Fixed maturity securities primarily include U.S. government and government sponsored entity securities, U.S. agency mortgage-backed securities, corporate and municipal bonds and certain other highly rated securities.

(c) For additional information relating to this syndicated credit facility, see Credit Facilities below.

## Insurance Companies

We expect that our insurance companies will be able to continue to satisfy reasonably foreseeable future liquidity requirements and meet their obligations, including those arising from reasonably foreseeable contingencies or events, through cash from operations and, to the extent necessary, monetization of invested assets. Our insurance companies' liquidity resources are primarily held in the form of cash, short-term investments and publicly traded, investment grade rated fixed maturity securities.

Each of our material insurance companies' liquidity is monitored through various internal liquidity risk measures. The primary sources of liquidity are premiums, fees, reinsurance recoverables and investment income. The primary uses of liquidity are paid losses, reinsurance payments, benefit claims, surrenders, withdrawals, interest payments, dividends, expenses, investments and collateral requirements.

Our Property Casualty Insurance Companies may require additional funding to meet capital or liquidity needs under certain circumstances. Large catastrophes may require us to provide additional support to our affected operations. Downgrades in our credit ratings could put pressure on the insurer financial strength ratings of our subsidiaries, which could result in non-renewals or cancellations by policyholders and adversely affect the subsidiary's ability to meet its own obligations. Increases in market interest rates may adversely affect the financial strength ratings of our subsidiaries, as rating agency capital models may reduce the amount of available capital relative to required capital. Other potential events that could cause a liquidity strain include an economic collapse of a nation or region significant to our operations, nationalization, catastrophic terrorist acts, pandemics or other events causing economic or political upheaval.

AIG Parent and Ascot Corporate Name Limited (ACNL) were previously parties to a \$725 million letter of credit facility. The letter of credit facility was released at the closing of AIG's sale of its interest in Ascot Underwriting Holdings Ltd. and ACNL in November 2016.

Management believes that because of the size and liquidity of our Life Insurance Companies' investment portfolios, normal deviations from projected claim or surrender experience would not create significant liquidity risk. Furthermore, our Life Insurance Companies' products contain certain features that mitigate surrender risk, including surrender charges. However, as we saw in 2008, in times of extreme capital markets disruption, liquidity needs could outpace resources. As part of their risk management framework, our Life Insurance Companies continue to evaluate and, where appropriate, pursue strategies and programs to improve their liquidity position and facilitate their ability to maintain a fully invested asset portfolio.

Certain of our U.S. insurance companies are members of the Federal Home Loan Banks (FHLBs) in their respective districts. Borrowings from the FHLBs are used to supplement liquidity or for other uses deemed appropriate by management. Our U.S. Property Casualty Insurance Companies had outstanding borrowings from the FHLBs in an aggregate amount of approximately \$733 million and zero at December 31, 2016 and 2015, respectively. The outstanding borrowings are being used primarily for interest rate risk management purposes in connection with certain reinsurance arrangements, and the balances are expected to decline as underlying premiums are collected. Our U.S. Life Insurance Companies had outstanding borrowings from the FHLBs in an aggregate

amount of approximately \$2 million at both December 31, 2016 and 2015. In addition to these borrowings outstanding at December 31, 2016, \$429 million was due to the FHLB of Dallas under funding agreements issued by our Institutional Markets business in 2016, which were reported in Policyholder contract deposits.

Certain of our U.S. Life Insurance Companies have programs, which began in 2012, that lend securities from their investment portfolio to supplement liquidity or for other uses as deemed appropriate by management. Under these programs, these U.S. Life Insurance Companies lend securities to financial institutions and receive cash as collateral equal to 102 percent of the fair value of the loaned securities. Cash collateral received is invested in short-term investments. Additionally, the aggregate amount of securities that a Life Insurance Company is able to lend under its program at any time is limited to five percent of its general account statutory-basis admitted assets. At December 31, 2016 and 2015, our U.S. Life Insurance Companies had \$2.4 billion and \$1.1 billion, respectively, of securities subject to these agreements and \$2.5 billion and \$1.1 billion, respectively, of liabilities to borrowers for collateral received.

AIG generally manages capital between AIG Parent and our insurance companies through internal, Board-approved policies and limits, as well as management standards. In addition, AIG Parent has unconditional capital maintenance agreements (CMAs) in place with certain subsidiaries. Nevertheless, regulatory and other legal restrictions could limit our ability to transfer capital freely, either to or from our subsidiaries.

AIG Parent is party to a CMA with AGC Life Insurance Company. Among other things, the CMA provides that AIG Parent will maintain the total adjusted capital of AGC Life Insurance Company at or above a specified minimum percentage of its projected NAIC Company Action Level Risk-Based Capital (RBC). As of December 31, 2016, the specified minimum percentage under this CMA was 250 percent. AIG Parent terminated the CMA with United Guaranty Residential Insurance Company in connection with the December 2016 closing of the sale of UGC.

During 2016, we created a new Switzerland-domiciled international holding company, AIG International Holdings, GmbH (AIGIH), that is intended to be the ultimate holding company for all of our international entities. This new international holding company structure is part of our ongoing efforts to simplify our organizational structure, and is expected to facilitate the optimization of our international capital strategy from both a regulatory and tax perspective. Through February 14, 2017, the following international operations have been transferred to AIGIH: Europe, Canada, Asia Pacific (excluding Japan) and Latin America/Caribbean.

In 2016, our Property Casualty Insurance Companies paid approximately \$2.2 billion in dividends in the form of cash and fixed maturity securities to AIG Parent. The fixed maturity securities primarily included U.S. government and government-sponsored entity securities, U.S. agency mortgage-backed securities, corporate and municipal bonds and certain other highly rated securities.

In 2016, our U.S. Life Insurance Companies paid approximately \$4.7 billion of dividends and loan repayments in the form of cash and fixed maturity securities to AIG Parent, which included the release of approximately \$1.0 billion of excess statutory capital resulting from a reinsurance agreement entered into by one of the Life Insurance Companies involving certain of its whole life and universal life businesses, effective July 1, 2016. The fixed maturity securities primarily included U.S. government and government sponsored entity securities, U.S. agency mortgage-backed securities, corporate and municipal bonds and certain other highly rated securities. The reinsurance agreement also resulted in a \$49 million tax payment to AIG Parent. Effective December 31, 2016, the same life subsidiary recaptured certain term and universal life reserves previously ceded to an affiliate and ceded approximately \$14 billion of such statutory reserves to an unaffiliated reinsurer under an amendment to the July 1, 2016 agreement, which is expected to result in a tax payment to AIG Parent of approximately \$2.3 billion in 2017.

In 2016, UGC paid approximately \$571 million in dividends in the form of cash and fixed maturity securities to AIG Parent. The fixed maturity securities primarily included U.S. government and government-sponsored entity securities, U.S. agency mortgage-backed securities, corporate and municipal bonds and certain other highly rated securities.

## CREDIT FACILITIES

We maintain a committed, revolving syndicated credit facility (the Facility) as a potential source of liquidity for general corporate purposes. The Facility provides for aggregate commitments by the bank syndicate to provide unsecured revolving loans and/or standby letters of credit of up to \$4.5 billion without any limits on the type of borrowings and is scheduled to expire in November 2020.

As of December 31, 2016, a total of \$4.5 billion remains available under the Facility. Our ability to borrow under the Facility is not contingent on our credit ratings. However, our ability to borrow under the Facility is conditioned on the satisfaction of certain legal, operating, administrative and financial covenants and other requirements contained in the Facility. These include covenants relating to our maintenance of a specified total consolidated net worth and total consolidated debt to total consolidated capitalization. Failure to satisfy these and other requirements contained in the Facility would restrict our access to the Facility and could have a material



adverse effect on our financial condition, results of operations and liquidity. We expect to borrow under the Facility from time to time, and may use the proceeds for general corporate purposes.

## CONTRACTUAL OBLIGATIONS

The following table summarizes contractual obligations in total, and by remaining maturity:

| December 31, 2016<br><i>(in millions)</i>     | Total<br>Payments | Payments due by Period |                  |                  |                   |
|-----------------------------------------------|-------------------|------------------------|------------------|------------------|-------------------|
|                                               |                   | 2017                   | 2018 -<br>2019   | 2020 -<br>2021   | Thereafter        |
| <b>Insurance operations</b>                   |                   |                        |                  |                  |                   |
| Loss reserves                                 | \$ 80,647         | \$ 18,297              | \$ 23,150        | \$ 12,938        | \$ 26,262         |
| Insurance and investment contract liabilities | 238,343           | 15,638                 | 27,474           | 25,936           | 169,295           |
| Borrowings                                    | 972               | -                      | -                | 330              | 642               |
| Interest payments on borrowings               | 951               | 50                     | 99               | 99               | 703               |
| Operating leases                              | 960               | 251                    | 345              | 210              | 154               |
| Other long-term obligations                   | 10                | 3                      | 4                | 2                | 1                 |
| <b>Total</b>                                  | <b>\$ 321,883</b> | <b>\$ 34,239</b>       | <b>\$ 51,072</b> | <b>\$ 39,515</b> | <b>\$ 197,057</b> |
| <b>Other</b>                                  |                   |                        |                  |                  |                   |
| Borrowings                                    | \$ 24,834         | \$ 1,426               | \$ 3,151         | \$ 3,110         | \$ 17,147         |
| Interest payments on borrowings               | 15,373            | 1,087                  | 1,965            | 1,741            | 10,580            |
| Operating leases                              | 138               | 44                     | 44               | 19               | 31                |
| Other long-term obligations                   | 201               | 38                     | 78               | 41               | 44                |
| <b>Total</b>                                  | <b>\$ 40,546</b>  | <b>\$ 2,595</b>        | <b>\$ 5,238</b>  | <b>\$ 4,911</b>  | <b>\$ 27,802</b>  |
| <b>Consolidated</b>                           |                   |                        |                  |                  |                   |
| Loss reserves                                 | \$ 80,647         | \$ 18,297              | \$ 23,150        | \$ 12,938        | \$ 26,262         |
| Insurance and investment contract liabilities | 238,343           | 15,638                 | 27,474           | 25,936           | 169,295           |
| Borrowings                                    | 25,806            | 1,426                  | 3,151            | 3,440            | 17,789            |
| Interest payments on borrowings               | 16,324            | 1,137                  | 2,064            | 1,840            | 11,283            |
| Operating leases                              | 1,098             | 295                    | 389              | 229              | 185               |
| Other long-term obligations <sup>(a)</sup>    | 211               | 41                     | 82               | 43               | 45                |
| <b>Total<sup>(b)</sup></b>                    | <b>\$ 362,429</b> | <b>\$ 36,834</b>       | <b>\$ 56,310</b> | <b>\$ 44,426</b> | <b>\$ 224,859</b> |

(a) Primarily includes contracts to purchase future services and other capital expenditures.

(b) Does not reflect unrecognized tax benefits of \$4.5 billion, the timing of which is uncertain.

### Loss Reserves

Loss reserves relate to our Property Casualty Insurance Companies and represent estimates of future loss and loss adjustment expense payments estimated based on historical loss development payment patterns. Due to the significance of the assumptions used, the payments by period presented above could be materially different from actual required payments. We believe that our Property Casualty Insurance Companies maintain adequate financial resources to meet the actual required payments under these obligations.

### Insurance and Investment Contract Liabilities

Insurance and investment contract liabilities, including GIC liabilities, relate to our Life Insurance Companies. These liabilities include various investment-type products with contractually scheduled maturities, including periodic payments. These liabilities also include benefit and claim liabilities, of which a significant portion represents policies and contracts that do not have stated contractual maturity dates and may not result in any future payment obligations. For these policies and contracts (i) we are not currently making payments until the occurrence of an insurable event, such as death or disability, (ii) payments are conditional on survivorship or (iii) payment may occur due to a surrender or other non-scheduled event beyond our control.

We have made significant assumptions to determine the estimated undiscounted cash flows of these contractual policy benefits. These assumptions include mortality, morbidity, future lapse rates, expenses, investment returns and interest crediting rates, offset by expected future deposits and premiums on in-force policies. Due to the significance of the assumptions, the periodic amounts presented could be materially different from actual required payments. The amounts presented in this table are undiscounted and exceed the future policy benefits and policyholder contract deposits included in the Consolidated Balance Sheets.



We believe that our Life Insurance Companies have adequate financial resources to meet the payments actually required under these obligations. These subsidiaries have substantial liquidity in the form of cash and short-term investments. In addition, our Life Insurance Companies maintain significant levels of investment grade rated fixed maturity securities, including substantial holdings in government and corporate bonds, and could seek to monetize those holdings in the event operating cash flows are insufficient. We expect liquidity needs related to GIC liabilities to be funded through cash flows generated from maturities and sales of invested assets.

## Borrowings

Our borrowings exclude those incurred by consolidated investments and include hybrid financial instrument liabilities recorded at fair value. We expect to repay the long-term debt maturities and interest accrued on borrowings by AIG through maturing investments and dispositions of invested assets, future cash flows from operations, cash flows generated from invested assets, future debt issuance and other financing arrangements. Borrowings supported by assets of AIG include various notes and bonds payable as well as GIAs that are supported by cash and investments held by AIG Parent and certain non-insurance subsidiaries for the repayment of those obligations.

## OFF-BALANCE SHEET ARRANGEMENTS AND COMMERCIAL COMMITMENTS

The following table summarizes Off-Balance Sheet Arrangements and Commercial Commitments in total, and by remaining maturity:

| December 31, 2016                           | Total Amounts<br>Committed | Amount of Commitment Expiring |                 |                |               |
|---------------------------------------------|----------------------------|-------------------------------|-----------------|----------------|---------------|
|                                             |                            | 2017                          | 2018 -<br>2019  | 2020 -<br>2021 | Thereafter    |
| <i>(in millions)</i>                        |                            |                               |                 |                |               |
| <b>Insurance operations</b>                 |                            |                               |                 |                |               |
| <b>Guarantees:</b>                          |                            |                               |                 |                |               |
| Standby letters of credit                   | \$ 148                     | \$ 144                        | \$ -            | \$ -           | \$ 4          |
| Guarantees of indebtedness                  | 107                        | 80                            | 27              | -              | -             |
| All other guarantees <sup>(a)</sup>         | 2                          | -                             | -               | 2              | -             |
| <b>Commitments:</b>                         |                            |                               |                 |                |               |
| Investment commitments <sup>(b)</sup>       | 3,055                      | 2,020                         | 766             | 237            | 32            |
| Commitments to extend credit                | 2,729                      | 1,519                         | 869             | 335            | 6             |
| Letters of credit                           | 5                          | 5                             | -               | -              | -             |
| <b>Total<sup>(c)</sup></b>                  | <b>\$ 6,046</b>            | <b>\$ 3,768</b>               | <b>\$ 1,662</b> | <b>\$ 574</b>  | <b>\$ 42</b>  |
| <b>Other</b>                                |                            |                               |                 |                |               |
| <b>Guarantees:</b>                          |                            |                               |                 |                |               |
| Liquidity facilities <sup>(d)</sup>         | \$ 74                      | \$ -                          | \$ -            | \$ -           | \$ 74         |
| Standby letters of credit                   | 140                        | 140                           | -               | -              | -             |
| All other guarantees                        | 172                        | 88                            | 21              | 28             | 35            |
| <b>Commitments:</b>                         |                            |                               |                 |                |               |
| Investment commitments <sup>(b)</sup>       | 176                        | 32                            | 14              | 35             | 95            |
| Commitments to extend credit <sup>(e)</sup> | 500                        | -                             | 500             | -              | -             |
| Letters of credit                           | 24                         | 24                            | -               | -              | -             |
| <b>Total<sup>(c)(f)</sup></b>               | <b>\$ 1,086</b>            | <b>\$ 284</b>                 | <b>\$ 535</b>   | <b>\$ 63</b>   | <b>\$ 204</b> |
| <b>Consolidated</b>                         |                            |                               |                 |                |               |
| <b>Guarantees:</b>                          |                            |                               |                 |                |               |
| Liquidity facilities <sup>(d)</sup>         | \$ 74                      | \$ -                          | \$ -            | \$ -           | \$ 74         |
| Standby letters of credit                   | 288                        | 284                           | -               | -              | 4             |
| Guarantees of indebtedness                  | 107                        | 80                            | 27              | -              | -             |
| All other guarantees <sup>(a)</sup>         | 174                        | 88                            | 21              | 30             | 35            |
| <b>Commitments:</b>                         |                            |                               |                 |                |               |
| Investment commitments <sup>(b)</sup>       | 3,231                      | 2,052                         | 780             | 272            | 127           |
| Commitments to extend credit <sup>(e)</sup> | 3,229                      | 1,519                         | 1,369           | 335            | 6             |
| Letters of credit                           | 29                         | 29                            | -               | -              | -             |
| <b>Total<sup>(c)(f)</sup></b>               | <b>\$ 7,132</b>            | <b>\$ 4,052</b>               | <b>\$ 2,197</b> | <b>\$ 637</b>  | <b>\$ 246</b> |

(a) Includes construction guarantees connected to affordable housing investments by our Life Insurance Companies. Excludes potential amounts for indemnification obligations included in asset sales agreements. See Note 10 to the Consolidated Financial Statements for further information on indemnification obligations.

- (b) Includes commitments to invest in private equity funds, hedge funds and other funds and commitments to purchase and develop real estate in the United States and abroad. The commitments to invest in private equity funds, hedge funds and other funds are called at the discretion of each fund, as needed for funding new investments or expenses of the fund. The expiration of these commitments is estimated in the table above based on the expected life cycle of the related fund, consistent with past trends of requirements for funding. Investors under these commitments are primarily insurance and real estate subsidiaries.
- (c) Does not include guarantees, CMAs or other support arrangements among AIG consolidated entities.
- (d) Primarily represents liquidity facilities provided in connection with certain municipal swap transactions and collateralized bond obligations.
- (e) Includes a five-year senior unsecured revolving credit facility of up to \$500 million between AerCap Ireland Capital Limited, as borrower, and AIG Parent, as lender (the AerCap Credit Facility) scheduled to mature in May 2019. The AerCap Credit Facility permits loans for general corporate purposes. At December 31, 2016, no amounts were outstanding under the AerCap Credit Facility.
- (f) Excludes commitments with respect to pension plans. The annual pension contribution for 2017 is expected to be approximately \$70 million for U.S. and non-U.S. plans.

## Arrangements with Variable Interest Entities

We enter into various arrangements with variable interest entities (VIEs) in the normal course of business, and we consolidate a VIE when we are the primary beneficiary of the entity. For a further discussion of our involvement with VIEs, see Note 10 to the Consolidated Financial Statements.

## Indemnification Agreements

We are subject to financial guarantees and indemnity arrangements in connection with our sales of businesses. These arrangements may be triggered by declines in asset values, specified business contingencies, the realization of contingent liabilities, litigation developments, or breaches of representations, warranties or covenants provided by us. These arrangements are typically subject to time limitations, defined by contract or by operation of law, such as by prevailing statutes of limitation. Depending on the specific terms of the arrangements, the maximum potential obligation may or may not be subject to contractual limitations. For additional information regarding our indemnification agreements, see Note 16 to the Consolidated Financial Statements.

We have recorded liabilities for certain of these arrangements where it is possible to estimate them. These liabilities are not material in the aggregate. We are unable to develop a reasonable estimate of the maximum potential payout under some of these arrangements. Overall, we believe that it is unlikely we will have to make any material payments under these arrangements.

## DEBT

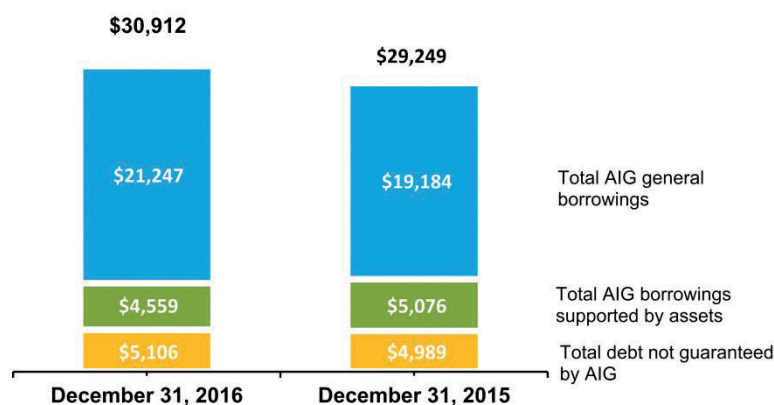
The following table provides the rollforward of AIG's total debt outstanding:

| Year Ended December 31, 2016<br><i>(in millions)</i>                         | Balance at<br>December 31,<br>2015 |               | Maturities<br>and<br>Repayments |              | Effect of<br>Foreign<br>Exchange | Other<br>Changes       | Balance at<br>December 31,<br>2016 |              |    |                    |    |               |
|------------------------------------------------------------------------------|------------------------------------|---------------|---------------------------------|--------------|----------------------------------|------------------------|------------------------------------|--------------|----|--------------------|----|---------------|
| <b>Debt issued or guaranteed by AIG:</b>                                     |                                    |               |                                 |              |                                  |                        |                                    |              |    |                    |    |               |
| <b>AIG general borrowings:</b>                                               |                                    |               |                                 |              |                                  |                        |                                    |              |    |                    |    |               |
| Notes and bonds payable                                                      | \$                                 | 17,047        | \$                              | 3,831        | \$                               | (1,268)                | \$                                 | (180)        | \$ | 2                  | \$ | 19,432        |
| Junior subordinated debt                                                     |                                    | 1,327         |                                 | -            |                                  | (461)                  |                                    | (28)         |    | 5                  |    | 843           |
| AIG Japan Holdings Kabushiki Kaisha                                          |                                    | 106           |                                 | 222          |                                  | -                      |                                    | 2            |    | -                  |    | 330           |
| AIGLH notes and bonds payable                                                |                                    | 284           |                                 | -            |                                  | (3)                    |                                    | -            |    | -                  |    | 281           |
| AIGLH junior subordinated debt                                               |                                    | 420           |                                 | -            |                                  | (60)                   |                                    | -            |    | 1                  |    | 361           |
| <b>Total AIG general borrowings</b>                                          |                                    | <b>19,184</b> |                                 | <b>4,053</b> |                                  | <b>(1,792)</b>         |                                    | <b>(206)</b> |    | <b>8</b>           |    | <b>21,247</b> |
| <b>AIG borrowings supported by assets:<sup>(a)</sup></b>                     |                                    |               |                                 |              |                                  |                        |                                    |              |    |                    |    |               |
| MIP notes payable                                                            |                                    | 1,372         |                                 | -            |                                  | (267)                  |                                    | (1)          |    | (5)                |    | 1,099         |
| Series AIGFP matched notes and bonds payable                                 |                                    | 34            |                                 | -            |                                  | -                      |                                    | -            |    | (2)                |    | 32            |
| GIAs, at fair value                                                          |                                    | 3,276         |                                 | 191          |                                  | (542)                  |                                    | -            |    | 9 <sup>(b)</sup>   |    | 2,934         |
| Notes and bonds payable, at fair value                                       |                                    | 394           |                                 | 368          |                                  | (268)                  |                                    | -            |    | - <sup>(b)</sup>   |    | 494           |
| <b>Total AIG borrowings supported by assets</b>                              |                                    | <b>5,076</b>  |                                 | <b>559</b>   |                                  | <b>(1,077)</b>         |                                    | <b>(1)</b>   |    | <b>2</b>           |    | <b>4,559</b>  |
| <b>Total debt issued or guaranteed by AIG</b>                                |                                    | <b>24,260</b> |                                 | <b>4,612</b> |                                  | <b>(2,869)</b>         |                                    | <b>(207)</b> |    | <b>10</b>          |    | <b>25,806</b> |
| <b>Debt not guaranteed by AIG:</b>                                           |                                    |               |                                 |              |                                  |                        |                                    |              |    |                    |    |               |
| Other subsidiaries' notes, bonds, loans and mortgages payable <sup>(c)</sup> |                                    | 2             |                                 | 730          |                                  | -                      |                                    | -            |    | 3                  |    | 735           |
| Debt of consolidated investments <sup>(d)</sup>                              |                                    | 4,987         |                                 | 612          |                                  | (1,352) <sup>(e)</sup> |                                    | (28)         |    | 152 <sup>(f)</sup> |    | 4,371         |
| <b>Total debt not guaranteed by AIG</b>                                      |                                    | <b>4,989</b>  |                                 | <b>1,342</b> |                                  | <b>(1,352)</b>         |                                    | <b>(28)</b>  |    | <b>155</b>         |    | <b>5,106</b>  |
| <b>Total debt<sup>(g)</sup></b>                                              | \$                                 | <b>29,249</b> | \$                              | <b>5,954</b> | \$                               | <b>(4,221)</b>         | \$                                 | <b>(235)</b> | \$ | <b>165</b>         | \$ | <b>30,912</b> |

- (a) AIG Parent guarantees all such debt, except for MIP notes payable and Series AIGFP matched notes and bonds payable, which are direct obligations of AIG Parent. Collateral posted to third parties was \$2.2 billion and \$2.4 billion at December 31, 2016 and 2015, respectively. This collateral primarily consists of securities of the U.S. government and government sponsored entities and generally cannot be repledged or resold by the counterparties.
- (b) Primarily represents adjustments to the fair value of debt.
- (c) Includes primarily borrowings with Federal Home Loan Banks by our U.S. insurance companies. These borrowings are short term in nature and related activity is presented net of issuances and maturities and repayments.
- (d) At December 31, 2016, includes debt of consolidated investment vehicles related to real estate investments of \$1.9 billion, affordable housing partnership investments of \$1.7 billion and other securitization vehicles of \$771 million. At December 31, 2015, includes debt of consolidated investment vehicles related to real estate investments of \$2.4 billion, affordable housing partnership investments of \$1.5 billion and other securitization vehicles of \$1.0 billion.
- (e) Includes \$1.1 billion related to certain real estate investments that were sold during 2016.
- (f) Includes the effect of consolidating previously unconsolidated partnerships.
- (g) Includes debt issuance costs of \$88 million and \$101 million at December 31, 2016 and 2015, respectively. See Note 2 to the Consolidated Financial Statements.

## TOTAL DEBT OUTSTANDING

(in millions)



## Debt Maturities

The following table summarizes maturing debt at December 31, 2016 of AIG (excluding \$4.4 billion of borrowings of consolidated investments) for the next four quarters:

|                                                               | First<br>Quarter<br>2017 | Second<br>Quarter<br>2017 | Third<br>Quarter<br>2017 | Fourth<br>Quarter<br>2017 | Total           |
|---------------------------------------------------------------|--------------------------|---------------------------|--------------------------|---------------------------|-----------------|
| (in millions)                                                 |                          |                           |                          |                           |                 |
| AIG general borrowings                                        | \$ -                     | \$ -                      | \$ -                     | \$ 167                    | \$ 167          |
| AIG borrowings supported by assets                            | 341                      | 623                       | 75                       | 220                       | 1,259           |
| Other subsidiaries' notes, bonds, loans and mortgages payable | 315                      | 315                       | 105                      | -                         | 735             |
| <b>Total</b>                                                  | <b>\$ 656</b>            | <b>\$ 938</b>             | <b>\$ 180</b>            | <b>\$ 387</b>             | <b>\$ 2,161</b> |

See Note 15 to the Consolidated Financial Statements for additional details on debt outstanding.

## CREDIT RATINGS

**Credit ratings estimate a company's ability to meet its obligations and may directly affect the cost and availability of financing to that company.** The following table presents the credit ratings of AIG and certain of its subsidiaries as of February 14, 2017. Figures in parentheses indicate the relative ranking of the ratings within the agency's rating categories; that ranking refers only to the major rating category and not to the modifiers assigned by the rating agencies.

|                                                    | Short-Term Debt                                |                       | Senior Long-Term Debt                            |                                                 |                                                   |
|----------------------------------------------------|------------------------------------------------|-----------------------|--------------------------------------------------|-------------------------------------------------|---------------------------------------------------|
|                                                    | Moody's                                        | S&P                   | Moody's <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>Stable Outlook</i> | <b>BBB+ (4th of 9)</b><br><i>Negative Outlook</i> |
| <b>AIG Financial Products Corp.</b> <sup>(d)</sup> | <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>Stable Outlook</i>            | -                                                 |

(a) Moody's appends numerical modifiers 1, 2 and 3 to the generic rating categories to show relative position within the rating categories.

(b) S&P ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

(c) Fitch ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

(d) AIG guarantees all obligations of AIG Financial Products Corp.

These credit ratings are current opinions of the rating agencies. They may be changed, suspended or withdrawn at any time by the rating agencies as a result of changes in, or unavailability of, information or based on other circumstances. Ratings may also be withdrawn at our request.

We are party to some agreements that contain "ratings triggers." Depending on the ratings maintained by one or more rating agencies, these triggers could result in (i) the termination or limitation of credit availability or a requirement for accelerated repayment, (ii) the termination of business contracts or (iii) a requirement to post collateral for the benefit of counterparties.

In the event of adverse actions on our long-term debt ratings by the major rating agencies, AIGFP and certain other AIG entities would be required to post additional collateral under some derivative transactions or could experience termination of the transactions. Such requirements and terminations could adversely affect our business, our consolidated results of operations in a reporting period or our liquidity. In the event of a further downgrade of AIG's long-term senior debt ratings, AIGFP and certain other AIG entities would be required to post additional collateral, and certain of the counterparties of AIGFP or of such other AIG entities would be permitted to terminate their contracts early.

The actual amount of collateral that we would be required to post to counterparties in the event of such downgrades, or the aggregate amount of payments that we could be required to make, depends on market conditions, the fair value of outstanding affected transactions and other factors prevailing at the time of the downgrade.

For a discussion of the effects of downgrades in our credit ratings, see Note 11 to the Consolidated Financial Statements herein and Part I, Item 1A. Risk Factors – Liquidity, Capital and Credit.

## FINANCIAL STRENGTH RATINGS

**Financial Strength ratings estimate an insurance company's ability to pay its obligations under an insurance policy.** The following table presents the ratings of our significant insurance subsidiaries as of February 14, 2017.

|                                                              | A.M. Best | S&P       | Fitch | Moody's |
|--------------------------------------------------------------|-----------|-----------|-------|---------|
| National Union Fire Insurance Company of Pittsburgh, Pa.     | A         | A+ / A-1+ | A     | A2      |
| Lexington Insurance Company                                  | A         | A+        | A     | A2      |
| American Home Assurance Company (US)                         | A         | A+        | A     | A2      |
| American General Life Insurance Company                      | A         | A+        | A+    | A2      |
| The Variable Annuity Life Insurance Company                  | A         | A+        | A+    | A2      |
| United States Life Insurance Company in the City of New York | A         | A+        | A+    | A2      |
| AIG Europe Limited                                           | A         | A+        | A     | A2      |
| Fuji Fire and Marine Insurance Company                       | NR        | A+        | NR    | NR      |
| AIU Insurance Company, Ltd.                                  | NR        | A+        | NR    | NR      |

These financial strength ratings are current opinions of the rating agencies. They may be changed, suspended or withdrawn at any time by the rating agencies as a result of changes in, or unavailability of, information or based on other circumstances.

For a discussion of the effects of downgrades in the financial strength ratings of our insurance companies, see Note 11 to the Consolidated Financial Statements herein and Part I, Item 1A. Risk Factors – Liquidity, Capital and Credit.

## REGULATION AND SUPERVISION

For a discussion of our regulation and supervision by different regulatory authorities in the United States and abroad, including with respect to our liquidity and capital resources, see Item 1. Business — Regulation and Item 1A. Risk Factors — Regulation.

## DIVIDENDS AND REPURCHASES OF AIG COMMON STOCK

On February 11, 2016, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.32 per share, payable on March 28, 2016 to shareholders of record on March 14, 2016. On May 2, 2016, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.32 per share, payable on June 27, 2016 to shareholders of record on June 13, 2016. On August 2, 2016, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.32 per share, payable on September 29, 2016 to shareholders of record on September 15, 2016. On November 2, 2016, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.32 per share, payable on December 22, 2016 to shareholders of record on December 8, 2016.

On February 14, 2017, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.32 per share, payable on March 29, 2017 to shareholders of record on March 15, 2017. The payment of any future dividends will be at the discretion of our Board of Directors and will depend on various factors, including the regulatory framework applicable to us, as discussed further in Note 17 to the Consolidated Financial Statements.

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

During 2016, we repurchased approximately 201 million shares of AIG Common Stock for an aggregate purchase price of approximately \$11.5 billion pursuant to this authorization, and we repurchased 17 million warrants to purchase shares of AIG Common Stock, for an aggregate purchase price of \$309 million pursuant to this authorization. Under Exchange Act Rule 10b5-1 repurchase plans, from January 1 to February 14, 2017, we repurchased approximately \$1.2 billion of additional shares of AIG Common Stock.

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

## DIVIDEND RESTRICTIONS

Payments of dividends to AIG by its insurance subsidiaries are subject to certain restrictions imposed by regulatory authorities. See Note 19 to the Consolidated Financial Statements for a discussion of restrictions on payments of dividends by our subsidiaries.

## Enterprise Risk Management

Risk management includes the identification and measurement of various forms of risk, the establishment of risk thresholds and the creation of processes intended to maintain risks within these thresholds while optimizing returns. We consider risk management an integral part of managing our core businesses and a key element of our approach to corporate governance.

### OVERVIEW

We have an integrated process for managing risks throughout our organization in accordance with our firm-wide risk appetite. Our Board of Directors has oversight responsibility for the management of risk. Our Enterprise Risk Management (ERM) Department supervises and integrates the risk management functions in each of our business units, providing senior management with a consolidated view of AIG's major risk positions. Within each business unit, senior leaders and executives approve risk-taking policies and targeted risk tolerance within the framework provided by ERM. ERM supports our businesses and management in the embedding of risk management in our key day-to-day business processes and in identifying, assessing, quantifying, managing, monitoring and reporting, and mitigating the risks taken by us and our businesses. Nevertheless, our risk management efforts may not always be successful and material adverse effects on our business, results of operations, cash flows, liquidity or financial condition may occur.

### RISK GOVERNANCE STRUCTURE

Our risk governance structure fosters the development and maintenance of a risk and control culture that encompasses all significant risk categories. Accountability for the implementation and oversight of risk policies is aligned with individual corporate executives, with the risk committees receiving regular reports regarding compliance with each policy to support risk governance at our corporate level as well as in each business unit. We review our governance and committee structure on a regular basis and make changes as appropriate to continue to effectively manage and govern our risks and risk-taking.

Our Board of Directors oversees the management of risk through its Risk and Capital Committee (RCC) and Audit Committee. Those committees regularly interact with other committees of the Board of Directors. Our Chief Risk Officer (CRO) reports to both the RCC and our Chief Executive Officer (CEO).

**The Group Risk Committee (GRC):** The GRC is the senior management group responsible for assessing all significant risk issues on a global basis to protect our financial strength, optimize our intrinsic value, and protect our reputation. The GRC is chaired by our CRO. Its membership includes our CEO, Chief Financial Officer (CFO), and other executives from across our corporate functions and business units. Our CRO reports periodically on behalf of the GRC to both the RCC and the Audit Committee of the Board of Directors. Our CRO is also a member of the Executive Leadership Team (ELT) providing ERM the opportunity to contribute to, review, monitor and consider the impact of changes in strategy.

Management committees that support the GRC are described below. These committees are comprised of senior executives and experienced business representatives from a range of functions and business units throughout AIG and its subsidiaries. These committees are charged with identifying, analyzing and reviewing specific risk matters within their respective mandates.

**Financial Risk Group (FRG):** The FRG is responsible for the oversight of financial risks taken by AIG and our subsidiaries. Its mandate includes overseeing our aggregate credit, market, interest rate, capital, liquidity and model risks, as well as asset-liability management, derivatives activity, and foreign exchange transactions. It provides the primary corporate-level review function for all proposed transactions and business practices that are significant in size, complex in scope, or that present heightened legal, reputational, accounting or regulatory risks. The FRG is chaired by our CRO. Membership of the FRG also includes our CFO, Chief Investment Officer (CIO) and Treasurer.

**Technology, Operational Risk & Control Committee (TORCC):** This committee oversees technology and operational risk management and control issues and activities across our businesses, functions, and geographic locations. The TORCC reviews our risk management practices and monitors current and emerging technology and operational risks, as well as management actions taken to reduce risks to acceptable levels. It primarily focuses on establishing the firm-wide framework for identifying, measuring, quantifying, and managing and mitigating technology and operational risks, and monitoring our controls. The TORCC addresses firm-wide, rather than business-specific issues and is mandated to prioritize technology and operational improvements that are significant and transformational. The TORCC also provides a forum for senior management to assess our technology and operational risk profiles that may affect our strategic objectives.

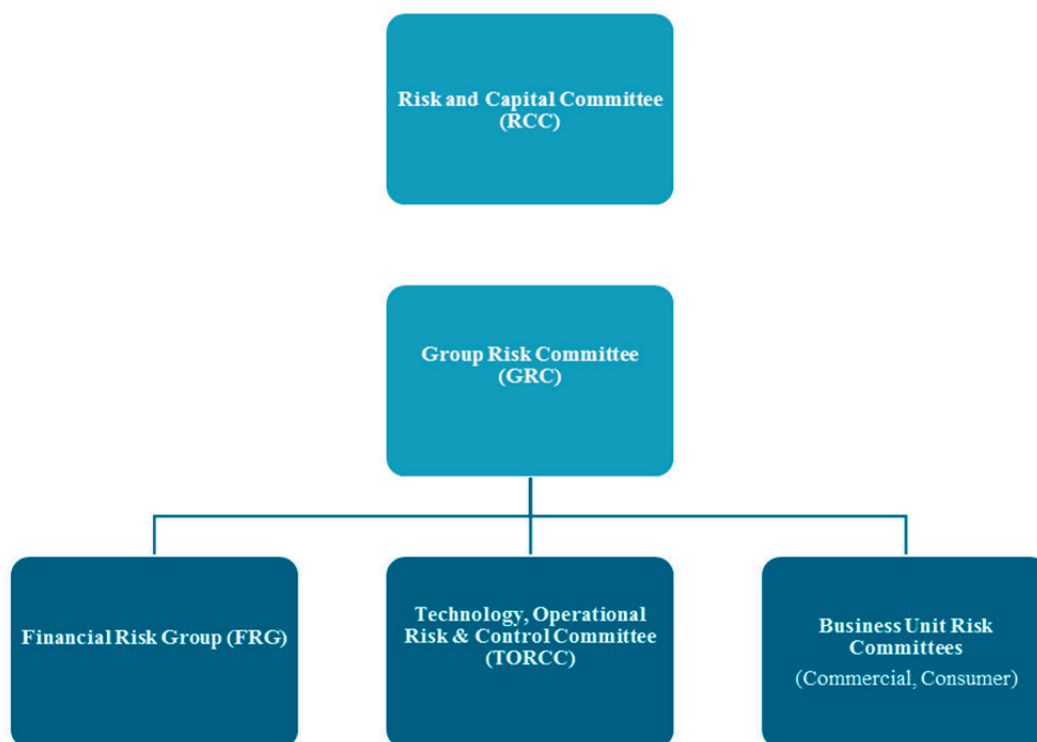


The scope of the TORCC includes, but is not limited to, Operational Risk Management, Technology Risk Management, Information Security, Compliance, Sarbanes Oxley, Disaster Recovery, Project Risk Management and Vendor Risk Management.

The TORCC is an authorized sub-committee of our GRC and supports the GRC in its risk management oversight role. The TORCC is co-chaired by our CIO, Chief Operating Officer, and our CRO. Membership of the TORCC also includes Owners of the Control Agenda, Business Information Officers, and members of the various control functions.

In addition, the TORCC may form, and delegate authority to, sub-committees or working groups which oversee Technology and Operational risk related matters on behalf of us with periodic reporting to the TORCC.

**Business Unit Risk Committees:** Each of our major insurance businesses has established a risk committee that serves as the senior management committee responsible for risk oversight at the individual business unit level. The risk committees are responsible for the identification, assessment and monitoring of all sources of risk within their respective portfolios. Specific responsibilities include setting risk tolerances, reviewing the capital allocation framework, insurance portfolio optimization, and providing oversight of risk-adjusted metrics. In addition, each business unit has established subordinate committees at the legal entity level and working groups in place that support these committees in executing their duties, such as ensuring policies are adhered to, and transactions are completed with risk appetite in mind. Together, these committees provide comprehensive risk oversight throughout the organization.



## RISK APPETITE, LIMITS, IDENTIFICATION, AND MEASUREMENT

### Risk Appetite Framework

Our Risk Appetite Framework integrates stakeholder interests, strategic business goals and available financial resources. We balance these by seeking to take measured risks that are expected to generate repeatable, sustainable earnings and create long-term value for our shareholders. The framework includes our risk appetite statement approved by the Board of Directors or a committee thereof and a set of supporting tools, including risk tolerances, risk limits and policies, which we use to manage our risk profile and financial resources.

We articulate our aggregate risk-taking by setting risk tolerances and thresholds on capital and liquidity measures. These measures are set at the AIG Parent level as well as the legal entity level and cover consolidated and insurance company capital and liquidity ratios. We must comply with standards for capital adequacy and maintain sufficient liquidity to meet all our obligations as they come due in accordance with our internal capital management and liquidity policies. Our risk tolerances take into consideration regulatory requirements, rating agency expectations, and business needs. The GRC routinely reviews the level of risk taken by the consolidated

organization in relation to the established risk tolerances. A consolidated risk report is also presented periodically, as required, to the RCC by our CRO.

## Risk Limits

A key component of our Risk Appetite Framework is having a process in place that establishes and maintains appropriate limits on the material risks identified for our core businesses and facilitates monitoring and meeting of both internal and external stakeholder expectations. Our objectives include:

- Establishing risk monitoring, provide early warning indicators, and ensure timely oversight and enforceability of limits;
- Defining a consistent and transparent approach to limits governance; and
- Aligning our business activities with our risk appetite statement.

To support the monitoring and management of AIG's and its business units' material risks, ERM has an established limits framework that employs a three-tiered hierarchy:

- **Board level risk tolerances** are AIG's aggregate capital and liquidity limits. They define the minimum level of capital and liquidity that we should maintain. These board level risk tolerances require our RCC approval.
- **AIG management level limits** are risk type specific limits at the AIG consolidated level. These limits are defined and calibrated to constrain our concentration in specific risk types, and to protect against taking risks that exceed the amount of overall capital AIG has available. These limits are approved by our CRO with consultation from the GRC.
- **BU level limits** are set to address key risks identified by ERM for the business unit/module and/or meet business unit/module specific requirements by regulators and rating agencies. These limits are defined by the business unit risk officers.

All limits are reviewed by the FRG, GRC or relevant business unit risk committees on a periodic basis and revisions, if applicable, are approved by those committees.

The business units are responsible for measuring and monitoring their risk exposures. ERM is responsible for monitoring compliance with limits and providing regular, timely reporting to our senior management and risk committees. Limit breaches are required to be reported in a timely manner and are documented and escalated in accordance with their level of severity or materiality.

## Risk Identification and Measurement

One tool we use to inform our Risk Appetite Framework is risk identification. We conduct risk identification through a number of processes at the business unit and corporate level focused on capturing our material risks and key areas of focus for follow-up risk management actions. A key initiative is our integrated bottom-up risk identification and assessment process down to the product-line level. These processes are used as a critical input to enhance and develop our analytics for measuring and assessing risks across the organization.

We employ various approaches to measure, monitor, and manage risk exposures, including the utilization of a variety of metrics and early warning indicators. We use a proprietary stress testing framework to measure our quantifiable risks. This framework is built on our existing ERM stress testing methodology for both insurance and non-insurance operations.

The framework measures risk over multiple time horizons and under different levels of stress. We develop a range of stress scenarios based both on internal experience and regulatory guidance. The stress tests are intended to ensure that sufficient resources are available under both idiosyncratic and systemic market stress conditions.

The stress testing framework assesses our aggregate exposure to our most significant financial and insurance risks, including the risk in each of our key insurance company subsidiaries in relation to its capital needs under stress, risks inherent in our non-insurance company subsidiaries, and risks to AIG consolidated capital. We use this information to determine the resources needed at the AIG Parent level to support our subsidiaries and capital resources required to maintain consolidated company target capitalization levels.

**We evaluate and manage risk in material topics as shown below. These topics are discussed in more detail in the following pages:**

- |                          |                               |                        |
|--------------------------|-------------------------------|------------------------|
| • Credit Risk Management | • 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 and letters of credit.

### Governance

Our credit risks are managed by a team of investment professionals, subject to ERM oversight and various control processes. ERM is assisted by credit functions headed by highly experienced credit professionals. Their primary role is to assure appropriate credit risk management in accordance with our credit policies and procedures relative to our credit risk parameters. Our Chief Credit Officer (CCO) and credit executives are primarily responsible for the development, implementation and maintenance of a risk management framework, which includes the following elements related to our credit risks:

- developing and implementing our company-wide credit policies and procedures;
- approving delegated credit authorities to our credit executives and qualified investment professionals;
- developing methodologies for quantification and assessment of credit risks, including the establishment and maintenance of our internal risk rating process;
- managing a system of credit and program limits, as well as the approval process for credit transactions, above limit exposures, and concentrations of risk that may exist or be incurred;
- evaluating, monitoring, reviewing and reporting of credit risks and concentrations regularly with senior management; and
- approving appropriate credit reserves, credit-related other-than-temporary impairments and corresponding methodologies for all credit portfolios.

We monitor and control our company-wide credit risk concentrations and attempt to avoid unwanted or excessive risk accumulations, whether funded or unfunded. To minimize the level of credit risk in some circumstances, we may require mitigants, such as third-party guarantees, reinsurance or collateral, including commercial bank-issued letters of credit and trust collateral accounts. We treat these guarantees, reinsurance recoverables, and letters of credit as credit exposure and include them in our risk concentration exposure data. We also monitor closely the quality of any trust collateral accounts.

See Investments – Available for Sale Investments herein for further information on our credit concentrations and credit exposures.

## MARKET RISK MANAGEMENT

Market risk is defined as the risk of adverse impact due to systemic movements in one or more of the following market risk drivers: equity and commodity prices, residential and commercial real estate values, interest rates, credit spreads, foreign exchange, inflation, and their levels of volatility.

We are engaged in a variety of insurance, investment and other financial services businesses that generate market risk, directly and indirectly. We are exposed to market risks primarily within our insurance and capital markets activities, on both the asset and liability side of our balance sheet through on and off-balance sheet exposures. The chief risk officer within each business is responsible for creating a framework to properly identify these risks, then ensuring that they are appropriately measured, monitored and managed in accordance with the risk governance framework established by the Chief Market Risk Officer (CMRO).

The scope and magnitude of our market risk exposures is managed under a robust framework that contains defined risk limits and minimum standards for managing market risk in a manner consistent with our risk appetite statement. Our market risk management framework focuses on quantifying the financial repercussions of changes in these broad market observables, as opposed to from the idiosyncratic risks associated with individual assets that are addressed through our credit risk management function.

## Risk Identification

Market risk focuses on quantifying the financial repercussions of changes in broad, external, predominantly market observable risks. Financial repercussions can include an adverse impact on results of operations, financial condition, liquidity and capital.

Each of the following systemic risks is considered a market risk:

**Equity prices.** We are exposed to changes in equity market prices affecting a variety of instruments. Changes in equity prices can affect the valuation of publicly-traded equity shares, investments in private equity, hedge funds and mutual funds, exchange-traded funds, and other equity-linked capital market instruments as well as equity-linked insurance products, including but not limited to index annuities, variable annuities, universal life insurance and variable universal life insurance.

**Residential and commercial real estate values.** Our investment portfolios are exposed to the risk of changing values in a variety of residential and commercial real estate investments. Changes in residential/commercial real estate prices can affect the valuation of residential/commercial mortgages, residential/commercial mortgage-backed securities and other structured securities with underlying assets that include residential/commercial mortgages, trusts that include residential/commercial real estate and/or mortgages, residential mortgage insurance contracts and commercial real estate investments.

**Interest rates.** Interest rate risk can arise from a mismatch in the interest rate exposure of assets versus liabilities. Lower interest rates generally result in lower investment income and make certain of our product offerings less attractive to investors. Conversely, higher interest rates are typically beneficial for the opposite reasons. However, when rates rise quickly, there can be a temporary asymmetric GAAP accounting effect where the existing securities lose market value, which is largely reported in Other comprehensive income, and the offsetting decrease in the value of related liabilities may not be recognized. Changes in interest rates can affect the valuation of fixed maturity securities, financial liabilities, insurance contracts including but not limited to fixed rate annuities, variable annuities and derivative contracts.

**Credit spreads.** Credit spreads measure an instrument's risk premium or yield relative to that of a comparable duration, default-free instrument. Changes in credit spreads can affect the valuation of fixed maturity securities, including but not limited to corporate bonds, ABS, mortgage-backed securities, AIG-issued debt obligations, credit derivatives and derivative credit valuation adjustments. Much like higher interest rates, wider credit spreads with unchanged default losses mean more investment income in the long-term. In the short term, quickly rising spreads will cause a loss in the value of existing fixed maturity securities, which is largely reported in Other comprehensive income. A precipitous widening of credit spreads may also signal a fundamental weakness in the credit-worthiness of bond obligors, potentially resulting in default losses.

**Foreign exchange (FX) rates.** We are a globally diversified enterprise with income, assets and liabilities denominated in, and capital deployed in, a variety of currencies. Changes in FX rates can affect the valuation of a broad range of balance sheet and income statement items as well as the settlement of cash flows exchanged in specific transactions.

**Commodity Prices.** Changes in commodity prices (the value of commodities) can affect the valuation of publicly-traded commodities, commodity indices and derivatives on commodities and commodity indices. We are exposed to commodity prices primarily through their impact on the prices and credit quality of commodity producers' debt and equity securities in our investment portfolio.

**Inflation.** Changes in inflation can affect the valuation of fixed maturity securities, including AIG-issued debt obligations, derivatives and other contracts explicitly linked to inflation indices, and insurance contracts where the claims are linked to inflation either explicitly, via indexing, or implicitly, through medical costs or wage levels.

## Governance

Market risk is overseen at the corporate level within ERM through the CMRO, who reports directly to the AIG CRO. The CMRO is supported by a dedicated team of professionals within ERM. Market Risk is managed by our finance, treasury and investment management corporate functions, collectively, and in partnership with ERM. The CMRO is primarily responsible for the development and maintenance of a risk management framework that includes the following key components:

- written policies that define the rules for our market risk-taking activities and provide clear guidance regarding their execution and management;
  - a limit framework that aligns with our Board-approved risk appetite statement;
  - independent measurement, monitoring and reporting for line of business, business unit and enterprise-wide market risks; and
  - clearly defined authorities for all individuals and committee roles and responsibilities related to market risk management.
- These components facilitate the CMRO's identification, measurement, monitoring, reporting and management of our market risks.

## Risk Measurement

Our market risk measurement framework was developed with the main objective of communicating the range and scale of our market risk exposures. At the firm-wide level market risk is measured in a manner that is consistent with AIG's risk appetite statement. This is designed to ensure that we remain within our stated risk tolerance levels and can determine how much additional market risk taking capacity is available within our framework. Our risk appetite is currently defined in terms of capital and liquidity levels. At the market risk level, the framework measures our overall exposure to each systemic market risk change on an economic basis.

In addition, we continue to use enhanced economic, GAAP accounting and statutory capital-based risk measures at the market risk level, business-unit level and firm-wide levels. This process aims to ensure that we have a comprehensive view of the impact of our market risk exposures.

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### We use a number of approaches to measure our market risk exposure, including:

**Sensitivity analysis.** Sensitivity analysis measures the impact from a unit change in a market risk input. Examples of such sensitivities include a one basis point increase in yield on fixed maturity securities, a one basis point increase in credit spreads of fixed maturity securities, and a one percent increase in prices of equity securities.

**Scenario analysis.** Scenario analysis uses historical, hypothetical, or forward-looking macroeconomic scenarios to assess and report exposures. Examples of hypothetical scenarios include a 100 basis point parallel shift in the yield curve or a 20 percent immediate and simultaneous decrease in world-wide equity markets. Scenarios may also utilize a stochastic framework to arrive at a probability distribution of losses.

**Stress testing.** Stress testing is a special form of scenario analysis in which the scenarios are designed to lead to a material adverse outcome. Examples of such scenarios include the stock market crash of October 1987 or the widening of yields or spreads of RMBS or CMBS during 2008.

## Market Risk Sensitivities

The following table provides estimates of our sensitivity to changes in yield curves, equity prices and foreign currency exchange rates:

| (dollars in millions)                                                      | Balance Sheet Exposure          |                                 | Balance Sheet Effect                                                                   |                    |
|----------------------------------------------------------------------------|---------------------------------|---------------------------------|----------------------------------------------------------------------------------------|--------------------|
|                                                                            | December 31, 2016               | December 31, 2015               | December 31, 2016                                                                      | December 31, 2015  |
| <b>Sensitivity factor</b>                                                  |                                 |                                 | <b>100 bps parallel increase in all yield</b>                                          |                    |
| <b>Interest rate sensitive assets:</b>                                     |                                 |                                 |                                                                                        |                    |
| Fixed maturity securities                                                  | 251,784                         | 260,689                         | (14,745)                                                                               | (14,549)           |
| Mortgage and other loans receivable                                        | 25,113                          | 18,878                          | (1,352)                                                                                | (1,092)            |
| Preferred stock                                                            | 17                              | 20                              | (1)                                                                                    | (1)                |
| <b>Total interest rate sensitive assets</b>                                | <b>\$ 276,914<sup>(a)</sup></b> | <b>\$ 279,587<sup>(a)</sup></b> | <b>\$ (16,098)</b>                                                                     | <b>\$ (15,642)</b> |
| <b>Sensitivity factor</b>                                                  |                                 |                                 | <b>20% decline in stock prices and value of alternative investments</b>                |                    |
| <b>Equity and alternative investments</b>                                  |                                 |                                 |                                                                                        |                    |
| Hedge funds                                                                | 7,249                           | 10,917                          | (1,450)                                                                                | (2,183)            |
| Private equity                                                             | 6,130                           | 7,233                           | (1,226)                                                                                | (1,447)            |
| Real estate investments                                                    | 6,900                           | 6,579                           | (1,380)                                                                                | (1,316)            |
| PICC Investment                                                            | 439                             | 2,239                           | (88)                                                                                   | (448)              |
| Common equity                                                              | 1,369                           | 1,574                           | (274)                                                                                  | (315)              |
| Aircraft asset investments                                                 | 321                             | 477                             | (64)                                                                                   | (95)               |
| Other investments                                                          | 946                             | 472                             | (189)                                                                                  | (94)               |
| <b>Total equity and alternative investments exposure</b>                   | <b>\$ 23,354</b>                | <b>\$ 29,491</b>                | <b>\$ (4,671)</b>                                                                      | <b>\$ (5,898)</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>                    |                                 |                                 |                                                                                        |                    |
| Japanese yen                                                               | 2,345                           | 1,745                           | (235)                                                                                  | (174)              |
| Great Britain pound                                                        | 2,274                           | 2,158                           | (227)                                                                                  | (216)              |
| Euro                                                                       | 2,000                           | 2,053                           | (200)                                                                                  | (205)              |
| All other foreign currencies                                               | 3,210                           | 4,703                           | (321)                                                                                  | (471)              |
| <b>Total foreign currency-denominated net asset position<sup>(b)</sup></b> | <b>\$ 9,829</b>                 | <b>\$ 10,659</b>                | <b>\$ (983)</b>                                                                        | <b>\$ (1,066)</b>  |

(a) At December 31, 2016, the analysis covered \$276.9 billion of \$292.5 billion interest-rate sensitive assets. Excluded were \$8.1 billion of loans and \$2.5 billion of investments in life settlements. In addition, \$5.0 billion of assets across various asset categories were excluded due to modeling limitations. At December 31, 2015, the analysis covered \$279.6 billion of \$298.7 billion interest-rate sensitive assets. Excluded were \$10.7 billion of loans and \$3.6 billion of investments in life settlements. In addition, \$4.8 billion of assets across various asset categories were excluded due to modeling limitations.

(b) The majority of the foreign currency exposure is reported on a one quarter lag.

Foreign currency-denominated net asset position reflects our consolidated non-U.S. dollar assets less our consolidated non-U.S. dollar liabilities on a GAAP basis, with certain adjustments. We use a bottom-up approach in managing our foreign currency exchange rate exposures with the objective of protecting statutory capital at the regulated insurance entity level. At the AIG Parent level, we monitor our single foreign currency exposures and limit the risk of the aggregate currency portfolio.

Our foreign currency-denominated net asset position at December 31, 2016, decreased by \$830 million compared to December 31, 2015. The decrease was mostly due to a \$1.6 billion decrease in our Hong Kong dollar position, primarily resulting from the sale of our Property Casualty Insurance Companies' PICC Investment, partially offset by a \$600 million increase in our Japanese yen position primarily due to hedging activities, unrealized appreciation, and strengthening of the yen against the U.S. dollar.

For illustrative purposes, we modeled our sensitivities based on a 100 basis point increase in yield curves, a 20 percent decline in equities and alternative assets, and a 10 percent depreciation of all foreign currency exchange rates against the U.S. dollar. The estimated results presented in the table above should not be taken as a prediction, but only as a demonstration of the potential effects of such events.



The sensitivity factors utilized for 2016 and presented above were selected based on historical data from 1996 to 2016, as follows (see the table below):

- a 100 basis point parallel shift in the yield curve is consistent with a one standard deviation movement of the benchmark ten-year treasury yield;
- a 20 percent drop for equity and alternative investments is broadly consistent with a one standard deviation movement in the S&P 500; and
- a 10 percent depreciation of foreign currency exchange rates is consistent with a one standard deviation movement in the U.S. dollar (USD)/Japanese yen (JPY) exchange rate.

|                  | Period    | Standard Deviation | Suggested 2016 Scenario | 2016 Scenario as a Multiple of Standard Deviation | 2016 Change/Return | 2016 as a Multiple of Standard Deviation | Original 2015 Scenario (based on Standard Deviation for 1995-2015 Period) |
|------------------|-----------|--------------------|-------------------------|---------------------------------------------------|--------------------|------------------------------------------|---------------------------------------------------------------------------|
| 10-Year Treasury | 1996-2016 | 0.01               | 0.01                    | 0.99                                              | -                  | 0.18                                     | 0.01                                                                      |
| S&P 500          | 1996-2016 | 0.18               | 0.20                    | 1.10                                              | 0.10               | 0.53                                     | 0.20                                                                      |
| USD/JPY          | 1996-2016 | 0.12               | 0.10                    | 0.86                                              | 0.03               | 0.24                                     | 0.10                                                                      |

## Risk Monitoring and Limits

The risk monitoring responsibilities, owned by the business units, include ensuring compliance with market risk limits and escalation and remediation of limit breaches. Such activities must be reported to the ERM Market Risk team by the relevant business unit. This monitoring approach is aligned with our overall risk limits framework.

To control our exposure to market risk, we rely on a three-tiered hierarchy of limits that the CMRO closely monitors and reports to our CRO, senior management and risk committees.

See Risk Appetite, Limits, Identification, and Measurement – Risk Limits herein for further information on our three-tiered hierarchy of limits.

## LIQUIDITY RISK MANAGEMENT

Liquidity risk is defined as the risk that our financial condition will be adversely affected by the inability or perceived inability to meet our short-term cash, collateral or other financial obligations. Failure to appropriately manage liquidity risk can result in insolvency, reduced operating flexibility, increased costs, reputational harm and regulatory action.

AIG and its legal entities seek to maintain sufficient liquidity during both the normal course of business and under defined liquidity stress scenarios to ensure that sufficient cash will be available to meet the obligations as they come due.

AIG Parent liquidity risk tolerance levels are designed to allow it to meet our financial obligations for a minimum of six- months under a liquidity stress scenario. We maintain liquidity limits and minimum coverage ratios designed to ensure that funding needs are met under varying market conditions. If we project that we will breach these tolerances, we will assess and determine appropriate liquidity management actions. However, the market conditions in effect at that time may not permit us to achieve an increase in liquidity sources or a reduction in liquidity requirements.

### Risk Identification

The following sources of liquidity and funding risks could impact our ability to meet short-term financial obligations as they come due.

- **Market/Monetization Risk:** Assets may not be readily transformed into cash due to unfavorable market conditions. Market liquidity risk may limit our ability to sell assets at reasonable values to meet liquidity needs.
- **Cash Flow Mismatch Risk:** Discrete and cumulative cash flow mismatches or gaps over short-term horizons under both expected and adverse business conditions may create future liquidity shortfalls.
- **Event Funding Risk:** Additional funding may be required as the result of a trigger event. Event funding risk comes in many forms and may result from a downgrade in credit ratings, a market event, or some other event that creates a funding obligation or limits existing funding options.
- **Financing Risk:** We may be unable to raise additional cash on a secured or unsecured basis due to unfavorable market conditions, AIG-specific issues, or any other issue that impedes access to additional funding.

## Governance

Liquidity risk is overseen at the corporate level within ERM. The AIG CRO has responsibility for the oversight of the Liquidity Risk Management Framework and delegates the day-to-day implementation of this framework to the AIG Treasurer. Our corporate treasury function manages liquidity risk, subject to ERM oversight and various control processes.

The Liquidity Risk Management Framework is guided by the liquidity risk tolerance as set forth in the Board-approved risk appetite statement. The principal objective of this framework is to establish minimum liquidity requirements that protect our long-term viability and ability to fund our ongoing business, and to meet short-term financial obligations in a timely manner in both normal and stressed conditions.

Our Liquidity Risk Management Framework includes a number of liquidity and funding policies and monitoring tools to address AIG-specific, broader industry and market related liquidity events.

## Risk Measurement

Comprehensive cash flow projections under normal conditions are the primary component for identifying and measuring liquidity risk. We produce comprehensive liquidity projections over varying time horizons that incorporate all relevant liquidity sources and uses and include known and likely cash inflows and outflows. In addition, we perform stress testing by identifying liquidity stress scenarios and assessing the effects of these scenarios on our cash flow and liquidity.

### We use a number of approaches to measure our liquidity risk exposure, including:

**Minimum Liquidity Limits:** Minimum Liquidity Limits specify the amount of assets required to be maintained in specific liquidity portfolios to meet obligations as they arise over a specified time horizon under stressed liquidity conditions.

**Coverage Ratios:** Coverage Ratios measure the adequacy of available liquidity sources, including the ability to monetize assets to meet the forecasted cash flows over a specified time horizon. The portfolio of assets is selected based on our ability to convert those assets into cash under the assumed market conditions and within the specified time horizon.

**Cash Flow Forecasts:** Cash Flow Forecasts measure the liquidity needed for a specific legal entity over a specified time horizon.

**Stress Testing:** Asset liquidity and Coverage Ratios are re-measured under defined liquidity stress scenarios that will impact net cash flows, liquid assets and/or other funding sources.

Relevant liquidity reporting is produced and reported regularly to AIG Parent and business unit risk committees. The frequency, content, and nature of reporting will vary for each business unit and legal entity, based on its complexity, risk profile, activities and size.

## OPERATIONAL RISK MANAGEMENT

Operational risk is defined as the risk of loss, or other adverse consequences, resulting from inadequate or failed internal processes, people, systems, or from external events. Operational risk includes legal, regulatory and compliance risks, and excludes business and strategy risks.

Operational risk is inherent in each of our business units. Operational risks can have many impacts, including but not limited to: unexpected economic losses or gains, reputational harm due to negative publicity, regulatory action from supervisory agencies, operational and business disruptions, and/or damage to customer relationships.

ORM oversees the Operational Risk policy and framework, which includes risk identification, assessment, prioritization, measurement, monitoring, and reporting of operational risk. As part of the framework, we deploy a series of operational risk programs to support our business units with the identification, monitoring and reporting of operational risks. The ORM programs include, but are not limited to, several key components as outlined below:

- The Risk Event Capture process enables each employee to identify, document, and escalate operational risk impacts, with a view to enhancing processes and promoting lessons learned.
- The Vulnerability Identification (VID) process identifies emerging risks, which we consider to be risks that have not yet fully manifested themselves but could become significant over time.
- The Ordinal Risk Ranking effort provides an ordinal ranking of AIG's most significant operational risks at the Enterprise, Segment or Regional levels, with the goal of prioritizing assessment and remediation activity.

- The Risk and Control Self-Assessments (RCSAs) allow for the identification and assessment of the key operational risks within our respective business units and a determination as to whether the related controls are effective.
- Scenario Analyses are executed to identify the remote, but plausible, potential risks that could result in severe financial losses.

ORM, working together with other second lines of defense functions (e.g., Model Validation and the Technology Risk office, as well as Compliance, Sarbanes Oxley, and Global Business Continuity), provides an independent view of Operational Risk for each business, and works with the business to facilitate implementation of the above programs. This includes coverage of operational risks related to core insurance activities, investing, model risk, technology (including cyber security, access, data privacy and data security), third-party providers, as well as compliance and regulatory matters. Based on the results of the risk identification and assessment efforts above, business leaders are accountable for tracking and remediating identified issues in line with our risk monitoring procedures. Governance committees support these efforts and promote transparency and management decision making.

### **An integrated risk and control framework facilitates the identification and mitigation of operational risk issues. To accomplish this, our integrated risk and control framework is designed to:**

- ensure first line accountability and ownership of risks and controls;
- promote role clarity among the business and risk and control functions;
- enhance transparency, risk management governance and culture;
- foster greater consistency in identifying and ranking material risks;
- pro-actively address potential risk issues and assign clear ownership and accountability for addressing identified risk issues; and
- accelerate the development of technology solutions that support the objectives above.

## **INSURANCE RISKS**

Except as described above, we manage our business risk oversight activities through our insurance operations. A primary goal in managing our insurance operations is to achieve an acceptable risk-adjusted return on equity. To achieve this goal, we must be disciplined in risk selection, premium adequacy, and appropriate terms and conditions to cover the risk accepted.

We operate our insurance businesses on a global basis, and we are exposed to a wide variety of risks with different time horizons. We manage these risks throughout the organization, both centrally and locally, through a number of procedures:

- pre-launch approval of product design, development and distribution;
- underwriting approval processes and authorities;
- exposure limits with ongoing monitoring;
- management of relationship between assets and liabilities, including hedging;
- enhanced pricing models;
- modeling and reporting of aggregations and limit concentrations at multiple levels (policy, line of business, product group, country, individual/group, correlation and catastrophic risk events);
- compliance with financial reporting and capital and solvency targets;
- use of reinsurance, both internal and third-party; and
- review and challenge of reserves to ensure comprehensive analysis with established escalation procedures to provide appropriate transparency in reserving decisions and judgments made in the establishment of reserves.

We closely manage insurance risk by monitoring and controlling the nature and geographic location of the risks in each line of business underwritten, the terms and conditions of the underwriting and the premiums we charge for taking on the risk. We analyze concentrations of risk using various modeling techniques, including both probability distributions (stochastic) and/or single-point estimates (deterministic) approaches.

### **Risk Identification**

- **Property Casualty Insurance Companies** — risks covered include property, casualty, fidelity/surety, accident and health, aviation, and management liability. We manage risks in the general insurance business through aggregations and limitations of concentrations at multiple levels: policy, line of business, geography, industry and legal entity.

- **Life Insurance Companies** — risks include mortality and morbidity in the insurance-oriented products and insufficient cash flows to cover contract liabilities and longevity risk in the retirement savings-oriented products. We manage risks through product design, sound medical and non-medical underwriting, and external reinsurance programs.

**We purchase reinsurance for our insurance operations.** Reinsurance facilitates insurance risk management (retention, volatility, concentrations) and capital planning. We may purchase reinsurance on a pooled basis. Pooling of our reinsurance risks enables us to purchase reinsurance more efficiently at a consolidated level, manage global counterparty risk and relationships and manage global catastrophe risks.

### Governance

Insurance risks are monitored at the business unit level within ERM and overseen by the business unit chief risk officer, who reports directly to our CRO. The framework includes the following key components:

- written policies that define the rules for our insurance risk-taking activities;
- a limit framework focused on key insurance risks that aligns with our Board-approved risk appetite statement; and
- clearly defined authorities for all individuals and committee roles and responsibilities related to insurance risk management.

### Risk Measurement, Monitoring and Limits

#### We use a number of approaches to measure our insurance risk exposure, including:

**Stochastic methods.** Stochastic methods are used to measure and monitor risks including natural catastrophe, reserve and premium risk. We develop probabilistic estimates of risk based on our exposures, historical observed volatility or industry-recognized models in the case of catastrophe risk.

**Scenario analysis.** Scenario or deterministic analysis is used to measure and monitor risks such as terrorism or to estimate losses due to man-made catastrophic scenarios.

In addition, we monitor concentrations of exposure through insurance limits aggregated along dimensions such as geography, industry, or counterparty.

The risk monitoring responsibilities of the business units include ensuring compliance with insurance risk limits and escalation and remediation of limit breaches. Such activities are reported to management by the relevant business unit for informative decision-making on a regular basis. This monitoring approach is aligned with our overall risk limits framework.

Risk limits have a consistent framework used across AIG, its business units, and legal entities. This includes escalation thresholds in cases where measurement is particularly challenging.

See Risk Appetite, Limits, Identification, and Measurement – Risk Limits herein for further information on our three-tiered hierarchy of limits

### Property Casualty Insurance Companies Key Insurance Risks

We manage insurance risks through risk review and selection processes, exposure limitations, exclusions, deductibles, self-insured retentions, coverage limits, attachment points, and reinsurance. This management is supported by sound underwriting practices, pricing procedures and the use of actuarial analysis to help determine overall adequacy of provisions for insurance. Underwriting practices and pricing procedures incorporate historical experience, changes in underlying exposure, current regulation and judicial decisions as well as proposed or anticipated regulatory changes.

For Property Casualty Insurance Companies, insurance risks primarily include the following:

- **Loss Reserves** – The potential inadequacy of the liabilities we establish for unpaid losses and loss adjustment expenses is a key risk faced by the Property Casualty Insurance Companies. There is significant uncertainty in factors that may drive the ultimate development of losses compared to our estimates of losses and loss adjustment expenses. We manage this uncertainty through internal controls and oversight of the loss reserve setting process, as well as reviews by external experts. See Item 7. MD&A – Critical Accounting Estimates – Insurance Liabilities – Loss Reserves herein for further information.

- **Underwriting** – The potential inadequacy of premiums charged for future risk periods on risks underwritten in our portfolios can impact the Property Casualty Insurance Companies' ability to achieve an underwriting profit. We develop pricing based on our estimates of losses and expenses, but factors such as market pressures and the inherent uncertainty and complexity in estimating losses may result in premiums that are inadequate to generate underwriting profit. This may be driven by adverse economic conditions, unanticipated emergence of risks or increase in frequency of claims, worse than expected prepayment of policies, investment results, or unexpected or increased costs or expenses.
- **Catastrophe Exposure** – Our business is exposed to various catastrophic events in which multiple losses can occur and affect multiple lines of business in any calendar year. Natural disasters, such as hurricanes, earthquakes and other catastrophes, have the potential to adversely affect our operating results. Other risks, such as man-made catastrophes or pandemic disease, could also adversely affect our business and operating results to the extent they are covered by our insurance products. Concentration of exposure in certain industries or geographies may cause us to suffer disproportionate losses.
- **Single Risk Loss Exposure** – Our business is exposed to loss events that have the potential to generate losses from a single insured client. Events such as fires or explosions can result in loss activity for our clients. The net risk to us is managed to acceptable limits established by our GRC through a combination of internal underwriting standards and external reinsurance. Furthermore, single risk loss exposure is managed and monitored on both a segregated and aggregated basis.
- **Reinsurance** – Since we use reinsurance to limit our losses, we are exposed to risks associated with reinsurance including the unrecoverability of expected payments from reinsurers either due to an inability or unwillingness to pay, contracts that do not respond properly to the event, or that actual reinsurance coverage is different than anticipated. The inability or unwillingness to pay is considered credit risk and is monitored through our credit risk management framework.

### Natural Catastrophe Risk

We manage catastrophe exposure with multiple approaches such as setting risk limits based on aggregate Probable Maximum Loss (PML) modeling, monitoring overall exposures and risk accumulations, and purchasing catastrophe reinsurance through both the traditional reinsurance and capital markets in addition to other reinsurance protections.

We use third-party catastrophe risk models and other tools to evaluate and simulate frequency and severity of catastrophic events and associated losses to our portfolios of exposures. We apply a proprietary multi-model approach to account for relative strengths and weaknesses of vendor models, and make adjustments to modeled losses to account for loss adjustment expenses, model biases, data quality and non-modeled risks.

We perform post-catastrophe event studies to identify model weaknesses, underwriting gaps, and improvement opportunities. Lessons learned from post-catastrophe event studies are incorporated into the modeling and underwriting processes of risk pricing and selection. The majority of policies exposed to catastrophic risks are one-year contracts that allow us to adjust our underwriting guidelines, pricing and exposure accumulation in a relatively short period.

We recognize that climate change has implications for insurance industry exposure to natural catastrophe risk. With multiple levels of risk management processes in place, we actively analyze the latest climate science and policy to anticipate potential changes to our risk profile, pricing models and strategic planning. For example, we continually consider changes in climate and weather patterns as an integral part of the underwriting process. In addition, we are committed to providing innovative insurance products and services to help our clients be proactive against the threat of climate change, including expanding natural disaster resilience, promoting adaptation, and reducing greenhouse gas emissions. Our internal product development, underwriting, modeling, and sustainability practices will continue to adapt to and evolve with the developing risk exposures attributed to climate change.

Our natural catastrophe exposure is primarily driven by the U.S. and Japan, though our overall exposure is diversified across multiple countries. For example, we have exposures to additional perils such as European windstorms and floods and seismic events across the Pacific Rim. Within the U.S., we have significant hurricane exposure in Florida, the Gulf of Mexico, Northeast U.S. and mid-Atlantic regions. Events impacting the Northeast U.S. and the mid-Atlantic may result in a higher share of industry losses than other regions primarily due to our relative share of exposure in those regions. Within the U.S., we have significant earthquake exposure in California, the Pacific Northwest and New Madrid regions. Earthquakes impacting the Pacific Northwest and New Madrid regions may result in a higher share of industry losses than other regions primarily due to our relative share of exposure in these regions.

The estimates below are the Occurrence Exceedance Probability (OEP) losses, which reflect losses that may occur in any single event due to the defined peril. The 1-in-100 and 1-in-250 PMLs are the probable maximum losses from a single natural catastrophe event with probability of 1 percent and 0.4 percent in a year, respectively.



The following table presents an overview of OEP modeled losses for top perils and countries:

| At December 31, 2016<br>(in millions)         | Gross    | Net of 2017<br>Reinsurance | Net of 2017<br>Reinsurance, After Tax | Percent of Total<br>Shareholder Equity |
|-----------------------------------------------|----------|----------------------------|---------------------------------------|----------------------------------------|
| <b>Exposures:</b>                             |          |                            |                                       |                                        |
| U.S. Hurricane (1-in-100) <sup>(a)</sup>      | \$ 5,105 | \$ 1,963                   | \$ 1,276                              | 1.7%                                   |
| U.S. Earthquake (1-in-250) <sup>(b)</sup>     | 7,065    | 3,423                      | 2,225                                 | 2.9                                    |
| Japanese Wind (1-in-100)                      | 1,147    | 643                        | 418                                   | 0.5                                    |
| Japanese Earthquake (1-in-250) <sup>(c)</sup> | \$ 1,009 | \$ 715                     | \$ 465                                | 0.6%                                   |

(a) The U.S. hurricane amount includes losses to Property from hurricane hazards of wind and storm surge.

(b) U.S. earthquake loss estimates represent exposure to Property, Workers' Compensation (U.S.) and A&H business lines.

(c) Japan Earthquake represents exposure to Property and A&H business lines.

The OEP estimates provided above reflect our in-force portfolios at September 30, 2016, for both U.S. and Japan exposures. The catastrophe reinsurance program is as of January 1, 2017.

AIG, along with other property casualty insurance and reinsurance companies, uses industry-recognized catastrophe models and applies proprietary modeling processes and assumptions to arrive at loss estimates. The use of different methodologies and assumptions could materially change the projected losses. Since there is no industry standard for assumptions and preparation of insured data for use in these models, our modeled losses may not be comparable to estimates made by other companies.

Also, the modeled results are based on the assumption that all reinsurers fulfill their obligations to us under the terms of the reinsurance arrangements and all catastrophe bonds attach and pay as modeled. However, reinsurance recoverable may not be fully collectible. In particular, the use of catastrophe bonds may not provide commensurate levels of protection compared to traditional reinsurance transactions. Therefore, these estimates are inherently uncertain and may not accurately reflect our exposure to these events.

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

Actual results in any period are likely to vary, perhaps materially, from the modeled scenarios. The occurrence of one or more severe events could have a material adverse effect on our financial condition, results of operations and liquidity. See also Item 1A. Risk Factors — Reserves and Exposures for additional information.

### Terrorism Risk

We actively monitor terrorism risk and manage exposures to losses from terrorist attacks. We have set risk limits based on modeled losses from certain terrorism attack scenarios. Terrorism risks are modeled using a third-party vendor model and various terrorism attack modes and scenarios. Adjustments are made to account for vendor model gaps and the nature of the Property Casualty Insurance Companies exposures. Examples of modeled scenarios are conventional bombs of different sizes, anthrax attacks and nuclear attacks.

Our largest terrorism exposures are in New York City, and estimated losses are largely driven by the Property and Workers' Compensation lines of business. At our largest exposure location, modeled losses for a five-ton bomb attack net of the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) and reinsurance recoveries are estimated to be \$2.8 billion as of September 30, 2016.

Our exposure to terrorism risk in the U.S. is mitigated by TRIPRA in addition to limited private reinsurance protections. TRIPRA covers terrorist attacks within the United States or U.S. missions and against certain U.S. carriers or vessels and excludes certain lines of business as specified by applicable law. In 2017, TRIPRA covers 83 percent of insured losses above a deductible, decreasing by one percent each year to 80 percent in 2020. The current estimate of our deductible is approximately \$2.5 billion for 2016.

We offer terrorism coverage in many other countries through various insurance products and participate in country terrorism pools when applicable. International terrorism exposure is estimated using scenario-based modeling and exposure concentration is monitored routinely. Targeted reinsurance purchases are made for some lines of business to cover potential losses due to terrorist attacks. We also rely on the government sponsored and government arranged terrorism reinsurance programs, including pools, in force in applicable non-U.S. jurisdictions.



## Reinsurance Activities

Reinsurance is used primarily to manage overall capital adequacy and mitigate the insurance loss exposure related to certain events such as natural and man-made catastrophes. Our subsidiaries operate worldwide primarily by underwriting and accepting risks for their direct account on a gross basis and reinsuring a portion of the exposure on either an individual risk or an aggregate basis to the extent those risks exceed the desired retention level. In addition, as a condition of certain direct underwriting transactions, we may be required by clients, agents or regulation to cede all or a portion of risks to specified reinsurance entities, such as captives, other insurers, local reinsurers and compulsory pools.

### Reinsurance markets include:

- Traditional local and global reinsurance markets including those in the United States, Bermuda, London and Europe, accessed directly and through reinsurance intermediaries;
- Capital markets through insurance-linked securities and collateralized reinsurance transactions, such as catastrophe bonds, sidecars and similar vehicles; and
- Other insurers that engage in both direct and assumed reinsurance.

### The form of reinsurance we may choose from time to time will generally depend on whether we are seeking:

- proportional reinsurance, whereby we cede a specified percentage of premiums and losses to reinsurers;
- non-proportional or excess of loss reinsurance, whereby we cede all or a specified portion of losses in excess of a specified amount on a per risk, per occurrence (including catastrophe reinsurance) or aggregate basis; or
- facultative contracts that reinsure individual policies.

We continually evaluate the relative attractiveness of different forms of reinsurance contracts and different markets that may be used to achieve our risk and profitability objectives.

Reinsurance contracts do not relieve our subsidiaries from their direct obligations to insureds. However, an effective reinsurance program substantially mitigates our exposure to potentially significant losses.

In certain markets, we are required to participate on a proportional basis in reinsurance pools based on our relative share of direct writings in those markets. Such mandatory reinsurance generally covers higher-risk consumer exposures such as assigned-risk automobile and earthquake, as well as certain commercial exposures such as workers' compensation.

## Reinsurance Recoverable

AIG's reinsurance recoverable assets are comprised of:

- Paid losses recoverable – balances due from reinsurers for losses and loss adjustment expenses paid by our subsidiaries and billed, but not yet collected.
- Ceded loss reserves – ultimate ceded reserves for losses and loss adjustment expenses, including reserves for claims reported but not yet paid and estimates for IBNR.
- Ceded reserves for unearned premiums.

At December 31, 2016, total reinsurance recoverable assets were \$21.9 billion. These assets include general reinsurance paid losses recoverable of \$1.1 billion, ceded loss reserves of \$15.7 billion including reserves for IBNR, and ceded reserves for unearned premiums of \$3.4 billion, as well as life reinsurance recoverables of \$1.7 billion. The methods used to estimate IBNR and to establish the resulting ultimate losses involve projecting the frequency and severity of losses over multiple years. These methods are continually reviewed and updated by management. Any adjustments are reflected in income. We believe that the amount recorded for ceded loss reserves at December 31, 2016 reflects a reasonable estimate of the ultimate losses recoverable. Actual losses may, however, differ, perhaps materially, from the reserves currently ceded.

The Reinsurance Credit Department (RCD) conducts periodic detailed assessments of the financial strength and condition of current and potential reinsurers, both foreign and domestic. The RCD monitors the financial condition of reinsurers as well as the total reinsurance recoverable ceded to reinsurers, and sets limits with regard to the amount and type of exposure we are willing to cede to reinsurers. As part of these assessments, the RCD assesses the financial capacity and liquidity of reinsurers; and evaluates the local economic and financial environment in which foreign reinsurers operate. The RCD reviews the nature of the risks ceded and the need for measures, including collateral to mitigate credit risk. For example, in our treaty reinsurance contracts, we frequently include provisions that allow us to require a reinsurer to post collateral or use other measures to reduce exposure when a referenced event occurs. Furthermore, we limit our unsecured exposure to reinsurers through the use of credit triggers such as insurer financial strength rating downgrades, declines in regulatory capital, or specified declines in risk-based capital (RBC) ratios. We also set maximum limits for reinsurance recoverable exposure, which in some cases is the recoverable amount plus an estimate of the

maximum potential exposure from unexpected loss events that could be ceded to a reinsurer. In addition, credit executives within ERM review reinsurer exposures and credit limits and approve reinsurer credit limits above specified levels. Finally, even where we conclude that uncollateralized credit risk is acceptable, we require collateral from active reinsurance counterparties where it is necessary for our subsidiaries to recognize the reinsurance recoverable assets for statutory accounting purposes. At December 31, 2016, we held \$8.1 billion of collateral, in the form of funds withheld, securities in reinsurance trust accounts and/or evergreen letters of credit, in support of reinsurance recoverable assets from unaffiliated reinsurers. We believe that no exposure to a single reinsurer represents an inappropriate concentration of risk to us.

The following table presents information for each reinsurer representing in excess of five percent of our total reinsurance recoverable assets:

| At December 31, 2016                  | 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> | Collateral<br>Held <sup>(c)</sup> | Uncollateralized<br>Reinsurance<br>Assets |
|---------------------------------------|------------------------------|---------------------------------------|--------------------------------|----------------------------------------------------|-----------------------------------|-------------------------------------------|
| <i>(in millions)</i>                  |                              |                                       |                                |                                                    |                                   |                                           |
| <b>Reinsurer:</b>                     |                              |                                       |                                |                                                    |                                   |                                           |
| Swiss Reinsurance Group of Companies  | AA-                          | A+                                    | \$ 4,101                       | 18.7 %                                             | \$ 1,480                          | \$ 2,621                                  |
| Berkshire Hathaway Group of Companies | AA+                          | A++                                   | \$ 2,165 <sup>(d)</sup>        | 9.9 %                                              | \$ 1,595                          | \$ 570                                    |
| Munich Reinsurance Group of Companies | AA-                          | A+                                    | \$ 1,961                       | 9.0 %                                              | \$ 734                            | \$ 1,227                                  |

(a) The financial strength ratings reflect the ratings of the various reinsurance subsidiaries of the companies listed as of January 3, 2017.

(b) Total reinsurance assets include both the Property Casualty Insurance Companies and the Life Insurance Companies reinsurance recoverable.

(c) Excludes collateral held in excess of applicable balances.

(d) Includes \$1.8 billion recoverable under the 2011 retroactive reinsurance transaction pursuant to which a large portion of the Property Casualty Insurance Companies net domestic asbestos liabilities were transferred to NICO. Does not include reinsurance assets ceded to other reinsurers for which NICO has assumed the collection risk. We entered into an adverse development reinsurance agreement with NICO, discussed in Item 7. MD&A — Insurance Reserves — Reinsurance Activities. Based on reserves as of December 31, 2016, this agreement will increase the gross reinsurance assets and collateral held from the Berkshire Hathaway Group of Companies by approximately \$12.8 billion and \$10.2 billion, respectively.

At December 31, 2016, we had no significant general reinsurance recoverable due from any individual reinsurer that was financially troubled. Reinsurer capital levels remained stable in 2016, and the industry's robust underwriting capacity resulted in continued competition and attractive rates for 2017 renewals. Reduced profitability associated with lower rates could potentially result in reduced capacity or rating downgrades for some reinsurers. The RCD, in conjunction with the credit executives within ERM, reviews these developments, monitors credit triggers that may require the reinsurer to post collateral, and seeks to use other appropriate means to mitigate any material risks arising from these developments.

See Item 7. MD&A – Critical Accounting Estimates – Reinsurance Assets for further discussion of reinsurance recoverable.

### Life Insurance Companies Key Insurance Risks

Our Individual Retirement, Group Retirement, Life Insurance and Institutional Markets businesses manage risk through product design, experience monitoring, pricing actions, risk limitations, reinsurance and active monitoring and management of the relationships between assets and liabilities, including hedging.

For our Individual and Group Retirement and Life Insurance products offered by the Life Insurance Companies, key insurance risks include the following:

- **Mortality risk** – represents the risk of loss arising from actual mortality rates being higher than expected mortality rates. This risk could arise from pandemics or other events, including longer-term societal changes that cause higher than expected mortality. This risk exists in a number of our product lines, but is most significant for our life insurance products.
- **Longevity risk** – represents the risk of a change in value of a policy or benefit as a result of actual mortality rates being lower than the expected mortality rates. This risk could arise from longer-term societal health changes as well as other factors. This risk exists in a number of our product lines but is most significant for our retirement, institutional and annuity products.
- **Policyholder behavior risk including surrender/lapse risk** – represents the risk that actual policyholder behavior differs from expected behavior in a manner that has an adverse effect on our results of operations. There are many assumptions made when products are sold, including how long the contracts will persist. Actual experience can vary significantly from these assumptions. This risk is impacted by a number of factors including changes in market conditions, especially interest rate and equity market changes, tax law, regulations and policyholder preferences. This risk exists in the majority of our product lines.
- **Interest rate risk** – represents the potential for loss due to a change in interest rates. Interest rate risk is measured with respect to assets, liabilities (both insurance-related and financial) and derivatives. This risk manifests itself when interest rates move significantly in a short period of time. Rapidly rising interest rates create the potential for increased surrenders. Interest rate risk

can also manifest itself over a longer period of time, such as in a persistent low interest rate environment. Low long-term interest rates put pressure on investment returns, which may negatively affect sales of interest rate sensitive products and reduce, or eliminate future profits on certain existing fixed rate products.

- **Equity risk** – represents the potential for loss due to changes in equity prices. It affects equity-linked insurance products, including but not limited to index annuities, variable annuities (and associated guaranteed living and death benefits, as discussed below), universal life insurance and variable universal life insurance. In addition, changes in the volatility of equity prices can affect the valuation of insurance features that are accounted for as embedded derivatives and the related economic hedges.

The emergence of significant adverse experience compared to the initial assumptions at policy issuance or updated assumption would require an adjustment to DAC and benefit reserves, which could have a material adverse effect on our consolidated results of operations for a particular period. For additional discussion of the impact of actual and expected experience on DAC and benefit reserves, see Critical Accounting Estimates – Future Policy Benefits for Life and Accident and Health (Life Insurance Companies) and Critical Accounting Estimates – Guaranteed Benefit Features of Variable Annuity Products (Life Insurance Companies). For additional discussion of business risks, see Item 1A. Risk Factors — Business and Operations.

### Variable Annuity Risk Management and Hedging Programs

Our Individual and Group Retirement businesses offer variable annuity products with GMWB riders that guarantee a certain level of benefits. GMWB guaranteed living benefits are accounted for as embedded derivatives measured at fair value, with changes in the fair value recorded in Other realized capital gains (losses). GMWB features subject the Life Insurance Companies to market risk, including exposure to changes in interest rates, equity prices, credit spreads and market volatility.

Variable annuity product design is the first step in managing our exposure to these market risks. Risk mitigation features of our variable annuity product design include GMWB rider fees indexed to an equity market volatility index, which can provide additional fee assessments in periods of increased market volatility, required minimum allocations to fixed accounts to reduce overall equity exposure, and the utilization of volatility control funds, which reduce equity exposure in the funds in response to changes in market volatility, even under sudden or extreme market movements.

After reflecting our product risk-mitigating features, we hedge our remaining economic exposure to market risk within GMWB features through our variable annuity hedging program, which is designed to offset certain changes in the economic value of these GMWB embedded derivatives, within established thresholds. The hedging program is designed to provide additional protection against large and combined movements in interest rates, equity prices, credit spreads and market volatility under multiple scenarios.

Our hedging program utilizes an economic hedge target, which represents our estimate of the underlying economic risks in our GMWB riders, based on the present value of the future expected benefit payments for the GMWB, less the present value of future rider fees, over numerous stochastic scenarios. This stochastic projection method uses best estimate assumptions for policyholder behavior (including mortality, lapses, withdrawals and benefit utilization) in conjunction with market scenarios calibrated to observable equity and interest rate option prices. Policyholder behaviors are regularly evaluated to compare current assumptions to actual experience and, if appropriate, changes are made to the policyholder behavior assumptions. The risk of changes in policyholder behavior is not explicitly hedged and such differences between expected and actual policyholder behaviors may result in hedge ineffectiveness.

Due to differences between the calculation of the economic hedge target and U.S. GAAP valuation of the embedded derivative, which include differences in the treatment of rider fees and exclusion of certain risk margins and other differences in discount rates, we expect relative movements in the economic hedge target and the U.S. GAAP embedded derivative valuation will vary over time with changes in equity markets, interest rates and credit spreads. See Insurance Reserves – Life and Annuity Reserves and DAC – Variable Annuity Guaranteed Benefits and Hedging Results for information on the impact on our consolidated pre-tax income from the change in fair value of the embedded derivatives and the hedging portfolio, as well as additional discussion of differences between the economic hedge target and the valuation of the embedded derivatives.

In designing our hedging portfolio for our variable annuity hedging program, we make assumptions and projections about the future performance of the underlying contract holder funds. To project future account value changes, we make assumptions about how each of the underlying funds will perform. We map the contract holder funds to a set of publicly traded indices that we believe best represent the liability to be hedged. Basis risk exists due to the variance between these assumptions and actual fund returns, which may result in variances between changes in the hedging portfolio and changes in the economic hedge target. Net hedge results and the cost of hedging are also impacted by differences between realized volatility and implied volatility.

For index annuity and universal life products, we have a hedging program designed to manage the index crediting strategies associated with index annuity and index life products. This hedging program is designed to offset the economic risk with respect to the index returns for the current crediting rate reset period, and utilizes derivative instruments, including but not limited to equity index

options and futures contracts. Similarly as with the variable annuities, there are differences between the calculation of the economic hedge target and U.S. GAAP valuation of the index annuity and index life embedded derivatives, which can lead to variances in their relative movements.

To manage the capital market exposures embedded within the economic hedge target, we identify and hedge market sensitivities to changes in equity markets, interest rates, volatility and for variable annuities, credit spreads. Each hedge program purchases derivative instruments or securities having sensitivities that offset those in the economic hedge target, within internally defined threshold levels. Since the relative movements of the hedging portfolio and the economic hedge target vary over time or with market changes, the net exposure can be outside the threshold limits, and adjustments to the hedging portfolio are made periodically to return the net exposure to within threshold limits.

Our hedging programs utilize various derivative instruments, including but not limited to equity options, futures contracts, interest rate swaps and swaption contracts, as well as other hedging instruments. In addition, for variable annuities, we purchase certain fixed income securities and elect the fair value option as a capital efficient way to manage interest rate and credit spread exposures. To minimize counterparty credit risk, the majority of our derivative instrument hedges are implemented using exchange-traded futures and options, cleared through global exchanges. Over the counter derivatives are highly collateralized.

The hedging programs are monitored on a daily basis to ensure that the economic hedge target and derivative portfolio are within the threshold limits, pursuant to the approved hedge strategy. Daily risk monitoring verifies that the net risk exposures, as measured through sensitivities to a large set of market shocks, are within the approved net risk exposure threshold limits. In addition, monthly stress tests are performed to determine the program's effectiveness relative to the applicable limits, under an array of combined severe market stresses in equity prices, interest rates, volatility and credit spreads. Finally, hedge strategies are reviewed regularly to gauge their effectiveness in managing our market exposures in the context of our overall risk appetite.

## OTHER BUSINESS RISKS

### Derivative Transactions

We utilize derivatives principally to enable us to hedge exposure to interest rates, currencies, credit, commodities, equities and other risks. Credit risk associated with derivative counterparties exists for a derivative contract when that contract has a positive fair value to us. The maximum potential exposure will increase or decrease during the life of the derivative commitments as a function of maturity and market conditions. All derivative transactions must be transacted within counterparty limits that have been approved by ERM.

We evaluate counterparty credit quality by internal analysis consistent with the AIG Credit Policy. We utilize various credit enhancements, including letters of credit, guarantees, collateral, credit triggers, credit derivatives, margin agreements and subordination to reduce the credit risk relating to outstanding financial derivative transactions. We require credit enhancements in connection with specific transactions based on, among other things, the creditworthiness of the counterparties, and transaction size and maturity. Furthermore, we enter into certain agreements that have the benefit of set-off and close-out netting provisions, such as ISDA Master Agreements. These provisions provide that, in the case of an early termination of a transaction, we can set off receivables from a counterparty against payables to the same counterparty arising out of all covered transactions. As a result, where a legally enforceable netting agreement exists, the fair value of the transaction with the counterparty represents the net sum of estimated fair values.

The fair value of our interest rate, currency, credit, commodity and equity swaps, options, swaptions, and forward commitments, futures, and forward contracts reported as a component of Other Assets, was approximately \$1.8 billion at December 31, 2016 and \$1.3 billion at December 31, 2015. Where applicable, these amounts have been determined in accordance with the respective master netting agreements.

The following table presents the fair value of our derivatives portfolios in asset positions by internal counterparty credit rating:

| <b>At December 31,</b> |           |              |             |              |
|------------------------|-----------|--------------|-------------|--------------|
| <i>(in millions)</i>   |           |              | <b>2016</b> | <b>2015</b>  |
| <b>Rating:</b>         |           |              |             |              |
| AAA                    | \$        | <b>68</b>    | \$          | 56           |
| AA                     |           | <b>12</b>    |             | 103          |
| A                      |           | <b>163</b>   |             | 256          |
| BBB                    |           | <b>1,338</b> |             | 767          |
| Below investment grade |           | <b>228</b>   |             | 127          |
| <b>Total</b>           | <b>\$</b> | <b>1,809</b> | <b>\$</b>   | <b>1,309</b> |

See Note 11 to the Consolidated Financial Statements for additional discussion related to derivative transactions.

## LIFE SETTLEMENTS

The major risk for investments in life settlements is longevity risk, which represents the risk of a change in the carrying value of the contracts arising from actual mortality rates being lower than the expected mortality rates. This risk could arise from longer term societal health changes as well as other factors.

## Glossary

**Accident year** The annual calendar accounting period in which loss events occurred, regardless of when the losses are actually reported, booked or paid.

**Accident year combined ratio, as adjusted** The combined ratio excluding catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting.

**Accident year loss ratio, as adjusted** The loss ratio excluding catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting.

**Acquisition ratio** Acquisition costs divided by net premiums earned. Acquisition costs are those costs incurred to acquire new and renewal insurance contracts and also include the amortization of VOBA and DAC. Acquisition costs vary with sales and include, but are not limited to, commissions, premium taxes, direct marketing costs and certain costs of personnel engaged in sales support activities such as underwriting.

**Base Spread** Net investment income excluding income from alternative investments and other enhancements, less interest credited excluding amortization of sales inducement assets.

**Base Yield** Net investment income excluding income from alternative investments and other enhancements, as a percentage of average base invested asset portfolio, which excludes alternative investments, other bond securities and certain other investments for which the fair value option has been elected.

**Book Value Per Common Share Excluding Accumulated Other Comprehensive Income (AOCI), Book Value Per Common Share Excluding AOCI and Deferred Tax Assets (DTA) (Adjusted Book Value Per Common Share) and Adjusted Book Value Per Common Share Including Dividend Growth** are non-GAAP measures and are used to show the amount of our net worth on a per-share basis. Book Value Per Common Share Excluding AOCI is derived by dividing total AIG shareholders' equity, excluding AOCI, by total common shares outstanding. Adjusted Book Value Per Common Share is derived by dividing total AIG shareholders' equity, excluding AOCI and DTA (Adjusted Shareholders' Equity), by total common shares outstanding. Adjusted Book Value Per Common Share including Dividend Growth is derived by dividing Adjusted Shareholders' Equity, including growth in quarterly dividends above \$0.125 per share to shareholders, by total common shares outstanding.

**Casualty insurance** Insurance that is primarily associated with the losses caused by injuries to third persons, i.e., not the insured, and the legal liability imposed on the insured as a result.

**Combined ratio** Sum of the loss ratio and the acquisition and general operating expense ratios.

**CSA** *Credit Support Annex* A legal document generally associated with an ISDA Master Agreement that provides for collateral postings which could vary depending on ratings and threshold levels.

**CVA** *Credit Valuation Adjustment* The CVA adjusts the valuation of derivatives to account for nonperformance risk of our counterparty with respect to all net derivative assets positions. Also, the CVA reflects the fair value movement in AIGFP's asset portfolio that is attributable to credit movements only, without the impact of other market factors such as interest rates and foreign exchange rates. Finally, the CVA also accounts for our own credit risk in the fair value measurement of all derivative net liability positions and liabilities where AIG has elected the fair value option, when appropriate.

**DAC** *Deferred Policy Acquisition Costs* Deferred costs that are incremental and directly related to the successful acquisition of new business or renewal of existing business.

**DAC Related to Unrealized Appreciation (Depreciation) of Investments** An adjustment to DAC for investment-oriented products, equal to the change in DAC amortization that would have been recorded if fixed maturity and equity securities available for sale had been sold at their stated aggregate fair value and the proceeds reinvested at current yields (also referred to as "shadow DAC").

**Deferred Gain on Retroactive Reinsurance** Retroactive reinsurance is a reinsurance contract in which an assuming entity agrees to reimburse a ceding entity for liabilities incurred as a result of past insurable events. If the amount of premium paid by the ceding reinsurer is less than the related ceded loss reserves, the resulting gain is deferred and amortized over the settlement period of the reserves. Any related development on the ceded loss reserves recoverable under the contract would increase the deferred gain if unfavorable, or decrease the deferred gain if favorable.

**Expense ratio** Sum of acquisition expenses and general operating expenses, divided by net premiums earned.



**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.

**GC/GIA** *Guaranteed Investment Contract/Guaranteed Investment Agreement* A contract whereby the seller provides a guaranteed repayment of principal and a fixed or floating interest rate for a predetermined period of time.

**G-SII** *Global Systemically Important Insurer* An insurer that is deemed globally systemically important (that is, of such size, market importance and global interconnectedness that the distress or failure of the insurer would cause significant dislocation in the global financial system and adverse economic consequences across a range of countries) by the Financial Stability Board, in consultation with and based on a methodology developed by the International Association of Insurance Supervisors.

**IBNR** *Incurred But Not Reported* Estimates of claims that have been incurred but not reported to us.

**ISDA Master Agreement** An agreement between two counterparties, which may have multiple derivative transactions with each other governed by such agreement, that generally provides for the net settlement of all or a specified group of these derivative transactions, as well as pledged collateral, through a single payment, in a single currency, in the event of a default on, or affecting any, one derivative transaction or a termination event affecting all, or a specified group of, derivative transactions.

**LAE** *Loss Adjustment Expenses* The expenses directly attributed to settling and paying claims of insureds and include, but are not limited to, legal fees, adjuster's fees and the portion of general expenses allocated to claim settlement costs.

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

**Loss Ratio** Losses and loss adjustment expenses incurred divided by net premiums earned.

**Loss reserve development** The increase or decrease in incurred losses and loss adjustment expenses related to prior years as a result of the re-estimation of loss reserves at successive valuation dates for a given group of claims.

**Loss reserves** Liability for unpaid losses and loss adjustment expenses. The estimated ultimate cost of settling claims relating to insured events that have occurred on or before the balance sheet date, whether or not reported to the insurer at that date.

**LTV** *Loan-to-Value Ratio* Principal amount of loan amount divided by appraised value of collateral securing the loan.

**Master netting agreement** An agreement between two counterparties who have multiple derivative contracts with each other that provides for the net settlement of all contracts covered by such agreement, as well as pledged collateral, through a single payment, in a single currency, in the event of default on or upon termination of any one such contract.

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

**Net premiums written** Represent the sales of an insurer, adjusted for reinsurance premiums assumed and ceded, during a given period. Net premiums earned are the revenue of an insurer for covering risk during a given period. Net premiums written are a measure of performance for a sales period, while Net premiums earned are a measure of performance for a coverage period.

**Nonbank SIFI** *Nonbank Systemically Important Financial Institutions* Financial institutions are deemed nonbank systemically important (that is, the failure of the financial institution could pose a threat to the financial stability of the United States) by the Financial Stability Oversight Council based on a three-stage analytical process.

**Noncontrolling interest** The portion of equity ownership in a consolidated subsidiary not attributable to the controlling parent company.

**Operating revenue** excludes Net realized capital gains (losses), income from non-operating litigation settlements (included in Other income for GAAP purposes) and changes in fair value of securities used to hedge guaranteed living benefits (included in Net investment income for GAAP purposes).

**Policy fees** An amount added to a policy premium, or deducted from a policy cash value or contract holder account, to reflect the cost of issuing a policy, establishing the required records, sending premium notices and other related expenses.

**Pool** A reinsurance arrangement whereby all of the underwriting results of the pool members are combined and then shared by each member in accordance with its pool participation percentage.

**Premiums and deposits – Institutional Markets** include direct and assumed amounts received and earned on group benefit policies and life-contingent payout annuities, and deposits received on investment-type annuity contracts, including GICs.

**Premiums and deposits – Individual Retirement and Group Retirement and – Life Insurance** include direct and assumed amounts received on traditional life insurance policies and group benefit policies, and deposits on life-contingent payout annuities, as well as deposits received on universal life, investment-type annuity contracts and mutual funds.

**Prior year development** See Loss reserve development.

**Property Casualty Insurance Companies** include the following major operating companies: National Union Fire Insurance Company of Pittsburgh, Pa. (National Union); American Home Assurance Company (American Home); Lexington Insurance Company (Lexington); Fuji Fire and Marine Insurance Company Limited (Fuji Fire); American Home Assurance Company, Ltd. (American Home Japan); AIU Insurance Company, Ltd. (AIUI Japan); AIG Asia Pacific Insurance, Pte, Ltd.; and AIG Europe Limited.

**RBC Risk-Based Capital** A formula designed to measure the adequacy of an insurer's statutory surplus compared to the risks inherent in its business.

**Reinstatement premium** Additional premiums payable to reinsurers to restore coverage limits that have been exhausted as a result of reinsured losses under certain excess of loss reinsurance treaties.

**Reinsurance** The practice whereby one insurer, the reinsurer, in consideration of a premium paid to that insurer, agrees to indemnify another insurer, the ceding company, for part or all of the liability of the ceding company under one or more policies or contracts of insurance which it has issued.

**Retroactive Reinsurance** See Deferred Gain on Retroactive Reinsurance.

**Return on Equity – After-tax Operating Income Excluding AOCI and DTA (Adjusted Return on Equity)** is a non-GAAP measure and is used to show the rate of return on shareholders' equity. Adjusted Return on Equity is derived by dividing actual or annualized after-tax operating income attributable to AIG by average Adjusted Shareholders' Equity.

**Salvage** The amount that can be recovered by an insurer for the sale of damaged goods for which a policyholder has been indemnified (and to which title was transferred).

**Severe losses** Individual non-catastrophe first party losses and surety losses greater than \$10 million, net of related reinsurance and salvage and subrogation. Severe losses include claims related to satellite explosions, plane crashes, and shipwrecks.

**SIA Sales Inducement Asset** Represents enhanced crediting rates or bonus payments to contract holders on certain annuity and investment contract products that meet the criteria to be deferred and amortized over the life of the contract.

**Solvency II** Legislation in the European Union which reforms the insurance industry's solvency framework, including minimum capital and solvency requirements, governance requirements, risk management and public reporting standards. The Solvency II Directive (2009/138/EEC) was adopted on November 25, 2009 and became effective on January 1, 2016.

**Subrogation** The amount of recovery for claims we have paid our policyholders, generally from a negligent third party or such party's insurer.

**Surrender charge** A charge levied against an investor for the early withdrawal of funds from a life insurance or annuity contract, or for the cancellation of the agreement.

**Surrender rate** represents annualized surrenders and withdrawals as a percentage of average reserves and Group Retirement mutual fund assets under administration.

**Unearned premium reserve** Liabilities established by insurers and reinsurers to reflect unearned premiums, which are usually refundable to policyholders if an insurance or reinsurance contract is canceled prior to expiration of the contract term.

**VOBA** Value of Business Acquired Present value of projected future gross profits from in-force policies of acquired businesses.

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## 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>GMIB</b> Guaranteed Minimum Income Benefits                                       | <b>VIE</b> Variable Interest Entity                               |

## ITEM 7A | Quantitative and Qualitative Disclosures about Market Risk

The information required by this item is set forth in the Enterprise Risk Management section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and is incorporated herein by reference.

# Part II

## ITEM 8 | Financial Statements and Supplementary Data

AMERICAN INTERNATIONAL GROUP, INC.

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## Report of Independent Registered Public Accounting Firm

### To the Board of Directors and Shareholders of American International Group, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of American International Group, Inc. and its subsidiaries (AIG) at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, AIG maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in the *Internal Control — Integrated Framework 2013* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). AIG's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A in the Annual Report on Form 10-K. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on AIG's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

New York, New York

February 23, 2017



# American International Group, Inc.

## Consolidated Balance Sheets

| <i>(in millions, except for share data)</i>                                                                                                    | December 31,<br>2016 | December 31,<br>2015 |
|------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| <b>Assets:</b>                                                                                                                                 |                      |                      |
| Investments:                                                                                                                                   |                      |                      |
| Fixed maturity securities:                                                                                                                     |                      |                      |
| Bonds available for sale, at fair value (amortized cost: 2016 - \$232,241; 2015 - \$240,968)                                                   | \$ 241,537           | \$ 248,245           |
| Other bond securities, at fair value (See Note 6)                                                                                              | 13,998               | 16,782               |
| Equity Securities:                                                                                                                             |                      |                      |
| Common and preferred stock available for sale, at fair value (cost: 2016 - \$1,697; 2015 - \$1,379)                                            | 2,078                | 2,915                |
| Other common and preferred stock, at fair value (See Note 6)                                                                                   | 482                  | 921                  |
| Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2016 - \$11; 2015 - \$11)                               | 33,240               | 29,565               |
| Other invested assets (portion measured at fair value: 2016 - \$6,946; 2015 - \$8,912)                                                         | 24,538               | 29,794               |
| Short-term investments (portion measured at fair value: 2016 - \$3,341; 2015 - \$2,591)                                                        | 12,302               | 10,132               |
| <b>Total investments</b>                                                                                                                       | <b>328,175</b>       | <b>338,354</b>       |
| Cash                                                                                                                                           | 1,868                | 1,629                |
| Accrued investment income                                                                                                                      | 2,495                | 2,623                |
| Premiums and other receivables, net of allowance                                                                                               | 10,465               | 11,451               |
| Reinsurance assets, net of allowance                                                                                                           | 21,901               | 20,413               |
| Deferred income taxes                                                                                                                          | 21,332               | 20,394               |
| Deferred policy acquisition costs                                                                                                              | 11,042               | 11,115               |
| Other assets, including restricted cash of \$193 in 2016 and \$170 in 2015<br>(portion measured at fair value: 2016 - \$1,809; 2015 - \$1,309) | 10,815               | 11,289               |
| Separate account assets, at fair value                                                                                                         | 82,972               | 79,574               |
| Assets held for sale                                                                                                                           | 7,199                | -                    |
| <b>Total assets</b>                                                                                                                            | <b>\$ 498,264</b>    | <b>\$ 496,842</b>    |
| <b>Liabilities:</b>                                                                                                                            |                      |                      |
| Liability for unpaid losses and loss adjustment expenses                                                                                       | \$ 77,077            | \$ 74,942            |
| Unearned premiums                                                                                                                              | 19,634               | 21,318               |
| Future policy benefits for life and accident and health insurance contracts                                                                    | 42,204               | 43,585               |
| Policyholder contract deposits (portion measured at fair value: 2016 - \$3,058; 2015 - \$2,325)                                                | 132,216              | 127,588              |
| Other policyholder funds (portion measured at fair value: 2016 - \$5; 2015 - \$6)                                                              | 3,989                | 4,212                |
| Other liabilities (portion measured at fair value: 2016 - \$2,016; 2015 - \$2,082)                                                             | 26,296               | 26,164               |
| Long-term debt (portion measured at fair value: 2016 - \$3,428; 2015 - \$3,670)                                                                | 30,912               | 29,249               |
| Separate account liabilities                                                                                                                   | 82,972               | 79,574               |
| Liabilities held for sale                                                                                                                      | 6,106                | -                    |
| <b>Total liabilities</b>                                                                                                                       | <b>421,406</b>       | <b>406,632</b>       |
| <b>Contingencies, commitments and guarantees (see Note 16)</b>                                                                                 |                      |                      |
| <b>AIG shareholders' equity:</b>                                                                                                               |                      |                      |
| Common stock, \$2.50 par value; 5,000,000,000 shares authorized; shares issued: 2016 - 1,906,671,492 and<br>2015 - 1,906,671,492               | 4,766                | 4,766                |
| Treasury stock, at cost; 2016 - 911,335,651; 2015 - 712,754,875 shares of common stock                                                         | (41,471)             | (30,098)             |
| Additional paid-in capital                                                                                                                     | 81,064               | 81,510               |
| Retained earnings                                                                                                                              | 28,711               | 30,943               |
| Accumulated other comprehensive income                                                                                                         | 3,230                | 2,537                |
| <b>Total AIG shareholders' equity</b>                                                                                                          | <b>76,300</b>        | <b>89,658</b>        |
| <b>Non-redeemable noncontrolling interests</b>                                                                                                 | <b>558</b>           | <b>552</b>           |
| <b>Total equity</b>                                                                                                                            | <b>76,858</b>        | <b>90,210</b>        |
| <b>Total liabilities and equity</b>                                                                                                            | <b>\$ 498,264</b>    | <b>\$ 496,842</b>    |

See accompanying Notes to Consolidated Financial Statements.

# American International Group, Inc.

## Consolidated Statements of Income

| <i>(dollars in millions, except per share data)</i>                                                                                         | Years Ended December 31, |                 |                 |
|---------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|-----------------|-----------------|
|                                                                                                                                             | 2016                     | 2015            | 2014            |
| <b>Revenues:</b>                                                                                                                            |                          |                 |                 |
| Premiums                                                                                                                                    | \$ 34,393                | \$ 36,655       | \$ 37,254       |
| Policy fees                                                                                                                                 | 2,732                    | 2,755           | 2,615           |
| Net investment income                                                                                                                       | 14,065                   | 14,053          | 16,079          |
| Net realized capital gains (losses):                                                                                                        |                          |                 |                 |
| Total other-than-temporary impairments on available for sale securities                                                                     | (458)                    | (556)           | (182)           |
| Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income (loss) | (29)                     | (35)            | (35)            |
| Net other-than-temporary impairments on available for sale securities recognized in net income (loss)                                       | (487)                    | (591)           | (217)           |
| Other realized capital gains (losses)                                                                                                       | (1,457)                  | 1,367           | 956             |
| Total net realized capital gains (losses)                                                                                                   | (1,944)                  | 776             | 739             |
| Aircraft leasing revenue                                                                                                                    | -                        | -               | 1,602           |
| Other income                                                                                                                                | 3,121                    | 4,088           | 6,117           |
| <b>Total revenues</b>                                                                                                                       | <b>52,367</b>            | <b>58,327</b>   | <b>64,406</b>   |
| <b>Benefits, losses and expenses:</b>                                                                                                       |                          |                 |                 |
| Policyholder benefits and losses incurred                                                                                                   | 32,437                   | 31,345          | 28,281          |
| Interest credited to policyholder account balances                                                                                          | 3,705                    | 3,731           | 3,768           |
| Amortization of deferred policy acquisition costs                                                                                           | 4,521                    | 5,236           | 5,330           |
| General operating and other expenses                                                                                                        | 10,989                   | 12,686          | 13,138          |
| Interest expense                                                                                                                            | 1,260                    | 1,281           | 1,718           |
| Aircraft leasing expenses                                                                                                                   | -                        | -               | 1,585           |
| Loss on extinguishment of debt                                                                                                              | 74                       | 756             | 2,282           |
| Net (gain) loss on sale of properties and divested businesses                                                                               | (545)                    | 11              | (2,197)         |
| <b>Total benefits, losses and expenses</b>                                                                                                  | <b>52,441</b>            | <b>55,046</b>   | <b>53,905</b>   |
| <b>Income (loss) from continuing operations before income tax expense</b>                                                                   | <b>(74)</b>              | <b>3,281</b>    | <b>10,501</b>   |
| <b>Income tax expense:</b>                                                                                                                  |                          |                 |                 |
| Current                                                                                                                                     | 576                      | 820             | 588             |
| Deferred                                                                                                                                    | (391)                    | 239             | 2,339           |
| <b>Income tax expense</b>                                                                                                                   | <b>185</b>               | <b>1,059</b>    | <b>2,927</b>    |
| <b>Income (loss) from continuing operations</b>                                                                                             | <b>(259)</b>             | <b>2,222</b>    | <b>7,574</b>    |
| <b>Income (loss) from discontinued operations, net of income tax expense</b>                                                                | <b>(90)</b>              | <b>-</b>        | <b>(50)</b>     |
| <b>Net income (loss)</b>                                                                                                                    | <b>(349)</b>             | <b>2,222</b>    | <b>7,524</b>    |
| <b>Less:</b>                                                                                                                                |                          |                 |                 |
| <b>Net income (loss) from continuing operations attributable to noncontrolling interests</b>                                                | <b>500</b>               | <b>26</b>       | <b>(5)</b>      |
| <b>Net income (loss) attributable to AIG</b>                                                                                                | <b>\$ (849)</b>          | <b>\$ 2,196</b> | <b>\$ 7,529</b> |
| <b>Net income (loss) attributable to AIG common shareholders</b>                                                                            | <b>\$ (849)</b>          | <b>\$ 2,196</b> | <b>\$ 7,529</b> |
| <b>Income (loss) per common share attributable to AIG:</b>                                                                                  |                          |                 |                 |
| Basic:                                                                                                                                      |                          |                 |                 |
| Income (loss) from continuing operations                                                                                                    | \$ (0.70)                | \$ 1.69         | \$ 5.31         |
| Loss from discontinued operations                                                                                                           | \$ (0.08)                | \$ -            | \$ (0.04)       |
| Net income (loss) attributable to AIG                                                                                                       | \$ (0.78)                | \$ 1.69         | \$ 5.27         |
| Diluted:                                                                                                                                    |                          |                 |                 |
| Income (loss) from continuing operations                                                                                                    | \$ (0.70)                | \$ 1.65         | \$ 5.24         |
| Loss from discontinued operations                                                                                                           | \$ (0.08)                | \$ -            | \$ (0.04)       |
| Net income (loss) attributable to AIG                                                                                                       | \$ (0.78)                | \$ 1.65         | \$ 5.20         |
| <b>Weighted average shares outstanding:</b>                                                                                                 |                          |                 |                 |
| Basic                                                                                                                                       | 1,091,085,131            | 1,299,825,350   | 1,427,959,799   |
| Diluted                                                                                                                                     | 1,091,085,131            | 1,334,464,883   | 1,447,553,652   |
| <b>Dividends declared per common share</b>                                                                                                  | <b>\$ 1.28</b>           | <b>\$ 0.81</b>  | <b>\$ 0.50</b>  |

See accompanying Notes to Consolidated Financial Statements.

## American International Group, Inc. Consolidated Statements of Comprehensive Income (Loss)

| <i>(in millions)</i>                                                                                                                           | Years Ended December 31, |                   |                  |
|------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|-------------------|------------------|
|                                                                                                                                                | 2016                     | 2015              | 2014             |
| <b>Net income (loss)</b>                                                                                                                       | \$ (349)                 | \$ 2,222          | \$ 7,524         |
| <b>Other comprehensive income (loss), net of tax</b>                                                                                           |                          |                   |                  |
| Change in unrealized appreciation (depreciation) of fixed maturity securities on which other-than-temporary credit impairments were recognized | (270)                    | (347)             | 107              |
| Change in unrealized appreciation (depreciation) of all other investments                                                                      | 839                      | (6,762)           | 5,538            |
| Change in foreign currency translation adjustments                                                                                             | 250                      | (1,100)           | (832)            |
| Change in retirement plan liabilities adjustment                                                                                               | (126)                    | 123               | (556)            |
| <b>Other comprehensive income (loss)</b>                                                                                                       | <b>693</b>               | <b>(8,086)</b>    | <b>4,257</b>     |
| <b>Comprehensive income (loss)</b>                                                                                                             | <b>344</b>               | <b>(5,864)</b>    | <b>11,781</b>    |
| Comprehensive income (loss) attributable to noncontrolling interests                                                                           | 500                      | 20                | (5)              |
| <b>Comprehensive income (loss) attributable to AIG</b>                                                                                         | <b>\$ (156)</b>          | <b>\$ (5,884)</b> | <b>\$ 11,786</b> |

See accompanying Notes to Consolidated Financial Statements.

# American International Group, Inc.

## Consolidated Statements of Equity

| <i>(in millions)</i>                                                       | Common<br>Stock | Treasury<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total AIG<br>Share-<br>holders'<br>Equity | Non-<br>redeemable<br>Non-<br>controlling<br>Interests | Total<br>Equity |
|----------------------------------------------------------------------------|-----------------|-------------------|----------------------------------|----------------------|-------------------------------------------------|-------------------------------------------|--------------------------------------------------------|-----------------|
| <b>Balance, January 1, 2014</b>                                            | \$ 4,766        | \$ (14,520)       | \$ 80,899                        | \$ 22,965            | \$ 6,360                                        | \$ 100,470                                | \$ 611                                                 | \$ 101,081      |
| Purchase of common stock                                                   | -               | (4,698)           | -                                | -                    | -                                               | (4,698)                                   | -                                                      | (4,698)         |
| Net income (loss) attributable to AIG or other<br>noncontrolling interests | -               | -                 | -                                | 7,529                | -                                               | 7,529                                     | (5)                                                    | 7,524           |
| Dividends                                                                  | -               | -                 | -                                | (712)                | -                                               | (712)                                     | -                                                      | (712)           |
| Other comprehensive income (loss)                                          | -               | -                 | -                                | -                    | 4,257                                           | 4,257                                     | -                                                      | 4,257           |
| Deferred income taxes                                                      | -               | -                 | (10)                             | -                    | -                                               | (10)                                      | -                                                      | (10)            |
| Net decrease due to deconsolidation                                        | -               | -                 | -                                | -                    | -                                               | -                                         | (99)                                                   | (99)            |
| Contributions from noncontrolling interests                                | -               | -                 | -                                | -                    | -                                               | -                                         | 17                                                     | 17              |
| Distributions to noncontrolling interests                                  | -               | -                 | -                                | -                    | -                                               | -                                         | (147)                                                  | (147)           |
| Other                                                                      | -               | -                 | 69                               | (7)                  | -                                               | 62                                        | (3)                                                    | 59              |
| <b>Balance, December 31, 2014</b>                                          | \$ 4,766        | \$ (19,218)       | \$ 80,958                        | \$ 29,775            | \$ 10,617                                       | \$ 106,898                                | \$ 374                                                 | \$ 107,272      |
| Common stock issued under stock plans                                      | -               | 13                | (13)                             | -                    | -                                               | -                                         | -                                                      | -               |
| Purchase of common stock                                                   | -               | (10,895)          | -                                | -                    | -                                               | (10,895)                                  | -                                                      | (10,895)        |
| Net income attributable to AIG or other<br>noncontrolling interests        | -               | -                 | -                                | 2,196                | -                                               | 2,196                                     | 26                                                     | 2,222           |
| Dividends                                                                  | -               | -                 | -                                | (1,028)              | -                                               | (1,028)                                   | -                                                      | (1,028)         |
| Other comprehensive loss                                                   | -               | -                 | -                                | -                    | (8,080)                                         | (8,080)                                   | (6)                                                    | (8,086)         |
| Deferred income taxes                                                      | -               | -                 | (9)                              | -                    | -                                               | (9)                                       | -                                                      | (9)             |
| Net increase due to acquisition and consolidations                         | -               | -                 | -                                | -                    | -                                               | -                                         | 231                                                    | 231             |
| Contributions from noncontrolling interests                                | -               | -                 | -                                | -                    | -                                               | -                                         | 1                                                      | 1               |
| Distributions to noncontrolling interests                                  | -               | -                 | -                                | -                    | -                                               | -                                         | (82)                                                   | (82)            |
| Other                                                                      | -               | 2                 | 574                              | -                    | -                                               | 576                                       | 8                                                      | 584             |
| <b>Balance, December 31, 2015</b>                                          | \$ 4,766        | \$ (30,098)       | \$ 81,510                        | \$ 30,943            | \$ 2,537                                        | \$ 89,658                                 | \$ 552                                                 | \$ 90,210       |
| Common stock issued under stock plans                                      | -               | 86                | (175)                            | -                    | -                                               | (89)                                      | -                                                      | (89)            |
| Purchase of common stock                                                   | -               | (11,460)          | -                                | -                    | -                                               | (11,460)                                  | -                                                      | (11,460)        |
| Net income (loss) attributable to AIG or<br>noncontrolling interests       | -               | -                 | -                                | (849)                | -                                               | (849)                                     | 500                                                    | (349)           |
| Dividends                                                                  | -               | -                 | -                                | (1,372)              | -                                               | (1,372)                                   | -                                                      | (1,372)         |
| Other comprehensive income (loss)                                          | -               | -                 | -                                | -                    | 693                                             | 693                                       | -                                                      | 693             |
| Current and deferred income taxes                                          | -               | -                 | (208)                            | -                    | -                                               | (208)                                     | -                                                      | (208)           |
| Net increase due to acquisitions and consolidations                        | -               | -                 | -                                | -                    | -                                               | -                                         | 43                                                     | 43              |
| Contributions from noncontrolling interests                                | -               | -                 | -                                | -                    | -                                               | -                                         | 22                                                     | 22              |
| Distributions to noncontrolling interests                                  | -               | -                 | -                                | -                    | -                                               | -                                         | (570)                                                  | (570)           |
| Other                                                                      | -               | 1                 | (63)                             | (11)                 | -                                               | (73)                                      | 11                                                     | (62)            |
| <b>Balance, December 31, 2016</b>                                          | \$ 4,766        | \$ (41,471)       | \$ 81,064                        | \$ 28,711            | \$ 3,230                                        | \$ 76,300                                 | \$ 558                                                 | \$ 76,858       |

See accompanying Notes to Consolidated Financial Statements.

# American International Group, Inc.

## Consolidated Statements of Cash Flows

| <i>(in millions)</i>                                                                            | Years Ended December 31, |                 |                 |
|-------------------------------------------------------------------------------------------------|--------------------------|-----------------|-----------------|
|                                                                                                 | 2016                     | 2015            | 2014            |
| <b>Cash flows from operating activities:</b>                                                    |                          |                 |                 |
| Net income (loss)                                                                               | \$ (349)                 | \$ 2,222        | \$ 7,524        |
| (Income) loss from discontinued operations                                                      | 90                       | -               | 50              |
| <b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b> |                          |                 |                 |
| <b>Noncash revenues, expenses, gains and losses included in income (loss):</b>                  |                          |                 |                 |
| Net gains on sales of securities available for sale and other assets                            | (2,033)                  | (1,111)         | (764)           |
| Net (gains) losses on sales of divested businesses                                              | (545)                    | 11              | (2,197)         |
| Losses on extinguishment of debt                                                                | 74                       | 756             | 2,282           |
| Unrealized (gains) losses in earnings – net                                                     | 1,465                    | (522)           | (1,239)         |
| Equity in income from equity method investments, net of dividends or distributions              | (54)                     | (481)           | (1,394)         |
| Depreciation and other amortization                                                             | 4,090                    | 4,629           | 4,448           |
| Impairments of assets                                                                           | 1,116                    | 1,500           | 610             |
| <b>Changes in operating assets and liabilities:</b>                                             |                          |                 |                 |
| Insurance reserves                                                                              | 5,325                    | 1,645           | (2,281)         |
| Premiums and other receivables and payables – net                                               | 536                      | (70)            | 820             |
| Reinsurance assets and funds held under reinsurance treaties                                    | (1,804)                  | 1,525           | 1,872           |
| Capitalization of deferred policy acquisition costs                                             | (5,216)                  | (5,808)         | (5,880)         |
| Current and deferred income taxes – net                                                         | (308)                    | 548             | 2,190           |
| Other, net                                                                                      | (4)                      | (1,967)         | (1,034)         |
| Total adjustments                                                                               | 2,642                    | 655             | (2,567)         |
| <b>Net cash provided by operating activities</b>                                                | <b>2,383</b>             | <b>2,877</b>    | <b>5,007</b>    |
| <b>Cash flows from investing activities:</b>                                                    |                          |                 |                 |
| Proceeds from (payments for)                                                                    |                          |                 |                 |
| Sales or distribution of:                                                                       |                          |                 |                 |
| Available for sale investments                                                                  | 30,103                   | 28,721          | 25,526          |
| Other securities                                                                                | 4,164                    | 6,055           | 4,930           |
| Other invested assets                                                                           | 9,554                    | 8,002           | 3,884           |
| Divested businesses, net                                                                        | 2,809                    | -               | 2,348           |
| Maturities of fixed maturity securities available for sale                                      | 25,749                   | 24,734          | 25,560          |
| Principal payments received on and sales of mortgage and other loans receivable                 | 6,074                    | 5,104           | 3,856           |
| Purchases of:                                                                                   |                          |                 |                 |
| Available for sale investments                                                                  | (54,978)                 | (48,848)        | (45,552)        |
| Other securities                                                                                | (935)                    | (2,704)         | (472)           |
| Other invested assets                                                                           | (3,421)                  | (3,573)         | (4,078)         |
| Mortgage and other loans receivable                                                             | (10,651)                 | (10,140)        | (8,008)         |
| Net change in restricted cash                                                                   | 385                      | 1,457           | (1,447)         |
| Net change in short-term investments                                                            | (3,089)                  | 1,163           | 8,760           |
| Other, net                                                                                      | (1,020)                  | (1,509)         | (1,023)         |
| <b>Net cash provided by investing activities</b>                                                | <b>4,744</b>             | <b>8,462</b>    | <b>14,284</b>   |
| <b>Cash flows from financing activities:</b>                                                    |                          |                 |                 |
| Proceeds from (payments for)                                                                    |                          |                 |                 |
| Policyholder contract deposits                                                                  | 18,100                   | 17,029          | 16,829          |
| Policyholder contract withdrawals                                                               | (14,041)                 | (14,619)        | (15,110)        |
| Issuance of long-term debt                                                                      | 5,954                    | 6,867           | 6,687           |
| Repayments of long-term debt                                                                    | (4,082)                  | (9,805)         | (16,160)        |
| Purchase of Common Stock                                                                        | (11,460)                 | (10,691)        | (4,902)         |
| Dividends paid                                                                                  | (1,372)                  | (1,028)         | (712)           |
| Other, net                                                                                      | 68                       | 818             | (6,420)         |
| <b>Net cash used in financing activities</b>                                                    | <b>(6,833)</b>           | <b>(11,429)</b> | <b>(19,788)</b> |
| <b>Effect of exchange rate changes on cash</b>                                                  | <b>52</b>                | <b>(39)</b>     | <b>(74)</b>     |
| Net increase (decrease) in cash                                                                 | 346                      | (129)           | (571)           |
| Cash at beginning of year                                                                       | 1,629                    | 1,758           | 2,241           |
| Change in cash of businesses held for sale                                                      | (107)                    | -               | 88              |
| <b>Cash at end of year</b>                                                                      | <b>\$ 1,868</b>          | <b>\$ 1,629</b> | <b>\$ 1,758</b> |

# American International Group, Inc.

## Consolidated Statements of Cash Flows

### Supplementary Disclosure of Consolidated Cash Flow Information

| <i>(in millions)</i>                                                                 | Years Ended December 31, |          |          |
|--------------------------------------------------------------------------------------|--------------------------|----------|----------|
|                                                                                      | 2016                     | 2015     | 2014     |
| <b>Cash paid during the period for:</b>                                              |                          |          |          |
| Interest                                                                             | \$ 1,331                 | \$ 1,368 | \$ 3,367 |
| Taxes                                                                                | \$ 493                   | \$ 511   | \$ 737   |
| <b>Non-cash investing/financing activities:</b>                                      |                          |          |          |
| Interest credited to policyholder contract deposits included in financing activities | \$ 3,430                 | \$ 3,676 | \$ 3,904 |
| Non-cash consideration received from sale of ILFC                                    | \$ -                     | \$ -     | \$ 4,586 |
| Non-cash consideration received from sale of AerCap                                  | \$ -                     | \$ 500   | \$ -     |
| Non-cash consideration received from sale of UGC                                     | \$ 1,101                 | \$ -     | \$ -     |

See accompanying Notes to Consolidated Financial Statements.



## 1. Basis of Presentation

American International Group, Inc. (AIG) is a leading global insurance organization serving customers in more than 80 countries and jurisdictions. AIG companies serve commercial and individual customers through one of the most extensive worldwide property-casualty networks of any insurer. In addition, AIG companies are leading providers of life insurance and retirement services in the United States. AIG Common Stock, par value \$2.50 per share (AIG Common Stock), is listed on the New York Stock Exchange (NYSE: AIG) and the Tokyo Stock Exchange. Unless the context indicates otherwise, the terms “AIG,” “we,” “us” or “our” mean American International Group, Inc. and its consolidated subsidiaries and the term “AIG Parent” means American International Group, Inc. and not any of its consolidated subsidiaries.

The consolidated financial statements include the accounts of AIG Parent, our controlled subsidiaries (generally through a greater than 50 percent ownership of voting rights and voting interests), and variable interest entities (VIEs) of which we are the primary beneficiary. Equity investments in entities that we do not consolidate, including corporate entities in which we have significant influence and partnership and partnership-like entities in which we have more than minor influence over the operating and financial policies, are accounted for under the equity method unless we have elected the fair value option.

Certain of our foreign subsidiaries included in the Consolidated Financial Statements report on different fiscal-period bases. The effect on our consolidated financial condition and results of operations of all material events occurring at these subsidiaries through the date of each of the periods presented in these Consolidated Financial Statements has been considered for adjustment and/or disclosure.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). All material intercompany accounts and transactions have been eliminated.

### SALES OF BUSINESSES

#### NSM

On August 31, 2016, we sold our controlling interest in NSM Insurance Group (NSM), a managing general agent to ABRY Partners, a private equity firm, for consideration of \$201 million resulting in a pre-tax gain of approximately \$105 million in the third quarter of 2016. We retained an equity interest in a newly formed joint venture and will continue to provide underwriting capacity to NSM. We also retained exclusive renewal rights for certain business written through NSM.

#### Ascot

On September 16, 2016, we entered into an agreement to sell our 20 percent interest in Ascot Underwriting Holdings Ltd. and our 100 percent interest in the related syndicate-funding subsidiary Ascot Corporate Name Ltd. to Canada Pension Plan Investment Board (CPPIB). Total consideration for the transaction was \$1.1 billion resulting in a pre-tax gain of approximately \$162 million attributable to AIG's controlling interest, inclusive of CPPIB's recapitalization of Syndicate 1414's Funds at Lloyd's (FAL) capital requirements. The transaction closed on November 18, 2016, and we received approximately \$244 million in net cash proceeds.

#### Korea Fund

On November 17, 2016, an AIG sponsored Fund (the Korea Fund), completed the sale of mixed-use commercial complex in Seoul, South Korea commonly known as the Seoul International Finance Center to Brookfield Properties for a total consideration of \$2.5 billion, of which \$1.2 billion was used to repay the fund's debt. The sale resulted in a pre-tax gain of \$1.1 billion included in Other Income, of which \$464 million was attributable to AIG's controlling interest.

#### United Guaranty

On December 31, 2016, we sold our 100 percent interest in United Guaranty Corporation (UGC) and certain related affiliates to Arch Capital Group Ltd. (Arch) for total consideration of \$3.3 billion, consisting of \$2.2 billion of cash and approximately \$1.1 billion of newly issued Arch convertible non-voting common-equivalent preferred stock and reported a pre-tax gain of approximately \$697 million. We also received \$261 million in pre-closing dividends from UGC in the fourth quarter of 2016.

Concurrent with the closing, we entered into reinsurance agreements with Arch, including an amended and restated 50 percent quota share reinsurance agreement and an aggregate excess of loss reinsurance agreement, pursuant to which we will continue to be exposed to certain UGC policies written between 2009 and 2016.

In addition, see Note 4 to the Consolidated Financial Statements for information regarding expected sales of businesses that are classified as held-for-sale.

## ILFC

On May 14, 2014, we completed the sale of 100 percent of the common stock of International Lease Finance Corporation (ILFC) to AerCap Ireland Limited, a wholly owned subsidiary of AerCap Holdings N.V. (AerCap), in exchange for total consideration of approximately \$7.6 billion, including cash and 97.6 million newly issued AerCap common shares (the AerCap Transaction). The total value of the consideration was based in part on AerCap's closing price per share of \$47.01 on May 13, 2014. ILFC's results of operations are reflected in Aircraft leasing revenue and Aircraft leasing expenses in the Consolidated Statements of Income (Loss) through the date of the completion of the sale.

In June 2015, we sold 86.9 million ordinary shares of AerCap by means of an underwritten public offering of 71.2 million ordinary shares and a private sale of 15.7 million ordinary shares to AerCap. We received cash proceeds of approximately \$3.7 billion, reflecting proceeds of approximately \$3.4 billion from the underwritten offering and cash proceeds of \$250 million from the private sale of shares to AerCap. In connection with the closing of the private sale of shares to AerCap, we also received \$500 million of 6.50% fixed-to-floating rate junior subordinated notes issued by AerCap Global Aviation Trust and guaranteed by AerCap and certain of its subsidiaries. These notes, included in Bonds available for sale, mature in 2045 and are callable beginning in 2025. We accounted for our interest in AerCap using the equity method of accounting through the date of the June 2015 sale, and as available for sale thereafter. In August 2015, we sold our remaining 10.7 million ordinary shares of AerCap by means of an underwritten public offering and received proceeds of approximately \$500 million.

## USE OF ESTIMATES

The preparation of financial statements in accordance with GAAP requires the application of accounting policies that often involve a significant degree of judgment. Accounting policies that we believe are most dependent on the application of estimates and assumptions are considered our critical accounting estimates and are related to the determination of:

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

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

## OUT OF PERIOD ADJUSTMENTS

For the year ended December 31, 2016, we recorded out of period adjustments relating to prior years that increased Net loss attributable to AIG by \$174 million, increased Loss from continuing operations before income taxes by \$57 million and decreased pre-tax operating income by \$6 million. The out of period adjustments are primarily related to income tax liabilities and ceded loss adjustment expenses. Had these adjustments, which were determined not to be material, been recorded in their appropriate periods, Net Income attributable to AIG for the years ended December 31, 2015 and 2014 would have decreased by \$67 million and \$12 million, respectively.

For the year ended December 31, 2015, we recorded out of period adjustments relating to prior years that decreased Net income attributable to AIG by \$156 million, decreased Income from continuing operations before income taxes by \$376 million and decreased pre-tax operating income by \$235 million. The out of period adjustments are primarily related to impairments of Other invested assets and changes in loss reserves and income tax liabilities. Had these adjustments, which were determined not to be material, been recorded in their appropriate periods, Net income attributable to AIG for the year ended December 31, 2014 would have decreased by \$51 million.

## 2. Summary of Significant Accounting Policies

The following table identifies our significant accounting policies presented in other Notes to these Consolidated Financial Statements, with a reference to the Note where a detailed description can be found:

### Note 6. Investments

- Fixed maturity and equity securities
- Other invested assets
- Short-term investments
- Net investment income
- Net realized capital gains (losses)
- Other-than-temporary impairments

### Note 7. Lending Activities

- Mortgage and other loans receivable – net of allowance

### Note 8. Reinsurance

- Reinsurance assets – net of allowance

### Note 9. Deferred Policy Acquisition Costs

- Deferred policy acquisition costs
- Amortization of deferred policy acquisition costs

### Note 10. Variable Interest Entities

### Note 11. Derivatives and Hedge Accounting

- Derivative assets and liabilities, at fair value

### Note 12. Goodwill

### Note 13. Insurance Liabilities

- Liability for unpaid losses and loss adjustment expenses
- Discounting of reserves
- Future policy benefits
- Policyholder contract deposits
- Other policyholder funds

### Note 14. Variable Life and Annuity Contracts

### Note 15. Debt

- Long-term debt

### Note 16. Contingencies, Commitments and Guarantees

- Legal contingencies

### Note 18. Earnings Per Share

### Note 23. Income Taxes

## OTHER SIGNIFICANT ACCOUNTING POLICIES

**Premiums** for short-duration contracts are recorded as written on the inception date of the policy. Premiums are earned primarily on a pro rata basis over the term of the related coverage. Sales of extended services contracts are reflected as premiums written and earned on a pro rata basis over the term of the related coverage. In addition, certain miscellaneous income is included as premiums written and earned. The reserve for unearned premiums includes the portion of premiums written relating to the unexpired terms of coverage. Reinsurance premiums are typically earned over the same period as the underlying policies or risks covered by the contract. As a result, the earnings pattern of a reinsurance contract may extend up to 24 months, reflecting the inception dates of the underlying policies throughout the year.

Reinsurance premiums ceded are recognized as a reduction in revenues over the period the reinsurance coverage is provided in proportion to the risks to which the premiums relate.

Premiums for long-duration insurance products and life contingent annuities are recognized as revenues when due. Estimates for premiums due but not yet collected are accrued.

**Policy fees** represent fees recognized from universal life and investment-type products consisting of policy charges for the cost of insurance, policy administration charges, surrender charges and amortization of unearned revenue reserves. Policy fees are recognized as revenues in the period in which they are assessed against policyholders, unless the fees are designed to compensate AIG for services to be provided in the future. Fees deferred as unearned revenue are amortized in relation to the incidence of expected gross profits to be realized over the estimated lives of the contracts, similar to DAC.

**Aircraft leasing revenue** from flight equipment under operating leases, through May 14, 2014, the date of disposal of ILFC, was recognized over the life of the leases as rental payments became receivable under the provisions of the leases or, in the case of leases with varying payments, under the straight-line method over the noncancelable term of the leases. In certain cases, leases provided for additional payments contingent on usage. In those cases, rental revenue was recognized at the time such usage occurred, net of estimated future contractual aircraft maintenance reimbursements. Gains on sales of flight equipment were recognized when flight equipment was sold and the risk of ownership of the equipment passed to the new owner.

**Other income** includes advisory fee income from the Consumer Insurance broker dealer business, as well as legal recoveries of \$44 million, \$94 million and \$804 million from legacy crisis and other matters in 2016, 2015 and 2014, respectively.

Other income from our Other Operations category consists of the following:

- Changes in fair value relating to financial assets and liabilities for which the fair value option has been elected.
- Interest income and related expenses, including amortization of premiums and accretion of discounts on bonds with changes in the timing and the amount of expected principal and interest cash flows reflected in the yield, as applicable.
- Dividend income from common and preferred stock and earnings distributions from other investments.
- Changes in the fair value of other securities sold but not yet purchased, futures, hybrid financial instruments, securities purchased under agreements to resell, and securities sold under agreements to repurchase.
- Income earned on real estate based investments and related realized gains and losses from sales, property level impairments and financing costs.
- Exchange gains and losses resulting from foreign currency transactions.
- Earnings from private equity funds and hedge fund investments accounted for under the equity method.
- Changes in the fair value of derivatives at AIG Financial Products Corp. and related subsidiaries (collectively AIGFP).

**Aircraft leasing expenses** through May 14, 2014, the date of disposal of ILFC, consisted of ILFC interest expense, depreciation expense, impairment charges, fair value adjustments and lease-related charges on aircraft as well as selling, general and administrative expenses and other expenses incurred by ILFC.

**Cash** represents cash on hand and non-interest-bearing demand deposits.

**Short-term investments** consist of interest-bearing cash equivalents, time deposits, securities purchased under agreements to resell, and investments, such as commercial paper, with original maturities within one year from the date of purchase.

**Premiums and other receivables – net of allowance** include premium balances receivable, amounts due from agents and brokers and policyholders, trade receivables for the Direct Investment book (DIB) and Global Capital Markets (GCM) and other receivables. Trade receivables for GCM include cash collateral posted to derivative counterparties that is not eligible to be netted against derivative liabilities. The allowance for doubtful accounts on premiums and other receivables was \$279 million and \$333 million at December 31, 2016 and 2015, respectively.

**Other assets** consist of sales inducement assets, prepaid expenses, deposits, other deferred charges, real estate, other fixed assets, capitalized software costs, goodwill, intangible assets other than goodwill, restricted cash and derivative assets.

We offer sales inducements which include enhanced crediting rates or bonus payments to contract holders (bonus interest) on certain annuity and investment contract products. Sales inducements provided to the contract holder are recognized in Policyholder contract deposits in the Consolidated Balance Sheets. Such amounts are deferred and amortized over the life of the contract using the same methodology and assumptions used to amortize DAC (see Note 9 herein). To qualify for such accounting treatment, the bonus interest must be explicitly identified in the contract at inception. We must also demonstrate that such amounts are incremental to amounts we credit on similar contracts without bonus interest, and are higher than the contract's expected ongoing crediting rates for periods after the bonus period. The deferred bonus interest and other deferred sales inducement assets totaled \$808 million and \$845 million at December 31, 2016 and 2015, respectively. The amortization expense associated with these assets is reported within Interest credited to policyholder account balances in the Consolidated Statements of Income. Such amortization expense totaled \$77 million, \$88 million and \$63 million for the years ended December 31, 2016, 2015 and 2014, respectively.

The cost of buildings and furniture and equipment is depreciated principally on the straight-line basis over their estimated useful lives (maximum of 40 years for buildings and 10 years for furniture and equipment). Expenditures for maintenance and repairs are charged to income as incurred and expenditures for improvements are capitalized and depreciated. We periodically assess the carrying amount of our real estate for purposes of determining any asset impairment. Capitalized software costs, which represent costs directly related to obtaining, developing or upgrading internal use software, are capitalized and amortized using the straight-line method over a period generally not exceeding five years. Real estate, fixed assets and other long-lived assets are assessed for impairment when impairment indicators exist.

**Separate accounts** represent funds for which investment income and investment gains and losses accrue directly to the policyholders who bear the investment risk. Each account has specific investment objectives and the assets are carried at fair value. The assets of each account are legally segregated and are not subject to claims that arise from any of our other businesses. The liabilities for these accounts are equal to the account assets. Separate accounts may also include deposits for funds held under stable value wrap funding agreements, although the majority of stable value wrap sales are measured based on the notional amount included in assets under management and do not include the receipt of funds. For a more detailed discussion of separate accounts, see Note 14 herein.

**Other liabilities** consist of other funds on deposit, other payables, securities sold under agreements to repurchase, securities sold but not yet purchased and derivative liabilities. We have entered into certain insurance and reinsurance contracts, primarily in our Property Casualty Insurance Companies, that do not contain sufficient insurance risk to be accounted for as insurance or reinsurance. Accordingly, the premiums received on such contracts, after deduction for certain related expenses, are recorded as deposits within Other liabilities in the Consolidated Balance Sheets. Net proceeds of these deposits are invested and generate Net investment income. As amounts are paid, consistent with the underlying contracts, the deposit liability is reduced. Also included in Other liabilities are trade payables for the DIB and GCM, which include option premiums received and payables to counterparties that relate to unrealized gains and losses on futures, forwards, and options and balances due to clearing brokers and exchanges. Trade payables for GCM also include cash collateral received from derivative counterparties that contractually cannot be netted against derivative assets.

Securities sold but not yet purchased represent sales of securities not owned at the time of sale. The obligations arising from such transactions are recorded on a trade-date basis and carried at fair value. Fair values of securities sold but not yet purchased are based on current market prices.

**Foreign currency:** Financial statement accounts expressed in foreign currencies are translated into U.S. dollars. Functional currency assets and liabilities are translated into U.S. dollars generally using rates of exchange prevailing at the balance sheet date of each respective subsidiary and the related translation adjustments are recorded as a separate component of Accumulated other comprehensive income, net of any related taxes, in Total AIG shareholders' equity. Income statement accounts expressed in functional currencies are translated using average exchange rates during the period. Functional currencies are generally the currencies of the local operating environment. Financial statement accounts expressed in currencies other than the functional currency of a consolidated entity are remeasured into that entity's functional currency resulting in exchange gains or losses recorded in income. The adjustments resulting from translation of financial statements of foreign entities operating in highly inflationary economies are recorded in income.

**Non-redeemable noncontrolling interest** is the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent.

## ACCOUNTING STANDARDS ADOPTED DURING 2016

### Accounting for Share-Based Payments with Performance Targets

In June 2014, the FASB issued an accounting standard that clarifies the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The standard requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition.

We adopted the standard prospectively on its required effective date of January 1, 2016. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.



### Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity

In August 2014, the FASB issued an accounting standard that allows a reporting entity to measure the financial assets and financial liabilities of a qualifying consolidated collateralized financing entity using the fair value of either its financial assets or financial liabilities, whichever is more observable.

We adopted the standard retrospectively on its required effective date of January 1, 2016. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

### Amendments to the Consolidation Analysis

In February 2015, the FASB issued an accounting standard that affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; eliminate the presumption that a general partner should consolidate a limited partnership; affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds.

We adopted the standard prospectively on its required effective date of January 1, 2016. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

### Customer's Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB issued an accounting standard that provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance does not change generally accepted accounting principles applicable to a customer's accounting for service contracts. Consequently, all software licenses will be accounted for consistent with other licenses of intangible assets.

We adopted the standard prospectively on its required effective date of January 1, 2016. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

### Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued an accounting standard that amends the guidance for debt issuance costs by requiring such costs to be presented as a deduction to the corresponding debt liability, rather than as an asset, and for the amortization of such costs to be reported as interest expense. The amendments are intended to simplify the presentation of debt issuance costs and make it consistent with the presentation of debt discounts or premiums. The amendments, however, do not change the recognition and measurement guidance applicable to debt issuance costs.

We adopted the standard retrospectively on its required effective date of January 1, 2016. Because the new standard did not affect accounting recognition or measurement of debt issuance costs, the adoption of the standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

### Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)

In May 2015, the FASB amended standard on fair value disclosures for investments for which fair value is measured using the net asset value (NAV) per share (or its equivalent) as a practical expedient. The amendments in this update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. In addition, the amendment removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share as a practical expedient.

We adopted the standard retrospectively on its required effective date of January 1, 2016. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.



### Short Duration Insurance Contracts

In May 2015, the FASB issued an accounting standard that requires additional disclosures for short-duration insurance contracts. New disclosures about the liability for unpaid losses and loss adjustment expenses and net incurred losses and loss adjustment expenses are now required (including accident year information). The annual disclosures by accident year include: disaggregated net incurred and paid claims development tables segregated by business type (not required to exceed 10 years), reconciliation of total net reserves included in development tables to the reported liability for unpaid losses and loss adjustment expenses, incurred but not reported (IBNR) information, quantitative information and a qualitative description about claim frequency, and the average annual percentage payout of incurred claims. Further, the new standard requires, when applicable, disclosures about discounting liabilities for unpaid losses and loss adjustment expenses and significant changes and reasons for changes in methodologies and assumptions used to determine unpaid losses and loss adjustment expenses.

We adopted this standard on its required effective date of December 31, 2016. The required disclosures, reflected in Note 13, did not have any effect on our consolidated financial condition, results of operations or cash flows. In addition, the roll forward of the liability for unpaid losses and loss adjustment expenses currently disclosed in the annual financial statements will be disclosed as required for interim periods beginning in the first quarter of 2017.

### Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued an accounting standard that requires management to evaluate and disclose if there are conditions or events that raise substantial doubt about an entity's ability to continue as a going concern even if the entity's liquidation is not imminent. In those situations, financial statements should continue to be prepared under the going concern basis of accounting, but this new standard requires an evaluation to determine whether to disclose information about the relevant conditions and events. Currently under U.S. GAAP there is no guidance about management's responsibility under this standard. U.S. auditing standards and federal securities law require that an auditor evaluate whether there is substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time not to exceed one year beyond the date of the financial statements being audited.

We adopted the standard on its required effective date of December 31, 2016. The adoption of this standard did not have an effect on our consolidated financial condition, results of operations or cash flows.

### Improvements to Employee Share-Based Payment Accounting

In March 2016, the FASB issued a standard that simplifies several aspects of the accounting for share-based compensation, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification on the statement of cash flows. The standard is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted.

We elected early-adoption of the Standard, effective January 1, 2016. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

## FUTURE APPLICATION OF ACCOUNTING STANDARDS

### Revenue Recognition

In May 2014, the FASB issued an accounting standard that supersedes most existing revenue recognition guidance. The standard excludes from its scope the accounting for insurance contracts, leases, financial instruments, and certain other agreements that are governed under other GAAP guidance, but could affect the revenue recognition for certain of our other activities.

The standard is effective on January 1, 2018 and may be applied retrospectively or through a cumulative effect adjustment to retained earnings at the date of adoption. Early adoption is permitted as of January 1, 2017, including interim periods. We are currently evaluating the impact to our revenue sources that are in scope of the standard. However, as the majority of our revenue sources are not in scope of the standard, we do not expect the adoption of the standard to have a material effect on our reported consolidated financial condition, results of operations or cash flows.

### Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued an accounting standard that will require equity investments that do not follow the equity method of accounting or are not subject to consolidation to be measured at fair value with changes in fair value recognized in earnings, while financial liabilities for which fair value option accounting has been elected, changes in fair value due to instrument-specific credit risk will be presented separately in other comprehensive income. The standard allows the election to record equity investments without readily determinable fair values at cost, less impairment, adjusted for subsequent observable price changes with changes in the

carrying value of the equity investments recorded in earnings. The standard also updates certain fair value disclosure requirements for financial instruments carried at amortized cost.

The standard is effective on January 1, 2018, with early adoption of certain provisions permitted. We are assessing the impact of the standard on our reported consolidated financial condition, results of operations and cash flows.

### Leases

In February 2016, the FASB issued an accounting standard that will require lessees with lease terms of more than 12 months to recognize a right of use asset and a corresponding lease liability on their balance sheets. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating leases or finance leases.

The standard is effective on January 1, 2019, with early adoption permitted using a modified retrospective approach. We are assessing the impact of the standard on our reported consolidated financial condition, results of operations and cash flows. We are currently quantifying the expected gross up of our balance sheet for a right to use asset and a lease liability as required by the standard.

### Derivative Contract Novations

In March 2016, the FASB issued an accounting standard that clarifies that a change in the counterparty (novation) to a derivative instrument that has been designated as a hedging instrument does not, in and of itself, require de-designation of that hedging relationship provided that all other hedge accounting criteria continue to be met.

We will adopt the standard on its January 1, 2017 effective date, and do not expect the adoption of the standard will have a material effect on our reported consolidated financial condition, results of operations or cash flows.

### Contingent Put and Call Options in Debt Instruments

In March 2016, the FASB issued an accounting standard that clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. The standard requires an evaluation of embedded call (put) options solely on a four-step decision sequence that requires an entity to consider whether (1) the amount paid upon settlement is adjusted based on changes in an index, (2) the amount paid upon settlement is indexed to an underlying other than interest rates or credit risk, (3) the debt involves a substantial premium or discount and (4) the put or call option is contingently exercisable.

We will adopt the standard on its January 1, 2017 effective date, and do not expect the adoption of the standard to have a material effect on our reported consolidated financial condition, results of operations or cash flows.

### Simplifying the Transition to the Equity Method of Accounting

In March 2016, the FASB issued an accounting standard that eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods during which the investment had been held.

We will adopt the standard on its January 1, 2017 effective date, and do not expect the adoption of the standard to have a material effect on our reported consolidated financial condition, results of operations or cash flows.

### Financial Instruments - Credit Losses

In June 2016, the FASB issued an accounting standard that will change how entities account for credit losses for most financial assets. The standard will replace the existing incurred loss impairment model with a new "current expected credit loss model" and will apply to financial assets subject to credit losses, those measured at amortized cost and certain off-balance sheet credit exposures. The impairment for available-for-sale debt securities will be measured in a similar manner, except that losses will be recognized as allowances rather than reductions in the amortized cost of the securities. The standard will also require additional information to be disclosed in the footnotes.

The standard is effective on January 1, 2020, with early adoption permitted on January 1, 2019. We are assessing the impact of the standard on our reported consolidated financial condition, results of operations and cash flows, but we expect an increase in our allowances for credit losses. The amount of the increase will be impacted by our portfolio composition and quality at the adoption date as well as economic conditions and forecasts at that time.

### Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued an accounting standard that addresses diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide clarity on the treatment of eight specifically defined types of cash inflows and outflows. The standard is effective on January 1, 2018, with early adoption permitted as long as all amendments are included in the same period.

The standard addresses presentation in the Statement of Cash Flows only and will have no effect on our reported consolidated financial condition or results of operations.

### Intra-Entity Transfers of Assets Other than Inventory

In October 2016, the FASB issued an accounting standard that will require an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than when the asset is sold to a third party.

The standard is effective on January 1, 2018, with early adoption permitted. We are assessing the impact of the standard on our reported consolidated financial condition, results of operations and cash flows.

### Interest Held through Related Parties that are under Common Control

In October 2016, the FASB issued an accounting standard that amends the consolidation analysis for a reporting entity that is the single decision maker of a VIE. The new guidance will require the decision maker's evaluation of its interests held through related parties that are under common control on a proportionate basis (rather than in their entirety) when determining whether it is the primary beneficiary of that VIE. The amendment does not change the characteristics of a primary beneficiary.

We will adopt the standard on its January 1, 2017 effective date, and do not expect the impact of the standard to have a material effect on our reported consolidated financial condition, results of operations or cash flows.

### Restricted Cash

In November 2016, the FASB issued an accounting standard that provides guidance on the presentation of restricted cash in the Statement of Cash Flows. Entities will be required to explain the changes during a reporting period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents in the statement of cash flows.

The standard is effective on January 1, 2018, with early adoption permitted. The standard addresses presentation of restricted cash in the Statement of Cash Flows only and will have no effect on our reported consolidated financial condition or results of operations.

### Clarifying the Definition of a Business

In January 2017, the FASB issued an accounting standard that changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business. The new standard will require an entity to evaluate if substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar assets; if so, the set of transferred assets and activities is not a business. At a minimum, a set must include an input and a substantive process that together significantly contribute to the ability to create output.

The standard is effective on January 1, 2018, with early adoption permitted. We are assessing the impact of early-adopting the standard on our reported consolidated financial condition, results of operations and cash flows. Because the standard requires prospective adoption, the impact is dependent on future acquisitions and dispositions.

### 3. Segment Information

We report our results of operations consistent with the manner in which our chief operating decision makers review the business to assess performance and allocate resources.

In the fourth quarter of 2016, we finalized our plan to reorganize our operating model into “modular”, more self-contained business units. Prior to the fourth quarter of 2016, we reported our results as follows:

- Commercial Insurance business included our Property Casualty operating segment;
- Consumer Insurance business included our Retirement, Life and Personal Insurance operating segments
- Corporate and Other category consisted of businesses and items not allocated to our operating segments, including United Guaranty and Institutional Markets.

We now report our results of operations as follows:

#### COMMERCIAL INSURANCE

Commercial Insurance business is presented as two operating segments:

- **Liability and Financial Lines** — Liability products include general liability, environmental, commercial automobile liability, workers’ compensation, excess casualty and crisis management insurance products. Liability also includes risk-sharing and other customized structured programs for large corporate and multinational customers. Financial Lines products include professional liability insurance for a range of businesses and risks, including directors and officers liability (D&O), fidelity, employment practices, fiduciary liability, cybersecurity risk, kidnap and ransom, and errors and omissions insurance (E&O).
- **Property and Special Risks** — Property products include commercial, industrial and energy-related property insurance products and services that cover exposures to man-made and natural disasters, including business interruption. Specialty products include aerospace, political risk, trade credit, surety and marine insurance, and various small and medium sized enterprises insurance lines.

#### CONSUMER INSURANCE

Consumer Insurance business is presented as four operating segments:

- **Individual Retirement** — consists of fixed annuities, fixed index annuities, variable annuities and retail mutual funds.
- **Group Retirement** — consists of group mutual funds, group fixed annuities, group variable annuities, individual annuity and investment products, financial planning and advisory services.
- **Life Insurance** — primary products in the U.S. include term life and universal life insurance.
- **Personal Insurance** — consists of personal auto and property insurance, voluntary and sponsor-paid personal accident and supplemental health products for individuals, employees, associations and other organizations, a broad range of travel insurance products and services for leisure and business travelers as well as extended warranty insurance covering electronics, appliances, and HVAC industries.

#### OTHER OPERATIONS

The Other Operations category consists of:

- **Institutional Markets** — consists of stable value wrap products, structured settlement and terminal funding annuities, corporate- and bank-owned life insurance and guaranteed investment contracts (GICs).
- Income from assets held by AIG Parent and other corporate subsidiaries.
- General operating expenses not attributable to specific reporting segments.
- Interest expense.
- **United Guaranty** — Mortgage insurance protects mortgage lenders and investors against the increased risk of borrower default related to high loan-to-value mortgages. The sale of this business was completed on December 31, 2016.
- **Fuji Life** — consists of term insurance, life insurance, endowment policies and annuities. On November 14, 2016, we entered into an agreement to sell our Japan life insurance business, AIG Fuji Life Insurance Company, Ltd. (AFLI), to FWD Group, the insurance arm of Pacific Century Group.

## LEGACY PORTFOLIO

The Legacy Portfolio segment consists of:

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

- **Legacy Property and Casualty Run-Off Insurance Lines** — include excess workers' compensation, asbestos and environmental exposures.
- **Legacy Life Insurance Run-Off Lines** — include whole life, long term care and exited Accident & Health product lines. Also includes certain structured settlement, terminal funding and single premium immediate annuities written prior to April 2012.
- **Legacy Investments** — include investment classes that AIG has placed into run-off (life settlements, Legacy Global Real Estate, the Direct Investment book) and equity-like securities with high yield/ high-risk characteristics.

On December 31, 2016, we completed the sale of UGC to Arch. See Note 1 for a further discussion.

In the second quarter of 2015, a United Guaranty subsidiary and certain of our property casualty companies entered into a 50 percent quota share reinsurance agreement whereby the United Guaranty subsidiary (1) ceded 50 percent of the risk relating to policies written in 2014 that were current as of January 1, 2015 and (2) ceded 50 percent of the risk relating to all policies written in 2015 and 2016, each in exchange for a 30 percent ceding commission and reimbursements of 50 percent of the losses and loss adjustment expenses incurred on covered policies. Beginning in the third quarter of 2016, the effect of this intercompany reinsurance arrangements is included in the results of Property and Special Risks and Other Operations for all periods presented. Previously, this arrangement was eliminated for purposes of segment reporting. Concurrent with the closing of the sale of UGC, we amended and restated this arrangement and expect the results of this arrangement to continue to be reported in Property and Special Risks.

Investment income of the Property Casualty Insurance Companies is attributed to the Liability and Financial Lines, Property and Special Risks and Personal Insurance operating segments based on an internal investment income allocation model. The model estimates investable funds based primarily on loss reserves and unearned premiums. Investment income of the Life Insurance Companies is attributed to the Individual Retirement, Group Retirement and Life Insurance operating segments as well as the Institutional Markets business and the Legacy Life Insurance Run-Off Lines based on invested assets in segregated product line portfolios; income from invested assets in excess of liabilities is allocated to product lines based on internal capital estimates.

We evaluate segment performance based on operating revenues and pre-tax operating income (loss). Operating revenues and pre-tax operating income (loss) is derived by excluding certain items from total revenues and net income (loss) attributable to AIG, respectively. See the table below for the items excluded from operating revenues and pre-tax operating income (loss).

## LEGAL ENTITIES

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

Property Casualty Insurance Companies include the following major operating companies: National Union Fire Insurance Company of Pittsburgh, Pa. (National Union); American Home Assurance Company (American Home); Lexington Insurance Company (Lexington); Fuji Fire and Marine Insurance Company Limited (Fuji Fire); American Home Assurance Company, Ltd. (American Home Japan); AIU Insurance Company, Ltd. (AIUI Japan); AIG Asia Pacific Insurance, Pte, Ltd.; and AIG Europe Limited.

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

The following table presents AIG's continuing operations by operating segment:

| <i>(in millions)</i>                                                                    | Total Revenues   | Net Investment Income | Interest Expense | Amortization of DAC | Pre-Tax Operating Income (Loss) |
|-----------------------------------------------------------------------------------------|------------------|-----------------------|------------------|---------------------|---------------------------------|
| <b>2016</b>                                                                             |                  |                       |                  |                     |                                 |
| <b>Commercial Insurance</b>                                                             |                  |                       |                  |                     |                                 |
| Liability and Financial Lines                                                           | \$ 13,270        | \$ 2,700              | \$ 10            | \$ 1,098            | \$ (2,649)                      |
| Property and Special Risks                                                              | 8,098            | 568                   | 7                | 951                 | (86)                            |
| <b>Total Commercial Insurance</b>                                                       | <b>21,368</b>    | <b>3,268</b>          | <b>17</b>        | <b>2,049</b>        | <b>(2,735)</b>                  |
| <b>Consumer Insurance</b>                                                               |                  |                       |                  |                     |                                 |
| Individual Retirement                                                                   | 5,758            | 3,878                 | 49               | 298                 | 2,269                           |
| Group Retirement                                                                        | 2,769            | 2,146                 | 27               | 129                 | 931                             |
| Life Insurance                                                                          | 3,818            | 1,035                 | 13               | 182                 | (37)                            |
| Personal Insurance                                                                      | 11,704           | 286                   | 11               | 2,072               | 686                             |
| <b>Total Consumer Insurance</b>                                                         | <b>24,049</b>    | <b>7,345</b>          | <b>100</b>       | <b>2,681</b>        | <b>3,849</b>                    |
| <b>Other Operations</b>                                                                 | <b>4,018</b>     | <b>770</b>            | <b>983</b>       | <b>76</b>           | <b>(748)</b>                    |
| <b>Legacy Portfolio</b>                                                                 | <b>5,250</b>     | <b>2,913</b>          | <b>260</b>       | <b>108</b>          | <b>1,007</b>                    |
| <b>AIG Consolidation and elimination</b>                                                | <b>(494)</b>     | <b>(351)</b>          | <b>(100)</b>     | <b>(117)</b>        | <b>42</b>                       |
| <b>Total AIG Consolidated operating revenues and pre-tax operating income</b>           | <b>\$ 54,191</b> | <b>\$ 13,945</b>      | <b>\$ 1,260</b>  | <b>\$ 4,797</b>     | <b>\$ 1,415</b>                 |
| <b>Reconciling Items from pre-tax operating income to pre-tax income (loss):</b>        |                  |                       |                  |                     |                                 |
| Changes in fair value of securities used to hedge guaranteed living benefits            | 120              | 120                   | -                | -                   | 120                             |
| Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains | -                | -                     | -                | (276)               | 195                             |
| Other income (expense) - net                                                            | -                | -                     | -                | -                   | 42                              |
| Loss on extinguishment of debt                                                          | -                | -                     | -                | -                   | (74)                            |
| Net realized capital gains                                                              | (1,944)          | -                     | -                | -                   | (1,944)                         |
| Income from divested businesses                                                         | -                | -                     | -                | -                   | 545                             |
| Non-operating litigation reserves and settlements                                       | 44               | -                     | -                | -                   | 41                              |
| Reserve development related to non-operating run-off insurance business                 | -                | -                     | -                | -                   | -                               |
| Net loss reserve discount benefit (charge)                                              | -                | -                     | -                | -                   | 427                             |
| Pension expense related to a one-time lump sum payment to former employees              | -                | -                     | -                | -                   | (147)                           |
| Restructuring and other costs                                                           | -                | -                     | -                | -                   | (694)                           |
| Other                                                                                   | (44)             | -                     | -                | -                   | -                               |
| <b>Revenues and Pre-tax income (loss)</b>                                               | <b>\$ 52,367</b> | <b>\$ 14,065</b>      | <b>\$ 1,260</b>  | <b>\$ 4,521</b>     | <b>\$ (74)</b>                  |
| <b>2015</b>                                                                             |                  |                       |                  |                     |                                 |
| <b>Commercial Insurance</b>                                                             |                  |                       |                  |                     |                                 |
| Liability and Financial Lines                                                           | \$ 14,684        | \$ 2,818              | \$ 5             | \$ 1,439            | \$ (661)                        |
| Property and Special Risks                                                              | 8,452            | 603                   | 3                | 910                 | 1,226                           |
| <b>Total Commercial Insurance</b>                                                       | <b>23,136</b>    | <b>3,421</b>          | <b>8</b>         | <b>2,349</b>        | <b>565</b>                      |
| <b>Consumer Insurance</b>                                                               |                  |                       |                  |                     |                                 |
| 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)                            |
| Personal Insurance                                                                      | 11,475           | 325                   | 5                | 1,970               | 68                              |
| <b>Total Consumer Insurance</b>                                                         | <b>24,530</b>    | <b>7,356</b>          | <b>54</b>        | <b>2,762</b>        | <b>2,929</b>                    |
| <b>Other Operations</b>                                                                 | <b>4,650</b>     | <b>706</b>            | <b>1,030</b>     | <b>49</b>           | <b>(567)</b>                    |
| <b>Legacy Portfolio</b>                                                                 | <b>5,771</b>     | <b>2,928</b>          | <b>280</b>       | <b>102</b>          | <b>1,133</b>                    |
| <b>AIG Consolidation and elimination</b>                                                | <b>(496)</b>     | <b>(315)</b>          | <b>(91)</b>      | <b>(26)</b>         | <b>(76)</b>                     |
| <b>Total AIG Consolidated operating revenues and pre-tax operating income</b>           | <b>\$ 57,591</b> | <b>\$ 14,096</b>      | <b>\$ 1,281</b>  | <b>\$ 5,236</b>     | <b>\$ 3,984</b>                 |



**Reconciling Items from pre-tax operating income to****pre-tax income:**

|                                                                                         |                  |                  |                 |                 |                 |
|-----------------------------------------------------------------------------------------|------------------|------------------|-----------------|-----------------|-----------------|
| Changes in fair value of securities used to hedge guaranteed living benefits            | (43)             | (43)             | -               | -               | (43)            |
| Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains | -                | -                | -               | -               | (15)            |
| Other income (expense) - net                                                            | -                | -                | -               | -               | (233)           |
| 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              |
| Reserve development related to non-operating run-off insurance business                 | -                | -                | -               | -               | (30)            |
| Net loss reserve discount benefit (charge)                                              | -                | -                | -               | -               | 71              |
| Restructuring and other costs                                                           | -                | -                | -               | -               | (496)           |
| Other                                                                                   | (43)             | -                | -               | -               | -               |
| <b>Revenues and Pre-tax income</b>                                                      | <b>\$ 58,327</b> | <b>\$ 14,053</b> | <b>\$ 1,281</b> | <b>\$ 5,236</b> | <b>\$ 3,281</b> |

**2014****Commercial Insurance**

|                                   |               |              |          |              |              |
|-----------------------------------|---------------|--------------|----------|--------------|--------------|
| Liability and Financial Lines     | \$ 16,012     | \$ 3,410     | \$ 1     | \$ 1,464     | \$ 3,044     |
| Property and Special Risks        | 8,650         | 845          | -        | 1,033        | 1,203        |
| <b>Total Commercial Insurance</b> | <b>24,662</b> | <b>4,255</b> | <b>1</b> | <b>2,497</b> | <b>4,247</b> |

**Consumer Insurance**

|                                 |               |              |           |              |              |
|---------------------------------|---------------|--------------|-----------|--------------|--------------|
| Individual Retirement           | 6,739         | 4,103        | 14        | 315          | 2,306        |
| Group Retirement                | 3,005         | 2,349        | 8         | 31           | 1,229        |
| Life Insurance                  | 3,630         | 1,100        | 4         | 221          | 290          |
| Personal Insurance              | 12,339        | 372          | 1         | 2,088        | 381          |
| <b>Total Consumer Insurance</b> | <b>25,713</b> | <b>7,924</b> | <b>27</b> | <b>2,655</b> | <b>4,206</b> |

**Other Operations**

|  |       |     |       |    |       |
|--|-------|-----|-------|----|-------|
|  | 3,596 | 749 | 1,291 | 45 | (958) |
|--|-------|-----|-------|----|-------|

**Legacy Portfolio**

|  |       |       |     |    |       |
|--|-------|-------|-----|----|-------|
|  | 7,353 | 3,245 | 390 | 81 | 2,576 |
|--|-------|-------|-----|----|-------|

**AIG Consolidation and elimination**

|  |       |       |   |     |      |
|--|-------|-------|---|-----|------|
|  | (323) | (354) | 9 | (4) | (19) |
|--|-------|-------|---|-----|------|

**Total AIG Consolidated operating revenues and pre-tax**

|                         |                  |                  |                 |                 |                  |
|-------------------------|------------------|------------------|-----------------|-----------------|------------------|
| <b>operating income</b> | <b>\$ 61,001</b> | <b>\$ 15,819</b> | <b>\$ 1,718</b> | <b>\$ 5,274</b> | <b>\$ 10,052</b> |
|-------------------------|------------------|------------------|-----------------|-----------------|------------------|

**Reconciling Items from pre-tax operating income to****pre-tax income:**

|                                                                                         |                  |                  |                 |                 |                  |
|-----------------------------------------------------------------------------------------|------------------|------------------|-----------------|-----------------|------------------|
| Changes in fair value of securities used to hedge guaranteed living benefits            | 260              | 260              | -               | -               | 260              |
| Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains | -                | -                | -               | 56              | (217)            |
| Loss on extinguishment of debt                                                          | -                | -                | -               | -               | (2,282)          |
| Net realized capital gains                                                              | 739              | -                | -               | -               | 739              |
| Loss from divested businesses                                                           | 1,602            | -                | -               | -               | 2,169            |
| Non-operating litigation reserves and settlements                                       | 804              | -                | -               | -               | 258              |
| Reserve development related to non-operating run-off insurance business                 | -                | -                | -               | -               | -                |
| Net loss reserve discount benefit (charge)                                              | -                | -                | -               | -               | (478)            |
| Restructuring and other costs                                                           | -                | -                | -               | -               | -                |
| Other                                                                                   | -                | -                | -               | -               | -                |
| <b>Revenues and Pre-tax income</b>                                                      | <b>\$ 64,406</b> | <b>\$ 16,079</b> | <b>\$ 1,718</b> | <b>\$ 5,330</b> | <b>\$ 10,501</b> |

**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 |                 |
|---------------------------------------|------------------------------|-------------------|----------------------|-----------------|
|                                       | 2016                         | 2015              | 2016                 | 2015            |
| Property Casualty Insurance Companies | \$ 118,268                   | \$ 114,134        | \$ 685               | \$ 965          |
| Life Insurance Companies              | 207,145                      | 258,003           | 85                   | 102             |
| Other                                 | 184,704                      | 136,487           | 349                  | 655             |
| AIG Consolidation and Elimination     | (11,853)                     | (11,782)          | -                    | -               |
| <b>Total Assets</b>                   | <b>\$ 498,264</b>            | <b>\$ 496,842</b> | <b>\$ 1,119</b>      | <b>\$ 1,722</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 <sup>*</sup> |                  |                  | Real Estate and Other Fixed Assets,<br>Net of Accumulated Depreciation |                 |                 |
|----------------------|-----------------------------|------------------|------------------|------------------------------------------------------------------------|-----------------|-----------------|
|                      | 2016                        | 2015             | 2014             | 2016                                                                   | 2015            | 2014            |
| U.S.                 | \$ 37,405                   | \$ 41,623        | \$ 40,291        | \$ 734                                                                 | \$ 912          | \$ 819          |
| Europe               | 4,613                       | 5,772            | 6,140            | 145                                                                    | 171             | 154             |
| Japan                | 3,636                       | 4,293            | 3,641            | 524                                                                    | 449             | 400             |
| Other                | 6,713                       | 6,639            | 14,334           | 1,257                                                                  | 1,603           | 1,327           |
| <b>Consolidated</b>  | <b>\$ 52,367</b>            | <b>\$ 58,327</b> | <b>\$ 64,406</b> | <b>\$ 2,660</b>                                                        | <b>\$ 3,135</b> | <b>\$ 2,700</b> |

\* Revenues are generally reported according to the geographic location of the reporting unit.

## 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, 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 UGC 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 UGC 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 closing with respect to United Guaranty Asia is expected to occur during the first quarter of 2017, at which time AIG will receive the remaining consideration.

#### 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 and Venezuela, as well as insurance operations in Turkey. Fairfax will also acquire renewal rights for the portfolios of local business written by our operations in Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovakia, and assume certain of our operating assets and employees. Total cash consideration to us is expected to be approximately \$240 million. The transactions are subject to obtaining the relevant regulatory approvals and other customary closing conditions.

#### AIG Fuji Life Insurance

On November 14, 2016, we entered into an agreement to sell AFLI to FWD Group, the insurance arm of Pacific Century Group. Consummation of the transaction is subject to customary closing conditions, including regulatory and other approvals. Total cash consideration to us is expected to be approximately \$346 million. The sale resulted in a pre-tax loss of \$467 million.

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.

- **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.

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.

### 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.



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 Insurance Companies.

### Long-Term Debt

The fair value of non-structured liabilities is generally determined by using market prices from exchange or dealer markets, when available, or discounting expected cash flows using the appropriate discount rate for the applicable maturity. We determine the fair value of structured liabilities and hybrid financial instruments (where performance is linked to structured interest rates, inflation or currency risks) using the appropriate derivative valuation methodology (described above) given the nature of the embedded risk profile. In addition, adjustments are made to the valuations of both non-structured and structured liabilities to reflect our own creditworthiness based on the methodology described under the caption "Incorporation of Credit Risk in Fair Value Measurements – Our Own Credit Risk" above.

Borrowings under obligations of guaranteed investment agreements (GIAs), which are guaranteed by us, are recorded at fair value using discounted cash flow calculations based on interest rates currently being offered for similar contracts and our current market observable implicit credit spread rates with maturities consistent with those remaining for the contracts being valued. Obligations may be called at various times prior to maturity at the option of the counterparty. Interest rates on these borrowings are primarily fixed, vary by maturity and range up to 7.62 percent.

### 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.

## 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, 2016                                                |                  |                   |                  | Counterparty           | Cash            |                   |
|------------------------------------------------------------------|------------------|-------------------|------------------|------------------------|-----------------|-------------------|
| <i>(in millions)</i>                                             | Level 1          | Level 2           | Level 3          | Netting <sup>(b)</sup> | Collateral      | Total             |
| <b>Assets:</b>                                                   |                  |                   |                  |                        |                 |                   |
| <b>Bonds available for sale:</b>                                 |                  |                   |                  |                        |                 |                   |
| U.S. government and government sponsored entities                | \$ 63            | \$ 1,929          | \$ -             | \$ -                   | \$ -            | \$ 1,992          |
| Obligations of states, municipalities and political subdivisions | -                | 22,732            | 2,040            | -                      | -               | 24,772            |
| Non-U.S. governments                                             | 52               | 14,466            | 17               | -                      | -               | 14,535            |
| Corporate debt                                                   | -                | 131,047           | 1,133            | -                      | -               | 132,180           |
| RMBS                                                             | -                | 20,468            | 16,906           | -                      | -               | 37,374            |
| CMBS                                                             | -                | 12,231            | 2,040            | -                      | -               | 14,271            |
| CDO/ABS                                                          | -                | 8,578             | 7,835            | -                      | -               | 16,413            |
| <b>Total bonds available for sale</b>                            | <b>115</b>       | <b>211,451</b>    | <b>29,971</b>    | <b>-</b>               | <b>-</b>        | <b>241,537</b>    |
| <b>Other bond securities:</b>                                    |                  |                   |                  |                        |                 |                   |
| U.S. government and government sponsored entities                | -                | 2,939             | -                | -                      | -               | 2,939             |
| Obligations of states, municipalities and political subdivisions | -                | -                 | -                | -                      | -               | -                 |
| Non-U.S. governments                                             | -                | 51                | -                | -                      | -               | 51                |
| Corporate debt                                                   | -                | 1,755             | 17               | -                      | -               | 1,772             |
| RMBS                                                             | -                | 420               | 1,605            | -                      | -               | 2,025             |
| CMBS                                                             | -                | 448               | 155              | -                      | -               | 603               |
| CDO/ABS                                                          | -                | 905               | 5,703            | -                      | -               | 6,608             |
| <b>Total other bond securities</b>                               | <b>-</b>         | <b>6,518</b>      | <b>7,480</b>     | <b>-</b>               | <b>-</b>        | <b>13,998</b>     |
| <b>Equity securities available for sale:</b>                     |                  |                   |                  |                        |                 |                   |
| Common stock                                                     | 1,056            | 9                 | -                | -                      | -               | 1,065             |
| Preferred stock                                                  | 752              | -                 | -                | -                      | -               | 752               |
| Mutual funds                                                     | 260              | 1                 | -                | -                      | -               | 261               |
| <b>Total equity securities available for sale</b>                | <b>2,068</b>     | <b>10</b>         | <b>-</b>         | <b>-</b>               | <b>-</b>        | <b>2,078</b>      |
| <b>Other equity securities</b>                                   | <b>482</b>       | <b>-</b>          | <b>-</b>         | <b>-</b>               | <b>-</b>        | <b>482</b>        |
| <b>Mortgage and other loans receivable</b>                       | <b>-</b>         | <b>-</b>          | <b>11</b>        | <b>-</b>               | <b>-</b>        | <b>11</b>         |
| <b>Other invested assets<sup>(a)</sup></b>                       | <b>-</b>         | <b>1</b>          | <b>204</b>       | <b>-</b>               | <b>-</b>        | <b>205</b>        |
| <b>Derivative assets:</b>                                        |                  |                   |                  |                        |                 |                   |
| Interest rate contracts                                          | -                | 2,328             | -                | -                      | -               | 2,328             |
| Foreign exchange contracts                                       | -                | 1,320             | -                | -                      | -               | 1,320             |
| Equity contracts                                                 | 188              | 59                | 58               | -                      | -               | 305               |
| Credit contracts                                                 | -                | -                 | 2                | -                      | -               | 2                 |
| Other contracts                                                  | -                | 6                 | 16               | -                      | -               | 22                |
| Counterparty netting and cash collateral                         | -                | -                 | -                | (1,265)                | (903)           | (2,168)           |
| <b>Total derivative assets</b>                                   | <b>188</b>       | <b>3,713</b>      | <b>76</b>        | <b>(1,265)</b>         | <b>(903)</b>    | <b>1,809</b>      |
| <b>Short-term investments</b>                                    | <b>2,660</b>     | <b>681</b>        | <b>-</b>         | <b>-</b>               | <b>-</b>        | <b>3,341</b>      |
| <b>Separate account assets</b>                                   | <b>77,318</b>    | <b>5,654</b>      | <b>-</b>         | <b>-</b>               | <b>-</b>        | <b>82,972</b>     |
| <b>Total</b>                                                     | <b>\$ 82,831</b> | <b>\$ 228,028</b> | <b>\$ 37,742</b> | <b>\$ (1,265)</b>      | <b>\$ (903)</b> | <b>\$ 346,433</b> |

| <b>Liabilities:</b>                                              |    |         |            |           |                                        |                    |                    |
|------------------------------------------------------------------|----|---------|------------|-----------|----------------------------------------|--------------------|--------------------|
| <b>Policyholder contract deposits</b>                            | \$ | -       | \$         | 25        | \$                                     | 3,033              | \$ - \$ - \$ 3,058 |
| <b>Other policyholder funds</b>                                  |    | 5       |            | -         |                                        | -                  | 5                  |
| <b>Derivative liabilities:</b>                                   |    |         |            |           |                                        |                    |                    |
| Interest rate contracts                                          |    | -       | 3,039      | 38        |                                        | -                  | 3,077              |
| Foreign exchange contracts                                       |    | -       | 1,358      | 11        |                                        | -                  | 1,369              |
| Equity contracts                                                 |    | 12      | 7          | -         |                                        | -                  | 19                 |
| Credit contracts                                                 |    | -       | -          | 331       |                                        | -                  | 331                |
| Other contracts                                                  |    | -       | 1          | 5         |                                        | -                  | 6                  |
| Counterparty netting and cash collateral                         |    | -       | -          | -         | (1,265)                                | (1,521)            | (2,786)            |
| <b>Total derivative liabilities</b>                              |    | 12      | 4,405      | 385       | (1,265)                                | (1,521)            | 2,016              |
| <b>Long-term debt</b>                                            |    | -       | 3,357      | 71        |                                        | -                  | 3,428              |
| <b>Other liabilities</b>                                         |    | -       | -          | -         |                                        | -                  | -                  |
| <b>Total</b>                                                     | \$ | 17      | \$ 7,787   | \$ 3,489  | \$ (1,265)                             | \$ (1,521)         | \$ 8,507           |
| <b>December 31, 2015</b>                                         |    |         |            |           |                                        |                    |                    |
| <i>(in millions)</i>                                             |    | Level 1 | Level 2    | Level 3   | Counterparty<br>Netting <sup>(b)</sup> | Cash<br>Collateral | Total              |
| <b>Assets:</b>                                                   |    |         |            |           |                                        |                    |                    |
| <b>Bonds available for sale:</b>                                 |    |         |            |           |                                        |                    |                    |
| U.S. government and government sponsored entities                | \$ | -       | \$ 1,844   | \$ -      | \$ -                                   | \$ -               | 1,844              |
| Obligations of states, municipalities and political subdivisions |    | -       | 25,199     | 2,124     |                                        | -                  | 27,323             |
| Non-U.S. governments                                             |    | 683     | 17,480     | 32        |                                        | -                  | 18,195             |
| Corporate debt                                                   |    | -       | 134,618    | 1,370     |                                        | -                  | 135,988            |
| RMBS                                                             |    | -       | 19,690     | 16,537    |                                        | -                  | 36,227             |
| CMBS                                                             |    | -       | 10,986     | 2,585     |                                        | -                  | 13,571             |
| CDO/ABS                                                          |    | -       | 8,928      | 6,169     |                                        | -                  | 15,097             |
| <b>Total bonds available for sale</b>                            |    | 683     | 218,745    | 28,817    | -                                      | -                  | 248,245            |
| <b>Other bond securities:</b>                                    |    |         |            |           |                                        |                    |                    |
| U.S. government and government sponsored entities                |    | -       | 3,369      | -         |                                        | -                  | 3,369              |
| Obligations of states, municipalities and political subdivisions |    | -       | 75         | -         |                                        | -                  | 75                 |
| Non-U.S. governments                                             |    | -       | 50         | -         |                                        | -                  | 50                 |
| Corporate debt                                                   |    | -       | 2,018      | 17        |                                        | -                  | 2,035              |
| RMBS                                                             |    | -       | 649        | 1,581     |                                        | -                  | 2,230              |
| CMBS                                                             |    | -       | 557        | 193       |                                        | -                  | 750                |
| CDO/ABS                                                          |    | -       | 1,218      | 7,055     |                                        | -                  | 8,273              |
| <b>Total other bond securities</b>                               |    | -       | 7,936      | 8,846     | -                                      | -                  | 16,782             |
| <b>Equity securities available for sale:</b>                     |    |         |            |           |                                        |                    |                    |
| Common stock                                                     |    | 2,401   | -          | -         |                                        | -                  | 2,401              |
| Preferred stock                                                  |    | 22      | -          | -         |                                        | -                  | 22                 |
| Mutual funds                                                     |    | 491     | 1          | -         |                                        | -                  | 492                |
| <b>Total equity securities available for sale</b>                |    | 2,914   | 1          | -         | -                                      | -                  | 2,915              |
| <b>Other equity securities</b>                                   |    | 906     | 1          | 14        |                                        | -                  | 921                |
| <b>Mortgage and other loans receivable</b>                       |    | -       | -          | 11        |                                        | -                  | 11                 |
| <b>Other invested assets<sup>(a)</sup></b>                       |    | 2       | 1          | 332       |                                        | -                  | 335                |
| <b>Derivative assets:</b>                                        |    |         |            |           |                                        |                    |                    |
| Interest rate contracts                                          |    | -       | 3,150      | 12        |                                        | -                  | 3,162              |
| Foreign exchange contracts                                       |    | -       | 766        | -         |                                        | -                  | 766                |
| Equity contracts                                                 |    | 91      | 32         | 54        |                                        | -                  | 177                |
| Credit contracts                                                 |    | -       | -          | 3         |                                        | -                  | 3                  |
| Other contracts                                                  |    | -       | 2          | 21        |                                        | -                  | 23                 |
| Counterparty netting and cash collateral                         |    | -       | -          | -         | (1,268)                                | (1,554)            | (2,822)            |
| <b>Total derivative assets</b>                                   |    | 91      | 3,950      | 90        | (1,268)                                | (1,554)            | 1,309              |
| <b>Short-term investments</b>                                    |    | 1,416   | 1,175      | -         |                                        | -                  | 2,591              |
| <b>Separate account assets</b>                                   |    | 73,699  | 5,875      | -         |                                        | -                  | 79,574             |
| <b>Total</b>                                                     | \$ | 79,711  | \$ 237,684 | \$ 38,110 | \$ (1,268)                             | \$ (1,554)         | \$ 352,683         |

**Liabilities:**

|                                          |    |   |    |       |    |       |    |         |    |       |    |         |
|------------------------------------------|----|---|----|-------|----|-------|----|---------|----|-------|----|---------|
| <b>Policyholder contract deposits</b>    | \$ | - | \$ | 36    | \$ | 2,289 | \$ | -       | \$ | -     | \$ | 2,325   |
| <b>Other policyholder funds</b>          |    | 6 |    | -     |    | -     |    | -       |    | -     |    | 6       |
| <b>Derivative liabilities:</b>           |    |   |    |       |    |       |    |         |    |       |    |         |
| Interest rate contracts                  |    | - |    | 2,137 |    | 62    |    | -       |    | -     |    | 2,199   |
| Foreign exchange contracts               |    | - |    | 1,197 |    | 7     |    | -       |    | -     |    | 1,204   |
| Equity contracts                         |    | - |    | 68    |    | -     |    | -       |    | -     |    | 68      |
| Credit contracts                         |    | - |    | -     |    | 508   |    | -       |    | -     |    | 508     |
| Other contracts                          |    | - |    | -     |    | 69    |    | -       |    | -     |    | 69      |
| Counterparty netting and cash collateral |    | - |    | -     |    | -     |    | (1,268) |    | (760) |    | (2,028) |
| <b>Total derivative liabilities</b>      |    | - |    | 3,402 |    | 646   |    | (1,268) |    | (760) |    | 2,020   |
| <b>Long-term debt</b>                    |    | - |    | 3,487 |    | 183   |    | -       |    | -     |    | 3,670   |
| <b>Other liabilities</b>                 |    | - |    | 62    |    | -     |    | -       |    | -     |    | 62      |
| <b>Total</b>                             | \$ | 6 | \$ | 6,987 | \$ | 3,118 | \$ | (1,268) | \$ | (760) | \$ | 8,083   |

(a) Excludes investments that are measured at fair value using the NAV per share (or its equivalent), which totaled \$6.7 billion and \$8.6 billion as of December 31, 2016 and December 31, 2015, respectively.

(b) Represents netting of derivative exposures covered by qualifying master netting agreements.

**TRANSFERS OF LEVEL 1 AND LEVEL 2 ASSETS AND LIABILITIES**

Our policy is to record transfers of assets and liabilities between Level 1 and Level 2 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. During the years ended December 31, 2016 and 2015, we transferred \$1.1 billion and \$0.7 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, 2016 and 2015, we transferred \$34 million and \$181 million, respectively, of securities issued by the U.S. government and government-sponsored entities from Level 1 to Level 2. There were no material transfers from Level 2 to Level 1 during the years ended December 31, 2016 and 2015.

**CHANGES IN LEVEL 3 RECURRING FAIR VALUE MEASUREMENTS**

The following tables present changes during the years ended December 31, 2016 and 2015 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, 2016 and 2015:

|                                                                        | Fair Value<br>Beginning<br>of Year | Net<br>Realized and<br>Unrealized       |              | Other<br>Comprehensive<br>Income (Loss) | Purchases,<br>Sales,<br>Issues and<br>Settlements, Net | Gross<br>Transfers<br>In | Gross<br>Transfers<br>Out | Reclassified<br>to Assets<br>Held<br>for Sale | Fair Value<br>End<br>of Year | Changes in<br>Unrealized Gains<br>(Losses) Included<br>in Income on<br>Instruments Held |                |
|------------------------------------------------------------------------|------------------------------------|-----------------------------------------|--------------|-----------------------------------------|--------------------------------------------------------|--------------------------|---------------------------|-----------------------------------------------|------------------------------|-----------------------------------------------------------------------------------------|----------------|
|                                                                        |                                    | Gains (Losses)<br>Included<br>in Income |              |                                         |                                                        |                          |                           |                                               |                              |                                                                                         | at End of Year |
| <i>(in millions)</i>                                                   |                                    |                                         |              |                                         |                                                        |                          |                           |                                               |                              |                                                                                         |                |
| <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                                                   | \$ (152)                 | \$ -                      | \$ -                                          | \$ 2,040                     | \$ -                                                                                    | \$ -           |
| Non-U.S. governments                                                   | 32                                 | (3)                                     | (12)         | 7                                       | 1                                                      | (5)                      | -                         | (3)                                           | 17                           | -                                                                                       | -              |
| Corporate debt                                                         | 1,370                              | (13)                                    | (42)         | (111)                                   | 920                                                    | (977)                    | (14)                      | -                                             | 1,133                        | -                                                                                       | -              |
| RMBS                                                                   | 16,537                             | 970                                     | (24)         | (878)                                   | 330                                                    | (29)                     | -                         | -                                             | 16,906                       | -                                                                                       | -              |
| CMBS                                                                   | 2,585                              | 72                                      | (132)        | (323)                                   | 23                                                     | (185)                    | -                         | -                                             | 2,040                        | -                                                                                       | -              |
| CDO/ABS                                                                | 6,169                              | 34                                      | (111)        | 1,720                                   | 23                                                     | -                        | -                         | -                                             | 7,835                        | -                                                                                       | -              |
| <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>(1,348)</b>           | <b>(14)</b>               | <b>(3)</b>                                    | <b>29,971</b>                | <b>-</b>                                                                                | <b>-</b>       |

|                                    |              |            |          |                |           |             |          |          |              |              |
|------------------------------------|--------------|------------|----------|----------------|-----------|-------------|----------|----------|--------------|--------------|
| <b>Other bond securities:</b>      |              |            |          |                |           |             |          |          |              |              |
| Corporate debt                     | 17           | -          | -        | -              | -         | -           | -        | -        | 17           | -            |
| RMBS                               | 1,581        | 43         | -        | (1)            | -         | (18)        | -        | -        | 1,605        | (24)         |
| CMBS                               | 193          | -          | -        | (38)           | -         | -           | -        | -        | 155          | (1)          |
| CDO/ABS                            | 7,055        | 271        | -        | (1,623)        | 65        | (65)        | -        | -        | 5,703        | (393)        |
| <b>Total other bond securities</b> | <b>8,846</b> | <b>314</b> | <b>-</b> | <b>(1,662)</b> | <b>65</b> | <b>(83)</b> | <b>-</b> | <b>-</b> | <b>7,480</b> | <b>(418)</b> |

|                                                   |                  |                 |                 |                   |                 |                   |                |               |                  |                 |
|---------------------------------------------------|------------------|-----------------|-----------------|-------------------|-----------------|-------------------|----------------|---------------|------------------|-----------------|
| <b>Equity securities available</b>                |                  |                 |                 |                   |                 |                   |                |               |                  |                 |
| <b>for sale:</b>                                  |                  |                 |                 |                   |                 |                   |                |               |                  |                 |
| Common stock                                      | -                | -               | -               | -                 | -               | -                 | -              | -             | -                | -               |
| <b>Total equity securities available for sale</b> | <b>-</b>         | <b>-</b>        | <b>-</b>        | <b>-</b>          | <b>-</b>        | <b>-</b>          | <b>-</b>       | <b>-</b>      | <b>-</b>         | <b>-</b>        |
| Other equity securities                           | 14               | -               | -               | (14)              | -               | -                 | -              | -             | -                | -               |
| <b>Mortgage and other loans</b>                   |                  |                 |                 |                   |                 |                   |                |               |                  |                 |
| receivable                                        | 11               | -               | -               | -                 | -               | -                 | -              | -             | 11               | -               |
| Other invested assets                             | 332              | 1               | -               | (75)              | -               | (54)              | -              | -             | 204              | 8               |
| <b>Total</b>                                      | <b>\$ 38,020</b> | <b>\$ 1,380</b> | <b>\$ (321)</b> | <b>\$ (1,275)</b> | <b>\$ 1,364</b> | <b>\$ (1,485)</b> | <b>\$ (14)</b> | <b>\$ (3)</b> | <b>\$ 37,666</b> | <b>\$ (410)</b> |

|  | 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>Issues and<br>Settlements, Net | Gross<br>Transfers<br>In | Gross<br>Transfers<br>Out | Divested<br>Businesses | Reclassified<br>to Liabilities<br>Held<br>for Sale | Fair Value<br>End<br>of Year | Changes in                                                                                  |
|--|------------------------------------|------------------------------------------------------------------------------|-----------------------------------------|--------------------------------------------------------|--------------------------|---------------------------|------------------------|----------------------------------------------------|------------------------------|---------------------------------------------------------------------------------------------|
|  |                                    |                                                                              |                                         |                                                        |                          |                           |                        |                                                    |                              | Unrealized Gains<br>(Losses) Included<br>in Income on<br>Instruments Held<br>at End of Year |

|                                                        |                 |               |             |               |             |                 |             |             |                 |               |
|--------------------------------------------------------|-----------------|---------------|-------------|---------------|-------------|-----------------|-------------|-------------|-----------------|---------------|
| <b>Liabilities:</b>                                    |                 |               |             |               |             |                 |             |             |                 |               |
| Policyholder contract deposits                         | \$ 2,289        | \$ 441        | \$ -        | \$ 303        | \$ -        | \$ -            | \$ -        | \$ -        | \$ 3,033        | \$ (5)        |
| <b>Derivative liabilities, net:</b>                    |                 |               |             |               |             |                 |             |             |                 |               |
| Interest rate contracts                                | 50              | (8)           | -           | (4)           | -           | -               | -           | -           | 38              | 6             |
| Foreign exchange contracts                             | 7               | 5             | -           | (1)           | -           | -               | -           | -           | 11              | (4)           |
| Equity contracts                                       | (54)            | (10)          | -           | 6             | -           | -               | -           | -           | (58)            | 10            |
| Commodity contracts                                    | -               | -             | -           | -             | -           | -               | -           | -           | -               | -             |
| Credit contracts                                       | 505             | (81)          | -           | (95)          | -           | -               | -           | -           | 329             | 71            |
| Other contracts                                        | 48              | (10)          | -           | (53)          | -           | 4               | -           | -           | (11)            | 128           |
| <b>Total derivative liabilities, net<sup>(a)</sup></b> | <b>556</b>      | <b>(104)</b>  | <b>-</b>    | <b>(147)</b>  | <b>-</b>    | <b>4</b>        | <b>-</b>    | <b>-</b>    | <b>309</b>      | <b>211</b>    |
| <b>Long-term debt<sup>(b)</sup></b>                    | <b>183</b>      | <b>4</b>      | <b>-</b>    | <b>(3)</b>    | <b>-</b>    | <b>(113)</b>    | <b>-</b>    | <b>-</b>    | <b>71</b>       | <b>(1)</b>    |
| <b>Total</b>                                           | <b>\$ 3,028</b> | <b>\$ 341</b> | <b>\$ -</b> | <b>\$ 153</b> | <b>\$ -</b> | <b>\$ (109)</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 3,413</b> | <b>\$ 205</b> |

| (in millions)                                                       | Fair Value<br>Beginning<br>of Year | Net<br>Realized and<br>Unrealized       |                   | Other<br>Comprehensive<br>Income (Loss) | Purchases,<br>Sales,<br>Issues and<br>Settlements, Net | Gross<br>Transfers<br>In | Gross<br>Transfers<br>Out | Fair Value<br>End<br>of Year | Changes in<br>Unrealized Gains<br>(Losses) Included<br>in Income on<br>Instruments Held<br>at End of Year |
|---------------------------------------------------------------------|------------------------------------|-----------------------------------------|-------------------|-----------------------------------------|--------------------------------------------------------|--------------------------|---------------------------|------------------------------|-----------------------------------------------------------------------------------------------------------|
|                                                                     |                                    | Gains (Losses)<br>Included<br>in Income |                   |                                         |                                                        |                          |                           |                              |                                                                                                           |
| <b>December 31, 2015</b>                                            |                                    |                                         |                   |                                         |                                                        |                          |                           |                              |                                                                                                           |
| <b>Assets:</b>                                                      |                                    |                                         |                   |                                         |                                                        |                          |                           |                              |                                                                                                           |
| <b>Bonds available for sale:</b>                                    |                                    |                                         |                   |                                         |                                                        |                          |                           |                              |                                                                                                           |
| Obligations of states, municipalities<br>and political subdivisions | \$ 2,159                           | \$ 1                                    | \$ (85)           | \$ 154                                  | \$ -                                                   | \$ (105)                 | \$ 2,124                  | \$ -                         |                                                                                                           |
| Non-U.S. governments                                                | 30                                 | -                                       | (7)               | 10                                      | -                                                      | (1)                      | 32                        | -                            |                                                                                                           |
| Corporate debt                                                      | 1,883                              | 15                                      | (109)             | (210)                                   | 1,515                                                  | (1,724)                  | 1,370                     | -                            |                                                                                                           |
| RMBS                                                                | 16,805                             | 1,052                                   | (512)             | (808)                                   | -                                                      | -                        | 16,537                    | -                            |                                                                                                           |
| CMBS                                                                | 2,696                              | 77                                      | (95)              | 118                                     | -                                                      | (211)                    | 2,585                     | -                            |                                                                                                           |
| CDO/ABS                                                             | 6,110                              | 149                                     | (258)             | 300                                     | 7                                                      | (139)                    | 6,169                     | -                            |                                                                                                           |
| <b>Total bonds available for sale</b>                               | <b>29,683</b>                      | <b>1,294</b>                            | <b>(1,066)</b>    | <b>(436)</b>                            | <b>1,522</b>                                           | <b>(2,180)</b>           | <b>28,817</b>             | <b>-</b>                     |                                                                                                           |
| <b>Other bond securities:</b>                                       |                                    |                                         |                   |                                         |                                                        |                          |                           |                              |                                                                                                           |
| Corporate debt                                                      | -                                  | -                                       | -                 | 1                                       | 16                                                     | -                        | 17                        | -                            |                                                                                                           |
| RMBS                                                                | 1,105                              | 32                                      | -                 | 460                                     | 43                                                     | (59)                     | 1,581                     | (27)                         |                                                                                                           |
| CMBS                                                                | 369                                | (3)                                     | -                 | (177)                                   | 4                                                      | -                        | 193                       | (13)                         |                                                                                                           |
| CDO/ABS                                                             | 7,449                              | 646                                     | -                 | (1,658)                                 | 698                                                    | (80)                     | 7,055                     | (87)                         |                                                                                                           |
| <b>Total other bond securities</b>                                  | <b>8,923</b>                       | <b>675</b>                              | <b>-</b>          | <b>(1,374)</b>                          | <b>761</b>                                             | <b>(139)</b>             | <b>8,846</b>              | <b>(127)</b>                 |                                                                                                           |
| <b>Equity securities available for sale:</b>                        |                                    |                                         |                   |                                         |                                                        |                          |                           |                              |                                                                                                           |
| Common stock                                                        | 1                                  | 2                                       | -                 | (3)                                     | -                                                      | -                        | -                         | -                            |                                                                                                           |
| <b>Total equity securities available for sale</b>                   | <b>1</b>                           | <b>2</b>                                | <b>-</b>          | <b>(3)</b>                              | <b>-</b>                                               | <b>-</b>                 | <b>-</b>                  | <b>-</b>                     |                                                                                                           |
| Other equity securities                                             | -                                  | (1)                                     | -                 | (7)                                     | 22                                                     | -                        | 14                        | (2)                          |                                                                                                           |
| Mortgage and other loans receivable                                 | 6                                  | -                                       | -                 | 5                                       | -                                                      | -                        | 11                        | -                            |                                                                                                           |
| Other invested assets                                               | 1,042                              | 448                                     | (510)             | (648)                                   | -                                                      | -                        | 332                       | -                            |                                                                                                           |
| <b>Total</b>                                                        | <b>\$ 39,655</b>                   | <b>\$ 2,418</b>                         | <b>\$ (1,576)</b> | <b>\$ (2,463)</b>                       | <b>\$ 2,305</b>                                        | <b>\$ (2,319)</b>        | <b>\$ 38,020</b>          | <b>\$ (129)</b>              |                                                                                                           |

| (in millions)                                           | Fair Value<br>Beginning<br>of Year | Net<br>Realized and<br>Unrealized       |             | Other<br>Comprehensive<br>Income (Loss) | Purchases,<br>Sales,<br>Issues and<br>Settlements, Net | Gross<br>Transfers<br>In | Gross<br>Transfers<br>Out | Fair Value<br>End<br>of Year | Changes in<br>Unrealized Gains<br>(Losses) Included<br>in Income on<br>Instruments Held<br>at End of Year |
|---------------------------------------------------------|------------------------------------|-----------------------------------------|-------------|-----------------------------------------|--------------------------------------------------------|--------------------------|---------------------------|------------------------------|-----------------------------------------------------------------------------------------------------------|
|                                                         |                                    | (Gains) Losses<br>Included<br>in Income |             |                                         |                                                        |                          |                           |                              |                                                                                                           |
| <b>Liabilities:</b>                                     |                                    |                                         |             |                                         |                                                        |                          |                           |                              |                                                                                                           |
| Policyholder contract deposits                          | \$ 1,509                           | \$ 315                                  | \$ -        | \$ 465                                  | \$ -                                                   | \$ -                     | \$ 2,289                  | \$ 64                        |                                                                                                           |
| <b>Derivative liabilities, net:</b>                     |                                    |                                         |             |                                         |                                                        |                          |                           |                              |                                                                                                           |
| Interest rate contracts                                 | 74                                 | -                                       | -           | (24)                                    | -                                                      | -                        | 50                        | (1)                          |                                                                                                           |
| Foreign exchange contracts                              | 8                                  | (1)                                     | -           | -                                       | -                                                      | -                        | 7                         | 1                            |                                                                                                           |
| Equity contracts                                        | (47)                               | (2)                                     | -           | (5)                                     | -                                                      | -                        | (54)                      | (3)                          |                                                                                                           |
| Credit contracts                                        | 978                                | (186)                                   | -           | (287)                                   | -                                                      | -                        | 505                       | 95                           |                                                                                                           |
| Other contracts                                         | 59                                 | (79)                                    | -           | 68                                      | -                                                      | -                        | 48                        | 76                           |                                                                                                           |
| <b>Total derivatives liabilities, net<sup>(a)</sup></b> | <b>1,072</b>                       | <b>(268)</b>                            | <b>-</b>    | <b>(248)</b>                            | <b>-</b>                                               | <b>-</b>                 | <b>556</b>                | <b>168</b>                   |                                                                                                           |
| <b>Long-term debt<sup>(b)</sup></b>                     | <b>213</b>                         | <b>(10)</b>                             | <b>-</b>    | <b>(20)</b>                             | <b>-</b>                                               | <b>-</b>                 | <b>183</b>                | <b>17</b>                    |                                                                                                           |
| <b>Total</b>                                            | <b>\$ 2,794</b>                    | <b>\$ 37</b>                            | <b>\$ -</b> | <b>\$ 197</b>                           | <b>\$ -</b>                                            | <b>\$ -</b>              | <b>\$ 3,028</b>           | <b>\$ 249</b>                |                                                                                                           |

(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, 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        |
| <b>December 31, 2015</b>             |                             |                                           |                 |          |
| <b>Assets:</b>                       |                             |                                           |                 |          |
| Bonds available for sale             | \$ 1,227                    | \$ (49)                                   | \$ 116          | \$ 1,294 |
| Other bond securities                | 44                          | 3                                         | 628             | 675      |
| Equity securities available for sale | -                           | 2                                         | -               | 2        |
| Other equity securities              | -                           | -                                         | (1)             | (1)      |
| Other invested assets                | (10)                        | 393                                       | 65              | 448      |
| <b>December 31, 2016</b>             |                             |                                           |                 |          |
| <b>Liabilities:</b>                  |                             |                                           |                 |          |
| Policyholder contract deposits       | -                           | 441                                       | -               | 441      |
| Derivative liabilities, net          | -                           | (8)                                       | (96)            | (104)    |
| Long-term debt                       | -                           | -                                         | 4               | 4        |
| <b>December 31, 2015</b>             |                             |                                           |                 |          |
| <b>Liabilities:</b>                  |                             |                                           |                 |          |
| Policyholder contract deposits       | -                           | 315                                       | -               | 315      |
| Derivative liabilities, net          | -                           | 1                                         | (269)           | (268)    |
| Long-term debt                       | -                           | -                                         | (10)            | (10)     |

The following table presents the gross components of purchases, sales, issues and settlements, net, shown above:

| <i>(in millions)</i>                                             | Purchases    | Sales        | Settlements    | Purchases,<br>Sales, Issues and<br>Settlements, Net <sup>(a)</sup> |
|------------------------------------------------------------------|--------------|--------------|----------------|--------------------------------------------------------------------|
| <b>December 31, 2016</b>                                         |              |              |                |                                                                    |
| <b>Assets:</b>                                                   |              |              |                |                                                                    |
| <b>Bonds available for sale:</b>                                 |              |              |                |                                                                    |
| Obligations of states, municipalities and political subdivisions | \$ 164       | \$ (8)       | \$ (95)        | \$ 61                                                              |
| Non-U.S. governments                                             | 13           | -            | (6)            | 7                                                                  |
| Corporate debt                                                   | 29           | (25)         | (115)          | (111)                                                              |
| RMBS                                                             | 2,635        | (81)         | (3,432)        | (878)                                                              |
| CMBS                                                             | 156          | (98)         | (381)          | (323)                                                              |
| CDO/ABS                                                          | 2,460        | (99)         | (641)          | 1,720                                                              |
| <b>Total bonds available for sale</b>                            | <b>5,457</b> | <b>(311)</b> | <b>(4,670)</b> | <b>476</b>                                                         |
| <b>Other bond securities:</b>                                    |              |              |                |                                                                    |
| Corporate debt                                                   | -            | -            | -              | -                                                                  |
| RMBS                                                             | 343          | (104)        | (240)          | (1)                                                                |
| CMBS                                                             | 53           | (86)         | (5)            | (38)                                                               |
| CDO/ABS                                                          | 69           | (458)        | (1,234)        | (1,623)                                                            |
| <b>Total other bond securities</b>                               | <b>465</b>   | <b>(648)</b> | <b>(1,479)</b> | <b>(1,662)</b>                                                     |

|                                                                                 |                 |                   |                   |                   |
|---------------------------------------------------------------------------------|-----------------|-------------------|-------------------|-------------------|
| Equity securities available for sale                                            | -               | -                 | -                 | -                 |
| Other equity securities                                                         | 14              | -                 | (28)              | (14)              |
| Mortgage and other loans receivable                                             | 1               | (2)               | 1                 | -                 |
| Other invested assets                                                           | 37              | (10)              | (102)             | (75)              |
| <b>Total assets</b>                                                             | <b>\$ 5,974</b> | <b>\$ (971)</b>   | <b>\$ (6,278)</b> | <b>\$ (1,275)</b> |
| <b>Liabilities:</b>                                                             |                 |                   |                   |                   |
| Policyholder contract deposits                                                  | \$ -            | \$ 437            | \$ (134)          | \$ 303            |
| Derivative liabilities, net                                                     | (6)             | -                 | (141)             | (147)             |
| Long-term debt <sup>(b)</sup>                                                   | -               | -                 | (3)               | (3)               |
| <b>Total liabilities</b>                                                        | <b>\$ (6)</b>   | <b>\$ 437</b>     | <b>\$ (278)</b>   | <b>\$ 153</b>     |
| <b>December 31, 2015</b>                                                        |                 |                   |                   |                   |
| <b>Assets:</b>                                                                  |                 |                   |                   |                   |
| <b>Bonds available for sale:</b>                                                |                 |                   |                   |                   |
| Obligations of states, municipalities and political subdivisions <sup>(c)</sup> | \$ 279          | \$ (37)           | \$ (88)           | \$ 154            |
| Non-U.S. governments                                                            | 18              | (1)               | (7)               | 10                |
| Corporate debt                                                                  | 221             | (60)              | (371)             | (210)             |
| RMBS                                                                            | 2,215           | (194)             | (2,829)           | (808)             |
| CMBS                                                                            | 273             | (28)              | (127)             | 118               |
| CDO/ABS                                                                         | 1,400           | (210)             | (890)             | 300               |
| <b>Total bonds available for sale</b>                                           | <b>4,406</b>    | <b>(530)</b>      | <b>(4,312)</b>    | <b>(436)</b>      |
| <b>Other bond securities:</b>                                                   |                 |                   |                   |                   |
| Corporate debt                                                                  | -               | -                 | 1                 | 1                 |
| RMBS                                                                            | 655             | (22)              | (173)             | 460               |
| CMBS                                                                            | -               | (79)              | (98)              | (177)             |
| CDO/ABS                                                                         | 242             | (380)             | (1,520)           | (1,658)           |
| <b>Total other bond securities</b>                                              | <b>897</b>      | <b>(481)</b>      | <b>(1,790)</b>    | <b>(1,374)</b>    |
| Equity securities available for sale                                            | -               | (2)               | (1)               | (3)               |
| Other equity securities                                                         | -               | -                 | (7)               | (7)               |
| Mortgage and other loans receivable                                             | 5               | -                 | -                 | 5                 |
| Other invested assets                                                           | 47              | (587)             | (108)             | (648)             |
| <b>Total assets</b>                                                             | <b>\$ 5,355</b> | <b>\$ (1,600)</b> | <b>\$ (6,218)</b> | <b>\$ (2,463)</b> |
| <b>Liabilities:</b>                                                             |                 |                   |                   |                   |
| Policyholder contract deposits                                                  | \$ -            | \$ 442            | \$ 23             | \$ 465            |
| Derivative liabilities, net                                                     | (19)            | -                 | (229)             | (248)             |
| Long-term debt <sup>(b)</sup>                                                   | -               | -                 | (20)              | (20)              |
| <b>Total liabilities</b>                                                        | <b>\$ (19)</b>  | <b>\$ 442</b>     | <b>\$ (226)</b>   | <b>\$ 197</b>     |

(a) There were no issuances during the years ended December 31, 2016 and 2015.

(b) Includes GIAs, notes, bonds, loans and mortgages payable.

(c) Purchases primarily reflect the effect of consolidating previously unconsolidated securitization vehicles.

Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3 in the tables above. As a result, the unrealized gains (losses) on instruments held at December 31, 2016 and 2015 may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable inputs (e.g., changes in unobservable long-dated volatilities).

### Transfers of Level 3 Assets and Liabilities

We record transfers of assets and liabilities into or out of Level 3 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. The Net realized and unrealized gains (losses) included in income (loss) or Other comprehensive income (loss) and as shown in the table above excludes \$188 million of net losses and \$2 million of net losses related to assets and liabilities transferred into Level 3 during 2016 and 2015, respectively, and includes \$189 million of net losses and \$36 million of net losses related to assets and liabilities transferred out of Level 3 during 2016 and 2015, respectively.

### Transfers of Level 3 Assets

During the years ended December 31, 2016 and 2015, 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, 2016 and 2015, transfers out of Level 3 assets primarily included private placement and other corporate debt, CMBS, CDO/ABS, RMBS 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, 2016 and 2015.

## 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>                                                   | Fair Value at<br>December 31,<br>2016 | Valuation<br>Technique | Unobservable Input <sup>(b)</sup>   | Range<br>(Weighted Average) |
|------------------------------------------------------------------------|---------------------------------------|------------------------|-------------------------------------|-----------------------------|
| <b>Assets:</b>                                                         |                                       |                        |                                     |                             |
| Obligations of states,<br>municipalities and<br>political subdivisions | \$ 1,248                              | Discounted cash flow   | Yield                               | 4.12% - 4.91% (4.52%)       |
| Corporate debt                                                         | 498                                   | Discounted cash flow   | Yield                               | 3.41% - 6.38% (4.90%)       |
| RMBS <sup>(a)</sup>                                                    | 17,412                                | Discounted cash flow   | Constant prepayment rate            | 3.95% - 6.54% (5.25%)       |
|                                                                        |                                       |                        | Loss severity                       | 47.51% - 80.98% (64.24%)    |
|                                                                        |                                       |                        | Constant default rate               | 3.28% - 8.64% (5.96%)       |
|                                                                        |                                       |                        | Yield                               | 3.28% - 5.87% (4.57%)       |
| CDO/ABS <sup>(a)</sup>                                                 | 4,368                                 | Discounted cash flow   | Yield                               | 3.67% - 5.85% (4.76%)       |
| CMBS                                                                   | 1,511                                 | Discounted cash flow   | Yield                               | 0.48% - 10.21% (5.34%)      |
| <b>Liabilities:</b>                                                    |                                       |                        |                                     |                             |
| Embedded 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%           |
| Indexed Life                                                           | 381                                   | Discounted cash flow   | Base lapse rate                     | 2.00% - 19.00%              |
|                                                                        |                                       |                        | Mortality rate                      | 0.00% - 40.00%              |

| <i>(in millions)</i>                                                   | Fair Value at<br>December 31,<br>2015 | Valuation<br>Technique | Unobservable Input <sup>(b)</sup>   | Range<br>(Weighted Average) |
|------------------------------------------------------------------------|---------------------------------------|------------------------|-------------------------------------|-----------------------------|
| <b>Assets:</b>                                                         |                                       |                        |                                     |                             |
| Obligations of states,<br>municipalities and<br>political subdivisions | \$ 1,217                              | Discounted cash flow   | Yield                               | 4.32% - 5.10% (4.71%)       |
| Corporate debt                                                         | 642                                   | Discounted cash flow   | Yield                               | 5.63% - 12.45% (9.04%)      |
| RMBS <sup>(a)</sup>                                                    | 17,280                                | Discounted cash flow   | Constant prepayment rate            | 0.99% - 8.95% (4.97%)       |
|                                                                        |                                       |                        | Loss severity                       | 47.21% - 79.50% (63.35%)    |
|                                                                        |                                       |                        | Constant default rate               | 3.49% - 9.04% (6.26%)       |
|                                                                        |                                       |                        | Yield                               | 3.13% - 6.14% (4.63%)       |
| CDO/ABS <sup>(a)</sup>                                                 | 3,338                                 | Discounted cash flow   | Yield                               | 3.41% - 4.98% (4.19%)       |
| CMBS                                                                   | 2,388                                 | Discounted cash flow   | Yield                               | 0.00% - 17.65% (6.62%)      |
| <b>Liabilities:</b>                                                    |                                       |                        |                                     |                             |
| Embedded derivatives<br>within Policyholder<br>contract deposits:      |                                       |                        |                                     |                             |
| GMWB                                                                   | 1,234                                 | Discounted cash flow   | Equity volatility                   | 15.00% - 50.00%             |
|                                                                        |                                       |                        | Base lapse rate                     | 1.00% - 17.00%              |
|                                                                        |                                       |                        | Dynamic lapse multiplier            | 0.20% - 25.50%              |
|                                                                        |                                       |                        | Mortality multiplier <sup>(d)</sup> | 80.00% - 104.27%            |
|                                                                        |                                       |                        | Utilization                         | 0.00% - 70.00%              |
|                                                                        |                                       |                        | Equity / interest rate correlation  | 20.00% - 40.00%             |
| Index Annuities                                                        | 715                                   | Discounted cash flow   | Lapse rate                          | 0.75% - 66.00%              |
|                                                                        |                                       |                        | Mortality multiplier <sup>(d)</sup> | 50.00% - 75.00%             |
| Indexed Life                                                           | 332                                   | Discounted cash flow   | Base lapse rate                     | 2.00% to 19.00%             |
|                                                                        |                                       |                        | Mortality rate                      | 0.00% to 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 for Guaranteed Minimum Withdrawal Benefits (GMWB).

(d) Mortality inputs are shown as multipliers of the 2012 Individual Annuity Mortality Basic table for GMWB, and the 1975-1980 Modified Basic Table for index annuities.

(e) Beginning in the third quarter of 2015, we began valuing these instruments using prices obtained from vendors and/or counterparties and discontinued use of the BET model.

The ranges of reported inputs for Obligations of states, municipalities and political subdivisions, Corporate debt, RMBS, CDO/ABS, and CMBS valued using a discounted cash flow technique consist of one standard deviation in either direction from the value-weighted average. The preceding table does not give effect to our risk management practices that might offset risks inherent in these Level 3 assets and liabilities.

### Sensitivity to Changes in Unobservable Inputs

We consider unobservable inputs to be those for which market data is not available and that are developed using the best information available to us about the assumptions that market participants would use when pricing the asset or liability. Relevant inputs vary depending on the nature of the instrument being measured at fair value. The following paragraphs provide a general description of sensitivities of significant unobservable inputs along with interrelationships between and among the significant unobservable inputs and their impact on the fair value measurements. The effect of a change in a particular assumption in the sensitivity analysis below is considered independently of changes in any other assumptions. In practice, simultaneous changes in assumptions may not always have a linear effect on the inputs discussed below. Interrelationships may also exist between observable and unobservable inputs. Such relationships have not been included in the discussion below. For each of the individual relationships described below, the inverse relationship would also generally apply.

#### Obligations of States, Municipalities and Political Subdivisions

The significant unobservable input used in the fair value measurement of certain investments in obligations of states, municipalities and political subdivisions is yield. In general, increases in the yield would decrease the fair value of investments in obligations of states, municipalities and political subdivisions.

#### Corporate Debt

Corporate debt securities included in Level 3 are primarily private placement issuances that are not traded in active markets or that are subject to transfer restrictions. Fair value measurements consider illiquidity and non-transferability. When observable price quotations are not available, fair value is determined based on discounted cash flow models using discount rates based on credit spreads, yields or price levels of publicly-traded debt of the issuer or other comparable securities, considering illiquidity and structure. The significant unobservable input used in the fair value measurement of corporate debt is the yield. The yield is affected by the market movements in credit spreads and U.S. Treasury yields. In addition, the migration in credit quality of a given security generally has a corresponding effect on the fair value measurement of the security. For example, a downward migration of credit quality would increase spreads. Holding U.S. Treasury rates constant, an increase in corporate credit spreads would decrease the fair value of corporate debt.

#### RMBS and CDO/ABS

The significant unobservable inputs used in fair value measurements of RMBS and certain CDO/ABS valued by third-party valuation service providers are constant prepayment rates (CPR), loss severity, constant default rates (CDR) and yield. A change in the assumptions used for the probability of default will generally be accompanied by a corresponding change in the assumption used for the loss severity and an inverse change in the assumption used for prepayment rates. In general, increases in CPR, loss severity, CDR and yield, in isolation, would result in a decrease in the fair value measurement. Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship between the directional change of each input is not usually linear.

#### CMBS

The significant unobservable input used in fair value measurements for CMBS is the yield. Prepayment assumptions for each mortgage pool are factored into the yield. CMBS generally feature a lower degree of prepayment risk than RMBS because commercial mortgages generally contain a penalty for prepayment. In general, increases in the yield would decrease the fair value of CMBS.



### Embedded derivatives within Policyholder contract deposits

Embedded derivatives reported within Policyholder contract deposits include guaranteed minimum withdrawal benefits (GMWB) and guaranteed minimum accumulation benefits (GMAB) within variable annuity products, and certain enhancements to interest crediting rates based on market indices within index annuities, indexed life and guaranteed investment contracts (GICs). For any given contract, assumptions for unobservable inputs vary throughout the period over which cash flows are projected for purposes of valuing the embedded derivative. The following unobservable inputs are used for valuing embedded derivatives measured at fair value:

- Long-term equity volatilities represent equity volatility beyond the period for which observable equity volatilities are available, with an emphasis on current expected market-based volatilities. Increases in assumed volatility will generally increase the fair value of both the projected cash flows from rider fees as well as the projected cash flows related to benefit payments. Therefore, the net change in the fair value of the liability may either decrease or increase, depending on the relative changes in projected rider fees and projected benefit payments.
- Equity / interest rate correlation estimates the relationship between changes in equity returns and interest rates, based on current market conditions and expected views of market participants, 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 is worth more than their underlying account value). Lapse rates are also generally assumed to be lower in periods when a surrender charge applies. Increases in assumed lapse rates will generally decrease the fair value of the liability, as fewer policyholders would persist to collect guaranteed withdrawal amounts, but in certain scenarios, increases in assumed lapse rates may increase the fair value of the liability.
- Mortality rate assumptions, which vary by age and gender, are based on company experience and include a mortality improvement assumption. Increases in assumed mortality rates will decrease the fair value of the liability, while lower mortality rate assumptions will generally increase the fair value of the liability, because guaranteed payments will be made for a longer period of time. Utilization 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. In 2016, we implemented a 100 percent utilization assumption which reflects an expectation that all policyholders who remain active in the contract (i.e., do not lapse or die) will utilize their GMWB guarantee by commencing systematic withdrawals under the terms of their contract. In 2015, we used as a utilization rate assumption representing the probability of first partial withdrawal, which varied by issue age and duration for different contract types. The impact of changes in utilization assumptions on the fair value of the liability may vary, depending on the expected timing as well as the overall rate of assumed utilization.

### Derivative liabilities – credit contracts

The significant unobservable inputs used for Derivative liabilities – credit contracts are recovery rates, diversity scores, and the weighted average life of the portfolio. AIG non-performance risk is also considered in the measurement of the liability.

An increase in recovery rates and diversity score will decrease the fair value of the liability. An increase in the weighted average life will increase the fair value measurement of the liability.

## INVESTMENTS IN CERTAIN ENTITIES CARRIED AT FAIR VALUE USING NET ASSET VALUE PER SHARE

The following table includes information related to our investments in certain other invested assets, including private equity funds, hedge funds and other alternative investments that calculate net asset value per share (or its equivalent). For these investments, which are measured at fair value on a recurring basis, we use the net asset value per share to measure fair value.

| (in millions)                     | Investment Category Includes                                                                                                                                                              | December 31, 2016                                              |                      | December 31, 2015                                              |                      |
|-----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|----------------------|----------------------------------------------------------------|----------------------|
|                                   |                                                                                                                                                                                           | Fair Value Using Net Asset Value Per Share (or its equivalent) | Unfunded Commitments | Fair Value Using Net Asset Value Per Share (or its equivalent) | Unfunded Commitments |
| <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 | \$ 1,424                                                       | \$ 750               | \$ 1,774                                                       | \$ 436               |
| Real Estate / Infrastructure      | Investments in real estate properties and infrastructure positions, including power plants and other energy generating facilities                                                         | 258                                                            | 208                  | 306                                                            | 213                  |
| 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              | 137                                                            | 31                   | 107                                                            | 41                   |
| Distressed                        | Securities of companies that are in default, under bankruptcy protection, or troubled                                                                                                     | 123                                                            | 44                   | 146                                                            | 41                   |
| Other                             | Includes multi-strategy, mezzanine, and other strategies                                                                                                                                  | 312                                                            | 215                  | 298                                                            | 239                  |
| <b>Total private equity funds</b> |                                                                                                                                                                                           | <b>2,254</b>                                                   | <b>1,248</b>         | <b>2,631</b>                                                   | <b>970</b>           |
| <b>Hedge funds :</b>              |                                                                                                                                                                                           |                                                                |                      |                                                                |                      |
| Event-driven                      | Securities of companies undergoing material structural changes, including mergers, acquisitions and other reorganizations                                                                 | 1,453                                                          | 9                    | 1,194                                                          | -                    |
| Long-short                        | Securities that the manager believes are undervalued, with corresponding short positions to hedge market risk                                                                             | 1,429                                                          | -                    | 2,978                                                          | 25                   |
| Macro                             | Investments that take long and short positions in financial instruments based on a top-down view of certain economic and capital market conditions                                        | 992                                                            | -                    | 555                                                            | -                    |
| Distressed                        | Securities of companies that are in default, under bankruptcy protection or troubled                                                                                                      | 416                                                            | 8                    | 699                                                            | 8                    |
| Emerging markets                  | Investments in the financial markets of developing countries                                                                                                                              | -                                                              | -                    | 353                                                            | -                    |
| 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                            | 197                                                            | 14                   | 167                                                            | -                    |
| <b>Total hedge funds</b>          |                                                                                                                                                                                           | <b>4,487</b>                                                   | <b>31</b>            | <b>5,946</b>                                                   | <b>33</b>            |
| <b>Total</b>                      |                                                                                                                                                                                           | <b>\$ 6,741</b>                                                | <b>\$ 1,279</b>      | <b>\$ 8,577</b>                                                | <b>\$ 1,003</b>      |

\* Certain hedge funds for the year ended December 31, 2016 were reclassified into different strategies to better align with the investments in those funds.

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, 2016, assuming average original expected lives of 10 years for the funds, 73 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, 10 percent between four and six years and 17 percent between seven and 10 years.

The hedge fund investments included above, which are carried at fair value, are generally redeemable monthly (16 percent), quarterly (37 percent), semi-annually (11 percent) and annually (36 percent), with redemption notices ranging from one day to 180 days. At December 31, 2016, investments representing approximately 72 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 2017.

## FAIR VALUE OPTION

Under the fair value option, we may elect to measure at fair value financial assets and financial liabilities that are not otherwise required to be carried at fair value. Subsequent changes in fair value for designated items are reported in earnings. We elect the fair value option for certain hybrid securities given the complexity of bifurcating the economic components associated with the embedded derivatives. Refer to Note 11 for additional information related to embedded derivatives.

Additionally, we elect the fair value option for certain alternative investments when such investments are eligible for this election. We believe this measurement basis is consistent with the applicable accounting guidance used by the respective investment company funds themselves. Refer to Note 6 herein for additional information.

The following table presents the gains or losses recorded related to the eligible instruments for which we elected the fair value option:

| Years Ended December 31,<br>(in millions) | Gain (Loss)   |               |                 |
|-------------------------------------------|---------------|---------------|-----------------|
|                                           | 2016          | 2015          | 2014            |
| <b>Assets:</b>                            |               |               |                 |
| Bond and equity securities                | \$ 447        | \$ 616        | \$ 2,099        |
| Alternative investments <sup>(a)</sup>    | 28            | 36            | 313             |
| Other, including Short-term investments   | -             | 2             | 10              |
| <b>Liabilities:</b>                       |               |               |                 |
| Long-term debt <sup>(b)</sup>             | (9)           | (38)          | (269)           |
| Other liabilities                         | -             | (3)           | (13)            |
| <b>Total gain</b>                         | <b>\$ 466</b> | <b>\$ 613</b> | <b>\$ 2,140</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. See Note 6 herein for additional information about our policies for recognition, measurement, and disclosure of interest and dividend income.

During 2016, 2015 and 2014, we recognized gains of \$22 million, and losses of \$4 million and \$32 million, respectively, attributable to the observable effect of changes in credit spreads on our own liabilities for which the fair value option was elected. We calculate the effect of these credit spread changes using discounted cash flow techniques that incorporate current market interest rates, our observable credit spreads on these liabilities and other factors that mitigate the risk of nonperformance such as cash collateral posted.

The following table presents the difference between fair values and the aggregate contractual principal amounts of mortgage and other loans receivable and long-term borrowings for which the fair value option was elected:

| <i>(in millions)</i>                | December 31, 2016 |                                 |            | December 31, 2015 |                                 |            |
|-------------------------------------|-------------------|---------------------------------|------------|-------------------|---------------------------------|------------|
|                                     | Fair Value        | Outstanding<br>Principal Amount | Difference | Fair Value        | Outstanding<br>Principal Amount | Difference |
| <b>Assets:</b>                      |                   |                                 |            |                   |                                 |            |
| Mortgage and other loans receivable | \$ 11             | \$ 8                            | \$ 3       | \$ 11             | \$ 9                            | \$ 2       |
| <b>Liabilities:</b>                 |                   |                                 |            |                   |                                 |            |
| Long-term debt*                     | \$ 3,428          | \$ 2,628                        | \$ 800     | \$ 3,670          | \$ 2,675                        | \$ 995     |

\* 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, 2016 or 2015.

## FAIR VALUE MEASUREMENTS ON A NON-RECURRING BASIS

We measure the fair value of certain assets on a non-recurring basis, generally quarterly, annually or when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. These assets include cost and equity-method investments, commercial mortgage loans, investments in life settlements, investments in real estate and other fixed assets, goodwill and other intangible assets. See Notes 6 and 7 herein for additional information about how we test various asset classes for impairment.

Information regarding the estimation of fair value for financial instruments measured at fair value on a non-recurring basis is discussed below:

- Impairments for Other investments for the periods ended December 31, 2015 and December 31, 2014, 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 of Investments in Life Settlements are measured using their fair values as determined using a discounted cash flow methodology that incorporates the best available market assumptions for mortality as well as market yields based on reported transactions. Effective December 31, 2015, AIG adopted the Society of Actuaries 2015 Valuation Basic Table (VBT) as the market mortality assumption used to measure fair value of impaired policies.

The following table presents assets measured at fair value on a non-recurring basis at the time of impairment and the related impairment charges recorded during the periods presented:

| <i>(in millions)</i>            | Assets at Fair Value<br>Non-Recurring Basis |         |          |          | Impairment Charges<br>December 31, |        |        |
|---------------------------------|---------------------------------------------|---------|----------|----------|------------------------------------|--------|--------|
|                                 | Level 1                                     | Level 2 | Level 3  | Total    | 2016                               | 2015   | 2014   |
| <b>December 31, 2016</b>        |                                             |         |          |          |                                    |        |        |
| Other investments               | \$ -                                        | \$ -    | \$ 364   | \$ 364   | \$ 76                              | \$ 189 | \$ 134 |
| Investments in life settlements | -                                           | -       | 736      | 736      | 397                                | 540    | 201    |
| Other assets                    | -                                           | -       | 2        | 2        | 19                                 | 80     | 7      |
| <b>Total</b>                    | \$ -                                        | \$ -    | \$ 1,102 | \$ 1,102 | \$ 492                             | \$ 809 | \$ 342 |
| <b>December 31, 2015</b>        |                                             |         |          |          |                                    |        |        |
| Other investments               | \$ -                                        | \$ -    | \$ 1,117 | \$ 1,117 |                                    |        |        |
| Investments in life settlements | -                                           | -       | 828      | 828      |                                    |        |        |
| Other assets                    | -                                           | -       | 129      | 129      |                                    |        |        |
| <b>Total</b>                    | \$ -                                        | \$ -    | \$ 2,074 | \$ 2,074 |                                    |        |        |

## 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 represent investments in life settlements. The fair value of investments in life settlements is determined using a discounted cash flow methodology that incorporates the best available market assumptions for longevity as well as market yields based on reported transactions. Due to the individual life nature of each investment in life settlements and the illiquidity of the existing market, significant inputs to the fair value are unobservable.
- **Cash and short-term investments:** The carrying amounts of these assets approximate fair values because of the relatively short period of time between origination and expected realization, and their limited exposure to credit risk.
- **Policyholder contract deposits associated with investment-type contracts:** Fair values for policyholder contract deposits associated with investment-type contracts not accounted for at fair value are estimated using discounted cash flow calculations based on interest rates currently being offered for similar contracts with maturities consistent with those of the contracts being valued. When no similar contracts are being offered, the discount rate is the appropriate swap rate (if available) or current risk-free interest rate consistent with the currency in which the cash flows are denominated. To determine fair value, other factors include current policyholder account values and related surrender charges and other assumptions include expectations about policyholder behavior and an appropriate risk margin.
- **Other liabilities:** The majority of Other liabilities that are financial instruments not measured at fair value represent secured financing arrangements, including repurchase agreements. The carrying amounts of these liabilities approximate fair value, because the financing arrangements are short-term and are secured by cash or other liquid collateral.
- **Long-term debt:** Fair values of these obligations were determined by reference to quoted market prices, when available and appropriate, or discounted cash flow calculations based upon our current market-observable implicit-credit-spread rates for similar types of borrowings with maturities consistent with those remaining for the debt being valued.

The following table presents the carrying amounts and estimated fair values of our financial instruments not measured at fair value and indicates the level in the fair value hierarchy of the estimated fair value measurement based on the observability of the inputs used:

| (in millions)                                                            | Estimated Fair Value |         |           |           | Carrying Value |
|--------------------------------------------------------------------------|----------------------|---------|-----------|-----------|----------------|
|                                                                          | Level 1              | Level 2 | Level 3   | Total     |                |
| <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         |

**December 31, 2015****Assets:**

|                                     |    |       |    |       |    |        |    |        |    |        |
|-------------------------------------|----|-------|----|-------|----|--------|----|--------|----|--------|
| Mortgage and other loans receivable | \$ | -     | \$ | 198   | \$ | 30,147 | \$ | 30,345 | \$ | 29,554 |
| Other invested assets               |    | -     |    | 563   |    | 2,880  |    | 3,443  |    | 4,169  |
| Short-term investments              |    | -     |    | 7,541 |    | -      |    | 7,541  |    | 7,541  |
| Cash                                |    | 1,629 |    | -     |    | -      |    | 1,629  |    | 1,629  |

**Liabilities:**

|                                                                             |  |   |  |        |  |         |  |         |  |         |
|-----------------------------------------------------------------------------|--|---|--|--------|--|---------|--|---------|--|---------|
| Policyholder contract deposits associated<br>with investment-type contracts |  | - |  | 309    |  | 117,537 |  | 117,846 |  | 108,788 |
| Other liabilities                                                           |  | - |  | 2,852  |  | -       |  | 2,852   |  | 2,852   |
| Long-term debt                                                              |  | - |  | 21,686 |  | 4,528   |  | 26,214  |  | 25,579  |

**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, 2016 or 2015.

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.



## 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     | Other-Than-<br>Temporary<br>Impairments<br>in AOCI <sup>(a)</sup> |
|------------------------------------------------------------------|------------------------------|------------------------------|-------------------------------|-------------------|-------------------------------------------------------------------|
| <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           | (31)                                                              |
| <b>Mortgage-backed, asset-backed and collateralized:</b>         |                              |                              |                               |                   |                                                                   |
| RMBS                                                             | 35,311                       | 2,541                        | (478)                         | 37,374            | 1,212                                                             |
| CMBS                                                             | 14,054                       | 409                          | (192)                         | 14,271            | 45                                                                |
| CDO/ABS                                                          | 16,315                       | 278                          | (180)                         | 16,413            | 39                                                                |
| <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>1,296</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>1,265</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>                | <b>1,697</b>                 | <b>396</b>                   | <b>(15)</b>                   | <b>2,078</b>      | <b>-</b>                                                          |
| <b>Total</b>                                                     | <b>\$ 233,938</b>            | <b>\$ 12,817</b>             | <b>\$ (3,140)</b>             | <b>\$ 243,615</b> | <b>\$ 1,265</b>                                                   |
| <b>December 31, 2015</b>                                         |                              |                              |                               |                   |                                                                   |
| <b>Bonds available for sale:</b>                                 |                              |                              |                               |                   |                                                                   |
| U.S. government and government sponsored entities                | \$ 1,698                     | \$ 155                       | \$ (9)                        | \$ 1,844          | \$ -                                                              |
| Obligations of states, municipalities and political subdivisions | 26,003                       | 1,424                        | (104)                         | 27,323            | 19                                                                |
| Non-U.S. governments                                             | 17,752                       | 805                          | (362)                         | 18,195            | -                                                                 |
| Corporate debt                                                   | 133,513                      | 6,462                        | (3,987)                       | 135,988           | (87)                                                              |
| <b>Mortgage-backed, asset-backed and collateralized:</b>         |                              |                              |                               |                   |                                                                   |
| RMBS                                                             | 33,878                       | 2,760                        | (411)                         | 36,227            | 1,326                                                             |
| CMBS                                                             | 13,139                       | 561                          | (129)                         | 13,571            | 185                                                               |
| CDO/ABS                                                          | 14,985                       | 360                          | (248)                         | 15,097            | 39                                                                |
| <b>Total mortgage-backed, asset-backed and collateralized</b>    | <b>62,002</b>                | <b>3,681</b>                 | <b>(788)</b>                  | <b>64,895</b>     | <b>1,550</b>                                                      |
| <b>Total bonds available for sale<sup>(b)</sup></b>              | <b>240,968</b>               | <b>12,527</b>                | <b>(5,250)</b>                | <b>248,245</b>    | <b>1,482</b>                                                      |
| <b>Equity securities available for sale:</b>                     |                              |                              |                               |                   |                                                                   |
| Common stock                                                     | 913                          | 1,504                        | (16)                          | 2,401             | -                                                                 |
| Preferred stock                                                  | 19                           | 3                            | -                             | 22                | -                                                                 |
| Mutual funds                                                     | 447                          | 53                           | (8)                           | 492               | -                                                                 |
| <b>Total equity securities available for sale</b>                | <b>1,379</b>                 | <b>1,560</b>                 | <b>(24)</b>                   | <b>2,915</b>      | <b>-</b>                                                          |
| <b>Total</b>                                                     | <b>\$ 242,347</b>            | <b>\$ 14,087</b>             | <b>\$ (5,274)</b>             | <b>\$ 251,160</b> | <b>\$ 1,482</b>                                                   |

(a) Represents the amount of other-than-temporary impairments recognized in Accumulated other comprehensive income. Amount includes unrealized gains and losses on impaired securities relating to changes in the fair value of such securities subsequent to the impairment measurement date.

(b) At December 31, 2016 and 2015, bonds available for sale held by us that were below investment grade or not rated totaled \$33.6 billion and \$34.9 billion, respectively.

## 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 Value          | Gross Unrealized Losses | Fair Value        | Gross Unrealized Losses | Fair Value       | Gross Unrealized Losses |
| <i>(in millions)</i>                                             |                     |                         |                   |                         |                  |                         |
| <b>December 31, 2016</b>                                         |                     |                         |                   |                         |                  |                         |
| <b>Bonds available for sale:</b>                                 |                     |                         |                   |                         |                  |                         |
| U.S. government and government sponsored entities                | \$ 720              | \$ 26                   | \$ -              | \$ -                    | \$ 720           | \$ 26                   |
| Obligations of states, municipalities and political subdivisions | 5,814               | 221                     | 231               | 33                      | 6,045            | 254                     |
| Non-U.S. governments                                             | 3,865               | 162                     | 489               | 94                      | 4,354            | 256                     |
| Corporate debt                                                   | 28,184              | 1,013                   | 6,080             | 726                     | 34,264           | 1,739                   |
| RMBS                                                             | 8,794               | 252                     | 4,045             | 226                     | 12,839           | 478                     |
| CMBS                                                             | 4,469               | 152                     | 479               | 40                      | 4,948            | 192                     |
| CDO/ABS                                                          | 5,362               | 102                     | 1,961             | 78                      | 7,323            | 180                     |
| <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>3,125</b>            |
| <b>Equity securities available for sale:</b>                     |                     |                         |                   |                         |                  |                         |
| Common stock                                                     | 125                 | 12                      | -                 | -                       | 125              | 12                      |
| Mutual funds                                                     | 64                  | 3                       | -                 | -                       | 64               | 3                       |
| <b>Total equity securities available for sale</b>                | <b>189</b>          | <b>15</b>               | <b>-</b>          | <b>-</b>                | <b>189</b>       | <b>15</b>               |
| <b>Total</b>                                                     | <b>\$ 57,397</b>    | <b>\$ 1,943</b>         | <b>\$ 13,285</b>  | <b>\$ 1,197</b>         | <b>\$ 70,682</b> | <b>\$ 3,140</b>         |
| <b>December 31, 2015</b>                                         |                     |                         |                   |                         |                  |                         |
| <b>Bonds available for sale:</b>                                 |                     |                         |                   |                         |                  |                         |
| U.S. government and government sponsored entities                | \$ 483              | \$ 9                    | \$ 1              | \$ -                    | \$ 484           | \$ 9                    |
| Obligations of states, municipalities and political subdivisions | 2,382               | 87                      | 268               | 17                      | 2,650            | 104                     |
| Non-U.S. governments                                             | 4,327               | 203                     | 832               | 159                     | 5,159            | 362                     |
| Corporate debt                                                   | 41,317              | 2,514                   | 5,428             | 1,473                   | 46,745           | 3,987                   |
| RMBS                                                             | 7,215               | 133                     | 4,318             | 278                     | 11,533           | 411                     |
| CMBS                                                             | 4,138               | 108                     | 573               | 21                      | 4,711            | 129                     |
| CDO/ABS                                                          | 7,064               | 104                     | 2,175             | 144                     | 9,239            | 248                     |
| <b>Total bonds available for sale</b>                            | <b>66,926</b>       | <b>3,158</b>            | <b>13,595</b>     | <b>2,092</b>            | <b>80,521</b>    | <b>5,250</b>            |
| <b>Equity securities available for sale:</b>                     |                     |                         |                   |                         |                  |                         |
| Common stock                                                     | 91                  | 16                      | -                 | -                       | 91               | 16                      |
| Mutual funds                                                     | 200                 | 8                       | -                 | -                       | 200              | 8                       |
| <b>Total equity securities available for sale</b>                | <b>291</b>          | <b>24</b>               | <b>-</b>          | <b>-</b>                | <b>291</b>       | <b>24</b>               |
| <b>Total</b>                                                     | <b>\$ 67,217</b>    | <b>\$ 3,182</b>         | <b>\$ 13,595</b>  | <b>\$ 2,092</b>         | <b>\$ 80,812</b> | <b>\$ 5,274</b>         |

At December 31, 2016, we held 11,225 and 113 individual fixed maturity and equity securities, respectively, that were in an unrealized loss position, of which 1,795 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, 2016 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.

## 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:

| December 31, 2016<br><i>(in millions)</i>        | Total Fixed Maturity Securities Available for Sale |                   | Fixed Maturity Securities Available for Sale in a Loss Position |                  |
|--------------------------------------------------|----------------------------------------------------|-------------------|-----------------------------------------------------------------|------------------|
|                                                  | Amortized Cost                                     | Fair Value        | Amortized Cost                                                  | Fair Value       |
| 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> |
| December 31, 2015                                |                                                    |                   |                                                                 |                  |
| Due in one year or less                          | \$ 9,176                                           | \$ 9,277          | \$ 1,122                                                        | \$ 1,103         |
| Due after one year through five years            | 47,230                                             | 49,196            | 9,847                                                           | 9,494            |
| Due after five years through ten years           | 54,120                                             | 54,459            | 22,296                                                          | 20,686           |
| Due after ten years                              | 68,440                                             | 70,418            | 26,235                                                          | 23,755           |
| Mortgage-backed, asset-backed and collateralized | 62,002                                             | 64,895            | 26,271                                                          | 25,483           |
| <b>Total</b>                                     | <b>\$ 240,968</b>                                  | <b>\$ 248,245</b> | <b>\$ 85,771</b>                                                | <b>\$ 80,521</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:

| <i>(in millions)</i>      | Years Ended December 31, |                       |                      |                       |                      |                       |
|---------------------------|--------------------------|-----------------------|----------------------|-----------------------|----------------------|-----------------------|
|                           | 2016                     |                       | 2015                 |                       | 2014                 |                       |
|                           | Gross Realized Gains     | Gross Realized Losses | Gross Realized Gains | Gross Realized Losses | Gross Realized Gains | Gross Realized Losses |
| Fixed maturity securities | \$ 801                   | \$ 800                | \$ 517               | \$ 423                | \$ 703               | \$ 118                |
| Equity securities         | 1,072                    | 15                    | 1,060                | 28                    | 135                  | 24                    |
| <b>Total</b>              | <b>\$ 1,873</b>          | <b>\$ 815</b>         | <b>\$ 1,577</b>      | <b>\$ 451</b>         | <b>\$ 838</b>        | <b>\$ 142</b>         |

For the years ended December 31, 2016, 2015 and 2014, the aggregate fair value of available for sale securities sold was \$30.2 billion, \$28.7 billion and \$25.3 billion, which resulted in net realized capital gains of \$1.1 billion, \$1.1 billion and \$0.7 billion, respectively.

## OTHER SECURITIES MEASURED AT FAIR VALUE

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>                                             | December 31, 2016 |                  | December 31, 2015 |                  |
|------------------------------------------------------------------|-------------------|------------------|-------------------|------------------|
|                                                                  | Fair Value        | Percent of Total | Fair Value        | Percent of Total |
| <b>Fixed maturity securities:</b>                                |                   |                  |                   |                  |
| U.S. government and government sponsored entities                | \$ 2,939          | 20 %             | \$ 3,369          | 19 %             |
| Obligations of states, municipalities and political subdivisions | -                 | -                | 75                | -                |
| Non-U.S. governments                                             | 51                | -                | 50                | -                |
| Corporate debt                                                   | 1,772             | 12               | 2,035             | 12               |
| <b>Mortgage-backed, asset-backed and collateralized:</b>         |                   |                  |                   |                  |
| RMBS                                                             | 2,025             | 14               | 2,230             | 13               |
| CMBS                                                             | 603               | 4                | 750               | 4                |
| CDO/ABS and other collateralized <sup>*</sup>                    | 6,608             | 47               | 8,273             | 47               |
| <b>Total mortgage-backed, asset-backed and collateralized</b>    | <b>9,236</b>      | <b>65</b>        | <b>11,253</b>     | <b>64</b>        |
| <b>Total fixed maturity securities</b>                           | <b>13,998</b>     | <b>97</b>        | <b>16,782</b>     | <b>95</b>        |
| <b>Equity securities</b>                                         | <b>482</b>        | <b>3</b>         | <b>921</b>        | <b>5</b>         |
| <b>Total</b>                                                     | <b>\$ 14,480</b>  | <b>100 %</b>     | <b>\$ 17,703</b>  | <b>100 %</b>     |

\* Includes \$421 million and \$712 million of U.S. Government agency backed ABS at December 31, 2016 and 2015, respectively.

## OTHER INVESTED ASSETS

The following table summarizes the carrying amounts of other invested assets:

| December 31,<br><i>(in millions)</i>      | 2016             | 2015             |
|-------------------------------------------|------------------|------------------|
| Alternative investments <sup>(a)(b)</sup> | \$ 13,379        | \$ 18,150        |
| Investment real estate <sup>(c)</sup>     | 6,900            | 6,579            |
| Aircraft asset investments <sup>(d)</sup> | 321              | 477              |
| Investments in life settlements           | 2,516            | 3,606            |
| All other investments                     | 1,422            | 982              |
| <b>Total</b>                              | <b>\$ 24,538</b> | <b>\$ 29,794</b> |

(a) At December 31, 2016, includes hedge funds of \$7.2 billion, private equity funds of \$5.5 billion, and affordable housing partnerships of \$625 million. At December 31, 2015, includes hedge funds of \$10.9 billion, private equity funds of \$6.5 billion, and affordable housing partnerships of \$701 million.

(b) Approximately 72 percent and 15 percent of our hedge fund portfolio is available for redemption in 2017 and 2018, respectively, an additional 7 percent will be available between 2019 and 2024.

(c) Net of accumulated depreciation of \$451 million and \$668 million in 2016 and 2015, 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 \$32 million and \$33 million at December 31, 2016 and 2015, respectively, the majority of which pertains to investments in private equity funds and hedge funds that have been in continuous unrealized loss positions for less than 12 months.

## Other Invested Assets – Equity Method Investments

We account for hedge funds, private equity funds, affordable housing partnerships and other investment partnerships using the equity method of accounting unless our interest is so minor that we may have virtually no influence over partnership operating and financial policies, or we have elected the fair value option. Under the equity method of accounting, our carrying amount generally is our share of the net asset value of the funds or the partnerships, and changes in our share of the net asset values are recorded in Net investment income with the exception of investments of AIG's 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,  |  | 2016 |         | 2015     |         | 2014 |          |
|---------------------------|--|------|---------|----------|---------|------|----------|
| <i>(in millions)</i>      |  |      |         |          |         |      |          |
| <b>Operating results:</b> |  |      |         |          |         |      |          |
| Total revenues            |  | \$   | 9,512   | \$       | 22,055  | \$   | 29,579   |
| Total expenses            |  |      | (7,361) |          | (3,898) |      | (7,828)  |
| <b>Net income</b>         |  | \$   | 2,151   | \$       | 18,157  | \$   | 21,751   |
| <b>At December 31,</b>    |  |      |         |          |         |      |          |
| <i>(in millions)</i>      |  |      |         | 2016     |         | 2015 |          |
| <b>Balance sheet:</b>     |  |      |         |          |         |      |          |
| Total assets              |  |      | \$      | 158,306  | \$      |      | 201,007  |
| Total liabilities         |  |      | \$      | (37,336) | \$      |      | (33,424) |

The following table presents the carrying amount and ownership percentage of equity method investments at December 31, 2016 and 2015:

| <i>(in millions, except percentages)</i> | 2016           |                      | 2015           |                      |
|------------------------------------------|----------------|----------------------|----------------|----------------------|
|                                          | Carrying Value | Ownership Percentage | Carrying Value | Ownership Percentage |
| Equity method investments                | \$ 10,756      | Various              | \$ 14,259      | 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 2016, 2015 and 2014, income recognized on investments in life settlements was \$453 million, \$332 million and \$407 million, respectively, and is included in Net investment income in the Consolidated Statements of Income.

The following table presents further information regarding investments in life settlements:

| <i>(dollars in millions)</i>                  | December 31, 2016   |                 |                             |
|-----------------------------------------------|---------------------|-----------------|-----------------------------|
|                                               | Number of Contracts | Carrying Value  | Face Value (Death Benefits) |
| <b>Remaining Life Expectancy of Insureds:</b> |                     |                 |                             |
| 0 – 1 year                                    | 1                   | \$ -            | \$ -                        |
| 1 – 2 years                                   | 5                   | 5               | 10                          |
| 2 – 3 years                                   | 16                  | 6               | 14                          |
| 3 – 4 years                                   | 43                  | 43              | 93                          |
| 4 – 5 years                                   | 148                 | 171             | 404                         |
| Thereafter                                    | 3,235               | 2,291           | 9,266                       |
| <b>Total</b>                                  | <b>3,448</b>        | <b>\$ 2,516</b> | <b>\$ 9,787</b>             |

Remaining life expectancy for year 0-1 references policies whose current life expectancy is less than 12 months as of the valuation date. Remaining life expectancy is not an indication of expected maturity. Actual maturity dates in any category may vary significantly (either earlier or later) from the remaining life expectancies reported above.

At December 31, 2016, management's best estimate of the life insurance premiums required to keep the investments in life settlements in force, payable in the 12 months ending December 31, 2017 and the four succeeding years ending December 31, 2021 are \$390 million, \$402 million, \$414 million, \$422 million and \$429 million, respectively.

## NET INVESTMENT INCOME

Net investment income represents income primarily from the following sources:

- Interest income and related expenses, including amortization of premiums and accretion of discounts with changes in the timing and the amount of expected principal and interest cash flows reflected in yield, as applicable.
- Dividend income from common and preferred stocks.
- 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:

| <b>Years Ended December 31,</b>                             |                  |                  |                  |
|-------------------------------------------------------------|------------------|------------------|------------------|
| <i>(in millions)</i>                                        | 2016             | 2015             | 2014             |
| Fixed maturity securities, including short-term investments | \$ 11,645        | \$ 11,332        | \$ 12,322        |
| Equity securities                                           | (5)              | 99               | 221              |
| Interest on mortgage and other loans                        | 1,526            | 1,417            | 1,272            |
| Alternative investments*                                    | 693              | 1,120            | 2,070            |
| Real estate                                                 | 150              | 181              | 110              |
| Other investments                                           | 509              | 432              | 601              |
| <b>Total investment income</b>                              | <b>14,518</b>    | <b>14,581</b>    | <b>16,596</b>    |
| <b>Investment expenses</b>                                  | <b>453</b>       | <b>528</b>       | <b>517</b>       |
| <b>Net investment income</b>                                | <b>\$ 14,065</b> | <b>\$ 14,053</b> | <b>\$ 16,079</b> |

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



## 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.

The following table presents the components of Net realized capital gains (losses):

| Years Ended December 31,<br>(in millions)      | 2016              | 2015          | 2014          |
|------------------------------------------------|-------------------|---------------|---------------|
| Sales of fixed maturity securities             | \$ 1              | \$ 94         | \$ 585        |
| Sales of equity securities <sup>(a)</sup>      | 1,057             | 1,032         | 111           |
| <b>Other-than-temporary impairments:</b>       |                   |               |               |
| Severity                                       | (15)              | (13)          | (3)           |
| Change in intent                               | (46)              | (233)         | (40)          |
| Foreign currency declines                      | (18)              | (57)          | (19)          |
| Issuer-specific credit events                  | (433)             | (348)         | (169)         |
| Adverse projected cash flows                   | (47)              | (20)          | (16)          |
| Provision for loan losses                      | 10                | (58)          | (1)           |
| Foreign exchange transactions                  | (1,226)           | 416           | 598           |
| Derivatives and hedge accounting               | (944)             | 341           | (177)         |
| Impairments on investments in life settlements | (397)             | (540)         | (201)         |
| Other <sup>(b)</sup>                           | 114               | 162           | 71            |
| <b>Net realized capital gains (losses)</b>     | <b>\$ (1,944)</b> | <b>\$ 776</b> | <b>\$ 739</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:

| (in millions)                                                                              | Years Ended<br>December 31, |                    |
|--------------------------------------------------------------------------------------------|-----------------------------|--------------------|
|                                                                                            | 2016                        | 2015               |
| <b>Increase (decrease) in unrealized appreciation (depreciation) of investments:</b>       |                             |                    |
| Fixed maturity securities                                                                  | \$ 2,019                    | \$ (9,275)         |
| Equity securities                                                                          | (1,155)                     | (929)              |
| Other investments                                                                          | (259)                       | (803)              |
| <b>Total increase (decrease) in unrealized appreciation (depreciation) of investments*</b> | <b>\$ 605</b>               | <b>\$ (11,007)</b> |

\* Excludes net unrealized gains 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).

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:

| Years Ended December 31,<br>(in millions)                                                               | 2016            | 2015            | 2014            |
|---------------------------------------------------------------------------------------------------------|-----------------|-----------------|-----------------|
| <b>Balance, beginning of year</b>                                                                       | \$ 1,747        | \$ 2,659        | \$ 3,872        |
| <b>Increases due to:</b>                                                                                |                 |                 |                 |
| Credit impairments on new securities subject to impairment losses                                       | 204             | 111             | 49              |
| Additional credit impairments on previously impaired securities                                         | 212             | 109             | 85              |
| <b>Reductions due to:</b>                                                                               |                 |                 |                 |
| Credit impaired securities fully disposed of for which there was no prior intent or requirement to sell | (296)           | (399)           | (613)           |
| Credit impaired securities for which there is a current intent or anticipated requirement to sell       | -               | 2               | -               |
| Accretion on securities previously impaired due to credit*                                              | (767)           | (735)           | (725)           |
| Divested businesses                                                                                     | (2)             | -               | -               |
| Other                                                                                                   | -               | -               | (9)             |
| <b>Balance, end of year</b>                                                                             | <b>\$ 1,098</b> | <b>\$ 1,747</b> | <b>\$ 2,659</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.

The determination that an equity security is other-than-temporarily impaired requires the judgment of management and consideration of the fundamental condition of the issuer, its near-term prospects and all the relevant facts and circumstances. In addition to the above criteria, all equity securities that have been in a continuous decline in value below cost over twelve months are impaired. We also consider circumstances of a rapid and severe market valuation decline (50 percent or more) discount to cost, in which we could not reasonably assert that the impairment period would be temporary (severity losses).

## Other Invested Assets

Our equity and cost method investments in private equity funds, hedge funds and other entities are evaluated for impairment similar to the evaluation of equity securities for impairments as discussed above. Such evaluation considers market conditions, events and volatility that may impact the recoverability of the underlying investments within these private equity funds and hedge funds and is based on the nature of the underlying investments and specific inherent risks. Such risks may evolve based on the nature of the underlying investments.

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

In general, fair value estimates for the investments in life settlements are calculated using cash flows based on medical underwriting ratings of the policies from a third-party underwriter, applied to an industry mortality table. Our mortality assumptions are based on an industry table as supplemented with proprietary data on the older age mortality of U.S. insured lives. Mortality improvement factors are applied to these assumptions based on our view of future mortality improvements likely to apply to the U.S. insured lives population. Our mortality assumptions coupled with the mortality improvement rates are used in our estimate of future net cash flows from the investments in life settlements.

Our investments in aircraft assets and real estate are periodically evaluated for recoverability whenever changes in circumstances indicate the carrying amount of an asset may be impaired. When impairment indicators are present, we compare expected investment cash flows to carrying amount. When the expected cash flows are less than the carrying amount, the investments are written down to fair value with a corresponding charge to earnings.

### Purchased Credit Impaired (PCI) Securities

We purchase certain RMBS securities that have experienced deterioration in credit quality since their issuance. We determine 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.

The following tables present information on our PCI securities, which are included in bonds available for sale:

| <i>(in millions)</i>                                     | At Date of Acquisition |
|----------------------------------------------------------|------------------------|
| Contractually required payments (principal and interest) | \$ 35,885              |
| Cash flows expected to be collected*                     | 29,314                 |
| Recorded investment in acquired securities               | 19,689                 |

\* Represents undiscounted expected cash flows, including both principal and interest.

| <i>(in millions)</i>          | December 31,<br>2016 | December 31,<br>2015 |
|-------------------------------|----------------------|----------------------|
| Outstanding principal balance | \$ 16,728            | \$ 16,871            |
| Amortized cost                | 11,987               | 12,303               |
| Fair value                    | 12,922               | 13,164               |

The following table presents activity for the accretable yield on PCI securities:

| <b>Years Ended December 31,</b>                          | 2016     | 2015     |
|----------------------------------------------------------|----------|----------|
| <i>(in millions)</i>                                     |          |          |
| <b>Balance, beginning of year</b>                        | \$ 6,846 | \$ 6,865 |
| Newly purchased PCI securities                           | 707      | 696      |
| Disposals                                                | -        | (13)     |
| Accretion                                                | (842)    | (879)    |
| Effect of changes in interest rate indices               | 39       | (251)    |
| Net reclassification from (to) non-accretable difference | 748      | 428      |
| <b>Balance, end of year</b>                              | \$ 7,498 | \$ 6,846 |

## PLEDGED INVESTMENTS

### Secured Financing and Similar Arrangements

We enter into secured financing transactions whereby certain securities are sold under agreements to repurchase (repurchase agreements), in which we transfer securities in exchange for cash, with an agreement by us to repurchase the same or substantially similar securities. 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:

| <i>(in millions)</i>                         | December 31, 2016 | December 31, 2015 |
|----------------------------------------------|-------------------|-------------------|
| Fixed maturity securities available for sale | \$ 2,389          | \$ 1,145          |
| Other bond securities, at fair value         | 1,799             | 1,740             |

At December 31, 2016 and 2015, amounts borrowed under repurchase and securities lending agreements totaled \$4.2 billion and \$2.9 billion, respectively.

The following table presents the fair value of securities pledged under our repurchase agreements by collateral type and by remaining contractual maturity:

| <i>(in millions)</i>             | Remaining Contractual Maturity of the Agreements |                  |                 |                  |                        | Total           |
|----------------------------------|--------------------------------------------------|------------------|-----------------|------------------|------------------------|-----------------|
|                                  | Overnight<br>and<br>Continuous                   | up to 30<br>days | 31 - 90<br>days | 91 - 364<br>days | 365 days<br>or greater |                 |
| <b>December 31, 2016</b>         |                                                  |                  |                 |                  |                        |                 |
| <b>Other bond securities:</b>    |                                                  |                  |                 |                  |                        |                 |
| 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> |
| <b>December 31, 2015</b>         |                                                  |                  |                 |                  |                        |                 |
| <b>Bonds available for sale:</b> |                                                  |                  |                 |                  |                        |                 |
| Non-U.S. governments             | \$ -                                             | \$ 50            | \$ -            | \$ -             | \$ -                   | \$ 50           |
| <b>Other bond securities:</b>    |                                                  |                  |                 |                  |                        |                 |
| Non-U.S. governments             | -                                                | -                | -               | 49               | -                      | 49              |
| Corporate debt                   | -                                                | 33               | 332             | 1,326            | -                      | 1,691           |
| <b>Total</b>                     | <b>\$ -</b>                                      | <b>\$ 83</b>     | <b>\$ 332</b>   | <b>\$ 1,375</b>  | <b>\$ -</b>            | <b>\$ 1,790</b> |

The following table presents the fair value of securities pledged under our securities lending agreements by collateral type and by remaining contractual maturity:

| <i>(in millions)</i>                                             | Remaining Contractual Maturity of the Agreements |               |                 |               |                     | Total           |
|------------------------------------------------------------------|--------------------------------------------------|---------------|-----------------|---------------|---------------------|-----------------|
|                                                                  | Overnight and Continuous                         | up to 30 days | 31 - 90 days    | 91 - 364 days | 365 days or greater |                 |
| <b>December 31, 2016</b>                                         |                                                  |               |                 |               |                     |                 |
| <b>Bonds available for sale:</b>                                 |                                                  |               |                 |               |                     |                 |
| 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>                                                     | <b>\$ -</b>                                      | <b>\$ 812</b> | <b>\$ 1,577</b> | <b>\$ -</b>   | <b>\$ -</b>         | <b>\$ 2,389</b> |
| <b>December 31, 2015</b>                                         |                                                  |               |                 |               |                     |                 |
| <b>Bonds available for sale:</b>                                 |                                                  |               |                 |               |                     |                 |
| Non-U.S. governments                                             | \$ -                                             | \$ -          | \$ 57           | \$ -          | \$ -                | \$ 57           |
| Corporate debt                                                   | -                                                | -             | 914             | -             | -                   | 914             |
| RMBS                                                             | -                                                | -             | -               | 124           | -                   | 124             |
| <b>Total</b>                                                     | <b>\$ -</b>                                      | <b>\$ -</b>   | <b>\$ 971</b>   | <b>\$ 124</b> | <b>\$ -</b>         | <b>\$ 1,095</b> |

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>                | December 31, 2016 | December 31, 2015 |
|-------------------------------------|-------------------|-------------------|
| Securities collateral pledged to us | \$ 1,434          | \$ 1,742          |
| Amount sold or repledged by us      | 11                | -                 |

### Insurance – Statutory and Other Deposits

Total carrying values of cash and securities deposited by our insurance subsidiaries under requirements of regulatory authorities or other insurance-related arrangements, including certain annuity-related obligations and certain reinsurance treaties, were \$4.9 billion at both December 31, 2016 and 2015.

### 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 \$114 million and \$47 million of stock in FHLBs at December 31, 2016 and 2015, respectively. In addition, our subsidiaries have pledged securities available for sale and residential loans associated with advances from FHLB, with a fair value of \$3.4 billion and \$17 million, respectively, at December 31, 2016 and securities available for sale at December 31, 2015 with a fair value of \$1.2 billion.

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 \$2.2 billion and \$2.4 billion at December 31, 2016 and 2015, respectively. This collateral primarily consists of securities of the U.S. government and government sponsored entities and generally cannot be repledged or resold by the counterparties.



Investments held in escrow accounts or otherwise subject to restriction as to their use were \$523 million, comprised of bonds available for sale and short term investments and \$439 million comprised of short term investments at December 31, 2016 and 2015, respectively.

## 7. Lending Activities

Mortgage and other loans receivable include commercial mortgages, residential mortgages, life insurance policy loans, commercial loans, and other loans and notes receivable. Commercial mortgages, residential mortgages, commercial loans, and other loans and notes receivable are carried at unpaid principal balances less allowance for credit losses and plus or minus adjustments for the accretion or amortization of discount or premium. Interest income on such loans is accrued as earned.

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>                               | December 31,<br>2016 | December 31,<br>2015 |
|----------------------------------------------------|----------------------|----------------------|
| Commercial mortgages*                              | \$ 25,042            | \$ 22,067            |
| Residential mortgages                              | 3,828                | 2,758                |
| Life insurance policy loans                        | 2,367                | 2,597                |
| Commercial loans, other loans and notes receivable | 2,300                | 2,451                |
| <b>Total mortgage and other loans receivable</b>   | <b>33,537</b>        | <b>29,873</b>        |
| <b>Allowance for credit losses</b>                 | <b>(297)</b>         | <b>(308)</b>         |
| <b>Mortgage and other loans receivable, net</b>    | <b>\$ 33,240</b>     | <b>\$ 29,565</b>     |

\* Commercial mortgages primarily represent loans for offices, apartments and retail, with exposures in New York and California representing the largest geographic concentrations (aggregating approximately 24 percent and 12 percent, respectively, at December 31, 2016, and 22 percent and 12 percent, respectively, at December 31, 2015).

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:

| <i>(in millions)</i>                      | Debt Service Coverage Ratios <sup>(a)</sup> |                 |               | Total            |
|-------------------------------------------|---------------------------------------------|-----------------|---------------|------------------|
|                                           | >1.20X                                      | 1.00X - 1.20X   | <1.00X        |                  |
| <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> |
| <b>December 31, 2015</b>                  |                                             |                 |               |                  |
| <b>Loan-to-Value Ratios<sup>(b)</sup></b> |                                             |                 |               |                  |
| Less than 65%                             | \$ 10,283                                   | \$ 1,704        | \$ 150        | \$ 12,137        |
| 65% to 75%                                | 6,361                                       | 611             | 45            | 7,017            |
| 76% to 80%                                | 1,370                                       | 169             | 81            | 1,620            |
| Greater than 80%                          | 646                                         | 226             | 421           | 1,293            |
| <b>Total commercial mortgages</b>         | <b>\$ 18,660</b>                            | <b>\$ 2,710</b> | <b>\$ 697</b> | <b>\$ 22,067</b> |

(a) The debt service coverage ratio compares a property's net operating income to its debt service payments, including principal and interest.

(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.

The following table presents the credit quality performance indicators for commercial mortgages:

| <b>December 31, 2016</b><br><i>(dollars in millions)</i> | Number<br>of<br>Loans | Class           |                 |                 |                 |                 |                 | Total <sup>(c)</sup> | Percent<br>of<br>Total \$ |
|----------------------------------------------------------|-----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|----------------------|---------------------------|
|                                                          |                       | Apartments      | Offices         | Retail          | Industrial      | Hotel           | Others          |                      |                           |
| <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                         |
| <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>                |
| <b>December 31, 2015</b>                                 |                       |                 |                 |                 |                 |                 |                 |                      |                           |
| <i>(dollars in millions)</i>                             |                       |                 |                 |                 |                 |                 |                 |                      |                           |
| <b>Credit Quality Performance Indicator:</b>             |                       |                 |                 |                 |                 |                 |                 |                      |                           |
| In good standing                                         | 830                   | \$ 3,916        | \$ 7,484        | \$ 4,809        | \$ 1,902        | \$ 2,082        | \$ 1,435        | \$ 21,628            | 98 %                      |
| Restructured <sup>(a)</sup>                              | 9                     | -               | 156             | 25              | 6               | 16              | 6               | 209                  | 1                         |
| 90 days or less delinquent                               | 1                     | -               | -               | 4               | -               | -               | -               | 4                    | -                         |
| >90 days delinquent or in<br>process of foreclosure      | 9                     | 3               | 205             | -               | 6               | -               | 12              | 226                  | 1                         |
| <b>Total<sup>(b)</sup></b>                               | <b>849</b>            | <b>\$ 3,919</b> | <b>\$ 7,845</b> | <b>\$ 4,838</b> | <b>\$ 1,914</b> | <b>\$ 2,098</b> | <b>\$ 1,453</b> | <b>\$ 22,067</b>     | <b>100 %</b>              |
| <b>Allowance for credit losses:</b>                      |                       |                 |                 |                 |                 |                 |                 |                      |                           |
| Specific                                                 |                       | \$ -            | \$ 16           | \$ 1            | \$ 6            | \$ 1            | \$ -            | \$ 24                | - %                       |
| General                                                  |                       | 35              | 47              | 29              | 8               | 15              | 13              | 147                  | 1                         |
| <b>Total allowance for credit losses</b>                 |                       | <b>\$ 35</b>    | <b>\$ 63</b>    | <b>\$ 30</b>    | <b>\$ 14</b>    | <b>\$ 16</b>    | <b>\$ 13</b>    | <b>\$ 171</b>        | <b>1 %</b>                |

(a) Loans that have been modified in troubled debt restructurings and are performing according to their restructured terms. See discussion of troubled debt restructurings below.

(b) Does not reflect allowance for credit losses.

(c) 100 percent of the commercial mortgages held at such respective dates were current as to payments of principal and interest. 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.

A significant majority of commercial mortgages in the portfolio are non-recourse loans and, accordingly, the only guarantees are for specific items that are exceptions to the non-recourse provisions. It is therefore extremely rare for us to have cause to enforce the provisions of a guarantee on a commercial real estate or mortgage loan.

The following table presents a rollforward of the changes in the allowance for credit losses on Mortgage and other loans receivable:

| Years Ended December 31,<br>(in millions)     | 2016                    |                |        | 2015                    |                |        | 2014                    |                |        |
|-----------------------------------------------|-------------------------|----------------|--------|-------------------------|----------------|--------|-------------------------|----------------|--------|
|                                               | Commercial<br>Mortgages | Other<br>Loans | Total  | Commercial<br>Mortgages | Other<br>Loans | Total  | Commercial<br>Mortgages | Other<br>Loans | Total  |
| <b>Allowance, beginning of year</b>           | \$ 171                  | \$ 137         | \$ 308 | \$ 159                  | \$ 112         | \$ 271 | \$ 201                  | \$ 111         | \$ 312 |
| Loans charged off                             | (13)                    | (2)            | (15)   | (23)                    | (6)            | (29)   | (29)                    | (39)           | (68)   |
| Recoveries of loans previously<br>charged off | 11                      | -              | 11     | 4                       | 1              | 5      | 18                      | 16             | 34     |
| <b>Net charge-offs</b>                        | (2)                     | (2)            | (4)    | (19)                    | (5)            | (24)   | (11)                    | (23)           | (34)   |
| Provision for loan losses                     | 25                      | (32)           | (7)    | 31                      | 27             | 58     | (31)                    | 23             | (8)    |
| Other                                         | -                       | -              | -      | -                       | 3              | 3      | -                       | 1              | 1      |
| <b>Allowance, end of year</b>                 | \$ 194                  | \$ 103         | \$ 297 | \$ 171                  | \$ 137         | \$ 308 | \$ 159                  | \$ 112         | \$ 271 |

\* Of the total allowance at the end of the year, \$11 million, \$24 million and \$55 million relates to individually assessed credit losses on \$280 million, \$507 million and \$192 million of commercial mortgages as of December 31, 2016, 2015 and 2014, respectively.

## TROUBLED DEBT RESTRUCTURINGS

We modify loans to optimize their returns and improve their collectability, among other things. When we undertake such a modification with a borrower that is experiencing financial difficulty and the modification involves us granting a concession to 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.

Loans that had been modified in troubled debt restructurings during the twelve-month period ended December 31, 2016 have been fully paid off. For the twelve-month period ended December 31, 2015, loans with a carrying value of \$36 million, were modified in troubled debt restructurings.

## 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 \$207 million and \$272 million at December 31, 2016 and 2015, respectively. Changes in the allowance for doubtful accounts on reinsurance assets are reflected in Policyholder benefits and losses incurred within the Consolidated Statements of Income.

The following table provides supplemental information for loss and benefit reserves, gross and net of ceded reinsurance:

| At December 31,                                                             | 2016        |                    | 2015        |                    |
|-----------------------------------------------------------------------------|-------------|--------------------|-------------|--------------------|
|                                                                             | As Reported | Net of Reinsurance | As Reported | Net of Reinsurance |
| <i>(in millions)</i>                                                        |             |                    |             |                    |
| Liability for unpaid losses and loss adjustment expenses                    | \$ (77,077) | \$ (61,545)        | \$ (74,942) | \$ (60,603)        |
| Future policy benefits for life and accident and health insurance contracts | (42,204)    | (41,140)           | (43,585)    | (42,506)           |
| Reserve for unearned premiums                                               | (19,634)    | (16,280)           | (21,318)    | (18,380)           |
| Reinsurance assets <sup>(a)</sup>                                           | 19,950      |                    | 18,356      |                    |

(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:

| <i>(in millions)</i>     | Years Ended December 31, |                  |                  |
|--------------------------|--------------------------|------------------|------------------|
|                          | 2016                     | 2015             | 2014             |
| <b>Premiums written:</b> |                          |                  |                  |
| Direct                   | \$ 33,970                | \$ 37,698        | \$ 39,375        |
| Assumed                  | 2,824                    | 2,972            | 3,399            |
| Ceded                    | (7,561)                  | (7,604)          | (8,318)          |
| <b>Net</b>               | <b>\$ 29,233</b>         | <b>\$ 33,066</b> | <b>\$ 34,456</b> |

| <b>Premiums earned:</b> |                  |                  |                  |
|-------------------------|------------------|------------------|------------------|
| Direct                  | \$ 34,869        | \$ 37,105        | \$ 38,707        |
| Assumed                 | 2,962            | 2,659            | 3,258            |
| Ceded                   | (7,284)          | (7,593)          | (8,140)          |
| <b>Net</b>              | <b>\$ 30,547</b> | <b>\$ 32,171</b> | <b>\$ 33,825</b> |

For the years ended December 31, 2016, 2015 and 2014, reinsurance recoveries, which reduced losses and loss adjustment expenses incurred, amounted to \$2.1 billion, \$4.1 billion and \$2.6 billion, respectively.

## LONG-DURATION REINSURANCE

Long-duration reinsurance is effected principally under yearly renewable term treaties. The premiums with respect to these treaties are earned over the contract period in proportion to the protection provided. Amounts recoverable from reinsurers on long-duration contracts are estimated in a manner consistent with the assumptions used for the underlying policy benefits and are presented as a component of Reinsurance assets.

The following table presents premiums for our long-duration life insurance and annuity operations:

| <b>Years Ended December 31,</b> |                 |                 |                 |
|---------------------------------|-----------------|-----------------|-----------------|
| <i>(in millions)</i>            | 2016            | 2015            | 2014            |
| Gross premiums                  | \$ 4,732        | \$ 5,240        | \$ 4,070        |
| Ceded premiums                  | (789)           | (756)           | (661)           |
| <b>Net</b>                      | <b>\$ 3,943</b> | <b>\$ 4,484</b> | <b>\$ 3,409</b> |

Long-duration reinsurance recoveries, which reduced Policyholder benefits and losses incurred, were approximately \$1.0 billion for both of the years ended December 31, 2016 and 2015, and \$731 million for the year ended December 31, 2014.

The following table presents long-duration insurance in-force ceded to other insurance companies:

| <b>At December 31,</b>                 |            |            |            |
|----------------------------------------|------------|------------|------------|
| <i>(in millions)</i>                   | 2016       | 2015       | 2014       |
| Long-duration insurance in force ceded | \$ 174,363 | \$ 177,025 | \$ 180,178 |

Long-duration insurance in-force assumed represented 0.03 percent of gross long-duration insurance in-force at December 31, 2016, and 0.04 percent at both December 31, 2015 and 2014; and premiums assumed represented 3 percent, 0.1 percent and 0.5 percent of gross premiums for the years ended December 31, 2016, 2015 and 2014, respectively.

The U.S. Life Insurance 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 Insurance 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 Insurance Companies obtains letters of credit to support statutory recognition of the ceded reinsurance. As of December 31, 2016, this subsidiary had two bilateral letters of credit totaling \$450 million, which were issued on February 7, 2014 and expire on February 7, 2020. The letters of credit are subject to reimbursement by AIG Parent in the event of a drawdown. See Note 19 for additional information on the use of affiliated reinsurance for Regulation XXX and Guideline AXXX reserves.

## REINSURANCE SECURITY

Our third-party reinsurance arrangements do not relieve us from our direct obligations to our beneficiaries. Thus, a credit exposure exists with respect to both short-duration and long-duration reinsurance ceded to the extent that any reinsurer fails to meet the obligations assumed under any reinsurance agreement. We hold substantial collateral as security under related reinsurance agreements in the form of funds, securities, and/or letters of credit. A provision has been recorded for estimated unrecoverable reinsurance. We believe that no exposure to a single reinsurer represents an inappropriate concentration of credit risk to AIG. Gross

reinsurance assets with our three largest reinsurers aggregate to approximately \$8.2 billion and \$6.5 billion at December 31, 2016 and 2015, respectively, of which approximately \$4.4 billion and \$3.7 billion at December 31, 2016 and 2015, respectively, was not secured by collateral.

## 9. Deferred Policy Acquisition Costs

Deferred policy acquisition costs (DAC) represent those costs that are incremental and directly related to the successful acquisition of new or renewal of existing insurance contracts. We defer incremental costs that result directly from, and are essential to, the acquisition or renewal of an insurance contract. Such deferred policy acquisition costs generally include agent or broker commissions and bonuses, premium taxes, and medical and inspection fees that would not have been incurred if the insurance contract had not been acquired or renewed. Each cost is analyzed to assess whether it is fully deferrable. We partially defer costs, including certain commissions, when we do not believe that the entire cost is directly related to the acquisition or renewal of insurance contracts.

We also defer a portion of employee total compensation and payroll-related fringe benefits directly related to time spent performing specific acquisition or renewal activities, including costs associated with the time spent on underwriting, policy issuance and processing, and sales force contract selling. The amounts deferred are derived based on successful efforts for each distribution channel and/or cost center from which the cost originates.

**Short-duration insurance contracts:** Policy acquisition costs are deferred and amortized over the period in which the related premiums written are earned, generally 12 months. DAC is grouped consistent with the manner in which the insurance contracts are acquired, serviced and measured for profitability and is reviewed for recoverability based on the profitability of the underlying insurance contracts. Investment income is anticipated in assessing the recoverability of DAC. We assess the recoverability of DAC on an annual basis or more frequently if circumstances indicate an impairment may have occurred. This assessment is performed by comparing recorded net unearned premiums and anticipated investment income on in-force 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 asset growth above or below long-term annual rate assumptions impact the growth assumption applied to the five-year period subsequent to the current balance sheet date. The reversion to the mean methodology allows us to maintain our long-term growth assumptions, while also giving consideration to the effect of actual investment performance. When actual performance significantly deviates from the annual long-term growth assumption, as evidenced by growth assumptions in the five-year reversion to the mean period falling below a certain rate (floor) or above a certain rate (cap) for a sustained period, judgment may be applied to revise or “unlock” the growth rate assumptions to be used for both the five-year reversion to the mean period as well as the long-term annual growth assumption applied to subsequent periods.

**Shadow DAC and Shadow Loss Recognition:** DAC related to investment-oriented products is also adjusted to reflect the effect of unrealized gains or losses on fixed maturity and equity securities available for sale on estimated gross profits, with related changes recognized through Other comprehensive income (shadow DAC). The adjustment is made at each balance sheet date, as if the securities had been sold at their stated aggregate fair value and the proceeds reinvested at current yields. Similarly, for long-duration traditional insurance contracts, if the assets supporting the liabilities maintain a temporary net unrealized gain position at the balance sheet date, loss recognition testing assumptions are updated to exclude such gains from future cash flows by reflecting the impact of reinvestment rates on future yields. If a future loss is anticipated under this basis, any additional shortfall indicated by loss recognition tests is recognized as a reduction in accumulated other 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,<br>(in millions)              | 2016      |               | 2015      |         | 2014      |         |
|--------------------------------------------------------|-----------|---------------|-----------|---------|-----------|---------|
| <b>Balance, beginning of year</b>                      | <b>\$</b> | <b>11,115</b> | <b>\$</b> | 9,828   | <b>\$</b> | 9,436   |
| Dispositions                                           |           | (110)         |           | -       |           | -       |
| Acquisition costs deferred                             |           | 5,216         |           | 5,825   |           | 5,919   |
| Amortization expense                                   |           | (4,521)       |           | (5,236) |           | (5,330) |
| Change in net unrealized gains (losses) on securities  |           | (259)         |           | 848     |           | (360)   |
| Other, including foreign exchange                      |           | 72            |           | (150)   |           | 163     |
| Reclassified to Assets held for sale                   |           | (471)         |           | -       |           | -       |
| <b>Balance, end of year*</b>                           | <b>\$</b> | <b>11,042</b> | <b>\$</b> | 11,115  | <b>\$</b> | 9,828   |
| <b>Supplemental Information:</b>                       |           |               |           |         |           |         |
| VOBA amortization expense included in DAC amortization |           | 40            |           | 64      |           | 17      |
| VOBA, end of year included in DAC balance              |           | 393           |           | 453     |           | 510     |

\* Net of reductions in DAC of \$842 million, \$583 million, and \$1.4 billion at December 31, 2016, 2015 and 2014, 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, 2016 expected to be amortized in 2017 through 2021 by year is: 8.6 percent, 7.9 percent, 7.2 percent, 6.8 percent and 6.2 percent, respectively, with 63.3 percent being amortized after five years.

These projections are based on current estimates for investment income and spreads, persistency, mortality and morbidity assumptions.

DAC, VOBA and SIA for insurance-oriented and investment-oriented products are reviewed for recoverability, which involves estimating the future profitability of current business. This review involves significant management judgment. If actual future 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:

| <i>(in millions)</i>                | Real Estate<br>and<br>Investment<br>Entities <sup>(c)</sup> | Securitization<br>Vehicles | Structured<br>Investment<br>Vehicle | Affordable<br>Housing<br>Partnerships | Other         | Total            |
|-------------------------------------|-------------------------------------------------------------|----------------------------|-------------------------------------|---------------------------------------|---------------|------------------|
| <b>December 31, 2016</b>            |                                                             |                            |                                     |                                       |               |                  |
| <b>Assets:</b>                      |                                                             |                            |                                     |                                       |               |                  |
| Bonds available for sale            | \$ -                                                        | \$ 10,233                  | \$ -                                | \$ -                                  | \$ -          | \$ 10,233        |
| Other bond securities               | -                                                           | 4,858                      | 266                                 | -                                     | 5             | 5,129            |
| Mortgage and other loans receivable | 1                                                           | 1,442                      | -                                   | -                                     | 104           | 1,547            |
| Other invested assets               | 1,052                                                       | 321                        | -                                   | 2,821                                 | 28            | 4,222            |
| Other <sup>(a)</sup>                | 365                                                         | 1,104                      | 50                                  | 384                                   | 92            | 1,995            |
| <b>Total assets<sup>(b)</sup></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                      | \$ 444                                                      | \$ 771                     | \$ 56                               | \$ 1,696                              | \$ 6          | \$ 2,973         |
| Other <sup>(d)</sup>                | 224                                                         | 203                        | 1                                   | 211                                   | 38            | 677              |
| <b>Total liabilities</b>            | <b>\$ 668</b>                                               | <b>\$ 974</b>              | <b>\$ 57</b>                        | <b>\$ 1,907</b>                       | <b>\$ 44</b>  | <b>\$ 3,650</b>  |
| <b>December 31, 2015</b>            |                                                             |                            |                                     |                                       |               |                  |
| <b>Assets:</b>                      |                                                             |                            |                                     |                                       |               |                  |
| Bonds available for sale            | \$ -                                                        | \$ 10,309                  | \$ -                                | \$ -                                  | \$ 15         | \$ 10,324        |
| Other bond securities               | -                                                           | 5,756                      | 387                                 | -                                     | 24            | 6,167            |
| Mortgage and other loans receivable | 1                                                           | 1,960                      | -                                   | -                                     | 132           | 2,093            |
| Other invested assets               | 489                                                         | 477                        | -                                   | 2,608                                 | 24            | 3,598            |
| Other <sup>(a)</sup>                | 29                                                          | 1,349                      | 94                                  | 293                                   | 159           | 1,924            |
| <b>Total assets<sup>(b)</sup></b>   | <b>\$ 519</b>                                               | <b>\$ 19,851</b>           | <b>\$ 481</b>                       | <b>\$ 2,901</b>                       | <b>\$ 354</b> | <b>\$ 24,106</b> |

**Liabilities:**

|                          |           |           |           |              |           |           |           |              |           |           |           |              |
|--------------------------|-----------|-----------|-----------|--------------|-----------|-----------|-----------|--------------|-----------|-----------|-----------|--------------|
| Long-term debt           | \$        | -         | \$        | 1,025        | \$        | 53        | \$        | 1,513        | \$        | 6         | \$        | 2,597        |
| Other <sup>(d)</sup>     |           | 34        |           | 236          |           | 1         |           | 214          |           | 71        |           | 556          |
| <b>Total liabilities</b> | <b>\$</b> | <b>34</b> | <b>\$</b> | <b>1,261</b> | <b>\$</b> | <b>54</b> | <b>\$</b> | <b>1,727</b> | <b>\$</b> | <b>77</b> | <b>\$</b> | <b>3,153</b> |

(a) Comprised primarily of Short-term investments and Other assets at December 31, 2016 and 2015.

(b) The assets of each VIE can be used only to settle specific obligations of that VIE.

(c) At December 31, 2016 and 2015, off-balance sheet exposure primarily consisting of commitments to real estate and investment entities was \$106 million and \$131 million, respectively.

(d) Comprised primarily of Other liabilities and Derivative liabilities, at fair value, at December 31, 2016 and 2015.

We calculate our maximum exposure to loss to be (i) the amount invested in the debt or equity of the VIE, (ii) the notional amount of VIE assets or liabilities where we have also provided credit protection to the VIE with the VIE as the referenced obligation, and (iii) other commitments and guarantees to the VIE. Interest holders in VIEs sponsored by us generally have recourse only to the assets and cash flows of the VIEs and do not have recourse to us, except in limited circumstances when we have provided a guarantee to the VIE's interest holders.

**The following table presents total assets of unconsolidated VIEs in which we hold a variable interest, as well as our maximum exposure to loss associated with these VIEs:**

| <i>(in millions)</i>                               | Total VIE Assets  | Maximum Exposure to Loss        |                      | Total            |
|----------------------------------------------------|-------------------|---------------------------------|----------------------|------------------|
|                                                    |                   | On-Balance Sheet <sup>(a)</sup> | Off-Balance Sheet    |                  |
| <b>December 31, 2016</b>                           |                   |                                 |                      |                  |
| Real estate and investment entities <sup>(d)</sup> | \$ 409,087        | \$ 11,015                       | \$ 2,115             | \$ 13,130        |
| Affordable housing partnerships                    | 4,709             | 785                             | -                    | 785              |
| Other                                              | 2,869             | 314                             | 1,045 <sup>(b)</sup> | 1,359            |
| <b>Total<sup>(c)</sup></b>                         | <b>\$ 416,665</b> | <b>\$ 12,114</b>                | <b>\$ 3,160</b>      | <b>\$ 15,274</b> |
| <b>December 31, 2015</b>                           |                   |                                 |                      |                  |
| Real estate and investment entities <sup>(d)</sup> | \$ 21,951         | \$ 3,072                        | \$ 398               | \$ 3,470         |
| Affordable housing partnerships                    | 5,255             | 774                             | -                    | 774              |
| Other                                              | 1,110             | 215                             | 1,000 <sup>(b)</sup> | 1,215            |
| <b>Total</b>                                       | <b>\$ 28,316</b>  | <b>\$ 4,061</b>                 | <b>\$ 1,398</b>      | <b>\$ 5,459</b>  |

(a) At December 31, 2016 and 2015, \$11.7 billion and \$3.8 billion, respectively, of our total unconsolidated VIE assets were recorded as Other invested assets.

(b) These amounts represent our estimate of the maximum exposure to loss under certain insurance policies issued to VIEs if a hypothetical loss occurred to the extent of the full amount of the insured value. Our insurance policies cover defined risks and our estimate of liability is included in our insurance reserves on the balance sheet.

(c) As discussed in Note 2, on January 1, 2016, we adopted accounting guidance that resulted in an increase in the number of our investment entities classified as VIEs.

(d) Comprised primarily of hedge funds and private equity funds.

## 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 \$18.0 billion, of which \$17.3 billion represents amounts owed to Parent or its subsidiaries.

## STRUCTURED INVESTMENT VEHICLE

We sponsor Nightingale Finance Ltd., a structured investment vehicle (SIV), which is a VIE. Nightingale Finance Ltd. primarily invests in variable rate, investment-grade debt securities, the majority of which are ABS. We have no equity interest in the SIV, but we maintain the power to direct the activities of the SIV that most significantly impact the entity's economic performance and bear the obligation to absorb economic losses that could potentially be significant to the SIV. We are the primary beneficiary and consolidate the SIV.

## AFFORDABLE HOUSING PARTNERSHIPS

SunAmerica Affordable Housing Partners, Inc. (SAAHP) organized and invested in limited partnerships that develop and operate affordable housing qualifying for federal, state, and historic tax credits, in addition to a few market rate properties across the United States. The operating partnerships are VIEs, whose debt is generally non-recourse in nature, and the general partners of which are mostly unaffiliated third-party developers. We account for our investments in operating partnerships using the equity method of accounting, unless they are required to be consolidated. We consolidate an operating partnership if the general partner is an affiliated entity or we otherwise have the power to direct activities that most significantly impact the entities' economic performance. The pre-tax income of SAAHP is reported as a component of the Consumer Insurance segment.

## RMBS, CMBS, OTHER ABS AND CDOs

Primarily through our insurance operations, we are a passive investor in RMBS, CMBS, other ABS and CDOs, the majority of which are issued by domestic special purpose entities. We generally do not sponsor or transfer assets to, or act as the servicer to these asset-backed structures, and were not involved in the design of these entities.

Our maximum exposure in these types of structures is limited to our investment in securities issued by these entities. Based on the nature of our investments and our passive involvement in these types of structures, we have determined that we are not the primary beneficiary of these entities. We have not included these entities in the above tables; however, the fair values of our investments in these structures are reported in Notes 5 and 6 herein.

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## 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. 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. See Notes 5 and 14 herein for additional information on embedded derivatives.

The following table presents the notional amounts of our derivatives and the fair value of derivative assets and liabilities in the Consolidated Balance Sheets:

| (in millions)                                                           | December 31, 2016       |                 |                              |                 | December 31, 2015       |                 |                              |                 |
|-------------------------------------------------------------------------|-------------------------|-----------------|------------------------------|-----------------|-------------------------|-----------------|------------------------------|-----------------|
|                                                                         | Gross Derivative Assets |                 | Gross Derivative Liabilities |                 | Gross Derivative Assets |                 | Gross Derivative Liabilities |                 |
|                                                                         | Notional<br>Amount      | Fair<br>Value   | Notional<br>Amount           | Fair<br>Value   | Notional<br>Amount      | Fair<br>Value   | Notional<br>Amount           | Fair<br>Value   |
| <b>Derivatives designated as hedging instruments:<sup>(a)</sup></b>     |                         |                 |                              |                 |                         |                 |                              |                 |
| Interest rate contracts                                                 | \$ 175                  | \$ -            | \$ 782                       | \$ 11           | \$ 301                  | \$ 1            | \$ 725                       | \$ 2            |
| Foreign exchange contracts                                              | 3,527                   | 385             | 2,602                        | 184             | 2,903                   | 207             | 914                          | 56              |
| Equity contracts                                                        | -                       | -               | 113                          | 7               | -                       | -               | 121                          | 23              |
| <b>Derivatives not designated as hedging instruments:<sup>(a)</sup></b> |                         |                 |                              |                 |                         |                 |                              |                 |
| Interest rate contracts                                                 | 51,030                  | 2,328           | 44,211                       | 3,066           | 45,846                  | 3,161           | 65,733                       | 2,197           |
| Foreign exchange contracts                                              | 9,468                   | 935             | 7,674                        | 1,185           | 9,472                   | 559             | 8,900                        | 1,148           |
| Equity contracts                                                        | 14,060                  | 305             | 8,633                        | 12              | 6,656                   | 177             | 5,028                        | 45              |
| Commodity contracts                                                     | -                       | -               | -                            | -               | -                       | -               | -                            | -               |
| Credit contracts <sup>(b)</sup>                                         | 4                       | 2               | 861                          | 331             | 4                       | 3               | 1,289                        | 508             |
| Other contracts <sup>(c)</sup>                                          | 37,633                  | 22              | 62                           | 6               | 37,586                  | 23              | 203                          | 69              |
| <b>Total derivatives, gross</b>                                         | <b>\$ 115,897</b>       | <b>\$ 3,977</b> | <b>\$ 64,938</b>             | <b>\$ 4,802</b> | <b>\$ 102,768</b>       | <b>\$ 4,131</b> | <b>\$ 82,913</b>             | <b>\$ 4,048</b> |
| <b>Counterparty netting<sup>(d)</sup></b>                               |                         | <b>(1,265)</b>  |                              | <b>(1,265)</b>  |                         | <b>(1,268)</b>  |                              | <b>(1,268)</b>  |
| <b>Cash collateral<sup>(e)</sup></b>                                    |                         | <b>(903)</b>    |                              | <b>(1,521)</b>  |                         | <b>(1,554)</b>  |                              | <b>(760)</b>    |
| <b>Total derivatives on consolidated balance sheets<sup>(f)</sup></b>   |                         | <b>\$ 1,809</b> |                              | <b>\$ 2,016</b> |                         | <b>\$ 1,309</b> |                              | <b>\$ 2,020</b> |

(a) Fair value amounts are shown before the effects of counterparty netting adjustments and offsetting cash collateral.

(b) As of December 31, 2016 and 2015, included CDSs on super senior multi-sector CDOs with a net notional amount of \$0.8 billion and \$1.1 billion (fair value liability of \$308 million and \$483 million), respectively. The expected weighted average maturity as of December 31, 2016 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, 2016 and 2015, 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, 2016 and December 31, 2015. Fair value of liabilities related to bifurcated Embedded derivatives was \$3.1 billion and \$2.3 billion, respectively, at December 31, 2016 and December 31, 2015. A bifurcated Embedded derivative is generally presented with the host contract in the Consolidated Balance Sheets. Embedded derivatives are primarily related to guarantee features in variable annuity products, which include equity and interest rate components.

## COLLATERAL

We engage in derivative transactions that are not subject to a clearing requirement directly with unaffiliated third parties, in most cases, under International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements. Many of the ISDA Master Agreements also include Credit Support Annex (CSA) provisions, which provide for collateral postings that may vary at various ratings and threshold levels. We attempt to reduce our risk with certain counterparties by entering into agreements that enable collateral to be obtained from a counterparty on an upfront or contingent basis. We minimize the risk that counterparties might be unable to fulfill their contractual obligations by monitoring counterparty credit exposure and collateral value and generally requiring additional collateral to be posted upon the occurrence of certain events or circumstances. In addition, certain derivative transactions have provisions that require collateral to be posted upon a downgrade of our long-term debt ratings or give the counterparty the right to terminate the transaction. In the case of some of the derivative transactions, upon a downgrade of our long-term debt ratings, as an alternative to posting collateral and subject to certain conditions, we may assign the transaction to an obligor with higher debt ratings or arrange for a substitute guarantee of our obligations by an obligor with higher debt ratings or take other similar action. The actual amount of collateral required to be posted to counterparties in the event of such downgrades, or the aggregate amount of payments that we could be required to make, depends on market conditions, the fair value of outstanding affected transactions and other factors prevailing at and after the time of the downgrade.

Collateral posted by us to third parties for derivative transactions was \$4.5 billion and \$3.0 billion at December 31, 2016 and 2015, 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 \$1.5 billion

and \$1.6 billion at December 31, 2016 and 2015, 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, 2016, 2015, and 2014 we recognized gains of \$123 million, \$90 million and \$156 million, respectively, included in Change in foreign currency translation adjustment in Other comprehensive income related to the net investment hedge relationships.

A qualitative methodology is utilized to assess hedge effectiveness for net investment hedges, while regression analysis is employed for all other hedges.

**The following table presents the gain (loss) recognized in earnings on our derivative instruments in fair value hedging relationships in the Consolidated Statements of Income:**

| <i>(in millions)</i>                               | Gains/(Losses) Recognized in Earnings for: |              | Including Gains/(Losses) Attributable to: |                     |                      |
|----------------------------------------------------|--------------------------------------------|--------------|-------------------------------------------|---------------------|----------------------|
|                                                    | Hedging Derivatives <sup>(a)</sup>         | Hedged Items | Hedge Ineffectiveness                     | Excluded Components | Other <sup>(b)</sup> |
| <b>Year ended December 31, 2016</b>                |                                            |              |                                           |                     |                      |
| <b>Interest rate contracts:</b>                    |                                            |              |                                           |                     |                      |
| Realized capital gains/(losses)                    | \$ (7)                                     | \$ 1         | \$ 1                                      | \$ -                | (7)                  |
| Interest credited to policyholder account balances | -                                          | -            | -                                         | -                   | -                    |
| 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 account balances | -                                          | -            | -                                         | -                   | -                    |
| Other income                                       | -                                          | 24           | -                                         | -                   | 24                   |
| Gain/(Loss) on extinguishment of debt              | -                                          | -            | -                                         | -                   | -                    |
| <b>Equity contracts:</b>                           |                                            |              |                                           |                     |                      |
| Realized capital gains/(losses)                    | 10                                         | (11)         | -                                         | (1)                 | -                    |



**Year ended December 31, 2015****Interest rate contracts:**

|                                                    |    |   |    |    |    |   |    |   |    |    |
|----------------------------------------------------|----|---|----|----|----|---|----|---|----|----|
| Realized capital gains                             | \$ | - | \$ | 1  | \$ | 1 | \$ | - | \$ | -  |
| Interest credited to policyholder account balances |    | - |    | -  |    | - |    | - |    | -  |
| Other income                                       |    | - |    | 9  |    | - |    | - |    | 9  |
| Gain/(Loss) on extinguishment of debt              |    | - |    | 14 |    | - |    | - |    | 14 |

**Foreign exchange contracts:**

|                                                    |  |     |  |       |  |   |  |    |  |     |
|----------------------------------------------------|--|-----|--|-------|--|---|--|----|--|-----|
| Realized capital gains                             |  | 202 |  | (167) |  | - |  | 32 |  | 3   |
| Interest credited to policyholder account balances |  | -   |  | (1)   |  | - |  | -  |  | (1) |
| Other income                                       |  | -   |  | 17    |  | - |  | -  |  | 17  |
| Gain/(Loss) on extinguishment of debt              |  | -   |  | 17    |  | - |  | -  |  | 17  |

**Equity contracts:**

|                                 |  |      |  |    |  |   |  |   |  |   |
|---------------------------------|--|------|--|----|--|---|--|---|--|---|
| Realized capital gains/(losses) |  | (45) |  | 45 |  | - |  | - |  | - |
|---------------------------------|--|------|--|----|--|---|--|---|--|---|

**Year ended December 31, 2014****Interest rate contracts:**

|                                                    |    |   |    |     |    |   |    |   |    |     |
|----------------------------------------------------|----|---|----|-----|----|---|----|---|----|-----|
| Realized capital gains/(losses)                    | \$ | 1 | \$ | (2) | \$ | - | \$ | - | \$ | (1) |
| Interest credited to policyholder account balances |    | - |    | (1) |    | - |    | - |    | (1) |
| Other income                                       |    | - |    | 43  |    | - |    | - |    | 43  |
| Gain/(Loss) on extinguishment of debt              |    | - |    | 164 |    | - |    | - |    | 164 |

**Foreign exchange contracts:**

|                                                    |  |       |  |     |  |   |  |   |  |     |
|----------------------------------------------------|--|-------|--|-----|--|---|--|---|--|-----|
| Realized capital gains/(losses)                    |  | (129) |  | 147 |  | - |  | 8 |  | 10  |
| Interest credited to policyholder account balances |  | -     |  | (3) |  | - |  | - |  | (3) |
| Other income                                       |  | -     |  | 23  |  | - |  | - |  | 23  |
| Gain/(Loss) on extinguishment of debt              |  | -     |  | 2   |  | - |  | - |  | 2   |

**Equity contracts:**

|                                 |  |      |  |    |  |   |  |     |  |   |
|---------------------------------|--|------|--|----|--|---|--|-----|--|---|
| Realized capital gains/(losses) |  | (23) |  | 22 |  | - |  | (1) |  | - |
|---------------------------------|--|------|--|----|--|---|--|-----|--|---|

(a) The amounts presented do not include the periodic net coupon settlements of the derivative contract or the coupon income (expense) related to the hedged item.

(b) Represents accretion/amortization of opening fair value of the hedged item at inception of hedge relationship, amortization of basis adjustment on hedged item following the discontinuation of hedge accounting, and the release of debt basis adjustment following the repurchase of issued debt that was part of previously-discontinued fair value hedge relationship.

**DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS**

The following table presents the effect of derivative instruments not designated as hedging instruments in the Consolidated Statements of Income:

| Years Ended December 31,<br>(in millions) | Gains (Losses)<br>Recognized in Earnings |               |               |
|-------------------------------------------|------------------------------------------|---------------|---------------|
|                                           | 2016                                     | 2015          | 2014          |
| <b>By Derivative Type:</b>                |                                          |               |               |
| Interest rate contracts                   | \$ (229)                                 | \$ 339        | \$ 851        |
| Foreign exchange contracts                | 293                                      | 416           | 309           |
| Equity contracts                          | (902)                                    | (182)         | (274)         |
| Commodity contracts                       | -                                        | (1)           | (1)           |
| Credit contracts                          | 81                                       | 186           | 263           |
| Other contracts                           | 80                                       | 69            | 192           |
| Embedded derivatives                      | (48)                                     | 49            | (841)         |
| <b>Total</b>                              | <b>\$ (725)</b>                          | <b>\$ 876</b> | <b>\$ 499</b> |

**By Classification:**

|                                           |           |              |           |            |           |            |
|-------------------------------------------|-----------|--------------|-----------|------------|-----------|------------|
| Policy fees                               | \$        | 80           | \$        | 78         | \$        | -          |
| Net investment income                     |           | 26           |           | 26         |           | 102        |
| Net realized capital gains (losses)       |           | (895)        |           | 365        |           | (219)      |
| Other income                              |           | 63           |           | 401        |           | 599        |
| Policyholder benefits and claims incurred |           | 1            |           | 6          |           | 17         |
| <b>Total</b>                              | <b>\$</b> | <b>(725)</b> | <b>\$</b> | <b>876</b> | <b>\$</b> | <b>499</b> |

**CREDIT RISK-RELATED CONTINGENT FEATURES**

The aggregate fair value of our derivative instruments that contain credit risk-related contingent features that were in a net liability position at December 31, 2016 and 2015, was approximately \$3.0 billion and \$2.0 billion, respectively. The aggregate fair value of assets posted as collateral under these contracts at December 31, 2016 and 2015, was approximately \$4.0 billion and \$2.1 billion, respectively.

We estimate that at December 31, 2016, based on our outstanding financial derivative transactions, a downgrade of our long-term senior debt ratings to BBB+, 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 \$106 million.

Additional collateral postings upon downgrade are estimated based on the factors in the individual collateral posting provisions of the CSA with each counterparty and current exposure as of December 31, 2016. Factors considered in estimating the termination payments upon downgrade include current market conditions and the terms of the respective CSA provisions. Our estimates are also based on the assumption that counterparties will terminate based on their net exposure to us. The actual termination payments could differ from our estimates given market conditions at the time of downgrade and the level of uncertainty in estimating both the number of counterparties who may elect to exercise their right to terminate and the payment that may be triggered in connection with any such exercise.

**HYBRID SECURITIES WITH EMBEDDED CREDIT DERIVATIVES**

We invest in hybrid securities (such as credit-linked notes) with the intent of generating income, and not specifically to acquire exposure to embedded derivative risk. As is the case with our other investments in RMBS, CMBS, CDOs and ABS, our investments in these hybrid securities are exposed to losses only up to the amount of our initial investment in the hybrid security. Other than our initial investment in the hybrid securities, we have no further obligation to make payments on the embedded credit derivatives in the related hybrid securities.

We elect to account for our investments in these hybrid securities with embedded written credit derivatives at fair value, with changes in fair value recognized in Net investment income and Other income. Our investments in these hybrid securities are reported as Other bond securities in the Consolidated Balance Sheets. The fair values of these hybrid securities were \$4.8 billion and \$5.7 billion at December 31, 2016 and 2015, respectively. These securities have par amounts of \$10.1 billion and \$11.2 billion at December 31, 2016 and 2015, 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, 2016, as a result of the 2016 segment changes, goodwill is reported within our Commercial Insurance business – Liability and Financial Lines and our Property and Special Risks operating segments, our Consumer Insurance business – Life Insurance and Personal Insurance operating segments and our Legacy Portfolio operating segment. When a business is transferred from one reporting unit to another, as occurred as part of the 2016 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 such, at December 31, 2016, \$132 million of goodwill was re-allocated from the original reporting units to Legacy Property and Casualty Run-Off Insurance Lines and Legacy Life Insurance Run-Off Lines reporting units in the amount of \$75 million and \$57 million, respectively.

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, 2016 based on the results of the goodwill impairment test.

The following table presents the changes in goodwill by operating segment:

| <i>(in millions)</i>                 | Liability and<br>Financial Lines | Property and<br>Special Risks | Life<br>Insurance | Personal<br>Insurance | Other<br>Operations | Legacy<br>Portfolio | Total           |
|--------------------------------------|----------------------------------|-------------------------------|-------------------|-----------------------|---------------------|---------------------|-----------------|
| <b>Balance at January 1, 2014:</b>   |                                  |                               |                   |                       |                     |                     |                 |
| Goodwill - gross                     | \$ 1,675                         | \$ 623                        | \$ -              | \$ 2,472              | \$ -                | \$ 182              | \$ 4,952        |
| Accumulated impairments              | (797)                            | (392)                         | -                 | (2,211)               | -                   | (77)                | (3,477)         |
| <b>Net goodwill</b>                  | <b>878</b>                       | <b>231</b>                    | <b>-</b>          | <b>261</b>            | <b>-</b>            | <b>105</b>          | <b>1,475</b>    |
| <b>Increase (decrease) due to:</b>   |                                  |                               |                   |                       |                     |                     |                 |
| Acquisition                          | -                                | -                             | 21                | -                     | 7                   | -                   | 28              |
| Other                                | (49)                             | -                             | -                 | -                     | -                   | -                   | (49)            |
| <b>Balance at December 31, 2014:</b> |                                  |                               |                   |                       |                     |                     |                 |
| Goodwill - gross                     | 1,626                            | 623                           | 21                | 2,472                 | 7                   | 182                 | 4,931           |
| Accumulated impairments              | (797)                            | (392)                         | -                 | (2,211)               | -                   | (77)                | (3,477)         |
| <b>Net goodwill</b>                  | <b>829</b>                       | <b>231</b>                    | <b>21</b>         | <b>261</b>            | <b>7</b>            | <b>105</b>          | <b>1,454</b>    |
| <b>Increase (decrease) due to:</b>   |                                  |                               |                   |                       |                     |                     |                 |
| Acquisition                          | -                                | 96                            | 55                | -                     | 20                  | 37                  | 208             |
| Other                                | (50)                             | -                             | 1                 | -                     | -                   | -                   | (49)            |
| <b>Balance at December 31, 2015:</b> |                                  |                               |                   |                       |                     |                     |                 |
| Goodwill - gross                     | 1,576                            | 719                           | 77                | 2,472                 | 27                  | 219                 | 5,090           |
| Accumulated impairments              | (797)                            | (392)                         | -                 | (2,211)               | -                   | (77)                | (3,477)         |
| <b>Net goodwill</b>                  | <b>779</b>                       | <b>327</b>                    | <b>77</b>         | <b>261</b>            | <b>27</b>           | <b>142</b>          | <b>1,613</b>    |
| <b>Increase (decrease) due to:</b>   |                                  |                               |                   |                       |                     |                     |                 |
| Dispositions                         | -                                | (12)                          | -                 | -                     | -                   | -                   | (12)            |
| Other                                | (137)                            | 67                            | -                 | -                     | -                   | (3)                 | (73)            |
| <b>Balance at December 31, 2016:</b> |                                  |                               |                   |                       |                     |                     |                 |
| Goodwill - gross                     | <b>1,439</b>                     | <b>774</b>                    | <b>77</b>         | <b>2,472</b>          | <b>27</b>           | <b>216</b>          | <b>5,005</b>    |
| Accumulated impairments              | <b>(797)</b>                     | <b>(392)</b>                  | <b>-</b>          | <b>(2,211)</b>        | <b>-</b>            | <b>(77)</b>         | <b>(3,477)</b>  |
| <b>Net goodwill</b>                  | <b>\$ 642</b>                    | <b>\$ 382</b>                 | <b>\$ 77</b>      | <b>\$ 261</b>         | <b>\$ 27</b>        | <b>\$ 139</b>       | <b>\$ 1,528</b> |

## 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 \$12.8 billion and \$12.6 billion at December 31, 2016 and 2015, 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, 2016 and 2015, we held collateral of approximately \$9.7 billion and \$9.6 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,<br>(in millions)                                                                                   | 2016             | 2015      | 2014      |
|-----------------------------------------------------------------------------------------------------------------------------|------------------|-----------|-----------|
| Liability for unpaid loss and loss adjustment expenses, beginning of year                                                   | \$ 74,942        | \$ 77,260 | \$ 81,547 |
| Reinsurance recoverable                                                                                                     | (14,339)         | (15,648)  | (17,231)  |
| <b>Net Liability for unpaid loss and loss adjustment expenses, beginning of year</b>                                        | <b>60,603</b>    | 61,612    | 64,316    |
| Foreign exchange effect                                                                                                     | (463)            | (1,429)   | (1,061)   |
| Dispositions <sup>(a)</sup>                                                                                                 | (1,058)          | -         | -         |
| Changes in net liability for unpaid losses and loss adjustment expenses due to retroactive asbestos reinsurance transaction | -                | 20        | 141       |
| <b>Total</b>                                                                                                                | <b>59,082</b>    | 60,203    | 63,396    |
| <b>Losses and loss adjustment expenses incurred:</b>                                                                        |                  |           |           |
| Current year                                                                                                                | 20,232           | 20,308    | 21,279    |
| Prior years, excluding discount                                                                                             | 5,788            | 4,119     | 703       |
| Prior years, discount charge (benefit)                                                                                      | (422)            | (71)      | 478       |
| <b>Total losses and loss adjustment expenses incurred</b>                                                                   | <b>25,598</b>    | 24,356    | 22,460    |
| <b>Losses and loss adjustment expenses paid :</b>                                                                           |                  |           |           |
| Current year                                                                                                                | (5,825)          | (5,751)   | (6,358)   |
| Prior years                                                                                                                 | (16,908)         | (18,205)  | (17,886)  |
| <b>Total losses and loss adjustment expenses paid</b>                                                                       | <b>(22,733)</b>  | (23,956)  | (24,244)  |
| <b>Reclassified to liabilities held for sale<sup>(b)</sup></b>                                                              | <b>(402)</b>     | -         | -         |
| <b>Liability for unpaid loss and loss adjustment expenses, end of year:</b>                                                 |                  |           |           |
| Net liability for unpaid losses and loss adjustment expenses                                                                | 61,545           | 60,603    | 61,612    |
| Reinsurance recoverable                                                                                                     | 15,532           | 14,339    | 15,648    |
| <b>Total</b>                                                                                                                | <b>\$ 77,077</b> | \$ 74,942 | \$ 77,260 |

(a) Includes amounts related to dispositions through the date of disposition. Includes sale of UGC and Ascot.

(b) Represents loss reserves included in our pending sale of certain of our insurance operations to Fairfax. Upon consummation of the sale, we may retain a portion of these reserves through reinsurance arrangements.

During 2016, we recognized adverse prior year loss reserve development of \$5.8 billion. This adverse 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.

The Loss Development Tables below include loss development data by our major lines of business for the last 10 accident years. The drivers of prior year development are discussed following each of the Loss Development Tables.

## Loss Development

The table below presents the reconciliation of the net incurred and paid claims development in the following tables to Loss Reserves in the Consolidated Balance Sheets for the year ended December 31, 2016:

| <i>(in millions)</i>                                                            | Net liability for<br>unpaid losses and<br>loss adjustment<br>expenses<br>as presented in the<br>disaggregated tables<br>below | Reinsurance recoverable<br>on unpaid losses and loss<br>adjustment expenses<br>included in the<br>disaggregated tables<br>below | Gross liability for<br>unpaid losses and loss<br>adjustment expenses |
|---------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|
| <b>Commercial Insurance:</b>                                                    |                                                                                                                               |                                                                                                                                 |                                                                      |
| <b>Liability and Financial Lines</b>                                            |                                                                                                                               |                                                                                                                                 |                                                                      |
| U.S. Workers' compensation (before discount)                                    | \$ 13,069                                                                                                                     | \$ 2,879                                                                                                                        | \$ 15,948                                                            |
| U.S. Excess casualty                                                            | 8,749                                                                                                                         | 1,115                                                                                                                           | 9,864                                                                |
| U.S. Other casualty                                                             | 8,746                                                                                                                         | 3,209                                                                                                                           | 11,955                                                               |
| U.S. Financial lines                                                            | 6,102                                                                                                                         | 1,195                                                                                                                           | 7,297                                                                |
| Europe Casualty and Financial lines                                             | 5,587                                                                                                                         | 1,313                                                                                                                           | 6,900                                                                |
| <b>Total Liability and Financial Lines</b>                                      | <b>42,253</b>                                                                                                                 | <b>9,711</b>                                                                                                                    | <b>51,964</b>                                                        |
| <b>Property and Special Risks:</b>                                              |                                                                                                                               |                                                                                                                                 |                                                                      |
| U.S. and Europe                                                                 | 5,913                                                                                                                         | 1,596                                                                                                                           | 7,509                                                                |
| <b>Total Property and Special Risks</b>                                         | <b>5,913</b>                                                                                                                  | <b>1,596</b>                                                                                                                    | <b>7,509</b>                                                         |
| <b>Total Commercial Insurance</b>                                               | <b>48,166</b>                                                                                                                 | <b>11,307</b>                                                                                                                   | <b>59,473</b>                                                        |
| <b>Consumer - Personal insurance</b>                                            |                                                                                                                               |                                                                                                                                 |                                                                      |
| U.S., Europe and Japan                                                          | 3,454                                                                                                                         | 377                                                                                                                             | 3,831                                                                |
| <b>Total Consumer - Personal Insurance</b>                                      | <b>3,454</b>                                                                                                                  | <b>377</b>                                                                                                                      | <b>3,831</b>                                                         |
| <b>Legacy Portfolio - Run-Off Property<br/>and Casualty Insurance Lines</b>     |                                                                                                                               |                                                                                                                                 |                                                                      |
| U.S. Long Tail Insurance lines (before discount)                                | 5,967                                                                                                                         | 1,679                                                                                                                           | 7,646                                                                |
| <b>Total Legacy Portfolio Run-Off Property and<br/>Casualty Insurance Lines</b> | <b>5,967</b>                                                                                                                  | <b>1,679</b>                                                                                                                    | <b>7,646</b>                                                         |
| <b>Total</b>                                                                    | <b>\$ 57,587</b>                                                                                                              | <b>\$ 13,363</b>                                                                                                                | <b>\$ 70,950</b>                                                     |
| <b>Other Reconciling Items</b>                                                  |                                                                                                                               |                                                                                                                                 |                                                                      |
| Discount on workers compensation lines                                          |                                                                                                                               |                                                                                                                                 | (3,570)                                                              |
| Other product lines                                                             |                                                                                                                               |                                                                                                                                 | 6,192                                                                |
| Unallocated loss adjustment expenses                                            |                                                                                                                               |                                                                                                                                 | 3,505                                                                |
| <b>Total</b>                                                                    |                                                                                                                               |                                                                                                                                 | <b>\$ 77,077</b>                                                     |

## Loss Development Information

The following is information about incurred and paid loss developments as of December 31, 2016, 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 weights 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.
- **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;
- claims handling processes and enhancements;
- third-party claims reviews that are periodically performed for key classes of claims such as toxic tort, environmental and other complex casualty claims;
- 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.

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. Financial Lines business is primarily written on a claims-made basis, while the majority of the Liability business is 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. As an example, we separated U.S. business from non-U.S. business for long-tail classes because the claims for these two product lines can be substantially different, and we only produced a table for Europe, which is the largest region in our non-U.S. portfolio for non-U.S. long-tail business.
- **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.
- **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, 2016. Although this approach requires restating all prior accident year information, the changes in exchange rates do not impact incurred and paid loss development trends.
- **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, 2016 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, for 10 years:**

### U.S. Workers' Compensation

During 2016, we recognized \$1.9 billion of adverse prior year development primarily due to increased tail factors and loss development factors. The net earned premium has declined by approximately 72% from accident year 2007 to accident year 2016. The proportion of large deductible business has increased which has slowed the reporting pattern of claims.

## Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance

| Accident Year                                                                                                         | Years Ended December 31, (dollars in millions) |          |          |          |          |          |          |          |          |           | December 31, 2016           |                                                                        |                                      |
|-----------------------------------------------------------------------------------------------------------------------|------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------------------------|------------------------------------------------------------------------|--------------------------------------|
|                                                                                                                       | 2007                                           | 2008     | 2009     | 2010     | 2011     | 2012     | 2013     | 2014     | 2015     | 2016      | 2016 Prior Year Development | Total of IBNR Liabilities Plus Expected Development on Reported Losses | Cumulative Number of Reported Claims |
|                                                                                                                       | Unaudited                                      |          |          |          |          |          |          |          |          |           |                             |                                                                        |                                      |
| 2007                                                                                                                  | \$ 4,505                                       | \$ 4,441 | \$ 4,414 | \$ 4,544 | \$ 4,528 | \$ 4,513 | \$ 4,469 | \$ 4,379 | \$ 4,395 | \$ 4,548  | \$ 153                      | 392                                                                    | 225,243                              |
| 2008                                                                                                                  |                                                | 4,114    | 4,184    | 4,422    | 4,425    | 4,471    | 4,398    | 4,385    | 4,398    | 4,547     | 149                         | 504                                                                    | 198,597                              |
| 2009                                                                                                                  |                                                |          | 3,466    | 3,633    | 3,608    | 3,666    | 3,639    | 3,616    | 3,606    | 3,733     | 127                         | 547                                                                    | 147,209                              |
| 2010                                                                                                                  |                                                |          |          | 2,706    | 3,049    | 3,125    | 3,148    | 3,211    | 3,214    | 3,311     | 97                          | 550                                                                    | 132,987                              |
| 2011                                                                                                                  |                                                |          |          |          | 2,901    | 2,953    | 3,091    | 3,158    | 3,113    | 3,152     | 39                          | 521                                                                    | 124,486                              |
| 2012                                                                                                                  |                                                |          |          |          |          | 2,382    | 2,194    | 2,286    | 2,260    | 2,334     | 74                          | 571                                                                    | 70,426                               |
| 2013                                                                                                                  |                                                |          |          |          |          |          | 1,932    | 1,880    | 1,950    | 2,060     | 110                         | 645                                                                    | 46,175                               |
| 2014                                                                                                                  |                                                |          |          |          |          |          |          | 1,729    | 1,764    | 1,916     | 152                         | 807                                                                    | 39,000                               |
| 2015                                                                                                                  |                                                |          |          |          |          |          |          |          | 1,708    | 1,864     | 156                         | 1,027                                                                  | 34,241                               |
| 2016                                                                                                                  |                                                |          |          |          |          |          |          |          |          | 1,299     |                             | 965                                                                    | 25,164                               |
| <b>Total</b>                                                                                                          |                                                |          |          |          |          |          |          |          |          | \$ 28,764 | \$ 1,057                    |                                                                        |                                      |
| <b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>         |                                                |          |          |          |          |          |          |          |          | (19,124)  | -                           |                                                                        |                                      |
| <b>Liabilities for losses and loss adjustment expenses and prior year development before 2007, net of reinsurance</b> |                                                |          |          |          |          |          |          |          |          | 3,429     | 850                         |                                                                        |                                      |
| <b>Unallocated loss adjustment expense prior year development</b>                                                     |                                                |          |          |          |          |          |          |          |          | -         | 13                          |                                                                        |                                      |
| <b>Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance</b>        |                                                |          |          |          |          |          |          |          |          | \$ 13,069 | \$ 1,920                    |                                                                        |                                      |

## Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Years Ended December 31, (dollars in millions) |          |          |          |          |          |          |          |          |           |
|---------------|------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|
|               | 2007                                           | 2008     | 2009     | 2010     | 2011     | 2012     | 2013     | 2014     | 2015     | 2016      |
|               | Unaudited                                      |          |          |          |          |          |          |          |          |           |
| 2007          | \$ 926                                         | \$ 1,856 | \$ 2,452 | \$ 2,844 | \$ 3,122 | \$ 3,359 | \$ 3,577 | \$ 3,665 | \$ 3,773 | \$ 3,855  |
| 2008          |                                                | 785      | 1,678    | 2,252    | 2,655    | 3,044    | 3,272    | 3,476    | 3,609    | 3,707     |
| 2009          |                                                |          | 630      | 1,328    | 1,756    | 2,120    | 2,390    | 2,621    | 2,780    | 2,887     |
| 2010          |                                                |          |          | 550      | 1,093    | 1,537    | 1,855    | 2,126    | 2,288    | 2,426     |
| 2011          |                                                |          |          |          | 519      | 1,129    | 1,561    | 1,884    | 2,129    | 2,285     |
| 2012          |                                                |          |          |          |          | 415      | 804      | 1,089    | 1,272    | 1,440     |
| 2013          |                                                |          |          |          |          |          | 282      | 619      | 879      | 1,067     |
| 2014          |                                                |          |          |          |          |          |          | 231      | 558      | 786       |
| 2015          |                                                |          |          |          |          |          |          |          | 234      | 524       |
| 2016          |                                                |          |          |          |          |          |          |          |          | 147       |
| <b>Total</b>  |                                                |          |          |          |          |          |          |          |          | \$ 19,124 |

## 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 methods, 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).

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 current analysis, we have 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. In addition, we have 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 2016, we recognized \$1.9 billion of adverse 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 5 years. We also developed further segmentations by deductible size and other key parameters, such as claims handled by third party administrator's (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 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 adverse 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 adverse loss emergence from several large accounts in the recent accident years. In addition, we reacted to the adverse emergence by increasing our expected loss ratios in recent accident years. For the remainder of the primary workers' compensation portfolio, our 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.

During 2014, consistent with prior year studies, we continued to refine our segmentation of primary workers' compensation into guaranteed cost and excess of large deductible businesses by deductible size group. The net result of the analysis was adverse development of \$113 million for the primary workers' compensation line of business. The key drivers of the adverse development in this line of business were increases for guaranteed cost business in California and New York, and increases for excess of large deductible business, as well as adverse experience in the construction line. Our revised selections had the greatest adverse effect on the construction line of business (\$140 million adverse development) and the national accounts line of business (\$125 million adverse

development). The most significant favorable effect was in the special workers' compensation line of business (\$155 million favorable development).

### U.S. Excess Casualty

During 2016, we recognized \$1.1 billion of adverse development in Excess Casualty driven by continued higher than expected loss emergence as detailed below. The net earned premium for Excess Casualty has declined by approximately 69% from accident 2007 to accident year 2016. The average limit of the excess casualty business has declined over this period and attachment points for certain subsets has been increasing.

#### Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance

| Accident Year                                                                                                         | Years Ended December 31, (dollars in millions) |          |          |          |          |          |          |          |          |           | December 31, 2016           |                                                                        |                                      |
|-----------------------------------------------------------------------------------------------------------------------|------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------------------------|------------------------------------------------------------------------|--------------------------------------|
|                                                                                                                       | 2007                                           | 2008     | 2009     | 2010     | 2011     | 2012     | 2013     | 2014     | 2015     | 2016      | 2016 Prior Year Development | Total of IBNR Liabilities Plus Expected Development on Reported Losses | Cumulative Number of Reported Claims |
|                                                                                                                       | Unaudited                                      |          |          |          |          |          |          |          |          |           |                             |                                                                        |                                      |
| 2007                                                                                                                  | \$ 1,854                                       | \$ 1,820 | \$ 1,752 | \$ 2,246 | \$ 2,072 | \$ 2,232 | \$ 2,208 | \$ 2,183 | \$ 2,113 | \$ 2,194  | \$ 81                       | 228                                                                    | 6,423                                |
| 2008                                                                                                                  |                                                | 1,979    | 2,000    | 2,173    | 1,951    | 1,832    | 1,884    | 1,721    | 1,667    | 1,638     | (29)                        | 228                                                                    | 4,561                                |
| 2009                                                                                                                  |                                                |          | 1,851    | 1,920    | 1,812    | 1,650    | 1,465    | 1,328    | 1,418    | 1,520     | 102                         | 224                                                                    | 3,689                                |
| 2010                                                                                                                  |                                                |          |          | 1,885    | 2,094    | 2,091    | 1,782    | 1,649    | 1,736    | 1,722     | (14)                        | 399                                                                    | 3,459                                |
| 2011                                                                                                                  |                                                |          |          |          | 1,784    | 1,824    | 1,595    | 1,427    | 1,528    | 1,611     | 83                          | 425                                                                    | 3,368                                |
| 2012                                                                                                                  |                                                |          |          |          |          | 1,604    | 1,400    | 1,239    | 1,486    | 1,566     | 80                          | 621                                                                    | 3,252                                |
| 2013                                                                                                                  |                                                |          |          |          |          |          | 1,096    | 998      | 1,136    | 1,276     | 140                         | 672                                                                    | 2,494                                |
| 2014                                                                                                                  |                                                |          |          |          |          |          |          | 873      | 996      | 1,185     | 189                         | 788                                                                    | 1,791                                |
| 2015                                                                                                                  |                                                |          |          |          |          |          |          |          | 913      | 1,380     | 467                         | 972                                                                    | 1,325                                |
| 2016                                                                                                                  |                                                |          |          |          |          |          |          |          |          | 810       |                             | 748                                                                    | 540                                  |
| <b>Total</b>                                                                                                          |                                                |          |          |          |          |          |          |          |          | \$ 14,902 | \$ 1,099                    |                                                                        |                                      |
| <b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>         |                                                |          |          |          |          |          |          |          |          | (7,690)   | -                           |                                                                        |                                      |
| <b>Liabilities for losses and loss adjustment expenses and prior year development before 2007, net of reinsurance</b> |                                                |          |          |          |          |          |          |          |          | 1,537     | 26                          |                                                                        |                                      |
| <b>Unallocated loss adjustment expense prior year development</b>                                                     |                                                |          |          |          |          |          |          |          |          | -         | (67)                        |                                                                        |                                      |
| <b>Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance</b>        |                                                |          |          |          |          |          |          |          |          | \$ 8,749  | \$ 1,058                    |                                                                        |                                      |

#### Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Years Ended December 31, (dollars in millions) |        |        |        |          |          |          |          |          |          |
|---------------|------------------------------------------------|--------|--------|--------|----------|----------|----------|----------|----------|----------|
|               | 2007                                           | 2008   | 2009   | 2010   | 2011     | 2012     | 2013     | 2014     | 2015     | 2016     |
|               | Unaudited                                      |        |        |        |          |          |          |          |          |          |
| 2007          | \$ 8                                           | \$ 102 | \$ 301 | \$ 732 | \$ 1,085 | \$ 1,402 | \$ 1,613 | \$ 1,712 | \$ 1,796 | \$ 1,857 |
| 2008          |                                                | 11     | 97     | 439    | 667      | 842      | 954      | 1,061    | 1,172    | 1,226    |
| 2009          |                                                |        | 8      | 69     | 249      | 449      | 624      | 788      | 965      | 1,175    |
| 2010          |                                                |        |        | 10     | 197      | 475      | 654      | 795      | 946      | 1,052    |
| 2011          |                                                |        |        |        | 5        | 63       | 225      | 387      | 716      | 921      |
| 2012          |                                                |        |        |        |          | 3        | 106      | 288      | 495      | 649      |
| 2013          |                                                |        |        |        |          |          | 15       | 105      | 206      | 386      |
| 2014          |                                                |        |        |        |          |          |          | 3        | 70       | 211      |
| 2015          |                                                |        |        |        |          |          |          |          | 9        | 196      |
| 2016          |                                                |        |        |        |          |          |          |          |          | 17       |
| <b>Total</b>  |                                                |        |        |        |          |          |          |          | \$       | 7,690    |

### 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 2016, we recognized \$1.1 billion of adverse 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 adverse 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 adverse 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 adverse 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.

During 2014, U.S. Excess Casualty experienced \$106 million of favorable development largely driven by savings on a few large claims. In our excess umbrella analysis in 2014, our revised segmentation led to lower 2005 and subsequent accident year estimates for non-mass tort claims where we expect underwriting actions and reductions in policy limits to have a favorable effect on ultimate losses from accident years 2007 to 2013 in particular. This was entirely offset by higher selected ultimate losses for accident years 2004 and prior as a result of updated loss development patterns for mass tort claims which we segmented separately from the non-ultimate loss ratios of prior years, adjusted for rate changes, estimated loss cost trends and all other changes that can be quantified.

### U.S. Other Casualty

**U.S Other Casualty includes general liability, commercial auto and medical malpractice.**

**We recognized \$1.6 billion of adverse development in Other Casualty as a result of increased frequency and severity in all three product lines. The net earned premium for Other Casualty has declined by approximately 59% from accident year 2007 to accident year 2016.**

## Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance

| Accident Year                                                                                                         | Years Ended December 31, (dollars in millions) |          |          |          |          |          |          |          |          |           | December 31, 2016           |                                                                        |                                      |
|-----------------------------------------------------------------------------------------------------------------------|------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------------------------|------------------------------------------------------------------------|--------------------------------------|
|                                                                                                                       | 2007                                           | 2008     | 2009     | 2010     | 2011     | 2012     | 2013     | 2014     | 2015     | 2016      | 2016 Prior Year Development | Total of IBNR Liabilities Plus Expected Development on Reported Losses | Cumulative Number of Reported Claims |
|                                                                                                                       | Unaudited                                      |          |          |          |          |          |          |          |          |           |                             |                                                                        |                                      |
| 2007                                                                                                                  | \$ 2,892                                       | \$ 2,633 | \$ 2,615 | \$ 2,736 | \$ 2,770 | \$ 2,805 | \$ 2,787 | \$ 2,774 | \$ 2,846 | \$ 2,874  | \$ 28                       | 166                                                                    | 102,070                              |
| 2008                                                                                                                  |                                                | 2,886    | 2,693    | 2,757    | 2,821    | 2,901    | 2,903    | 3,007    | 3,074    | 3,113     | 39                          | 274                                                                    | 116,937                              |
| 2009                                                                                                                  |                                                |          | 2,343    | 2,445    | 2,513    | 2,509    | 2,624    | 2,745    | 2,807    | 2,791     | (16)                        | 151                                                                    | 89,845                               |
| 2010                                                                                                                  |                                                |          |          | 2,037    | 2,016    | 2,160    | 2,109    | 2,258    | 2,301    | 2,420     | 119                         | 329                                                                    | 95,749                               |
| 2011                                                                                                                  |                                                |          |          |          | 1,970    | 2,222    | 2,321    | 2,458    | 2,601    | 2,639     | 38                          | 381                                                                    | 74,916                               |
| 2012                                                                                                                  |                                                |          |          |          |          | 1,866    | 2,049    | 2,172    | 2,183    | 2,325     | 142                         | 381                                                                    | 41,586                               |
| 2013                                                                                                                  |                                                |          |          |          |          |          | 1,580    | 1,702    | 1,882    | 2,116     | 234                         | 570                                                                    | 36,174                               |
| 2014                                                                                                                  |                                                |          |          |          |          |          |          | 1,695    | 1,677    | 1,920     | 243                         | 749                                                                    | 33,677                               |
| 2015                                                                                                                  |                                                |          |          |          |          |          |          |          | 1,274    | 1,607     | 333                         | 909                                                                    | 29,372                               |
| 2016                                                                                                                  |                                                |          |          |          |          |          |          |          |          | 1,280     |                             | 1,044                                                                  | 19,774                               |
| <b>Total</b>                                                                                                          |                                                |          |          |          |          |          |          |          |          | \$ 23,085 | \$ 1,160                    |                                                                        |                                      |
| <b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>         |                                                |          |          |          |          |          |          |          |          | (15,844)  | -                           |                                                                        |                                      |
| <b>Liabilities for losses and loss adjustment expenses and prior year development before 2007, net of reinsurance</b> |                                                |          |          |          |          |          |          |          |          | 1,505     | 287                         |                                                                        |                                      |
| <b>Unallocated loss adjustment expense prior year development</b>                                                     |                                                |          |          |          |          |          |          |          |          |           | 116                         |                                                                        |                                      |
| <b>Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance</b>        |                                                |          |          |          |          |          |          |          |          | \$ 8,746  | \$ 1,563                    |                                                                        |                                      |

## Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Years Ended December 31, (dollars in millions) |        |          |          |          |          |          |          |          |           |           |
|---------------|------------------------------------------------|--------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|
|               | 2007                                           | 2008   | 2009     | 2010     | 2011     | 2012     | 2013     | 2014     | 2015     | 2016      | 2016      |
|               | Unaudited                                      |        |          |          |          |          |          |          |          |           |           |
| 2007          | \$ 386                                         | \$ 773 | \$ 1,206 | \$ 1,621 | \$ 1,974 | \$ 2,244 | \$ 2,377 | \$ 2,422 | \$ 2,525 | \$ 2,577  | \$ 2,577  |
| 2008          |                                                | 277    | 711      | 1,171    | 1,691    | 2,039    | 2,316    | 2,506    | 2,651    | 2,755     | 2,755     |
| 2009          |                                                |        | 378      | 770      | 1,180    | 1,577    | 1,929    | 2,168    | 2,314    | 2,534     | 2,534     |
| 2010          |                                                |        |          | 279      | 578      | 902      | 1,275    | 1,557    | 1,741    | 1,889     | 1,889     |
| 2011          |                                                |        |          |          | 235      | 726      | 1,109    | 1,488    | 1,822    | 2,048     | 2,048     |
| 2012          |                                                |        |          |          |          | 382      | 712      | 1,002    | 1,349    | 1,644     | 1,644     |
| 2013          |                                                |        |          |          |          |          | 169      | 553      | 918      | 1,206     | 1,206     |
| 2014          |                                                |        |          |          |          |          |          | 204      | 566      | 816       | 816       |
| 2015          |                                                |        |          |          |          |          |          |          | 93       | 303       | 303       |
| 2016          |                                                |        |          |          |          |          |          |          |          | 72        | 72        |
| <b>Total</b>  |                                                |        |          |          |          |          |          |          |          | \$ 15,844 | \$ 15,844 |

## Reserving Process and Methodology

U.S. Other Casualty includes general liability, automobile liability, environmental, and medical malpractice 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, trucking policies for auto liability and 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 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 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 adverse 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.

For primary general liability 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 adverse development was driven by construction defect claims. The construction class was re-underwritten to reduce New York and U.S. residential exposures.

**Primary commercial auto liability.** 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 adverse 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 adverse development during 2015 as we increased the expected loss ratios for recent accident years to reflect the deteriorating trends.

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

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 2016, we recognized \$428 million of adverse 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 adverse 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.

During 2014, we recognized \$57 million of adverse development in U.S. Other Casualty hospitals coverages largely driven by three large and relatively unusual claims of \$25 million each in relatively recent accident years. While there have not been any significant structural changes to the portfolio, there can be material volatility in loss experience in this class of business where individual claims can be of high severity.

## U.S. Financial Lines

We recognized \$306 million of adverse development during 2016 in U.S. Financial Lines primarily due to higher than expected settlements on large claims from the financial crisis. The net earned premium for U.S. Financial Lines has decreased by approximately 12 percent from accident year 2011 to accident year 2016. The mix of business has been changing over this period as we write more cyber and Mergers and Acquisitions business, which generally report claims faster.

### Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance

| Accident Year                                                                                                         | Years Ended December 31, (dollars in millions) |          |          |          |          |          |          |          |          |           | 2016 Prior Year Development | December 31, 2016                       |                                      |
|-----------------------------------------------------------------------------------------------------------------------|------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------------------------|-----------------------------------------|--------------------------------------|
|                                                                                                                       | 2007                                           | 2008     | 2009     | 2010     | 2011     | 2012     | 2013     | 2014     | 2015     | 2016      |                             | Expected Development on Reported Losses | Cumulative Number of Reported Claims |
|                                                                                                                       | Unaudited                                      |          |          |          |          |          |          |          |          |           |                             |                                         |                                      |
| 2007                                                                                                                  | \$ 1,900                                       | \$ 2,091 | \$ 2,079 | \$ 2,015 | \$ 2,022 | \$ 2,008 | \$ 1,964 | \$ 1,932 | \$ 1,972 | \$ 1,968  | (4)                         | 74                                      | 19,088                               |
| 2008                                                                                                                  |                                                | 1,911    | 2,084    | 2,049    | 1,861    | 1,970    | 1,906    | 1,964    | 2,089    | 2,112     | 23                          | 32                                      | 21,709                               |
| 2009                                                                                                                  |                                                |          | 1,719    | 1,806    | 1,855    | 1,909    | 2,102    | 2,203    | 2,196    | 2,289     | 93                          | 34                                      | 22,595                               |
| 2010                                                                                                                  |                                                |          |          | 1,576    | 1,526    | 1,420    | 1,381    | 1,373    | 1,470    | 1,485     | 15                          | 46                                      | 20,126                               |
| 2011                                                                                                                  |                                                |          |          |          | 1,812    | 1,729    | 1,897    | 1,887    | 1,921    | 1,951     | 30                          | 66                                      | 20,008                               |
| 2012                                                                                                                  |                                                |          |          |          |          | 1,579    | 1,747    | 1,782    | 1,889    | 1,942     | 53                          | 199                                     | 20,029                               |
| 2013                                                                                                                  |                                                |          |          |          |          |          | 1,741    | 1,669    | 1,622    | 1,567     | (55)                        | 417                                     | 18,912                               |
| 2014                                                                                                                  |                                                |          |          |          |          |          |          | 1,742    | 1,712    | 1,775     | 63                          | 612                                     | 17,091                               |
| 2015                                                                                                                  |                                                |          |          |          |          |          |          |          | 1,670    | 1,689     | 19                          | 1,045                                   | 15,386                               |
| 2016                                                                                                                  |                                                |          |          |          |          |          |          |          |          | 1,599     |                             | 1,392                                   | 14,001                               |
| <b>Total</b>                                                                                                          |                                                |          |          |          |          |          |          |          |          | \$ 18,377 | \$ 237                      |                                         |                                      |
| <b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>         |                                                |          |          |          |          |          |          |          |          | (12,686)  | -                           |                                         |                                      |
| <b>Liabilities for losses and loss adjustment expenses and prior year development before 2007, net of reinsurance</b> |                                                |          |          |          |          |          |          |          |          | 411       | 32                          |                                         |                                      |
| <b>Unallocated loss adjustment expense prior year development</b>                                                     |                                                |          |          |          |          |          |          |          |          | -         | 37                          |                                         |                                      |
| <b>Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance</b>        |                                                |          |          |          |          |          |          |          |          | \$ 6,102  | \$ 306                      |                                         |                                      |

## Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Years Ended December 31, (dollars in millions) |        |        |          |          |          |          |          |          |                  |
|---------------|------------------------------------------------|--------|--------|----------|----------|----------|----------|----------|----------|------------------|
|               | 2007                                           | 2008   | 2009   | 2010     | 2011     | 2012     | 2013     | 2014     | 2015     | 2016             |
|               | Unaudited                                      |        |        |          |          |          |          |          |          |                  |
| 2007          | \$ 61                                          | \$ 413 | \$ 816 | \$ 1,184 | \$ 1,364 | \$ 1,531 | \$ 1,684 | \$ 1,748 | \$ 1,800 | \$ 1,811         |
| 2008          |                                                | 32     | 420    | 888      | 1,183    | 1,385    | 1,590    | 1,712    | 1,898    | 2,001            |
| 2009          |                                                |        | 129    | 499      | 887      | 1,273    | 1,614    | 1,839    | 1,968    | 2,075            |
| 2010          |                                                |        |        | 31       | 285      | 566      | 800      | 1,017    | 1,180    | 1,281            |
| 2011          |                                                |        |        |          | 165      | 494      | 886      | 1,210    | 1,529    | 1,749            |
| 2012          |                                                |        |        |          |          | 76       | 406      | 815      | 1,253    | 1,497            |
| 2013          |                                                |        |        |          |          |          | 43       | 333      | 687      | 949              |
| 2014          |                                                |        |        |          |          |          |          | 66       | 371      | 854              |
| 2015          |                                                |        |        |          |          |          |          |          | 66       | 393              |
| 2016          |                                                |        |        |          |          |          |          |          |          | 76               |
| <b>Total</b>  |                                                |        |        |          |          |          |          |          |          | <b>\$ 12,686</b> |

## Reserving Process and Methodology

U.S. Financial Lines business includes Directors and Officers (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, which has 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.

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, whereas 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 2015 and prior are also used in the analysis. For the more mature accident years, we have generally given more weight to the incurred and legal expense loss development methods than in prior years' reviews.

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 2016, we recognized \$306 million of adverse development as we reacted to the adverse 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 adverse emergence of errors and omissions losses relative to historical expectations. In addition to the adverse 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 adverse development driven largely by the adverse 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.

During 2014, we recognized \$160 million of adverse development driven by the D&O and Related Management Liability product lines as well as the fidelity book, somewhat offset by the Professional Liability product lines in the recent accident years due to the changing economic cycle.

### Europe Casualty and Financial Lines

During 2016, we recognized \$355 million of adverse development in Europe Casualty and Financial Lines driven by continued higher than expected loss emergence. The net earned premium for Europe Casualty and Financial Lines has increased by approximately 8 percent from accident year 2011 to accident year 2016.

#### Incurring Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance

| Accident Year                                                                                                         | Years Ended December 31, (dollars in millions) |          |          |          |          |          |          |          |          |           |                             | December 31, 2016                                                      |                                      |
|-----------------------------------------------------------------------------------------------------------------------|------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------------------------|------------------------------------------------------------------------|--------------------------------------|
|                                                                                                                       | 2007                                           | 2008     | 2009     | 2010     | 2011     | 2012     | 2013     | 2014     | 2015     | 2016      | 2016 Prior Year Development | Total of IBNR Liabilities Plus Expected Development on Reported Losses | Cumulative Number of Reported Claims |
|                                                                                                                       | Unaudited                                      |          |          |          |          |          |          |          |          |           |                             |                                                                        |                                      |
| 2007                                                                                                                  | \$ 1,047                                       | \$ 1,073 | \$ 1,084 | \$ 1,057 | \$ 1,094 | \$ 1,088 | \$ 1,167 | \$ 1,171 | \$ 1,178 | \$ 1,184  | \$ 6                        | 14                                                                     | 191,746                              |
| 2008                                                                                                                  |                                                | 1,311    | 1,396    | 1,424    | 1,401    | 1,424    | 1,430    | 1,458    | 1,420    | 1,426     | 6                           | 53                                                                     | 238,417                              |
| 2009                                                                                                                  |                                                |          | 1,539    | 1,627    | 1,659    | 1,661    | 1,689    | 1,699    | 1,704    | 1,759     | 55                          | 78                                                                     | 232,281                              |
| 2010                                                                                                                  |                                                |          |          | 1,300    | 1,258    | 1,255    | 1,277    | 1,218    | 1,252    | 1,250     | (2)                         | 103                                                                    | 265,264                              |
| 2011                                                                                                                  |                                                |          |          |          | 1,239    | 1,175    | 1,239    | 1,284    | 1,364    | 1,377     | 13                          | 157                                                                    | 256,431                              |
| 2012                                                                                                                  |                                                |          |          |          |          | 1,074    | 1,041    | 1,005    | 1,081    | 1,146     | 65                          | 172                                                                    | 209,632                              |
| 2013                                                                                                                  |                                                |          |          |          |          |          | 1,080    | 1,124    | 1,109    | 1,124     | 15                          | 182                                                                    | 176,010                              |
| 2014                                                                                                                  |                                                |          |          |          |          |          |          | 1,143    | 1,123    | 1,166     | 43                          | 376                                                                    | 164,208                              |
| 2015                                                                                                                  |                                                |          |          |          |          |          |          |          | 1,204    | 1,363     | 159                         | 736                                                                    | 175,571                              |
| 2016                                                                                                                  |                                                |          |          |          |          |          |          |          |          | 1,407     |                             | 1,029                                                                  | 178,185                              |
| <b>Total</b>                                                                                                          |                                                |          |          |          |          |          |          |          |          | \$ 13,202 | \$ 360                      |                                                                        |                                      |
| <b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>         |                                                |          |          |          |          |          |          |          |          | (8,005)   | -                           |                                                                        |                                      |
| <b>Liabilities for losses and loss adjustment expenses and prior year development before 2007, net of reinsurance</b> |                                                |          |          |          |          |          |          |          |          | 390       | (7)                         |                                                                        |                                      |
| <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>        |                                                |          |          |          |          |          |          |          |          | \$ 5,587  | \$ 355                      |                                                                        |                                      |

#### Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Years Ended December 31, (dollars in millions) |        |        |        |        |        |        |        |          |          |  |
|---------------|------------------------------------------------|--------|--------|--------|--------|--------|--------|--------|----------|----------|--|
|               | 2007                                           | 2008   | 2009   | 2010   | 2011   | 2012   | 2013   | 2014   | 2015     | 2016     |  |
|               | Unaudited                                      |        |        |        |        |        |        |        |          |          |  |
| 2007          | \$ 88                                          | \$ 297 | \$ 454 | \$ 632 | \$ 765 | \$ 846 | \$ 961 | \$ 996 | \$ 1,025 | \$ 1,067 |  |
| 2008          |                                                | 116    | 429    | 655    | 870    | 1,014  | 1,128  | 1,199  | 1,242    | 1,304    |  |
| 2009          |                                                |        | 125    | 379    | 645    | 881    | 1,033  | 1,156  | 1,309    | 1,421    |  |
| 2010          |                                                |        |        | 133    | 378    | 570    | 725    | 850    | 936      | 995      |  |
| 2011          |                                                |        |        |        | 127    | 339    | 507    | 733    | 868      | 985      |  |
| 2012          |                                                |        |        |        |        | 110    | 303    | 438    | 615      | 734      |  |
| 2013          |                                                |        |        |        |        |        | 95     | 340    | 493      | 664      |  |
| 2014          |                                                |        |        |        |        |        |        | 79     | 273      | 447      |  |
| 2015          |                                                |        |        |        |        |        |        |        | 74       | 261      |  |
| 2016          |                                                |        |        |        |        |        |        |        |          | 127      |  |
| <b>Total</b>  |                                                |        |        |        |        |        |        |        |          | \$ 8,005 |  |

## 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 2016, we recognized \$355 million of adverse development for Europe Casualty and Financial Lines. Within Europe Financial Lines, we recognized \$232 million of adverse development primarily from the D&O line in UK and Continental Europe as result of the adverse 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 adverse development primarily from the unexpected emergence of several large excess casualty claims as well as the impact of declining interest rates that are applied to structured claims in the UK. The actual versus expected loss emergence for Europe Casualty and Financial Lines was more than expected.

During 2015, we recognized \$139 million of adverse 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.

During 2014, we had \$24 million of adverse development driven by financial lines D&O and professional lines in the UK and Continental Europe where severity emerged worse than expected.

## U.S. and Europe Property and Special Risks

**During 2016, we recognized \$402 million of adverse prior year development in the U.S. and Europe Property and Special Risks mainly due to the U.S. program product line which is a collection of programs offering package policies to small and middle market insureds.**

## Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance

| Accident Year                                                                                                         | Years Ended December 31, (dollars in millions) |          |          |          |          |          |          |          |          |           |                             | December 31, 2016                                                      |                                      |
|-----------------------------------------------------------------------------------------------------------------------|------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------------------------|------------------------------------------------------------------------|--------------------------------------|
|                                                                                                                       | 2007                                           | 2008     | 2009     | 2010     | 2011     | 2012     | 2013     | 2014     | 2015     | 2016      | 2016 Prior Year Development | Total of IBNR Liabilities Plus Expected Development on Reported Losses | Cumulative Number of Reported Claims |
|                                                                                                                       | Unaudited                                      |          |          |          |          |          |          |          |          |           |                             |                                                                        |                                      |
| 2007                                                                                                                  | \$ 2,259                                       | \$ 2,061 | \$ 2,153 | \$ 2,119 | \$ 2,087 | \$ 2,073 | \$ 2,073 | \$ 2,069 | \$ 2,072 | \$ 2,070  | \$ (2)                      | 34                                                                     | 88,737                               |
| 2008                                                                                                                  |                                                | 4,114    | 4,360    | 4,318    | 4,276    | 4,225    | 4,169    | 4,140    | 4,132    | 4,124     | (8)                         | 31                                                                     | 95,060                               |
| 2009                                                                                                                  |                                                |          | 2,608    | 2,320    | 2,318    | 2,327    | 2,282    | 2,285    | 2,265    | 2,272     | 7                           | 32                                                                     | 79,096                               |
| 2010                                                                                                                  |                                                |          |          | 3,014    | 2,747    | 2,687    | 2,710    | 2,716    | 2,684    | 2,692     | 8                           | 25                                                                     | 78,713                               |
| 2011                                                                                                                  |                                                |          |          |          | 3,757    | 3,586    | 3,514    | 3,511    | 3,491    | 3,532     | 41                          | 47                                                                     | 79,542                               |
| 2012                                                                                                                  |                                                |          |          |          |          | 4,154    | 4,285    | 4,232    | 4,216    | 4,329     | 113                         | 76                                                                     | 71,951                               |
| 2013                                                                                                                  |                                                |          |          |          |          |          | 2,837    | 2,877    | 2,715    | 2,781     | 66                          | 138                                                                    | 69,782                               |
| 2014                                                                                                                  |                                                |          |          |          |          |          |          | 3,307    | 3,154    | 3,244     | 90                          | 235                                                                    | 81,948                               |
| 2015                                                                                                                  |                                                |          |          |          |          |          |          |          | 3,568    | 3,607     | 39                          | 500                                                                    | 82,836                               |
| 2016                                                                                                                  |                                                |          |          |          |          |          |          |          |          | 3,633     |                             | 921                                                                    | 61,956                               |
| <b>Total</b>                                                                                                          |                                                |          |          |          |          |          |          |          |          | \$ 32,284 | \$ 354                      |                                                                        |                                      |
| <b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>         |                                                |          |          |          |          |          |          |          |          | (26,468)  | -                           |                                                                        |                                      |
| <b>Liabilities for losses and loss adjustment expenses and prior year development before 2007, net of reinsurance</b> |                                                |          |          |          |          |          |          |          |          | 97        | 6                           |                                                                        |                                      |
| <b>Unallocated loss adjustment expense prior year development</b>                                                     |                                                |          |          |          |          |          |          |          |          | -         | 42                          |                                                                        |                                      |
| <b>Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance</b>        |                                                |          |          |          |          |          |          |          |          | \$ 5,913  | \$ 402                      |                                                                        |                                      |

## Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Years Ended December 31, (dollars in millions) |          |          |          |          |          |          |          |          |           |  |
|---------------|------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|--|
|               | 2007                                           | 2008     | 2009     | 2010     | 2011     | 2012     | 2013     | 2014     | 2015     | 2016      |  |
|               | Unaudited                                      |          |          |          |          |          |          |          |          |           |  |
| 2007          | \$ 520                                         | \$ 1,294 | \$ 1,629 | \$ 1,784 | \$ 1,880 | \$ 1,930 | \$ 1,962 | \$ 1,982 | \$ 2,006 | \$ 2,007  |  |
| 2008          |                                                | 1,455    | 3,029    | 3,600    | 3,825    | 3,970    | 4,013    | 4,030    | 4,046    | 4,064     |  |
| 2009          |                                                |          | 661      | 1,438    | 1,780    | 1,985    | 2,097    | 2,156    | 2,184    | 2,206     |  |
| 2010          |                                                |          |          | 828      | 1,849    | 2,207    | 2,396    | 2,496    | 2,570    | 2,612     |  |
| 2011          |                                                |          |          |          | 1,049    | 2,400    | 2,924    | 3,134    | 3,284    | 3,370     |  |
| 2012          |                                                |          |          |          |          | 878      | 2,794    | 3,458    | 3,789    | 3,995     |  |
| 2013          |                                                |          |          |          |          |          | 771      | 1,775    | 2,128    | 2,328     |  |
| 2014          |                                                |          |          |          |          |          |          | 951      | 2,076    | 2,547     |  |
| 2015          |                                                |          |          |          |          |          |          |          | 1,094    | 2,255     |  |
| 2016          |                                                |          |          |          |          |          |          |          |          | 1,084     |  |
| <b>Total</b>  |                                                |          |          |          |          |          |          |          |          | \$ 26,468 |  |

## Reserving Process and Methodology

U.S. and 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. U.S. and 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 (and by country for Europe 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. and Europe Property.

IBNR factor methods are used when the nature of losses are low frequency/high severity. The IBNR factors, when applied to earned premium, generate the ultimate expected losses (or other exposure measure) yet to be reported. The factors are determined based on prior accident quarters' loss costs adjusted to reflect current cost levels and the historical emergence of those loss costs. The



factors are continually reevaluated to reflect emerging claim experience, rate changes or other factors that could affect the adequacy of the IBNR factor being employed.

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 2016, the adverse development of \$402 million was driven by our U.S. program business where we recognized \$350 million of adverse prior year development due to higher than expected claim emergence in certain automobile, habitational and professional liability programs that resulted in us increasing expected loss ratios and loss development factors for several program subsets. This was partially offset by favorable prior year development in Europe Special Risk. Property had favorable emergence of \$62 million mainly driven by the Europe property segment.

During 2015, we recognized \$128 million of favorable development from a number of large individual property claims.

### U.S., Europe and Japan Personal Insurance

We recognized \$114 million of favorable prior year development in U.S., Europe and Japan Personal Insurance mainly due to international accident and health business.

### Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance

| Accident Year                                                                                                         | Years Ended December 31, (dollars in millions) |          |          |          |          |          |          |          |          |           | December 31, 2016           |                                                                        |                                      |
|-----------------------------------------------------------------------------------------------------------------------|------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------------------------|------------------------------------------------------------------------|--------------------------------------|
|                                                                                                                       | 2007                                           | 2008     | 2009     | 2010     | 2011     | 2012     | 2013     | 2014     | 2015     | 2016      | 2016 Prior Year Development | Total of IBNR Liabilities Plus Expected Development on Reported Losses | Cumulative Number of Reported Claims |
|                                                                                                                       | Unaudited                                      |          |          |          |          |          |          |          |          |           |                             |                                                                        |                                      |
| 2007                                                                                                                  | \$ 4,662                                       | \$ 4,805 | \$ 4,725 | \$ 4,710 | \$ 4,729 | \$ 4,739 | \$ 4,742 | \$ 4,742 | \$ 4,745 | \$ 4,744  | (1)                         | 4                                                                      | 1,737,033                            |
| 2008                                                                                                                  |                                                | 4,535    | 4,592    | 4,592    | 4,611    | 4,618    | 4,621    | 4,625    | 4,631    | 4,630     | (1)                         | 9                                                                      | 1,851,828                            |
| 2009                                                                                                                  |                                                |          | 4,698    | 4,634    | 4,590    | 4,624    | 4,616    | 4,614    | 4,612    | 4,611     | (1)                         | 7                                                                      | 1,959,522                            |
| 2010                                                                                                                  |                                                |          |          | 4,819    | 4,826    | 4,846    | 4,836    | 4,838    | 4,832    | 4,832     | -                           | 13                                                                     | 2,215,816                            |
| 2011                                                                                                                  |                                                |          |          |          | 5,226    | 5,315    | 5,275    | 5,272    | 5,258    | 5,250     | (8)                         | 25                                                                     | 2,159,211                            |
| 2012                                                                                                                  |                                                |          |          |          |          | 5,135    | 5,028    | 4,998    | 4,956    | 4,943     | (13)                        | 15                                                                     | 2,096,881                            |
| 2013                                                                                                                  |                                                |          |          |          |          |          | 4,714    | 4,640    | 4,602    | 4,576     | (26)                        | 52                                                                     | 2,023,707                            |
| 2014                                                                                                                  |                                                |          |          |          |          |          |          | 4,376    | 4,392    | 4,376     | (16)                        | 126                                                                    | 2,008,729                            |
| 2015                                                                                                                  |                                                |          |          |          |          |          |          |          | 4,433    | 4,385     | (48)                        | 276                                                                    | 1,949,211                            |
| 2016                                                                                                                  |                                                |          |          |          |          |          |          |          |          | 4,426     |                             | 902                                                                    | 1,702,448                            |
| <b>Total</b>                                                                                                          |                                                |          |          |          |          |          |          |          |          | \$ 46,773 | (114)                       |                                                                        |                                      |
| <b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>         |                                                |          |          |          |          |          |          |          |          | (43,345)  | -                           |                                                                        |                                      |
| <b>Liabilities for losses and loss adjustment expenses and prior year development before 2007, net of reinsurance</b> |                                                |          |          |          |          |          |          |          |          | 26        | (3)                         |                                                                        |                                      |
| <b>Unallocated loss adjustment expense prior year development</b>                                                     |                                                |          |          |          |          |          |          |          |          | -         | 3                           |                                                                        |                                      |
| <b>Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance</b>        |                                                |          |          |          |          |          |          |          |          | \$ 3,454  | (114)                       |                                                                        |                                      |

### Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Years Ended December 31, (dollars in millions) |          |          |          |          |          |          |          |          |           | 2016   |
|---------------|------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|--------|
|               | 2007                                           | 2008     | 2009     | 2010     | 2011     | 2012     | 2013     | 2014     | 2015     | 2016      |        |
|               | Unaudited                                      |          |          |          |          |          |          |          |          |           |        |
| 2007          | \$ 2,867                                       | \$ 4,162 | \$ 4,395 | \$ 4,547 | \$ 4,628 | \$ 4,670 | \$ 4,699 | \$ 4,717 | \$ 4,727 | \$ 4,731  | 4,731  |
| 2008          |                                                | 2,781    | 3,958    | 4,275    | 4,432    | 4,511    | 4,557    | 4,584    | 4,596    | 4,608     | 4,608  |
| 2009          |                                                |          | 2,780    | 4,016    | 4,268    | 4,428    | 4,504    | 4,545    | 4,570    | 4,587     | 4,587  |
| 2010          |                                                |          |          | 2,920    | 4,184    | 4,496    | 4,643    | 4,721    | 4,764    | 4,788     | 4,788  |
| 2011          |                                                |          |          |          | 3,270    | 4,631    | 4,927    | 5,064    | 5,146    | 5,182     | 5,182  |
| 2012          |                                                |          |          |          |          | 2,868    | 4,333    | 4,624    | 4,774    | 4,858     | 4,858  |
| 2013          |                                                |          |          |          |          |          | 2,671    | 3,963    | 4,261    | 4,408     | 4,408  |
| 2014          |                                                |          |          |          |          |          |          | 2,495    | 3,708    | 4,024     | 4,024  |
| 2015          |                                                |          |          |          |          |          |          |          | 2,497    | 3,712     | 3,712  |
| 2016          |                                                |          |          |          |          |          |          |          |          | 2,447     | 2,447  |
| <b>Total</b>  |                                                |          |          |          |          |          |          |          |          | \$ 43,345 | 43,345 |

#### Reserving Process and Methodology

U.S., Europe and Japan Personal Insurance lines consist of accident and health and other 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. Other personal lines include automobile and homeowners' insurance, extended warranty, and consumer specialty products, such as identity theft and credit card protection. Other personal insurance also provides insurance for high net worth individuals offered through AIG Private Client Group, including auto, homeowners, umbrella, yacht, fine art and collections insurance. Other 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 U.S., 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 2016, 2015 and 2014, we recognized \$114 million, \$47 million, and \$89 million of favorable development, respectively, mainly driven by the international accident and health business.

During 2016, 2015 and 2014, we experienced favorable loss reserve development of \$3 million, \$10 million and \$16 million, respectively, from natural catastrophes.

#### U.S. Run-Off Long Tail Insurance lines

During 2016, the U.S. Run-Off Long Tail Insurance Lines experienced adverse 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

| Accident Year                                                                                                  | Years Ended December 31, (dollars in millions) |        |        |        |        |        |        |        |        |          | December 31, 2016           |                                                                        |                                      |
|----------------------------------------------------------------------------------------------------------------|------------------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|----------|-----------------------------|------------------------------------------------------------------------|--------------------------------------|
|                                                                                                                | 2007                                           | 2008   | 2009   | 2010   | 2011   | 2012   | 2013   | 2014   | 2015   | 2016     | 2016 Prior Year Development | Total of IBNR Liabilities Plus Expected Development on Reported Losses | Cumulative Number of Reported Claims |
|                                                                                                                | Unaudited                                      |        |        |        |        |        |        |        |        |          |                             |                                                                        |                                      |
| 2007                                                                                                           | \$ 959                                         | \$ 743 | \$ 807 | \$ 801 | \$ 833 | \$ 843 | \$ 851 | \$ 859 | \$ 860 | \$ 876   | \$ 16                       | 55                                                                     | 56,148                               |
| 2008                                                                                                           |                                                | 936    | 1,025  | 872    | 855    | 895    | 911    | 964    | 961    | 967      | 6                           | 75                                                                     | 40,046                               |
| 2009                                                                                                           |                                                |        | 543    | 523    | 532    | 566    | 621    | 588    | 584    | 564      | (20)                        | 91                                                                     | 16,213                               |
| 2010                                                                                                           |                                                |        |        | 633    | 521    | 527    | 548    | 576    | 572    | 601      | 29                          | 81                                                                     | 8,475                                |
| 2011                                                                                                           |                                                |        |        |        | 528    | 538    | 571    | 635    | 669    | 678      | 9                           | 88                                                                     | 7,776                                |
| 2012                                                                                                           |                                                |        |        |        |        | 623    | 674    | 736    | 781    | 745      | (36)                        | 105                                                                    | 4,033                                |
| 2013                                                                                                           |                                                |        |        |        |        |        | 477    | 530    | 585    | 566      | (19)                        | 152                                                                    | 2,483                                |
| 2014                                                                                                           |                                                |        |        |        |        |        |        | 374    | 472    | 451      | (21)                        | 192                                                                    | 2,246                                |
| 2015                                                                                                           |                                                |        |        |        |        |        |        |        | 434    | 520      | 86                          | 204                                                                    | 2,154                                |
| 2016                                                                                                           |                                                |        |        |        |        |        |        |        |        | 292      |                             | 197                                                                    | 1,483                                |
| <b>Total</b>                                                                                                   |                                                |        |        |        |        |        |        |        |        | \$ 6,260 | \$ 50                       |                                                                        |                                      |
| Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below         |                                                |        |        |        |        |        |        |        |        |          | (4,171)                     | -                                                                      |                                      |
| Liabilities for losses and loss adjustment expenses and prior year development before 2007, net of reinsurance |                                                |        |        |        |        |        |        |        |        |          | 3,878                       | 345                                                                    |                                      |
| Unallocated loss adjustment expense prior year development                                                     |                                                |        |        |        |        |        |        |        |        |          | -                           | (5)                                                                    |                                      |
| Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance        |                                                |        |        |        |        |        |        |        |        |          | \$ 5,967                    | \$ 390                                                                 |                                      |

## Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Years Ended December 31, (dollars in millions) |        |        |        |        |        |        |        |        |          |
|---------------|------------------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|----------|
|               | 2007                                           | 2008   | 2009   | 2010   | 2011   | 2012   | 2013   | 2014   | 2015   | 2016     |
|               | Unaudited                                      |        |        |        |        |        |        |        |        |          |
| 2007          | \$ 145                                         | \$ 230 | \$ 321 | \$ 431 | \$ 578 | \$ 641 | \$ 710 | \$ 751 | \$ 770 | \$ 784   |
| 2008          |                                                | 130    | 360    | 485    | 559    | 643    | 711    | 773    | 817    | 830      |
| 2009          |                                                |        | 38     | 125    | 220    | 273    | 354    | 394    | 414    | 431      |
| 2010          |                                                |        |        | 55     | 142    | 235    | 313    | 395    | 425    | 445      |
| 2011          |                                                |        |        |        | 19     | 135    | 253    | 379    | 442    | 525      |
| 2012          |                                                |        |        |        |        | 85     | 191    | 282    | 409    | 476      |
| 2013          |                                                |        |        |        |        |        | 86     | 152    | 258    | 316      |
| 2014          |                                                |        |        |        |        |        |        | 20     | 93     | 183      |
| 2015          |                                                |        |        |        |        |        |        |        | 34     | 129      |
| 2016          |                                                |        |        |        |        |        |        |        |        | 52       |
| <b>Total</b>  |                                                |        |        |        |        |        |        |        |        | \$ 4,171 |

## Reserving Process and Methodology

U.S. Run-Off Long Tail Insurance lines includes run-off lines for asbestos and environmental (1986 and prior), excess workers' compensation, and other casualty coverages consisting of environmental liability, medical malpractice, and general liability. 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. In some cases, the exposures in the more recent years have declined since the portfolio is in run-off.

## U.S. Long Tail Insurance lines - Asbestos and Environmental (1986 and prior)

We consider a number of factors and recent experience in addition to the results of both external and internal analyses, to estimate asbestos and environmental loss reserves. 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, 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.

At December 31, 2016 and 2015, our net loss reserves included \$670 million and \$722 million, respectively, for asbestos and environmental-related claims (net of reinsurance, including retroactive reinsurance). We cede the bulk of AIG Property Casualty's net domestic asbestos liabilities under a 2011 retroactive reinsurance agreement with NICO with an aggregate limit of \$3.5 billion. Reinsurance recoverables related to this agreement was \$1.7 billion and \$1.8 billion, respectively, at December 31, 2016 and 2015, respectively. Under retroactive reinsurance accounting, contractual gains are deferred and amortized into income over the settlement period of the underlying reinsured claims. During 2016, 2015 and 2014, we recognized approximately \$(53.4) million, \$213 million and \$(10.7) million, respectively, of additional recoveries under the NICO agreement for which the income statement benefit was deferred. The deferred gain associated with this retroactive reinsurance is \$377 million and \$430 million at December 31, 2016 and 2015, respectively, and is reported in Other Liabilities. The expense related to this increase in the deferred gain liability is reported in other income/expense rather than losses incurred.

### Prior Year Development

During 2016, the Legacy U.S. Runoff Property and Casualty segment recognized \$390 million of adverse prior year development.

**Asbestos and Environmental (1986 and prior).** 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 adverse 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.

**U.S. Excess Workers' Compensation.** The U.S. Long Tail Insurance Lines 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.

During 2016 and 2015, we did not experience significant development in the loss development trends. The proactive management of settlement negotiations and other claims mitigation strategies minimized the volatility observed during 2015. The nominal reduction in reserves as a result of commutations and individual claims settlement strategies amounted to \$222 million in 2015 compared to \$242 million in 2014.

During 2014, we updated our analyses of run-off excess workers' compensation lines using a range of scenarios and methodologies and determined that our carried reserves were adequate after recognizing \$20 million of favorable prior year development resulting from claim settlements and commutations on our assumed reinsurance business, as well as reflecting changes in estimates in our loss mitigation strategies. We commuted several large assumed reinsurance agreements in 2014 and reduced the reserves faster than was previously expected as a result of proactive management by the run-off unit.

**Other Casualty Run-Off.** 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 its own experience especially in the loss tail instead of relying on the overall excess casualty loss development factors.

### Prior Year Development before 2007

The previous development tables include only accident years 2007 to 2016. The following table summarizes development, (favorable) or unfavorable, of incurred losses and loss adjustment expenses for accident year 2006 and prior by operating segment and major class of business:

| Years Ended December 31,<br>(in millions)                                                             | 2016            | 2015            | 2014            |
|-------------------------------------------------------------------------------------------------------|-----------------|-----------------|-----------------|
| <b>2006 and prior accident year development by major class of business and driver of development:</b> |                 |                 |                 |
| U.S. Workers Compensation                                                                             | \$ 850          | \$ 122          | \$ 158          |
| U.S. Excess Casualty                                                                                  | 26              | 476             | 437             |
| U.S. Other Casualty                                                                                   | 287             | 366             | 242             |
| U.S. Financial Lines                                                                                  | 32              | 135             | (24)            |
| Property and Special Risks                                                                            | 6               | 16              | (4)             |
| Legacy Portfolio                                                                                      | 345             | 621             | 258             |
| All Other                                                                                             | (2)             | 62              | 3               |
| <b>Total</b>                                                                                          | <b>\$ 1,544</b> | <b>\$ 1,798</b> | <b>\$ 1,070</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                                                                 | 15.5 % | 17.8 % | 12.6 % | 9.2 % | 7.5 % | 5.2 % | 4.4 % | 2.6 % | 2.3 % | 1.8 % |
| U.S. Excess casualty                                                                       | 0.7    | 6.8    | 12.4   | 13.5  | 12.8  | 10.7  | 8.5   | 8.4   | 3.5   | 2.8   |
| U.S. Other casualty                                                                        | 10.3   | 15.2   | 14.4   | 14.8  | 12.2  | 8.6   | 5.5   | 4.7   | 3.5   | 1.8   |
| U.S. Financial lines                                                                       | 4.0    | 17.6   | 21.2   | 17.3  | 12.9  | 10.1  | 6.5   | 5.6   | 3.8   | 0.5   |
| Europe Casualty and Financial lines                                                        | 8.2    | 17.6   | 14.0   | 14.7  | 10.0  | 7.4   | 7.0   | 4.1   | 3.4   | 3.5   |
| U.S. and Europe Property and Special Risks                                                 | 28.7   | 37.0   | 14.5   | 7.1   | 4.3   | 2.3   | 1.2   | 0.8   | 0.8   | -     |
| U.S. Europe and Japan Personal insurance                                                   | 58.9   | 27.2   | 6.1    | 3.1   | 1.7   | 0.9   | 0.6   | 0.3   | 0.2   | 0.1   |
| U.S. Run-off Long Tail Insurance lines                                                     | 10.4   | 15.7   | 15.5   | 12.7  | 11.9  | 7.7   | 5.2   | 4.1   | 1.8   | 1.6   |

### DISCOUNTING OF LOSS RESERVES

At December 31, 2016, the loss reserves reflect a net loss reserve discount of \$3.6 billion, including tabular and non-tabular calculations based upon the following assumptions:

Certain asbestos claims are 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. In 2012, for Pennsylvania companies, the statute has specified 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.

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.

In the fourth quarter of 2016, our Pennsylvania and Delaware regulators approved an updated discount rate that we applied to our workers' compensation loss reserves for the legal entities domiciled in those states.

The discount consists of \$932 million of tabular discount for workers' compensation and \$2.6 billion of non-tabular discount for workers' compensation. During the years ended December 31, 2016, 2015 and 2014 the benefit/(charge) from changes in discount of \$422 million, \$71 million and \$(478) 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,                  | 2016                               |                                                                  |                 | 2015                               |                                                                  |                 |
|-------------------------------|------------------------------------|------------------------------------------------------------------|-----------------|------------------------------------|------------------------------------------------------------------|-----------------|
|                               | U.S. Liability and Financial Lines | Legacy Portfolio - Property and Casualty run-off Insurance Lines | Total           | U.S. Liability and Financial Lines | Legacy Portfolio - Property and Casualty run-off Insurance Lines | Total           |
| <i>(in millions)</i>          |                                    |                                                                  |                 |                                    |                                                                  |                 |
| U.S. workers' compensation    | \$ 2,583                           | \$ 987                                                           | \$ 3,570        | \$ 2,177                           | \$ 964                                                           | \$ 3,141        |
| Asbestos                      | -                                  | -                                                                | -               | -                                  | 7                                                                | 7               |
| <b>Total reserve discount</b> | <b>\$ 2,583</b>                    | <b>\$ 987</b>                                                    | <b>\$ 3,570</b> | <b>\$ 2,177</b>                    | <b>\$ 971</b>                                                    | <b>\$ 3,148</b> |

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

| Years Ended December 31,                               | 2016                               |                                                                  |               | 2015                               |                                                                  |              | 2014                               |                                                                  |                 |
|--------------------------------------------------------|------------------------------------|------------------------------------------------------------------|---------------|------------------------------------|------------------------------------------------------------------|--------------|------------------------------------|------------------------------------------------------------------|-----------------|
|                                                        | U.S. Liability and Financial Lines | Legacy Portfolio - Property and Casualty run-off Insurance Lines | Total         | U.S. Liability and Financial Lines | Legacy Portfolio - Property and Casualty run-off Insurance Lines | Total        | U.S. Liability and Financial Lines | Legacy Portfolio - Property and Casualty run-off Insurance Lines | Total           |
| <i>(in millions)</i>                                   |                                    |                                                                  |               |                                    |                                                                  |              |                                    |                                                                  |                 |
| Current accident year                                  | \$ 177                             | \$ -                                                             | \$ 177        | \$ 182                             | \$ -                                                             | \$ 182       | \$ 189                             | \$ -                                                             | \$ 189          |
| Accretion and other adjustments to prior year discount | 287                                | 64                                                               | 351           | (262)                              | (74)                                                             | (336)        | (35)                               | (235)                                                            | (270)           |
| Effect of interest rate changes                        | (58)                               | (48)                                                             | (106)         | 148                                | 77                                                               | 225          | (225)                              | (172)                                                            | (397)           |
| <b>Net reserve discount benefit (charge)</b>           | <b>406</b>                         | <b>16</b>                                                        | <b>422</b>    | <b>68</b>                          | <b>3</b>                                                         | <b>71</b>    | <b>(71)</b>                        | <b>(407)</b>                                                     | <b>(478)</b>    |
| Amount transferred to run-off insurance lines          | -                                  | -                                                                | -             | (39)                               | 39                                                               | -            | -                                  | -                                                                | -               |
| <b>Net change in total reserve discount</b>            | <b>\$ 406</b>                      | <b>\$ 16</b>                                                     | <b>\$ 422</b> | <b>\$ 29</b>                       | <b>\$ 42</b>                                                     | <b>\$ 71</b> | <b>\$ (71)</b>                     | <b>\$ (407)</b>                                                  | <b>\$ (478)</b> |
| <b>Comprised of:</b>                                   |                                    |                                                                  |               |                                    |                                                                  |              |                                    |                                                                  |                 |
| U.S. Workers' compensation                             | \$ 406                             | \$ 23                                                            | \$ 429        | \$ 29                              | \$ 46                                                            | \$ 75        | \$ (71)                            | \$ (385)                                                         | \$ (456)        |
| Asbestos                                               | \$ -                               | \$ (7)                                                           | \$ (7)        | \$ -                               | \$ (4)                                                           | \$ (4)       | \$ -                               | \$ (22)                                                          | \$ (22)         |

During 2016, effective interest rates declined due to a decrease in the forward yield curve component of the discount rates reflecting a decline in U.S. Treasury rates along the changes in payout pattern assumptions. This resulted in a decrease in the loss reserve discount by \$106 million.

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.



During 2014, the effective interest rate decreased due to the decrease in Treasury rates along with changes in payout pattern assumptions that resulted in a decrease in the loss reserve discount by \$397 million.

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

## FUTURE POLICY BENEFITS

Future policy benefits primarily include reserves for traditional life and annuity payout contracts, which represent an estimate of the present value of future benefits less the present value of future net premiums. Included in Future policy benefits are liabilities for annuities issued in structured settlement arrangements whereby a claimant has agreed to settle a general insurance claim in exchange for fixed payments over a fixed determinable period of time with a life contingency feature.

Future policy benefits also include certain guaranteed benefits of variable annuity products that are not considered embedded derivatives, primarily guaranteed minimum death benefits. See Note 14 for additional information on guaranteed minimum death benefits.

The liability for long-duration future policy benefits has been established including assumptions for interest rates which vary by year of issuance and product, and range from approximately 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, 2016, less withdrawals and assessed fees). Deposits collected on investment-oriented products are not reflected as revenues, because they are recorded directly to Policyholder contract deposits upon receipt. Amounts assessed against the contract holders for mortality, administrative, and other services are included in revenues.

In addition to liabilities for universal life, fixed annuities, fixed options within variable annuities, annuities without life contingencies, funding agreements and GICs, policyholder contract deposits also include our liability for (a) certain guaranteed benefits and indexed features accounted for as embedded derivatives at fair value, (b) annuities issued in a structured settlement arrangement with no life contingency and (c) certain contracts we have elected to account for at fair value. See Note 14 herein for additional information on guaranteed benefits accounted for as embedded derivatives.

For universal life policies with secondary guarantees, we recognize certain liabilities in addition to policyholder account balances. For universal life policies with secondary guarantees, as well as other universal life policies for which profits followed by losses are expected at contract inception, a liability is recognized based on a benefit ratio of (a) the present value of total expected payments, in excess of the account value, over the life of the contract, divided by (b) the present value of total expected assessments over the life of the contract. For universal life policies without secondary guarantees, for which profits followed by losses are first expected after contract inception, we establish a liability, in addition to policyholder account balances, so that expected future losses are recognized in proportion to the emergence of profits in the earlier (profitable) years. Universal life account balances as well as these additional liabilities related to universal life products are reported within Policyholder contract deposits in the Consolidated Balance Sheet.

Under a funding agreement-backed notes issuance program, an unaffiliated, non-consolidated statutory trust issues medium-term notes to investors, which are secured by GICs issued to the trust by one of our Life Insurance Companies through our Institutional Markets business.

The following table presents Policyholder contract deposits by product line:

| At December 31,<br>(in millions)       | 2016      | 2015      |
|----------------------------------------|-----------|-----------|
| <b>Policyholder contract deposits:</b> |           |           |
| Fixed Annuities                        | \$ 51,278 | \$ 52,103 |
| Group Retirement                       | 39,578    | 37,854    |
| Life Insurance                         | 11,855    | 11,691    |
| Variable and Index Annuities           | 16,934    | 13,927    |
| Institutional Markets                  | 7,286     | 6,533     |
| Legacy Portfolio                       | 5,285     | 5,480     |

|                                             |                   |                   |
|---------------------------------------------|-------------------|-------------------|
| <b>Total Policyholder contract deposits</b> | <b>\$ 132,216</b> | <b>\$ 127,588</b> |
|---------------------------------------------|-------------------|-------------------|

## 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.

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, 2016 and 3.1 percent of gross domestic premiums and other considerations in 2016. The amount of annual dividends to be paid is approved locally by the boards of directors of the Life Insurance 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 include guaranteed minimum income benefits (GMIB) and 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, so the exposure to the guaranteed amount for each feature is independent of the exposure from other features (except a surviving spouse who has a rider to potentially collect both a GMDB upon their spouse's death and a GMWB during their lifetime). A policyholder cannot purchase more than one living benefit on one contract. The net amount at risk for each feature is calculated irrespective of the existence of other features; as a result, the net amount at risk for each feature is not additive to that of other features.

Account balances of variable annuity contracts with guarantees were invested in separate account investment options as follows:

| At December 31,<br>(in millions) | 2016             | 2015             |
|----------------------------------|------------------|------------------|
| Equity funds                     | \$ 42,266        | \$ 39,284        |
| Bond funds                       | 7,798            | 7,261            |
| Balanced funds                   | 25,365           | 24,849           |
| Money market funds               | 840              | 826              |
| <b>Total</b>                     | <b>\$ 76,269</b> | <b>\$ 72,220</b> |

## GMDB AND GMIB

Depending on the contract, the GMDB feature may provide a death benefit of either (a) total deposits made to the contract less any partial withdrawals plus a minimum return (and in rare instances, no minimum return) or (b) the highest contract value attained, typically on any anniversary date minus any subsequent withdrawals following the contract anniversary. GMIB guarantees a minimum level of periodic income payments upon annuitization. GMDB is our most widely offered benefit. Our account values subject to guarantees also include GMIB to a lesser extent, which is no longer offered.

The liabilities for GMDB and GMIB, which are recorded in Future policy benefits, represent the expected value of benefits in excess of the projected account value, with the excess recognized ratably over the accumulation period based on total expected assessments, through Policyholder benefits and losses incurred. The net amount at risk for GMDB represents the amount of benefits in excess of account value if death claims were filed on all contracts on the balance sheet date.

The following table presents details concerning our GMDB exposures, by benefit type:

| At December 31,<br>(dollars in billions)            | 2016                     |                                    | 2015                     |                                    |
|-----------------------------------------------------|--------------------------|------------------------------------|--------------------------|------------------------------------|
|                                                     | Net Deposits             |                                    | Net Deposits             |                                    |
|                                                     | Plus a Minimum<br>Return | Highest Contract<br>Value Attained | Plus a Minimum<br>Return | Highest Contract<br>Value Attained |
| Account value                                       | \$ 91                    | \$ 16                              | \$ 87                    | \$ 16                              |
| Net amount at risk                                  | 1                        | 1                                  | 2                        | 1                                  |
| Average attained age of contract holders by product | 63                       | 68                                 | 63                       | 69                                 |
| Range of guaranteed minimum return rates            | 0%-4.5%                  |                                    | 0%-4.5%                  |                                    |

The following summarizes GMDB and GMIB liabilities related to variable annuity contracts, excluding assumed reinsurance:

| Years Ended December 31,<br>(in millions) | 2016          | 2015          | 2014          |
|-------------------------------------------|---------------|---------------|---------------|
| <b>Balance, beginning of year</b>         | <b>\$ 491</b> | <b>\$ 420</b> | <b>\$ 394</b> |
| Reserve increase (decrease)               | (32)          | 127           | 93            |
| Benefits paid                             | (57)          | (56)          | (67)          |
| <b>Balance, end of year</b>               | <b>\$ 402</b> | <b>\$ 491</b> | <b>\$ 420</b> |

Assumptions used to determine the GMDB and GMIB liability include interest rates, which vary by year of issuance and products; mortality rates, which are based upon actual experience modified to allow for variations in policy form; lapse rates, which are based upon actual experience modified to allow for variations in policy form; investment returns, using assumptions from a randomly generated model; and asset growth assumptions, which include a reversion to the mean methodology, similar to that applied for DAC.

We regularly evaluate estimates used to determine the GMDB liability and adjust the additional liability balance, with a related charge or credit to Policyholder benefits and losses incurred, if actual experience or other evidence suggests that earlier assumptions should be revised.

## GMWB

Certain of our variable annuity contracts contain optional GMWB benefits and, to a lesser extent, GMAB benefits, which are not currently offered. With a GMWB, the contract holder can monetize the excess of the guaranteed amount over the account value of the contract only through a series of withdrawals that do not exceed a specific percentage per year of the guaranteed amount. If, after the series of withdrawals, the account value is exhausted, the contract holder will receive a series of annuity payments equal to the

remaining guaranteed amount, and, for lifetime GMWB products, the annuity payments continue as long as the covered person(s) is living.

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 \$1.8 billion and \$1.2 billion at December 31, 2016 and 2015, respectively. See Note 5 for discussion of the fair value measurement of guaranteed benefits that are accounted for as embedded derivatives. We had account values subject to GMWB that totaled \$41 billion and \$38 billion at December 31, 2016 and 2015, 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 \$834 million and \$640 million at December 31, 2016 and 2015, 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 interest rates presented in the following table reflect the range of contractual rates in effect at December 31, 2016, including fixed and variable rate issuances.

The following table lists our total debt outstanding at December 31, 2016 and 2015. The interest rates presented in the following table are the range of contractual rates in effect at December 31, 2016, including fixed and variable-rates:

| At December 31, 2016<br>(in millions)                        | Range of<br>Interest Rate(s) | Maturity<br>Date(s) | Balance at<br>December 31,<br>2016 | Balance at<br>December 31,<br>2015 |
|--------------------------------------------------------------|------------------------------|---------------------|------------------------------------|------------------------------------|
| <b>Debt issued or guaranteed by AIG:</b>                     |                              |                     |                                    |                                    |
| <b>AIG general borrowings:</b>                               |                              |                     |                                    |                                    |
| Notes and bonds payable                                      | 0.99% - 8.13%                | 2017 - 2097         | \$ 19,432                          | \$ 17,047                          |
| Junior subordinated debt                                     | 4.88% - 8.63%                | 2037 - 2058         | 843                                | 1,327                              |
| AIG Japan Holdings Kabushiki Kaisha                          | 0.28% - 0.44%                | 2020 - 2021         | 330                                | 106                                |
| AIGLH notes and bonds payable                                | 6.63% - 7.5%                 | 2025 - 2029         | 281                                | 284                                |
| AIGLH junior subordinated debt                               | 7.57% - 8.5%                 | 2030 - 2046         | 361                                | 420                                |
| <b>Total AIG general borrowings</b>                          |                              |                     | <b>21,247</b>                      | 19,184                             |
| <b>AIG borrowings supported by assets:<sup>(a)</sup></b>     |                              |                     |                                    |                                    |
| MIP notes payable                                            | 2.28% - 8.59%                | 2017 - 2018         | 1,099                              | 1,372                              |
| Series AIGFP matched notes and bonds payable                 | 0.94% - 7.50%                | 2017 - 2047         | 32                                 | 34                                 |
| GIAs, at fair value                                          | 0.50% - 7.62%                | 2017 - 2047         | 2,934                              | 3,276                              |
| Notes and bonds payable, at fair value                       | 0.51% - 10.37%               | 2017 - 2047         | 494                                | 394                                |
| <b>Total AIG borrowings supported by assets</b>              |                              |                     | <b>4,559</b>                       | 5,076                              |
| <b>Total debt issued or guaranteed by AIG</b>                |                              |                     | <b>25,806</b>                      | 24,260                             |
| <b>Debt not guaranteed by AIG:</b>                           |                              |                     |                                    |                                    |
| Other subsidiaries notes, bonds, loans and mortgages payable | 0.73% - 1.15%                | 2017                | 735                                | 2                                  |
| Debt of consolidated investments <sup>(b)</sup>              | 0% - 9.31%                   | 2017 - 2062         | 4,371                              | 4,987                              |
| <b>Total debt not guaranteed by AIG</b>                      |                              |                     | <b>5,106</b>                       | 4,989                              |
| <b>Total long term debt<sup>(c)</sup></b>                    |                              |                     | <b>\$ 30,912</b>                   | \$ 29,249                          |

(a) AIG Parent guarantees all such debt, except for MIP notes payable and Series AIGFP matched notes and bonds payable, which are direct obligations of AIG Parent. Collateral posted to third parties was \$2.2 billion and \$2.4 billion at December 31, 2016 and December 31, 2015, respectively. This collateral primarily consists of securities of the U.S. government and government sponsored entities and generally cannot be pledged or resold by the counterparties.

(b) At December 31, 2016, includes debt of consolidated investment vehicles related to real estate investments of \$1.9 billion, affordable housing partnership investments of \$1.7 billion and other securitization vehicles of \$771 million. At December 31, 2015, includes debt of consolidated investment vehicles related to real estate investments of \$2.4 billion, affordable housing partnership investments of \$1.5 billion and other securitization vehicles of \$1.0 billion.

(c) Includes debt issuance costs of \$88 million and \$101 million at December 31, 2016 and 2015, respectively.

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 \$4.4 billion in borrowings of debt of consolidated investments:

| December 31, 2016<br>(in millions)                           | Total            | Year Ending     |                 |                 |                 |                 |                  |
|--------------------------------------------------------------|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
|                                                              |                  | 2017            | 2018            | 2019            | 2020            | 2021            | Thereafter       |
| <b>Debt issued or guaranteed by AIG:</b>                     |                  |                 |                 |                 |                 |                 |                  |
| <b>AIG general borrowings:</b>                               |                  |                 |                 |                 |                 |                 |                  |
| Notes and bonds payable                                      | \$ 19,432        | \$ 167          | \$ 1,106        | \$ 997          | \$ 1,342        | \$ 1,494        | \$ 14,326        |
| Junior subordinated debt                                     | 843              | -               | -               | -               | -               | -               | 843              |
| AIG Japan Holdings Kabushiki Kaisha                          | 330              | -               | -               | -               | 114             | 216             | -                |
| AIGLH notes and bonds payable                                | 281              | -               | -               | -               | -               | -               | 281              |
| AIGLH junior subordinated debt                               | 361              | -               | -               | -               | -               | -               | 361              |
| <b>Total AIG general borrowings</b>                          | <b>21,247</b>    | <b>167</b>      | <b>1,106</b>    | <b>997</b>      | <b>1,456</b>    | <b>1,710</b>    | <b>15,811</b>    |
| <b>AIG borrowings supported by assets:</b>                   |                  |                 |                 |                 |                 |                 |                  |
| MIP notes payable                                            | 1,099            | 751             | 348             | -               | -               | -               | -                |
| Series AIGFP matched notes and bonds payable                 | 32               | 10              | -               | -               | -               | -               | 22               |
| GIAs, at fair value                                          | 2,934            | 187             | 486             | 98              | 32              | 242             | 1,889            |
| Notes and bonds payable, at fair value                       | 494              | 311             | 116             | -               | -               | -               | 67               |
| <b>Total AIG borrowings supported by assets</b>              | <b>4,559</b>     | <b>1,259</b>    | <b>950</b>      | <b>98</b>       | <b>32</b>       | <b>242</b>      | <b>1,978</b>     |
| <b>Total debt issued or guaranteed by AIG</b>                | <b>25,806</b>    | <b>1,426</b>    | <b>2,056</b>    | <b>1,095</b>    | <b>1,488</b>    | <b>1,952</b>    | <b>17,789</b>    |
| Other subsidiaries notes, bonds, loans and mortgages payable | 735              | 735             | -               | -               | -               | -               | -                |
| <b>Total</b>                                                 | <b>\$ 26,541</b> | <b>\$ 2,161</b> | <b>\$ 2,056</b> | <b>\$ 1,095</b> | <b>\$ 1,488</b> | <b>\$ 1,952</b> | <b>\$ 17,789</b> |

Uncollateralized and collateralized notes, bonds, loans and mortgages payable consisted of the following:

| At December 31, 2016<br>(in millions)                         | Uncollateralized          | Collateralized              | Total           |
|---------------------------------------------------------------|---------------------------|-----------------------------|-----------------|
|                                                               | Notes/Bonds/Loans Payable | Loans and Mortgages Payable |                 |
| AIG general borrowings                                        | \$ 330                    | \$ -                        | \$ 330          |
| Other subsidiaries notes, bonds, loans and mortgages payable* | -                         | 735                         | 735             |
| <b>Total</b>                                                  | <b>\$ 330</b>             | <b>\$ 735</b>               | <b>\$ 1,065</b> |

\* 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, 2016, 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 November 2020.

| At December 31, 2016<br>(in millions) | Size     | Available | Expiration    | Effective |
|---------------------------------------|----------|-----------|---------------|-----------|
|                                       |          | Amount    |               | Date      |
| Syndicated Credit Facility            | \$ 4,500 | \$ 4,500  | November 2020 | 11/5/2015 |



## 16. Contingencies, Commitments and Guarantees

In the normal course of business, various contingent liabilities and commitments are entered into by AIG and our subsidiaries. In addition, AIG Parent guarantees various obligations of certain subsidiaries.

Although AIG cannot currently quantify its ultimate liability for unresolved litigation and investigation matters, including those referred to below, it is possible that such liability could have a material adverse effect on AIG's consolidated financial condition or its consolidated results of operations or consolidated cash flows for an individual reporting period.

### LEGAL CONTINGENCIES

**Overview.** In the normal course of business, AIG and our subsidiaries are, like others in the insurance and financial services industries in general, subject to litigation, including claims for punitive damages. In our insurance operations, litigation arising from claims settlement activities is generally considered in the establishment of our loss reserves. However, the potential for increasing jury awards and settlements makes it difficult to assess the ultimate outcome of such litigation. AIG is also subject to derivative, class action and other claims asserted by its shareholders and others alleging, among other things, breach of fiduciary duties by its directors and officers and violations of insurance laws and regulations, as well as federal and state securities laws. In the case of any derivative action brought on behalf of AIG, any recovery would accrue to the benefit of AIG.

Various regulatory and governmental agencies have been reviewing certain transactions and practices of AIG and our subsidiaries in connection with industry-wide and other inquiries into, among other matters, certain business practices of current and former operating insurance subsidiaries. We have cooperated, and will continue to cooperate, in producing documents and other information in response to subpoenas and other requests.

### AIG's Subprime Exposure, AIGFP Credit Default Swap Portfolio and Related Matters

AIG, AIG Financial Products Corp. and related subsidiaries (collectively AIGFP), and certain directors and officers of AIG, AIGFP and other AIG subsidiaries have been named in various actions relating to our exposure to the U.S. residential subprime mortgage market, unrealized market valuation losses on AIGFP's super senior credit default swap portfolio, losses and liquidity constraints relating to our securities lending program and related disclosure and other matters (Subprime Exposure Issues).

**Consolidated 2008 Securities Litigation.** On May 19, 2009, a consolidated class action complaint, resulting from the consolidation of eight purported securities class actions filed between May 2008 and January 2009, was filed against AIG and certain directors and officers of AIG and AIGFP, AIG's outside auditors, and the underwriters of various securities offerings in the United States District Court for the Southern District of New York (the Southern District of New York) in *In re American International Group, Inc. 2008 Securities Litigation* (the Consolidated 2008 Securities Litigation), asserting claims under the Securities Exchange Act of 1934, as amended (the Exchange Act), and claims under the Securities Act of 1933, as amended (the Securities Act), for allegedly materially false and misleading statements in AIG's public disclosures from March 16, 2006 to September 16, 2008 relating to, among other things, the Subprime Exposure Issues.

On July 15, 2014 and August 1, 2014, lead plaintiff, AIG and AIG's outside auditor accepted mediators' proposals to settle the Consolidated 2008 Securities Litigation against all defendants. On October 22, 2014, AIG made a cash payment of \$960 million, which is being held in escrow until all funds are distributed. On March 20, 2015, the Court issued an Order and Final Judgment approving the class settlement and dismissing the action with prejudice, and the AIG settlement became final on June 29, 2015.

**Individual Securities Litigations.** Between November 18, 2011 and February 9, 2015, eleven separate, though similar, securities actions (Individual Securities Litigations) were filed in or transferred to the Southern District of New York (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. On September 10, 2015, the SDNY granted AIG's motion to dismiss some of the claims in the Individual Securities Litigations in whole or in part. AIG has settled eight of the nine remaining actions. The remaining Individual Securities Litigation pending in the SDNY was brought by a series of institutional investor funds. After the court's decision granting AIG's motion to dismiss plaintiff's claims in part, the claims in the remaining action are limited to a claim under Section 10(b) of the Exchange Act for allegedly materially false and misleading statements in AIG's public disclosures from February 8, 2008 to September 16, 2008 relating to, among other things, the Subprime Exposure Issues. On January 17, 2017, AIG filed a motion for summary judgment to dismiss the vast majority of the institutional investor funds' remaining claims and a motion to stay the action pending the resolution of this motion.

On March 27, 2015, an additional securities action was filed in state court in Orange County, California asserting a claim against AIG pursuant to Section 11 of the Securities Act (the California Action) that is substantially similar to those in the Consolidated 2008



Securities Litigation and the Individual Securities Litigations. After denying AIG's motion to remove the California Action to federal court and stay the action, the trial court overruled AIG's demurrer to dismiss all of the claims asserted in the California Action, which is currently on appeal to the California Court of Appeals for the Fourth Appellate District.

We have accrued our current estimate of probable loss with respect to these litigations.

### Starr International Litigation

On November 21, 2011, Starr International Company, Inc. (SICO) filed a complaint against the United States in the United States Court of Federal Claims (the Court of Federal Claims), bringing claims, both individually and on behalf of the classes defined below and derivatively on behalf of AIG (the SICO Treasury Action). The complaint challenges the government's assistance of AIG, pursuant to which AIG entered into a credit facility with the Federal Reserve Bank of New York (the FRBNY, and such credit facility, the FRBNY Credit Facility) and the United States received an approximately 80 percent ownership in AIG. The complaint alleges that the interest rate imposed on AIG and the appropriation of approximately 80 percent of AIG's equity was discriminatory, unprecedented, and inconsistent with liquidity assistance offered by the government to other comparable firms at the time and violated the Equal Protection, Due Process, and Takings Clauses of the U.S. Constitution.

In the SICO Treasury Action, the only claims naming AIG as a party (as a nominal defendant) are derivative claims on behalf of AIG. On September 21, 2012, SICO made a pre-litigation demand on our Board demanding that we pursue the derivative claims or allow SICO to pursue the claims on our behalf. On January 9, 2013, our Board unanimously refused SICO's demand in its entirety and on January 23, 2013, counsel for the Board sent a letter to counsel for SICO describing the process by which our Board considered and refused SICO's demand and stating the reasons for our Board's determination.

On March 11, 2013, SICO filed a second amended complaint in the SICO Treasury Action alleging that its demand was wrongfully refused. On June 26, 2013, the Court of Federal Claims granted AIG's and the United States' motions to dismiss SICO's derivative claims in the SICO Treasury Action due to our Board's refusal of SICO's demand and denied the United States' motion to dismiss SICO's direct, non-derivative claims.

On March 11, 2013, the Court of Federal Claims in the SICO Treasury Action granted SICO's motion for class certification of two classes with respect to SICO's non-derivative claims: (1) persons and entities who held shares of AIG Common Stock on or before September 16, 2008 and who owned those shares on September 22, 2008 (the Credit Agreement Shareholder Class); and (2) persons and entities who owned shares of AIG Common Stock on June 30, 2009 and were eligible to vote those shares at AIG's June 30, 2009 annual meeting of shareholders (the Reverse Stock Split Shareholder Class). SICO has provided notice of class certification to potential members of the classes, who, pursuant to a court order issued on April 25, 2013, had to return opt-in consent forms by September 16, 2013 to participate in either class. 286,908 holders of AIG Common Stock during the two class periods have opted into the classes.

On June 15, 2015, the Court of Federal Claims issued its opinion and order in the SICO Treasury Action. The Court found that the United States exceeded its statutory authority by exacting approximately 80 percent of AIG's equity in exchange for the FRBNY Credit Facility, but that AIG shareholders suffered no damages as a result. SICO argued during trial that the two classes are entitled to a total of approximately \$40 billion in damages, plus interest. The Court also found that the United States was not liable to the Reverse Stock Split Class in connection with the reverse stock split vote at the June 30, 2009 annual meeting of shareholders.

On June 17, 2015, the Court of Federal Claims entered judgment stating that "the Credit Agreement Shareholder Class shall prevail on liability due to the Government's illegal exaction, but shall recover zero damages, and that the Reverse Stock Split Shareholder Class shall not prevail on liability or damages." SICO filed a notice of appeal of the July 2, 2012 dismissal of SICO's unconstitutional conditions claim, the June 26, 2013 dismissal of SICO's derivative claims, the Court's June 15, 2015 opinion and order, and the Court's June 17, 2015 judgment to the United States Court of Appeals for the Federal Circuit. The United States filed a notice of cross appeal of the Court's July 2, 2012 opinion and order denying in part its motion to dismiss, the Court's June 26, 2013 opinion and order denying its motion to dismiss SICO's direct claims, the Court's June 15, 2015 opinion and order, and the Court's June 17, 2015 judgment to the United States Court of Appeals for the Federal Circuit.

On August 25, 2015, SICO filed its appellate brief, in which it stated SICO does not appeal the dismissal of the derivative claims it asserted on behalf of AIG.

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

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.

### Regulatory and Related Matters

In April 2007, the National Association of Insurance Commissioners (NAIC) formed a Settlement Review Working Group, directed by the State of Indiana, to review the Workers' Compensation Residual Market Assessment portion of the settlement between AIG, the Office of the New York Attorney General, and the New York State Department of Insurance. In late 2007, the Settlement Review Working Group, under the direction of Indiana, Minnesota and Rhode Island, recommended that a multi-state targeted market conduct examination focusing on workers' compensation insurance be commenced under the direction of the NAIC's Market Analysis Working Group. AIG was informed of the multi-state targeted market conduct examination in January 2008. The lead states in the multi-state examination were Delaware, Florida, Indiana, Massachusetts, Minnesota, New York, Pennsylvania and Rhode Island. All other states (and the District of Columbia) agreed to participate in the multi-state examination. The examination focused on legacy issues related to certain AIG entities' writing and reporting of workers compensation insurance between 1985 and 1996.

On December 17, 2010, AIG and the lead states reached an agreement to settle all regulatory liabilities arising out of the subjects of the multistate examination. This regulatory settlement agreement, which was agreed to by all 50 states and the District of Columbia, included, among other terms, (i) AIG's payment of \$100 million in regulatory fines and penalties; (ii) AIG's payment of \$46.5 million in outstanding premium taxes and assessments; (iii) AIG's agreement to enter into a compliance plan describing agreed-upon specific steps and standards for evaluating AIG's ongoing compliance with state regulations governing the setting of workers' compensation insurance premium rates and the reporting of workers' compensation premiums; and (iv) AIG's agreement to pay up to \$150 million in contingent fines in the event that AIG fails to comply substantially with the compliance plan requirements. In furtherance of the compliance plan, the agreement provided for a monitoring period from May 29, 2012 to May 29, 2014 leading up to a compliance plan examination. After the close of the monitoring period, as part of preparation for the actual conduct of the compliance plan examination, on or about October 1, 2014, AIG and the lead states agreed upon corrective action plans to address particular issues identified during the monitoring period. The compliance plan examination is ongoing. There can be no assurance that the result of the compliance plan examination will not result in a fine, have a material adverse effect on AIG's ongoing operations or lead to civil litigation.

In connection with a multi-state examination of certain accident and health products, including travel products, issued by National Union Fire Insurance Company of Pittsburgh, Pa. (National Union), AIG Property Casualty Inc. (formerly Chartis Inc.), on behalf of itself, National Union, and certain of AIG Property Casualty Inc.'s insurance and non-insurance companies (collectively, the AIG PC parties) entered into a Regulatory Settlement Agreement with regulators from 50 U.S. jurisdictions effective November 29, 2012. Under the agreement, and without admitting any liability for the issues raised in the examination, the AIG PC parties (i) paid a civil penalty of \$50 million, (ii) entered into a corrective action plan describing agreed-upon specific steps and standards for evaluating the AIG PC parties' ongoing compliance with laws and regulations governing the issues identified in the examination, and (iii) agreed to pay a contingent fine in the event that the AIG PC parties fail to satisfy certain terms of the corrective action plan. On April 29, 2016, National Union and other AIG companies achieved a settlement in principle of civil litigation relating to the conduct of their accident and health business, subject to formal documentation and court approval. Preliminary approval of the settlement was granted on October 14, 2016, and the settlement funds have been placed into escrow, pending final court approval of the settlement. We had previously accrued our estimate of loss with respect to this settlement. On May 23, 2016, the managing lead state in the multi-state examination ordered that the companies subject to the Regulatory Settlement Agreement have "complied with the terms" of the Regulatory Settlement Agreement and that no contingent fine or civil penalty would be due.

### Legal Reserves

We recorded increases in our legal reserve liability of \$14 million and \$25 million in the years ended December 31, 2016 and 2015, respectively.

### 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, 2016:

| <i>(in millions)</i>       |           |              |
|----------------------------|-----------|--------------|
| 2017                       | \$        | 295          |
| 2018                       |           | 222          |
| 2019                       |           | 167          |
| 2020                       |           | 135          |
| 2021                       |           | 94           |
| Remaining years after 2021 |           | 185          |
| <b>Total</b>               | <b>\$</b> | <b>1,098</b> |

Rent expense was \$331 million, \$327 million and \$471 million for the years ended December 31, 2016, 2015 and 2014, 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, 2016.

## 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, 2016 was \$140 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.

### Asset Dispositions

We are subject to financial guarantees and indemnity arrangements in connection with the completed sales of businesses pursuant to our asset disposition plan. The various arrangements may be triggered by, among other things, declines in asset values, the occurrence of specified business contingencies, the realization of contingent liabilities, developments in litigation or breaches of representations, warranties or covenants provided by us. These arrangements are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential obligation is subject to contractual limitations, while in other cases such limitations are not specified or are not applicable.

We are unable to develop a reasonable estimate of the maximum potential payout under certain of these arrangements. Overall, we believe that it is unlikely we will have to make any material payments related to completed sales under these arrangements, and no material liabilities related to these arrangements have been recorded in the Consolidated Balance Sheets.

### Other

- See Note 10 to the Consolidated Financial Statements for additional discussion on commitments and guarantees associated with VIEs.
- See Note 11 to the Consolidated Financial Statements for additional disclosures about derivatives.
- See Note 25 to the Consolidated Financial Statements for additional disclosures about guarantees of outstanding debt.

## 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, 2014</b> |                        |                      |                             |
| <b>Shares, beginning of year</b>    | 1,906,645,689          | (442,582,366)        | 1,464,063,323               |
| Shares issued                       | 25,803                 | 15,748               | 41,551                      |
| Shares repurchased                  | -                      | (88,177,903)         | (88,177,903)                |
| <b>Shares, end of year</b>          | <b>1,906,671,492</b>   | <b>(530,744,521)</b> | <b>1,375,926,971</b>        |
| <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>          | <b>1,906,671,492</b>   | <b>(712,754,875)</b> | <b>1,193,916,617</b>        |
| <b>Year Ended December 31, 2016</b> |                        |                      |                             |
| <b>Shares, beginning of year</b>    | <b>1,906,671,492</b>   | <b>(712,754,875)</b> | <b>1,193,916,617</b>        |
| Shares issued                       | -                      | <b>2,069,110</b>     | <b>2,069,110</b>            |
| Shares repurchased                  | -                      | <b>(200,649,886)</b> | <b>(200,649,886)</b>        |
| <b>Shares, end of year</b>          | <b>1,906,671,492</b>   | <b>(911,335,651)</b> | <b>995,335,841</b>          |

### DIVIDENDS

Payment of future dividends to our shareholders and repurchases of AIG Common Stock depends in part on the regulatory framework that we are currently subject to and that will ultimately be applicable to us, including as a nonbank systemically important financial institution under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) and a global systemically important insurer. In addition, dividends are payable on AIG Common Stock only when, as and if declared by our Board of Directors in its discretion, from funds legally available for this purpose. In considering whether to pay a dividend or purchase shares of AIG Common Stock, our Board of Directors considers a number of factors, including, but not limited to: the capital resources available to support our insurance operations and business strategies, AIG's funding capacity and capital resources in comparison to internal benchmarks, expectations for capital generation, rating agency expectations for capital, regulatory standards for capital and capital distributions, and such other factors as our Board of Directors may deem relevant.

The following table presents record date, payment date and dividends paid per share on AIG Common Stock:

| Record Date        | Payment Date       | Dividends Paid<br>Per Share |
|--------------------|--------------------|-----------------------------|
| 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                       |
| December 4, 2014   | December 18, 2014  | 0.125                       |
| September 11, 2014 | September 25, 2014 | 0.125                       |
| June 10, 2014      | June 24, 2014      | 0.125                       |
| March 11, 2014     | March 25, 2014     | \$ 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,<br>(in millions) | 2016      | 2015 <sup>*</sup> | 2014     |
|-------------------------------------------|-----------|-------------------|----------|
| Aggregate repurchases of common stock     | \$ 11,460 | \$ 10,691         | \$ 4,902 |
| Total number of common shares repurchased | 201       | 182               | 88       |
| Aggregate repurchases of warrants         | \$ 309    | \$ -              | \$ -     |
| Total number of warrants repurchased      | 17        | -                 | -        |

\* 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.

Our Board of Directors has authorized the repurchase of shares of AIG Common Stock through a series of actions. On November 2, 2016, our Board of Directors authorized an additional increase of \$3.0 billion to its previous share repurchase authorization, resulting in an aggregate remaining authorization on such date of approximately \$4.4 billion. As of December 31, 2016, approximately \$2.5 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.

In the second, third and fourth quarters of 2014, we executed five ASR agreements with third-party financial institutions. The total number of shares of AIG Common Stock repurchased in the twelve-month period ended December 31, 2014, and the aggregate purchase price of those shares, each as set forth above, reflect our payment of approximately \$3.1 billion in the aggregate under the ASR agreements and the receipt of approximately 53 million shares of AIG Common Stock in the aggregate, including the initial receipt of 70 percent of the total notional share equivalent, or approximately 9.2 million shares of AIG Common Stock, under an ASR agreement executed in December 2014. That ASR agreement settled in January 2015, at which time we received approximately 3.5 million additional shares of AIG Common Stock based on a formula specified by the terms of the ASR agreement.

The timing of any future repurchases will depend on market conditions, our financial condition, results of operations, liquidity and other factors.

## ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents a rollforward of Accumulated other comprehensive income:

| (in millions)                                                       | Unrealized Appreciation<br>(Depreciation) of Fixed<br>Maturity Investments<br>on Which Other-Than-<br>Temporary Credit<br>Impairments<br>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>Adjustment | Total     |
|---------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|---------------------------------------------------|-------------------------------------------------|-----------|
| <b>Balance, January 1, 2014, net of tax</b>                         | \$ 936                                                                                                                                              | \$ 6,789                                                                    | \$ (952)                                          | \$ (413)                                        | \$ 6,360  |
| Change in unrealized<br>appreciation of investments                 | 156                                                                                                                                                 | 7,564                                                                       | -                                                 | -                                               | 7,720     |
| Change in deferred policy<br>acquisition costs adjustment and other | 68                                                                                                                                                  | (495)                                                                       | -                                                 | -                                               | (427)     |
| Change in future policy benefits                                    | (133)                                                                                                                                               | (1,113)                                                                     | -                                                 | -                                               | (1,246)   |
| Change in foreign currency<br>translation adjustments               | -                                                                                                                                                   | -                                                                           | (833)                                             | -                                               | (833)     |
| Change in net actuarial loss                                        | -                                                                                                                                                   | -                                                                           | -                                                 | (815)                                           | (815)     |
| Change in prior service credit                                      | -                                                                                                                                                   | -                                                                           | -                                                 | (49)                                            | (49)      |
| Change in deferred tax asset (liability)                            | 16                                                                                                                                                  | (418)                                                                       | 1                                                 | 308                                             | (93)      |
| <b>Total other comprehensive income (loss)</b>                      | 107                                                                                                                                                 | 5,538                                                                       | (832)                                             | (556)                                           | 4,257     |
| <b>Noncontrolling interests</b>                                     | -                                                                                                                                                   | -                                                                           | -                                                 | -                                               | -         |
| <b>Balance, December 31, 2014, 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>                   | <b>(347)</b>  | <b>(6,762)</b>  | <b>(1,100)</b>    | <b>123</b>      | <b>(8,086)</b>  |
| <b>Noncontrolling interests</b>                                  | <b>-</b>      | <b>(1)</b>      | <b>(5)</b>        | <b>-</b>        | <b>(6)</b>      |
| <b>Balance, December 31, 2015, net of tax</b>                    | <b>\$ 696</b> | <b>\$ 5,566</b> | <b>\$ (2,879)</b> | <b>\$ (846)</b> | <b>\$ 2,537</b> |
| 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>                   | <b>(270)</b>  | <b>839</b>      | <b>250</b>        | <b>(126)</b>    | <b>693</b>      |
| <b>Noncontrolling interests</b>                                  | <b>-</b>      | <b>-</b>        | <b>-</b>          | <b>-</b>        | <b>-</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> |

The following table presents the other comprehensive income (loss) reclassification adjustments for the years ended December 31, 2016, 2015 and 2014:

|                                                                                     |           | Unrealized Appreciation<br>(Depreciation) of Fixed<br>Maturity Securities<br>on Which Other-Than-<br>Temporary Credit<br>Impairments Were<br>Recognized | 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>December 31, 2014</b>                                                            |           |                                                                                                                                                         |                                                                             |                                                   |                                                 |                   |
| Unrealized change arising during period                                             | \$        | 119                                                                                                                                                     | \$ 6,488                                                                    | \$ (833)                                          | \$ (866)                                        | 4,908             |
| Less: Reclassification adjustments included in net income                           |           | 28                                                                                                                                                      | 532                                                                         | -                                                 | (2)                                             | 558               |
| <b>Total other comprehensive income (loss), before income tax expense (benefit)</b> |           | 91                                                                                                                                                      | 5,956                                                                       | (833)                                             | (864)                                           | 4,350             |
| Less: Income tax expense (benefit)                                                  |           | (16)                                                                                                                                                    | 418                                                                         | (1)                                               | (308)                                           | 93                |
| <b>Total other comprehensive income (loss), net of income tax expense (benefit)</b> | <b>\$</b> | <b>107</b>                                                                                                                                              | <b>\$ 5,538</b>                                                             | <b>\$ (832)</b>                                   | <b>\$ (556)</b>                                 | <b>\$ 4,257</b>   |
| <b>December 31, 2015</b>                                                            |           |                                                                                                                                                         |                                                                             |                                                   |                                                 |                   |
| Unrealized change arising during period                                             | \$        | (471)                                                                                                                                                   | \$ (7,068)                                                                  | \$ (1,129)                                        | \$ 285                                          | (8,383)           |
| Less: Reclassification adjustments included in net income                           |           | 71                                                                                                                                                      | 1,074                                                                       | -                                                 | 111                                             | 1,256             |
| <b>Total other comprehensive income (loss), before income tax expense (benefit)</b> |           | (542)                                                                                                                                                   | (8,142)                                                                     | (1,129)                                           | 174                                             | (9,639)           |
| Less: Income tax expense (benefit)                                                  |           | (195)                                                                                                                                                   | (1,380)                                                                     | (29)                                              | 51                                              | (1,553)           |
| <b>Total other comprehensive income (loss), net of income tax expense (benefit)</b> | <b>\$</b> | <b>(347)</b>                                                                                                                                            | <b>\$ (6,762)</b>                                                           | <b>\$ (1,100)</b>                                 | <b>\$ 123</b>                                   | <b>\$ (8,086)</b> |



| <b>December 31, 2016</b>                                                            |    |              |    |            |    |            |    |              |    |            |
|-------------------------------------------------------------------------------------|----|--------------|----|------------|----|------------|----|--------------|----|------------|
| Unrealized change arising during period                                             | \$ | (222)        | \$ | 1,769      | \$ | 93         | \$ | (344)        | \$ | 1,296      |
| Less: Reclassification adjustments included in net income                           |    | 123          |    | 1,228      |    | -          |    | (171)        |    | 1,180      |
| <b>Total other comprehensive income (loss), before income tax expense (benefit)</b> |    | <b>(345)</b> |    | <b>541</b> |    | <b>93</b>  |    | <b>(173)</b> |    | <b>116</b> |
| Less: Income tax benefit                                                            |    | (75)         |    | (298)      |    | (157)      |    | (47)         |    | (577)      |
| <b>Total other comprehensive income (loss), net of income tax benefit</b>           | \$ | <b>(270)</b> | \$ | <b>839</b> | \$ | <b>250</b> | \$ | <b>(126)</b> | \$ | <b>693</b> |

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 Other<br>Comprehensive Income |                 |               | Affected Line Item in the<br>Consolidated Statements of Income |
|-----------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|-----------------|---------------|----------------------------------------------------------------|
|                                                                                                                                         | 2016                                                                  | 2015            | 2014          |                                                                |
| <b>Unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were taken</b> |                                                                       |                 |               |                                                                |
| Investments                                                                                                                             | \$ 123                                                                | \$ 71           | \$ 28         | Other realized capital gains                                   |
| <b>Total</b>                                                                                                                            | <b>123</b>                                                            | <b>71</b>       | <b>28</b>     |                                                                |
| <b>Unrealized appreciation (depreciation) of all other investments</b>                                                                  |                                                                       |                 |               |                                                                |
| Investments                                                                                                                             | 935                                                                   | 1,054           | 669           | Other realized capital gains                                   |
| Deferred acquisition costs adjustment                                                                                                   | 293                                                                   | 3               | (20)          | Amortization of deferred policy acquisition costs              |
| Future policy benefits                                                                                                                  | -                                                                     | 17              | (117)         | Policyholder benefits and losses incurred                      |
| <b>Total</b>                                                                                                                            | <b>1,228</b>                                                          | <b>1,074</b>    | <b>532</b>    |                                                                |
| <b>Change in retirement plan liabilities adjustment</b>                                                                                 |                                                                       |                 |               |                                                                |
| Prior-service credit                                                                                                                    | 15                                                                    | 214             | 47            | *                                                              |
| Actuarial losses                                                                                                                        | (186)                                                                 | (103)           | (49)          | *                                                              |
| <b>Total</b>                                                                                                                            | <b>(171)</b>                                                          | <b>111</b>      | <b>(2)</b>    |                                                                |
| <b>Total reclassifications for the period</b>                                                                                           | <b>\$ 1,180</b>                                                       | <b>\$ 1,256</b> | <b>\$ 558</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.

## 18. Earnings Per Share (EPS)

The basic EPS computation is based on the weighted average number of common shares outstanding, adjusted to reflect all stock dividends and stock splits. The diluted EPS computation is based on those shares used in the basic EPS computation plus shares that would have been outstanding assuming issuance of common shares for all dilutive potential common shares outstanding and adjusted to reflect all stock dividends and stock splits.

The following table presents the computation of basic and diluted EPS:

| Years Ended December 31,<br>(dollars in millions, except per share data)                    | 2016            | 2015            | 2014            |
|---------------------------------------------------------------------------------------------|-----------------|-----------------|-----------------|
| <b>Numerator for EPS:</b>                                                                   |                 |                 |                 |
| Income (loss) from continuing operations                                                    | \$ (259)        | \$ 2,222        | \$ 7,574        |
| Less: Net income (loss) from continuing operations attributable to noncontrolling interests | 500             | 26              | (5)             |
| <b>Income (loss) attributable to AIG common shareholders from continuing operations</b>     | <b>(759)</b>    | 2,196           | 7,579           |
| Income (loss) from discontinued operations, net of income tax expense                       | (90)            | -               | (50)            |
| <b>Net income (loss) attributable to AIG common shareholders</b>                            | <b>\$ (849)</b> | <b>\$ 2,196</b> | <b>\$ 7,529</b> |
| <b>Denominator for EPS:</b>                                                                 |                 |                 |                 |
| Weighted average shares outstanding — basic                                                 | 1,091,085,131   | 1,299,825,350   | 1,427,959,799   |
| Dilutive shares                                                                             | -               | 34,639,533      | 19,593,853      |
| Weighted average shares outstanding — diluted <sup>(a)(b)</sup>                             | 1,091,085,131   | 1,334,464,883   | 1,447,553,652   |
| <b>Income (loss) per common share attributable to AIG:</b>                                  |                 |                 |                 |
| <b>Basic:</b>                                                                               |                 |                 |                 |
| Income (loss) from continuing operations                                                    | \$ (0.70)       | \$ 1.69         | \$ 5.31         |
| Income from discontinued operations                                                         | \$ (0.08)       | \$ -            | \$ (0.04)       |
| Income (loss) attributable to AIG                                                           | \$ (0.78)       | \$ 1.69         | \$ 5.27         |
| <b>Diluted:</b>                                                                             |                 |                 |                 |
| Income (loss) from continuing operations                                                    | \$ (0.70)       | \$ 1.65         | \$ 5.24         |
| Income from discontinued operations                                                         | \$ (0.08)       | \$ -            | \$ (0.04)       |
| Income (loss) attributable to AIG                                                           | \$ (0.78)       | \$ 1.65         | \$ 5.20         |

(a) Shares in the diluted EPS calculation represent basic shares for 2016 due to the net loss in that period. The shares excluded from the calculation were 30,326,772 shares.

(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 0.2 million, 0.2 million and 0.3 million for the years ended December 31, 2016, 2015 and 2014, respectively, because the effect of including those shares in the calculation would have been anti-dilutive.

## 19. Statutory Financial Data and Restrictions

The following table presents statutory net income (loss) and capital and surplus for our Property Casualty Insurance Companies and our Life Insurance Companies in accordance with statutory accounting practices:

| <i>(in millions)</i>                                             | 2016              | 2015             | 2014            |
|------------------------------------------------------------------|-------------------|------------------|-----------------|
| <b>Years Ended December 31,</b>                                  |                   |                  |                 |
| <b>Statutory net income (loss)<sup>(a)(b)(c)</sup>:</b>          |                   |                  |                 |
| <b>Property Casualty Insurance Companies:</b>                    |                   |                  |                 |
| Domestic <sup>(c)</sup>                                          | \$ (229)          | \$ 1,444         | \$ 3,265        |
| Foreign                                                          | (1,316)           | 594              | 1,252           |
| <b>Total Property Casualty Insurance Companies</b>               | <b>\$ (1,545)</b> | <b>\$ 2,038</b>  | <b>\$ 4,517</b> |
| <b>Life Insurance Companies:</b>                                 |                   |                  |                 |
| Domestic                                                         | \$ 2,252          | \$ 2,200         | \$ 2,865        |
| Foreign                                                          | 47                | (5)              | (9)             |
| <b>Total Life Insurance Companies</b>                            | <b>\$ 2,299</b>   | <b>\$ 2,195</b>  | <b>\$ 2,856</b> |
| <b>At December 31,</b>                                           |                   |                  |                 |
| <b>Statutory capital and surplus<sup>(a)(b)(c)</sup>:</b>        |                   |                  |                 |
| <b>Property Casualty Insurance Companies:</b>                    |                   |                  |                 |
| Domestic <sup>(c)</sup>                                          | \$ 21,819         | \$ 25,956        |                 |
| Foreign                                                          | 12,689            | 12,995           |                 |
| <b>Total Property Casualty Insurance Companies</b>               | <b>\$ 34,508</b>  | <b>\$ 38,951</b> |                 |
| <b>Life Insurance Companies:</b>                                 |                   |                  |                 |
| Domestic                                                         | \$ 12,363         | \$ 8,379         |                 |
| Foreign                                                          | 490               | 422              |                 |
| <b>Total Life Insurance Companies</b>                            | <b>\$ 12,853</b>  | <b>\$ 8,801</b>  |                 |
| <b>Aggregate minimum required statutory capital and surplus:</b> |                   |                  |                 |
| <b>Property Casualty Insurance Companies:</b>                    |                   |                  |                 |
| Domestic                                                         | \$ 5,390          | \$ 7,119         |                 |
| Foreign                                                          | 7,355             | 7,208            |                 |
| <b>Total Property Casualty Insurance Companies</b>               | <b>\$ 12,745</b>  | <b>\$ 14,327</b> |                 |
| <b>Life Insurance Companies:</b>                                 |                   |                  |                 |
| Domestic                                                         | \$ 3,107          | \$ 3,659         |                 |
| Foreign                                                          | 234               | 179              |                 |
| <b>Total Life Insurance Companies</b>                            | <b>\$ 3,341</b>   | <b>\$ 3,838</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 2015 Property Casualty Insurance Companies and Life Insurance Companies statutory net income decreased by \$146 million and the 2015 Property Casualty Insurance Companies and Life Insurance Companies statutory capital and surplus increased by \$3.2 billion, compared to the amounts previously reported in our Annual Report on Form 10-K for the year ended December 31, 2015, due to finalization of statutory filings, as well as inclusion of the finalized statutory net loss and statutory capital and surplus of Eaglestone of \$3.4 million and \$1.9 billion, respectively. The results of Eaglestone were excluded from the 2015 Property Casualty Insurance Companies statutory net income and statutory capital and surplus in our previously reported Form 10-K for the year ended December 31, 2015.

(c) Property Casualty Insurance Companies recognized \$200 million and \$2.9 billion of capital contributions from AIG Parent in their statutory financial statements as of December 31, 2016 and 2015, respectively, related to the reserve strengthening in the fourth quarter of each year. These capital contributions were received in February 2017 and January 2016, respectively.

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, 2016

and 2015, all domestic and foreign insurance subsidiaries individually exceeded the minimum required statutory capital and surplus requirements and all domestic insurance subsidiaries individually exceeded RBC minimum required levels.

At December 31, 2016 and 2015, 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 2016 and 2015, a domestic life insurance subsidiary domiciled in Texas applied a permitted statutory accounting practice, initially adopted in 2015, to report derivatives used to hedge interest rate risk on product-related embedded derivatives at amortized cost instead of fair value. This permitted practice resulted in an increase in the statutory surplus of our subsidiary of \$645 million at December 31, 2016 and a reduction of \$366 million at December 31, 2015.
- 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 \$724 million. This increase otherwise would have been recognized in 2017.

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. See Note 8 for additional information regarding these letters of credit.

## SUBSIDIARY DIVIDEND RESTRICTIONS

Payments of dividends to us by our insurance subsidiaries are subject to certain restrictions imposed by regulatory authorities. With respect to our domestic insurance subsidiaries, the payment of any dividend requires formal notice to the insurance department in which the particular insurance subsidiary is domiciled. For example, unless permitted by the Superintendent of Financial Services, property casualty companies domiciled in New York generally may not pay dividends to shareholders that, 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 \$45.1 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, 2016.

To our knowledge, no AIG insurance company is currently on any regulatory or similar "watch list" with regard to solvency.

## PARENT COMPANY DIVIDEND RESTRICTIONS

At December 31, 2016, our ability to pay dividends is not subject to any significant contractual restrictions, but remains subject to regulatory restrictions. See Note 17 herein for additional information about our ability to pay dividends to our shareholders.

## 20. Share-Based Compensation Plans

The following table presents our share-based compensation expense:

| Years Ended December 31,<br>(in millions)    | 2016   | 2015   | 2014   |
|----------------------------------------------|--------|--------|--------|
| Share-based compensation expense - pre-tax*  | \$ 237 | \$ 365 | \$ 349 |
| Share-based compensation expense - after tax | 154    | 237    | 227    |

\* We recognized \$105 million, \$147 million and \$120 million for immediately vested stock-settled awards issued to retirement eligible employees in 2016, 2015 and 2014, respectively.

### EMPLOYEE PLANS

The Company grants annual Long Term Incentive (LTI) awards under the 2013 Long Term Incentive Plan (2013 LTIP), which is governed by the AIG 2013 Omnibus Incentive Plan (2013 Plan). The 2013 Plan replaced the AIG 2010 Stock Incentive Plan (2010 Plan) as of May 15, 2013 but does not affect the terms and conditions of any award issued under the 2010 Plan. The 2013 Plan is currently the only plan under which share-settled awards can be made. Our share-settled awards are settled with previously acquired shares held in AIG's treasury.

#### AIG 2013 Omnibus Incentive Plan

The 2013 Plan was adopted at the 2013 Annual Meeting of Shareholders and provides for the grants of share-based awards to our employees and non-employee directors. The total number of shares that may be granted under the 2013 Plan (the reserve) is the sum of 1) 45 million shares of AIG Common Stock, plus 2) the number of authorized shares that remained available for issuance under the 2010 Plan when the 2013 Plan became effective, plus 3) the number of shares of AIG Common Stock relating to outstanding awards under the 2010 Plan at the time the 2013 Plan became effective that subsequently are forfeited, expired, terminated or otherwise lapse or are settled in cash. Each share-based unit granted under the 2013 Plan reduces the number of shares available for future grants by one share. However, shares with respect to awards that are forfeited, expired or settled for cash, and shares withheld for taxes on awards (other than options and stock appreciation rights (SARs) awards) are returned to the reserve.

During 2016, performance share units (PSUs) and deferred stock units (DSUs) were granted under the 2013 Plan and 43,510,168 shares are available for future grants as of December 31, 2016. PSUs were issued to employees as part of our long-term incentive program in March 2016 and are also issued for off-cycle grants, which are made from time to time during the year as sign-on awards to new hires or as a result of a change in employee status.

#### AIG 2010 Stock Incentive Plan

The 2010 Plan was adopted at the 2010 Annual Meeting of Shareholders. The total number of shares of AIG Common Stock that could be granted under the 2010 Plan was 60 million. During 2013, we granted PSUs, DSUs and restricted stock units (RSUs) under the 2010 Plan. Each PSU, DSU and RSU awarded reduced the number of shares available for future grants by one share. Subsequent to the adoption of the 2013 Plan in May 2013, no additional grants were made under the 2010 Plan.

### Share-Settled Awards

#### AIG 2013 Long Term Incentive Plan

The 2013 LTIP provides for the annual grant of PSUs to certain employees, including our senior executive officers and other highly compensated employees. Each recipient of an award is granted a number of PSUs (the target) that provides the opportunity to receive shares of AIG Common Stock based on AIG achieving specified performance goals at the end of a three-year performance period. These performance goals are pre-established by AIG's Compensation and Management Resources Committee (CMRC) for each annual grant and may differ from year to year. For each award, the actual number of PSUs earned can vary from zero to 150 percent of the target depending on AIG's performance relative to a specified peer group. Vesting occurs in three equal installments beginning on January 1 of the year immediately following the end of a performance period and January 1 of each of the next two years. Recipients must be employed at each vesting date to be entitled to share delivery, except upon the occurrence of an accelerated vesting event, such as an involuntary termination without cause, disability, retirement eligibility or death during the vesting period.

Beginning in 2015, LTI awards granted accrue dividend equivalent units (DEUs) in the form of additional PSUs whenever a cash dividend is declared on shares of AIG Common Stock; the DEUs are subject to the same vesting terms and conditions as the underlying PSUs.

### Performance Share 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 2016 are measured based on AIG's total shareholder return (TSR). PSUs granted in 2015 and 2014 are measured based on AIG's TSR and credit default swap (CDS) spread, weighted 75 percent and 25 percent, respectively. PSUs granted in 2013 are measured based on AIG's TSR and growth in tangible book value per common share (TBVPS) (excluding accumulated other comprehensive income) weighted 50 percent each.

The fair value of PSUs to be earned based on AIG's CDS spreads and 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 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:

|                                        | 2016    | 2015    | 2014    |
|----------------------------------------|---------|---------|---------|
| Expected dividend yield <sup>(a)</sup> | 2.17 %  | 1.78 %  | 1.13 %  |
| Expected volatility <sup>(b)</sup>     | 24.55 % | 22.71 % | 23.66 % |
| Risk-free interest rate <sup>(c)</sup> | 1.30 %  | 1.01 %  | 0.76 %  |

(a) The dividend yield is the projected annualized AIG dividend yield estimated by Bloomberg Professional service as of the valuation date.

(b) The expected volatility is based on the implied volatilities of actively traded stock options from the valuation date through the end of the PSU performance period as estimated by Bloomberg Professional service.

(c) The risk-free interest rate is the continuously compounded interest rate for the term between the valuation date and the end of the performance period that is assumed to be constant and equal to the interpolated value between the closest data points on the U.S. dollar LIBOR-swap curve as of the valuation date.

### The following table summarizes outstanding share-settled LTI awards<sup>(a)</sup>:

| As of or for the Year<br>Ended December 31, 2016 | Number of PSUs <sup>(b)</sup> |                  |                  |                         | Weighted Average<br>Grant-Date Fair Value |                 |                 |                 |
|--------------------------------------------------|-------------------------------|------------------|------------------|-------------------------|-------------------------------------------|-----------------|-----------------|-----------------|
|                                                  | 2016 LTI                      | 2015 LTI         | 2014 LTI         | 2013 LTI <sup>(c)</sup> | 2016 LTI                                  | 2015 LTI        | 2014 LTI        | 2013 LTI        |
| <b>Unvested, beginning of year</b>               | -                             | 3,046,958        | 2,559,359        | 2,250,109               | \$ -                                      | \$ 55.08        | \$ 48.82        | \$ 37.07        |
| Granted                                          | 5,092,452                     | 4,704            | -                | 3,471,850               | 50.77                                     | 64.23           | -               | 36.55           |
| Vested                                           | (2,315,667)                   | (681,396)        | (652,198)        | (3,974,941)             | 50.42                                     | 54.03           | 48.65           | 36.20           |
| Forfeited                                        | (188,187)                     | (193,711)        | (174,545)        | (165,114)               | 50.26                                     | 54.14           | 48.81           | 37.71           |
| <b>Unvested, end of year<sup>(d)</sup></b>       | <b>2,588,598</b>              | <b>2,176,555</b> | <b>1,732,616</b> | <b>1,581,904</b>        | <b>\$ 51.12</b>                           | <b>\$ 55.52</b> | <b>\$ 48.88</b> | <b>\$ 38.03</b> |

(a) Excludes DSUs, which are discussed under Non-Employee Plan.

(b) Except for the 2013 LTI award, represents target number of PSUs granted, and does not reflect potential increases or decreases that could result from the final outcome of the performance goals for the respective awards, which is determined in the quarter after the applicable performance period ends.

(c) The performance period for the 2013 LTI awards ended December 31, 2015. The number of earned PSUs was based on the results of the 2013 performance goals adjudicated in the first quarter of 2016 by the CMRC. This resulted in additional units being granted, but no additional expense was recognized for these units.

(d) At December 31, 2016, the total unrecognized compensation cost (net of expected forfeitures) for the unvested PSUs was \$163 million and the weighted-average and expected period of years over which that cost is expected to be recognized are 1.26 years and 4 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 2016, 2015 and 2014 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 2016, 2015 and 2014, we granted to non-employee directors 41,974, 32,342 and 28,477 DSUs, respectively, under the 2013 Plan, and recognized expense of \$2.4 million, \$1.9 million and \$1.5 million, respectively.

## CASH-SETTLED AWARDS

Share-based cash-settled awards are recorded as liabilities until the final payout is made or the award is replaced with a stock-settled award. Compensation expense is recognized over the vesting periods, unless the award is fully vested on the grant date in which case the entire award value is immediately recognized as expense.



Unlike stock-settled awards, which generally have a fixed grant-date fair value (unless the award is subsequently modified), the fair value of unsettled or unvested cash-settled awards is remeasured at the end of each reporting period based on the change in fair value of one share of AIG Common Stock. The liability and corresponding expense are adjusted accordingly until the award is settled.

During the period we were subject to Troubled Asset Relief Program (TARP) restrictions, we issued various cash-settled share-based grants, including Stock Salary, TARP RSU awards, and other cash-settled RSU awards, to certain of our most highly compensated employees and executive officers in the form of restricted stock units that were either fully vested with payment deferred, or subject to specified service and performance conditions. After the repayment of our TARP obligations in December 2012, all performance conditions were satisfied; as a result, we no longer issue awards that are subject to TARP restrictions.

During 2016, 2015 and 2014, we paid \$29 million, \$101 million and \$155 million, respectively, to settle outstanding TARP-related awards. As of December 31, 2016, all TARP-related awards have been settled.

## 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.

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><i>(in millions)</i>         | Pension     |            |                 |          | Postretirement |          |                |         |
|------------------------------------------------------------------------------|-------------|------------|-----------------|----------|----------------|----------|----------------|---------|
|                                                                              | U.S. Plans* |            | Non-U.S. Plans* |          | U.S. Plans     |          | Non-U.S. Plans |         |
|                                                                              | 2016        | 2015       | 2016            | 2015     | 2016           | 2015     | 2016           | 2015    |
| <b>Change in projected benefit obligation:</b>                               |             |            |                 |          |                |          |                |         |
| <b>Benefit obligation, beginning of year</b>                                 | \$ 5,324    | \$ 5,769   | \$ 1,146        | \$ 1,099 | \$ 208         | \$ 229   | \$ 75          | \$ 64   |
| Service cost                                                                 | 19          | 192        | 31              | 43       | 2              | 5        | 3              | 3       |
| Interest cost                                                                | 181         | 220        | 21              | 25       | 7              | 8        | 3              | 3       |
| Actuarial (gain) loss                                                        | 118         | (423)      | 98              | (16)     | (2)            | (23)     | -              | 9       |
| <b>Benefits paid:</b>                                                        |             |            |                 |          |                |          |                |         |
| AIG assets                                                                   | (24)        | (17)       | (12)            | (9)      | (14)           | (11)     | (1)            | (1)     |
| Plan assets                                                                  | (332)       | (285)      | (35)            | (24)     | -              | -        | -              | -       |
| Plan amendment                                                               | -           | (132)      | 1               | 24       | -              | -        | -              | -       |
| Curtailments                                                                 | -           | -          | (2)             | -        | (1)            | -        | -              | -       |
| Settlements                                                                  | (338)       | -          | (16)            | (15)     | -              | -        | -              | -       |
| Foreign exchange effect                                                      | -           | -          | 19              | (67)     | -              | -        | -              | (3)     |
| Acquisitions                                                                 | -           | -          | -               | 72       | -              | -        | -              | -       |
| Other                                                                        | -           | -          | (5)             | 14       | (4)            | -        | -              | -       |
| <b>Projected benefit obligation, end of year</b>                             | \$ 4,948    | \$ 5,324   | \$ 1,246        | \$ 1,146 | \$ 196         | \$ 208   | \$ 80          | \$ 75   |
| <b>Change in plan assets:</b>                                                |             |            |                 |          |                |          |                |         |
| <b>Fair value of plan assets, beginning of year</b>                          |             |            |                 |          |                |          |                |         |
|                                                                              | \$ 4,359    | \$ 4,111   | \$ 773          | \$ 708   | \$ -           | \$ -     | \$ -           | \$ -    |
| Actual return on plan assets, net of expenses                                | 154         | (8)        | 19              | 47       | -              | -        | -              | -       |
| AIG contributions                                                            | 24          | 558        | 71              | 62       | 14             | 11       | 1              | 1       |
| <b>Benefits paid:</b>                                                        |             |            |                 |          |                |          |                |         |
| AIG assets                                                                   | (24)        | (17)       | (12)            | (9)      | (14)           | (11)     | (1)            | (1)     |
| Plan assets                                                                  | (332)       | (285)      | (35)            | (24)     | -              | -        | -              | -       |
| Settlements                                                                  | (338)       | -          | (16)            | (15)     | -              | -        | -              | -       |
| Foreign exchange effect                                                      | -           | -          | 6               | (44)     | -              | -        | -              | -       |
| Dispositions                                                                 | -           | -          | (4)             | -        | -              | -        | -              | -       |
| Acquisitions                                                                 | -           | -          | -               | 35       | -              | -        | -              | -       |
| Other                                                                        | -           | -          | 1               | 13       | -              | -        | -              | -       |
| <b>Fair value of plan assets, end of year</b>                                | \$ 3,843    | \$ 4,359   | \$ 803          | \$ 773   | \$ -           | \$ -     | \$ -           | \$ -    |
| <b>Funded status, end of year</b>                                            | \$ (1,105)  | \$ (965)   | \$ (443)        | \$ (373) | \$ (196)       | \$ (208) | \$ (80)        | \$ (75) |
| <b>Amounts recognized in the balance sheet:</b>                              |             |            |                 |          |                |          |                |         |
| Assets                                                                       | \$ -        | \$ -       | \$ 53           | \$ 46    | \$ -           | \$ -     | \$ -           | \$ -    |
| Liabilities                                                                  | (1,105)     | (965)      | (496)           | (419)    | (196)          | (208)    | (80)           | (75)    |
| <b>Total amounts recognized</b>                                              | \$ (1,105)  | \$ (965)   | \$ (443)        | \$ (373) | \$ (196)       | \$ (208) | \$ (80)        | \$ (75) |
| <b>Pre-tax amounts recognized in Accumulated other comprehensive income:</b> |             |            |                 |          |                |          |                |         |
| Net gain (loss)                                                              | \$ (1,405)  | \$ (1,324) | \$ (251)        | \$ (161) | \$ 17          | \$ 13    | \$ (15)        | \$ (16) |
| Prior service (cost) credit                                                  | -           | -          | (28)            | (16)     | 2              | 13       | -              | -       |
| <b>Total amounts recognized</b>                                              | \$ (1,405)  | \$ (1,324) | \$ (279)        | \$ (177) | \$ 19          | \$ 26    | \$ (15)        | \$ (16) |

\* Includes non-qualified unfunded plans of which the aggregate projected benefit obligation was \$278 million and \$299 million for the U.S. at December 31, 2016 and 2015, respectively, and \$199 million for the non-U.S. for both 2016 and 2015.

The following table presents the accumulated benefit obligations for U.S. and non-U.S. pension benefit plans:

| At December 31,<br><i>(in millions)</i> | 2016     | 2015     |
|-----------------------------------------|----------|----------|
| U.S. pension benefit plans              | \$ 4,948 | \$ 5,324 |
| Non-U.S. pension benefit plans          | \$ 1,215 | \$ 1,109 |

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,<br><br>(in millions) | PBO Exceeds Fair Value of Plan Assets |          |                |        | ABO Exceeds Fair Value of Plan Assets |          |                |        |
|--------------------------------------|---------------------------------------|----------|----------------|--------|---------------------------------------|----------|----------------|--------|
|                                      | U.S. Plans                            |          | Non-U.S. Plans |        | U.S. Plans                            |          | Non-U.S. Plans |        |
|                                      | 2016                                  | 2015     | 2016           | 2015   | 2016                                  | 2015     | 2016           | 2015   |
| Projected benefit obligation         | \$ 4,948                              | \$ 5,324 | \$ 1,121       | \$ 999 | \$ 4,948                              | \$ 5,324 | \$ 1,029       | \$ 912 |
| Accumulated benefit obligation       | 4,948                                 | 5,324    | 1,016          | 896    | 4,948                                 | 5,324    | 1,009          | 889    |
| Fair value of plan assets            | 3,843                                 | 4,359    | 545            | 506    | 3,843                                 | 4,359    | 536            | 497    |

The following table presents the components of net periodic benefit cost with respect to pensions and other postretirement benefits:

| Years Ended December 31,<br><br>(in millions)                                              | Pension         |               |                 |                 |                |                | Postretirement |              |                |                |                |                |
|--------------------------------------------------------------------------------------------|-----------------|---------------|-----------------|-----------------|----------------|----------------|----------------|--------------|----------------|----------------|----------------|----------------|
|                                                                                            | U.S. Plans      |               |                 | Non-U.S. Plans  |                |                | U.S. Plans     |              |                | Non-U.S. Plans |                |                |
|                                                                                            | 2016            | 2015          | 2014            | 2016            | 2015           | 2014           | 2016           | 2015         | 2014           | 2016           | 2015           | 2014           |
| <b>Components of net periodic benefit cost:</b>                                            |                 |               |                 |                 |                |                |                |              |                |                |                |                |
| Service cost                                                                               | \$ 19           | \$ 192        | \$ 173          | \$ 31           | \$ 43          | \$ 42          | \$ 2           | \$ 5         | \$ 4           | \$ 3           | \$ 3           | \$ 2           |
| Interest cost                                                                              | 181             | 220           | 228             | 21              | 25             | 29             | 7              | 8            | 9              | 3              | 3              | 2              |
| Expected return on assets                                                                  | (292)           | (295)         | (288)           | (26)            | (25)           | (22)           | -              | -            | -              | -              | -              | -              |
| Amortization of prior service credit                                                       | -               | (22)          | (33)            | -               | (2)            | (3)            | (12)           | (11)         | (11)           | -              | (1)            | -              |
| Amortization of net (gain) loss                                                            | 25              | 92            | 42              | 7               | 9              | 7              | (1)            | -            | -              | 1              | -              | -              |
| Curtailment (gain) loss                                                                    | -               | (179)         | -               | (6)             | (1)            | 1              | (1)            | -            | -              | -              | -              | -              |
| Settlement loss                                                                            | 149             | -             | -               | 2               | 1              | -              | -              | -            | -              | -              | -              | -              |
| <b>Net periodic benefit cost (credit)</b>                                                  | <b>\$ 82</b>    | <b>\$ 8</b>   | <b>\$ 122</b>   | <b>\$ 29</b>    | <b>\$ 50</b>   | <b>\$ 54</b>   | <b>\$ (5)</b>  | <b>\$ 2</b>  | <b>\$ 2</b>    | <b>\$ 7</b>    | <b>\$ 5</b>    | <b>\$ 4</b>    |
| <b>Total recognized in Accumulated other comprehensive income (loss)</b>                   | <b>\$ (82)</b>  | <b>\$ 143</b> | <b>\$ (793)</b> | <b>\$ (101)</b> | <b>\$ 38</b>   | <b>\$ (40)</b> | <b>\$ (7)</b>  | <b>\$ 12</b> | <b>\$ (21)</b> | <b>\$ 1</b>    | <b>\$ (9)</b>  | <b>\$ (11)</b> |
| <b>Total recognized in net periodic benefit cost and other comprehensive income (loss)</b> | <b>\$ (164)</b> | <b>\$ 135</b> | <b>\$ (915)</b> | <b>\$ (130)</b> | <b>\$ (12)</b> | <b>\$ (94)</b> | <b>\$ (2)</b>  | <b>\$ 10</b> | <b>\$ (23)</b> | <b>\$ (6)</b>  | <b>\$ (14)</b> | <b>\$ (15)</b> |

The estimated net loss and prior service credit that will be amortized from Accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$41 million and \$0.3 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 \$0.8 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 2017 pension expense by approximately \$20 million and \$45 million, respectively, with all other items remaining the same. Conversely, a 100 basis point decrease in the discount rate or expected long-term rate of return would increase the 2017 pension expense by approximately \$24 million and \$45 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, 2016</b>      |                    |                               |                |                               |
| Discount rate                 | 4.14 %             | 1.50 %                        | 4.02 %         | 3.95 %                        |
| Rate of compensation increase | N/A <sup>(b)</sup> | 2.50 %                        | N/A            | 3.38 %                        |
| <b>December 31, 2015</b>      |                    |                               |                |                               |
| Discount rate                 | 4.32 %             | 2.17 %                        | 4.21 %         | 4.09 %                        |
| Rate of compensation increase | N/A <sup>(b)</sup> | 2.64 %                        | N/A            | 3.43 %                        |

(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:

| At December 31,                                                   | 2016         | 2015         |
|-------------------------------------------------------------------|--------------|--------------|
| <b>Following year:</b>                                            |              |              |
| Medical (before age 65)                                           | 6.31%        | 6.79%        |
| Medical (age 65 and older)                                        | 5.00%        | 6.64%        |
| <b>Ultimate rate to which cost increase is assumed to decline</b> | <b>4.50%</b> | <b>4.50%</b> |
| <b>Year in which the ultimate trend rate is reached:</b>          |              |              |
| Medical (before age 65)                                           | 2038         | 2027         |
| Medical (age 65 and older)                                        | 2038         | 2027         |

A one percent point change in the assumed healthcare cost trend rate would have the following effect on our postretirement benefit obligations:

| At December 31,<br>(in millions) | One Percent Increase |       | One Percent Decrease |         |
|----------------------------------|----------------------|-------|----------------------|---------|
|                                  | 2016                 | 2015  | 2016                 | 2015    |
| U.S. plans                       | \$ 4                 | \$ 6  | \$ (3)               | \$ (4)  |
| Non-U.S. plans                   | \$ 19                | \$ 17 | \$ (14)              | \$ (12) |

Our postretirement plans provide benefits primarily in the form of defined employer contributions rather than defined employer benefits. Changes in the assumed healthcare cost trend rate have a minimal impact for U.S. plans because for post-1992 retirees, benefits are fixed dollar amounts based on service at retirement. Our non-U.S. postretirement plans are not subject to caps.

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, 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             |
| <b>For the Year Ended December 31, 2014</b> |            |                 |                |                 |
| Discount rate                               | 4.83 %     | 2.77 %          | 4.59 %         | 4.77 %          |
| Rate of compensation increase               | 3.50 %     | 2.89 %          | N/A            | 3.34 %          |
| Expected return on assets                   | 7.25 %     | 2.93 %          | N/A            | N/A             |

\* The non-U.S. plans reflect those assumptions that were most appropriate for the local economic environments of the subsidiaries providing such benefits.

## Discount Rate Methodology

The projected benefit cash flows under the U.S. AIG Retirement Plan were discounted using the spot rates derived from the Mercer US Pension Discount Yield Curve at December 31, 2016 and 2015, which resulted in a single discount rate that would produce the same liability at the respective measurement dates. The discount rates were 4.15 percent at December 31, 2016 and 4.32 percent at December 31, 2015. 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 non-U.S. pension plans were developed based on the duration of liabilities on a plan by plan basis and were selected by reference to high quality corporate bonds in developed markets or local government bonds where developed markets are not as robust or are nonexistent.

The projected benefit obligation for AIG's Japan pension plans represents approximately 54 percent and 50 percent of the total projected benefit obligations for our non-U.S. pension plans at December 31, 2016 and 2015, respectively. The weighted average discount rate of 0.47 percent and 0.99 percent at December 31, 2016 and 2015, respectively, was selected by reference to the Mercer Yield Curve (Japan) based on the duration of the plans' liabilities.

## Plan Assets

The investment strategy with respect to assets relating to our U.S. and non-U.S. pension plans is designed to achieve investment returns that will provide for the benefit obligations of the plans over the long term, limit the risk of short-term funding shortfalls and maintain liquidity sufficient to address cash needs. Accordingly, the asset allocation strategy is designed to maximize the investment rate of return while managing various risk factors, including, but not limited to, volatility relative to the benefit obligations, 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, 2016 or 2015.

## 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.

**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, 2016:**

| At December 31,           | Target<br>2017 | Actual<br>2016 | Actual<br>2015 |
|---------------------------|----------------|----------------|----------------|
| <b>Asset class:</b>       |                |                |                |
| Equity securities         | 45 %           | <b>43 %</b>    | 35 %           |
| Fixed maturity securities | 40 %           | <b>36 %</b>    | 41 %           |
| Other investments         | 15 %           | <b>21 %</b>    | 24 %           |
| <b>Total</b>              | 100 %          | <b>100 %</b>   | 100 %          |

The expected long-term rate of return for the plan was 7.0 percent and 7.25 percent for 2016 and 2015, respectively. 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,           | Target<br>2017 | Actual<br>2016 | Actual<br>2015 |
|---------------------------|----------------|----------------|----------------|
| <b>Asset class:</b>       |                |                |                |
| Equity securities         | 30 %           | <b>44 %</b>    | 45 %           |
| Fixed maturity securities | 50 %           | <b>36 %</b>    | 35 %           |
| Other investments         | 18 %           | <b>14 %</b>    | 13 %           |
| Cash and cash equivalents | 2 %            | <b>6 %</b>     | 7 %            |
| <b>Total</b>              | 100 %          | <b>100 %</b>   | 100 %          |

The assets of AIG's Japan pension plans represent approximately 56 percent and 54 percent of total non-U.S. assets at December 31, 2016 and 2015 respectively. The expected long term rate of return was 2.61 percent and 1.71 percent, for 2016 and 2015, 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 3.28 percent and 3.33 percent for the years ended December 31, 2016 and 2015, respectively. It is an aggregation of expected returns within each asset class that was generally developed based on the building block approach that considers historical returns, current market conditions, asset volatility and the expectations for future market returns.

## ASSETS MEASURED AT FAIR VALUE

The following table presents information about our plan assets and indicates the level of the fair value measurement based on the observability of the inputs used. The inputs and methodology used in determining the fair value of these assets are consistent with those used to measure our assets as discussed in Note 5 herein.

| <i>(in millions)</i>                                      | U.S. Plans |          |         |          | Non-U.S. Plans |         |         |        |
|-----------------------------------------------------------|------------|----------|---------|----------|----------------|---------|---------|--------|
|                                                           | Level 1    | Level 2  | Level 3 | Total    | Level 1        | Level 2 | Level 3 | Total  |
| <b>At December 31, 2016</b>                               |            |          |         |          |                |         |         |        |
| <b>Assets:</b>                                            |            |          |         |          |                |         |         |        |
| Cash and cash equivalents                                 | \$ 228     | \$ -     | \$ -    | \$ 228   | \$ 50          | \$ -    | \$ -    | \$ 50  |
| <b>Equity securities:</b>                                 |            |          |         |          |                |         |         |        |
| U.S. <sup>(a)</sup>                                       | 838        | 1        | -       | 839      | -              | -       | -       | -      |
| International <sup>(b)</sup>                              | 377        | -        | -       | 377      | 298            | 58      | -       | 356    |
| <b>Fixed maturity securities:</b>                         |            |          |         |          |                |         |         |        |
| U.S. investment grade <sup>(c)</sup>                      | -          | 1,174    | 2       | 1,176    | -              | -       | -       | -      |
| International investment grade <sup>(c)</sup>             | -          | -        | -       | -        | -              | 90      | -       | 90     |
| U.S. and international high yield <sup>(d)</sup>          | -          | 218      | -       | 218      | -              | 186     | -       | 186    |
| Mortgage and other asset-backed securities <sup>(e)</sup> | -          | -        | -       | -        | -              | -       | -       | -      |
| Other fixed maturity securities                           | -          | -        | -       | -        | -              | 13      | -       | 13     |
| <b>Other investment types<sup>(g)</sup>:</b>              |            |          |         |          |                |         |         |        |
| Futures                                                   | -          | -        | -       | -        | -              | -       | -       | -      |
| Direct private equity <sup>(f)</sup>                      | -          | -        | 24      | 24       | -              | -       | -       | -      |
| Insurance contracts                                       | -          | 21       | -       | 21       | -              | -       | 108     | 108    |
| <b>Total</b>                                              | \$ 1,443   | \$ 1,414 | \$ 26   | \$ 2,883 | \$ 348         | \$ 347  | \$ 108  | \$ 803 |



## At December 31, 2015

## Assets:

|                                                           |                 |                 |              |                 |               |               |              |               |
|-----------------------------------------------------------|-----------------|-----------------|--------------|-----------------|---------------|---------------|--------------|---------------|
| Cash and cash equivalents                                 | \$ 239          | \$ -            | \$ -         | \$ 239          | \$ 49         | \$ -          | \$ -         | \$ 49         |
| <b>Equity securities:</b>                                 |                 |                 |              |                 |               |               |              |               |
| U.S. <sup>(a)</sup>                                       | 924             | -               | -            | 924             | 35            | -             | -            | 35            |
| International <sup>(b)</sup>                              | 262             | 1               | -            | 263             | 248           | 67            | -            | 315           |
| <b>Fixed maturity securities:</b>                         |                 |                 |              |                 |               |               |              |               |
| U.S. investment grade <sup>(c)</sup>                      | -               | 1,452           | 9            | 1,461           | -             | -             | -            | -             |
| International investment grade <sup>(c)</sup>             | -               | -               | -            | -               | -             | 190           | -            | 190           |
| U.S. and international high yield <sup>(d)</sup>          | -               | 322             | -            | 322             | -             | 66            | -            | 66            |
| Mortgage and other asset-backed securities <sup>(e)</sup> | -               | 7               | -            | 7               | -             | -             | -            | -             |
| Other fixed maturity securities                           | -               | -               | -            | -               | -             | 12            | -            | 12            |
| <b>Other investment types<sup>(g)</sup>:</b>              |                 |                 |              |                 |               |               |              |               |
| Futures                                                   | 2               | -               | -            | 2               | -             | -             | -            | -             |
| Real Estate                                               | -               | -               | -            | -               | -             | 11            | -            | 11            |
| Direct private equity <sup>(f)</sup>                      | -               | 5               | 28           | 33              | -             | -             | -            | -             |
| Insurance contracts                                       | -               | 23              | -            | 23              | -             | -             | 95           | 95            |
| <b>Total</b>                                              | <b>\$ 1,427</b> | <b>\$ 1,810</b> | <b>\$ 37</b> | <b>\$ 3,274</b> | <b>\$ 343</b> | <b>\$ 335</b> | <b>\$ 95</b> | <b>\$ 773</b> |

(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. government agency or U.S. government sponsored agency bonds.

(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 \$960 million and \$1.1 billion at December 31, 2016 and 2015, 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, 2016.

The U.S. pension plan holds a group annuity contract with U.S. Life, one of our subsidiaries, which totaled \$21 million and \$23 million at December 31, 2016 and 2015, respectively.

## Changes in Level 3 Fair Value Measurements

The following table presents changes in our U.S. and non-U.S. Level 3 plan assets measured at fair value:

| At December 31, 2016<br>(in millions) | Balance<br>Beginning<br>of year | Net                                          |             |                |             |             |             | Transfers<br>In | Transfers<br>Out | Balance<br>at End<br>of year | Changes in<br>Unrealized Gains<br>(Losses) on<br>Instruments Held |               |
|---------------------------------------|---------------------------------|----------------------------------------------|-------------|----------------|-------------|-------------|-------------|-----------------|------------------|------------------------------|-------------------------------------------------------------------|---------------|
|                                       |                                 | Realized and<br>Unrealized<br>Gains (Losses) | Purchases   | Sales          | Issuances   | Settlements | of year     |                 |                  |                              | at End of year                                                    |               |
| <b>U.S. Plan Assets:</b>              |                                 |                                              |             |                |             |             |             |                 |                  |                              |                                                                   |               |
| Fixed maturity securities             |                                 |                                              |             |                |             |             |             |                 |                  |                              |                                                                   |               |
| U.S. investment grade                 | \$ 9                            | \$ 1                                         | \$ 2        | \$ (10)        | \$ -        | \$ -        | \$ -        | \$ -            | \$ 2             | \$ -                         | \$ -                                                              | \$ -          |
| Direct private equity                 | 28                              | (4)                                          | 4           | (4)            | -           | -           | -           | -               | 24               | (4)                          | -                                                                 | (4)           |
| <b>Total</b>                          | <b>\$ 37</b>                    | <b>\$ (3)</b>                                | <b>\$ 6</b> | <b>\$ (14)</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ -</b>     | <b>\$ 26</b>     | <b>\$ (4)</b>                | <b>\$ -</b>                                                       | <b>\$ (4)</b> |
| <b>Non-U.S. Plan Assets:</b>          |                                 |                                              |             |                |             |             |             |                 |                  |                              |                                                                   |               |
| Other fixed maturity securities       | \$ -                            | \$ -                                         | \$ -        | \$ -           | \$ -        | \$ -        | \$ -        | \$ -            | \$ -             | \$ -                         | \$ -                                                              | \$ -          |
| Insurance contracts                   | 95                              | 12                                           | 1           | -              | -           | -           | 2           | (2)             | 108              | -                            | -                                                                 | -             |
| <b>Total</b>                          | <b>\$ 95</b>                    | <b>\$ 12</b>                                 | <b>\$ 1</b> | <b>\$ -</b>    | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 2</b> | <b>\$ (2)</b>   | <b>\$ 108</b>    | <b>\$ -</b>                  | <b>\$ -</b>                                                       | <b>\$ -</b>   |

| At December 31, 2015<br>(in millions) | Balance<br>Beginning<br>of year | Net                                          |              |                |             |             | Transfers<br>In | Transfers<br>Out | Balance<br>at End<br>of year | Changes in<br>Unrealized Gains<br>(Losses) on<br>Instruments Held<br>at End of year |
|---------------------------------------|---------------------------------|----------------------------------------------|--------------|----------------|-------------|-------------|-----------------|------------------|------------------------------|-------------------------------------------------------------------------------------|
|                                       |                                 | Realized and<br>Unrealized<br>Gains (Losses) | Purchases    | Sales          | Issuances   | Settlements |                 |                  |                              |                                                                                     |
| <b>U.S. Plan Assets:</b>              |                                 |                                              |              |                |             |             |                 |                  |                              |                                                                                     |
| Fixed maturity securities             |                                 |                                              |              |                |             |             |                 |                  |                              |                                                                                     |
| U.S. investment grade                 | \$ 8                            | \$ (1)                                       | \$ 17        | \$ (15)        | \$ -        | \$ -        | \$ -            | \$ -             | \$ 9                         | \$ -                                                                                |
| Direct private equity                 | 17                              | 2                                            | 10           | (1)            | -           | -           | -               | -                | 28                           | 2                                                                                   |
| <b>Total</b>                          | <b>\$ 25</b>                    | <b>\$ 1</b>                                  | <b>\$ 27</b> | <b>\$ (16)</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ -</b>     | <b>\$ -</b>      | <b>\$ 37</b>                 | <b>\$ 2</b>                                                                         |
| <b>Non-U.S. Plan Assets:</b>          |                                 |                                              |              |                |             |             |                 |                  |                              |                                                                                     |
| Other fixed maturity securities       |                                 |                                              |              |                |             |             |                 |                  |                              |                                                                                     |
| Other fixed maturity securities       | \$ 17                           | \$ (1)                                       | \$ -         | \$ -           | \$ -        | \$ -        | \$ -            | \$ (16)          | \$ -                         | \$ -                                                                                |
| Insurance contracts                   | 56                              | (7)                                          | 1            | -              | -           | -           | 53              | (8)              | 95                           | -                                                                                   |
| <b>Total</b>                          | <b>\$ 73</b>                    | <b>\$ (8)</b>                                | <b>\$ 1</b>  | <b>\$ -</b>    | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 53</b>    | <b>\$ (24)</b>   | <b>\$ 95</b>                 | <b>\$ -</b>                                                                         |

### 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, 2016 and 2015.

### 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, 2016, we had no material 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 2017 for the AIG Retirement Plan. The non-qualified and postretirement plans' benefit payments are deductible when paid to participants.

Our annual pension contribution in 2017 is expected to be approximately \$70 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.

**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:**

| (in millions) | Pension       |                   | Postretirement |                   |
|---------------|---------------|-------------------|----------------|-------------------|
|               | U.S.<br>Plans | Non-U.S.<br>Plans | U.S.<br>Plans  | Non-U.S.<br>Plans |
| 2017          | \$ 313        | \$ 38             | \$ 15          | \$ 1              |
| 2018          | 305           | 39                | 15             | 2                 |
| 2019          | 318           | 44                | 15             | 2                 |
| 2020          | 312           | 45                | 16             | 2                 |
| 2021          | 308           | 47                | 16             | 2                 |
| 2022-2026     | 1,477         | 275               | 82             | 13                |

## 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 \$236 million, \$166 million and \$156 million in 2016, 2015 and 2014, respectively.

## 22. Ownership

A Schedule 13G/A filed on January 19, 2017 reports aggregate ownership of 64,426,821 shares, or approximately 6.5 percent (based on the AIG Common Stock outstanding) of AIG Common Stock as of December 31, 2016, by Blackrock, Inc. and various subsidiaries thereof.

A Schedule 13G filed on February 13, 2017 reports aggregate ownership of 77,926,159 shares, or approximately 7.8 percent (based on the AIG Common Stock outstanding) of AIG Common Stock as of December 31, 2016, by Capital Research Global Investors, a division of Capital Research and Management Company.

A Schedule 13G/A filed on February 9, 2017 reports aggregate ownership of 62,619,185 shares, or approximately 6.3 percent (based on the AIG Common Stock outstanding) of AIG Common Stock as of December 31, 2016, by The Vanguard Group, Inc. and various subsidiaries thereof.

The calculation of ownership interest for purposes of the AIG Tax Asset Protection Plan and Article 13 of our Restated Certificate of Incorporation is different than beneficial ownership for Schedule 13G.

## 23. INCOME TAXES

The following table presents income (loss) from continuing operations before income tax expense (benefit) by U.S. and foreign location in which such pre-tax income (loss) was earned or incurred:

| Years Ended December 31,<br>(in millions) | 2016           | 2015            | 2014             |
|-------------------------------------------|----------------|-----------------|------------------|
| U.S.                                      | \$ 1,041       | \$ 1,950        | \$ 8,250         |
| Foreign                                   | (1,115)        | 1,331           | 2,251            |
| <b>Total</b>                              | <b>\$ (74)</b> | <b>\$ 3,281</b> | <b>\$ 10,501</b> |

The following table presents the income tax expense (benefit) attributable to pre-tax income (loss) from continuing operations:

| Years Ended December 31,<br>(in millions)                        | 2016          | 2015            | 2014            |
|------------------------------------------------------------------|---------------|-----------------|-----------------|
| <b>Foreign and U.S. components of actual income tax expense:</b> |               |                 |                 |
| <b>Foreign:</b>                                                  |               |                 |                 |
| Current                                                          | \$ 436        | \$ 391          | \$ 473          |
| Deferred                                                         | (121)         | (95)            | 154             |
| <b>U.S.:</b>                                                     |               |                 |                 |
| Current                                                          | 140           | 429             | 115             |
| Deferred                                                         | (270)         | 334             | 2,185           |
| <b>Total</b>                                                     | <b>\$ 185</b> | <b>\$ 1,059</b> | <b>\$ 2,927</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:**

| Years Ended December 31,<br>(dollars in millions)                | 2016                        |                              |                                        | 2015                        |                              |                                        | 2014              |                              |                                 |
|------------------------------------------------------------------|-----------------------------|------------------------------|----------------------------------------|-----------------------------|------------------------------|----------------------------------------|-------------------|------------------------------|---------------------------------|
|                                                                  | Pre-Tax<br>Income<br>(Loss) | Tax<br>Expense/<br>(Benefit) | Percent of<br>Pre-Tax<br>Income (Loss) | Pre-Tax<br>Income<br>(Loss) | Tax<br>Expense/<br>(Benefit) | Percent of<br>Pre-Tax<br>Income (Loss) | Pre-Tax<br>Income | Tax<br>Expense/<br>(Benefit) | Percent of<br>Pre-Tax<br>Income |
| <b>U.S. federal income tax at statutory rate</b>                 | \$ (159)                    | \$ (56)                      | 35.0 %                                 | \$ 3,281                    | \$ 1,148                     | 35.0 %                                 | \$ 10,524         | \$ 3,683                     | 35.0 %                          |
| <b>Adjustments:</b>                                              |                             |                              |                                        |                             |                              |                                        |                   |                              |                                 |
| Tax exempt interest                                              |                             | (178)                        | 111.9                                  |                             | (195)                        | (5.9)                                  |                   | (236)                        | (2.2)                           |
| Uncertain tax positions                                          |                             | 268                          | (168.6)                                |                             | 195                          | 5.9                                    |                   | (81)                         | (0.8)                           |
| Reclassifications from accumulated<br>other comprehensive income |                             | (132)                        | 83.0                                   |                             | (127)                        | (3.9)                                  |                   | (61)                         | (0.6)                           |
| Dispositions of Subsidiaries                                     |                             | 118                          | (74.2)                                 |                             | -                            | -                                      |                   | -                            | -                               |
| Tax Attribute Restoration                                        |                             | (164)                        | 103.1                                  |                             | -                            | -                                      |                   | (182)                        | (1.7)                           |
| Non-controlling Interest                                         |                             | (81)                         | 50.9                                   |                             | -                            | -                                      |                   | -                            | -                               |
| Non-deductible transfer pricing<br>charges                       |                             | 102                          | (64.2)                                 |                             | 97                           | 3.0                                    |                   | 86                           | 0.8                             |
| Dividends received deduction                                     |                             | (75)                         | 47.2                                   |                             | (72)                         | (2.2)                                  |                   | (62)                         | (0.6)                           |
| Effect of foreign operations                                     |                             | 234                          | (147.2)                                |                             | (58)                         | (1.8)                                  |                   | (68)                         | (0.6)                           |
| State income taxes                                               |                             | 23                           | (14.5)                                 |                             | 34                           | 1.0                                    |                   | 39                           | 0.4                             |
| Other                                                            |                             | 13                           | (8.2)                                  |                             | (73)                         | (2.2)                                  |                   | (2)                          | -                               |
| Effect of discontinued operations                                |                             | 35                           | (22.0)                                 |                             | -                            | -                                      |                   | 65                           | 0.6                             |
| <b>Valuation allowance:</b>                                      |                             |                              |                                        |                             |                              |                                        |                   |                              |                                 |
| Continuing operations                                            |                             | 83                           | (52.2)                                 |                             | 110                          | 3.4                                    |                   | (181)                        | (1.7)                           |
| <b>Consolidated total amounts</b>                                | <b>(159)</b>                | <b>190</b>                   | <b>(119.5)</b>                         | <b>3,281</b>                | <b>1,059</b>                 | <b>32.3</b>                            | <b>10,524</b>     | <b>3,000</b>                 | <b>28.5</b>                     |
| Amounts attributable to discontinued<br>operations               | (85)                        | 5                            | (5.9)                                  | -                           | -                            | -                                      | 23                | 73                           | 317.4                           |
| <b>Amounts attributable to continuing<br/>operations</b>         | <b>\$ (74)</b>              | <b>\$ 185</b>                | <b>(250.0)%</b>                        | <b>\$ 3,281</b>             | <b>\$ 1,059</b>              | <b>32.3 %</b>                          | <b>\$ 10,501</b>  | <b>\$ 2,927</b>              | <b>27.9 %</b>                   |

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

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

The following table presents the components of the net deferred tax assets (liabilities):

| December 31,<br>(in millions)                                  | 2016             | 2015             |
|----------------------------------------------------------------|------------------|------------------|
| <b>Deferred tax assets:</b>                                    |                  |                  |
| Losses and tax credit carryforwards                            | \$ 16,448        | \$ 18,680        |
| Basis differences on investments                               | 4,985            | 4,886            |
| Life policy reserves                                           | 3,040            | 353              |
| Accruals not currently deductible, and other                   | 1,128            | 1,003            |
| Investments in foreign subsidiaries                            | 103              | -                |
| Loss reserve discount                                          | 1,151            | 1,021            |
| Loan loss and other reserves                                   | 39               | 8                |
| Unearned premium reserve reduction                             | 924              | 1,603            |
| Flight equipment, fixed assets and intangible assets           | 478              | 129              |
| Other                                                          | 710              | 577              |
| Employee benefits                                              | 1,171            | 1,286            |
| <b>Total deferred tax assets</b>                               | <b>30,177</b>    | <b>29,546</b>    |
| <b>Deferred tax liabilities:</b>                               |                  |                  |
| Investments in foreign subsidiaries                            | -                | (33)             |
| Deferred policy acquisition costs                              | (3,790)          | (3,467)          |
| Unrealized gains related to available for sale debt securities | (2,844)          | (3,077)          |
| <b>Total deferred tax liabilities</b>                          | <b>(6,634)</b>   | <b>(6,577)</b>   |
| <b>Net deferred tax assets before valuation allowance</b>      | <b>23,543</b>    | <b>22,969</b>    |
| Valuation allowance                                            | (2,831)          | (3,012)          |
| <b>Net deferred tax assets (liabilities)</b>                   | <b>\$ 20,712</b> | <b>\$ 19,957</b> |

The following table presents our U.S. consolidated income tax group tax losses and credits carryforwards as of December 31, 2016.

| December 31, 2016<br>(in millions)                                                                             | Gross     | Tax<br>Effected  | Expiration<br>Periods |
|----------------------------------------------------------------------------------------------------------------|-----------|------------------|-----------------------|
| Net operating loss carryforwards                                                                               | \$ 34,618 | \$ 12,116        | 2028 - 2035           |
| Foreign tax credit carryforwards                                                                               |           | 4,917            | 2018 - 2023           |
| Other carryforwards                                                                                            |           | 737              | Various               |
| <b>Total AIG U.S. consolidated income tax group tax losses and credits carryforwards on a tax return basis</b> |           | <b>17,770</b>    |                       |
| Unrecognized tax benefit                                                                                       |           | (2,903)          |                       |
| <b>Total AIG U.S. consolidated income tax group tax losses and credits carryforwards on a U.S. GAAP basis*</b> |           | <b>\$ 14,867</b> |                       |

\* Includes other carryforwards, e.g. general business credits, of \$96 million on a U.S. GAAP basis.

We have U.S. federal consolidated net operating loss and tax credit carryforwards of approximately \$14.9 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.

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, 2016, 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, 2016, 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 decrease to the net deferred tax asset related to net unrealized tax capital losses. As a result, for the year ended December 31, 2016, we released \$682 million of valuation allowance associated with the unrealized tax losses in the U.S. Life Insurance Companies, all of which was allocated to other comprehensive income.

For both the three-month period and the year ended December 31, 2016, recent changes in market conditions and sales of securities that resulted in the reclassification of gains into continuing operations, impacted the unrealized tax gains and losses in the non-life companies' available for sale securities portfolio, resulting in an increase to the net deferred tax asset related to net unrealized tax capital losses. As a result, we established \$260 million of valuation allowance associated with the unrealized tax losses in the non-life companies' available for sale securities portfolio, all of which was recognized in other comprehensive income.

As of December 31, 2016, based on all available evidence, we concluded that a valuation allowance of \$728 million should remain on a portion of the deferred tax asset related to unrealized losses that are not more-likely-than-not to be realized.

During the year ended December 31, 2016, we recognized a net increase of \$69 million in our deferred tax asset valuation allowance associated with certain foreign jurisdictions, primarily attributable to current year losses, changes in projections of taxable income and changes in tax law.

During the year ended December 31, 2016, we recognized a net increase of \$170 million in our deferred tax asset valuation allowance associated with certain state jurisdictions, primarily attributable to current year losses, legislative state tax law changes and changes to state effective tax rates.



The following table presents the net deferred tax assets (liabilities) at December 31, 2016 and 2015 on a U.S. GAAP basis:

| December 31,<br>(in millions)                                                   | 2016             | 2015             |
|---------------------------------------------------------------------------------|------------------|------------------|
| Net U.S. consolidated return group deferred tax assets                          | \$ 24,134        | \$ 24,134        |
| Net deferred tax assets (liabilities) in accumulated other comprehensive income | (2,384)          | (2,806)          |
| Valuation allowance                                                             | (874)            | (1,281)          |
| <b>Subtotal</b>                                                                 | <b>20,876</b>    | <b>20,047</b>    |
| Net foreign, state and local deferred tax assets                                | 2,413            | 2,078            |
| Valuation allowance                                                             | (1,957)          | (1,731)          |
| <b>Subtotal</b>                                                                 | <b>456</b>       | <b>347</b>       |
| <b>Subtotal - Net U.S., foreign, state and local deferred tax assets</b>        | <b>21,332</b>    | <b>20,394</b>    |
| Net foreign, state and local deferred tax liabilities                           | (620)            | (437)            |
| <b>Total AIG net deferred tax assets (liabilities)</b>                          | <b>\$ 20,712</b> | <b>\$ 19,957</b> |

## DEFERRED TAX ASSET VALUATION ALLOWANCE OF U.S. CONSOLIDATED FEDERAL INCOME TAX GROUP

At December 31, 2016 and 2015, our U.S. consolidated income tax group had net deferred tax assets after valuation allowance of \$20.9 billion and \$20.0 billion, respectively. At December 31, 2016 and 2015, our U.S. consolidated income tax group had valuation allowances of \$874 million and \$1.3 billion, respectively.

## DEFERRED TAX LIABILITY — FOREIGN, STATE AND LOCAL

At December 31, 2016 and 2015, we had net deferred tax liabilities of \$164 million and \$90 million, respectively, related to foreign subsidiaries, state and local tax jurisdictions, and certain domestic subsidiaries that file separate tax returns.

At December 31, 2016 and 2015, we had deferred tax asset valuation allowances of \$2 billion and \$1.7 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.

We will vigorously defend our position and continue to believe that we have adequate reserves for any liability that could result from these government actions. We continue to monitor legal and other developments in this area, including recent decisions affecting other taxpayers, and evaluate their effect, if any, on our position.

## 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,<br>(in millions)                 | 2016            | 2015     | 2014     |
|-----------------------------------------------------------|-----------------|----------|----------|
| <b>Gross unrecognized tax benefits, beginning of year</b> | <b>\$ 4,331</b> | \$ 4,395 | \$ 4,340 |
| Increases in tax positions for prior years                | 235             | 162      | 91       |
| Decreases in tax positions for prior years                | (39)            | (209)    | (60)     |
| Increases in tax positions for current year               | 3               | -        | 10       |
| Lapse in statute of limitations                           | -               | (4)      | (6)      |
| Settlements                                               | -               | (13)     | -        |
| Activity of discontinued operations                       | -               | -        | 20       |
| <b>Gross unrecognized tax benefits, end of year</b>       | <b>\$ 4,530</b> | \$ 4,331 | \$ 4,395 |

At December 31, 2016, 2015 and 2014, our unrecognized tax benefits, excluding interest and penalties, were \$4.5 billion, \$4.3 billion and \$4.4 billion, respectively. The activity includes increases for amounts associated with cross border financing transactions partially offset by certain benefits realized due to an agreement reached with the Internal Revenue Service (IRS) related to certain tax issues under audit. At December 31, 2016, 2015 and 2014, our unrecognized tax benefits related to tax positions that, if recognized, would not affect the effective tax rate because they relate to such factors as the timing, rather than the permissibility, of the deduction were \$0.1 billion, \$0.1 billion and \$0.3 billion, respectively. Accordingly, at December 31, 2016, 2015 and 2014, the amounts of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate were \$4.4 billion, \$4.2 billion and \$4.1 billion, respectively.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense. At December 31, 2016, 2015, and 2014, we had accrued liabilities of \$1.2 billion, \$1.2 billion, and \$1.1 billion, respectively, for the payment of interest (net of the federal benefit) and penalties. For the years ended December 31, 2016, 2015, and 2014, we accrued expense of \$26 million, \$156 million and \$21 million, respectively, for the payment of interest (net of the federal benefit) and penalties. The reduction in interest accrued during 2016 as compared to 2015 is primarily related to benefits associated with an agreement reached with the IRS related to certain tax issues under audit, partially offset by an increase associated with cross border financing transactions.

We regularly evaluate adjustments proposed by taxing authorities. At December 31, 2016, such proposed adjustments would not have resulted in a material change to our consolidated financial condition, although it is possible that the effect could be material to our consolidated results of operations for an individual reporting period. Although it is reasonably possible that a change in the balance of unrecognized tax benefits may occur within the next 12 months, based on the information currently available, we do not expect any change to be material to our consolidated financial condition.

Listed below are the tax years that remain subject to examination by major tax jurisdictions:

| At December 31, 2016          | Open Tax Years |
|-------------------------------|----------------|
| <b>Major Tax Jurisdiction</b> |                |
| United States                 | 2000-2015      |
| Australia                     | 2012-2015      |
| France                        | 2014-2015      |
| Japan                         | 2010-2015      |
| Korea                         | 2011-2015      |
| Singapore                     | 2012-2015      |
| United Kingdom                | 2013-2015      |

## 24. Quarterly Financial Information (Unaudited)

## CONSOLIDATED STATEMENTS OF INCOME (LOSS)

|                                                                                       | Three Months Ended |                 |                 |                 |               |                 |                   |                   |
|---------------------------------------------------------------------------------------|--------------------|-----------------|-----------------|-----------------|---------------|-----------------|-------------------|-------------------|
|                                                                                       | March 31,          |                 | June 30,        |                 | September 30, |                 | December 31,      |                   |
|                                                                                       | 2016               | 2015            | 2016            | 2015            | 2016          | 2015            | 2016              | 2015              |
| <i>(dollars in millions, except per share data)</i>                                   |                    |                 |                 |                 |               |                 |                   |                   |
| Total revenues                                                                        | \$ 11,779          | \$ 15,975       | \$ 14,724       | \$ 15,699       | \$ 12,854     | \$ 12,822       | \$ 13,010         | \$ 13,831         |
| Income (loss) from continuing operations before income taxes <sup>*</sup>             | (214)              | 3,776           | 2,858           | 2,552           | 737           | (115)           | (3,455)           | (2,932)           |
| Income (loss) from discontinued operations, net of income taxes                       | (47)               | 1               | (10)            | 16              | 3             | (17)            | (36)              | -                 |
| Net income (loss)                                                                     | (203)              | 2,477           | 1,924           | 1,791           | 436           | (197)           | (2,506)           | (1,849)           |
| Net income (loss) from continuing operations attributable to noncontrolling interests | (20)               | 9               | 11              | (9)             | (26)          | 34              | 535               | (8)               |
| <b>Net income (loss) attributable to AIG<sup>*</sup></b>                              | <b>\$ (183)</b>    | <b>\$ 2,468</b> | <b>\$ 1,913</b> | <b>\$ 1,800</b> | <b>\$ 462</b> | <b>\$ (231)</b> | <b>\$ (3,041)</b> | <b>\$ (1,841)</b> |
| <b>Income (loss) per common share attributable to AIG:</b>                            |                    |                 |                 |                 |               |                 |                   |                   |
| <b>Basic:</b>                                                                         |                    |                 |                 |                 |               |                 |                   |                   |
| Income (loss) from continuing operations                                              | \$ (0.12)          | \$ 1.81         | \$ 1.73         | \$ 1.34         | \$ 0.43       | \$ (0.17)       | \$ (2.93)         | \$ (1.50)         |
| Income (loss) from discontinued operations                                            | \$ (0.04)          | \$ -            | \$ (0.01)       | \$ 0.01         | \$ -          | \$ (0.01)       | \$ (0.03)         | \$ -              |
| <b>Diluted:</b>                                                                       |                    |                 |                 |                 |               |                 |                   |                   |
| Income (loss) from continuing operations                                              | \$ (0.12)          | \$ 1.78         | \$ 1.69         | \$ 1.31         | \$ 0.42       | \$ (0.17)       | \$ (2.93)         | \$ (1.50)         |
| Income (loss) from discontinued operations                                            | \$ (0.04)          | \$ -            | \$ (0.01)       | \$ 0.01         | \$ -          | \$ (0.01)       | \$ (0.03)         | \$ -              |
| <b>Weighted average shares outstanding:</b>                                           |                    |                 |                 |                 |               |                 |                   |                   |
| Basic                                                                                 | 1,156,548,459      | 1,365,951,690   | 1,113,587,927   | 1,329,157,366   | 1,071,295,892 | 1,279,072,748   | 1,023,886,592     | 1,226,880,632     |
| Diluted                                                                               | 1,156,548,459      | 1,386,263,549   | 1,140,045,973   | 1,365,390,431   | 1,102,400,770 | 1,279,072,748   | 1,023,886,592     | 1,226,880,632     |
| <b>Noteworthy quarterly items - income (expense):</b>                                 |                    |                 |                 |                 |               |                 |                   |                   |
| Other-than-temporary impairments                                                      | (204)              | (128)           | (108)           | (164)           | (102)         | (273)           | (145)             | (106)             |
| Net (gain) loss on sale of divested businesses                                        | 2                  | 6               | (225)           | 1               | (128)         | 3               | (194)             | 1                 |
| Federal and foreign valuation allowance for deferred tax assets                       | (37)               | 93              | 35              | (40)            | (2)           | 8               | 87                | 49                |
| Net gain (loss) on extinguishment of debt                                             | (83)               | (68)            | (7)             | (342)           | 14            | (346)           | 2                 | -                 |
| Reserve strengthening charges                                                         | (66)               | 24              | 7               | 317             | 273           | 191             | 5,574             | 3,587             |
| Restructuring and other costs                                                         | 188                | -               | 90              | -               | 210           | 274             | 206               | 222               |

\* 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 pre-tax operating 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. Net income attributable to AIG for the three-month periods ended December 31, 2015, September 30, 2015, June 30, 2015 and March 31, 2015 would have decreased by \$88 million, increased by \$22 million, increased by \$5 million, and decreased by \$5 million, respectively.

For the three months ended December 31, 2015, we recorded out of period adjustments related to prior periods that decreased Net income attributable to AIG by \$193 million, decreased AIG's Income from continuing operations before income taxes by \$308 million and decreased pre-tax operating income by \$122 million. The out of period adjustments primarily related to impairments of Other invested assets and changes in 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 three-month periods ended September 30, 2015, June 30, 2015 and March 31, 2015 would have decreased by \$36 million, increased by \$15 million and decreased by \$16 million, respectively.

## 25. Information Provided in Connection with Outstanding Debt

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

| <i>(in millions)</i>                                              | American<br>International<br>Group, Inc.<br>(As Guarantor) | AIGLH            | Other<br>Subsidiaries | Reclassifications<br>and<br>Eliminations | Consolidated<br>AIG |
|-------------------------------------------------------------------|------------------------------------------------------------|------------------|-----------------------|------------------------------------------|---------------------|
| <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>                                          | <b>11,578</b>                                              | <b>-</b>         | <b>321,937</b>        | <b>(5,340)</b>                           | <b>328,175</b>      |
| Cash                                                              | 2                                                          | 34               | 1,832                 | -                                        | 1,868               |
| 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>   |
| <b>December 31, 2015</b>                                          |                                                            |                  |                       |                                          |                     |
| <b>Assets:</b>                                                    |                                                            |                  |                       |                                          |                     |
| Short-term investments                                            | \$ 4,042                                                   | \$ -             | \$ 9,637              | \$ (3,547)                               | \$ 10,132           |
| Other investments <sup>(a)</sup>                                  | 7,425                                                      | -                | 320,797               | -                                        | 328,222             |
| <b>Total investments</b>                                          | <b>11,467</b>                                              | <b>-</b>         | <b>330,434</b>        | <b>(3,547)</b>                           | <b>338,354</b>      |
| Cash                                                              | 34                                                         | 116              | 1,479                 | -                                        | 1,629               |
| Loans to subsidiaries <sup>(b)</sup>                              | 35,927                                                     | -                | 578                   | (36,505)                                 | -                   |
| Investment in consolidated subsidiaries <sup>(b)</sup>            | 51,151                                                     | 30,239           | -                     | (81,390)                                 | -                   |
| Other assets, including deferred income taxes                     | 23,299                                                     | 258              | 135,690               | (2,388)                                  | 156,859             |
| <b>Total assets</b>                                               | <b>\$ 121,878</b>                                          | <b>\$ 30,613</b> | <b>\$ 468,181</b>     | <b>\$ (123,830)</b>                      | <b>\$ 496,842</b>   |
| <b>Liabilities:</b>                                               |                                                            |                  |                       |                                          |                     |
| Insurance liabilities                                             | \$ -                                                       | \$ -             | \$ 271,645            | \$ -                                     | \$ 271,645          |
| Long-term debt                                                    | 19,777                                                     | 704              | 8,768                 | -                                        | 29,249              |
| Other liabilities, including intercompany balances <sup>(a)</sup> | 11,869                                                     | 201              | 99,777                | (6,109)                                  | 105,738             |
| Loans from subsidiaries <sup>(b)</sup>                            | 574                                                        | 3                | 35,928                | (36,505)                                 | -                   |
| <b>Total liabilities</b>                                          | <b>32,220</b>                                              | <b>908</b>       | <b>416,118</b>        | <b>(42,614)</b>                          | <b>406,632</b>      |
| <b>Total AIG shareholders' equity</b>                             | <b>89,658</b>                                              | <b>29,705</b>    | <b>51,511</b>         | <b>(81,216)</b>                          | <b>89,658</b>       |
| <b>Non-redeemable noncontrolling interests</b>                    | <b>-</b>                                                   | <b>-</b>         | <b>552</b>            | <b>-</b>                                 | <b>552</b>          |
| <b>Total equity</b>                                               | <b>89,658</b>                                              | <b>29,705</b>    | <b>52,063</b>         | <b>(81,216)</b>                          | <b>90,210</b>       |
| <b>Total liabilities and equity</b>                               | <b>\$ 121,878</b>                                          | <b>\$ 30,613</b> | <b>\$ 468,181</b>     | <b>\$ (123,830)</b>                      | <b>\$ 496,842</b>   |

(a) Includes intercompany derivative positions, which are reported at fair value before credit valuation adjustment.

(b) Eliminated in consolidation.

## CONDENSED CONSOLIDATING STATEMENTS OF INCOME (LOSS)

| <i>(in millions)</i>                                                                         | American<br>International<br>Group, Inc.<br>(As Guarantor) | AIGLH           | Other<br>Subsidiaries | Reclassifications<br>and<br>Eliminations | Consolidated<br>AIG |
|----------------------------------------------------------------------------------------------|------------------------------------------------------------|-----------------|-----------------------|------------------------------------------|---------------------|
| <b>Year Ended December 31, 2016</b>                                                          |                                                            |                 |                       |                                          |                     |
| <b>Revenues:</b>                                                                             |                                                            |                 |                       |                                          |                     |
| Equity in earnings of consolidated subsidiaries *                                            | \$ (1,269)                                                 | \$ (197)        | \$ -                  | \$ 1,466                                 | -                   |
| Other income                                                                                 | 516                                                        | 5               | 52,875                | (1,029)                                  | 52,367              |
| <b>Total revenues</b>                                                                        | <b>(753)</b>                                               | <b>(192)</b>    | <b>52,875</b>         | <b>437</b>                               | <b>52,367</b>       |
| <b>Expenses:</b>                                                                             |                                                            |                 |                       |                                          |                     |
| Interest expense                                                                             | 988                                                        | 51              | 227                   | (6)                                      | 1,260               |
| Loss on extinguishment of debt                                                               | 77                                                         | -               | (3)                   | -                                        | 74                  |
| Other expenses                                                                               | 295                                                        | 16              | 51,819                | (1,023)                                  | 51,107              |
| <b>Total expenses</b>                                                                        | <b>1,360</b>                                               | <b>67</b>       | <b>52,043</b>         | <b>(1,029)</b>                           | <b>52,441</b>       |
| Income (loss) from continuing operations before income tax expense (benefit)                 | (2,113)                                                    | (259)           | 832                   | 1,466                                    | (74)                |
| Income tax expense (benefit)                                                                 | (1,301)                                                    | (21)            | 1,507                 | -                                        | 185                 |
| <b>Income (loss) from continuing operations</b>                                              | <b>(812)</b>                                               | <b>(238)</b>    | <b>(675)</b>          | <b>1,466</b>                             | <b>(259)</b>        |
| <b>Loss from discontinued operations, net of income taxes</b>                                | <b>(37)</b>                                                | <b>-</b>        | <b>(53)</b>           | <b>-</b>                                 | <b>(90)</b>         |
| <b>Net income (loss)</b>                                                                     | <b>(849)</b>                                               | <b>(238)</b>    | <b>(728)</b>          | <b>1,466</b>                             | <b>(349)</b>        |
| <b>Less:</b>                                                                                 |                                                            |                 |                       |                                          |                     |
| <b>Net income from continuing operations attributable to noncontrolling interests</b>        | <b>-</b>                                                   | <b>-</b>        | <b>500</b>            | <b>-</b>                                 | <b>500</b>          |
| <b>Net income (loss) attributable to AIG</b>                                                 | <b>\$ (849)</b>                                            | <b>\$ (238)</b> | <b>\$ (1,228)</b>     | <b>\$ 1,466</b>                          | <b>\$ (849)</b>     |
| <b>Year Ended December 31, 2015</b>                                                          |                                                            |                 |                       |                                          |                     |
| <b>Revenues:</b>                                                                             |                                                            |                 |                       |                                          |                     |
| Equity in earnings of consolidated subsidiaries *                                            | \$ 3,954                                                   | \$ 1,936        | \$ -                  | \$ (5,890)                               | -                   |
| Other income                                                                                 | 88                                                         | -               | 58,953                | (714)                                    | 58,327              |
| <b>Total revenues</b>                                                                        | <b>4,042</b>                                               | <b>1,936</b>    | <b>58,953</b>         | <b>(6,604)</b>                           | <b>58,327</b>       |
| <b>Expenses:</b>                                                                             |                                                            |                 |                       |                                          |                     |
| 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              |
| <b>Total expenses</b>                                                                        | <b>2,930</b>                                               | <b>102</b>      | <b>52,722</b>         | <b>(708)</b>                             | <b>55,046</b>       |
| 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               |
| <b>Income (loss) from continuing operations</b>                                              | <b>2,198</b>                                               | <b>1,907</b>    | <b>4,013</b>          | <b>(5,896)</b>                           | <b>2,222</b>        |
| <b>Income (loss) from discontinued operations, net of income taxes</b>                       | <b>(2)</b>                                                 | <b>-</b>        | <b>2</b>              | <b>-</b>                                 | <b>-</b>            |
| <b>Net income (loss)</b>                                                                     | <b>2,196</b>                                               | <b>1,907</b>    | <b>4,015</b>          | <b>(5,896)</b>                           | <b>2,222</b>        |
| <b>Less:</b>                                                                                 |                                                            |                 |                       |                                          |                     |
| <b>Net income (loss) from continuing operations attributable to noncontrolling interests</b> | <b>-</b>                                                   | <b>-</b>        | <b>26</b>             | <b>-</b>                                 | <b>26</b>           |
| <b>Net income (loss) attributable to AIG</b>                                                 | <b>\$ 2,196</b>                                            | <b>\$ 1,907</b> | <b>\$ 3,989</b>       | <b>\$ (5,896)</b>                        | <b>\$ 2,196</b>     |

**Year Ended December 31, 2014****Revenues:**

|                                                   |    |               |    |              |    |               |    |                 |    |               |
|---------------------------------------------------|----|---------------|----|--------------|----|---------------|----|-----------------|----|---------------|
| Equity in earnings of consolidated subsidiaries * | \$ | 9,450         | \$ | 3,519        | \$ | -             | \$ | (12,969)        | \$ | -             |
| Other income                                      |    | 1,658         |    | -            |    | 63,157        |    | (409)           |    | 64,406        |
| <b>Total revenues</b>                             |    | <b>11,108</b> |    | <b>3,519</b> |    | <b>63,157</b> |    | <b>(13,378)</b> |    | <b>64,406</b> |

**Expenses:**

|                                |  |              |  |            |  |               |  |              |  |               |
|--------------------------------|--|--------------|--|------------|--|---------------|--|--------------|--|---------------|
| Other interest expense         |  | 1,507        |  | 100        |  | 243           |  | (132)        |  | 1,718         |
| Loss on extinguishment of debt |  | 2,248        |  | -          |  | 85            |  | (51)         |  | 2,282         |
| Other expenses                 |  | 1,546        |  | 203        |  | 48,315        |  | (159)        |  | 49,905        |
| <b>Total expenses</b>          |  | <b>5,301</b> |  | <b>303</b> |  | <b>48,643</b> |  | <b>(342)</b> |  | <b>53,905</b> |

Income (loss) from continuing operations before income tax

|                              |  |         |  |       |  |        |  |          |  |        |
|------------------------------|--|---------|--|-------|--|--------|--|----------|--|--------|
| expense (benefit)            |  | 5,807   |  | 3,216 |  | 14,514 |  | (13,036) |  | 10,501 |
| Income tax expense (benefit) |  | (1,735) |  | (103) |  | 4,817  |  | (52)     |  | 2,927  |

**Income (loss) from continuing operations** 7,542 3,319 9,697 (12,984) 7,574**Loss from discontinued operations, net of income taxes** (13) - (37) - (50)**Net income (loss)** 7,529 3,319 9,660 (12,984) 7,524**Less:****Net loss from continuing operations attributable to****noncontrolling interests** - - (5) - (5)**Net income (loss) attributable to AIG** \$ 7,529 \$ 3,319 \$ 9,665 \$ (12,984) \$ 7,529

\* Eliminated in consolidation.



**CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

| <i>(in millions)</i>                                                | American<br>International<br>Group, Inc.<br>(As Guarantor) | AIGLH           | Other<br>Subsidiaries | Reclassifications<br>and<br>Eliminations | Consolidated<br>AIG |
|---------------------------------------------------------------------|------------------------------------------------------------|-----------------|-----------------------|------------------------------------------|---------------------|
| <b>Year Ended December 31, 2016</b>                                 |                                                            |                 |                       |                                          |                     |
| Net income (loss)                                                   | \$ (849)                                                   | \$ (238)        | \$ (728)              | \$ 1,466                                 | \$ (349)            |
| Other comprehensive income (loss)                                   | 693                                                        | 4,080           | 52,153                | (56,233)                                 | 693                 |
| <b>Comprehensive income (loss)</b>                                  | <b>(156)</b>                                               | <b>3,842</b>    | <b>51,425</b>         | <b>(54,767)</b>                          | <b>344</b>          |
| Total comprehensive income attributable to noncontrolling interests | -                                                          | -               | 500                   | -                                        | 500                 |
| <b>Comprehensive income (loss) attributable to AIG</b>              | <b>\$ (156)</b>                                            | <b>\$ 3,842</b> | <b>\$ 50,925</b>      | <b>\$ (54,767)</b>                       | <b>\$ (156)</b>     |
| <b>Year Ended December 31, 2015</b>                                 |                                                            |                 |                       |                                          |                     |
| Net income (loss)                                                   | \$ 2,196                                                   | \$ 1,907        | \$ 4,015              | \$ (5,896)                               | 2,222               |
| Other comprehensive income (loss)                                   | (8,080)                                                    | 2,320           | 54,757                | (57,083)                                 | (8,086)             |
| <b>Comprehensive income (loss)</b>                                  | <b>(5,884)</b>                                             | <b>4,227</b>    | <b>58,772</b>         | <b>(62,979)</b>                          | <b>(5,864)</b>      |
| Total comprehensive income attributable to noncontrolling interests | -                                                          | -               | 20                    | -                                        | 20                  |
| <b>Comprehensive income (loss) attributable to AIG</b>              | <b>\$ (5,884)</b>                                          | <b>\$ 4,227</b> | <b>\$ 58,752</b>      | <b>\$ (62,979)</b>                       | <b>\$ (5,884)</b>   |
| <b>Year Ended December 31, 2014</b>                                 |                                                            |                 |                       |                                          |                     |
| Net income (loss)                                                   | \$ 7,529                                                   | \$ 3,319        | \$ 9,660              | \$ (12,984)                              | 7,524               |
| Other comprehensive income (loss)                                   | 4,257                                                      | 2,794           | 3,235                 | (6,029)                                  | 4,257               |
| <b>Comprehensive income (loss)</b>                                  | <b>11,786</b>                                              | <b>6,113</b>    | <b>12,895</b>         | <b>(19,013)</b>                          | <b>11,781</b>       |
| Total comprehensive loss attributable to noncontrolling interests   | -                                                          | -               | (5)                   | -                                        | (5)                 |
| <b>Comprehensive income (loss) attributable to AIG</b>              | <b>\$ 11,786</b>                                           | <b>\$ 6,113</b> | <b>\$ 12,900</b>      | <b>\$ (19,013)</b>                       | <b>\$ 11,786</b>    |

## 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 | Consolidated<br>AIG |
|------------------------------------------------------------|------------------------------------------------------------|-----------------|-----------------------|------------------------------------------|---------------------|
| <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>\$ 2,383</b>     |
| <b>Cash flows from investing activities:</b>               |                                                            |                 |                       |                                          |                     |
| Sales of investments                                       | 5,769                                                      | -               | 81,560                | (11,685)                                 | 75,644              |
| Sales of divested businesses, net                          | 2,160                                                      | -               | 649                   | -                                        | 2,809               |
| Purchase of investments                                    | (1,002)                                                    | -               | (80,668)              | 11,685                                   | (69,985)            |
| Loans to subsidiaries – net                                | 1,525                                                      | -               | (3)                   | (1,522)                                  | -                   |
| Contributions from (to) subsidiaries - net                 | 1,637                                                      | -               | -                     | (1,637)                                  | -                   |
| Net change in restricted cash                              | -                                                          | -               | 385                   | -                                        | 385                 |
| Net change in short-term investments                       | (789)                                                      | -               | (2,300)               | -                                        | (3,089)             |
| Other, net                                                 | (141)                                                      | -               | (879)                 | -                                        | (1,020)             |
| <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>4,744</b>        |
| <b>Cash flows from financing activities:</b>               |                                                            |                 |                       |                                          |                     |
| Issuance of long-term debt                                 | 3,831                                                      | -               | 2,123                 | -                                        | 5,954               |
| Repayments of long-term debt                               | (1,996)                                                    | (63)            | (2,023)               | -                                        | (4,082)             |
| Purchase of Common Stock                                   | (11,460)                                                   | -               | -                     | -                                        | (11,460)            |
| Intercompany loans - net                                   | 3                                                          | (3)             | (1,522)               | 1,522                                    | -                   |
| Cash dividends paid                                        | (1,372)                                                    | (1,723)         | (2,228)               | 3,951                                    | (1,372)             |
| Other, net                                                 | (309)                                                      | -               | 2,799                 | 1,637                                    | 4,127               |
| <b>Net cash (used in) financing activities</b>             | <b>(11,303)</b>                                            | <b>(1,789)</b>  | <b>(851)</b>          | <b>7,110</b>                             | <b>(6,833)</b>      |
| Effect of exchange rate changes on cash                    | -                                                          | -               | 52                    | -                                        | 52                  |
| <b>Change in cash</b>                                      | <b>(32)</b>                                                | <b>(82)</b>     | <b>460</b>            | <b>-</b>                                 | <b>346</b>          |
| <b>Cash at beginning of year</b>                           | <b>34</b>                                                  | <b>116</b>      | <b>1,479</b>          | <b>-</b>                                 | <b>1,629</b>        |
| <b>Change in cash of businesses held for sale</b>          | <b>-</b>                                                   | <b>-</b>        | <b>(107)</b>          | <b>-</b>                                 | <b>(107)</b>        |
| <b>Cash at end of year</b>                                 | <b>\$ 2</b>                                                | <b>\$ 34</b>    | <b>\$ 1,832</b>       | <b>\$ -</b>                              | <b>\$ 1,868</b>     |
| <b>Year Ended December 31, 2015</b>                        |                                                            |                 |                       |                                          |                     |
| <b>Net cash (used in) provided by operating activities</b> | <b>\$ 4,443</b>                                            | <b>\$ 2,314</b> | <b>\$ 1,112</b>       | <b>\$ (4,992)</b>                        | <b>\$ 2,877</b>     |
| <b>Cash flows from investing activities:</b>               |                                                            |                 |                       |                                          |                     |
| 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 from (to) subsidiaries - net                 | 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>        |
| <b>Cash flows from financing activities:</b>               |                                                            |                 |                       |                                          |                     |
| 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                                        | (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)                |
| <b>Change in cash</b>                                      | <b>8</b>                                                   | <b>25</b>       | <b>(162)</b>          | <b>-</b>                                 | <b>(129)</b>        |
| <b>Cash at beginning of year</b>                           | <b>26</b>                                                  | <b>91</b>       | <b>1,641</b>          | <b>-</b>                                 | <b>1,758</b>        |
| <b>Change in cash of businesses held for sale</b>          | <b>-</b>                                                   | <b>-</b>        | <b>-</b>              | <b>-</b>                                 | <b>-</b>            |
| <b>Cash at end of year</b>                                 | <b>\$ 34</b>                                               | <b>\$ 116</b>   | <b>\$ 1,479</b>       | <b>\$ -</b>                              | <b>\$ 1,629</b>     |

| <b>Year Ended December 31, 2014</b>                        |    |                 |    |                |    |                 |    |               |    |                 |
|------------------------------------------------------------|----|-----------------|----|----------------|----|-----------------|----|---------------|----|-----------------|
| <b>Net cash (used in) provided by operating activities</b> | \$ | 9,316           | \$ | 6,155          | \$ | 8,979           | \$ | (19,443)      | \$ | 5,007           |
| <b>Cash flows from investing activities:</b>               |    |                 |    |                |    |                 |    |               |    |                 |
| Sales of investments                                       |    | 3,036           |    | -              |    | 65,108          |    | (2,040)       |    | 66,104          |
| Purchase of investments                                    |    | (1,051)         |    | -              |    | (59,099)        |    | 2,040         |    | (58,110)        |
| Loans to subsidiaries – net                                |    | 446             |    | -              |    | 169             |    | (615)         |    | -               |
| Contributions to subsidiaries                              |    | (148)           |    | -              |    | 296             |    | (148)         |    | -               |
| Net change in restricted cash                              |    | (501)           |    | -              |    | (946)           |    | -             |    | (1,447)         |
| Net change in short-term investments                       |    | 5,792           |    | -              |    | 2,968           |    | -             |    | 8,760           |
| Other, net                                                 |    | (141)           |    | -              |    | (882)           |    | -             |    | (1,023)         |
| <b>Net cash (used in) provided by investing activities</b> |    | <b>7,433</b>    |    | <b>-</b>       |    | <b>7,614</b>    |    | <b>(763)</b>  |    | <b>14,284</b>   |
| <b>Cash flows from financing activities:</b>               |    |                 |    |                |    |                 |    |               |    |                 |
| Issuance of long-term debt                                 |    | 3,247           |    | -              |    | 3,440           |    | -             |    | 6,687           |
| Repayments of long-term debt                               |    | (14,468)        |    | (477)          |    | (1,215)         |    | -             |    | (16,160)        |
| Intercompany loans - net                                   |    | 110             |    | (280)          |    | (445)           |    | 615           |    | -               |
| Purchase of common stock                                   |    | (4,902)         |    | -              |    | -               |    | -             |    | (4,902)         |
| Cash dividends paid to shareholders                        |    | (712)           |    | (5,358)        |    | (14,085)        |    | 19,443        |    | (712)           |
| Other, net                                                 |    | (28)            |    | -              |    | (4,821)         |    | 148           |    | (4,701)         |
| <b>Net cash (used in) provided by financing activities</b> |    | <b>(16,753)</b> |    | <b>(6,115)</b> |    | <b>(17,126)</b> |    | <b>20,206</b> |    | <b>(19,788)</b> |
| Effect of exchange rate changes on cash                    |    | -               |    | -              |    | (74)            |    | -             |    | (74)            |
| <b>Change in cash</b>                                      |    | <b>(4)</b>      |    | <b>40</b>      |    | <b>(607)</b>    |    | <b>-</b>      |    | <b>(571)</b>    |
| <b>Cash at beginning of year</b>                           |    | <b>30</b>       |    | <b>51</b>      |    | <b>2,160</b>    |    | <b>-</b>      |    | <b>2,241</b>    |
| <b>Change in cash of businesses held for sale</b>          |    | <b>-</b>        |    | <b>-</b>       |    | <b>88</b>       |    | <b>-</b>      |    | <b>88</b>       |
| <b>Cash at end of year</b>                                 | \$ | <b>26</b>       | \$ | <b>91</b>      | \$ | <b>1,641</b>    | \$ | <b>-</b>      | \$ | <b>1,758</b>    |

**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 | Reclassifications<br>and<br>Eliminations | Consolidated<br>AIG |
|--------------------------------------------------------------------------|------------------------------------------------------------|---------|-----------------------|------------------------------------------|---------------------|
| <b>Cash (paid) received during the year ended December 31, 2016 for:</b> |                                                            |         |                       |                                          |                     |
| <b>Interest:</b>                                                         |                                                            |         |                       |                                          |                     |
| Third party                                                              | \$ (975)                                                   | \$ (52) | \$ (304)              | \$ -                                     | \$ (1,331)          |
| Intercompany                                                             | 2                                                          | -       | (2)                   | -                                        | -                   |
| <b>Taxes:</b>                                                            |                                                            |         |                       |                                          |                     |
| Income tax authorities                                                   | \$ (15)                                                    | \$ -    | \$ (478)              | \$ -                                     | \$ (493)            |
| 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)              | \$ -                                     | \$ (1,368)          |
| Intercompany                                                             | -                                                          | -       | -                     | -                                        | -                   |
| <b>Taxes:</b>                                                            |                                                            |         |                       |                                          |                     |
| Income tax authorities                                                   | \$ (11)                                                    | \$ -    | \$ (500)              | \$ -                                     | \$ (511)            |
| Intercompany                                                             | 829                                                        | -       | (829)                 | -                                        | -                   |
| <b>Cash (paid) received during the year ended December 31, 2014 for:</b> |                                                            |         |                       |                                          |                     |
| <b>Interest:</b>                                                         |                                                            |         |                       |                                          |                     |
| Third party*                                                             | \$ (1,624)                                                 | \$ (87) | \$ (1,656)            | \$ -                                     | \$ (3,367)          |
| Intercompany                                                             | 5                                                          | (7)     | 2                     | -                                        | -                   |
| <b>Taxes:</b>                                                            |                                                            |         |                       |                                          |                     |
| Income tax authorities                                                   | \$ (18)                                                    | \$ -    | \$ (719)              | \$ -                                     | \$ (737)            |
| Intercompany                                                             | 1,172                                                      | -       | (1,172)               | -                                        | -                   |

**AMERICAN INTERNATIONAL GROUP, INC. (AS GUARANTOR) SUPPLEMENTARY DISCLOSURE OF NON-CASH ACTIVITIES:**

| <i>(in millions)</i>                                                 | 2016     | 2015   | 2014     |
|----------------------------------------------------------------------|----------|--------|----------|
| <b>Years Ended December 31,</b>                                      |          |        |          |
| <b>Intercompany non-cash financing and investing activities:</b>     |          |        |          |
| Capital contributions                                                | \$ 3,245 | \$ 494 | \$ 2,457 |
| Dividends received in the form of securities                         | 5,234    | 2,326  | 3,088    |
| Return of capital                                                    | -        | -      | 4,836    |
| 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 UGC                     | 1,101    | -      | -        |

\* Includes \$4.8 billion return of capital from AIG Capital Corporation related to the sale of ILFC.

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## 26. Subsequent Events

### DIVIDENDS DECLARED AND SHARE REPURCHASE AUTHORIZATION

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 February 14, 2017, our Board of Directors authorized an additional increase to its previous repurchase authorization of AIG Common Stock of \$3.5 billion, resulting in an aggregate remaining authorization on such date of approximately \$4.7 billion.

### REINSURANCE AGREEMENT

On January 20, 2017, we announced that we have entered into an adverse development reinsurance agreement with NICO, a subsidiary of Berkshire Hathaway Inc., under which we ceded to NICO 80 percent of reserve risk above an attachment point on substantially all of our U.S. Commercial long-tail exposures for accident years 2015 and prior. Under this agreement, we ceded to NICO 80 percent of net paid losses on subject business on or after January 1, 2016 in excess of \$25 billion of net paid losses, up to an aggregate limit of \$25 billion. At NICO's 80 percent share, NICO's limit of liability under the contract is \$20 billion. We will account for this transaction as retroactive reinsurance. The consideration for this agreement is \$9.8 billion plus interest at 4 percent per annum from January 1, 2016 to date of payment, which was paid in full as of February 17, 2017. The consideration paid to NICO will be placed into a collateral trust account as security for NICO's claim payment obligations, and Berkshire Hathaway Inc. has provided a parental guarantee to secure NICO's obligations under the agreement.

# Part II

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## 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, 2016. 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, 2016.

### 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, 2016 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, 2016, 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, 2016 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, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## Part III

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### ITEM 10 | Directors, Executive Officers and Corporate Governance

All information required by Items 10, 11, 12, 13 and 14 of this Form 10-K will be included in a Form 10-K/A that will be filed with the SEC not later than 120 days after the end of AIG's fiscal year.

### 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

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### 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.

# 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 23rd of February, 2017.

## AMERICAN INTERNATIONAL GROUP, INC.

By                     /s/ PETER D. HANCOCK                      
(Peter D. Hancock, President and Chief Executive Officer)

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Peter D. Hancock 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 23rd of February, 2017.

| SIGNATURE                                                   | TITLE                                                                                                                     |
|-------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| /s/ PETER D. HANCOCK<br>_____<br>(Peter D. Hancock)         | <b>President, Chief Executive Officer and Director<br/>(Principal Executive Officer)</b>                                  |
| /s/ SIDDHARTHA SANKARAN<br>_____<br>(Siddhartha Sankaran)   | <b>Executive Vice President and Chief Financial Officer<br/>(Principal Financial Officer)</b>                             |
| /s/ ELIAS F. HABAYEB<br>_____<br>(Elias F. Habayeb)         | <b>Senior Vice President – Deputy Chief Financial Officer and<br/>Group Controller<br/>(Principal Accounting Officer)</b> |
| /s/ W. DON CORNWELL<br>_____<br>(W. Don Cornwell)           | <b>Director</b>                                                                                                           |
| /s/ PETER R. FISHER<br>_____<br>(Peter R. Fisher)           | <b>Director</b>                                                                                                           |
| /s/ JOHN H. FITZPATRICK<br>_____<br>(John H. Fitzpatrick)   | <b>Director</b>                                                                                                           |
| /s/ WILLIAM G. JURGENSEN<br>_____<br>(William G. Jurgensen) | <b>Director</b>                                                                                                           |
| /s/ CHRISTOPHER S. LYNCH<br>_____<br>(Christopher S. Lynch) | <b>Director</b>                                                                                                           |

|                           |                 |
|---------------------------|-----------------|
| /s/ SAMUEL J. MERKSAMER   |                 |
| (Samuel J. Merksamer)     | <b>Director</b> |
| /s/ GEORGE L. MILES, JR.  |                 |
| (George L. Miles, Jr.)    | <b>Director</b> |
| /s/ HENRY S. MILLER       |                 |
| (Henry S. Miller)         | <b>Director</b> |
| /s/ ROBERT S. MILLER      |                 |
| (Robert 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/ JOHN A. PAULSON       |                 |
| (John A. Paulson)         | <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> |

# Exhibit Index

| Exhibit Number | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Location                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2              | Plan of acquisition, reorganization, arrangement, liquidation or succession<br><br>(1) Master Transaction Agreement, dated as of December 8, 2010, among AIG, ALICO Holdings LLC, AIA Aurora LLC, the Federal Reserve Bank of New York, the United States Department of the Treasury and the AIG Credit Facility Trust                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Incorporated by reference to Exhibit 2.1 to AIG's Current Report on Form 8-K filed with the SEC on December 8, 2010 (File No. 1-8787).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 3              | Articles of incorporation and by-laws                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| 3(i)           | Amended and Restated Certificate of Incorporation of AIG                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Incorporated by reference to Exhibit 3.1 to AIG's Current Report on Form 8-K filed with the SEC on May 12, 2014 (File No. 1-8787).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 3(ii)          | AIG By-laws, amended November 16, 2015                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Incorporated by reference to Exhibit 3.1 to AIG's Current Report on Form 8-K filed with the SEC on November 16, 2015 (File No. 1-8787).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 4              | Instruments defining the rights of security holders, including indentures<br><br>(1) Credit Agreement, dated as of September 22, 2008, between AIG and Federal Reserve Bank of New York<br><br>(2) Warrant Agreement (including Form of Warrant), dated as of January 6, 2011, between AIG and Wells Fargo Bank, N.A., as Warrant Agent<br><br>(3) Tax Asset Protection Plan, dated as of March 9, 2011, between AIG and Wells Fargo Bank, N.A., as Rights Agent, including as Exhibit A the forms of Rights Certificate and of Election to Exercise<br><br>(4) Amendment No. 1, dated as of January 8, 2014, to Tax Asset Protection Plan, between AIG and Wells Fargo Bank, National Association, as Rights Agent<br><br>(5) 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 | 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.<br><br>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).<br><br>Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on January 7, 2011 (File No. 1-8787).<br><br>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).<br><br>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).<br><br>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). |
| 9              | Voting Trust Agreement                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | None.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| 10             | Material contracts<br><br>(1) AIG Amended and Restated 1999 Stock Option Plan*<br><br>(2) Form of Stock Option Grant Agreement under the AIG Amended and Restated 1999 Stock Option Plan*<br><br>(3) AIG Executive Deferred Compensation Plan*<br><br>(4) AIG Supplemental Incentive Savings Plan*                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Filed as exhibit to AIG's Definitive Proxy Statement dated April 4, 2003 (File No. 1-8787) and incorporated herein by reference.<br><br>Incorporated by reference to Exhibit 10(a) to AIG's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (File No. 1-8787).<br><br>Incorporated by reference to Exhibit 4(a) to AIG's Registration Statement on Form S-8 (File No. 333-101640).<br><br>Incorporated by reference to Exhibit 4(b) to AIG's Registration Statement on Form S-8 (File No. 333-101640).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

|                                                                                                                                                                                                                                                                                     |                                                                                                                                                                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (5) AIG Director Stock Plan*                                                                                                                                                                                                                                                        | Filed as an exhibit to AIG's Definitive Proxy Statement dated April 5, 2004 (File No. 1-8787) and incorporated herein by reference.                             |
| (6) Amended and Restated American General Supplemental Thrift Plan (December 31, 1998)*                                                                                                                                                                                             | Incorporated by reference to Exhibit 10.15 to American General Corporation's Annual Report on Form 10-K for the year ended December 31, 2000 (File No. 1-7981). |
| (7) AIG Amended and Restated Executive Severance Plan*                                                                                                                                                                                                                              | Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on September 26, 2008 (File No. 1-8787).                       |
| (8) Assurance Agreement, by AIG in favor of eligible employees, dated as of June 27, 2005, relating to certain obligations of Starr International Company, Inc.*                                                                                                                    | Incorporated by reference to Exhibit 10(6) to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 (File No. 1-8787).                       |
| (9) Final Judgment and Consent with the Securities and Exchange Commission, including the related complaint, dated February 9, 2006                                                                                                                                                 | Incorporated by reference to Exhibit 10.2 to AIG's Current Report on Form 8-K filed with the SEC on February 9, 2006 (File No. 1-8787).                         |
| (10) Agreement between the Attorney General of the State of New York and AIG and its Subsidiaries, dated January 18, 2006                                                                                                                                                           | Incorporated by reference to Exhibit 10.3 to AIG's Current Report on Form 8-K filed with the SEC on February 9, 2006 (File No. 1-8787).                         |
| (11) AIG Amended and Restated 2007 Stock Incentive Plan*                                                                                                                                                                                                                            | Incorporated by reference to Exhibit 10.62 to AIG's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-8787).                          |
| (12) AIG Form of Stock Option Award Agreement*                                                                                                                                                                                                                                      | Incorporated by reference to Exhibit 10.A to AIG's Registration Statement on Form S-8 (File No. 333-148148).                                                    |
| (13) AIG Amended and Restated Form of Non-Employee Director Deferred Stock Units Award Agreement*                                                                                                                                                                                   | Incorporated by reference to Exhibit 10.69 to AIG's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-8787).                          |
| (14) Memorandum of Understanding, dated November 25, 2009, between AIG, Maurice R. Greenberg, Howard I. Smith, C.V. Starr and Star International Company, Inc.                                                                                                                      | Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on November 25, 2009 (File No. 1-8787).                        |
| (15) Master Investment and Credit Agreement, dated as of November 25, 2008, among Maiden Lane III LLC, the Federal Reserve Bank of New York, AIG and the Bank of New York Mellon                                                                                                    | Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on December 2, 2008 (File No. 1-8787).                         |
| (16) Asset Purchase Agreement, dated as of December 12, 2008, among the Sellers party thereto, AIF Securities Lending Corp., AIG, Maiden Lane II LLC and the Federal Reserve Bank of New York                                                                                       | 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).                        |
| (17) AIG Credit Facility Trust Agreement, dated as of January 16, 2009, among the Federal Reserve Bank of New York and Jill M. Considine, Chester B. Feldberg and Douglas L. Foshee, as Trustees                                                                                    | 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).                         |
| (18) Third Amended and Restated Credit Agreement, dated as of November 5, 2015, among AIG, the subsidiary borrowers party thereto, the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and each Several L/C Agent party thereto                          | Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on November 5, 2015 (File No. 1-8787).                         |
| (19) Amendment Letter to the Third Amended and Restated Credit Agreement, effective as of July 15, 2016, 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 | Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on July 15, 2016 (File No. 1-8787).                            |
| (20) American International Group, Inc. 2010 Stock Incentive Plan*                                                                                                                                                                                                                  | Incorporated by reference to AIG's Definitive Proxy Statement, dated April 12, 2010 (Filed No. 1-8787).                                                         |
| (21) AIG Amended Form of 2010 Stock Incentive Plan DSU Award Agreement*                                                                                                                                                                                                             | 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).                       |

|                                                                                                            |                                                                                                                                                                       |
|------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (22) Release and Restrictive Covenant Agreement between AIG and Peter Hancock*                             | 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).                               |
| (23) Non-Competition and Non-Solicitation Agreement between AIG and Peter Hancock, dated February 8, 2010* | Incorporated by reference to Exhibit 99.4 to AIG's Current Report on Form 8-K filed with the SEC on February 8, 2010 (File No. 1-8787).                               |
| (24) Letter Agreement, dated August 14, 2013, between AIG and Kevin Hogan*                                 | Incorporated by reference to Exhibit 10.2 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (File No. 1-8787).                              |
| (25) Non-Solicitation and Non-Disclosure Agreement, dated August 14, 2013, between AIG and Kevin Hogan*    | Incorporated by reference to Exhibit 10.3 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (File No. 1-8787).                              |
| (26) Introductory Bonus Agreement, dated August 14, 2013, between AIG and Kevin Hogan*                     | Incorporated by reference to Exhibit 10.4 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (File No. 1-8787).                              |
| (27) Letter Agreement, dated August 27, 2014, between AIG and Philip Fasano*                               | Incorporated by reference to Exhibit 10.3 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 (File No. 1-8787).                              |
| (28) Non-Solicitation and Non-Disclosure Agreement, dated August 29, 2014, between AIG and Philip Fasano*  | Incorporated by reference to Exhibit 10.4 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 (File No. 1-8787).                              |
| (29) Executive Officer Form of Release and Restrictive Covenant Agreement*                                 | 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).                              |
| (30) AIG Non-Qualified Retirement Income Plan (as amended)*                                                | Incorporated by reference to Exhibit 10.1 to AIG's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 (File No. 1-8787).                          |
| (31) AIG Supplemental Executive Retirement Plan (as amended)*                                              | Incorporated by reference to Exhibit 10.2 to AIG's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 (File No. 1-8787).                          |
| (32) American General Corporation Supplemental Executive Retirement Plan*                                  | Incorporated by reference to Exhibit 10.1 to American General Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998 (File No. 1-7981). |
| (33) Amendment Number One to the American General Corporation Supplemental Executive Retirement Plan*      | Incorporated by reference to Exhibit 10.73 to AIG's Annual Report on Form 10-K for the year ended December 31, 2012 (File No. 1-8787).                                |
| (34) Amendment Number Two to the American General Corporation' Supplemental Executive Retirement Plan*     | Incorporated by reference to Exhibit 10.74 to AIG's Annual Report on Form 10-K for the year ended December 31, 2012 (File No. 1-8787).                                |



|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                              |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>(35) 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 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</p> | <p>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).</p>              |
| <p>(36) Amended and Restated Unconditional Capital Maintenance Agreement, dated as of February 18, 2014, between American International Group, Inc. and AGC Life Insurance Company</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <p>Incorporated by reference to Exhibit 10.58 to AIG's Annual Report on Form 10-K for the year ended December 31, 2013 (File No. 1-8787).</p>                |
| <p>(37) AIG 2013 Long-Term Incentive Plan (as amended)*</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <p>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).</p>                |
| <p>(38) Form of 2013 Long-Term Incentive Plan Performance Share Units Award Agreement*</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | <p>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).</p>                 |
| <p>(39) Form of 2015 Performance Share Units Award Agreement*</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | <p>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).</p>              |
| <p>(40) AIG Clawback Policy*</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <p>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).</p>                 |
| <p>(41) AIG 2013 Short-Term Incentive Plan*</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <p>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).</p>          |
| <p>(42) Form of 2013 Short-Term Incentive Plan Award Letter*</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <p>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).</p>                 |
| <p>(43) AIG Annual Short-Term Incentive Plan (as amended)*</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <p>Filed herewith.</p>                                                                                                                                       |
| <p>(44) AIG 2013 Omnibus Incentive Plan*</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <p>Incorporated by reference to Appendix B in AIG's Definitive Proxy Statement on Schedule 14A, dated April 4, 2013 (File No. 1-8787).</p>                   |
| <p>(45) Description of Non-Management Director Compensation*</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <p>Incorporated by reference to "Compensation of Directors" in AIG's Definitive Proxy Statement on Schedule 14A, dated March 29, 2016 (File No. 1-8787).</p> |

|       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                          |
|-------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|
|       | (46) AIG 2012 Executive Severance Plan (as amended)*                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 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).  |
|       | (47) Revolving Credit Agreement, dated as of December 16, 2013 by and among AIG, AerCap Ireland Capital Limited, AerCap Holdings N.V., AerCap Ireland Limited and certain subsidiaries of AerCap Holdings N.V., as guarantors                                                                                                                                                                                                                                                                                                                                                                                                                                      | Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on December 16, 2013 (File No. 1-8787). |
|       | (48) 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.                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 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). |
|       | (49) Nomination Agreement, dated February 11, 2016, by and among Paulson & Co. Inc., John A. Paulson and American International Group, Inc.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Incorporated by reference to Exhibit 10.2 to AIG's Current Report on Form 8-K filed with the SEC on February 11, 2016 (File No. 1-8787). |
|       | (50) Stock Purchase Agreement dated as of August 15, 2016 between American International Group, Inc. and Arch Capital Group Ltd.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 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).    |
|       | (51) First Amendment to Stock Purchase Agreement, dated as of December 29, 2016, American International Group, Inc. and Arch Capital Group Ltd.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Filed herewith.                                                                                                                          |
|       | (52) Form of AIG 2013 Omnibus Incentive Plan Non-Employee Director DSU Award Agreement*                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Filed herewith.                                                                                                                          |
|       | (53) 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). | 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). |
|       | (54) 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).                                                                                                                                                                                                                                                                                                                                                                        | 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). |
|       | (55) Parental Guarantee Agreement, dated January 20, 2017, by Berkshire Hathaway Inc. in favor of National Union Fire Insurance Company of Pittsburgh, Pa.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 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). |
| 11    | Statement re: Computation of Per Share Earnings                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Included in Note 19 to Consolidated Financial Statements.                                                                                |
| 12    | Computation of Ratios of Earnings to Fixed Charges                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Filed herewith.                                                                                                                          |
| 21    | Subsidiaries of Registrant                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Filed herewith.                                                                                                                          |
| 23    | Consent of Independent Registered Public Accounting Firm                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Filed herewith.                                                                                                                          |
| 24    | Powers of attorney                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Included on signature page and filed herewith.                                                                                           |
| 31    | Rule 13a-14(a)/15d-14(a) Certifications                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Filed herewith.                                                                                                                          |
| 32    | Section 1350 Certifications**                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Filed herewith.                                                                                                                          |
| 99.02 | Securities Registered pursuant to Section 12(b) of the Act                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Filed herewith.                                                                                                                          |

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|     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                 |
|-----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| 101 | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of December 31, 2016 and December 31, 2015, (ii) the Consolidated Statements of Income for the three years ended December 31, 2016, (iii) the Consolidated Statements of Equity for the three years ended December 31, 2016, (iv) the Consolidated Statements of Cash Flows for the three years ended December 31, 2016, (v) the Consolidated Statements of Comprehensive Income (Loss) for the three years ended December 31, 2016 and (vi) the Notes to the Consolidated Financial Statements. | Filed herewith. |
|-----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|

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\* 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.

## Summary of Investments — Other than Investments in Related Parties

Schedule I

| <b>At December 31, 2016</b>                                      | Amount at           |                   |                                     |
|------------------------------------------------------------------|---------------------|-------------------|-------------------------------------|
| <i>(in millions)</i>                                             | Cost <sup>(a)</sup> | Fair Value        | which shown in<br>the Balance Sheet |
| <b>Fixed maturities:</b>                                         |                     |                   |                                     |
| U.S. government and government sponsored entities                | \$ 4,809            | \$ 4,932          | \$ 4,932                            |
| Obligations of states, municipalities and political subdivisions | 24,026              | 24,772            | 24,772                              |
| Non-U.S. governments                                             | 14,068              | 14,585            | 14,585                              |
| Public utilities                                                 | 17,094              | 18,018            | 18,018                              |
| All other corporate debt securities                              | 111,326             | 115,934           | 115,934                             |
| Mortgage-backed, asset-backed and collateralized                 | 74,916              | 77,294            | 77,294                              |
| <b>Total fixed maturity securities</b>                           | <b>246,239</b>      | <b>255,535</b>    | <b>255,535</b>                      |
| <b>Equity securities and mutual funds:</b>                       |                     |                   |                                     |
| Common stock:                                                    |                     |                   |                                     |
| Public utilities                                                 | 3                   | 4                 | 4                                   |
| Banks, trust and insurance companies                             | 900                 | 1,108             | 1,108                               |
| Industrial, miscellaneous and all other                          | 245                 | 394               | 394                                 |
| <b>Total common stock</b>                                        | <b>1,148</b>        | <b>1,506</b>      | <b>1,506</b>                        |
| Preferred stock                                                  | 748                 | 752               | 752                                 |
| Mutual funds                                                     | 283                 | 302               | 302                                 |
| <b>Total equity securities and mutual funds</b>                  | <b>2,179</b>        | <b>2,560</b>      | <b>2,560</b>                        |
| <b>Mortgage and other loans receivable, net of allowance</b>     | <b>33,240</b>       | <b>33,747</b>     | <b>33,240</b>                       |
| <b>Other invested assets</b>                                     | <b>24,349</b>       | <b>24,073</b>     | <b>24,538</b>                       |
| <b>Short-term investments, at cost (approximates fair value)</b> | <b>12,302</b>       | <b>12,302</b>     | <b>12,302</b>                       |
| <b>Derivative assets<sup>(b)</sup></b>                           | <b>1,809</b>        | <b>1,809</b>      | <b>1,809</b>                        |
| <b>Total investments</b>                                         | <b>\$ 320,118</b>   | <b>\$ 330,026</b> | <b>\$ 329,984</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.

## Condensed Financial Information of Registrant Balance Sheets — Parent Company Only

Schedule II

| December 31,<br>(in millions)                                                                       | 2016              | 2015       |
|-----------------------------------------------------------------------------------------------------|-------------------|------------|
| <b>Assets:</b>                                                                                      |                   |            |
| Short-term investments                                                                              | \$ 4,424          | \$ 4,042   |
| Other investments                                                                                   | 7,154             | 7,425      |
| <b>Total investments</b>                                                                            | <b>11,578</b>     | 11,467     |
| Cash                                                                                                | 2                 | 34         |
| Loans to subsidiaries*                                                                              | 34,692            | 35,927     |
| Due from affiliates - net*                                                                          | 3,460             | 1,967      |
| Intercompany tax receivable*                                                                        | 5,129             | 3,234      |
| Deferred income taxes                                                                               | 15,169            | 17,564     |
| Investments in consolidated subsidiaries*                                                           | 42,582            | 51,151     |
| Other assets                                                                                        | 341               | 534        |
| <b>Total assets</b>                                                                                 | <b>\$ 112,953</b> | \$ 121,878 |
| <b>Liabilities:</b>                                                                                 |                   |            |
| Due to affiliate*                                                                                   | \$ 6,083          | \$ 4,059   |
| Intercompany tax payable*                                                                           | 4,152             | 3,916      |
| Deferred tax liabilities                                                                            | -                 | 9          |
| Notes and bonds payable                                                                             | 19,432            | 17,047     |
| Junior subordinated debt                                                                            | 843               | 1,327      |
| MIP notes payable                                                                                   | 1,099             | 1,372      |
| Series AIGFP matched notes and bonds payable                                                        | 31                | 31         |
| Loans from subsidiaries*                                                                            | 577               | 574        |
| Other liabilities (includes intercompany derivative liabilities of \$419 in 2016 and \$144 in 2015) | 4,436             | 3,885      |
| <b>Total liabilities</b>                                                                            | <b>36,653</b>     | 32,220     |
| <b>AIG Shareholders' equity:</b>                                                                    |                   |            |
| Common stock                                                                                        | 4,766             | 4,766      |
| Treasury stock                                                                                      | (41,471)          | (30,098)   |
| Additional paid-in capital                                                                          | 81,064            | 81,510     |
| Retained earnings                                                                                   | 28,711            | 30,943     |
| Accumulated other comprehensive income                                                              | 3,230             | 2,537      |
| <b>Total AIG shareholders' equity</b>                                                               | <b>76,300</b>     | 89,658     |
| <b>Total liabilities and equity</b>                                                                 | <b>\$ 112,953</b> | \$ 121,878 |

\* Eliminated in consolidation.

See Accompanying Notes to Condensed Financial Information of Registrant.

**Condensed Financial Information of Registrant (Continued)**  
**Statements of Income — Parent Company Only**

Schedule II

| <b>Years Ended December 31,</b>                                                       |    |                |             |             |
|---------------------------------------------------------------------------------------|----|----------------|-------------|-------------|
| <i>(in millions)</i>                                                                  |    | <b>2016</b>    | <b>2015</b> | <b>2014</b> |
| <b>Revenues:</b>                                                                      |    |                |             |             |
| Equity in undistributed net income (loss) of consolidated subsidiaries <sup>(a)</sup> | \$ | <b>(8,633)</b> | \$ (2,929)  | \$ (5,573)  |
| Dividend income from consolidated subsidiaries <sup>(a)</sup>                         |    | <b>7,364</b>   | 6,883       | 15,023      |
| Interest income                                                                       |    | <b>411</b>     | 342         | 305         |
| Net realized capital gains (losses)                                                   |    | <b>2</b>       | (587)       | 8           |
| Other income                                                                          |    | <b>103</b>     | 333         | 1,345       |
| <b>Expenses:</b>                                                                      |    |                |             |             |
| Interest expense                                                                      |    | <b>988</b>     | 1,049       | 1,507       |
| Net loss on extinguishment of debt                                                    |    | <b>77</b>      | 703         | 2,248       |
| Net (gain) loss on sale of divested businesses <sup>(b)</sup>                         |    | <b>(690)</b>   | 11          | (42)        |
| Other expenses                                                                        |    | <b>985</b>     | 1,167       | 1,588       |
| <b>Income (loss) from continuing operations before income tax expense (benefit)</b>   |    | <b>(2,113)</b> | 1,112       | 5,807       |
| Income tax benefit                                                                    |    | <b>(1,301)</b> | (1,086)     | (1,735)     |
| <b>Net income (loss)</b>                                                              |    | <b>(812)</b>   | 2,198       | 7,542       |
| Loss from discontinued operations                                                     |    | <b>(37)</b>    | (2)         | (13)        |
| <b>Net income (loss) attributable to AIG Parent Company</b>                           | \$ | <b>(849)</b>   | \$ 2,196    | \$ 7,529    |

(a) Eliminated in consolidation.

(b) Primarily includes pre-tax gain of \$697 million on the sale of United Guaranty Corporation (UGC) 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**

Schedule II

| <b>Years Ended December 31,</b>                       |    |              |             |             |
|-------------------------------------------------------|----|--------------|-------------|-------------|
| <i>(in millions)</i>                                  |    | <b>2016</b>  | <b>2015</b> | <b>2014</b> |
| Net income                                            | \$ | <b>(849)</b> | \$ 2,196    | \$ 7,529    |
| Other comprehensive income                            |    | <b>693</b>   | (8,080)     | 4,257       |
| <b>Total comprehensive income attributable to AIG</b> | \$ | <b>(156)</b> | \$ (5,884)  | \$ 11,786   |

See accompanying Notes to Condensed Financial Information of Registrant



**Condensed Financial Information of Registrant (Continued)**  
**Statements of Cash Flows — Parent Company Only**

Schedule II

| Years Ended December 31,                                         |                 |                 |                 |
|------------------------------------------------------------------|-----------------|-----------------|-----------------|
| (in millions)                                                    | 2016            | 2015            | 2014            |
| <b>Net cash provided by operating activities</b>                 | <b>\$ 2,112</b> | <b>\$ 4,443</b> | <b>\$ 9,316</b> |
| <b>Cash flows from investing activities:</b>                     |                 |                 |                 |
| Sales and maturities of investments                              | 5,598           | 7,609           | 2,996           |
| Sales of divested businesses                                     | 2,160           | -               | -               |
| Purchase of investments                                          | (1,002)         | (1,881)         | (1,051)         |
| Net change in restricted cash                                    | -               | -               | (501)           |
| Net change in short-term investments                             | (789)           | 2,300           | 5,792           |
| Contributions to subsidiaries - net                              | 1,637           | 565             | (148)           |
| Mortgage and other loan receivables - originations and purchases | (85)            | -               | -               |
| Payments received on mortgages and other loan receivables        | 171             | 158             | 40              |
| Loans to subsidiaries - net                                      | 1,525           | (83)            | 446             |
| Other, net                                                       | (56)            | (175)           | (141)           |
| <b>Net cash provided by investing activities</b>                 | <b>9,159</b>    | <b>8,493</b>    | <b>7,433</b>    |
| <b>Cash flows from financing activities:</b>                     |                 |                 |                 |
| Issuance of long-term debt                                       | 3,831           | 5,540           | 3,247           |
| Repayment of long-term debt                                      | (1,996)         | (6,504)         | (14,468)        |
| Cash dividends paid                                              | (1,372)         | (1,028)         | (712)           |
| Loans from subsidiaries - net                                    | 3               | (201)           | 110             |
| Purchase of Common Stock                                         | (11,460)        | (10,691)        | (4,902)         |
| Other, net                                                       | (309)           | (44)            | (28)            |
| <b>Net cash used in financing activities</b>                     | <b>(11,303)</b> | <b>(12,928)</b> | <b>(16,753)</b> |
| <b>Change in cash</b>                                            | <b>(32)</b>     | <b>8</b>        | <b>(4)</b>      |
| <b>Cash at beginning of year</b>                                 | <b>34</b>       | <b>26</b>       | <b>30</b>       |
| <b>Cash at end of year</b>                                       | <b>\$ 2</b>     | <b>\$ 34</b>    | <b>\$ 26</b>    |

**Supplementary disclosure of cash flow information:**

| (in millions)                                                        | Years Ended December 31, |            |            |
|----------------------------------------------------------------------|--------------------------|------------|------------|
|                                                                      | 2016                     | 2015       | 2014       |
| <b>Cash (paid) received during the period for:</b>                   |                          |            |            |
| <b>Interest:</b>                                                     |                          |            |            |
| Third party                                                          | \$ (975)                 | \$ (1,030) | \$ (1,624) |
| Intercompany                                                         | 2                        | -          | 5          |
| <b>Taxes:</b>                                                        |                          |            |            |
| Income tax authorities                                               | (15)                     | (11)       | (18)       |
| Intercompany                                                         | 479                      | 829        | 1,172      |
| <b>Intercompany non-cash financing and investing activities:</b>     |                          |            |            |
| Capital contributions                                                | 3,245                    | 494        | 2,457      |
| Return of capital*                                                   | -                        | -          | 4,836      |
| Dividends received in the form of securities                         | 5,234                    | 2,326      | 3,088      |
| 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 UGC                     | 1,101                    | -          | -          |

See Accompanying Notes to Condensed Financial Information of Registrant.

\* Includes \$4.8 billion return of capital from AIG Capital Corporation related to the sale of ILFC.

## 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 2016 Annual Report on Form 10-K for the year ended December 31, 2016 (Annual Report on Form 10-K) filed with the Securities and Exchange Commission on February 23, 2017.

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. See Note 23 to the Consolidated Financial Statements for additional information.

The consolidated U.S. deferred tax asset for net operating loss, capital loss and tax credit carryforwards 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.

## Supplementary Insurance Information

Schedule III

At December 31, 2016 and 2015

| Segment (in millions)                 | Deferred Policy Acquisition Costs | Liability for Unpaid Losses and Loss Adjustment Expenses, Future Policy Benefits | Unearned Premiums | Policy and Contract Claims |
|---------------------------------------|-----------------------------------|----------------------------------------------------------------------------------|-------------------|----------------------------|
| <b>2016</b>                           |                                   |                                                                                  |                   |                            |
| Property Casualty Insurance Companies | \$ 2,563                          | \$ 71,812                                                                        | \$ 19,348         | \$ -                       |
| Life Insurance Companies              | 8,466                             | 41,384                                                                           | -                 | 836                        |
| Other <sup>(a)</sup>                  | 13                                | 6,085                                                                            | 286               | 11                         |
|                                       | \$ 11,042                         | \$ 119,281                                                                       | \$ 19,634         | \$ 847                     |
| <b>2015</b>                           |                                   |                                                                                  |                   |                            |
| Property Casualty Insurance Companies | \$ 2,631                          | \$ 69,213                                                                        | \$ 20,961         | \$ -                       |
| Life Insurance Companies              | 8,467                             | 42,893                                                                           | -                 | 851                        |
| Other <sup>(a)</sup>                  | 17                                | 6,421                                                                            | 357               | 11                         |
|                                       | \$ 11,115                         | \$ 118,527                                                                       | \$ 21,318         | \$ 862                     |

For the years ended December 31, 2016, 2015 and 2014

| Segment (in millions)           | Premiums and Policy Fees | Net Investment Income | Losses and Loss Expenses Incurred, Benefits | Amortization of Deferred Policy Acquisition Costs | Other Operating Expenses | Net Premiums Written <sup>(b)</sup> |
|---------------------------------|--------------------------|-----------------------|---------------------------------------------|---------------------------------------------------|--------------------------|-------------------------------------|
| <b>2016</b>                     |                          |                       |                                             |                                                   |                          |                                     |
| Commercial Insurance            | \$ 18,100                | \$ 3,268              | \$ 18,828                                   | \$ 2,049                                          | \$ 3,226                 | \$ 16,928                           |
| Consumer Insurance              | 15,426                   | 7,345                 | 12,063                                      | 2,681                                             | 5,456                    | 11,465                              |
| Other Operations <sup>(a)</sup> | 2,783                    | 539                   | 1,900                                       | (317)                                             | -                        | 819                                 |
| Legacy Operations               | 816                      | 2,913                 | 3,351                                       | 108                                               | -                        | 21                                  |
|                                 | \$ 37,125                | \$ 14,065             | \$ 36,142                                   | \$ 4,521                                          | \$ 8,682                 | \$ 29,233                           |
| <b>2015</b>                     |                          |                       |                                             |                                                   |                          |                                     |
| Commercial Insurance            | \$ 19,715                | \$ 3,421              | \$ 16,660                                   | \$ 2,349                                          | \$ 3,562                 | \$ 20,616                           |
| Consumer Insurance              | 15,070                   | 7,356                 | 11,967                                      | 2,762                                             | 6,872                    | 11,583                              |
| Other Operations <sup>(a)</sup> | 3,455                    | 348                   | 2,845                                       | 23                                                | -                        | 668                                 |
| Legacy Operations               | 1,170                    | 2,928                 | 3,604                                       | 102                                               | -                        | 199                                 |
|                                 | \$ 39,410                | \$ 14,053             | \$ 35,076                                   | \$ 5,236                                          | \$ 10,434                | \$ 33,066                           |
| <b>2014</b>                     |                          |                       |                                             |                                                   |                          |                                     |
| Commercial Insurance            | \$ 20,407                | \$ 4,255              | \$ 14,226                                   | \$ 2,497                                          | \$ 3,692                 | \$ 20,773                           |
| Consumer Insurance              | 15,791                   | 7,924                 | 12,055                                      | 2,655                                             | 6,797                    | 12,408                              |
| Other Operations <sup>(a)</sup> | 2,457                    | 655                   | 2,299                                       | 97                                                | -                        | 1,032                               |
| Legacy Operations               | 1,214                    | 3,245                 | 3,469                                       | 81                                                | -                        | 243                                 |
|                                 | \$ 39,869                | \$ 16,079             | \$ 32,049                                   | \$ 5,330                                          | \$ 10,489                | \$ 34,456                           |

(a) Includes consolidation and elimination entries.

(b) Balances reflect the segment changes discussed in Note 3 – Segment Information to the Consolidated Financial Statements.

# Reinsurance

Schedule IV

At December 31, 2016, 2015 and 2014 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>2016</b>                             |                 |                                |                                    |            |                                           |
| <b>Long-duration insurance in force</b> | \$ 1,025,653    | \$ 174,363                     | \$ 339                             | \$ 851,629 | - %                                       |
| <b>Premiums:</b>                        |                 |                                |                                    |            |                                           |
| Property Casualty Insurance Companies   | \$ 33,970       | \$ 7,561                       | \$ 2,824                           | \$ 29,233  | 9.7 %                                     |
| Life Insurance Companies                | 4,609           | 789                            | 123                                | 3,943      | 3.1                                       |
| Other                                   | -               | -                              | -                                  | -          | -                                         |
| <b>Total</b>                            | \$ 38,579       | \$ 8,350                       | \$ 2,947                           | \$ 33,176  | 8.9 %                                     |
| <b>2015</b>                             |                 |                                |                                    |            |                                           |
| <b>Long-duration insurance in force</b> | \$ 1,051,571    | \$ 177,025                     | \$ 372                             | \$ 874,918 | - %                                       |
| <b>Premiums:</b>                        |                 |                                |                                    |            |                                           |
| Property Casualty Insurance Companies   | \$ 37,698       | \$ 7,604                       | \$ 2,972                           | \$ 33,066  | 9.0 %                                     |
| Life Insurance Companies                | 5,233           | 756                            | 7                                  | 4,484      | 0.2                                       |
| Other                                   | -               | -                              | -                                  | -          | -                                         |
| <b>Total</b>                            | \$ 42,931       | \$ 8,360                       | \$ 2,979                           | \$ 37,550  | 7.9 %                                     |
| <b>2014</b>                             |                 |                                |                                    |            |                                           |
| <b>Long-duration insurance in force</b> | \$ 1,033,281    | \$ 180,178                     | \$ 410                             | \$ 853,513 | - %                                       |
| <b>Premiums:</b>                        |                 |                                |                                    |            |                                           |
| Property Casualty Insurance Companies   | \$ 39,375       | \$ 8,318                       | \$ 3,399                           | \$ 34,456  | 9.9 %                                     |
| Life Insurance Companies                | 4,050           | 661                            | 20                                 | 3,409      | 0.6                                       |
| Other                                   | -               | -                              | -                                  | -          | -                                         |
| <b>Total</b>                            | \$ 43,425       | \$ 8,979                       | \$ 3,419                           | \$ 37,865  | 9.0 %                                     |

## Valuation and Qualifying Accounts

Schedule V

For the years ended December 31, 2016, 2015 and 2014

| (in millions)                                                      | Balance,<br>Beginning<br>of year | Additions                           |             | Reclassified<br>to Assets of<br>Businesses<br>Held for Sale | Divested<br>Businesses | Other<br>Changes* | Balance,<br>End of year |
|--------------------------------------------------------------------|----------------------------------|-------------------------------------|-------------|-------------------------------------------------------------|------------------------|-------------------|-------------------------|
|                                                                    |                                  | Charged to<br>Costs and<br>Expenses | Charge Offs |                                                             |                        |                   |                         |
| <b>2016</b>                                                        |                                  |                                     |             |                                                             |                        |                   |                         |
| Allowance for mortgage and<br>other loans receivable               | \$ 308                           | \$ (7)                              | \$ (15)     | \$ -                                                        | \$ -                   | \$ 11             | 297                     |
| Allowance for premiums and<br>insurances balances receivable       | 333                              | 26                                  | (88)        | (2)                                                         | (7)                    | -                 | 262                     |
| Allowance for reinsurance assets                                   | 272                              | (23)                                | (34)        | (8)                                                         | -                      | -                 | 207                     |
| Federal and foreign valuation<br>allowance for deferred tax assets | 3,012                            | 83                                  | -           | -                                                           | -                      | (264)             | 2,831                   |
| <b>2015</b>                                                        |                                  |                                     |             |                                                             |                        |                   |                         |
| Allowance for mortgage and<br>other loans receivable               | \$ 271                           | \$ 58                               | \$ (29)     | \$ -                                                        | \$ 3                   | \$ 5              | 308                     |
| Allowance for premiums and<br>insurances balances receivable       | 431                              | 35                                  | (120)       | -                                                           | -                      | (13)              | 333                     |
| Allowance for reinsurance assets                                   | 258                              | 90                                  | (67)        | -                                                           | -                      | (9)               | 272                     |
| Federal and foreign valuation<br>allowance for deferred tax assets | 1,739                            | 110                                 | -           | -                                                           | -                      | 1,163             | 3,012                   |
| <b>2014</b>                                                        |                                  |                                     |             |                                                             |                        |                   |                         |
| Allowance for mortgage and<br>other loans receivable               | \$ 312                           | \$ (8)                              | \$ (68)     | \$ -                                                        | \$ 1                   | \$ 34             | 271                     |
| Allowance for premiums and<br>insurances balances receivable       | 560                              | 35                                  | (99)        | -                                                           | -                      | (65)              | 431                     |
| Allowance for reinsurance assets                                   | 276                              | 4                                   | (3)         | -                                                           | -                      | (19)              | 258                     |
| Federal and foreign valuation<br>allowance for deferred tax assets | 3,596                            | (181)                               | -           | -                                                           | -                      | (1,676)           | 1,739                   |

\* Includes recoveries of amounts previously charged off and reclassifications to/from other accounts.

## COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

Exhibit 12

| Years Ended December 31,<br>(in millions, except ratios)                                                             | 2016            | 2015            | 2014             | 2013             | 2012            |
|----------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|------------------|------------------|-----------------|
| <b>Earnings:</b>                                                                                                     |                 |                 |                  |                  |                 |
| Pre-tax income (loss) <sup>(a)</sup> :                                                                               | \$ (109)        | \$ 2,471        | \$ 9,106         | \$ 7,942         | \$ 433          |
| Add — Fixed charges                                                                                                  | 1,656           | 1,716           | 2,911            | 4,279            | 4,717           |
| <b>Adjusted Pre-tax income (loss)</b>                                                                                | <b>\$ 1,547</b> | <b>\$ 4,187</b> | <b>\$ 12,017</b> | <b>\$ 12,221</b> | <b>\$ 5,150</b> |
| <b>Fixed charges:</b>                                                                                                |                 |                 |                  |                  |                 |
| Interest expense                                                                                                     | \$ 1,220        | \$ 1,227        | \$ 2,034         | \$ 3,292         | \$ 3,605        |
| Portion of rent expense representing interest                                                                        | 110             | 109             | 157              | 138              | 148             |
| Interest credited to policy and contract holders                                                                     | 326             | 380             | 720              | 849              | 964             |
| <b>Total fixed charges</b>                                                                                           | <b>\$ 1,656</b> | <b>\$ 1,716</b> | <b>\$ 2,911</b>  | <b>\$ 4,279</b>  | <b>\$ 4,717</b> |
| <b>Total fixed charges, excluding interest credited to policy and contract holders</b>                               | <b>\$ 1,330</b> | <b>\$ 1,336</b> | <b>\$ 2,191</b>  | <b>\$ 3,430</b>  | <b>\$ 3,753</b> |
| <b>Ratio of earnings to fixed charges:</b>                                                                           |                 |                 |                  |                  |                 |
| Ratio                                                                                                                | n/a             | 2.44            | 4.13             | 2.86             | 1.09            |
| Coverage deficiency                                                                                                  | \$ (109)        | n/a             | n/a              | n/a              | n/a             |
| <b>Ratio of earnings to fixed charges, excluding interest credited to policy and contract holders<sup>(b)</sup>:</b> |                 |                 |                  |                  |                 |
| Ratio                                                                                                                | 1.16            | 3.13            | 5.48             | 3.56             | 1.37            |
| Coverage deficiency                                                                                                  | n/a             | n/a             | n/a              | n/a              | n/a             |

(a) From continuing operations, excluding undistributed earnings (loss) from equity method investments and capitalized interest.

(b) The Ratio of earnings to fixed charges, excluding interest credited to policy and contract holders, removes interest credited to guaranteed investment contract (GIC) policyholders and guaranteed investment agreement (GIA) contract holders. Such interest expenses are also removed from earnings used in this calculation. GICs and GIAs are entered into by our subsidiaries. The proceeds from GICs and GIAs are invested in a diversified portfolio of securities, primarily investment grade bonds. The assets acquired yield rates greater than the rates on the related policyholders obligation or contract, with the intent of earning a profit from the spread.



## Subsidiaries of Registrant

## Exhibit 21

| As of December 31, 2016                                 | Jurisdiction of<br>Incorporation or<br>Organization | Percentage<br>of Voting<br>Securities<br>held by<br>Immediate<br>Parent | (1) |
|---------------------------------------------------------|-----------------------------------------------------|-------------------------------------------------------------------------|-----|
| American International Group, Inc.                      | Delaware                                            |                                                                         | (2) |
| AIG Capital Corporation                                 | Delaware                                            | 100                                                                     |     |
| AIG Global Asset Management Holdings Corp.              | Delaware                                            | 100                                                                     |     |
| AIG Asset Management (Europe) Limited                   | England and Wales                                   | 100                                                                     |     |
| AIG Asset Management (U.S.), LLC                        | Delaware                                            | 100                                                                     |     |
| AIG Global Real Estate Investment Corp.                 | Delaware                                            | 100                                                                     |     |
| Mt. Mansfield Company, Inc.                             | Vermont                                             | 100                                                                     |     |
| SIFC Consortium LLC                                     | Delaware                                            | 100                                                                     |     |
| AIG Korean Real Estate Development YH                   | Republic of Korea                                   | 100                                                                     |     |
| AIG Employee Services, Inc.                             | Delaware                                            | 100                                                                     |     |
| AIG Federal Savings Bank                                | The United States                                   | 100                                                                     |     |
| AIG Financial Products Corp.                            | Delaware                                            | 100                                                                     |     |
| AIG Management France S.A.                              | France                                              | 89.999986                                                               | (3) |
| AIG Matched Funding Corp.                               | Delaware                                            | 100                                                                     |     |
| AIG-FP Matched Funding Corp.                            | Delaware                                            | 100                                                                     |     |
| AIG Life Insurance Company (Switzerland) Ltd.           | Switzerland                                         | 100                                                                     |     |
| AIG Markets, Inc.                                       | Delaware                                            | 100                                                                     |     |
| AIG Technologies, Inc.                                  | New Hampshire                                       | 100                                                                     |     |
| AIG Shared Services Corporation                         | New York                                            | 100                                                                     |     |
| AIG Trading Group Inc.                                  | Delaware                                            | 100                                                                     |     |
| AIG International Inc.                                  | Delaware                                            | 100                                                                     |     |
| AIG United Guaranty Insurance (Asia) Limited            | Hong Kong                                           | 100                                                                     |     |
| AIUH LLC                                                | Delaware                                            | 100                                                                     |     |
| AIG Property Casualty, Inc.                             | Delaware                                            | 100                                                                     |     |
| AIG Claims, Inc.                                        | Delaware                                            | 100                                                                     |     |
| Health Direct, Inc.                                     | Delaware                                            | 100                                                                     |     |
| AIG PC Global Services, Inc.                            | Delaware                                            | 100                                                                     |     |
| AIG Property Casualty International,<br>LLC             | Delaware                                            | 100                                                                     |     |
| AIG Central Europe & CIS Insurance Holdings Corporation | Delaware                                            | 100                                                                     |     |
| AIG Egypt Insurance Company S.A.E.                      | Egypt                                               | 95.08                                                                   |     |
| AIG Europe Holdings Limited                             | England and Wales                                   | 100                                                                     |     |
| AIG International Holdings GmbH                         | Switzerland                                         | 100                                                                     |     |
| AIG APAC HOLDINGS PTE. LTD.                             | Singapore                                           | 100                                                                     |     |
| AIG Asia Pacific Insurance Pte. Ltd.                    | Singapore                                           | 100                                                                     |     |
| AIG Australia Limited                                   | Australia                                           | 100                                                                     |     |
| AIG Insurance Hong Kong Limited                         | Hong Kong                                           | 100                                                                     |     |
| AIG Insurance New Zealand Limited                       | New Zealand                                         | 100                                                                     |     |
| AIG Malaysia Insurance Berhad                           | Malaysia                                            | 100                                                                     |     |
| AIG Philippines Insurance, Inc.                         | Philippines                                         | 100                                                                     |     |
| AIG Vietnam Insurance Company Limited                   | Vietnam                                             | 100                                                                     |     |
| PT AIG Insurance Indonesia                              | Indonesia                                           | 79.56                                                                   | (4) |
| Thai CIT Holding Co., Ltd.                              | Thailand                                            | 49                                                                      |     |
| AIG Insurance (Thailand) Public Company Limited         | Thailand                                            | 51                                                                      | (5) |
| AIG Canada Holdings Inc.                                | Canada                                              | 100                                                                     |     |
| AIG Insurance Company of Canada                         | Canada                                              | 100                                                                     |     |
| AIG Holdings Europe Limited                             | England and Wales                                   | 100                                                                     |     |
| AIG Europe Limited                                      | England                                             | 100                                                                     |     |
| AIG Germany Holding GmbH                                | Germany                                             | 100                                                                     |     |
| AIG Israel Insurance Company<br>Ltd.                    | Israel                                              | 100                                                                     |     |
| AIG Life Limited                                        | England                                             | 100                                                                     |     |

|                                                                       |                      |                       |
|-----------------------------------------------------------------------|----------------------|-----------------------|
| Avondhu Limited                                                       | Jersey               | 100                   |
| Laya Healthcare Limited                                               | Ireland              | 100                   |
| AIG Investments UK Limited                                            | England and Wales    | 100                   |
| Johannesburg Insurance Holdings (Proprietary) Limited                 | South Africa         | 100                   |
| AIG Life South Africa Limited                                         | South Africa         | 100                   |
| AIG South Africa Limited                                              | South Africa         | 100                   |
| AIG Japan Holdings Kabushiki Kaisha                                   | Japan                | 100                   |
| AIU Insurance Company, Ltd.                                           | Japan                | 100                   |
| American Home Assurance Co., Ltd.                                     | Japan                | 100                   |
| The Fuji Fire and Marine Insurance Company, Limited                   | Japan                | 100                   |
| AIG Fuji Life Insurance Company, Limited                              | Japan                | 100                   |
| AIG Latin America Investments, S.L.                                   | Spain                | 100                   |
| AIG Brazil Holding I, LLC                                             | Delaware             | 100                   |
| AIG Seguros Brasil S.A.                                               | Brazil               | 90.56 <sup>(6)</sup>  |
| AIG Chile Compania de Seguros Generales S.A.                          | Chile                | 99.98 <sup>(7)</sup>  |
| AIG Insurance Company - Puerto Rico                                   | Puerto Rico          | 100                   |
| AIG Latin America I.I.                                                | Puerto Rico          | 100                   |
| AIG Seguros Colombia S.A.                                             | Colombia             | 94 <sup>(8)</sup>     |
| AIG Seguros Guatemala, S.A.                                           | Guatemala            | 100                   |
| AIG Seguros Mexico, S.A. de C.V.                                      | Mexico               | 100                   |
| AIG Seguros Uruguay S.A.                                              | Uruguay              | 100                   |
| American International Underwriters del Ecuador S.A.                  | Ecuador              | 100                   |
| AIG-Metropolitana Cia de Seguros y Reaseguros S.A.                    | Ecuador              | 32.06 <sup>(9)</sup>  |
| Inversiones Segucasai, C.A.                                           | Venezuela            | 100                   |
| C.A. de Seguros American International                                | Venezuela            | 93.72                 |
| Underwriters Adjustment Company, Inc.                                 | Panama               | 100                   |
| AIG MEA Holdings Limited                                              | United Arab Emirates | 100                   |
| AIG CIS Investments, LLC                                              | Russian Federation   | 99.99                 |
| AIG Insurance Company, CJSC                                           | Russian Federation   | 100                   |
| AIG Insurance Limited                                                 | Sri Lanka            | 100                   |
| AIG Sigorta A.S.                                                      | Turkey               | 100                   |
| AIG Uganda Limited                                                    | Uganda               | 100                   |
| Private Joint-Stock Company AIG Ukraine Insurance Company             | Ukraine              | 100                   |
| AIG MEA Investments and Services, LLC                                 | Delaware             | 100                   |
| AIG Lebanon SAL                                                       | Lebanon              | 100                   |
| AIG MEA Limited                                                       | United Arab Emirates | 100                   |
| AIG Kenya Insurance Company Limited                                   | Kenya                | 66.67                 |
| CHARTIS Investment Holdings (Private) Limited                         | Sri Lanka            | 100                   |
| Chartis Kazakhstan Insurance Company Joint Stock Company              | Kazakhstan           | 100                   |
| AIG PC European Insurance Investments Inc.                            | Delaware             | 100                   |
| AIG Property Casualty Europe Financing Limited                        | England              | 100                   |
| AIG Travel, Inc.                                                      | Delaware             | 100                   |
| AIG Travel Assist, Inc.                                               | Delaware             | 100                   |
| AIG Travel Asia Pacific Pte. Ltd.                                     | Singapore            | 100                   |
| AIG Travel EMEA Limited                                               | England and Wales    | 100                   |
| Travel Guard Group Canada, Inc. / Groupe Garde Voyage du Canada, Inc. | Canada               | 100                   |
| Travel Guard Group, Inc.                                              | Wisconsin            | 100                   |
| AIG United Guaranty – Agenzia di Assicurazione S.R.L.                 | Italy                | 100                   |
| American International Overseas Limited                               | Bermuda              | 100                   |
| AIG Cyprus Limited                                                    | Cyprus               | 100                   |
| CHARTIS Takaful Enaya B.S.C.(c)                                       | Bahrain              | 100                   |
| La Meridional Compania Argentina de Seguros S.A.                      | Argentina            | 95.43 <sup>(10)</sup> |
| American International Reinsurance Company, Ltd.                      | Bermuda              | 100                   |
| AIG Property Casualty U.S., Inc.                                      | Delaware             | 100                   |
| AIG Aerospace Insurance Services, Inc.                                | Georgia              | 100                   |
| AIG Assurance Company                                                 | Illinois             | 100                   |
| AIG Property Casualty Company                                         | Pennsylvania         | 100                   |
| AIG Specialty Insurance Company                                       | Illinois             | 100                   |
| AIU Insurance Company                                                 | New York             | 100                   |
| American Home Assurance Company                                       | New York             | 100                   |

|                                                                  |               |       |      |
|------------------------------------------------------------------|---------------|-------|------|
| AIG Insurance Company China Limited                              | China         | 100   |      |
| Commerce and Industry Insurance Company                          | New York      | 100   |      |
| Eaglestone Reinsurance Company                                   | Pennsylvania  | 100   |      |
| Granite State Insurance Company                                  | Illinois      | 100   |      |
| Illinois National Insurance Co.                                  | Illinois      | 100   |      |
| Lexington Insurance Company                                      | Delaware      | 100   |      |
| National Union Fire Insurance Company of Pittsburgh, Pa.         | Pennsylvania  | 100   |      |
| American International Overseas Association                      | Bermuda       | 78    | (11) |
| American International Realty Corp.                              | Delaware      | 53.11 | (12) |
| National Union Fire Insurance Company of Vermont                 | Vermont       | 100   |      |
| Pine Street Real Estate Holdings Corp.                           | New Hampshire | 53.12 | (13) |
| New Hampshire Insurance Company                                  | Illinois      | 100   |      |
| NSM Holdings, Inc.                                               | Delaware      | 100   |      |
| NSM Investments, Inc.                                            | Delaware      | 100   |      |
| Risk Specialists Companies Insurance Agency, Inc.                | Massachusetts | 100   |      |
| The Insurance Company of the State of Pennsylvania               | Illinois      | 100   |      |
| AM Holdings LLC                                                  | Delaware      | 100   |      |
| American Security Life Insurance Company Limited                 | Liechtenstein | 100   |      |
| LSTREET I, LLC                                                   | Delaware      | 100   |      |
| MG Reinsurance Limited                                           | Vermont       | 100   |      |
| SAFG Retirement Services, Inc.                                   | Delaware      | 100   |      |
| AIG Life Holdings, Inc.                                          | Texas         | 100   |      |
| AGC Life Insurance Company                                       | Missouri      | 100   |      |
| AIG Life of Bermuda, Ltd.                                        | Bermuda       | 100   |      |
| American General Life Insurance Company                          | Texas         | 100   |      |
| SunAmerica Asset Management, LLC                                 | Delaware      | 100   |      |
| The United States Life Insurance Company in the City of New York | New York      | 100   |      |
| The Variable Annuity Life Insurance Company                      | Texas         | 100   |      |
| Valic Retirement Services Company                                | Texas         | 100   |      |
| SunAmerica Life Reinsurance Company                              | Missouri      | 100   |      |

(1) Percentages include directors' qualifying shares.

(2) Substantially all subsidiaries listed are consolidated in the accompanying financial statements. Certain subsidiaries have been omitted from the tabulation. The omitted subsidiaries, when considered in the aggregate, do not constitute a significant subsidiary.

(3) Also owned 10 percent by AIG Matched Funding Corp., 0.000005 percent by AIG-FP Capital Preservation Corp., 0.000002 percent by AIG-FP Pinestead Holdings Corp., and 0.000002 percent by AIG-FP Matched Funding Corp.

(4) Also owned 20.44 percent by PT Tiara Citra Cemerlang.

(5) Also owned 48.99 percent by AIG Asia Pacific Insurance Pte.Ltd.

(6) Also owned 9.44 percent by AIG Brazil Holding II, LLC.

(7) Also owned 0.02 percent by AIG Latin America Holdings, LLC.

(8) Also owned 3.70 percent by AIG Insurance Company- Puerto Rico, 0.77 percent by AIG Property Casualty International, LLC, 0.77 percent by AIG Latin America Holdings, LLC, and 0.76 percent by AIG Insurance Agency Inc.- Puerto Rico.

(9) Also owned 19.72 percent by AIG Latin America Investments, S.L.

(10) Also owned 4.57 percent by AIG Global Management Company Ltd.

(11) Also owned 12 percent by New Hampshire Insurance Company and 10 percent by American Home Assurance Company.

(12) Also owned 31.47 percent by American Home Assurance Company, 5.75 percent by AIU Insurance Company, 5.05 percent by Commerce and Industry Insurance Company, 1.67 percent by Lexington Insurance Company, 1.62 percent by AIG Property Casualty Company, 0.73 percent by Illinois National Insurance Company, and 0.6 percent by Granite State Insurance Company.

(13) Also owned 31.47 percent by American Home Assurance Company, 5.75 percent by AIU Insurance Company, 5.05 percent by Commerce and Industry Insurance Company, 1.67 percent by Lexington Insurance Company, 1.61 percent by AIG Property Casualty Company, 0.73 percent by Illinois National Insurance Company, and 0.6 percent by Granite State Insurance Company.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No.333-204165, No. 333-182469, No. 333-160645, No. 333-74187, No. 333-106040, No. 333-132561, No. 333-150865 and No. 333-143992) and Form S-8 (No. 2-45346, No. 2-75875, No. 2-78291, No. 2-91945, No. 33-18073, No. 33-57250, No. 333-48639, No. 333-58095, No. 333-70069, No. 333-83813, No. 333-31346, No. 333-39976, No. 333-45828, No. 333-50198, No.333-52938, No. 333-68640, No.333-101640, No. 333-101967, No. 333-108466, No. 333-111737, No. 333-115911, No. 333-148148, No. 333-168679 and No. 333-188634) of American International Group, Inc. of our report dated February 23, 2017 relating to the financial statements, financial statement schedules and the effectiveness of internal control over financial reporting, which appears in the Annual Report on Form 10-K.

*/s/ PricewaterhouseCoopers LLP*

New York, New York  
February 23, 2017

## CERTIFICATIONS

I, Peter D. Hancock, certify that:

1. I have reviewed this Annual Report on Form 10-K of American International Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2017

\_\_\_\_\_  
/s/ PETER D. HANCOCK

Peter D. Hancock  
President and Chief Executive Officer

## CERTIFICATIONS

I, Siddhartha Sankaran, certify that:

1. I have reviewed this Annual Report on Form 10-K of American International Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2017

/s/ SIDDHARTHA SANKARAN

Siddhartha Sankaran  
Executive Vice President  
and Chief Financial Officer



**CERTIFICATION**

In connection with this Annual Report on Form 10-K of American International Group, Inc. (the "Company") for the year ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Peter D. Hancock, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 23, 2017

\_\_\_\_\_  
/s/ PETER D. HANCOCK

Peter D. Hancock  
President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

## CERTIFICATION

In connection with this Annual Report on Form 10-K of American International Group, Inc. (the "Company") for the year ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Siddhartha Sankaran, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 23, 2017

/s/ SIDDHARTHA SANKARAN

Siddhartha Sankaran  
Executive Vice President and  
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

**SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:**

| Title of Each Class                              | Name of Each Exchange on Which Registered |
|--------------------------------------------------|-------------------------------------------|
| Common Stock, Par Value \$2.50 Per Share         | New York Stock Exchange                   |
| Warrants (expiring January 19, 2021)             | New York Stock Exchange                   |
| 5.75% Series A-2 Junior Subordinated Debentures  | New York Stock Exchange                   |
| 4.875% Series A-3 Junior Subordinated Debentures | New York Stock Exchange                   |
| Stock Purchase Rights                            | New York Stock Exchange                   |

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# Comment on Regulation G

Throughout this Annual Report, AIG presents its financial condition and results of operations in the way it believes will be most meaningful and representative of its business results. Some of the measurements AIG uses are “non-GAAP financial measures” under Securities and Exchange Commission rules and regulations. GAAP is the acronym for “accounting principles generally accepted in the United States.” The non-GAAP financial measures AIG presents may not be comparable to similarly-named measures reported by other companies. The reconciliations of such measures to the most comparable GAAP measures in accordance with Regulation G are included within this Annual Report, AIG’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (included herein) or in the Fourth Quarter 2016 Financial Supplement available in the Investor Information section of AIG’s website, [www.aig.com](http://www.aig.com).

We use certain of our operating performance measures to define our forward-looking financial targets. Our financial targets are provided based on management’s estimates. The most directly comparable GAAP financial targets would be heavily dependent upon results that are beyond management’s controls and the outcome of these items could be significantly different than management’s estimates. Therefore, we do not provide quantitative reconciliations for these financial targets as we cannot predict with accuracy future actual events (e.g., catastrophe losses) and impacts from changes in macro economic market conditions, including the interest rate environment (e.g. estimate for Direct Investment book (DIB) and Global Capital Markets (GCM) returns, fair value changes on PICC Investments, net reserve discount change and returns on alternative investments).

**AIG Normalized Return on Equity** further adjusts AIG Return on Equity – After-tax Operating Income Excluding AOCI and DTA for the effects of certain volatile or market related items. AIG believes this measure is useful to investors because it presents the trends in AIG’s consolidated return on equity without the impact of certain items that can experience volatility in AIG’s short-term results. Normalized Return on Equity is derived by excluding the following tax adjusted effects from Adjusted Return on Equity: the difference between actual and expected (i) catastrophe losses, (ii) alternative investment returns, and (iii) DIB & GCM returns; fair value changes on PICC investments; update of actuarial assumptions; Life insurance incurred but not reported (IBNR) death claim charge; and prior year loss reserve development.

**Core (includes our Commercial, Consumer, and Other Operations modules) and Legacy Portfolio Attributed Equity** is an attribution of total AIG Adjusted Shareholders’ Equity to each of our modules within Core and Legacy Portfolio based on our internal capital model, which incorporates the respective risk profiles. Attributed equity represents our best estimates based on current facts and circumstances and will change over time.

**Core (includes our Commercial, Consumer, and Other Operations modules) and Legacy Portfolio Return on Equity – After-tax Operating Income (Adjusted Return on Attributed Equity)** is used to show the rate of return on attributed equity. Return on Attributed Equity is derived by dividing actual or annualized After-tax Operating Income by Average Attributed Equity.

**Core (includes our Commercial, Consumer, and Other Operations modules) and Legacy Portfolio Normalized Return on Attributed Equity (Normalized Return on Attributed Equity)** further adjusts Adjusted Return on Attributed Equity for the effects of certain volatile or market-related items. We believe this measure is useful to investors because it presents the trends in our Return on Attributed Equity without the impact of certain items that can experience volatility in our short-term results. Normalized Return on Attributed Equity is derived by excluding the following tax adjusted effects from Return on Attributed Equity: the difference between actual and expected (i) catastrophe losses, (ii) alternative investment returns, and (iii) DIB and GCM returns; fair value changes on PICC investments; update of actuarial assumptions; Life insurance IBNR death claim charge; and prior year loss reserve development.

AIG uses the following operating performance measures because it believes they enhance the understanding of the underlying profitability of continuing operations and trends of AIG’s business segments. AIG believes they also allow for more meaningful comparisons with AIG’s insurance competitors. When AIG uses these measures, reconciliations to the most comparable GAAP measure are provided on a consolidated basis.

# Comment on Regulation G

Continued

**General Operating Expenses, Operating Basis (Operating GOE)**, is derived by making the following adjustments to general operating and other expenses: include (i) certain loss adjustment expenses, reported as policyholder benefits and losses incurred and (ii) certain investment and other expenses reported as net investment income, and exclude (i) advisory fee expenses, (ii) non-deferrable insurance commissions, (iii) direct marketing and acquisition expenses, net of deferrals, (iv) non-operating litigation reserves and (v) other expense related to an asbestos retroactive reinsurance agreement. AIG uses general operating expenses, operating basis, because AIG believes it provides a more meaningful indication of AIG's ordinary course of business operating costs, regardless of within which financial statement line item these expenses are reported externally within AIG's segment results. The majority of these expenses are employee-related costs. For example, other acquisition and loss adjustment expenses primarily represent employee-related costs in the underwriting and claims functions, respectively. Excluded from this measure are non-operating expenses (such as restructuring costs and litigation reserves), direct marketing expenses, insurance company assessments and non-deferrable commissions. AIG also excludes the impact of foreign exchange and the expenses of AIG Advisor Group, which has been divested, when measuring period-over-period fluctuations in General Operating Expenses, Operating basis.

**Accident year loss ratio, as adjusted (Adjusted for Prior Year Development)** further adjusts the Accident Year Loss Ratio, as adjusted to include the impact of the prior year reserve development into each respective accident year.

## Cautionary Statement Regarding Forward Looking Information

This Annual Report 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 AIG's belief regarding future events, many of which, by their nature, are inherently uncertain and outside AIG's 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." It is possible that AIG's 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 AIG's actual results to differ, possibly materially, from those in the specific projections, goals, assumptions and statements include: changes in market conditions; negative impacts on customers, business partners and other stakeholders; the occurrence of catastrophic events, both natural and man-made; significant legal proceedings; the timing and applicable requirements of any new regulatory framework to which AIG is subject as a nonbank systemically important financial institution and as a global systemically important insurer; concentrations in AIG's investment portfolios; actions by credit rating agencies; judgments concerning casualty insurance underwriting and insurance liabilities; AIG's ability to successfully manage legacy portfolios; AIG's ability to successfully reduce costs and expenses and make business and organizational changes without negatively impacting client relationships or AIG's competitive position; AIG's ability to successfully dispose of, or monetize, businesses or assets; judgments concerning the recognition of deferred tax assets; judgments concerning estimated restructuring charges and estimated cost savings; and such other factors discussed in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Part I, Item 1A. Risk Factors in AIG's Annual Report on Form 10-K for the year ended December 31, 2016.

AIG is not under any obligation (and expressly disclaims 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.



# Non-GAAP Reconciliation

## Reconciliations of Normalized Return on Attributed Equity

(\$ in millions)

Twelve Months Ended December 31,

|                                                                                | 2016             | 2015             |
|--------------------------------------------------------------------------------|------------------|------------------|
| <b>Return On Equity (ROE) Computations</b>                                     |                  |                  |
| Actual or Annualized net income (loss) attributable to AIG (a)                 | \$ (849)         | \$ 2,196         |
| Actual or Annualized after-tax operating income (loss) attributable to AIG (b) | \$ 406           | \$ 2,872         |
| Average AIG Shareholders' equity (c)                                           | \$ 86,617        | \$101,558        |
| Less: Average AOCI                                                             | 5,722            | 7,598            |
| Less: Average DTA                                                              | 15,905           | 15,803           |
| <b>Average adjusted shareholders' equity (d)</b>                               | <b>\$ 64,990</b> | <b>\$ 78,157</b> |
| ROE (a÷c)                                                                      | (1.0)%           | 2.2%             |
| <b>After-tax operating income (loss) as reported (e)</b>                       | <b>\$ 406</b>    | <b>\$ 2,872</b>  |
| <b>Adjustments to arrive at Normalized after-tax operating income (loss):</b>  |                  |                  |
| Catastrophe losses above (below) expectations                                  | (143)            | (520)            |
| (Better) worse than expected alternative returns <sup>1</sup>                  | 356              | 434              |
| (Better) worse than expected DIB & GCM returns                                 | 112              | (80)             |
| Fair value changes on PICC investments                                         | 98               | (26)             |
| Update of actuarial assumptions                                                | 250              | 4                |
| Life Insurance – IBNR death claims                                             | (16)             | (13)             |
| Unfavorable (favorable) prior year loss reserve development                    | 3,782            | 2,690            |
| <b>Normalized after-tax operating income (loss) (f)</b>                        | <b>\$ 4,845</b>  | <b>\$ 5,361</b>  |
| Adjusted return on equity (e÷d)                                                | 0.6%             | 3.7%             |
| <b>Normalized return on equity (f÷d)</b>                                       | <b>7.5%</b>      | <b>6.9%</b>      |

<sup>1</sup> The expected rate of return on alternative investments used was 8% and 9% for 2016 and 2015, respectively.

# Non-GAAP Reconciliation

Continued

## Reconciliations of Normalized Return on Attributed Equity (continued)

(\$ in millions)

Twelve Months Ended December 31,

|                                                                               | 2016            | 2015     |
|-------------------------------------------------------------------------------|-----------------|----------|
| <b>Total Consumer Insurance</b>                                               |                 |          |
| <b>Pre-tax operating income (loss)</b>                                        | <b>\$ 3,849</b> | \$ 2,929 |
| Interest expense on attributed financial debt                                 | 182             | 236      |
| <b>Operating income (loss) before taxes:</b>                                  | <b>3,667</b>    | 2,693    |
| Income tax expense (benefit)                                                  | 1,160           | 790      |
| <b>After-tax operating income (loss) (a)</b>                                  | <b>2,507</b>    | 1,903    |
| <b>Adjustments to arrive at normalized after-tax operating income (loss):</b> |                 |          |
| (Better) worse than expected alternative returns                              | 133             | 184      |
| Update of actuarial assumptions                                               | (150)           | (15)     |
| Catastrophe losses above (below) expectations                                 | (50)            | (65)     |
| Fair value changes on PICC investments                                        | 2               | —        |
| Unfavorable (favorable) prior year loss reserve development                   | (88)            | (11)     |
| <b>Normalized after-tax operating income (b)</b>                              | <b>\$ 2,354</b> | \$ 1,996 |
| <b>Ending attributed equity</b>                                               | <b>22,168</b>   | 23,319   |
| <b>Average attributed equity (c)</b>                                          | <b>22,928</b>   | 23,844   |
| <b>Adjusted return on attributed equity (a÷c)</b>                             | <b>10.9 %</b>   | 8.0 %    |
| <b>Normalized return on attributed equity (b÷c)</b>                           | <b>10.3 %</b>   | 8.4 %    |

## Consumer Insurance - Personal Insurance

|                                                                               |               |         |
|-------------------------------------------------------------------------------|---------------|---------|
| <b>Pre-tax operating income (loss)</b>                                        | <b>\$ 686</b> | \$ 68   |
| Interest expense on attributed financial debt                                 | 94            | 109     |
| <b>Operating income (loss) before taxes:</b>                                  | <b>592</b>    | (41)    |
| Income tax expense (benefit)                                                  | 207           | 2       |
| <b>After-tax operating income (loss) (a)</b>                                  | <b>385</b>    | (43)    |
| <b>Adjustments to arrive at normalized after-tax operating income (loss):</b> |               |         |
| Catastrophe losses above (below) expectations                                 | (50)          | (65)    |
| (Better) worse than expected alternative returns                              | 38            | 21      |
| Fair value changes on PICC investments                                        | 2             | —       |
| Unfavorable (favorable) prior year loss reserve development                   | (88)          | (11)    |
| <b>Normalized after-tax operating income (b)</b>                              | <b>\$ 287</b> | \$ (98) |
| <b>Ending attributed equity</b>                                               | <b>2,742</b>  | 2,847   |
| <b>Average attributed equity (c)</b>                                          | <b>2,821</b>  | 2,927   |
| <b>Adjusted return on attributed equity (a÷c)</b>                             | <b>13.6 %</b> | (1.5) % |
| <b>Normalized return on attributed equity (b÷c)</b>                           | <b>10.2 %</b> | (3.3) % |

# Non-GAAP Reconciliation

Continued

## Reconciliations of Normalized Return on Attributed Equity (continued)

(\$ in millions)

Twelve Months Ended December 31,

|                                                                               | 2016            | 2015     |
|-------------------------------------------------------------------------------|-----------------|----------|
| <b>Total Core</b>                                                             |                 |          |
| <b>Pre-tax operating income (loss)</b>                                        | <b>\$ 408</b>   | \$ 2,851 |
| Interest expense (benefit) on attributed financial debt                       | <b>(122)</b>    | (214)    |
| <b>Operating income (loss) before taxes:</b>                                  | <b>530</b>      | 3,065    |
| Income tax expense (benefit)                                                  | <b>120</b>      | 800      |
| <b>After-tax operating income (loss) (a)</b>                                  | <b>410</b>      | 2,265    |
| <b>Adjustments to arrive at normalized after-tax operating income (loss):</b> |                 |          |
| Catastrophe losses above (below) expectations                                 | <b>(136)</b>    | (512)    |
| (Better) worse than expected alternative returns                              | <b>332</b>      | 424      |
| (Better) worse than expected DIB & GCM returns                                | <b>6</b>        | (5)      |
| Fair value changes on PICC investments                                        | <b>29</b>       | (4)      |
| Update of actuarial assumptions                                               | <b>(149)</b>    | (15)     |
| Unfavorable (favorable) prior year loss reserve development                   | <b>3,520</b>    | 2,116    |
| <b>Normalized after-tax operating income (b)</b>                              | <b>\$ 4,012</b> | \$ 4,269 |
| <b>Ending attributed equity</b>                                               | <b>47,651</b>   | 53,519   |
| <b>Average attributed equity (c)</b>                                          | <b>51,319</b>   | 58,912   |
| <b>Adjusted return on attributed equity (a÷c)</b>                             | <b>0.8 %</b>    | 3.8 %    |
| <b>Normalized return on attributed equity (b÷c)</b>                           | <b>7.8 %</b>    | 7.2 %    |

# Non-GAAP Reconciliation

Continued

## Reconciliations of General Operating Expenses, Operating basis, Excluding Foreign Exchange and General Operating Expenses of AIG Advisor Group to General Operating and Other Expenses, GAAP basis

(\$ in millions)

|                                                                                                 | Twelve Months Ended December 31, |           |               |
|-------------------------------------------------------------------------------------------------|----------------------------------|-----------|---------------|
|                                                                                                 | 2016                             | 2015      | % Inc. (Dec.) |
| <b>General operating and other expenses, GAAP basis</b>                                         | <b>\$ 10,989</b>                 | \$ 12,686 | (13.4)%       |
| Restructuring and other costs                                                                   | (694)                            | (496)     | (39.9)        |
| Other expense related to retroactive reinsurance agreement                                      | 18                               | (233)     | NM            |
| Pension expense related to a one-time lump sum payment to former employees                      | (147)                            | -         | NM            |
| Non-operating litigation reserves                                                               | (3)                              | (12)      | 75.0          |
| <b>Total general operating and other expenses included in pre-tax operating income</b>          | <b>10,163</b>                    | 11,945    | (14.9)        |
| Loss adjustment expenses, reported as policyholder benefits and losses incurred                 | 1,345                            | 1,632     | (17.6)        |
| Advisory fee expenses                                                                           | (645)                            | (1,349)   | 52.2          |
| Non-deferrable insurance commissions                                                            | (467)                            | (504)     | 7.3           |
| Direct marketing and acquisition expenses, net of deferrals                                     | (501)                            | (659)     | 24.0          |
| Investment expenses reported as net investment income and other                                 | 57                               | 76        | (25.0)        |
| <b>Total general operating expenses, operating basis</b>                                        | <b>9,952</b>                     | 11,141    | (10.7)        |
| Less: FX impact                                                                                 | -                                | (15)      | NM            |
| Less: GOE of Advisor Group                                                                      | 68                               | 206       | (67.0)        |
| <b>Total general operating expenses, Operating basis, Ex. FX &amp; GOE of AIG Advisor Group</b> | <b>\$ 9,884</b>                  | \$ 10,950 | (9.7)%        |

## Reconciliation of Accident Year Loss Ratio, as Adjusted (incl. PYD)

|                                                                               | Twelve Months Ended December 31, |      |
|-------------------------------------------------------------------------------|----------------------------------|------|
|                                                                               | 2016                             | 2015 |
| <b>Commercial Insurance Accident Year Loss Ratio, as Adjusted (incl. PYD)</b> |                                  |      |
| Accident year loss ratio, as adjusted                                         | 66.7                             | 64.7 |
| Effect of 2016 Prior Year Development By Accident Year on 2015                |                                  | 6.1  |
| <b>Accident year loss ratio, as adjusted (incl. PYD)</b>                      | <b>66.7</b>                      | 70.8 |

# Shareholder Information

## Corporate Headquarters

American International Group, Inc.  
175 Water Street  
New York, NY 10038  
(212) 770-7000

## Stock Market Listings

New York and Tokyo Stock Exchanges  
NYSE common stock trading symbol: AIG

## SEC Certifications

The certifications by the Chief Executive Officer and the Chief Financial Officer of AIG, required under Section 302 of the Sarbanes-Oxley Act of 2002, were filed as exhibits to AIG's Annual Report on Form 10-K for the year ended December 31, 2016, and are included herein.

## NYSE Certification

The Chief Executive Officer of AIG made an unqualified certification to the NYSE with respect to AIG's compliance with the NYSE Corporate Governance Listing Standards in May 2016.

## Annual Meeting of Shareholders

The 2017 Annual Meeting of Shareholders will be held on Wednesday, June 28, 2017, at 11:00 a.m., at 175 Water Street, New York, NY.

## Shareholder Assistance

Visit the AIG corporate website at [www.aig.com](http://www.aig.com). Requests for copies of the Annual Report to Shareholders and Annual Report on Form 10-K for the year ended December 31, 2016, should be directed to:

## Investor Relations

American International Group, Inc.  
175 Water Street  
New York, NY 10038  
(212) 770-6293

## Transfer Agent and Registrar

Wells Fargo Bank, N.A.  
Shareowner Services  
PO Box 64854  
St. Paul, MN 55164-0854  
(888) 899-8293  
[shareowneronline.com](http://shareowneronline.com)

## Courier Service Address

Wells Fargo Bank, N.A.  
Shareowner Services  
1110 Centre Pointe Curve, Suite 101  
Mendota Heights, MN 55120-4100

## Duplicate Mailings/Householding

A shareholder who receives multiple copies of AIG's proxy materials and Annual Report may eliminate duplicate report mailings by contacting AIG's transfer agent.



# Vision, Mission, Values

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## **VISION**

We strive to be our clients' most valued insurer.

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## **MISSION**

We reduce fear of the future and empower our clients through our risk expertise and financial strength.

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## **VALUES**

- We have the courage to make difficult promises and the integrity to keep them.
- We learn and collaborate to solve our clients' problems.
- We value the diversity of perspectives that comes from all places and people.





**American International Group, Inc.**

175 Water Street  
New York, NY 10038

[www.aig.com](http://www.aig.com)