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

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

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.)
1271 Avenue of the Americas, New York, New York (Address of principal executive offices)	**10020** (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, Par Value $2.50 Per Share	AIG	New York Stock Exchange
5.75% Series A-2 Junior Subordinated Debentures	AIG 67BP	New York Stock Exchange
4.875% Series A-3 Junior Subordinated Debentures	AIG 67EU	New York Stock Exchange
Stock Purchase Rights		New York Stock Exchange
Depositary Shares Each Representing a 1/1,000th Interest in a Share of Series A 5.85% Non-Cumulative Perpetual Preferred Stock	AIG PRA	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes ☑ No ☐

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

Large accelerated filer ☑	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

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

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

As of August 2, 2021, there were 855,202,437 shares outstanding of the registrant's common stock.

AMERICAN INTERNATIONAL GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED
JUNE 30, 2021
TABLE OF CONTENTS

FORM 10-Q

Part I – Financial Information

Item 1. | Financial Statements

American International Group, Inc.
Condensed Consolidated Balance Sheets *(unaudited)*

(in millions, except for share data)	June 30, 2021	December 31, 2020
Assets:		
Investments:		
Fixed maturity securities:		
Bonds available for sale, at fair value, net of allowance for credit losses of $97 in 2021 and $186 in 2020 (amortized cost: 2021 - $251,620; 2020 - $244,337)*	$ 273,070	$ 271,496
Other bond securities, at fair value (*See Note 5*)*	4,866	5,291
Equity securities, at fair value *(See Note 5)**	1,079	1,056
Mortgage and other loans receivable, net of allowance for credit losses of $701 in 2021 and $814 in 2020*	45,216	45,562
Other invested assets (portion measured at fair value: 2021 - $9,580; 2020 - $8,422)*	20,139	19,060
Short-term investments, including restricted cash of $59 in 2021 and $180 in 2020 (portion measured at fair value: 2021 - $5,523; 2020 - $5,968)*	15,169	18,203
Total investments	359,539	360,668
Cash*	2,760	2,827
Accrued investment income*	2,288	2,271
Premiums and other receivables, net of allowance for credit losses and disputes of $198 in 2021 and $205 in 2020	14,303	11,333
Reinsurance assets - Fortitude Re, net of allowance for credit losses and disputes of $0 in 2021 and $0 in 2020	34,092	34,578
Reinsurance assets - other, net of allowance for credit losses and disputes of $325 in 2021 and $326 in 2020	41,344	38,963
Deferred income taxes	12,628	12,624
Deferred policy acquisition costs	10,723	9,805
Other assets, net of allowance for credit losses of $49 in 2021 and $49 in 2020, including restricted cash of $242 in 2021 and $223 in 2020 (portion measured at fair value: 2021 - $1,145; 2020 - $887)*	13,267	13,122
Separate account assets, at fair value	107,306	100,290
Total assets	$ 598,250	$ 586,481
Liabilities:		
Liability for unpaid losses and loss adjustment expenses, including allowance for credit losses of $14 in 2021 and $14 in 2020	$ 78,981	$ 77,720
Unearned premiums	21,487	18,660
Future policy benefits for life and accident and health insurance contracts	51,771	51,097
Policyholder contract deposits (portion measured at fair value: 2021 - $9,020; 2020 - $9,798)	161,112	160,251
Other policyholder funds	3,516	3,548
Fortitude Re funds withheld payable (portion measured at fair value: 2021 - $5,317; 2020 - $6,042)	41,403	43,060
Other liabilities (portion measured at fair value: 2021 - $741; 2020 - $570)*	30,039	27,122
Long-term debt (portion measured at fair value: 2021 - $1,974; 2020 - $2,097)	26,161	28,103
Debt of consolidated investment entities*	9,566	9,431
Separate account liabilities	107,306	100,290
Total liabilities	531,342	519,282
Contingencies, commitments and guarantees (*See Note 11*)		
AIG shareholders' equity:		
Series A non-cumulative preferred stock and additional paid in capital, $5.00 par value; 100,000,000 shares authorized; shares issued: 2021 - 20,000 and 2020 - 20,000; liquidation preference $500	485	485
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued: 2021 - 1,906,671,492 and 2020 - 1,906,671,492	4,766	4,766
Treasury stock, at cost; 2021 - 1,051,743,562 shares; 2020 - 1,045,113,443 shares of common stock	(49,634)	(49,322)
Additional paid-in capital	81,322	81,418
Retained earnings	18,935	15,504
Accumulated other comprehensive income	10,209	13,511
Total AIG shareholders' equity	66,083	66,362
Non-redeemable noncontrolling interests	825	837
Total equity	66,908	67,199
Total liabilities and equity	$ 598,250	$ 586,481

* See Note 8 for details of balances associated with variable interest entities.

See accompanying Notes to Condensed Consolidated Financial Statements.

American International Group, Inc.
Condensed Consolidated Statements of Income (Loss) *(unaudited)*

(dollars in millions, except per common share data)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Revenues:				
Premiums	$ 7,914	$ 7,407	$ 14,421	$ 14,850
Policy fees	771	749	1,555	1,504
Net investment income:				
Net investment income - excluding Fortitude Re funds withheld assets	3,168	3,250	6,339	5,758
Net investment income - Fortitude Re funds withheld assets	507	116	993	116
Total net investment income	3,675	3,366	7,332	5,874
Net realized gains (losses):				
Net realized gains (losses) - excluding Fortitude Re funds withheld assets and embedded derivative	(43)	(1,591)	652	1,928
Net realized gains (losses) on Fortitude Re funds withheld assets	173	96	346	96
Net realized gains (losses) on Fortitude Re funds withheld embedded derivative	(2,056)	(837)	326	(837)
Total net realized gains (losses)	(1,926)	(2,332)	1,324	1,187
Other income	247	206	503	424
Total revenues	10,681	9,396	25,135	23,839
Benefits, losses and expenses:				
Policyholder benefits and losses incurred	6,084	6,521	11,223	12,846
Interest credited to policyholder account balances	872	918	1,740	1,875
Amortization of deferred policy acquisition costs	915	754	2,219	2,616
General operating and other expenses	2,218	2,087	4,306	4,240
Interest expense	338	365	680	720
(Gain) loss on extinguishment of debt	106	-	98	17
Net (gain) loss on sale or disposal of divested businesses	1	8,412	(6)	8,628
Total benefits, losses and expenses	10,534	19,057	20,260	30,942
Income (loss) from continuing operations before income tax expense (benefit)	147	(9,661)	4,875	(7,103)
Income tax expense (benefit)	(3)	(1,896)	795	(992)
Income (loss) from continuing operations	150	(7,765)	4,080	(6,111)
Loss from discontinued operations, net of income taxes	-	(1)	-	(1)
Net income (loss)	150	(7,766)	4,080	(6,112)
Less:				
Net income from continuing operations attributable to noncontrolling interests	51	162	105	67
Net income (loss) attributable to AIG	99	(7,928)	3,975	(6,179)
Less: Dividends on preferred stock	8	8	15	15
Net income (loss) attributable to AIG common shareholders	$ 91	$ (7,936)	$ 3,960	$ (6,194)
Income (loss) per common share attributable to AIG common shareholders:				
Basic:				
Income (loss) from continuing operations	$ 0.11	$ (9.15)	$ 4.58	$ (7.11)
Income (loss) from discontinued operations	$ -	$ -	$ -	$ -
Net income (loss) attributable to AIG common shareholders	$ 0.11	$ (9.15)	$ 4.58	$ (7.11)
Diluted:				
Income (loss) from continuing operations	$ 0.11	$ (9.15)	$ 4.53	$ (7.11)
Income (loss) from discontinued operations	$ -	$ -	$ -	$ -
Net income (loss) attributable to AIG common shareholders	$ 0.11	$ (9.15)	$ 4.53	$ (7.11)
Weighted average shares outstanding:				
Basic	862,930,931	866,968,305	865,508,343	870,590,968
Diluted	872,877,303	866,968,305	874,566,280	870,590,968

See accompanying Notes to Condensed Consolidated Financial Statements.

American International Group, Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss) *(unaudited)*

(in millions)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Net income (loss)	**$ 150**	$ (7,766)	**$ 4,080**	$ (6,112)
Other comprehensive income (loss), net of tax				
Change in unrealized appreciation (depreciation) of fixed maturity securities on which allowance for credit losses was taken	**4**	126	**37**	(233)
Change in unrealized appreciation (depreciation) of all other investments	**3,710**	10,082	**(3,489)**	4,540
Change in foreign currency translation adjustments	**14**	(61)	**139**	(146)
Change in retirement plan liabilities adjustment	**14**	9	**11**	2
Change in fair value of liabilities under fair value option attributable to changes in own credit risk	**-**	(2)	**(1)**	1
Other comprehensive income (loss)	**3,742**	10,154	**(3,303)**	4,164
Comprehensive income (loss)	**3,892**	2,388	**777**	(1,948)
Comprehensive income attributable to noncontrolling interests	**50**	153	**104**	44
Comprehensive income (loss) attributable to AIG	**$ 3,842**	$ 2,235	**$ 673**	$ (1,992)

See accompanying Notes to Condensed Consolidated Financial Statements.

American International Group, Inc.
Condensed Consolidated Statements of Equity *(unaudited)*

(in millions)	Preferred Stock and Additional Paid-in Capital	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total AIG Share-holders' Equity	Non-redeemable Non-controlling Interests	Total Equity
Three Months Ended June 30, 2021									
Balance, beginning of period	$ 485	$ 4,766	$ (49,412)	$ 81,253	$ 19,121	$ 6,466	$ 62,679	$ 881	$ 63,560
Common stock issued under stock plans	-	-	7	(5)	-	-	2	-	2
Purchase of common stock	-	-	(230)	-	-	-	(230)	-	(230)
Net income attributable to AIG or noncontrolling interests	-	-	-	-	99	-	99	51	150
Dividends on preferred stock	-	-	-	-	(8)	-	(8)	-	(8)
Dividends on common stock	-	-	-	-	(274)	-	(274)	-	(274)
Other comprehensive income (loss)	-	-	-	-	-	3,743	3,743	(1)	3,742
Net decrease due to divestitures and acquisitions	-	-	-	-	-	-	-	(17)	(17)
Contributions from noncontrolling interests	-	-	-	-	-	-	-	2	2
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(91)	(91)
Other	-	-	1	74	(3)	-	72	-	72
Balance, end of period	$ 485	$ 4,766	$ (49,634)	$ 81,322	$ 18,935	$ 10,209	$ 66,083	$ 825	$ 66,908
Six Months Ended June 30, 2021									
Balance, beginning of year	$ 485	$ 4,766	$ (49,322)	$ 81,418	$ 15,504	$ 13,511	$ 66,362	$ 837	$ 67,199
Common stock issued under stock plans	-	-	178	(260)	-	-	(82)	-	(82)
Purchase of common stock	-	-	(592)	-	-	-	(592)	-	(592)
Net income attributable to AIG or noncontrolling interests	-	-	-	-	3,975	-	3,975	105	4,080
Dividends on preferred stock	-	-	-	-	(15)	-	(15)	-	(15)
Dividends on common stock	-	-	-	-	(550)	-	(550)	-	(550)
Other comprehensive loss	-	-	-	-	-	(3,302)	(3,302)	(1)	(3,303)
Net increase due to divestitures and acquisitions	-	-	-	-	-	-	-	58	58
Contributions from noncontrolling interests	-	-	-	-	-	-	-	7	7
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(181)	(181)
Other	-	-	102	164	21	-	287	-	287
Balance, end of period	$ 485	$ 4,766	$ (49,634)	$ 81,322	$ 18,935	$ 10,209	$ 66,083	$ 825	$ 66,908

American International Group, Inc.
Condensed Consolidated Statements of Equity *(unaudited)(continued)*

(in millions)	Preferred Stock and Additional Paid-in Capital	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total AIG Share-holders' Equity	Non-redeemable Non-controlling Interests	Total Equity
Three Months Ended June 30, 2020									
Balance, beginning of period	$ 485	$ 4,766	$ (49,334)	$ 81,188	$ 24,062	$ (994)	$ 60,173	$ 1,670	$ 61,843
Common stock issued under stock plans	-	-	7	(9)	-	-	(2)	-	(2)
Purchase of common stock	-	-	-	-	-	-	-	-	-
Net income (loss) attributable to AIG or noncontrolling interests	-	-	-	-	(7,928)	-	(7,928)	162	(7,766)
Dividends on preferred stock	-	-	-	-	(8)	-	(8)	-	(8)
Dividends on common stock	-	-	-	-	(275)	-	(275)	-	(275)
Other comprehensive income (loss)	-	-	-	-	-	10,163	10,163	(9)	10,154
Net decrease due to divestitures and acquisitions	-	-	-	-	-	-	-	(1,219)	(1,219)
Contributions from noncontrolling interests	-	-	-	-	-	-	-	3	3
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(20)	(20)
Other	-	-	-	115	(4)	-	111	(3)	108
Balance, end of period	$ 485	$ 4,766	$ (49,327)	$ 81,294	$ 15,847	$ 9,169	$ 62,234	$ 584	$ 62,818
Six Months Ended June 30, 2020									
Balance, beginning of year	$ 485	$ 4,766	$ (48,987)	$ 81,345	$ 23,084	$ 4,982	$ 65,675	$ 1,752	$ 67,427
Cumulative effect of change in accounting principle, net of tax	-	-	-	-	(487)	-	(487)	-	(487)
Common stock issued under stock plans	-	-	167	(264)	-	-	(97)	-	(97)
Purchase of common stock	-	-	(500)	-	-	-	(500)	-	(500)
Net income (loss) attributable to AIG or noncontrolling interests	-	-	-	-	(6,179)	-	(6,179)	67	(6,112)
Dividends on preferred stock	-	-	-	-	(15)	-	(15)	-	(15)
Dividends on common stock	-	-	-	-	(551)	-	(551)	-	(551)
Other comprehensive income (loss)	-	-	-	-	-	4,187	4,187	(23)	4,164
Net decrease due to divestitures and acquisitions	-	-	-	-	-	-	-	(1,171)	(1,171)
Contributions from noncontrolling interests	-	-	-	-	-	-	-	4	4
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(42)	(42)
Other	-	-	(7)	213	(5)	-	201	(3)	198
Balance, end of period	$ 485	$ 4,766	$ (49,327)	$ 81,294	$ 15,847	$ 9,169	$ 62,234	$ 584	$ 62,818

See accompanying Notes to Condensed Consolidated Financial Statements.

American International Group, Inc.
Condensed Consolidated Statements of Cash Flows *(unaudited)*

	Six Months Ended June 30,	
(in millions)	**2021**	2020
Cash flows from operating activities:		
Net income (loss)	**$ 4,080**	$ (6,112)
Loss from discontinued operations	**-**	1
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Noncash revenues, expenses, gains and losses included in income (loss):		
Net gains on sales of securities available for sale and other assets	**(579)**	(418)
Net (gains) losses on sale or disposal of divested businesses	**(6)**	8,628
Losses on extinguishment of debt	**98**	17
Unrealized gains in earnings - net	**(1,267)**	(1,704)
Equity in loss from equity method investments, net of dividends or distributions	**31**	232
Depreciation and other amortization	**2,370**	2,560
Impairments of assets	**25**	66
Changes in operating assets and liabilities:		
Insurance reserves	**4,889**	2,033
Premiums and other receivables and payables - net	**(1,381)**	1,778
Reinsurance assets and funds held under reinsurance contracts	**(1,928)**	(2,295)
Capitalization of deferred policy acquisition costs	**(2,688)**	(2,224)
Current and deferred income taxes - net	**199**	(1,732)
Other, net	**(1,033)**	(1,069)
Total adjustments	**(1,270)**	5,872
Net cash provided by (used in) operating activities	**2,810**	(239)
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales or distributions of:		
Available for sale securities	**12,559**	13,858
Other securities	**465**	2,037
Other invested assets	**1,807**	2,134
Divested businesses, net	**-**	2,119
Maturities of fixed maturity securities available for sale	**17,749**	12,761
Principal payments received on and sales of mortgage and other loans receivable	**4,115**	2,359
Purchases of:		
Available for sale securities	**(34,667)**	(29,804)
Other securities	**(95)**	(519)
Other invested assets	**(1,558)**	(1,385)
Mortgage and other loans receivable	**(3,719)**	(2,653)
Net change in short-term investments	**3,065**	(7,857)
Other, net	**(1,366)**	4,047
Net cash used in investing activities	**(1,645)**	(2,903)
Cash flows from financing activities:		
Proceeds from (payments for)		
Policyholder contract deposits	**13,172**	9,912
Policyholder contract withdrawals	**(11,214)**	(8,505)
Issuance of long-term debt	**54**	4,139
Issuance of debt of consolidated investment entities	**2,542**	1,370
Repayments of long-term debt	**(1,839)**	(513)
Repayments of debt of consolidated investment entities	**(2,560)**	(1,364)
Purchase of common stock	**(592)**	(500)
Dividends paid on preferred stock	**(15)**	(15)
Dividends paid on common stock	**(550)**	(551)
Other, net	**(298)**	(269)
Net cash provided by (used in) financing activities	**(1,300)**	3,704
Effect of exchange rate changes on cash and restricted cash	**(34)**	3
Net increase (decrease) in cash and restricted cash	**(169)**	565
Cash and restricted cash at beginning of year	**3,230**	3,287
Cash and restricted cash at end of period	**$ 3,061**	$ 3,852

American International Group, Inc.
Condensed Consolidated Statements of Cash Flows *(unaudited)(continued)*

Supplementary Disclosure of Condensed Consolidated Cash Flow Information

	Six Months Ended June 30,	
(in millions)	**2021**	2020
Cash	**$ 2,760**	$ 3,408
Restricted cash included in Short-term investments*	**59**	197
Restricted cash included in Other assets*	**242**	247
Total cash and restricted cash shown in the Condensed Consolidated Statements of Cash Flows	**$ 3,061**	$ 3,852
Cash paid during the period for:		
Interest	**$ 592**	$ 581
Taxes	**$ 596**	$ 741
Non-cash investing activities:		
Fixed maturity securities available for sale received in connection with pension risk transfer transactions	**$ 477**	$ 1,008
Fixed maturity securities received in connection with reinsurance transactions	**$ 161**	$ 325
Fixed maturity securities transferred in connection with reinsurance transactions	**$ (695)**	$ -
Non-cash financing activities:		
Interest credited to policyholder contract deposits included in financing activities	**$ 1,783**	$ 1,916
Fee income debited to policyholder contract deposits included in financing activities	**$ (847)**	$ (853)

* Includes funds held for tax sharing payments to AIG Parent, security deposits, and replacement reserve deposits related to our affordable housing investments.

See accompanying Notes to Condensed Consolidated Financial Statements.

1. Basis of Presentation

American International Group, Inc. (AIG) is a leading global insurance organization serving customers in approximately 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). 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.

These unaudited Condensed Consolidated Financial Statements do not include all disclosures that are normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) and should be read in conjunction with the audited Consolidated Financial Statements and the related notes included in our Annual Report on Form 10-K for the year ended December 31, 2020 (the 2020 Annual Report). The condensed consolidated financial information as of December 31, 2020 included herein has been derived from the audited Consolidated Financial Statements in the 2020 Annual Report.

Certain of our foreign subsidiaries included in the Condensed Consolidated Financial Statements report on the basis of a fiscal year ending November 30. 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 Condensed Consolidated Financial Statements has been considered for adjustment and/or disclosure. In the opinion of management, these Condensed Consolidated Financial Statements contain normal recurring adjustments, including eliminations of material intercompany accounts and transactions, necessary for a fair statement of the results presented herein. Operating results for the six months ended June 30, 2021, are not necessarily indicative of the results that may be expected for the year ending December 31, 2021, especially when considering the risks and uncertainties associated with COVID-19 and the impact it may have on our business, results of operations and financial condition.

We evaluated the need to recognize or disclose events that occurred subsequent to June 30, 2021 and prior to the issuance of these Condensed Consolidated Financial Statements.

SALES/DISPOSALS OF BUSINESSES

Separation of Life and Retirement Business and Strategic Partnership with the Blackstone Group

On October 26, 2020, AIG announced its intention to separate its Life and Retirement business from AIG. On July 14, 2021, AIG and The Blackstone Group Inc. (Blackstone) announced that they have reached a definitive agreement for Blackstone to acquire a 9.9 percent equity stake in SAFG Retirement Services, Inc. (SAFG), which is the holding company for AIG’s Life and Retirement business, for $2.2 billion in an all cash transaction, subject to adjustment if the final pro forma adjusted book value is greater or lesser than the target pro forma adjusted book value. The transaction contemplates that most of AIG’s investment operations would be transferred to SAFG or its subsidiaries as part of the separation. As part of this agreement, AIG also agreed to enter into a long-term strategic asset management relationship with Blackstone to manage an initial $50 billion of Life and Retirement’s existing investment portfolio upon closing of the equity investment, with that amount increasing by increments of $8.5 billion per year for the next five years beginning in the third or fourth quarter of 2022, for an aggregate of $92.5 billion. Following the closing of the transaction, Blackstone will be entitled to designate one member of the board of directors of the Life and Retirement holding company, which will consist of 11 directors. Pursuant to the definitive agreement, Blackstone will be required to hold its ownership interest in SAFG following the completion of the separation of the Life and Retirement business, subject to exceptions permitting Blackstone to sell 25%, 67% and 75% of its shares after the first, second and third anniversaries, respectively, of the initial public offering of SAFG (the IPO), with the transfer restrictions terminating in full on the fifth anniversary of the IPO. In the event that the IPO of SAFG is not completed prior to the second anniversary of the closing of the transaction, Blackstone will have the right to require AIG to undertake the IPO, and in the event that the IPO has not been completed prior to the third anniversary of the closing, Blackstone will have the right to exchange all or a portion of its ownership interest in SAFG for shares of AIG’s common stock on the terms set forth in the definitive agreement. These transactions are subject to customary closing conditions, including the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the HSR Act), and are expected to close in the third quarter of 2021. While we currently believe the IPO is the next step in the separation of the Life and Retirement business from AIG, no assurance can be given regarding the form that future separation transactions may take or the specific terms or timing thereof, or that a separation will in fact occur. Any separation transaction will be subject to the satisfaction of various conditions and approvals, including approval by the AIG Board of Directors, receipt of insurance and other required regulatory approvals, and satisfaction of any applicable requirements of the Securities and Exchange Commission (SEC).

On July 14, 2021, AIG and Blackstone Real Estate Income Trust (BREIT), a long-term, perpetual capital vehicle affiliated with Blackstone, announced that they have reached a definitive agreement for BREIT to acquire AIG's interests in a U.S. affordable housing portfolio for approximately $5.1 billion, subject to certain adjustments, in an all cash transaction. This transaction is subject to customary closing conditions and is expected to close in the fourth quarter of 2021.

Sale of Certain AIG Life and Retirement Retail Mutual Funds Business

On February 8, 2021, AIG announced the execution of a definitive agreement with Touchstone Investments (Touchstone), an indirect wholly-owned subsidiary of Western & Southern Financial Group, to sell certain assets of AIG Life and Retirement's Retail Mutual Funds business. As of June 30, 2021, AIG Life and Retirement's Retail Mutual Funds business managed $7.1 billion in assets across eighteen funds. The transaction closed on July 16, 2021 at which time we received initial proceeds, and twelve retail mutual funds managed by SunAmerica Asset Management, LLC (SAAMCo), a member of AIG Life and Retirement, with $6.8 billion in assets, were reorganized into Touchstone funds. Additional proceeds may be earned over a three-year period based on asset levels in certain reorganized funds. Six retail mutual funds managed by SAAMCo and not included in the transaction were liquidated. AIG Life and Retirement will retain its fund management platform and capabilities dedicated to its variable insurance products.

For further discussion on the sale of certain AIG Life and Retirement Retail Mutual Funds business see Note 16 to the Condensed Consolidated Financial Statements.

Fortitude Holdings

On June 2, 2020, we completed the sale of a majority of the interests in Fortitude Group Holdings, LLC (Fortitude Holdings) to Carlyle FRL, L.P. (Carlyle FRL), an investment fund advised by an affiliate of The Carlyle Group Inc. (Carlyle), and T&D United Capital Co., Ltd. (T&D), a subsidiary of T&D Holdings, Inc., under the terms of a membership interest purchase agreement entered into on November 25, 2019 by and among AIG, Fortitude Holdings, Carlyle FRL, Carlyle, T&D and T&D Holdings, Inc. (the Majority Interest Fortitude Sale). AIG established Fortitude Reinsurance Company Ltd. (Fortitude Re), a wholly owned subsidiary of Fortitude Holdings, in 2018 in a series of reinsurance transactions related to AIG's Run-Off operations. As of June 30, 2021, approximately $30.1 billion of reserves from AIG's Life and Retirement Run-Off Lines and approximately $4.0 billion of reserves from AIG's General Insurance Run-Off Lines, related to business written by multiple wholly-owned AIG subsidiaries, had been ceded to Fortitude Re under these reinsurance transactions. As of closing of the Majority Interest Fortitude Sale, these reinsurance transactions are no longer considered affiliated transactions and Fortitude Re is the reinsurer of the majority of AIG's Run-Off operations. As these reinsurance transactions are structured as modified coinsurance and loss portfolio transfers with funds withheld, following the closing of the Majority Interest Fortitude Sale, AIG continues to reflect the invested assets, which consist mostly of available for sale securities, supporting Fortitude Re's obligations, in AIG's financial statements.

AIG sold a 19.9 percent ownership interest in Fortitude Holdings to TC Group Cayman Investments Holdings, L.P. (TCG), an affiliate of Carlyle, in November 2018 (the 2018 Fortitude Sale). As a result of completion of the Majority Interest Fortitude Sale, Carlyle FRL purchased from AIG a 51.6 percent ownership interest in Fortitude Holdings and T&D purchased from AIG a 25 percent ownership interest in Fortitude Holdings; AIG retained a 3.5 percent ownership interest in Fortitude Holdings and one seat on its Board of Managers. The $2.2 billion of proceeds received by AIG at closing included (i) the $1.8 billion under the Majority Interest Fortitude Sale, subject to a post-closing purchase price adjustment pursuant to which AIG would pay Fortitude Re for certain adverse development in property casualty related reserves, based on an agreed methodology, that may occur through December 31, 2023, up to a maximum payment of $500 million; and (ii) a $383 million purchase price adjustment from Carlyle FRL and T&D, corresponding to their respective portions of a proposed $500 million non-pro rata distribution from Fortitude Holdings that was not received by AIG prior to the closing. Effective in the second quarter of 2021, AIG, Fortitude Holdings, Carlyle FRL, T&D and Carlyle amended the purchase agreement to finalize the post-closing purchase price adjustment for adverse reserve development. As a result of this amendment, during the three months ended June 30, 2021, AIG recorded a $21 million benefit through Policyholder benefits and losses incurred and eliminated further net exposure to adverse development on the reserves ceded to Fortitude Re.

AIG recorded a total after-tax reduction to total AIG shareholders' equity of $4.3 billion related to the sale of the majority interest in and deconsolidation of Fortitude Holdings in the second quarter of 2020. The impact to equity was primarily due to a $6.7 billion after-tax loss partially offset by a $2.4 billion increase in accumulated other comprehensive income (AOCI) due to the release of shadow adjustments primarily related to future policy benefits. The $6.7 billion after-tax loss was comprised of (i) a $2.7 billion loss related to the write-off of prepaid insurance assets and deferred policy acquisition costs (DAC) upon deconsolidation of Fortitude Holdings and (ii) $4.0 billion related to the loss on the sale primarily as a result of increases in Fortitude Holdings' equity principally related to mark to market movements from the December 31, 2018 date as of which Fortitude Holdings' equity was calculated for purposes of the purchase price determination, through the June 2, 2020 closing date.

In connection with the Majority Interest Fortitude Sale, AIG, Fortitude Holdings, and TCG agreed that, effective as of the closing, (i) AIG's investment commitment targets under the 2018 Fortitude Sale (whereby AIG had agreed to invest certain amounts into various Carlyle strategies and to make certain minimum investment management fee payments by November 2021) were assumed by Fortitude Holdings and AIG was released therefrom, (ii) the purchase price adjustment that AIG had agreed to provide TCG in the 2018 Fortitude Sale (whereby AIG had agreed to reimburse TCG for adverse development in property casualty related reserves, based on an agreed methodology, that may occur through December 31, 2023, up to the value of TCG's investment in Fortitude Holdings) has been terminated, and (iii) TCG remains obligated to pay AIG $115 million of deferred consideration upon settlement of the post-closing purchase price adjustment referred to above. This latter amount is composed of $95 million of deferred consideration contemplated as part of the 2018 Fortitude Sale, together with $19.9 million in respect of TCG's 19.9 percent share of the unpaid portion of the $500 million non-pro rata dividend to be paid to AIG under the 2018 Fortitude Sale (TCG paid $79.6 million to AIG on May 26, 2020). In addition, the 2018 capital maintenance agreement between AIG and Fortitude Re and the letters of credit issued in support of Fortitude Re and subject to reimbursement by AIG in the event of a drawdown were terminated as of the closing of the Majority Interest Fortitude Sale. Upon closing of the Majority Interest Fortitude Sale, AIG entered into a transition services agreement with Fortitude Holdings for the provision of transition services for a period after closing, and letter of credit agreements with certain financial institutions, which issued letters of credit in support of certain General Insurance subsidiaries that have reinsurance agreements in place with Fortitude Re in the amount of $600 million. These letters of credit are subject to reimbursement by AIG in the event of a drawdown by these insurance subsidiaries.

Following closing, in the second quarter of 2020, AIG contributed $700 million of the proceeds of the Majority Interest Fortitude Sale to certain of its General Insurance subsidiaries and $135 million of the proceeds of the Majority Interest Fortitude Sale to certain of its Life and Retirement subsidiaries.

For further discussion on the sale of Fortitude Holdings see Note 7 to the Condensed Consolidated Financial Statements.

Blackboard

At the end of March 2020, Blackboard U.S. Holdings, Inc. (Blackboard), AIG's technology-driven subsidiary, was placed into run-off. As a result of this decision, during the three months ended March 31, 2020, AIG recognized a pre-tax loss of $210 million, primarily consisting of asset impairment charges.

USE OF ESTIMATES

The preparation of financial statements in accordance with U.S. GAAP requires the application of accounting policies that often involve a significant degree of judgment. Accounting policies that we believe are most dependent on the application of estimates and assumptions are considered our critical accounting estimates and are related to the determination of:

- liability for unpaid losses and loss adjustment expenses (loss reserves);
- valuation of future policy benefit liabilities and timing and extent of loss recognition;
- valuation of liabilities for guaranteed benefit features of variable annuity products;
- valuation of embedded derivatives for fixed index annuity and life products;
- estimated gross profits to value deferred policy acquisition costs for investment-oriented products, for example universal life, variable and fixed annuities, and fixed indexed annuities;
- reinsurance assets, including the allowance for credit losses;
- goodwill impairment;
- allowances for credit losses primarily on loans and available for sale fixed maturity securities;
- liability for legal contingencies;
- fair value measurements of certain financial assets and liabilities; and
- income tax assets and liabilities, including recoverability of our net deferred tax asset and the predictability of future tax operating profitability of the character necessary to realize the net deferred tax asset.

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.

REVISION OF PRIOR PERIOD FINANCIAL STATEMENTS

During the fourth quarter of 2020, we identified certain cash flows that had been incorrectly classified in our Consolidated Statements of Cash Flows. Specifically, misclassifications were identified related to policyholder contract deposits that impacted several line items within the previously issued Consolidated Statements of Cash Flows. While these items affect the cash flows from operating and financing activities, they had no impact on the net increase (decrease) in cash and restricted cash for the previously reported periods.

We assessed the materiality of the misclassification on prior period financial statements in accordance with SEC Staff Accounting Bulletin Number 99, Materiality, as codified in ASC 250-10, Accounting Changes and Error Corrections. We have determined that these misclassifications were not material to the financial statements of any prior annual or interim period. Accordingly, the six-month period ended June 30, 2020 has been corrected in the comparative Condensed Consolidated Statements of Cash Flows. Additionally, impacted prior interim periods will be revised within the Quarterly Reports on Form 10-Q to be filed for the period ending September 30, 2021.

For the six months ended June 30, 2020, the unrealized (gains) losses in earnings – net and Insurance reserves line items in the Condensed Consolidated Statements of Cash Flows were adjusted by $(1,740) million and $176 million, respectively. The total net cash provided by (used in) operating activities was adjusted by $(1,564) million. Additionally, the Policyholder contract deposits and Policyholder contract withdrawals line items in the Condensed Consolidated Statements of Cash Flows were adjusted by $1,502 million and $62 million, respectively. The total net cash provided by financing activities was adjusted by $1,564 million.

DEBT CASH TENDER OFFERS

In the second quarter of 2021, we repurchased, through cash tender offers, and canceled approximately $254 million aggregate principal amount of certain notes and debentures issued or guaranteed by AIG for an aggregate purchase price of approximately $359 million and wrote off $4 million of unamortized debt issuance costs, resulting in a total loss on extinguishment of debt of approximately $109 million.

2. Summary of Significant Accounting Policies

ACCOUNTING STANDARDS ADOPTED DURING 2021

Income Tax

On December 18, 2019, the FASB issued an accounting standard that simplifies the accounting for income taxes by eliminating certain exceptions to the incremental approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The amendments also simplified other areas including the accounting for franchise taxes and enacted tax laws or rates and clarified the accounting for transactions that result in the step-up in the tax basis of goodwill. We adopted the standard on its effective date of January 1, 2021. The impact of adoption was not material to our consolidated financial condition, results of operations and cash flows.

Clarification of Accounting for Certain Equity Method Investments

On January 16, 2020, the FASB issued an accounting standard to clarify how a previously issued standard regarding a company's ability to measure the fair value of certain equity securities without a readily determinable fair value should interact with equity method investments standards. The previously issued standard provides that such equity securities could be measured at cost, minus impairment, if any, unless an observable transaction for an identical or similar security occurs (measurement alternative). The new standard clarifies that a company should consider observable transactions that require the company to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with the equity method immediately before applying or upon discontinuing the equity method.

The standard further clarifies that, when determining the accounting for certain forward contracts and purchased options a company should not consider, whether upon settlement or exercise, if the underlying securities would be accounted for under the equity method or fair value option.

We adopted the standard prospectively on its effective date of January 1, 2021. The adoption of the standard did not have a material impact on our consolidated financial condition, results of operations or cash flows.

FUTURE APPLICATION OF ACCOUNTING STANDARDS

Targeted Improvements to the Accounting for Long-Duration Contracts

In August 2018, the FASB issued an accounting standard update with the objective of making targeted improvements to the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. The standard prescribes significant and comprehensive changes to recognition, measurement, presentation and disclosure as summarized below:

- Requires the review and if necessary update of future policy benefit assumptions at least annually for traditional and limited pay long duration contracts, with the recognition and separate presentation of any resulting re-measurement gain or loss (except for discount rate changes as noted below) in the income statement.
- Requires the discount rate assumption to be updated at the end of each reporting period using an upper medium grade (low-credit risk) fixed income instrument yield that maximizes the use of observable market inputs and recognizes the impact of changes to discount rates in other comprehensive income.
- Simplifies the amortization of DAC to a constant level basis over the expected term of the related contracts with adjustments for unexpected terminations, but no longer requires an impairment test.
- Requires the measurement of all market risk benefits associated with deposit (or account balance) contracts at fair value through the income statement with the exception of instrument-specific credit risk changes, which will be recognized in other comprehensive income.
- Increased disclosures of disaggregated roll-forwards of policy benefits, account balances, market risk benefits, separate account liabilities and information about significant inputs, judgments and methods used in measurement and changes thereto and impact of those changes.

In November 2020, the FASB issued ASU 2020-11, which deferred the effective date of the standard for all entities. Our implementation efforts are underway for the standard's revised effective date of January 1, 2023; we continue to evaluate the method of adoption and impact of the standard on our reported consolidated financial condition, results of operations, cash flows and required disclosures. The adoption of this standard is expected to have a significant impact on our consolidated financial condition, results of operations, cash flows and required disclosures, as well as systems, processes and controls.

Reference Rate Reform

On March 12, 2020, the FASB issued an accounting standard that provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The standard allows us to account for certain contract modifications that result from the discontinuation of the London Inter-Bank Offered Rate (LIBOR) or another reference rate as a continuation of the existing contract without additional analysis.

Where permitted by the guidance, we would account for the modification due to the discontinuation of LIBOR or another reference rate as a continuation of the existing contract. As part of our implementation efforts, we will continue to assess our operational readiness and current and alternative reference rates' merits, limitations, risks and suitability for our investment and insurance processes.

This standard may be elected and applied prospectively over time from March 12, 2020 through December 31, 2022 as reference rate reform activities occur. The adoption of the standard is not expected to have a material impact on our reported consolidated financial condition, results of operations, cash flows and required disclosures.

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, as follows:

GENERAL INSURANCE

General Insurance business is presented as two operating segments:

- **North America** – consists of insurance businesses in the United States, Canada and Bermuda, and our global reinsurance business, AIG Re. This also includes the results of Western World Insurance Group, Inc. and Glatfelter Insurance Group.
- **International** – consists of regional insurance businesses in Japan, the United Kingdom, Europe, Middle East and Africa (EMEA region), Asia Pacific, Latin America and Caribbean, and China. International also includes the results of Talbot Holdings, Ltd. as well as AIG's Global Specialty business.

North America and International operating segments consist of the following products:

- Commercial Lines – consists of Liability, Financial Lines, Property and Global Specialty.
- Personal Insurance – consists of Personal Lines and Accident & Health.

LIFE AND RETIREMENT

Life and Retirement business is presented as four operating segments:

- **Individual Retirement** – consists of fixed annuities, fixed index annuities, variable annuities and retail mutual funds.
- **Group Retirement** – consists of group mutual funds, group annuities, individual annuity and investment products, financial planning and advisory services, and plan administrative and compliance services.
- **Life Insurance** – primary products in the U.S. include term life and universal life insurance. International operations include distribution of life and health products in the UK and Ireland.
- **Institutional Markets** – consists of stable value wrap products, structured settlement and pension risk transfer annuities, corporate- and bank-owned life insurance, high net worth products and guaranteed investment contracts (GICs).

For further discussion on the Life and Retirement business, see Note 1 to the Condensed Consolidated Financial Statements.

OTHER OPERATIONS

Other Operations primarily consists of income from assets held by AIG Parent and other corporate subsidiaries, deferred tax assets related to tax attributes, corporate expenses and intercompany eliminations, our institutional asset management business and results of our consolidated investment entities, General Insurance portfolios in run-off as well as the historical results of our legacy insurance lines ceded to Fortitude Re.

We evaluate segment performance based on adjusted revenues and adjusted pre-tax income (loss). Adjusted revenues and adjusted pre-tax income (loss) are derived by excluding certain items from total revenues and net income (loss) attributable to AIG, respectively. 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. Legal entities are attributed to each segment based upon the predominance of activity in that legal entity. *For the items excluded from adjusted revenues and adjusted pre-tax income (loss) see the table below.*

The following table presents AIG's continuing operations by operating segment:

Three Months Ended June 30,	2021		2020	
(in millions)	Adjusted Revenues	Adjusted Pre-tax Income (Loss)	Adjusted Revenues	Adjusted Pre-tax Income (Loss)
General Insurance				
North America	$ 2,685	$ 169 [(a)]	$ 2,474	$ (439) [(a)]
International	3,530	294 [(a)]	3,263	96 [(a)]
Net investment income	731	731	518	518
Total General Insurance	6,946	1,194	6,255	175
Life and Retirement				
Individual Retirement	1,519	617	1,331	549
Group Retirement	820	347	712	214
Life Insurance	1,295	20	1,219	2
Institutional Markets	1,412	140	1,399	130
Total Life and Retirement	5,046	1,124	4,661	895
Other Operations				
Other Operations before consolidation and eliminations	259	(516)	607	(332)
AIG consolidation and eliminations	(125)	(94)	35	53
Total Other Operations	134	(610)	642	(279)
Total	12,126	1,708	11,558	791
Reconciling items to pre-tax income (loss):				
Changes in fair value of securities used to hedge guaranteed living benefits	14	13	14	16
Changes in benefit reserves and DAC, VOBA and SIA related to net realized gains (losses)	-	120	-	255
Changes in the fair value of equity securities	(13)	(13)	56	56
Other income (expense) - net	(2)	-	14	-
Loss on extinguishment of debt	-	(106)	-	-
Net investment income on Fortitude Re funds withheld assets	507	507	116	116
Net realized gains on Fortitude Re funds withheld assets	173	173	96	96
Net realized losses on Fortitude Re funds withheld embedded derivative	(2,056)	(2,056)	(837)	(837)
Net realized losses[(b)]	(68)	(59)	(1,621)	(1,607)
Loss from divested businesses	-	(1)	-	(8,412)
Non-operating litigation reserves and settlements	-	-	-	-
Favorable prior year development and related amortization changes ceded under retroactive reinsurance agreements	-	65	-	33
Net loss reserve discount charge	-	(22)	-	(16)
Integration and transaction costs associated with acquiring or divesting businesses	-	(35)	-	(4)
Restructuring and other costs	-	(126)	-	(134)
Non-recurring costs related to regulatory or accounting changes	-	(21)	-	(14)
Revenues and pre-tax income (loss)	$ 10,681	$ 147	$ 9,396	$ (9,661)

Six Months Ended June 30,	2021		2020	
(in millions)	Adjusted Revenues	Adjusted Pre-tax Income (Loss)	Adjusted Revenues	Adjusted Pre-tax Income (Loss)
General Insurance				
North America	$ 5,073	$ (33)[(a)]	$ 5,205	$ (542)[(a)]
International	7,008	569 [(a)]	6,611	112 [(a)]
Net investment income	1,503	1,503	1,106	1,106
Total General Insurance	13,584	2,039	12,922	676
Life and Retirement				
Individual Retirement	2,996	1,149	2,699	854
Group Retirement	1,626	654	1,406	357
Life Insurance	2,628	(20)	2,419	80
Institutional Markets	1,776	282	2,423	205
Total Life and Retirement	9,026	2,065	8,947	1,496
Other Operations				
Other Operations before consolidation and eliminations	583	(870)	922	(1,167)
AIG consolidation and eliminations	(305)	(270)	(106)	(34)
Total Other Operations	278	(1,140)	816	(1,201)
Total	22,888	2,964	22,685	971
Reconciling items to pre-tax income (loss):				
Changes in fair value of securities used to hedge guaranteed living benefits	32	35	28	9
Changes in benefit reserves and DAC, VOBA and SIA related to net realized gains (losses)	-	(83)	-	(283)
Changes in the fair value of equity securities	9	9	(135)	(135)
Other income (expense) - net	(8)	-	24	-
Loss on extinguishment of debt	-	(98)	-	(17)
Net investment income on Fortitude Re funds withheld assets	993	993	116	116
Net realized gains on Fortitude Re funds withheld assets	346	346	96	96
Net realized gains (losses) on Fortitude Re funds withheld embedded derivative	326	326	(837)	(837)
Net realized gains[(b)]	549	568	1,856	1,887
Income (loss) from divested businesses	-	6	-	(8,628)
Non-operating litigation reserves and settlements	-	-	6	6
Favorable prior year development and related amortization changes ceded under retroactive reinsurance agreements	-	84	-	41
Net loss reserve discount benefit (charge)	-	10	-	(72)
Integration and transaction costs associated with acquiring or divesting businesses	-	(44)	-	(6)
Restructuring and other costs	-	(200)	-	(224)
Non-recurring costs related to regulatory or accounting changes	-	(41)	-	(27)
Revenues and pre-tax income (loss)	$ 25,135	$ 4,875	$ 23,839	$ (7,103)

(a) General Insurance North America's and General Insurance International's Adjusted pre-tax income does not include Net investment income as the investment portfolio results are managed at the General Insurance level. Net investment income is shown separately as a component of General Insurance's total Adjusted pre-tax income results.

(b) Includes all net realized gains and losses except earned income (periodic settlements and changes in settlement accruals) on derivative instruments used for non-qualifying (economic) hedging or for asset replication and net realized gains and losses on Fortitude Re funds withheld assets held by AIG in support of Fortitude Re's reinsurance obligations to AIG (Fortitude Re funds withheld assets).

4. Fair Value Measurements

FAIR VALUE MEASUREMENTS ON A RECURRING BASIS

Assets and liabilities recorded at fair value in the Condensed 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.

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:

June 30, 2021 *(in millions)*	Level 1	Level 2	Level 3	Counterparty Netting[a]	Cash Collateral	Total
Assets:						
Bonds available for sale:						
U.S. government and government sponsored entities	$ -	$ 4,501	$ -	$ -	$ -	$ 4,501
Obligations of states, municipalities and political subdivisions	-	13,240	1,939	-	-	15,179
Non-U.S. governments	55	15,956	10	-	-	16,021
Corporate debt	-	172,780	2,773	-	-	175,553
RMBS	-	17,499	11,085	-	-	28,584
CMBS	-	14,382	1,082	-	-	15,464
CDO/ABS	-	8,450	9,318	-	-	17,768
Total bonds available for sale	55	246,808	26,207	-	-	273,070
Other bond securities:						
U.S. government and government sponsored entities	-	1,778	-	-	-	1,778
Non-U.S. governments	-	-	-	-	-	-
Corporate debt	-	12	-	-	-	12
RMBS	-	221	113	-	-	334
CMBS	-	254	46	-	-	300
CDO/ABS	-	163	2,279	-	-	2,442
Total other bond securities	-	2,428	2,438	-	-	4,866
Equity securities	1,029	46	4	-	-	1,079
Other invested assets[b]	-	103	2,099	-	-	2,202
Derivative assets[c]:						
Interest rate contracts	-	3,677	1	-	-	3,678
Foreign exchange contracts	-	1,156	1	-	-	1,157
Equity contracts	7	356	368	-	-	731
Commodity contracts	-	6	-	-	-	6
Credit contracts	-	-	1	-	-	1
Other contracts	-	-	13	-	-	13
Counterparty netting and cash collateral	-	-	-	(2,833)	(1,721)	(4,554)
Total derivative assets	7	5,195	384	(2,833)	(1,721)	1,032
Short-term investments	2,839	2,684	-	-	-	5,523
Other assets	-	-	113	-	-	113
Separate account assets	103,402	3,904	-	-	-	107,306
Total	$ 107,332	$ 261,168	$ 31,245	$ (2,833)	$ (1,721)	$ 395,191
Liabilities:						
Policyholder contract deposits	$ -	$ -	$ 9,020	$ -	$ -	$ 9,020
Derivative liabilities[c]:						
Interest rate contracts	2	3,878	-	-	-	3,880
Foreign exchange contracts	-	747	-	-	-	747
Equity contracts	4	57	11	-	-	72
Credit contracts	-	19	44	-	-	63
Other contracts	-	-	3	-	-	3
Counterparty netting and cash collateral	-	-	-	(2,833)	(1,201)	(4,034)
Total derivative liabilities	6	4,701	58	(2,833)	(1,201)	731
Fortitude Re funds withheld payable	-	-	5,317	-	-	5,317
Other liabilities	-	10	-	-	-	10
Long-term debt	-	1,974	-	-	-	1,974
Total	$ 6	$ 6,685	$ 14,395	$ (2,833)	$ (1,201)	$ 17,052

December 31, 2020 (in millions)	Level 1	Level 2	Level 3	Counterparty Netting[(a)]	Cash Collateral	Total
Assets:						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 73	$ 4,053	$ -	$ -	$ -	$ 4,126
Obligations of states, municipalities and political subdivisions	-	14,019	2,105	-	-	16,124
Non-U.S. governments	28	15,312	5	-	-	15,345
Corporate debt	-	166,949	2,349	-	-	169,298
RMBS	-	19,771	11,694	-	-	31,465
CMBS	-	15,211	922	-	-	16,133
CDO/ABS	-	9,191	9,814	-	-	19,005
Total bonds available for sale	101	244,506	26,889	-	-	271,496
Other bond securities:						
U.S. government and government sponsored entities	-	1,845	-	-	-	1,845
Non-U.S. governments	-	-	-	-	-	-
Corporate debt	-	12	-	-	-	12
RMBS	-	290	139	-	-	429
CMBS	-	273	47	-	-	320
CDO/ABS	-	173	2,512	-	-	2,685
Total other bond securities	-	2,593	2,698	-	-	5,291
Equity securities	929	76	51	-	-	1,056
Other invested assets[(b)]	-	102	1,827	-	-	1,929
Derivative assets[(c)]:						
Interest rate contracts	-	4,637	-	-	-	4,637
Foreign exchange contracts	-	1,020	2	-	-	1,022
Equity contracts	9	923	198	-	-	1,130
Credit contracts	-	-	2	-	-	2
Other contracts	-	-	14	-	-	14
Counterparty netting and cash collateral	-	-	-	(3,812)	(2,219)	(6,031)
Total derivative assets	9	6,580	216	(3,812)	(2,219)	774
Short-term investments	2,379	3,589	-	-	-	5,968
Other assets	-	-	113	-	-	113
Separate account assets	96,560	3,730	-	-	-	100,290
Total	$ 99,978	$ 261,176	$ 31,794	$ (3,812)	$ (2,219)	$ 386,917
Liabilities:						
Policyholder contract deposits	$ -	$ -	$ 9,798	$ -	$ -	$ 9,798
Derivative liabilities[(c)]:						
Interest rate contracts	1	4,435	-	-	-	4,436
Foreign exchange contracts	-	1,090	-	-	-	1,090
Equity contracts	14	162	47	-	-	223
Credit contracts	-	23	44	-	-	67
Other contracts	-	-	6	-	-	6
Counterparty netting and cash collateral	-	-	-	(3,812)	(1,441)	(5,253)
Total derivative liabilities	15	5,710	97	(3,812)	(1,441)	569
Fortitude Re funds withheld payable	-	-	6,042	-	-	6,042
Other liabilities	-	1	-	-	-	1
Long-term debt	-	2,097	-	-	-	2,097
Total	$ 15	$ 7,808	$ 15,937	$ (3,812)	$ (1,441)	$ 18,507

(a) Represents netting of derivative exposures covered by qualifying master netting agreements.

(b) Excludes investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent), which totaled $7.4 billion and $6.5 billion as of June 30, 2021 and December 31, 2020, respectively.

(c) Presented as part of Other assets and Other liabilities on the Condensed Consolidated Balance Sheets.

CHANGES IN LEVEL 3 RECURRING FAIR VALUE MEASUREMENTS

The following tables present changes during the three- and six-month periods ended June 30, 2021 and 2020 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 Condensed Consolidated Balance Sheets at June 30, 2021 and 2020:

(in millions)	Fair Value Beginning of Period	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issuances and Settlements, Net	Gross Transfers In	Gross Transfers Out	Divested Businesses	Fair Value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period	Changes in Unrealized Gains (Losses) Included in Other Comprehensive Income (Loss) for Recurring Level 3 Instruments Held at End of Period
Three Months Ended June 30, 2021										
Assets:										
Bonds available for sale:										
Obligations of states, municipalities and political subdivisions	$ 1,896	$ 5	$ 128	$ (65)	$ -	$ (25)	$ -	$ 1,939	$ -	$ 244
Non-U.S. governments	6	-	(1)	1	4	-	-	10	-	-
Corporate debt	2,570	14	17	31	208	(67)	-	2,773	-	50
RMBS	11,464	150	(39)	(460)	-	(30)	-	11,085	-	957
CMBS	1,104	7	23	85	-	(137)	-	1,082	-	18
CDO/ABS	9,602	(1)	44	(374)	384	(337)	-	9,318	-	403
Total bonds available for sale	26,642	175	172	(782)	596	(596)	-	26,207	-	1,672
Other bond securities:										
RMBS	126	1	-	(14)	-	-	-	113	12	-
CMBS	46	-	-	-	-	-	-	46	6	-
CDO/ABS	2,346	45	-	(112)	-	-	-	2,279	253	-
Total other bond securities	2,518	46	-	(126)	-	-	-	2,438	271	-
Equity securities	128	-	(3)	(112)	1	(10)	-	4	-	-
Other invested assets	1,897	114	(1)	89	-	-	-	2,099	122	-
Other assets	113	-	-	-	-	-	-	113	-	-
Total	$ 31,298	$ 335	$ 168	$ (931)	$ 597	$ (606)	$ -	$ 30,861	$ 393	$ 1,672

(in millions)	Fair Value Beginning of Period	Net Realized and Unrealized (Gains) Losses Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issuances and Settlements, Net	Gross Transfers In	Gross Transfers Out	Divested Businesses	Fair Value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period	Changes in Unrealized Gains (Losses) Included in Other Comprehensive Income (Loss) for Recurring Level 3 Instruments Held at End of Period
Liabilities:										
Policyholder contract deposits	$ 7,617	$ 1,363	$ -	$ 40	$ -	$ -	$ -	$ 9,020	$ (1,018)	$ -
Derivative liabilities, net:										
Interest rate contracts	-	(2)	-	1	-	-	-	(1)	1	-
Foreign exchange contracts	-	-	-	(1)	-	-	-	(1)	(1)	-
Equity contracts	(222)	(71)	-	(69)	-	5	-	(357)	85	-
Credit contracts	44	2	-	(3)	-	-	-	43	(1)	-
Other contracts	(9)	(16)	-	15	-	-	-	(10)	17	-
Total derivative liabilities, net[(a)]	(187)	(87)	-	(57)	-	5	-	(326)	101	-
Fortitude Re funds withheld payable	3,487	2,056	-	(226)	-	-	-	5,317	(1,452)	-
Total	$ 10,917	$ 3,332	$ -	$ (243)	$ -	$ 5	$ -	$ 14,011	$ (2,369)	$ -

(in millions)	Fair Value Beginning of Period	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issuances and Settlements, Net	Gross Transfers In	Gross Transfers Out	Divested Businesses	Fair Value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period	Changes in Unrealized Gains (Losses) Included in Other Comprehensive Income (Loss) for Recurring Level 3 Instruments Held at End of Period
Six Months Ended June 30, 2021										
Assets:										
Bonds available for sale:										
Obligations of states, municipalities and political subdivisions	$ 2,105	$ 8	$ (31)	$ (118)	$ -	$ (25)	$ -	$ 1,939	$ -	$ 234
Non-U.S. governments	5	-	(1)	1	5	-	-	10	-	-
Corporate debt	2,349	13	7	208	395	(199)	-	2,773	-	(109)
RMBS	11,694	317	25	(891)	-	(60)	-	11,085	-	943
CMBS	922	16	(33)	258	56	(137)	-	1,082	-	(38)
CDO/ABS	9,814	15	30	(538)	838	(841)	-	9,318	-	467
Total bonds available for sale	26,889	369	(3)	(1,080)	1,294	(1,262)	-	26,207	-	1,497
Other bond securities:										
RMBS	139	4	-	(30)	-	-	-	113	(86)	-
CMBS	47	(1)	-	(6)	6	-	-	46	4	-
CDO/ABS	2,512	34	-	(267)	-	-	-	2,279	255	-
Total other bond securities	2,698	37	-	(303)	6	-	-	2,438	173	-
Equity securities	51	11	-	(123)	76	(11)	-	4	3	-
Other invested assets	1,827	256	(7)	23	-	-	-	2,099	245	-
Other assets	113	-	-	-	-	-	-	113	-	-
Total	$ 31,578	$ 673	$ (10)	$ (1,483)	$ 1,376	$ (1,273)	$ -	$ 30,861	$ 421	$ 1,497

(in millions)	Fair Value Beginning of Period	Net Realized and Unrealized (Gains) Losses Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issuances and Settlements, Net	Gross Transfers In	Gross Transfers Out	Divested Businesses	Fair Value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period	Changes in Unrealized Gains (Losses) Included in Other Comprehensive Income (Loss) for Recurring Level 3 Instruments Held at End of Period
Liabilities:										
Policyholder contract deposits	$ 9,798	$ (897)	$ -	$ 119	$ -	$ -	$ -	$ 9,020	$ 1,553	-
Derivative liabilities, net:										
Interest rate contracts	-	(2)	-	1	-	-	-	(1)	2	-
Foreign exchange contracts	(2)	1	-	-	-	-	-	(1)	(1)	-
Equity contracts	(151)	(97)	-	(154)	-	45	-	(357)	13	-
Credit contracts	42	7	-	(6)	-	-	-	43	(1)	-
Other contracts	(8)	(33)	-	31	-	-	-	(10)	33	-
Total derivative liabilities, net[(a)]	(119)	(124)	-	(128)	-	45	-	(326)	46	-
Fortitude Re funds withheld payable	6,042	(326)	-	(399)	-	-	-	5,317	1,503	-
Total	$ 15,721	$ (1,347)	$ -	$ (408)	$ -	$ 45	$ -	$ 14,011	$ 3,102	$ -

(in millions)	Fair Value Beginning of Period	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issuances and Settlements, Net	Gross Transfers In	Gross Transfers Out	Divested Businesses	Fair Value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period	Changes in Unrealized Gains (Losses) Included in Other Comprehensive Income (Loss) for Recurring Level 3 Instruments Held at End of Period
Three Months Ended June 30, 2020										
Assets:										
Bonds available for sale:										
Obligations of states, municipalities and political subdivisions	$ 2,102	$ -	$ 254	$ 20	$ -	$ (97)	$ -	$ 2,279	$ -	$ 244
Non-U.S. governments	6	-	-	5	-	(6)	-	5	-	-
Corporate debt	1,215	(1)	72	113	519	(18)	-	1,900	-	50
RMBS	11,687	208	947	(171)	7	-	-	12,678	-	957
CMBS	1,146	4	15	(16)	-	-	-	1,149	-	18
CDO/ABS	8,768	3	432	108	334	(184)	-	9,461	-	403
Total bonds available for sale	24,924	214	1,720	59	860	(305)	-	27,472	-	1,672
Other bond securities:										
RMBS	149	14	-	5	-	-	-	168	13	-
CMBS	42	6	-	(1)	-	-	-	47	6	-
CDO/ABS	2,378	274	-	(121)	-	-	-	2,531	253	-
Total other bond securities	2,569	294	-	(117)	-	-	-	2,746	272	-
Equity securities	19	-	-	-	25	(1)	-	43	-	-
Other invested assets	1,467	(59)	-	78	-	-	-	1,486	-	-
Other assets	91	-	-	54	-	-	(34)	111	-	-
Total	$ 29,070	$ 449	$ 1,720	$ 74	$ 885	$ (306)	$ (34)	$ 31,858	$ 272	$ 1,672

(in millions)	Fair Value Beginning of Period	Net Realized and Unrealized (Gains) Losses Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issuances and Settlements, Net	Gross Transfers In	Gross Transfers Out	Divested Businesses	Fair Value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period	Changes in Unrealized Gains (Losses) Included in Other Comprehensive Income (Loss) for Recurring Level 3 Instruments Held at End of Period
Liabilities:										
Policyholder contract deposits	$ 8,153	$ 1,060	$ -	$ 20	$ -	$ -	$ -	$ 9,233	$ (825)	$ -
Derivative liabilities, net:										
Interest rate contracts	-	(1)	-	1	-	-	-	-	-	-
Foreign exchange contracts	3	1	-	(5)	-	-	-	(1)	-	-
Equity contracts	(143)	36	-	54	-	-	-	(53)	(15)	-
Credit contracts	(76)	64	-	57	-	-	-	45	9	-
Other contracts	(2)	(17)	-	16	-	-	-	(3)	17	-
Total derivative liabilities, net[(a)]	(218)	83	-	123	-	-	-	(12)	11	-
Fortitude Re funds withheld payable	-	837	-	-	-	-	3,673	4,510	663	-
Total	$ 7,935	$ 1,980	$ -	$ 143	$ -	$ -	$ 3,673	$ 13,731	$ (151)	$ -

(in millions)	Fair Value Beginning of Period	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issuances and Settlements, Net	Gross Transfers In	Gross Transfers Out	Divested Businesses	Fair Value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period	Changes in Unrealized Gains (Losses) Included in Other Comprehensive Income (Loss) for Recurring Level 3 Instruments Held at End of Period
Six Months Ended June 30, 2020										
Assets:										
Bonds available for sale:										
Obligations of states, municipalities and political subdivisions	$ 2,121	$ 5	$ 199	$ 157	$ 27	$ (230)	$ -	$ 2,279	$ -	$ 193
Non-U.S. governments	-	-	-	5	6	(6)	-	5	-	-
Corporate debt	1,663	(68)	(9)	120	622	(428)	-	1,900	-	21
RMBS	13,408	340	(676)	(394)	26	(26)	-	12,678	-	(548)
CMBS	1,053	11	34	28	23	-	-	1,149	-	39
CDO/ABS	7,686	20	(125)	155	1,937	(212)	-	9,461	-	(134)
Total bonds available for sale	25,931	308	(577)	71	2,641	(902)	-	27,472	-	(429)
Other bond securities:										
RMBS	143	-	-	25	-	-	-	168	(1)	-
CMBS	50	(1)	-	(2)	-	-	-	47	(2)	-
CDO/ABS	3,545	101	-	(1,115)	-	-	-	2,531	(9)	-
Total other bond securities	3,738	100	-	(1,092)	-	-	-	2,746	(12)	-
Equity securities	8	(1)	1	10	26	(1)	-	43	-	-
Other invested assets	1,192	(63)	-	207	150	-	-	1,486	(48)	-
Other assets	89	-	-	59	-	-	(37)	111	-	-
Total	$ 30,958	$ 344	$ (576)	$ (745)	$ 2,817	$ (903)	$ (37)	$ 31,858	$ (60)	$ (429)

(in millions)	Fair Value Beginning of Period	Net Realized and Unrealized (Gains) Losses Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issuances and Settlements, Net	Gross Transfers In	Gross Transfers Out	Divested Businesses	Fair Value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period	Changes in Unrealized Gains (Losses) Included in Other Comprehensive Income (Loss) for Recurring Level 3 Instruments Held at End of Period
Liabilities:										
Policyholder contract deposits	$ 6,910	$ 2,231	$ -	$ 92	$ -	$ -	$ -	$ 9,233	$ (1,709)	$ -
Derivative liabilities, net:										
Interest rate contracts	-	(1)	-	1	-	-	-	-	1	-
Foreign exchange contracts	(6)	4	-	1	-	-	-	(1)	1	-
Equity contracts	(151)	10	-	88	-	-	-	(53)	(64)	-
Credit contracts	62	(60)	-	43	-	-	-	45	6	-
Other contracts	(7)	(27)	-	31	-	-	-	(3)	27	-
Total derivative liabilities, net[(a)]	(102)	(74)	-	164	-	-	-	(12)	(29)	-
Fortitude Re funds withheld payable	-	837	-	-	-	-	3,673	4,510	663	-
Total	$ 6,808	$ 2,994	$ -	$ 256	$ -	$ -	$ 3,673	$ 13,731	$ (1,075)	$ -

(a) Total Level 3 derivative exposures have been netted in these tables for presentation purposes only.

Net realized and unrealized gains and losses included in income related to Level 3 assets and liabilities shown above are reported in the Condensed Consolidated Statements of Income (Loss) as follows:

(in millions)	Net Investment Income	Net Realized Gains (Losses)	Other Income	Total
Three Months Ended June 30, 2021				
Assets:				
Bonds available for sale	**$ 163**	**$ 12**	**$ -**	**$ 175**
Other bond securities	**47**	**(1)**	**-**	**46**
Equity securities	**-**	**-**	**-**	**-**
Other invested assets	**99**	**15**	**-**	**114**
Six Months Ended June 30, 2021				
Assets:				
Bonds available for sale	**$ 348**	**$ 21**	**$ -**	**$ 369**
Other bond securities	**16**	**21**	**-**	**37**
Equity securities	**11**	**-**	**-**	**11**
Other invested assets	**241**	**15**	**-**	**256**
Three Months Ended June 30, 2020				
Assets:				
Bonds available for sale	$ 182	$ 32	$ -	$ 214
Other bond securities	294	-	-	294
Equity securities	-	-	-	-
Other invested assets	(59)	-	-	(59)
Six Months Ended June 30, 2020				
Assets:				
Bonds available for sale	$ 380	$ (72)	$ -	$ 308
Other bond securities	(168)	268	-	100
Equity securities	-	(1)	-	(1)
Other invested assets	(63)	-	-	(63)

(in millions)	Net Investment Income	Net Realized (Gains) Losses	Other Income	Total
Three Months Ended June 30, 2021				
Liabilities:				
Policyholder contract deposits*	**$ -**	**$ 1,363**	**$ -**	**$ 1,363**
Derivative liabilities, net	**-**	**(72)**	**(15)**	**(87)**
Fortitude Re funds withheld payable	**-**	**2,056**	**-**	**2,056**
Six Months Ended June 30, 2021				
Liabilities:				
Policyholder contract deposits*	**$ -**	**$ (897)**	**$ -**	**$ (897)**
Derivative liabilities, net	**-**	**(95)**	**(29)**	**(124)**
Fortitude Re funds withheld payable	**-**	**(326)**	**-**	**(326)**
Three Months Ended June 30, 2020				
Liabilities:				
Policyholder contract deposits*	$ -	$ 1,060	$ -	$ 1,060
Derivative liabilities, net	-	97	(14)	83
Fortitude Re funds withheld payable	-	837	-	837
Six Months Ended June 30, 2020				
Liabilities:				
Policyholder contract deposits*	$ -	$ 2,231	$ -	$ 2,231
Derivative liabilities, net	-	(46)	(28)	(74)
Fortitude Re funds withheld payable	-	837	-	837

* Primarily embedded derivatives.

The following table presents the gross components of purchases, sales, issuances and settlements, net, shown above, for the three- and six-month periods ended June 30, 2021 and 2020 related to Level 3 assets and liabilities in the Condensed Consolidated Balance Sheets:

(in millions)	Purchases	Sales	Issuances and Settlements[(a)]	Purchases, Sales, Issuances and Settlements, Net[(a)]
Three Months Ended June 30, 2021				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 3	$ (23)	$ (45)	$ (65)
Non-U.S. governments	1	-	-	1
Corporate debt	212	(32)	(149)	31
RMBS	318	(115)	(663)	(460)
CMBS	97	-	(12)	85
CDO/ABS	780	119	(1,273)	(374)
Total bonds available for sale	1,411	(51)	(2,142)	(782)
Other bond securities:				
RMBS	1	(9)	(6)	(14)
CMBS	-	-	-	-
CDO/ABS	-	-	(112)	(112)
Total other bond securities	1	(9)	(118)	(126)
Equity securities	-	(3)	(109)	(112)
Other invested assets	194	-	(105)	89
Other assets	-	-	-	-
Total assets	$ 1,606	$ (63)	$ (2,474)	$ (931)
Liabilities:				
Policyholder contract deposits	$ -	$ 202	$ (162)	$ 40
Derivative liabilities, net	(71)	1	13	(57)
Fortitude Re funds withheld payable	-	-	(226)	(226)
Total liabilities	$ (71)	$ 203	$ (375)	$ (243)
Three Months Ended June 30, 2020				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 22	$ -	$ (2)	$ 20
Non-U.S. governments	5	-	-	5
Corporate debt	121	-	(8)	113
RMBS	365	-	(536)	(171)
CMBS	1	(5)	(12)	(16)
CDO/ABS	256	(3)	(145)	108
Total bonds available for sale	770	(8)	(703)	59
Other bond securities:				
RMBS	12	-	(7)	5
CMBS	-	-	(1)	(1)
CDO/ABS	-	-	(121)	(121)
Total other bond securities	12	-	(129)	(117)
Equity securities	-	-	-	-
Other invested assets	78	-	-	78
Other assets	55	-	(1)	54
Total assets	$ 915	$ (8)	$ (833)	$ 74
Liabilities:				
Policyholder contract deposits	$ -	$ 122	$ (102)	$ 20
Derivative liabilities, net	(9)	-	132	123
Fortitude Re funds withheld payable	-	-	-	-
Total liabilities	$ (9)	$ 122	$ 30	$ 143

(in millions)	Purchases	Sales	Issuances and Settlements[(a)]	Purchases, Sales, Issuances and Settlements, Net[(a)]
Six Months Ended June 30, 2021				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 11	$ (43)	$ (86)	$ (118)
Non-U.S. governments	1	-	-	1
Corporate debt	953	(33)	(712)	208
RMBS	482	(115)	(1,258)	(891)
CMBS	290	-	(32)	258
CDO/ABS	1,156	70	(1,764)	(538)
Total bonds available for sale	2,893	(121)	(3,852)	(1,080)
Other bond securities:				
RMBS	1	(9)	(22)	(30)
CMBS	-	(6)	-	(6)
CDO/ABS	-	(39)	(228)	(267)
Total other bond securities	1	(54)	(250)	(303)
Equity securities	-	(3)	(120)	(123)
Other invested assets	392	-	(369)	23
Other assets	-	-	-	-
Total assets	$ 3,286	$ (178)	$ (4,591)	$ (1,483)
Liabilities:				
Policyholder contract deposits	$ -	$ 393	$ (274)	$ 119
Derivative liabilities, net	(123)	2	(7)	(128)
Fortitude Re funds withheld payable	-	-	(399)	(399)
Total liabilities	$ (123)	$ 395	$ (680)	$ (408)
Six Months Ended June 30, 2020				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 167	$ (2)	$ (8)	$ 157
Non-U.S. governments	5	-	-	5
Corporate debt	233	(5)	(108)	120
RMBS	701	-	(1,095)	(394)
CMBS	54	(7)	(19)	28
CDO/ABS	481	(25)	(301)	155
Total bonds available for sale	1,641	(39)	(1,531)	71
Other bond securities:				
RMBS	37	-	(12)	25
CMBS	-	-	(2)	(2)
CDO/ABS	35	(579)	(571)	(1,115)
Total other bond securities	72	(579)	(585)	(1,092)
Equity securities	10	-	-	10
Other invested assets	252	-	(45)	207
Other assets	55	-	4	59
Total assets	$ 2,030	$ (618)	$ (2,157)	$ (745)
Liabilities:				
Policyholder contract deposits	$ -	$ 344	$ (252)	$ 92
Derivative liabilities, net	(24)	8	180	164
Fortitude Re funds withheld payable	-	-	-	-
Total liabilities	$ (24)	$ 352	$ (72)	$ 256

(a) There were no issuances during the three- and six-month periods ended June 30, 2021 and 2020.

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 June 30, 2021 and 2020 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

The Net realized and unrealized gains (losses) included in income (loss) or Other comprehensive income (loss) as shown in the table above excludes $9 million and $28 million of net gains (losses) related to assets and liabilities transferred into Level 3 during the three- and six-month periods ended June 30, 2021, respectively, and includes $1 million and $(4) million of net gains (losses) related to assets and liabilities transferred out of Level 3 during the three- and six-month periods ended June 30, 2021, respectively.

The Net realized and unrealized gains (losses) included in income (loss) or Other comprehensive income (loss) as shown in the table above excludes $28 million and $(128) million of net gains (losses) related to assets and liabilities transferred into Level 3 during the three- and six-month periods ended June 30, 2020, respectively, and includes $24 million and $(31) million of net gains (losses) related to assets and liabilities transferred out of Level 3 during the three- and six-month periods ended June 30, 2020, respectively.

Transfers of Level 3 Assets

During the three- and six-month periods ended June 30, 2021 and 2020, 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 diminished market transparency and liquidity for individual security types.

During the three- and six-month periods ended June 30, 2021 and 2020, transfers out of Level 3 assets primarily included private placement and other corporate debt, CMBS, RMBS, CDO/ABS and certain investments in municipal securities. Transfers of corporate debt, RMBS, CMBS, CDO/ABS and certain investments in municipal securities 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 three- and six-month periods ended June 30, 2021 and 2020.

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. Because input information from third-parties with respect to certain Level 3 instruments (primarily CDO/ABS) may not be reasonably available to us, balances shown below may not equal total amounts reported for such Level 3 assets and liabilities:

(in millions)	Fair Value at June 30, 2021	Valuation Technique	Unobservable Input[b]	Range (Weighted Average)[c]
Assets:				
Obligations of states, municipalities and political subdivisions	$ 1,588	Discounted cash flow	Yield	2.89% - 3.39% (3.14%)
Corporate debt	1,939	Discounted cash flow	Yield	1.85% - 17.19% (7.64%)
RMBS[a]	10,393	Discounted cash flow	Constant prepayment rate	4.75% - 17.06% (10.90%)
			Loss severity	29.46% - 74.55% (52.00%)
			Constant default rate	1.42% - 6.22% (3.82%)
			Yield	1.57% - 4.10% (2.83%)
CDO/ABS[a]	8,011	Discounted cash flow	Yield	1.51% - 4.53% (3.02%)
CMBS	579	Discounted cash flow	Yield	0.90% - 5.42% (3.16%)
Liabilities[d]:				
Embedded derivatives within				
Policyholder contract deposits:				
Variable annuity guaranteed minimum withdrawal benefits (GMWB)	2,484	Discounted cash flow	Equity volatility	6.55% - 51.55%
			Base lapse rate	0.16% - 12.60%
			Dynamic lapse multiplier	50.00% - 143.00%
			Mortality multiplier[e]	38.00% - 147.00%
			Utilization	90.00% - 100.00%
			Equity / interest rate correlation	20.00% - 40.00%
			NPA[f]	0.07% - 1.38%
Index annuities including certain GMWB	5,788	Discounted cash flow	Lapse rate	0.38% - 50.00%
			Mortality multiplier[e]	24.00% - 180.00%
			Utilization[g]	80.00% - 100.00%
			Option budget	0.00% - 4.00%
			NPA[f]	0.07% - 1.38%
Indexed life	701	Discounted cash flow	Base lapse rate	0.00% - 37.97%
			Mortality rate	0.00% - 100.00%
			NPA[f]	0.07% - 1.38%

(in millions)		Fair Value at December 31, 2020	Valuation Technique	Unobservable Input[b]	Range (Weighted Average)[c]
Assets:					
Obligations of states, municipalities and political subdivisions	$	1,670	Discounted cash flow	Yield	2.82% - 3.39% (3.11%)
Corporate debt		1,591	Discounted cash flow	Yield	2.13% - 7.82% (4.97%)
RMBS[a]		11,297	Discounted cash flow	Constant prepayment rate	3.90% - 11.99% (7.94%)
				Loss severity	30.08% - 78.49% (54.29%)
				Constant default rate	1.45% - 6.19% (3.82%)
				Yield	1.69% - 4.25% (2.97%)
CDO/ABS[a]		8,324	Discounted cash flow	Yield	1.93% - 4.85% (3.39%)
CMBS		541	Discounted cash flow	Yield	0.92% - 5.89% (3.40%)
Liabilities[d]:					
Embedded derivatives within Policyholder contract deposits:					
GMWB		3,572	Discounted cash flow	Equity volatility	6.45% - 50.85%
				Base lapse rate	0.16% - 12.60%
				Dynamic lapse multiplier	50.00% - 143.00%
				Mortality multiplier[e]	38.00% - 147.00%
				Utilization	90.00% - 100.00%
				Equity / interest rate correlation	20.00% - 40.00%
				NPA[f]	0.06% - 1.48%
Index annuities including certain GMWB		5,538	Discounted cash flow	Lapse rate	0.38% - 50.00%
				Mortality multiplier[e]	24.00% - 180.00%
				Utilization[g]	80.00% - 100.00%
				Option budget	0.00% - 4.00%
				NPA[f]	0.06% - 1.48%
Indexed life		649	Discounted cash flow	Base lapse rate	0.00% - 37.97%
				Mortality rate	0.00% - 100.00%
				NPA[f]	0.06% - 1.48%

(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) The weighted averaging for fixed maturity securities is based on the estimated fair value of the securities. Because the valuation methodology for embedded derivatives within Policyholder contract deposits uses a range of inputs that vary at the contract level over the cash flow projection period, management believes that presenting a range, rather than weighted average, is a more meaningful representation of the unobservable inputs used in the valuation.

(d) The Fortitude Re funds withheld payable has been excluded from the above table. As discussed in Note 7, the Fortitude Re funds withheld payable is created through modified coinsurance (modco) and funds withheld reinsurance arrangements where the investments supporting the reinsurance agreements are withheld by, and continue to reside on AIG's balance sheet. This embedded derivative is valued as a total return swap with reference to the fair value of the invested assets held by AIG. Accordingly, the unobservable inputs utilized in the valuation of the embedded derivative are a component of the invested assets supporting the reinsurance agreements that are held on AIG's balance sheet.

(e) Mortality inputs are shown as multipliers of the 2012 Individual Annuity Mortality Basic table.

(f) The non-performance risk adjustment (NPA) applied as a spread over risk-free curve for discounting.

(g) The partial withdrawal utilization unobservable input range shown applies only to policies with guaranteed minimum withdrawal benefit riders that are accounted for as an embedded derivative. The total embedded derivative liability at June 30, 2021 and December 31, 2020 was approximately $860 million and $726 million, respectively. The remaining guaranteed minimum riders on the index annuities are valued under the accounting guidance for certain nontraditional long-duration contracts.

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.

Interrelationships between 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 significant unobservable inputs along with interrelationships between and among the significant unobservable inputs and their impact on the fair value measurements. 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.

Fixed Maturity Securities

The significant unobservable input used in the fair value measurement of fixed maturity securities is yield. The yield is affected by the market movements in credit spreads and U.S. Treasury yields. The yield may be affected by other factors including constant prepayment rates, loss severity, and constant default rates. In general, increases in the yield would decrease the fair value of investments, and conversely, decreases in the yield would increase the fair value of investments.

Embedded derivatives within Policyholder contract deposits

Embedded derivatives reported within Policyholder contract deposits include interest crediting rates based on market indices within index annuities, indexed life, and GICs as well as GMWB within variable annuity and certain index annuity products. For any given contract, assumptions for unobservable inputs vary throughout the period over which cash flows are projected for purposes of valuing the embedded derivative. The following unobservable inputs are used for valuing embedded derivatives measured at fair value:

- Long-term equity volatilities represent equity volatility beyond the period for which observable equity volatilities are available. Increases in assumed volatility will generally increase the fair value of both the projected cash flows from rider fees as well as the projected cash flows related to benefit payments. Therefore, the net change in the fair value of the liability may be either a decrease or an increase, depending on the relative changes in projected rider fees and projected benefit payments.
- Equity / interest rate correlation estimates the relationship between changes in equity returns and interest rates in the economic scenario generator used to value our GMWB embedded derivatives. In general, a higher positive correlation assumes that equity markets and interest rates move in a more correlated fashion, which generally increases the fair value of the liability.
- Base lapse rate assumptions are determined by company experience and are adjusted at the contract level using a dynamic lapse function, which reduces the base lapse rate when the contract is in-the-money (when the contract holder’s guaranteed value, as estimated by the company, is worth more than their underlying account value). Lapse rates are also generally assumed to be lower in periods when a surrender charge applies. Increases in assumed lapse rates will generally decrease the fair value of the liability, as fewer policyholders would persist to collect guaranteed withdrawal amounts.
- Mortality rate assumptions, which vary by age and gender, are based on company experience and include a mortality improvement assumption. Increases in assumed mortality rates will decrease the fair value of the liability, while lower mortality rate assumptions will generally increase the fair value of the liability, because guaranteed payments will be made for a longer period of time.
- Utilization assumptions estimate the timing when policyholders with a GMWB will elect to utilize their benefit and begin taking withdrawals. The assumptions may vary by the type of guarantee, tax-qualified status, the contract’s withdrawal history and the age of the policyholder. Utilization assumptions are based on company experience, which includes partial withdrawal behavior. Increases in assumed utilization rates will generally increase the fair value of the liability.
- Option budget estimates the expected long-term cost of options used to hedge exposures associated with equity price changes. The level of option budgets determines future costs of the options, which impacts the growth in account value and the valuation of embedded derivatives.

Embedded derivatives within reinsurance contracts

The fair value of embedded derivatives associated with funds withheld reinsurance contracts is determined based upon a total return swap technique with reference to the fair value of the investments held by AIG related to AIG’s funds withheld payable. The fair value of the underlying assets is generally based on market observable inputs using industry standard valuation techniques. The valuation also requires certain significant inputs, which are generally not observable and accordingly, the valuation is considered Level 3 in the fair value hierarchy.

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.

		June 30, 2021		December 31, 2020	
(in millions)	Investment Category Includes	Fair Value Using NAV Per Share (or its equivalent)	Unfunded Commitments	Fair Value Using NAV Per Share (or its equivalent)	Unfunded Commitments
Investment Category					
Private equity funds:					
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	**$ 2,217**	**$ 1,796**	$ 1,752	$ 1,960
Real assets	Investments in real estate properties, agricultural and infrastructure assets, including power plants and other energy producing assets	**946**	**542**	908	445
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	**235**	**214**	167	171
Growth equity	Funds that make investments in established companies for the purpose of growing their businesses	**844**	**140**	703	55
Mezzanine	Funds that make investments in the junior debt and equity securities of leveraged companies	**460**	**421**	400	155
Other	Includes distressed funds that invest in securities of companies that are in default or under bankruptcy protection, as well as funds that have multi-strategy, and other strategies	**878**	**476**	683	365
Total private equity funds		**5,580**	**3,589**	4,613	3,151
Hedge funds:					
Event-driven	Securities of companies undergoing material structural changes, including mergers, acquisitions and other reorganizations	**436**	**-**	411	-
Long-short	Securities that the manager believes are undervalued, with corresponding short positions to hedge market risk	**344**	**-**	361	-
Macro	Investments that take long and short positions in financial instruments based on a top-down view of certain economic and capital market conditions	**673**	**-**	807	-
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	**345**	**-**	301	1
Total hedge funds		**1,798**	**-**	1,880	1
Total		**$ 7,378**	**$ 3,589**	$ 6,493	$ 3,152

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.

The hedge fund investments included above, which are carried at fair value, are generally redeemable subject to the redemption notices period. The majority of our hedge fund investments are redeemable monthly or quarterly.

FAIR VALUE OPTION

The following table presents the gains or losses recorded related to the eligible instruments for which we elected the fair value option:

	Gain (Loss) Three Months Ended June 30,		Gain (Loss) Six Months Ended June 30,	
(in millions)	**2021**	2020	**2021**	2020
Assets:				
Bond and equity securities	**$ 96**	$ 374	**$ (3)**	$ 314
Alternative investments(a)	**428**	(26)	**845**	(165)
Liabilities:				
Long-term debt(b)	**(38)**	(18)	**33**	(221)
Total gain (loss)	**$ 486**	$ 330	**$ 875**	$ (72)

(a) Includes certain hedge funds, private equity funds and other investment partnerships.

(b) Includes guaranteed investment agreements (GIAs), notes, bonds and mortgages payable.

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 value and the aggregate contractual principal amount of long-term debt for which the fair value option was elected:

	June 30, 2021			December 31, 2020		
(in millions)	Fair Value	Outstanding Principal Amount	Difference	Fair Value	Outstanding Principal Amount	Difference
Liabilities:						
Long-term debt*	**$ 1,974**	**$ 1,401**	**$ 573**	$ 2,097	$ 1,479	$ 618

* Includes GIAs, notes, bonds, loans and mortgages payable.

FAIR VALUE MEASUREMENTS ON A NON-RECURRING BASIS

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:

	Assets at Fair Value Non-Recurring Basis				Impairment Charges			
					Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	Level 1	Level 2	Level 3	Total	**2021**	2020	**2021**	2020
June 30, 2021								
Other investments	**$ -**	**$ -**	**$ 89**	**$ 89**	**$ -**	$ 37	**$ 6**	$ 48
Other assets	**-**	**-**	**-**	**-**	**-**	-	**-**	12
Total	**$ -**	**$ -**	**$ 89**	**$ 89**	**$ -**	$ 37	**$ 6**	$ 60
December 31, 2020								
Other investments	$ -	$ -	$ 376	$ 376				
Other assets	-	-	28	28				
Total	$ -	$ -	$ 404	$ 404				

FAIR VALUE INFORMATION ABOUT FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

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:

	Estimated Fair Value				Carrying
(in millions)	Level 1	Level 2	Level 3	Total	Value
June 30, 2021					
Assets:					
Mortgage and other loans receivable	**$ -**	**$ 89**	**$ 47,619**	**$ 47,708**	**$ 45,216**
Other invested assets	**-**	**844**	**6**	**850**	**850**
Short-term investments	**-**	**9,646**	**-**	**9,646**	**9,646**
Cash	**2,760**	**-**	**-**	**2,760**	**2,760**
Other assets	**229**	**13**	**-**	**242**	**242**
Liabilities:					
Policyholder contract deposits associated with investment-type contracts	**-**	**189**	**143,620**	**143,809**	**132,367**
Fortitude Re funds withheld payable	**-**	**-**	**36,086**	**36,086**	**36,086**
Other liabilities	**-**	**3,692**	**-**	**3,692**	**3,692**
Long-term debt	**-**	**27,506**	**346**	**27,852**	**24,187**
Debt of consolidated investment entities	**-**	**2,359**	**7,251**	**9,610**	**9,566**
Separate account liabilities - investment contracts	**-**	**102,392**	**-**	**102,392**	**102,392**
December 31, 2020					
Assets:					
Mortgage and other loans receivable	$ -	$ 95	$ 48,541	$ 48,636	$ 45,562
Other invested assets	-	837	6	843	843
Short-term investments	-	12,235	-	12,235	12,235
Cash	2,827	-	-	2,827	2,827
Other assets	209	14	-	223	223
Liabilities:					
Policyholder contract deposits associated with investment-type contracts	-	214	144,357	144,571	130,435
Fortitude Re funds withheld payable	-	-	37,018	37,018	37,018
Other liabilities	-	3,695	-	3,695	3,695
Long-term debt	-	30,310	365	30,675	26,006
Debt of consolidated investment entities	-	1,746	7,965	9,711	9,431
Separate account liabilities - investment contracts	-	95,610	-	95,610	95,610

5. Investments

SECURITIES AVAILABLE FOR SALE

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

(in millions)	Amortized Cost	Allowance for Credit Losses[(a)]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2021					
Bonds available for sale:					
U.S. government and government sponsored entities	**$ 4,205**	**$ -**	**$ 317**	**$ (21)**	**$ 4,501**
Obligations of states, municipalities and political subdivisions	**13,261**	**-**	**1,931**	**(13)**	**15,179**
Non-U.S. governments	**15,356**	**(2)**	**836**	**(169)**	**16,021**
Corporate debt	**160,673**	**(84)**	**15,965**	**(1,001)**	**175,553**
Mortgage-backed, asset-backed and collateralized:					
RMBS	**25,995**	**(11)**	**2,713**	**(113)**	**28,584**
CMBS	**14,710**	**-**	**797**	**(43)**	**15,464**
CDO/ABS	**17,420**	**-**	**403**	**(55)**	**17,768**
Total mortgage-backed, asset-backed and collateralized	**58,125**	**(11)**	**3,913**	**(211)**	**61,816**
Total bonds available for sale[(b)]	**$ 251,620**	**$ (97)**	**$ 22,962**	**$ (1,415)**	**$ 273,070**
December 31, 2020					
Bonds available for sale:					
U.S. government and government sponsored entities	$ 3,640	$ -	$ 503	$ (17)	$ 4,126
Obligations of states, municipalities and political subdivisions	13,915	-	2,216	(7)	16,124
Non-U.S. governments	14,231	(4)	1,181	(63)	15,345
Corporate debt	150,111	(164)	19,905	(554)	169,298
Mortgage-backed, asset-backed and collateralized:					
RMBS	28,551	(16)	3,000	(70)	31,465
CMBS	15,182	(1)	1,023	(71)	16,133
CDO/ABS	18,707	(1)	425	(126)	19,005
Total mortgage-backed, asset-backed and collateralized	62,440	(18)	4,448	(267)	66,603
Total bonds available for sale[(b)]	$ 244,337	$ (186)	$ 28,253	$ (908)	$ 271,496

(a) Represents the allowance for credit losses that has been recognized. Changes in the allowance for credit losses are recorded through Net realized gains and losses and are not recognized in other comprehensive income.

(b) At June 30, 2021 and December 31, 2020, bonds available for sale held by us that were below investment grade or not rated totaled $27.9 billion and $28.2 billion, respectively.

Securities Available for Sale in a Loss Position for Which No Allowance for Credit Loss Has Been Recorded

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 for which no allowance for credit loss has been recorded:

	Less than 12 Months		12 Months or More		Total	
(in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
June 30, 2021						
Bonds available for sale:						
U.S. government and government sponsored entities	**$ 1,610**	**$ 21**	**$ 1**	**$ -**	**$ 1,611**	**$ 21**
Obligations of states, municipalities and political subdivisions	**464**	**10**	**87**	**3**	**551**	**13**
Non-U.S. governments	**3,528**	**80**	**460**	**84**	**3,988**	**164**
Corporate debt	**22,682**	**715**	**4,413**	**211**	**27,095**	**926**
RMBS	**3,594**	**71**	**869**	**37**	**4,463**	**108**
CMBS	**1,474**	**27**	**304**	**16**	**1,778**	**43**
CDO/ABS	**3,541**	**36**	**937**	**19**	**4,478**	**55**
Total bonds available for sale	**$ 36,893**	**$ 960**	**$ 7,071**	**$ 370**	**$ 43,964**	**$ 1,330**
December 31, 2020						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 649	$ 17	$ -	$ -	$ 649	$ 17
Obligations of states, municipalities and political subdivisions	267	4	78	3	345	7
Non-U.S. governments	1,287	28	262	33	1,549	61
Corporate debt	11,715	348	1,283	81	12,998	429
RMBS	3,486	40	282	18	3,768	58
CMBS	1,644	58	346	12	1,990	70
CDO/ABS	5,456	81	3,063	45	8,519	126
Total bonds available for sale	$ 24,504	$ 576	$ 5,314	$ 192	$ 29,818	$ 768

At June 30, 2021, we held 9,292 individual fixed maturity securities that were in an unrealized loss position and for which no allowance for credit losses has been recorded (including 1,408 individual fixed maturity securities that were in a continuous unrealized loss position for 12 months or more). At December 31, 2020, we held 5,105 individual fixed maturity securities that were in an unrealized loss position and for which no allowance for credit losses has been recorded (including 949 individual fixed maturity securities that 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 June 30, 2021 because it was determined that such losses were due to non-credit factors. Additionally, 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, liquidity position, expected defaults, industry and sector analysis, forecasts and 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:

	Total Fixed Maturity Securities Available for Sale	
(in millions)	Amortized Cost, Net of Allowance	Fair Value
June 30, 2021		
Due in one year or less	**$ 8,599**	**$ 8,659**
Due after one year through five years	**44,357**	**46,029**
Due after five years through ten years	**45,309**	**48,668**
Due after ten years	**95,144**	**107,898**
Mortgage-backed, asset-backed and collateralized	**58,114**	**61,816**
Total	**$ 251,523**	**$ 273,070**

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:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2021		2020		**2021**		2020	
(in millions)	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses
Fixed maturity securities	**$ 290**	**$ 155**	$ 541	$ 392	**$ 750**	**$ 226**	$ 921	$ 558

For the three- and six-month periods ended June 30, 2021, the aggregate fair value of available for sale securities sold was $6.0 billion and $12.4 billion, respectively, which resulted in net realized gains of $135 million and $524 million, respectively. Included within the net realized gains are $95 million and $390 million of net realized gains for the three- and six-month periods ended June 30, 2021, respectively, which relate to Fortitude Re funds withheld assets. These net realized gains are included in Net realized gains (losses) on Fortitude Re funds withheld assets.

For the three- and six-month periods ended June 30, 2020, the aggregate fair value of available for sale securities sold was $6.7 billion and $13.9 billion, respectively, which resulted in net realized gains of $149 million and $363 million, respectively. Included within the net realized gains (losses) are $122 million of net realized gains for the three- and six-month periods ended June 30, 2020, which relate to the Fortitude Re funds withheld assets for the period after deconsolidation of Fortitude Re. These net realized gains are included in Net realized gains (losses) on Fortitude Re funds withheld assets.

OTHER SECURITIES MEASURED AT FAIR VALUE

The following table presents the fair value of fixed maturity securities measured at fair value based on our election of the fair value option, which are reported in the other bond securities caption in the financial statements, and equity securities measured at fair value:

	June 30, 2021		December 31, 2020	
(in millions)	Fair Value	Percent of Total	Fair Value	Percent of Total
Fixed maturity securities:				
U.S. government and government sponsored entities	$ 1,778	30 %	$ 1,845	29 %
Corporate debt	12	-	12	-
Mortgage-backed, asset-backed and collateralized:				
RMBS	334	6	429	7
CMBS	300	5	320	5
CDO/ABS and other collateralized	2,442	41	2,685	42
Total mortgage-backed, asset-backed and collateralized	3,076	52	3,434	54
Total fixed maturity securities	4,866	82	5,291	83
Equity securities	1,079	18	1,056	17
Total	$ 5,945	100 %	$ 6,347	100 %

OTHER INVESTED ASSETS

The following table summarizes the carrying amounts of other invested assets:

(in millions)	June 30, 2021	December 31, 2020
Alternative investments[(a) (b)]	$ 10,453	$ 9,572
Investment real estate[(c)]	7,921	7,930
All other investments[(d)]	1,765	1,558
Total	$ 20,139	$ 19,060

(a) At June 30, 2021, included hedge funds of \$2.0 billion, private equity funds of \$8.2 billion and affordable housing partnerships of \$196 million. At December 31, 2020, included hedge funds of \$2.3 billion, private equity funds of \$7.0 billion and affordable housing partnerships of \$257 million.

(b) At June 30, 2021, approximately 59 percent of our hedge fund portfolio is available for redemption in 2021. The remaining 41 percent will be available for redemption between 2022 and 2027.

(c) Net of accumulated depreciation of \$797 million and \$756 million at June 30, 2021 and December 31, 2020, respectively.

(d) Includes AIG's 3.5 percent ownership interest in Fortitude Holdings which is recorded using the measurement alternative for equity securities and is carried at cost, which was \$100 million as of June 30, 2021 and December 31, 2020.

NET INVESTMENT INCOME

The following table presents the components of Net investment income:

Three Months Ended June 30,	2021			2020		
(in millions)	Excluding Fortitude Re Funds Withheld Assets	Fortitude Re Funds Withheld Assets	Total	Excluding Fortitude Re Funds Withheld Assets	Fortitude Re Funds Withheld Assets	Total
Available for sale fixed maturity securities, including short-term investments	$ 2,130	$ 361	$ 2,491	$ 2,502	$ 86	$ 2,588
Other fixed maturity securities[(a)]	93	6	99	371	3	374
Equity securities	(13)	-	(13)	56	-	56
Interest on mortgage and other loans	446	57	503	485	13	498
Alternative investments[(b)]	579	92	671	(87)	14	(73)
Real estate	57	-	57	61	-	61
Other investments[(c)]	(19)	1	(18)	1	-	1
Total investment income	3,273	517	3,790	3,389	116	3,505
Investment expenses	105	10	115	139	-	139
Net investment income	$ 3,168	$ 507	$ 3,675	$ 3,250	$ 116	$ 3,366

Six Months Ended June 30,	2021			2020		
(in millions)	Excluding Fortitude Re Funds Withheld Assets	Fortitude Re Funds Withheld Assets	Total	Excluding Fortitude Re Funds Withheld Assets	Fortitude Re Funds Withheld Assets	Total
Available for sale fixed maturity securities, including short-term investments	$ 4,308	$ 738	$ 5,046	$ 5,111	$ 86	$ 5,197
Other fixed maturity securities[(a)]	(9)	6	(3)	311	3	314
Equity securities	9	-	9	(135)	-	(135)
Interest on mortgage and other loans	860	104	964	998	13	1,011
Alternative investments[(b)]	1,151	161	1,312	(146)	14	(132)
Real estate	116	-	116	120	-	120
Other investments[(c)]	121	2	123	(214)	-	(214)
Total investment income	6,556	1,011	7,567	6,045	116	6,161
Investment expenses	217	18	235	287	-	287
Net investment income	$ 6,339	$ 993	$ 7,332	$ 5,758	$ 116	$ 5,874

(a) Included in the three- and six-month periods ended June 30, 2021 were income of $35 million and losses of $46 million, respectively, related to fixed maturity securities measured at fair value that economically hedge liabilities described in (c) below. Included in the three- and six-month periods ended June 30, 2020 were income of $29 million and $198 million, respectively, related to fixed maturity securities measured at fair value that economically hedge liabilities described in (c) below.

(b) Included income from hedge funds, private equity funds and affordable housing partnerships. Hedge funds are recorded as of the balance sheet date. Private equity funds are generally reported on a one-quarter lag.

(c) Included in the three- and six-month periods ended June 30, 2021 were losses of $40 million and income of $43 million, respectively, related to liabilities measured at fair value that are economically hedged with fixed maturity securities as described in (a) above. Included in the three- and six-month periods ended June 30, 2020 were losses of $13 million and $215 million, respectively, related to liabilities measured at fair value that are economically hedged with fixed maturity securities as described in (a) above.

NET REALIZED GAINS AND LOSSES

The following table presents the components of Net realized gains (losses):

Three Months Ended June 30,	2021			2020		
(in millions)	Excluding Fortitude Re Funds Withheld Assets	Fortitude Re Funds Withheld Assets	Total	Excluding Fortitude Re Funds Withheld Assets	Fortitude Re Funds Withheld Assets	Total
Sales of fixed maturity securities	$ 40	$ 95	$ 135	$ 27	$ 122	$ 149
Intent to sell	-	-	-	(3)	-	(3)
Change in allowance for credit losses on fixed maturity securities	10	4	14	(24)	(7)	(31)
Change in allowance for credit losses on loans	67	8	75	(22)	4	(18)
Foreign exchange transactions	139	9	148	44	3	47
Variable annuity embedded derivatives, net of related hedges	(53)	-	(53)	(1,010)	-	(1,010)
All other derivatives and hedge accounting	(336)	60	(276)	(568)	(26)	(594)
Other	90	(3)	87	(35)	-	(35)
Net realized gains (losses) – excluding Fortitude Re funds withheld embedded derivative	(43)	173	130	(1,591)	96	(1,495)
Net realized losses on Fortitude Re funds withheld embedded derivative	-	(2,056)	(2,056)	-	(837)	(837)
Net realized losses	$ (43)	$ (1,883)	$ (1,926)	$ (1,591)	$ (741)	$ (2,332)

Six Months Ended June 30,	2021			2020		
(in millions)	Excluding Fortitude Re Funds Withheld Assets	Fortitude Re Funds Withheld Assets	Total	Excluding Fortitude Re Funds Withheld Assets	Fortitude Re Funds Withheld Assets	Total
Sales of fixed maturity securities	$ 134	$ 390	$ 524	$ 241	$ 122	$ 363
Intent to sell	-	-	-	(3)	-	(3)
Change in allowance for credit losses on fixed maturity securities	61	6	67	(222)	(7)	(229)
Change in allowance for credit losses on loans	108	3	111	(60)	4	(56)
Foreign exchange transactions	90	3	93	(210)	3	(207)
Variable annuity embedded derivatives, net of related hedges	36	-	36	1,182	-	1,182
All other derivatives and hedge accounting	15	(57)	(42)	991	(26)	965
Other	208	1	209	9	-	9
Net realized gains – excluding Fortitude Re funds withheld embedded derivative	652	346	998	1,928	96	2,024
Net realized gains (losses) on Fortitude Re funds withheld embedded derivative	-	326	326	-	(837)	(837)
Net realized gains (losses)	$ 652	$ 672	$ 1,324	$ 1,928	$ (741)	$ 1,187

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2021	2020	2021	2020
Increase (decrease) in unrealized appreciation (depreciation) of investments:				
Fixed maturity securities	$ 5,851	$ 13,957	$ (5,798)	$ 3,502
Other investments	(5)	-	(5)	-
Total increase (decrease) in unrealized appreciation (depreciation) of investments	$ 5,846	$ 13,957	$ (5,803)	$ 3,502

The following table summarizes the unrealized gains and losses recognized in Net investment income during the reporting period on equity securities and other investments still held at the reporting date:

Three Months Ended June 30,	2021			2020		
(in millions)	Equities	Other Invested Assets	Total	Equities	Other Invested Assets	Total
Net gains (losses) recognized during the period on equity securities and other investments	$ (13)	$ 543	$ 530	$ 56	$ (71)	$ (15)
Less: Net gains (losses) recognized during the period on equity securities and other investment sold during the period	(179)	(9)	(188)	5	13	18
Unrealized gains (losses) recognized during the reporting period on equity securities and other investments still held at the reporting date	$ 166	$ 552	$ 718	$ 51	$ (84)	$ (33)

Six Months Ended June 30,	2021			2020		
(in millions)	Equities	Other Invested Assets	Total	Equities	Other Invested Assets	Total
Net gains (losses) recognized during the period on equity securities and other investments	$ 9	$ 1,013	$ 1,022	$ (135)	$ (200)	$ (335)
Less: Net gains (losses) recognized during the period on equity securities and other investment sold during the period	(200)	15	(185)	17	15	32
Unrealized gains (losses) recognized during the reporting period on equity securities and other investments still held at the reporting date	$ 209	$ 998	$ 1,207	$ (152)	$ (215)	$ (367)

EVALUATING INVESTMENTS FOR AN ALLOWANCE FOR CREDIT LOSSES

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 if the fair value of the security is below amortized cost, an impairment has occurred and the amortized cost is written down to current fair value, with a corresponding charge to Net realized gains (losses). No allowance is established in these situations and any previously recorded allowance is reversed. The new cost basis is not adjusted for subsequent increases in estimated fair value. 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 decline in the fair value below the amortized cost is due to credit related factors, an allowance is established for the difference between the estimated recoverable value and amortized cost with a corresponding charge to Net realized gains (losses). The allowance for credit losses is limited to the difference between amortized cost and fair value. 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 associated with credit related factors is presented in unrealized appreciation (depreciation) of fixed maturity securities on which an allowance for credit losses was previously recognized (a separate component of AOCI). Accrued interest is excluded from the measurement of the allowance for credit losses.

When estimating future cash flows for structured fixed maturity securities (e.g., RMBS, CMBS, CDO, ABS) management considers the historical performance of underlying assets and available market information as well as bond-specific structural considerations, such as credit enhancement and the 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.

When estimating future cash flows for corporate, municipal and sovereign fixed maturity securities determined to be credit impaired, management considers:

- Expected default rates and the timing of such defaults;
- Loss severity and the timing of any recovery; and
- Scenarios specific to the issuer and the security, which may also include 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.

Under the current expected credit loss (CECL) model, credit losses are reassessed each period. The allowance for credit losses and the corresponding charge to Net realized gains (losses) can be reversed if conditions change, however, the allowance for credit losses will never be reduced below zero. When we determine that all or a portion of a fixed maturity security is uncollectable, the uncollectable amortized cost amount is written off with a corresponding reduction to the allowance for credit losses. If we collect cash flows that were previously written off, the recovery is recognized by recording a gain in Net realized gains (losses).

Credit Impairments

The following table presents a rollforward of the changes in allowance for credit losses on available for sale fixed maturity securities by major investment category:

	Three Months Ended June 30, 2021			Six Months Ended June 30, 2021		
(in millions)	Structured	Non-Structured	Total	Structured	Non-Structured	Total
Balance, beginning of period	**$ 14**	**$ 108**	**$ 122**	**$ 17**	**$ 169**	**$ 186**
Additions:						
Securities for which allowance for credit losses were not previously recorded	**6**	**15**	**21**	**8**	**28**	**36**
Purchases of available for sale debt securities accounted for as purchased credit deteriorated assets	**-**	**-**	**-**	**-**	**-**	**-**
Accretion of available for sale debt securities accounted for as purchased credit deteriorated assets	**-**	**-**	**-**	**-**	**-**	**-**
Reductions:						
Securities sold during the period	**(2)**	**(3)**	**(5)**	**(3)**	**(7)**	**(10)**
Addition to (release of) the allowance for credit losses on securities that had an allowance recorded in a previous period, for which there was no intent to sell before recovery of amortized cost basis	**(8)**	**(27)**	**(35)**	**(12)**	**(91)**	**(103)**
Write-offs charged against the allowance	**-**	**(6)**	**(6)**	**-**	**(12)**	**(12)**
Balance, end of period	**$ 10**	**$ 87**	**$ 97**	**$ 10**	**$ 87**	**$ 97**

	Three Months Ended June 30, 2020			Six Months Ended June 30, 2020		
(in millions)	Structured	Non-Structured	Total	Structured	Non-Structured	Total
Balance, beginning of period*	$ 37	$ 174	$ 211	$ 7	$ -	$ 7
Additions:						
Securities for which allowance for credit losses were not previously recorded	11	90	101	35	264	299
Purchases of available for sale debt securities accounted for as purchased credit deteriorated assets	20	-	20	26	-	26
Accretion of available for sale debt securities accounted for as purchased credit deteriorated assets	1	-	1	1	-	1
Reductions:						
Securities sold during the period	(1)	(5)	(6)	(1)	(5)	(6)
Addition to (release of) the allowance for credit losses on securities that had an allowance recorded in a previous period, for which there was no intent to sell before recovery of amortized cost basis	(31)	(33)	(64)	(31)	(33)	(64)
Write-offs charged against the allowance	-	(65)	(65)	-	(65)	(65)
Balance, end of period	$ 37	$ 161	$ 198	$ 37	$ 161	$ 198

* The beginning balance incorporates the Day 1 gross up on purchased credit deteriorated (PCD) assets held as of January 1, 2020.

Purchased Credit Deteriorated Securities

We purchase certain RMBS securities that have experienced more-than-insignificant deterioration in credit quality since origination. These are referred to as PCD assets. At the time of purchase an allowance is recognized for these PCD assets by adding it to the purchase price to arrive at the initial amortized cost. There is no credit loss expense recognized upon acquisition of a PCD asset. When determining the initial allowance for credit losses, management considers the historical performance of underlying assets and available market information as well as bond-specific structural considerations, such as credit enhancement and the 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:

- Current delinquency rates;
- Expected default rates and the timing of such defaults;
- Loss severity and the timing of any recovery; and
- Expected prepayment speeds.

Subsequent to the acquisition date, the PCD assets follow the same accounting as other structured securities that are not high credit quality.

We did not purchase securities with more than insignificant credit deterioration since their origination during the six-month period ended June 30, 2021.

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:

(in millions)	June 30, 2021	December 31, 2020
Fixed maturity securities available for sale	$ 3,700	$ 3,636

At both June 30, 2021 and December 31, 2020, amounts borrowed under repurchase and securities lending agreements totaled $3.7 billion.

The following table presents the fair value of securities pledged under our repurchase agreements by collateral type and by remaining contractual maturity:

	Remaining Contractual Maturity of the Agreements					
(in millions)	Overnight and Continuous	up to 30 days	31 - 90 days	91 - 364 days	365 days or greater	Total
June 30, 2021						
Bonds available for sale:						
Non-U.S. governments	$ 49	$ 10	$ -	$ -	$ -	$ 59
Corporate debt	150	89	-	-	-	239
Total	$ 199	$ 99	$ -	$ -	$ -	$ 298

December 31, 2020						
Bonds available for sale:						
Non-U.S. governments	$ 63	$ -	$ -	$ -	$ -	$ 63
Corporate debt	96	97	-	-	-	193
Total	$ 159	$ 97	$ -	$ -	$ -	$ 256

The following table presents the fair value of securities pledged under our securities lending agreements by collateral type and by remaining contractual maturity:

	Remaining Contractual Maturity of the Agreements					
(in millions)	Overnight and Continuous	up to 30 days	31 - 90 days	91 - 364 days	365 days or greater	Total
June 30, 2021						
Bonds available for sale:						
Obligations of states, municipalities and political subdivisions	**$ -**	**$ -**	**$ 69**	**$ -**	**$ -**	**$ 69**
Non-U.S. governments	**-**	**-**	**5**	**24**	**-**	**29**
Corporate debt	**-**	**566**	**1,382**	**1,356**	**-**	**3,304**
Total	**$ -**	**$ 566**	**$ 1,456**	**$ 1,380**	**$ -**	**$ 3,402**
December 31, 2020						
Bonds available for sale:						
Obligations of states, municipalities and political subdivisions	$ -	$ -	$ 103	$ -	$ -	$ 103
Non-U.S. governments	-	-	-	-	-	-
Corporate debt	-	982	2,295	-	-	3,277
Total	$ -	$ 982	$ 2,398	$ -	$ -	$ 3,380

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:

(in millions)	**June 30, 2021**	December 31, 2020
Securities collateral pledged to us	**$ 2,018**	$ 5,359

At June 30, 2021 and December 31, 2020, the carrying value of reverse repurchase agreements totaled $2.0 billion and $5.4 billion, respectively.

We do not currently offset any secured financing transactions. All such transactions are collateralized and margined on a daily basis consistent with market standards and subject to enforceable master netting arrangements with rights of set off.

Insurance – Statutory and Other Deposits

The total carrying value of cash and securities deposited by our insurance subsidiaries under requirements of regulatory authorities or other insurance-related arrangements, including certain annuity-related obligations and certain reinsurance contracts, was $11.4 billion and $11.2 billion at June 30, 2021 and December 31, 2020, respectively.

Other Pledges and Restrictions

Certain of our subsidiaries are members of Federal Home Loan Banks (FHLBs) and such membership requires the members to own stock in these FHLBs. We owned an aggregate of $210 million and $191 million of stock in FHLBs at June 30, 2021 and December 31, 2020, respectively. In addition, our subsidiaries have pledged securities available for sale and residential loans associated with borrowings and funding agreements from FHLBs, with a fair value of $5.6 billion and $891 million, respectively, at June 30, 2021 and $5.7 billion and $1.2 billion, respectively, at December 31, 2020.

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 $1.5 billion at both June 30, 2021 and December 31, 2020. 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 $533 million and $494 million, comprised of bonds available for sale and short-term investments at June 30, 2021 and December 31, 2020, respectively.

Reinsurance transactions between AIG and Fortitude Re were structured as modco and loss portfolio transfer arrangements with funds withheld. Following closing of the Majority Interest Fortitude Sale, a portion of the proceeds were contributed to AIG subsidiaries.

For further discussion on the sale of Fortitude Holdings see Note 1 and Note 7 to the Condensed Consolidated Financial Statements.

6. Lending Activities

The following table presents the composition of Mortgage and other loans receivable, net:

(in millions)	June 30, 2021	December 31, 2020
Commercial mortgages[(a)]	$ 36,415	$ 36,424
Residential mortgages	3,993	4,645
Life insurance policy loans	1,907	1,986
Commercial loans, other loans and notes receivable	3,602	3,321
Total mortgage and other loans receivable	45,917	46,376
Allowance for credit losses[(b)]	(701)	(814)
Mortgage and other loans receivable, net	$ 45,216	$ 45,562

(a) Commercial mortgages primarily represent loans for apartments, offices and retail properties, with exposures in New York and California representing the largest geographic concentrations (aggregating approximately 23 percent and 10 percent, respectively, at June 30, 2021 and 24 percent and 10 percent, respectively, at December 31, 2020).

(b) Does not include allowance for credit losses of $81 million and $79 million, respectively, at June 30, 2021 and December 31, 2020, in relation to off-balance-sheet commitments to fund commercial mortgage loans, which is recorded in Other liabilities.

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. As of June 30, 2021, $19 million and $241 million of residential mortgage loans and commercial mortgage loans, respectively, were placed on nonaccrual status. As of December 31, 2020, $14 million and $238 million of residential mortgage loans and commercial mortgage loans, respectively, were placed on nonaccrual status.

Accrued interest is presented separately and is included in Other assets on the Condensed Consolidated Balance Sheets. As of June 30, 2021, accrued interest receivable was $10 million and $129 million associated with residential mortgage loans and commercial mortgage loans, respectively. As of December 31, 2020, accrued interest receivable was $14 million and $129 million associated with residential mortgage loans and commercial mortgage loans, respectively.

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.

Nonperforming loans are generally those loans where payment of contractual principal or interest is more than 90 days past due. Nonperforming loans were not significant for any of the periods presented.

CREDIT QUALITY OF COMMERCIAL MORTGAGES

The following table presents debt service coverage ratios[(a)] for commercial mortgages by year of vintage:

June 30, 2021 *(in millions)*	2021	2020	2019	2018	2017	Prior	Total
>1.2X	$ 1,220	$ 1,815	$ 5,404	$ 4,742	$ 3,794	$ 13,429	$ 30,404
1.00 - 1.20X	37	958	779	664	181	1,229	3,848
<1.00X	-	28	-	976	88	1,071	2,163
Total commercial mortgages	$ 1,257	$ 2,801	$ 6,183	$ 6,382	$ 4,063	$ 15,729	$ 36,415

December 31, 2020 *(in millions)*	2020	2019	2018	2017	2016	Prior	Total
>1.2X	$ 1,914	$ 5,596	$ 5,649	$ 3,941	$ 4,592	$ 10,730	$ 32,422
1.00 - 1.20X	770	467	456	144	161	1,106	3,104
<1.00X	4	86	343	87	96	282	898
Total commercial mortgages	$ 2,688	$ 6,149	$ 6,448	$ 4,172	$ 4,849	$ 12,118	$ 36,424

The following table presents loan-to-value ratios[(b)] for commercial mortgages by year of vintage:

June 30, 2021 *(in millions)*	2021	2020	2019	2018	2017	Prior	Total
Less than 65%	$ 585	$ 2,443	$ 3,820	$ 4,390	$ 2,638	$ 10,453	$ 24,329
65% to 75%	333	358	2,344	1,992	1,096	4,114	10,237
76% to 80%	-	-	19	-	65	428	512
Greater than 80%	339	-	-	-	264	734	1,337
Total commercial mortgages	$ 1,257	$ 2,801	$ 6,183	$ 6,382	$ 4,063	$ 15,729	$ 36,415

December 31, 2020 *(in millions)*	2020	2019	2018	2017	2016	Prior	Total
Less than 65%	$ 2,382	$ 3,755	$ 3,855	$ 2,565	$ 2,852	$ 8,145	$ 23,554
65% to 75%	274	2,330	2,363	1,306	1,200	2,551	10,024
76% to 80%	28	45	30	-	70	515	688
Greater than 80%	4	19	200	301	727	907	2,158
Total commercial mortgages	$ 2,688	$ 6,149	$ 6,448	$ 4,172	$ 4,849	$ 12,118	$ 36,424

(a) The debt service coverage ratio compares a property's net operating income to its debt service payments, including principal and interest. Our weighted average debt service coverage ratio was 2.0X at June 30, 2021 and 2.2X at December 31, 2020. The debt service coverage ratios have been updated within the last three months.

(b) The loan-to-value ratio compares the current unpaid principal balance of the loan to the estimated fair value of the underlying property collateralizing the loan. Our weighted average loan-to-value ratio was 58 percent at June 30, 2021 and was 60 percent at December 31, 2020. The loan-to-value ratios have been updated within the last three to nine months.

The following table presents the credit quality performance indicators for commercial mortgages:

	Number of	Class							Percent of
(dollars in millions)	Loans	Apartments	Offices	Retail	Industrial	Hotel	Others	Total	Total
June 30, 2021									
Credit Quality Performance Indicator:									
In good standing	662	$ 14,304	$ 10,426	$ 5,018	$ 3,747	$ 2,006	$ 461	$ 35,962	99 %
Restructured[(a)]	9	-	141	49	-	137	-	327	1
90 days or less delinquent	-	-	-	-	-	-	-	-	-
>90 days delinquent or in process of foreclosure	3	-	69	57	-	-	-	126	-
Total[(b)]	674	$ 14,304	$ 10,636	$ 5,124	$ 3,747	$ 2,143	$ 461	$ 36,415	100 %
Allowance for credit losses		$ 116	$ 256	$ 129	$ 46	$ 33	$ 7	$ 587	2 %

December 31, 2020									
Credit Quality Performance Indicator:									
In good standing	688	$ 13,969	$ 10,506	$ 5,144	$ 3,766	$ 2,064	$ 460	$ 35,909	99 %
Restructured[(a)]	5	-	52	50	-	4	-	106	-
90 days or less delinquent	3	-	87	-	-	114	-	201	-
>90 days delinquent or in process of foreclosure	4	-	67	55	-	86	-	208	1
Total[(b)]	700	$ 13,969	$ 10,712	$ 5,249	$ 3,766	$ 2,268	$ 460	$ 36,424	100 %
Allowance for credit losses		$ 145	$ 267	$ 145	$ 53	$ 65	$ 10	$ 685	2 %

(a) Loans that have been modified in troubled debt restructurings and are performing according to their restructured terms. *For additional discussion of troubled debt restructurings see Note 7 to the Consolidated Financial Statements in the 2020 Annual Report.*

(b) Does not reflect allowance for credit losses.

The following table presents credit quality performance indicators for residential mortgages by year of vintage:

June 30, 2021 *(in millions)*	2021	2020	2019	2018	2017	Prior	Total
FICO*:							
780 and greater	$ 391	$ 800	$ 431	$ 162	$ 269	$ 668	**$ 2,721**
720 - 779	318	269	120	54	87	204	**1,052**
660 - 719	8	46	30	14	24	62	**184**
600 - 659	-	1	2	3	2	15	**23**
Less than 600	-	-	1	1	2	9	**13**
Total residential mortgages	$ 717	$ 1,116	$ 584	$ 234	$ 384	$ 958	**$ 3,993**

December 31, 2020 *(in millions)*	2020	2019	2018	2017	2016	Prior	Total
FICO*:							
780 and greater	$ 522	$ 619	$ 283	$ 469	$ 539	$ 484	$ 2,916
720 - 779	478	349	103	155	180	156	1,421
660 - 719	19	61	28	42	51	58	259
600 - 659	1	5	6	7	4	12	35
Less than 600	-	-	1	2	2	9	14
Total residential mortgages	$ 1,020	$ 1,034	$ 421	$ 675	$ 776	$ 719	$ 4,645

* Fair Isaac Corporation (FICO) is the credit quality indicator used to evaluate consumer credit risk for residential mortgage loan borrowers and have been updated within the last twelve months.

METHODOLOGY USED TO ESTIMATE THE ALLOWANCE FOR CREDIT LOSSES

At the time of origination or purchase, an allowance for credit losses is established for mortgage and other loan receivables and is updated each reporting period. Changes in the allowance for credit losses are recorded in realized losses. This allowance reflects the risk of loss, even when that risk is remote, and reflects losses expected over the remaining contractual life of the loan. The allowance for credit losses considers available relevant information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts of future economic conditions. We revert to historical information when we determine that we can no longer reliably forecast future economic assumptions.

The allowances for the commercial mortgage loans and residential mortgage loans are estimated utilizing a probability of default and loss given default model. Loss rate factors are determined based on historical data and adjusted for current and forecasted information. The loss rates are applied based on individual loan attributes and considering such data points as loan-to-value ratios, FICO scores, and debt service coverage.

The estimate of credit losses also reflects management's assumptions on certain macroeconomic factors that include, but are not limited to, gross domestic product growth, employment, inflation, housing price index, interest rates and credit spreads.

Accrued interest is excluded from the measurement of the allowance for credit losses and accrued interest is reversed through interest income once a loan is placed on nonaccrual.

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.

We also have off-balance sheet commitments related to our commercial mortgage loans. The liability for expected credit losses related to these commercial mortgage loan commitments is reported in Other liabilities in the Condensed Consolidated Balance Sheets. When a commitment is funded, we record a loan receivable and reclassify the liability for expected credit losses related to the commitment into loan allowance for expected credit losses. Other changes in the liability for expected credit losses on loan commitments are recorded in Net realized gains (losses) in the Condensed Consolidated Statements of Income (Loss).

The following table presents a rollforward of the changes in the allowance for credit losses on Mortgage and other loans receivable[(a)]:

Three Months Ended June 30,	2021			2020		
(in millions)	Commercial Mortgages	Other Loans	Total	Commercial Mortgages	Other Loans	Total
Allowance, beginning of period	**$ 662**	**$ 125**	**$ 787**	$ 689	$ 98	$ 787
Loans charged off	**-**	**-**	**-**	(12)	-	(12)
Recoveries of loans previously charged off	**-**	**-**	**-**	-	-	-
Net charge-offs	**-**	**-**	**-**	(12)	-	(12)
Addition to (release of) provision for loan losses	**(75)**	**(11)**	**(86)**	(10)	29	19
Allowance, end of period	**$ 587**	**$ 114**	**$ 701**	$ 667	$ 127	$ 794
Six Months Ended June 30,	**2021**			2020		
(in millions)	Commercial Mortgages	Other Loans	Total	Commercial Mortgages	Other Loans	Total
Allowance, beginning of year	**$ 685**	**$ 129**	**$ 814**	$ 336	$ 102	$ 438
Initial allowance upon CECL adoption	**-**	**-**	**-**	311	7	318
Loans charged off	**-**	**-**	**-**	(12)	-	(12)
Recoveries of loans previously charged off	**-**	**-**	**-**	-	-	-
Net charge-offs	**-**	**-**	**-**	(12)	-	(12)
Addition to (release of) provision for loan losses	**(98)**	**(15)**	**(113)**	32	18	50
Allowance, end of period	**$ 587**	**$ 114**	**$ 701**	$ 667	$ 127	$ 794

(a) Does not include allowance for credit losses of $81 million and $58 million, respectively, at June 30, 2021 and 2020 in relation to off-balance-sheet commitments to fund commercial mortgage loans, which is recorded in Other liabilities.

As a result of the COVID-19 crisis, including the significant global economic slowdown, our expectations and models used to estimate the allowance for losses on commercial and residential mortgage loans have been updated to reflect the current economic environment. The full impact of COVID-19 on real estate valuations remains uncertain and we will continue to review our valuations as further information becomes available.

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.

In response to the COVID-19 pandemic, there was an increase in the volume of loan modifications in our commercial mortgage, residential mortgage and leveraged loan portfolios in 2020. The COVID-19 related modifications were primarily in the form of short term payment deferrals (one to six months). Short-term payment deferrals are not considered a concession and therefore these modifications are not considered a TDR. As of June 30, 2021, the number of loans in deferral or in the process of being modified have returned to pre-COVID-19 levels.

During the six-month periods ended June 30, 2021 and 2020, loans with a carrying value of $46 million and $50 million, respectively, were modified in TDRs.

7. Reinsurance

SALE OF FORTITUDE HOLDINGS

On June 2, 2020, we completed the Majority Interest Fortitude Sale. AIG established Fortitude Re, a wholly owned subsidiary of Fortitude Holdings, in 2018 in a series of reinsurance transactions related to AIG's Run-Off operations. As of June 30, 2021, approximately $30.1 billion of reserves from AIG's Life and Retirement Run-Off Lines and approximately $4.0 billion of reserves from AIG's General Insurance Run-Off Lines, related to business written by multiple wholly-owned AIG subsidiaries, had been ceded to Fortitude Re under these reinsurance transactions. As of closing of the Majority Interest Fortitude Sale, these reinsurance transactions are no longer considered affiliated transactions and Fortitude Re is the reinsurer of the majority of AIG's Run-Off operations. Additionally, the Majority Interest Fortitude Sale was subject to a post-closing purchase price adjustment pursuant to which AIG would pay Fortitude Re for certain adverse development in property casualty related reserves, based on an agreed methodology, that may occur through December 31, 2023, up to a maximum payment of $500 million. Effective in the second quarter of 2021, AIG, Fortitude Holdings, Carlyle FRL, T&D and Carlyle amended the purchase agreement to finalize the post-closing purchase price adjustment for adverse reserve development. As a result of this amendment, during the three months ended June 30, 2021, AIG recorded a $21 million benefit through Policyholder benefits and losses incurred and eliminated further net exposure to adverse development on the reserves ceded to Fortitude Re.

These reinsurance transactions between AIG and Fortitude Re were structured as modco and loss portfolio transfer arrangements with funds withheld (funds withheld). In modco and funds withheld arrangements, the investments supporting the reinsurance agreements, and which reflect the majority of the consideration that would be paid to the reinsurer for entering into the transaction, are withheld by, and therefore continue to reside on the balance sheet of, the ceding company (i.e., AIG) thereby creating an obligation for the ceding company to pay the reinsurer (i.e., Fortitude Re) at a later date. Additionally, as AIG maintains ownership of these investments, AIG will maintain its existing accounting for these assets (e.g., the changes in fair value of available for sale securities will be recognized within other comprehensive income). As a result of the deconsolidation resulting from the Majority Interest Fortitude Sale, AIG has established a funds withheld payable to Fortitude Re while simultaneously establishing a reinsurance asset representing reserves for the insurance coverage that Fortitude Re has assumed. The funds withheld payable contains an embedded derivative and changes in fair value of the embedded derivative related to the funds withheld payable are recognized in earnings through Net realized gains (losses). This embedded derivative is considered a total return swap with contractual returns that are attributable to various assets and liabilities associated with these reinsurance agreements.

There is a diverse pool of assets supporting the funds withheld arrangements with Fortitude Re. The following summarizes the composition of the pool of assets:

	June 30, 2021		December 31, 2020		
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value	Corresponding Accounting Policy
Fixed maturity securities - available for sale[(a)]	**$ 34,165**	**$ 34,165**	$ 36,047	$ 36,047	Fair value through other comprehensive income
Fixed maturity securities - fair value option	**179**	**179**	200	200	Fair value through net investment income
Commercial mortgage loans	**3,706**	**3,978**	3,679	4,010	Amortized cost
Real estate investments	**304**	**553**	358	585	Amortized cost
Private equity funds / hedge funds	**1,356**	**1,356**	1,168	1,168	Fair value through net investment income
Policy loans	**395**	**395**	413	413	Amortized cost
Short-term Investments	**94**	**94**	34	34	Fair value through net investment income
Funds withheld investment assets	**40,199**	**40,720**	41,899	42,457	
Derivative assets, net[(b)]	**51**	**51**	(1)	(1)	Fair value through net realized gains (losses)
Other[(c)]	**632**	**632**	604	604	Amortized cost
Total	**$ 40,882**	**$ 41,403**	$ 42,502	$ 43,060	

(a) The change in the net unrealized gains (losses) on available for sale securities related to the Fortitude Re funds withheld assets was $(1.6) billion ($(1.3) billion after-tax) for the six months ended June 30, 2021 and $1.0 billion ($812 million after-tax) during the post deconsolidation period (June 2, 2020 - December 31, 2020).

(b) The derivative assets and liabilities have been presented net of cash collateral. The derivative assets and liabilities supporting the Fortitude Re funds withheld arrangements had a fair market value of $308 million and $10 million, respectively, as of June 30, 2021. The derivative assets supporting the Fortitude Re funds withheld arrangements had a fair market value of $357 million as of December 31, 2020. These derivative assets and liabilities are fully collateralized either by cash or securities.

(c) Primarily comprised of Cash and Accrued investment income.

The impact of the funds withheld arrangements with Fortitude Re was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2021**	2020	**2021**	2020
Net underwriting income[(a)]	**$ -**	$ -	**$ -**	$ -
Net investment income - Fortitude Re funds withheld assets	**507**	116	**993**	116
Net realized gains (losses) on Fortitude Re funds withheld assets:				
Net realized gains - Fortitude Re funds withheld assets	**173**	96	**346**	96
Net realized gains (losses) - Fortitude Re embedded derivatives	**(2,056)**	(837)	**326**	(837)
Net realized gains (losses) on Fortitude Re funds withheld assets	**(1,883)**	(741)	**672**	(741)
Income (loss) from continuing operations before income tax expense (benefit)	**(1,376)**	(625)	**1,665**	(625)
Income tax expense (benefit)[(b)]	**(289)**	(131)	**350**	(131)
Net income (loss)	**(1,087)**	(494)	**1,315**	(494)
Change in unrealized appreciation (depreciation) of all other investments[(b)]	**1,055**	438	**(1,285)**	438
Comprehensive income (loss)	**$ (32)**	$ (56)	**$ 30**	$ (56)

(a) Effective in the second quarter of 2021, an amendment was made to the purchase agreement to finalize the post-closing purchase price adjustment for adverse reserve development and as a result, during the three months ended June 30, 2021, AIG recognized a $21 million benefit through Policyholder benefits and losses incurred.

(b) The income tax expense (benefit) and the tax impact in AOCI was computed using AIG's U.S. statutory tax rate of 21 percent.

Various assets supporting the Fortitude Re funds withheld arrangements are reported at amortized cost, and as such, changes in the fair value of these assets are not reflected in the financial statements. However, changes in the fair value of these assets are included in the embedded derivative in the Fortitude Re funds withheld arrangements and the appreciation of these assets is the primary driver of the comprehensive income reflected above.

REINSURANCE – CREDIT LOSSES

The estimation of reinsurance recoverables involves a significant amount of judgment, particularly for latent exposures, such as asbestos, due to their long-tail nature. Reinsurance assets include reinsurance recoverables 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. Similarly, Other assets include reinsurance recoverables for contracts which are accounted for as deposits.

We assess the collectability of reinsurance recoverable balances in each reporting period, through either historical trends of disputes and credit events or financial analysis of the credit quality of the reinsurer. We record adjustments to reflect the results of these assessments through an allowance for credit losses and disputes on uncollectable reinsurance that reduces the carrying amount of reinsurance and other assets on the consolidated balance sheets (collectively, the reinsurance recoverable balances). 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;
- the relative financial health of the reinsurer as determined by the Obligor Risk Ratings (ORRs) we assign to each reinsurer based upon our financial reviews; insurers that are financially troubled (i.e., in run-off, have voluntarily or involuntarily been placed in receivership, are insolvent, are in the process of liquidation or otherwise subject to formal or informal regulatory restriction) are assigned ORRs that will generate a significant allowance; and
- whether collateral and collateral arrangements exist.

An estimate of the reinsurance recoverable's lifetime expected credit losses is established utilizing a probability of default and loss given default method, which reflects the reinsurer's ORR rating. The allowance for credit losses excludes disputed amounts. An allowance for disputes is established for a reinsurance recoverable using the losses incurred model for contingencies.

The total reinsurance recoverables as of June 30, 2021 were $77.4 billion. As of that date, utilizing AIG's ORRs, (i) approximately 92 percent of the reinsurance recoverables were investment grade, of which 52 percent related to General Insurance and 40 percent related to Life and Retirement; (ii) approximately 6 percent of the reinsurance recoverables were non-investment grade, the majority of which related to General Insurance; (iii) less than one percent of the non-investment grade reinsurance recoverables related to Life and Retirement and (iv) approximately one percent of the reinsurance recoverables related to entities that were not rated by AIG.

As of June 30, 2021, approximately 70 percent of our non-investment grade reinsurance exposure related to captive insurers. These arrangements are typically collateralized by letters of credit, funds withheld or trust agreements.

Reinsurance Recoverable Allowance

The following table presents a rollforward of the reinsurance recoverable allowance:

Three Months Ended June 30,	2021			2020		
(in millions)	General Insurance	Life and Retirement	Total	General Insurance	Life and Retirement	Total
Balance, beginning of period	**$ 291**	**$ 87**	**$ 378**	$ 302	$ 60	$ 362
Addition to (release of) provision for expected credit losses and disputes, net	**(1)**	**-**	**(1)**	6	1	7
Write-offs charged against the allowance for credit losses and disputes	**(3)**	**-**	**(3)**	(2)	(1)	(3)
Other changes	**-**	**-**	**-**	(1)	(1)	(2)
Balance, end of period	**$ 287**	**$ 87**	**$ 374**	$ 305	$ 59	$ 364

Six Months Ended June 30,	2021			2020		
(in millions)	General Insurance	Life and Retirement	Total	General Insurance	Life and Retirement	Total
Balance, beginning of year	**$ 292**	**$ 83**	**$ 375**	$ 111	$ 40	$ 151
Initial allowance upon CECL adoption	**-**	**-**	**-**	202	22	224
Addition to (release of) provision for expected credit losses and disputes, net	**-**	**4**	**4**	2	3	5
Write-offs charged against the allowance for credit losses and disputes	**(7)**	**-**	**(7)**	(5)	(5)	(10)
Other changes	**2**	**-**	**2**	(5)	(1)	(6)
Balance, end of period	**$ 287**	**$ 87**	**$ 374**	$ 305	$ 59	$ 364

There were no material recoveries of credit losses previously written off for either of the three- or six-month periods ended June 30, 2021. There were no recoveries of credit losses previously written off for either of the three- or six-month periods ended June 30, 2020.

Past-Due Status

We consider a reinsurance asset to be past due when it is 90 days past due. The allowance for credit losses is estimated excluding disputed amounts. An allowance for disputes is established using the losses incurred method for contingencies. Past due balances on claims that are not in dispute were not material for any of the periods presented.

8. Variable Interest Entities

We enter into various arrangements with variable interest entities (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 to which the entity was designed to expose the variable interest holders.

The primary beneficiary is the entity that has both (i) the power to direct the activities of the VIE that most significantly affect the entity's economic performance and (ii) 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

Creditors or beneficial interest holders of VIEs for which AIG is the primary beneficiary generally have recourse only to the assets and cash flows of the VIEs and do not have recourse to AIG, except in limited circumstances when AIG has provided a guarantee to the VIE's interest holders. The following table presents the total assets and total liabilities associated with our variable interests in consolidated VIEs, as classified in the Condensed Consolidated Balance Sheets:

(in millions)	Real Estate and Investment Entities[(d)]	Securitization Vehicles	Affordable Housing Partnerships	Other	Total
June 30, 2021					
Assets:					
Bonds available for sale	**$ -**	**$ 4,863**	**$ -**	**$ -**	**$ 4,863**
Other bond securities	**-**	**2,081**	**-**	**-**	**2,081**
Equity securities	**498**	**-**	**-**	**-**	**498**
Mortgage and other loans receivable	**-**	**2,662**	**-**	**-**	**2,662**
Other invested assets					
Alternative investments[(a)]	**3,243**	**-**	**-**	**-**	**3,243**
Investment real estate	**3,173**	**-**	**3,774**	**-**	**6,947**
Short-term investments	**89**	**139**	**-**	**20**	**248**
Cash	**122**	**-**	**261**	**-**	**383**
Accrued investment income	**-**	**20**	**-**	**-**	**20**
Other assets	**130**	**53**	**257**	**-**	**440**
Other	**25**	**-**	**-**	**2**	**27**
Total assets[(b)]	**$ 7,280**	**$ 9,818**	**$ 4,292**	**$ 22**	**$ 21,412**
Liabilities:					
Debt of consolidated investment entities	**$ 2,374**	**$ 4,054**	**$ 2,514**	**$ -**	**$ 8,942**
Other[(c)]	**168**	**241**	**187**	**9**	**605**
Total liabilities	**$ 2,542**	**$ 4,295**	**$ 2,701**	**$ 9**	**$ 9,547**
December 31, 2020					
Assets:					
Bonds available for sale	$ -	$ 6,089	$ -	$ -	$ 6,089
Other bond securities	-	2,367	-	-	2,367
Equity securities	507	-	-	-	507
Mortgage and other loans receivable	-	3,135	-	-	3,135
Other invested assets					
Alternative investments[(a)]	2,689	-	-	-	2,689
Investment real estate	3,378	-	3,558	-	6,936
Short-term investments	365	1,534	-	27	1,926
Cash	129	-	203	-	332
Accrued investment income	-	38	-	-	38
Other assets	166	120	243	-	529
Other	3	-	-	2	5
Total assets[(b)]	$ 7,237	$ 13,283	$ 4,004	$ 29	$ 24,553
Liabilities:					
Debt of consolidated investment entities	$ 2,559	$ 3,961	$ 2,287	$ 2	$ 8,809
Other[(c)]	180	187	187	10	564
Total liabilities	$ 2,739	$ 4,148	$ 2,474	$ 12	$ 9,373

(a) Comprised primarily of investments in real estate joint ventures at June 30, 2021 and December 31, 2020.

(b) The assets of each VIE can be used only to settle specific obligations of that VIE.

(c) Comprised primarily of Other liabilities at June 30, 2021 and December 31, 2020.

(d) At June 30, 2021 and December 31, 2020, off-balance sheet exposure primarily consisting of our insurance companies' commitments to real estate and investment entities were $2.1 billion and $2.4 billion, respectively, of which commitments to external parties were $0.7 billion and $0.7 billion, respectively.

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.

Under the terms of six transactions entered into between 2012 and 2014, securitized portfolios of certain debt securities previously owned by AIG and its affiliates, an indirectly wholly-owned subsidiary of AIG was obligated to make certain capital contributions to such a securitization VIE in the event that the VIE was unable to redeem any rated notes it had in issue on the relevant redemption date. AIG had provided a guarantee to the six securitization VIEs of the obligations of its indirectly wholly-owned subsidiary to make such capital contributions when due. At June 30, 2021, all six transactions had been terminated. In aggregate, the termination of these six transactions resulted in a reduction of debt of consolidated investment entities of $175 million. There were no amounts paid related to the guarantees provided.

SunAmerica Affordable Housing Partners, Inc. (SAAHP) provides a Base Internal Rate of Return (Base IRR) guarantee to its third party investors, so that on a specified date if the investor has not received distributions of cash and allocations of certain tax benefits required to achieve their Base IRR as provided for in the partnership agreement, SAAHP shall distribute cash to effectively generate the Base IRR to the investor. In addition, SAAHP has from time to time guaranteed certain debt issued by third parties related to its business activities. As of June 30, 2021, the off-balance sheet amount of that guarantee was approximately $3 million.

The following table presents total assets of unconsolidated VIEs in which we hold a variable interest, as well as our maximum exposure to loss associated with these VIEs:

		Maximum Exposure to Loss		
(in millions)	Total VIE Assets	On-Balance Sheet[(b)]	Off-Balance Sheet	Total
June 30, 2021				
Real estate and investment entities[(a)]	**$ 355,969**	**$ 6,920**	**$ 3,629** [(d)]	**$ 10,549**
Affordable housing partnerships	**2,445**	**295** [(c)]	**3**	**298**
Other	**1,710**	**209**	**480** [(e)]	**689**
Total	**$ 360,124**	**$ 7,424**	**$ 4,112**	**$ 11,536**
December 31, 2020				
Real estate and investment entities[(a)]	$ 321,716	$ 6,420	$ 3,273 [(d)]	$ 9,693
Affordable housing partnerships	2,801	368 [(c)]	4	372
Other	1,733	195	546 [(e)]	741
Total	$ 326,250	$ 6,983	$ 3,823	$ 10,806

(a) Comprised primarily of hedge funds and private equity funds.

(b) At June 30, 2021 and December 31, 2020, $7.2 billion and $6.8 billion, respectively, of our total unconsolidated VIE assets were recorded as Other invested assets.

(c) At June 30, 2021, primarily included alternative equity investments of $196 million and other loans receivables of $83 million. At December 31, 2020, primarily included alternative equity investments of $257 million and other loans receivables of $97 million.

(d) These amounts represent our unfunded commitments to invest in private equity funds and hedge funds.

(e) 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.

For additional information on VIEs see Note 10 to the Consolidated Financial Statements in the 2020 Annual Report.

9. 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 swaps) are used to economically mitigate risk associated with non-U.S. dollar denominated debt, net capital exposures, foreign currency transactions, and foreign denominated investments. Equity derivatives are used to mitigate financial risk embedded in certain insurance liabilities and economically hedge certain investments. We use credit derivatives to manage our credit exposures. Commodity derivatives are used to hedge exposures within reinsurance contracts. 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 contracts with respect to investment operations, which may include, among other things, credit default swaps (CDSs), total return swaps and purchases of investments with embedded derivatives, such as equity-linked notes and convertible bonds.

The following table presents the notional amounts of our derivatives and the fair value of derivative assets and liabilities in the Condensed Consolidated Balance Sheets:

	June 30, 2021				December 31, 2020			
	Gross Derivative Assets		Gross Derivative Liabilities		Gross Derivative Assets		Gross Derivative Liabilities	
(in millions)	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
Derivatives designated as hedging instruments:(a)								
Interest rate contracts	$ 877	$ 12	$ 445	$ 5	$ 815	$ 16	$ 356	$ 11
Foreign exchange contracts	7,557	430	3,613	239	3,468	256	7,424	379
Derivatives not designated as hedging instruments:(a)								
Interest rate contracts	48,284	3,666	42,669	3,875	62,259	4,621	48,732	4,425
Foreign exchange contracts	12,423	727	6,125	508	9,518	766	12,860	711
Equity contracts	24,456	731	6,736	72	22,924	1,130	7,076	223
Commodity contracts	193	6	583	-	-	-	-	-
Credit contracts(b)	4,742	1	955	63	5,797	2	969	67
Other contracts(c)	42,502	13	54	3	43,441	14	54	6
Total derivatives, gross	$ 141,034	$ 5,586	$ 61,180	$ 4,765	$ 148,222	$ 6,805	$ 77,471	$ 5,822
Counterparty netting(d)		(2,833)		(2,833)		(3,812)		(3,812)
Cash collateral(e)		(1,721)		(1,201)		(2,219)		(1,441)
Total derivatives on Condensed Consolidated Balance Sheets(f)		$ 1,032		$ 731		$ 774		$ 569

(a) Fair value amounts are shown before the effects of counterparty netting adjustments and offsetting cash collateral.

(b) As of June 30, 2021 and December 31, 2020, included CDSs on super senior multi-sector CDOs with a net notional amount of $117 million and $137 million (fair value liability of $43 million and $44 million), respectively. The net notional amount represents the maximum exposure to loss on the portfolio.

(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 Other liabilities, respectively. Fair value of assets related to bifurcated embedded derivatives was zero at both June 30, 2021 and December 31, 2020. Fair value of liabilities related to bifurcated embedded derivatives was $14.3 billion and $15.8 billion, respectively, at June 30, 2021 and December 31, 2020. A bifurcated embedded derivative is generally presented with the host contract in the Condensed Consolidated Balance Sheets. Embedded derivatives are primarily related to guarantee features in variable annuity products, which include equity and interest rate components, and the funds withheld arrangement with Fortitude Re. *For additional information see Note 7 to the Condensed Consolidated Financial Statements.*

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 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 by us 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 $2.9 billion at June 30, 2021 and $3.0 billion at December 31, 2020. 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 $2.0 billion and $2.3 billion at June 30, 2021 and December 31, 2020, 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 Condensed 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 three- and six-month periods ended June 30, 2021, we recognized gains of $5 million and $106 million, respectively, and for the three- and six-month periods ended June 30, 2020, we recognized gains of $3 million and $102 million, respectively, included in Change in foreign currency translation adjustments 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 income on our derivative instruments in fair value hedging relationships in the Condensed Consolidated Statements of Income (Loss):

	Gains/(Losses) Recognized in Income for:			
(in millions)	Hedging Derivatives[(a)]	Excluded Components[(b)]	Hedged Items	Net Impact
Three Months Ended June 30, 2021				
Interest rate contracts:				
Interest credited to policyholder account balances	**$ (3)**	**$ -**	**$ 1**	**$ (2)**
Net investment income	**(1)**	**-**	**-**	**(1)**
Foreign exchange contracts:				
Net realized gains/(losses)	**(36)**	**107**	**36**	**107**
Three Months Ended June 30, 2020				
Interest rate contracts:				
Interest credited to policyholder account balances	$ 1	$ -	$ (3)	$ (2)
Net investment income	(4)	-	3	(1)
Foreign exchange contracts:				
Net realized gains/(losses)	(132)	(76)	132	(76)
Six Months Ended June 30, 2021				
Interest rate contracts:				
Interest credited to policyholder account balances	**$ (7)**	**$ -**	**$ 7**	**$ -**
Net investment income	**7**	**-**	**(7)**	**-**
Foreign exchange contracts:				
Net realized gains/(losses)	**(4)**	**78**	**4**	**78**
Six Months Ended June 30, 2020				
Interest rate contracts:				
Interest credited to policyholder account balances	$ 18	$ -	$ (20)	$ (2)
Net investment income	(7)	-	6	(1)
Foreign exchange contracts:				
Net realized gains/(losses)	173	205	(173)	205

(a) Gains and losses on derivative instruments designated and qualifying in fair value hedges that are included in the assessment of hedge effectiveness.

(b) Gains and losses on derivative instruments designated and qualifying in fair value hedges that are excluded from the assessment of hedge effectiveness and recognized in earnings on a mark-to-market basis.

DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS

The following table presents the effect of derivative instruments not designated as hedging instruments in the Condensed Consolidated Statements of Income (Loss):

	Gains (Losses) Recognized in Income			
	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2021**	2020	**2021**	2020
By Derivative Type:				
Interest rate contracts	**$ 856**	$ (7)	**$ (689)**	$ 2,566
Foreign exchange contracts	**48**	(124)	**(39)**	901
Equity contracts	**(32)**	(471)	**(551)**	632
Commodity contracts	**1**	-	**1**	-
Credit contracts	**(4)**	(66)	**(9)**	56
Other contracts	**17**	16	**32**	26
Embedded derivatives	**(3,242)**	(1,774)	**1,597**	(2,826)
Total	**$ (2,356)**	$ (2,426)	**$ 342**	$ 1,355
By Classification:				
Policy fees	**$ 15**	$ 15	**$ 30**	$ 30
Net investment income	**7**	(1)	**(5)**	(3)
Net realized gains (losses) - excluding Fortitude Re funds withheld assets	**(388)**	(1,579)	**52**	2,173
Net realized gains (losses) on Fortitude Re funds withheld assets[(a)]	**(1,996)**	(863)	**269**	(863)
Policyholder benefits and claims incurred	**6**	2	**(4)**	18
Total	**$ (2,356)**	$ (2,426)	**$ 342**	$ 1,355

(a) Includes over-the-counter derivatives supporting the funds withheld arrangements with Fortitude Re and the embedded derivative contained within the funds withheld payable with Fortitude Re.

CREDIT RISK-RELATED CONTINGENT FEATURES

We estimate that at June 30, 2021, based on our outstanding financial derivative transactions, a downgrade of our long-term senior debt ratings to BBB or BBB– by Standard & Poor's Financial Services LLC, a subsidiary of S&P Global Inc., and/or a downgrade to Baa2 or Baa3 by Moody's Investors' Service, Inc. would permit counterparties to make additional collateral calls and permit certain counterparties to elect early termination of contracts, resulting in corresponding collateral postings and termination payments in the total amount of up to approximately $41 million. The aggregate fair value of our derivatives that were in a net liability position and that contain such credit risk-related contingencies which can be triggered below our long-term senior debt ratings of BBB+ or Baa1 was approximately $223 million and $257 million at June 30, 2021 and December 31, 2020, respectively. The aggregate fair value of assets posted as collateral under these contracts at June 30, 2021 and December 31, 2020, was approximately $244 million and $306 million, respectively.

HYBRID SECURITIES WITH EMBEDDED CREDIT DERIVATIVES

We invest in hybrid securities (such as credit-linked notes) with the intent of generating income and not specifically to acquire exposure to embedded derivative risk. As is the case with our other investments in RMBS, CMBS, CDOs and ABS, our investments in these hybrid securities are exposed to losses only up to the amount of our initial investment in the hybrid security. Other than our initial investment in the hybrid securities, we have no further obligation to make payments on the embedded credit derivatives in the related hybrid securities.

We elect to account for our investments in these hybrid securities with embedded written credit derivatives at fair value, with changes in fair value recognized in Net investment income and Other income. Our investments in these hybrid securities are reported as Other bond securities in the Condensed Consolidated Balance Sheets. The fair values of these hybrid securities were $2.2 billion and $2.4 billion at June 30, 2021 and December 31, 2020, respectively. These securities have par amounts of $4.8 billion and $5.0 billion at June 30, 2021 and December 31, 2020, respectively, and have remaining stated maturity dates that extend to 2052.

10. 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, 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, except to the extent such adjustment impacts a deferred gain under a retroactive reinsurance agreement, in which case the ceded portion would be amortized into pre-tax income in subsequent periods. 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. Given the uncertainties around the impact from the COVID-19 crisis, including the significant global economic slowdown, the full impact of COVID-19 and how it may ultimately impact the results of our insurance operations remains uncertain. In addition, in response to the crisis, new governmental, legislative and regulatory initiatives have been put in place and continue to be developed that could result in additional restrictions and requirements relating to our policies that may have a negative impact on our business operations. We have recorded our estimate of the ultimate liability for losses that have occurred as of the balance sheet date associated with COVID-19 which reflects our expectations given the current facts and circumstances. We will continue to monitor and review the impact. 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 $12.5 billion and $12.6 billion at June 30, 2021 and December 31, 2020, 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 both June 30, 2021 and December 31, 2020, we held collateral of approximately $9.3 billion and $9.2 billion, respectively, for these deductible recoverable amounts, consisting primarily of letters of credit and funded trust agreements. Allowance for credit losses for the unsecured portion of these recoverable amounts was $14 million at both June 30, 2021 and December 31, 2020.

The following table presents the rollforward of activity in Loss Reserves:

(in millions)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Liability for unpaid loss and loss adjustment expenses, beginning of period	$ 78,832	$ 77,747	$ 77,720	$ 78,328
Reinsurance recoverable	(35,271)	(31,114)	(34,431)	(31,069)
Initial allowance upon CECL adoption	-	-	-	164
Net Liability for unpaid loss and loss adjustment expenses, beginning of period	43,561	46,633	43,289	47,423
Losses and loss adjustment expenses incurred:				
Current year	3,870	4,248	7,795	8,359
Prior years, excluding discount and amortization of deferred gain	(29)	(25)	(13)	(26)
Prior years, discount charge (benefit)	34	34	16	110
Prior years, amortization of deferred gain on retroactive reinsurance(a)	(22)	(76)	(94)	(151)
Total losses and loss adjustment expenses incurred	3,853	4,181	7,704	8,292
Losses and loss adjustment expenses paid:				
Current year	(895)	(910)	(1,223)	(1,252)
Prior years	(2,620)	(3,790)	(6,204)	(8,141)
Total losses and loss adjustment expenses paid	(3,515)	(4,700)	(7,427)	(9,393)
Other changes:				
Foreign exchange effect	113	(39)	357	(269)
Allowance for credit losses	-	-	-	-
Retroactive reinsurance adjustment (net of discount)(b)	103	138	192	160
Fortitude sale(c)	-	(3,818)	-	(3,818)
Total other changes	216	(3,719)	549	(3,927)
Liability for unpaid loss and loss adjustment expenses, end of period:				
Net liability for unpaid losses and loss adjustment expenses	44,115	42,395	44,115	42,395
Reinsurance recoverable	34,866	35,458	34,866	35,458
Total	$ 78,981	$ 77,853	$ 78,981	$ 77,853

(a) Includes $1 million and $11 million for the retroactive reinsurance agreement with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc. (Berkshire), covering U.S. asbestos exposures for the three-month periods ended June 30, 2021 and 2020, respectively, and $18 million and $19 million for the six-month periods ended June 30, 2021 and 2020, respectively.

(b) Includes benefit (charge) from change in discount on retroactive reinsurance in the amount of $17 million and $(14) million for the three-month periods ended June 30, 2021 and 2020, respectively, and $56 million and $58 million for the six-month periods ended June 30, 2021 and 2020, respectively.

(c) On June 2, 2020, AIG completed the Majority Interest Fortitude Sale. Concurrent with the Majority Interest Fortitude Sale, AIG established a reinsurance recoverable. *Refer to Note 1 for additional information.*

On January 20, 2017, we entered into an adverse development reinsurance agreement with NICO, 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 account for this transaction as retroactive reinsurance. We paid total consideration, including interest, of $10.2 billion. The consideration was placed into a collateral trust account as security for NICO's claim payment obligations, and Berkshire has provided a parental guarantee to secure the obligations of NICO under the agreement.

Prior Year Development

During the three-month period ended June 30, 2021, we recognized favorable prior year loss reserve development of $29 million excluding discount and amortization of deferred gain. During the six-month period ended June 30, 2021, we recognized favorable prior year loss reserve development of $13 million excluding discount and amortization of deferred gain. The development in these periods was primarily driven by favorable development on U.S. Workers Compensation high deductible business, partially offset by adverse development on runoff companies, especially Blackboard and U.S. Financial Lines. U.S. Workers Compensation favorable development was driven by better than expected loss emergence for many older accident years over the last twelve months and an updated reserve analysis that reduced the ultimate loss estimates for many accident years. Blackboard adverse emergence was driven by significant increases in case incurred claim severity, principally in accident years 2018 to 2020.

During the three-month period ended June 30, 2020, we recognized favorable prior year loss reserve development of $25 million excluding discount and amortization of deferred gain. The development was primarily driven by favorable development on International Property and Special Risks and U.S. Workers Compensation partially offset by adverse development on U.S. Property and discontinued program business.

During the six-month period ended June 30, 2020, we recognized favorable prior year loss reserve development of $26 million excluding discount and amortization of deferred gain. The development was primarily driven by favorable development on International Property and Special Risks and U.S. Workers Compensation partially offset by adverse development on U.S. Property, discontinued program business and U.S. Personal Lines.

Discounting of Loss Reserves

At June 30, 2021 and December 31, 2020, the loss reserves reflect a net loss reserve discount of $791 million and $725 million, respectively, including tabular and non-tabular calculations based upon the following assumptions:

- The non-tabular workers' compensation discount is calculated separately for companies domiciled in New York, Pennsylvania and Delaware, 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.
  - The Pennsylvania and Delaware regulators 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 and Delaware domiciled companies, as well as our use of updated payout patterns specific to our primary and excess workers compensation portfolios. In 2020, the regulators also approved that the discount rate will be updated on an annual basis.
- The tabular workers' compensation discount is calculated based on the mortality rate used in the 2007 U.S. Life table and interest rates prescribed or permitted by each state (i.e. New York is based on 5 percent interest rate and Pennsylvania and Delaware are based on U.S. Treasury plus liquidity rate).

The discount for asbestos reserves has been fully accreted.

At June 30, 2021 and December 31, 2020, the discount consists of $303 million and $285 million of tabular discount, respectively, and $488 million and $440 million of non-tabular discount for workers' compensation, respectively. During the six-month periods ended June 30, 2021 and 2020, the benefit / (charge) from changes in discount of $10 million and $(72) million, respectively, were recorded as part of the policyholder benefits and losses incurred in the Condensed Consolidated Statements of Income (Loss).

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

	June 30, 2021			December 31, 2020		
(in millions)	North America Commercial Insurance	Other Operations Run-Off[b]	Total	North America Commercial Insurance	Other Operations Run-Off[b]	Total
U.S. workers' compensation	**$ 1,646**	**$ -**	**$ 1,646**	$ 1,636	$ -	$ 1,636
Retroactive reinsurance	**(855)**	**-**	**(855)**	(911)	-	(911)
Total reserve discount[a]	**$ 791**	**$ -**	**$ 791**	$ 725	$ -	$ 725

(a) Excludes $159 million and $151 million of discount related to certain long tail liabilities in the UK at June 30, 2021 and December 31, 2020, respectively.

(b) Excludes $508 million and $493 million, respectively, of discount which was 100 percent ceded to Fortitude Re at June 30, 2021 and December 31, 2020. On June 2, 2020, we completed the Majority Interest Fortitude Sale. *For additional information see Note 1 to the Condensed Consolidated Financial Statements.*

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

Three Months Ended June 30,	2021			2020		
(in millions)	North America Commercial Insurance	Other Operations Run-Off	Total	North America Commercial Insurance	Other Operations Run-Off[(d)]	Total
Current accident year	**$ 12**	**$ -**	**$ 12**	$ 18	$ -	$ 18
Accretion and other adjustments to prior year discount	**(34)**	**-**	**(34)**	(25)	(9)	(34)
Effect of interest rate changes	**-**	**-**	**-**	-	-	-
Net reserve discount benefit (charge)[(a)]	**(22)**	**-**	**(22)**	(7)	(9)	(16)
Change in discount on loss reserves ceded under retroactive reinsurance	**17**	**-**	**17**	(14)	-	(14)
Net change in total reserve discount[(b)]	**$ (5)**	**$ -**	**$ (5)**	$ (21)	$ (9)	$ (30)

Six Months Ended June 30,	2021			2020		
(in millions)	North America Commercial Insurance	Other Operations Run-Off	Total	North America Commercial Insurance	Other Operations Run-Off[(d)]	Total
Current accident year	**$ 26**	**$ -**	**$ 26**	$ 38	$ -	$ 38
Accretion and other adjustments to prior year discount	**(16)**	**-**	**(16)**	(92)	(18)	(110)
Effect of interest rate changes	**-**	**-**	**-**	-	-	-
Net reserve discount benefit (charge)[(a)]	**10**	**-**	**10**	(54)	(18)	(72)
Change in discount on loss reserves ceded under retroactive reinsurance	**56**	**-**	**56**	58	-	58
Net change in total reserve discount[(c)]	**$ 66**	**$ -**	**$ 66**	$ 4	$ (18)	$ (14)

(a) For the three- and six-month periods ended June 30, 2021 and June 30, 2020, the changes in net reserve discount benefit (charge) were primarily driven by accretion and changes to nominal reserves.

(b) Excludes $2 million and $(6) million discount related to certain long tail liabilities in the UK for the three-month periods ended June 30, 2021 and 2020, respectively.

(c) Excludes $9 million and $(8) million discount related to certain long tail liabilities in the UK for the six-month periods ended June 30, 2021 and 2020, respectively.

(d) On June 2, 2020, we completed the Majority Interest Fortitude Sale. *Refer to Note 1 for additional information.* Change in discount prior to the sale is included in the above for the three- and six-month periods ended June 30, 2020. Following the sale, 100 percent of the discount is ceded to Fortitude Re.

Amortization of Deferred Gain on Retroactive Reinsurance

Amortization of deferred gain on retroactive reinsurance includes $21 million and $65 million related to the adverse development reinsurance cover with NICO for the three-month periods ended June 30, 2021 and 2020, respectively, and $76 million and $132 million for the six-month periods ended June 30, 2021 and 2020, respectively.

Amounts recognized reflect the amortization of deferred gain at inception, as amended for subsequent changes in the deferred gain due to changes in subject reserves.

11. 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 subject to regulatory and government investigations and actions, and litigation and other forms of dispute resolution in a large number of proceedings pending in various domestic and foreign jurisdictions. Certain of these matters involve potentially significant risk of loss due to potential for significant jury awards and settlements, punitive damages or other penalties. Many of these matters are also highly complex and may seek recovery on behalf of a class or similarly large number of plaintiffs. It is therefore inherently difficult to predict the size or scope of potential future losses arising from these matters. In our insurance and reinsurance operations, litigation and arbitration concerning the scope of coverage under insurance and reinsurance contracts, and litigation and arbitration in which our subsidiaries defend or indemnify their insureds under insurance contracts, are generally considered in the establishment of our loss reserves. Separate and apart from the foregoing matters involving insurance and reinsurance coverage, AIG, our subsidiaries and their respective officers and directors are subject to a variety of additional types of legal proceedings brought by holders of AIG securities, customers, employees and others, alleging, among other things, breach of contractual or fiduciary duties, bad faith, indemnification and violations of federal and state statutes and regulations. With respect to these other categories of matters not arising out of claims for insurance or reinsurance coverage, we establish reserves for loss contingencies when it is probable that a loss will be incurred and the amount of the loss can be reasonably estimated. In many instances, we are unable to determine whether a loss is probable or to reasonably estimate the amount of such a loss and, therefore, the potential future losses arising from legal proceedings may exceed the amount of liabilities that we have recorded in our financial statements covering these matters. While such potential future charges could be material, based on information currently known to management, management does not believe, other than as may be discussed below, that any such charges are likely to have a material adverse effect on our financial position or results of operation.

Additionally, from time to time, various regulatory and governmental agencies review the transactions and practices of AIG and our subsidiaries in connection with industry-wide and other inquiries or examinations into, among other matters, the business practices of current and former operating insurance subsidiaries. Such investigations, inquiries or examinations could develop into administrative, civil or criminal proceedings or enforcement actions, in which remedies could include fines, penalties, restitution or alterations in our business practices, and could result in additional expenses, limitations on certain business activities and reputational damage.

Tax Litigation

We were party to tax litigation before the Southern District of New York (Southern District), which was dismissed by the Southern District in October 2020 based upon the settlement reached between AIG and the government. *For additional information see Note 15 to the Condensed Consolidated Financial Statements.*

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 $6.7 billion at June 30, 2021.

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 AIG Financial Products Corp. and related subsidiaries (collectively AIGFP) and of AIG Markets, Inc. arising from transactions entered into by AIG Markets, Inc.

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 June 30, 2021 was $75 million. In those transactions, AIGFP has agreed to pay such amount if the lessee fails to pay. The amount payable by AIGFP is, in certain cases, partially offset by amounts payable under other instruments typically equal to the present value of scheduled payments to be made by AIGFP. In the event that AIGFP is required to make a payment to the equity investor, the lessee is unconditionally obligated to reimburse AIGFP. To the extent that the equity investor is paid the equity termination value from the standby letter of credit and/or other sources, including payments by the lessee, AIGFP takes an assignment of the equity investor's rights under the lease of the underlying property. Because the obligations of the lessee under the lease transactions are generally economically defeased, lessee bankruptcy is the most likely circumstance in which AIGFP would be required to pay without reimbursement.

AIG Parent files a consolidated federal income tax return with certain subsidiaries and acts as an agent for the consolidated tax group when making payments to the Internal Revenue Service (IRS). AIG Parent and its subsidiaries have adopted, pursuant to a written agreement, a method of allocating consolidated federal income taxes. Under an Amended and Restated Tax Payment Allocation Agreement dated June 6, 2011 between AIG Parent and one of its Bermuda-domiciled insurance subsidiaries, AIG Life of Bermuda, Ltd. (AIGB), AIG Parent has agreed to indemnify AIGB for any tax liability (including interest and penalties) resulting from adjustments made by the IRS or other appropriate authorities to taxable income, special deductions or credits in connection with investments made by AIGB in certain affiliated entities.

Asset Dispositions

We are subject to financial guarantees and indemnity arrangements in connection with the completed sales of businesses. 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. The Majority Interest Fortitude Sale was subject to a post-closing purchase price adjustment pursuant to which AIG would pay Fortitude Re for certain adverse development in property casualty related reserves, based on an agreed methodology, that may occur through December 31, 2023, up to a maximum of $500 million. Effective in the second quarter of 2021, AIG, Fortitude Holdings, Carlyle FRL, T&D and Carlyle amended the purchase agreement to finalize the post-closing purchase price adjustment for adverse reserve development. As a result of this amendment, during the three months ended June 30, 2021, AIG recorded a $21 million benefit through Policyholder benefits and losses incurred and eliminated further net exposure to adverse development on the reserves ceded to Fortitude Re.

We are unable to develop a reasonable estimate of the maximum potential payout under certain of these arrangements. Overall, we believe the likelihood that we will have to make any material payments related to completed sales under these arrangements is remote, and no material liabilities related to these arrangements have been recorded in the Condensed Consolidated Balance Sheets.

For additional discussion on the Fortitude Re transaction, see Note 1 to the Condensed Consolidated Financial Statements.

Other

- *For additional discussion on commitments and guarantees associated with VIEs, see Note 8 to the Condensed Consolidated Financial Statements.*
- *For additional disclosures about derivatives, see Note 9 to the Condensed Consolidated Financial Statements.*

12. Equity

SHARES OUTSTANDING

Preferred Stock

On March 14, 2019, we issued 20,000 shares of Series A 5.85% Non-Cumulative Perpetual Preferred Stock (Series A Preferred Stock) (equivalent to 20,000,000 Depositary Shares, each representing a 1/1,000th interest in a share of Series A Preferred Stock), $5.00 par value and $25,000 liquidation preference per share (equivalent to $25 per Depositary Share). After underwriting discounts and expenses, we received net proceeds of approximately $485 million.

The following table presents declaration date, record date, payment date and dividends paid per preferred share and per depository share on the Series A Preferred Stock in the six months ended June 30, 2021 and 2020:

			Dividends Paid	
Declaration Date	Record Date	Payment Date	Per Preferred Share	Per Depositary Share
May 6, 2021	May 31, 2021	June 15, 2021	**$ 365.625**	**$ 0.365625**
February 16, 2021	February 26, 2021	March 15, 2021	**365.625**	**0.365625**
May 4, 2020	May 29, 2020	June 15, 2020	$ 365.625	$ 0.365625
February 12, 2020	February 28, 2020	March 16, 2020	365.625	0.365625

Common Stock

The following table presents a rollforward of outstanding shares:

Six Months Ended June 30, 2021	Common Stock Issued	Treasury Stock	Common Stock Outstanding
Shares, beginning of year	**1,906,671,492**	**(1,045,113,443)**	**861,558,049**
Shares issued	-	6,015,808	6,015,808
Shares repurchased	-	(12,645,927)	(12,645,927)
Shares, end of period	**1,906,671,492**	**(1,051,743,562)**	**854,927,930**

Dividends

Dividends are payable on AIG Common Stock only when, as and if declared by our Board of Directors in its discretion, from funds legally available for this purpose. In considering whether to pay a dividend on or purchase shares of AIG Common Stock, our Board of Directors considers a number of factors, including, but not limited to: the capital resources available to support our insurance operations and business strategies, AIG's funding capacity and capital resources in comparison to internal benchmarks, expectations for capital generation, rating agency expectations for capital, regulatory standards for capital and capital distributions, and such other factors as our Board of Directors may deem relevant. The payment of dividends is also subject to the terms of AIG's outstanding Series A Preferred Stock, pursuant to which no dividends may be declared or paid on any AIG Common Stock unless the full dividends for the latest completed dividend period on all outstanding shares of Series A Preferred Stock have been declared and paid or provided for.

The following table presents declaration date, record date, payment date and dividends paid per common share on AIG Common Stock in the six months ended June 30, 2021 and 2020:

Declaration Date	Record Date	Payment Date	Dividends Paid Per Common Share
May 6, 2021	June 15, 2021	June 29, 2021	**$ 0.32**
February 16, 2021	March 16, 2021	March 30, 2021	**0.32**
May 4, 2020	June 15, 2020	June 29, 2020	$ 0.32
February 12, 2020	March 16, 2020	March 30, 2020	0.32

For a discussion of restrictions on payments of dividends to AIG Parent by its subsidiaries see Note 19 to the Consolidated Financial Statements in the 2020 Annual Report.

Repurchase of AIG Common Stock

The following table presents repurchases of AIG Common Stock:

Six Months Ended June 30, (in millions)	2021	2020
Aggregate repurchases of common stock	$ 592	$ 500
Total number of common shares repurchased	13	12
Aggregate repurchases of warrants	$ -	$ -
Total number of warrants repurchased	-	-

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. Certain of our share repurchases have been and may from time to time be effected through Securities Exchange Act of 1934 (Exchange Act) Rule 10b5-1 repurchase plans.

Our warrants to purchase shares of AIG Common Stock expired on January 19, 2021. In February 2020, we executed an accelerated stock repurchase (ASR) agreement with a third-party financial institution. The total number of shares of AIG Common Stock repurchased in the six months ended June 30, 2020, and the aggregate purchase price of those shares, reflect our payment of $500 million in the aggregate under the ASR agreement and the receipt of approximately 12 million shares of AIG Common Stock in the aggregate. In the six months ended June 30, 2021, we repurchased approximately 13 million shares of AIG Common Stock for an aggregate purchase price of approximately $592 million pursuant to Exchange Act Rule 10b5-1 repurchase plans. Approximately $92 million of these share repurchases were funded with proceeds received from warrant exercises that occurred prior to the expiration of warrants to purchase shares of AIG Common Stock on January 19, 2021.

The timing of any future repurchases will depend on market conditions, our business and strategic plans, financial condition, results of operations, liquidity and other factors. The repurchase of AIG Common Stock is also subject to the terms of AIG's outstanding Series A Preferred Stock, pursuant to which AIG may not (other than in limited circumstances) purchase, redeem or otherwise acquire AIG Common Stock unless the full dividends for the latest completed dividend period on all outstanding shares of Series A Preferred Stock have been declared and paid or provided for.

For further discussion on the repurchases of AIG Common Stock see Note 16 to the Condensed Consolidated Financial Statement.

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents a rollforward of Accumulated other comprehensive income (loss):

(in millions)	Unrealized Appreciation (Depreciation) of Fixed Maturity Securities on Which Allowance for Credit Losses Was Taken	Unrealized Appreciation (Depreciation) of All Other Investments	Foreign Currency Translation Adjustments	Retirement Plan Liabilities Adjustment	Fair Value of Liabilities Under Fair Value Option Attributable to Changes in Own Credit Risk	Total
Balance, March 31, 2021, net of tax	$ (62)	$ 9,894	$ (2,142)	$ (1,231)	$ 7	$ 6,466
Change in unrealized appreciation of investments	10	5,836	-	-	-	5,846
Change in deferred policy acquisition costs adjustment and other	(2)	(691)	-	-	-	(693)
Change in future policy benefits	-	(378)	-	-	-	(378)
Change in foreign currency translation adjustments	-	-	25	-	-	25
Change in net actuarial loss	-	-	-	12	-	12
Change in prior service cost	-	-	-	2	-	2
Change in deferred tax liability	(4)	(1,057)	(11)	-	-	(1,072)
Change in fair value of liabilities under fair value option attributable to changes in own credit risk	-	-	-	-	-	-
Total other comprehensive income	4	3,710	14	14	-	3,742
Noncontrolling interests	-	(1)	-	-	-	(1)
Balance, June 30, 2021, net of tax	$ (58)	$ 13,605	$ (2,128)	$ (1,217)	$ 7	$ 10,209
Balance, December 31, 2020, net of tax	$ (95)	$ 17,093	$ (2,267)	$ (1,228)	$ 8	$ 13,511
Change in unrealized appreciation (depreciation) of investments	51	(5,854)	-	-	-	(5,803)
Change in deferred policy acquisition costs adjustment and other	(4)	702	-	-	-	698
Change in future policy benefits	-	767	-	-	-	767
Change in foreign currency translation adjustments	-	-	195	-	-	195
Change in net actuarial loss	-	-	-	11	-	11
Change in prior service cost	-	-	-	4	-	4
Change in deferred tax asset (liability)	(10)	896	(56)	(4)	-	826
Change in fair value of liabilities under fair value option attributable to changes in own credit risk	-	-	-	-	(1)	(1)
Total other comprehensive income (loss)	37	(3,489)	139	11	(1)	(3,303)
Noncontrolling interests	-	(1)	-	-	-	(1)
Balance, June 30, 2021, net of tax	$ (58)	$ 13,605	$ (2,128)	$ (1,217)	$ 7	$ 10,209

(in millions)	Unrealized Appreciation (Depreciation) of Fixed Maturity Securities on Which Allowance for Credit Losses Was Taken	Unrealized Appreciation (Depreciation) of All Other Investments	Foreign Currency Translation Adjustments	Retirement Plan Liabilities Adjustment	Fair Value of Liabilities Under Fair Value Option Attributable to Changes in Own Credit Risk	Total
Balance, March 31, 2020, net of tax	$ (359)	$ 3,190	$ (2,706)	$ (1,129)	$ 10	$ (994)
Change in unrealized appreciation of investments	171	13,786	-	-	-	13,957
Change in deferred policy acquisition costs adjustment and other	(11)	(1,736)	-	-	-	(1,747)
Change in future policy benefits	-	662	-	-	-	662
Change in foreign currency translation adjustments	-	-	(59)	-	-	(59)
Change in net actuarial loss	-	-	-	12	-	12
Change in prior service cost	-	-	-	-	-	-
Change in deferred tax liability	(34)	(2,630)	(2)	(3)	-	(2,669)
Change in fair value of liabilities under fair value option attributable to changes in own credit risk	-	-	-	-	(2)	(2)
Total other comprehensive income (loss)	126	10,082	(61)	9	(2)	10,154
Noncontrolling interests	-	(9)	-	-	-	(9)
Balance, June 30, 2020, net of tax	$ (233)	$ 13,281	$ (2,767)	$ (1,120)	$ 8	$ 9,169
Balance, December 31, 2019, net of tax	$ -	$ 8,722	$ (2,625)	$ (1,122)	$ 7	$ 4,982
Change in unrealized appreciation (depreciation) of investments	(313)	3,815	-	-	-	3,502
Change in deferred policy acquisition costs adjustment and other	19	(359)	-	-	-	(340)
Change in future policy benefits	-	2,334	-	-	-	2,334
Change in foreign currency translation adjustments	-	-	(128)	-	-	(128)
Change in net actuarial loss	-	-	-	16	-	16
Change in prior service credit	-	-	-	(1)	-	(1)
Change in deferred tax asset (liability)	61	(1,250)	(18)	(13)	-	(1,220)
Change in fair value of liabilities under fair value option attributable to changes in own credit risk	-	-	-	-	1	1
Total other comprehensive income (loss)	(233)	4,540	(146)	2	1	4,164
Noncontrolling interests	-	(19)	(4)	-	-	(23)
Balance, June 30, 2020, net of tax	$ (233)	$ 13,281	$ (2,767)	$ (1,120)	$ 8	$ 9,169

The following table presents the other comprehensive income (loss) reclassification adjustments for the three- and six-month periods ended June 30, 2021 and 2020, respectively:

(in millions)	Unrealized Appreciation (Depreciation) of Fixed Maturity Securities on Which Allowance for Credit Losses Was Taken	Unrealized Appreciation (Depreciation) of All Other Investments	Foreign Currency Translation Adjustments	Retirement Plan Liabilities Adjustment	Fair Value of Liabilities Under Fair Value Option Attributable to Changes in Own Credit Risk	Total
Three Months Ended June 30, 2021						
Unrealized change arising during period	**$ 4**	**$ 4,906**	**$ 25**	**$ 3**	**$ -**	**$ 4,938**
Less: Reclassification adjustments included in net income	**(4)**	**139**	**-**	**(11)**	**-**	**124**
Total other comprehensive income, before income tax expense	**8**	**4,767**	**25**	**14**	**-**	**4,814**
Less: Income tax expense	**4**	**1,057**	**11**	**-**	**-**	**1,072**
Total other comprehensive income, net of income tax expense	**$ 4**	**$ 3,710**	**$ 14**	**$ 14**	**$ -**	**$ 3,742**
Six Months Ended June 30, 2021						
Unrealized change arising during period	**$ 41**	**$ (3,855)**	**$ 195**	**$ (8)**	**$ (1)**	**$ (3,628)**
Less: Reclassification adjustments included in net income	**(6)**	**530**	**-**	**(23)**	**-**	**501**
Total other comprehensive income (loss), before income tax expense (benefit)	**47**	**(4,385)**	**195**	**15**	**(1)**	**(4,129)**
Less: Income tax expense (benefit)	**10**	**(896)**	**56**	**4**	**-**	**(826)**
Total other comprehensive income (loss), net of income tax expense (benefit)	**$ 37**	**$ (3,489)**	**$ 139**	**$ 11**	**$ (1)**	**$ (3,303)**

(in millions)	Unrealized Appreciation (Depreciation) of Fixed Maturity Securities on Which Allowance for Credit Losses Was Taken	Unrealized Appreciation (Depreciation) of All Other Investments	Foreign Currency Translation Adjustments	Retirement Plan Liabilities Adjustment	Fair Value of Liabilities Under Fair Value Option Attributable to Changes in Own Credit Risk	Total
Three Months Ended June 30, 2020						
Unrealized change arising during period	$ 157	$ 12,864	$ (59)	$ 1	$ (2)	$ 12,961
Less: Reclassification adjustments included in net income	(3)	152	-	(11)	-	138
Total other comprehensive income (loss), before income tax expense	160	12,712	(59)	12	(2)	12,823
Less: Income tax expense	34	2,630	2	3	-	2,669
Total other comprehensive income (loss), net of income tax expense	$ 126	$ 10,082	$ (61)	$ 9	$ (2)	$ 10,154
Six Months Ended June 30, 2020						
Unrealized change arising during period	$ (297)	$ 6,156	$ (128)	$ (6)	$ 1	$ 5,726
Less: Reclassification adjustments included in net income	(3)	366	-	(21)	-	342
Total other comprehensive income (loss), before income tax expense (benefit)	(294)	5,790	(128)	15	1	5,384
Less: Income tax expense (benefit)	(61)	1,250	18	13	-	1,220
Total other comprehensive income (loss), net of income tax expense (benefit)	$ (233)	$ 4,540	$ (146)	$ 2	$ 1	$ 4,164

The following table presents the effect of the reclassification of significant items out of AOCI on the respective line items in the Condensed Consolidated Statements of Income (Loss):

	Amount Reclassified from AOCI		Affected Line Item in the
	Three Months Ended June 30,		Condensed Consolidated
(in millions)	**2021**	2020	Statements of Income (Loss)
Unrealized appreciation (depreciation) of fixed maturity securities on which allowance for credit losses was taken			
Investments	**$ (4)**	$ (3)	Net realized gains
Total	**(4)**	(3)	
Unrealized appreciation (depreciation) of all other investments			
Investments	**139**	152	Net realized gains
Total	**139**	152	
Change in retirement plan liabilities adjustment			
Prior-service credit	**(1)**	(1)	*
Actuarial losses	**(10)**	(10)	*
Total	**(11)**	(11)	
Total reclassifications for the period	**$ 124**	$ 138	

	Amount Reclassified from AOCI		Affected Line Item in the
	Six Months Ended June 30,		Condensed Consolidated
(in millions)	**2021**	2020	Statements of Income (Loss)
Unrealized appreciation (depreciation) of fixed maturity securities on which allowance for credit losses was taken			
Investments	**$ (6)**	$ (3)	Net realized gains
Total	**(6)**	(3)	
Unrealized appreciation (depreciation) of all other investments			
Investments	**530**	366	Net realized gains
Total	**530**	366	
Change in retirement plan liabilities adjustment			
Prior-service credit	**(2)**	(1)	*
Actuarial losses	**(21)**	(20)	*
Total	**(23)**	(21)	
Total reclassifications for the period	**$ 501**	$ 342	

* These AOCI components are included in the computation of net periodic pension cost. *For additional information see Note 14 to the Condensed Consolidated Financial Statements.*

13. Earnings Per Common 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 common 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in millions, except per common share data)	**2021**	2020	**2021**	2020
Numerator for EPS:				
Income (loss) from continuing operations	**$ 150**	$ (7,765)	**$ 4,080**	$ (6,111)
Less: Net income from continuing operations attributable to noncontrolling interests	**51**	162	**105**	67
Less: Preferred stock dividends	**8**	8	**15**	15
Income (loss) attributable to AIG common shareholders from continuing operations	**91**	(7,935)	**3,960**	(6,193)
Loss from discontinued operations, net of income tax expense	**-**	(1)	**-**	(1)
Net income (loss) attributable to AIG common shareholders	**$ 91**	$ (7,936)	**$ 3,960**	$ (6,194)
Denominator for EPS:				
Weighted average common shares outstanding — basic	**862,930,931**	866,968,305	**865,508,343**	870,590,968
Dilutive common shares	**9,946,372**	-	**9,057,937**	-
Weighted average common shares outstanding — diluted[(a)(b)]	**872,877,303**	866,968,305	**874,566,280**	870,590,968
Income (loss) per common share attributable to AIG common shareholders:				
Basic:				
Income (loss) from continuing operations	**$ 0.11**	$ (9.15)	**$ 4.58**	$ (7.11)
Income (loss) from discontinued operations	**$ -**	$ -	**$ -**	$ -
Income (loss) attributable to AIG common shareholders	**$ 0.11**	$ (9.15)	**$ 4.58**	$ (7.11)
Diluted:				
Income (loss) from continuing operations	**$ 0.11**	$ (9.15)	**$ 4.53**	$ (7.11)
Income (loss) from discontinued operations	**$ -**	$ -	**$ -**	$ -
Income (loss) attributable to AIG common shareholders	**$ 0.11**	$ (9.15)	**$ 4.53**	$ (7.11)

(a) For the three- and six-month periods ended June 30, 2020, because we reported net losses attributable to AIG common shareholders, all common stock equivalents are anti-dilutive and are therefore excluded from the calculation of diluted shares and diluted per share amounts. The number of common shares excluded from the calculation was 3,226,882 shares and 3,939,732 shares, respectively, for the three- and six-month periods ended June 30, 2020.

(b) Dilutive common shares include our share-based employee compensation plans and a weighted average portion of the 10-year warrants issued to AIG shareholders as part of AIG's recapitalization in January 2011, which expired in January 2021. The number of common shares excluded from diluted shares outstanding was 5.5 million and 7.4 million for the three- and six-month periods ended June 30, 2021, respectively, and 68.6 million and 67.9 million for the three- and six-month periods ended June 30, 2020, respectively, because the effect of including those common shares in the calculation would have been anti-dilutive.

For information about our repurchases of AIG Common Stock see Note 12 to the Condensed Consolidated Financial Statements.

14. Employee Benefits

We sponsor various defined benefit plans for eligible employees and retirees in the U.S. and certain non-U.S. countries.

The following table presents the components of net periodic benefit cost (credit) with respect to pension benefits:

	Pension		
(in millions)	U.S. Plans	Non-U.S. Plans	Total
Three Months Ended June 30, 2021			
Components of net periodic benefit cost:			
Service cost	**$ 1**	**$ 6**	**$ 7**
Interest cost	**23**	**2**	**25**
Expected return on assets	**(61)**	**(5)**	**(66)**
Amortization of prior service cost	**-**	**1**	**1**
Amortization of net loss	**8**	**1**	**9**
Net periodic benefit cost (credit)	**$ (29)**	**$ 5**	**$ (24)**
Three Months Ended June 30, 2020			
Components of net periodic benefit cost:			
Service cost	$ 2	$ 5	$ 7
Interest cost	33	2	35
Expected return on assets	(59)	(5)	(64)
Amortization of prior service cost	-	1	1
Amortization of net loss	8	2	10
Net periodic benefit cost (credit)	$ (16)	$ 5	$ (11)
Six Months Ended June 30, 2021			
Components of net periodic benefit cost:			
Service cost	**$ 2**	**$ 11**	**$ 13**
Interest cost	**45**	**5**	**50**
Expected return on assets	**(122)**	**(11)**	**(133)**
Amortization of prior service cost	**-**	**2**	**2**
Amortization of net loss	**17**	**3**	**20**
Net periodic benefit cost (credit)	**$ (58)**	**$ 10**	**$ (48)**
Six Months Ended June 30, 2020			
Components of net periodic benefit cost:			
Service cost	$ 3	$ 10	$ 13
Interest cost	67	5	72
Expected return on assets	(119)	(10)	(129)
Amortization of prior service cost	-	1	1
Amortization of net loss	16	4	20
Net periodic benefit cost (credit)	$ (33)	$ 10	$ (23)

The service cost for our U.S. defined benefit plans only reflects administrative fees as the plans are frozen and no longer accrue benefits. We recognized net expense of $2 million and $4 million for our U.S. and non-U.S. postretirement benefit plans for the three- and six-month periods ended June 30, 2021, respectively. We recognized net expense of $2 million and $4 million for our U.S. and non-U.S. postretirement benefit plans for the three- and six-month periods ended June 30, 2020, respectively.

15. Income Taxes

U.S. TAX LAW CHANGES

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (the Tax Act). The Tax Act includes provisions for Global Intangible Low-Taxed Income (GILTI) under which taxes are imposed on the excess of a deemed return on tangible assets of certain foreign subsidiaries and for Base Erosion and Anti-Abuse Tax (BEAT) under which taxes are imposed on certain base eroding payments to affiliated foreign companies. While the U.S. tax authorities issued formal guidance, including recently issued regulations for BEAT and other provisions of the Tax Act, there are still certain aspects of the Tax Act that remain unclear and subject to substantial uncertainties. Additional guidance is expected in future periods. Such guidance may result in changes to the interpretations and assumptions we made and actions we may take, which may impact amounts recorded with respect to international provisions of the Tax Act, possibly materially. Consistent with accounting guidance, we treat BEAT as a period tax charge in the period the tax is incurred and have made an accounting policy election to treat GILTI taxes in a similar manner.

On March 27, 2020, the U.S. enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act to mitigate the economic impacts of the COVID-19 crisis. The tax provisions of the CARES Act have not had and are currently not expected to have a material impact on AIG's U.S. federal tax liabilities.

RECLASSIFICATION OF CERTAIN TAX EFFECTS FROM ACCUMULATED OTHER COMPREHENSIVE INCOME

We use an item-by-item approach to release the stranded or disproportionate income tax effects in AOCI related to our available-for-sale securities. Under this approach, a portion of the disproportionate tax effects is assigned to each individual security lot at the date the amount becomes lodged. When the individual securities are sold, mature, or are otherwise impaired on an other-than-temporary basis, the assigned portion of the disproportionate tax effect is reclassified from AOCI to income from continuing operations.

INTERIM TAX CALCULATION METHOD

We use the estimated annual effective tax rate method in computing our interim tax provision. Certain items, including those deemed to be unusual, infrequent or that cannot be reliably estimated, are excluded from the estimated annual effective tax rate. In these cases, the actual tax expense or benefit is reported in the same period as the related item. Certain tax effects are also not reflected in the estimated annual effective tax rate, primarily certain changes in uncertain tax positions and realizability of deferred tax assets, and are recorded in the period in which the change occurs. While certain impacts of the Tax Act are included in our annual effective tax rate, we continue to refine our calculations as additional information becomes available, which may result in changes to the estimated annual effective tax rate. As of June 30, 2021, the annual effective tax rate includes the tax effects of actual and projected COVID-19 related losses and market developments.

INTERIM TAX EXPENSE (BENEFIT)

For the three-month period ended June 30, 2021, the effective tax rate on income from continuing operations was (2.0) percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 21 percent primarily due to tax benefits associated with the release of reserves for uncertain tax positions and interest related to a New York State tax settlement based on the completion of recent audit activity, tax exempt income, remeasurement of deferred taxes as a result of the increase in the UK corporate statutory income tax rate, and reclassifications from AOCI to income from continuing operations related to the disposal of available for sale securities. These tax benefits were partially offset by tax charges associated with the effect of foreign operations, state and local income taxes, and non-deductible transfer pricing charges. We also recognized a tax charge associated with reduction of net operating loss deferred tax assets in certain foreign jurisdictions, with a corresponding decrease in the related deferred tax asset valuation allowance. The effect of foreign operations is primarily related to income of our foreign operations taxed at statutory tax rates higher than 21 percent, other foreign taxes, and foreign income subject to U.S. taxation.

For the six-month period ended June 30, 2021, the effective tax rate on income from continuing operations was 16.3 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 21 percent primarily due to tax benefits associated with the release of reserves for uncertain tax positions, penalties and interest related to the recent completion of audit activity by the IRS, release of reserves for uncertain tax positions and interest related to a New York State tax settlement based on the completion of recent audit activity, tax exempt income, remeasurement of deferred taxes as a result of an increase in the UK corporate income tax rate enacted during the second quarter, and reclassifications from AOCI to income from continuing operations related to the disposal of available for sale securities. These tax benefits were partially offset by tax charges associated with the establishment of U.S. federal valuation allowance related to certain tax attribute carryforwards, the effect of foreign operations, excess tax charges related to share based compensation payments recorded through the income statement, state and local income taxes, and non-deductible transfer pricing charges. We also recognized a tax charge associated with reduction of net operating loss deferred tax assets in certain foreign jurisdictions, with a corresponding decrease in the related deferred tax asset valuation allowance. The effect of foreign operations is primarily related to income of our foreign operations taxed at statutory tax rates higher than 21 percent, other foreign taxes, and foreign income subject to U.S. taxation.

For the three-month period ended June 30, 2020, the effective tax rate on loss from continuing operations was 19.6 percent. The effective tax rate on loss from continuing operations differs from the statutory tax rate of 21 percent primarily due to tax effects of the Majority Interest Fortitude Sale, tax charges associated with the increase of U.S. federal valuation allowance related to certain tax attribute carryforwards, accrual of interest associated with IRS and other tax authority matters, the effect of foreign operations, state and local income taxes, and non-deductible transfer pricing charges, partially offset by tax benefits associated with tax exempt income, and reclassifications from AOCI to income from continuing operations related to the disposal of available for sale securities. The effect of foreign operations is primarily related to income in our foreign operations taxed at statutory tax rates higher than 21 percent, other foreign taxes, and foreign income subject to U.S. taxation.

For the six-month period ended June 30, 2020, the effective tax rate on loss from continuing operations was 14.0 percent. The effective tax rate on loss from continuing operations differs from the statutory tax rate of 21 percent primarily due to tax effects of the Majority Interest Fortitude Sale, tax charges associated with the establishment of U.S. federal valuation allowance related to certain tax attribute carryforwards, accrual of interest associated with IRS and other tax authority matters, excess tax charges related to share based compensation payments recorded through the income statement, the effect of foreign operations, state and local income taxes, and non-deductible transfer pricing charges, partially offset by tax benefits associated with tax exempt income, and reclassifications from AOCI to income from continuing operations related to the disposal of available for sale securities. The effect of foreign operations is primarily related to income in our foreign operations taxed at statutory tax rates higher than 21 percent, other foreign taxes, and foreign income subject to U.S. taxation.

For the six-month period ended June 30, 2021, we consider our foreign earnings with respect to certain operations in Canada, South Africa, the Far East, Latin America, Bermuda as well as the European, Asia Pacific and Middle East regions to be indefinitely reinvested. These earnings relate to ongoing operations and have been reinvested in active business operations. Deferred taxes, if necessary, have been provided on earnings of non-U.S. affiliates whose earnings are not indefinitely reinvested. Given the uncertainties around the impact from the COVID-19 crisis, including the significant global economic slowdown, we continue to monitor and review its impact on our reinvestment considerations, including regulatory oversight in the relevant jurisdictions.

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, including forecasts of future income for each of our businesses and actual and planned business and operational changes;
- the carryforward periods 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 our 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 are able to utilize both the net operating loss and foreign tax credit carryforwards concurrently.

Recent events, including the impact of the recent completion of audit activity by the IRS, the COVID-19 crisis, changes in target interest rates by the Board of Governors of the Federal Reserve System, and significant market volatility, continue to impact actual and projected results of our business operations as well as our views on potential effectiveness of certain prudent and feasible tax planning strategies. In order to demonstrate the predictability and sufficiency of future taxable income necessary to support the realizability of the net operating losses and foreign tax credit carryforwards, we have considered forecasts of future income for each of our businesses, including assumptions about future macro-economic and AIG-specific conditions and events, and any impact these conditions and events may have on our prudent and feasible tax planning strategies. We also subjected the forecasts to a variety of stresses of key assumptions and evaluated the effect on tax attribute utilization.

The carryforward periods of our foreign tax credit carryforwards range from tax years 2021 through 2023. Carryforward periods for our net operating losses extend from 2028 forward. However, utilization of a portion of our net operating losses is limited under separate return limitation year rules. During the first quarter of 2021, the recent completion of audit activity by the IRS and subsequent release of certain reserves for uncertain tax positions resulted in an initial recognition of additional net operating loss and foreign tax credit carryforwards arising in prior years. Taking into account this initial recognition of additional carryforwards as well as other events and our analysis of their potential impact on utilization of our tax attributes, for the three months ended March 31, 2021, we recorded an increase of $700 million in valuation allowance related to a portion of our net operating loss carryforwards that are no longer more-likely-than-not to be realized. No additional activity was recorded for the three-month period ended June 30, 2021. Accordingly, during the six months ended June 30, 2021, we have recorded a $700 million valuation allowance through continuing operations.

To the extent that the valuation allowance is attributed to changes in forecast of current year taxable income, the impact is included in our estimated annualized effective tax rate. The valuation allowance related to changes in forecasts of income in future periods as well as other items not related to the current year was recorded discretely.

As of June 30, 2021, the balance sheet reflects a valuation allowance of $850 million related to a portion of our foreign tax credit and net operating loss carryforwards that are no longer more-likely-than-not to be realized.

Estimates of future taxable income, including income generated from prudent and feasible actions and tax planning strategies, impact of settlements with taxing authorities, and any changes to interpretations and assumptions related to the impact of the Tax Act 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. Additionally, estimates of future taxable income, including prudent and feasible tax planning strategies, may be further impacted by market developments arising from the COVID-19 crisis and uncertainty regarding its outcome. Such potential impact could be material to our consolidated financial condition or results of operations for an individual reporting period.

For the six-month period ended June 30, 2021, recent changes in market conditions, including the COVID-19 crisis and interest rate fluctuations, impacted the unrealized tax gains and losses in the U.S. Life Insurance companies' available for sale securities portfolio, resulting in a deferred tax liability related to net unrealized tax capital gains. As of June 30, 2021, based on all available evidence, we concluded that no valuation allowance is necessary in the U.S. Life Insurance companies' available for sale securities portfolio.

For the six-month period ended June 30, 2021, recent changes in market conditions, including interest rate fluctuations, impacted the unrealized tax gains and losses in the U.S. non-life companies' available for sale securities portfolio, resulting in a deferred tax liability related to net unrealized tax capital gains. As of June 30, 2021, based on all available evidence, we concluded that no valuation allowance is necessary in the U.S. non-life companies' available for sale securities portfolio.

For the three- and six-month periods ended June 30, 2021, we recognized net increases (decreases) of $(25) million and $(39) million, respectively, in deferred tax asset valuation allowance associated with certain foreign and state jurisdictions, primarily attributable to current year activity. The decrease in valuation allowance includes a $16 million decrease in deferred tax asset valuation allowance associated with certain foreign jurisdictions, primarily attributable to a corresponding reduction in foreign net operating loss deferred tax assets as a result of the expiration of a portion of net operating losses prior to utilization in Japan which was recorded during the three-month period ended June 30, 2021.

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 laws.

We are currently under examination by the IRS for the tax years 2011 through 2013.

In September 2020, we received the IRS Revenue Agent Report containing agreed and disagreed issues for the audit of tax years 2007-2010. In October 2020, we filed a protest of the disagreed issues with the IRS Independent Office of Appeals (IRS Appeals). In March 2021, the IRS audit team issued their rebuttal to the protest of disagreed issues to IRS Appeals. We have also received notification that the disagreed issues were accepted for review by IRS Appeals.

In 2009, after paying amounts due on a statutory notice of deficiency related to the disallowance of foreign tax credits associated with cross border financing transactions, we filed a refund lawsuit in the Southern District of New York (Southern District) with respect to tax year 1997. In January 2018, the parties reached non-binding agreements in principle on issues presented in the dispute with respect to other relevant tax years. In 2019, we agreed with the IRS to execute an agreement for the tax years at issue in which AIG would waive restrictions on the assessment of additional tax related to the settlement of the underlying issues in those tax years. The litigation was stayed pending the outcome of the review process. During the fourth quarter of 2020, the parties concluded the review process and executed a binding settlement agreement with respect to the underlying issues. On October 22, 2020, the Southern District dismissed the case based upon the settlement reached between AIG and the government. The parties continue to review the related interest calculations based on the settlement agreement, which will become due upon the IRS' issuance of a Notice and Demand for Payment. During June 2021, AIG made an additional payment of $354 million to the U.S. Treasury with respect to this matter. While we continue to finalize the interest calculations with the IRS, AIG expects to make the remaining payment as early as the third quarter of 2021.

ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

At June 30, 2021 and December 31, 2020, our unrecognized tax benefits, excluding interest and penalties, were $1.1 billion and $2.3 billion, respectively. At June 30, 2021 and December 31, 2020, 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 $11 million and $44 million, respectively. Accordingly, at June 30, 2021 and December 31, 2020, the amounts of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate were $1.1 billion and $2.3 billion, respectively. The decrease in the six-month period ended June 30, 2021 is primarily attributable to the recent completion of audit activity by the IRS and New York State.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense. At June 30, 2021 and December 31, 2020, we had accrued liabilities of $73 million and $286 million, respectively, for the payment of interest (net of the federal benefit) and penalties. For the six-month periods ended June 30, 2021 and 2020, we accrued expense (benefit) of $(203) million and $96 million, respectively, for the payment of interest and penalties. The activity in the six-month period ended June 30, 2021 is primarily related to the recent completion of audit activity by the IRS and New York State.

We believe it is reasonably possible that our unrecognized tax benefits could decrease within the next 12 months by as much as $15 million, principally as a result of potential resolutions or settlements of prior years' tax items. The prior years' tax items include unrecognized tax benefits related to the deductibility of certain expenses.

16. Subsequent Events

DIVIDENDS DECLARED

On August 5, 2021, our Board of Directors declared a cash dividend on AIG Common Stock of $0.32 per share, payable on September 30, 2021 to shareholders of record on September 16, 2021. On August 5, 2021, our Board of Directors declared a cash dividend on AIG's Series A Preferred Stock of $365.625 per share, payable on September 15, 2021 to holders of record on August 31, 2021.

INCREASE IN SHARE REPURCHASE AUTHORIZATION

On August 3, 2021, our Board of Directors authorized a share repurchase authorization of AIG Common Stock of $6.0 billion (inclusive of the approximately $908 million remaining under the Board's prior share repurchase authorization).

SALE OF CERTAIN AIG LIFE AND RETIREMENT RETAIL MUTUAL FUNDS BUSINESS

On July 16, 2021, AIG completed its previously announced sale of certain AIG Life and Retirement retail mutual funds business to Touchstone at which time we received initial proceeds, and twelve retail mutual funds managed by SAAMCo, a member of AIG Life and Retirement, with $6.8 billion in assets, were reorganized into Touchstone funds. Six retail mutual funds managed by SAAMCo and not included in the transaction were liquidated. AIG Life and Retirement will retain its fund management platform and capabilities dedicated to its variable insurance products.

STRATEGIC PARTNERSHIP WITH THE BLACKSTONE GROUP

On July 14, 2021, AIG and Blackstone announced that they have reached a definitive agreement for Blackstone to acquire a 9.9 percent equity stake in SAFG, which is the holding company for AIG's Life and Retirement business, for $2.2 billion in an all cash transaction, subject to adjustment if the final pro forma adjusted book value is greater or lesser than the target pro forma adjusted book value. The transaction contemplates that most of AIG's investment operations would be transferred to SAFG or its subsidiaries as part of the separation. As part of this agreement, AIG also agreed to enter into a long-term strategic asset management relationship with Blackstone to manage an initial $50 billion of Life and Retirement's existing investment portfolio upon closing of the equity investment, with that amount increasing by increments of $8.5 billion per year for the next five years beginning in the third or fourth quarter of 2022, for an aggregate of $92.5 billion. Following the closing of the transaction, Blackstone will be entitled to designate one member of the board of directors of the Life and Retirement holding company, which will consist of 11 directors. Pursuant to the definitive agreement, Blackstone will be required to hold its ownership interest in SAFG following the completion of the separation of the Life and Retirement business, subject to exceptions permitting Blackstone to sell 25%, 67% and 75% of its shares after the first, second and third anniversaries, respectively, of the initial public offering of SAFG (the IPO), with the transfer restrictions terminating in full on the fifth anniversary of the IPO. In the event that the IPO of SAFG is not completed prior to the second anniversary of the closing of the transaction, Blackstone will have the right to require AIG to undertake the IPO, and in the event that the IPO has not been completed prior to the third anniversary of the closing, Blackstone will have the right to exchange all or a portion of its ownership interest in SAFG for shares of AIG's common stock on the terms set forth in the definitive agreement. These transactions are subject to customary closing conditions, including the expiration or termination of the waiting period under the HSR Act, and are expected to close in the third quarter of 2021.

On July 14, 2021, AIG and BREIT, a long-term, perpetual capital vehicle affiliated with Blackstone, announced that they have reached a definitive agreement for BREIT to acquire AIG's interests in a U.S. affordable housing portfolio for approximately $5.1 billion, subject to certain adjustments, in an all cash transaction. This transaction is subject to customary closing conditions and is expected to close in the fourth quarter of 2021.

ITEM 2 | Management's Discussion and Analysis of Financial Condition and Results of Operations

Glossary and Acronyms of Selected Insurance Terms and References

Throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), we use certain terms and abbreviations, which are summarized in the Glossary and Acronyms.

American International Group, Inc. (AIG) has incorporated into this discussion a number of cross-references to additional information included throughout this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2020 (the 2020 Annual Report) to assist readers seeking additional information related to a particular subject.

In this Quarterly Report on Form 10-Q, unless otherwise mentioned or unless the context indicates otherwise, we use the terms "AIG," "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.

Cautionary Statement Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q and other publicly available documents may include, and officers and representatives of AIG may from time to time make and discuss, 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 a 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." These projections, goals, assumptions and statements may relate to future actions, prospective services or products, future performance or results of current and anticipated services or products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, anticipated organizational, business or regulatory changes, the effect of catastrophes, such as the COVID-19 crisis, and macroeconomic events, anticipated dispositions, monetization and/or acquisitions of businesses or assets, or successful integration of acquired businesses, management succession and retention plans, exposure to risk, trends in operations and financial results.

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:

- AIG's ability to successfully separate the Life and Retirement business from AIG and the impact any separation may have on AIG, its businesses, employees, contracts and customers;
- AIG's ability to close the transactions announced as part of a strategic partnership with Blackstone;
- changes in market and industry conditions, including the significant global economic downturn, volatility in financial and capital markets, fluctuations in interest rates, prolonged economic recovery and disruptions to AIG's operations driven by COVID-19 and responses thereto, including new or changed governmental policy and regulatory actions;
- the occurrence of catastrophic events, both natural and man-made, including COVID-19, other pandemics, civil unrest and the effects of climate change;
- the adverse impact of COVID-19, including with respect to AIG's business, financial condition and results of operations;
- AIG's ability to effectively execute on AIG 200 transformational programs designed to achieve underwriting excellence, modernization of AIG's operating infrastructure, enhanced user and customer experiences and unification of AIG;
- the impact of potential information technology, cybersecurity or data security breaches, including as a result of cyber-attacks or security vulnerabilities, the likelihood of which may increase due to extended remote business operations as a result of COVID-19;
- disruptions in the availability of AIG's electronic data systems or those of third parties;
- actions by rating agencies with respect to our credit and financial strength ratings;
- AIG's ability to successfully dispose of, monetize and/or acquire businesses or assets or successfully integrate acquired businesses;
- changes to the valuation of AIG's investments;
- changes in judgments concerning the recognition of deferred tax assets and the impairment of goodwill;
- availability and affordability of reinsurance;
- the effectiveness of our risk management policies and procedures, including with respect to our business continuity and disaster recovery plans;
- nonperformance or defaults by counterparties, including Fortitude Reinsurance Company Ltd. (Fortitude Re);
- changes in judgments concerning potential cost-saving opportunities;
- concentrations in AIG's investment portfolios;
- changes to our sources of or access to liquidity;
- changes in judgments or assumptions concerning insurance underwriting and insurance liabilities;
- the effectiveness of strategies to recruit and retain key personnel and to implement effective succession plans;
- the requirements, which may change from time to time, of the global regulatory framework to which AIG is subject;
- significant legal, regulatory or governmental proceedings; and
- such other factors discussed in:
  - Part I, Item 2. MD&A of this Quarterly Report on Form 10-Q;
  - Part I, Item 2. MD&A of the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2021; and
  - Part I, Item 1A. Risk Factors and Part II, Item 7. MD&A of the 2020 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.

INDEX TO ITEM 2

Use of Non-GAAP Measures

Throughout this MD&A, we present our financial condition and results of operations in the way we believe will be most meaningful and representative of our business results. Some of the measurements we use are “non-GAAP financial measures” under Securities and Exchange Commission (SEC) rules and regulations. GAAP is the acronym for “generally accepted accounting principles” in the United States. The non-GAAP financial measures we present may not be comparable to similarly-named measures reported by other companies.

Book value per common share, excluding accumulated other comprehensive income (AOCI) adjusted for the cumulative unrealized gains and losses related to Fortitude Re funds withheld assets and deferred tax assets (DTA) (Adjusted book value per common share) is used to show the amount of our net worth on a per-common share basis after eliminating items that can fluctuate significantly from period to period including changes in fair value of AIG’s 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. In addition, we adjust for the cumulative unrealized gains and losses related to Fortitude Re funds withheld assets held by AIG in support of Fortitude Re’s reinsurance obligations to AIG post deconsolidation of Fortitude Re (Fortitude Re funds withheld assets) since these fair value movements are economically transferred to Fortitude Re. 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. Adjusted book value per common share is derived by dividing total AIG common shareholders’ equity, excluding AOCI adjusted for the cumulative unrealized gains and losses related to Fortitude Re funds withheld assets, and DTA (Adjusted Common Shareholders’ Equity), by total common shares outstanding. The reconciliation to book value per common share, the most comparable GAAP measure, is presented in the Executive Summary section of this MD&A.

Return on common equity – Adjusted after-tax income excluding AOCI adjusted for the cumulative unrealized gains and losses related to Fortitude Re funds withheld assets and DTA (Adjusted return on common equity) is used to show the rate of return on common 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. In addition, we adjust for the cumulative unrealized gains and losses related to Fortitude Re funds withheld assets since these fair value movements are economically transferred to Fortitude Re. 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 common equity. Adjusted return on common equity is derived by dividing actual or annualized adjusted after-tax income attributable to AIG common shareholders by average Adjusted Common Shareholders’ Equity. The reconciliation to return on common equity, the most comparable GAAP measure, is presented in the Executive Summary section of this MD&A.

Adjusted after-tax income attributable to AIG common shareholders is derived by excluding the tax effected adjusted pre-tax income (APTI) adjustments described below, dividends on preferred stock, and the following tax items from net income attributable to AIG:

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

and by excluding the net realized gains (losses) and other charges from noncontrolling interests.

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

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

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

- 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 gains and losses;
- changes in the fair value of equity securities;
- net investment income on Fortitude Re funds withheld assets;
- following deconsolidation of Fortitude Re, net realized gains and losses on Fortitude Re funds withheld assets;
- loss (gain) on extinguishment of debt;
- all net realized gains and losses except earned income (periodic settlements and changes in settlement accruals) on derivative instruments used for non-qualifying (economic) hedging or for asset replication. Earned income on such economic hedges is reclassified from net realized gains and losses to specific APTI line items based on the economic risk being hedged (e.g. net investment income and interest credited to policyholder account balances);
- 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;
- restructuring and other costs related to initiatives designed to reduce operating expenses, improve efficiency and simplify our organization;
- the portion of favorable or unfavorable prior year reserve development for which we have ceded the risk under retroactive reinsurance agreements and related changes in amortization of the deferred gain;
- integration and transaction costs associated with acquiring or divesting businesses;
- losses from the impairment of goodwill; and
- non-recurring costs associated with the implementation of non-ordinary course legal or regulatory changes or changes to accounting principles.

- ***General 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 General Insurance excludes net loss reserve discount), and the amount of other underwriting expenses that would be incurred. A combined ratio of less than 100 indicates underwriting income and a combined ratio of over 100 indicates an underwriting loss. Our ratios are calculated using the relevant segment information calculated under GAAP, and thus may not be comparable to similar ratios calculated for regulatory reporting purposes. The underwriting environment varies across countries and products, as does the degree of litigation activity, all of which affect such ratios. In addition, investment returns, local taxes, cost of capital, regulation, product type and competition can have an effect on pricing and consequently on profitability as reflected in underwriting income and associated ratios.
  - **Accident year loss and accident year combined ratios, as adjusted:** both the accident year loss and accident year 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 on AIG in excess of $10 million each and man-made catastrophe losses, such as terrorism and civil disorders that exceed the $10 million threshold. We believe that as adjusted ratios are meaningful measures of our underwriting results on an ongoing basis as they exclude catastrophes and the impact of reserve discounting which are outside of management's control. We also exclude prior year development to provide transparency related to current accident year results.
- ***Life and Retirement***
  - **Premiums and deposits:** includes direct and assumed amounts received and earned on traditional life insurance policies, group benefit policies and life-contingent payout annuities, as well as deposits received on universal life, investment-type annuity contracts, Federal Home Loan Bank (FHLB) funding agreements 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;
- valuation of future policy benefit liabilities and timing and extent of loss recognition;
- valuation of liabilities for guaranteed benefit features of variable annuity products;
- valuation of embedded derivatives for fixed index annuity and life products;
- estimated gross profits to value deferred acquisition costs for investment-oriented products, for example universal life, variable and fixed annuities, and fixed indexed annuities;
- reinsurance assets, including the allowance for credit losses;
- goodwill impairment;
- allowances for credit losses primarily on loans and available for sale fixed maturity securities;
- liability for legal contingencies;
- fair value measurements of certain financial assets and liabilities; and
- income tax assets and liabilities, including recoverability of our net deferred tax asset and the predictability of future tax operating profitability of the character necessary to realize the net deferred tax asset.

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.

For a complete discussion of our critical accounting estimates, see Part II, Item 7. MD&A – Critical Accounting Estimates in the 2020 Annual Report.

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 Quarterly Report on Form 10-Q, together with the 2020 Annual Report, in their entirety for a more detailed description of events, trends, uncertainties, risks and critical accounting estimates affecting us.

Separation of Life and Retirement Business and Strategic Partnership with the Blackstone Group

On October 26, 2020, AIG announced its intention to separate its Life and Retirement business from AIG. On July 14, 2021, AIG and The Blackstone Group Inc. (Blackstone) announced that they have reached a definitive agreement for Blackstone to acquire a 9.9 percent equity stake in SAFG Retirement Services, Inc. (SAFG), which is the holding company for AIG's Life and Retirement business, for $2.2 billion in an all cash transaction, subject to adjustment if the final pro forma adjusted book value is greater or lesser than the target pro forma adjusted book value. The transaction contemplates that most of AIG's investment operations would be transferred to SAFG or its subsidiaries as part of the separation. As part of this agreement, AIG also agreed to enter into a long-term strategic asset management relationship with Blackstone to manage an initial $50 billion of Life and Retirement's existing investment portfolio upon closing of the equity investment, with that amount increasing by increments of $8.5 billion per year for the next five years beginning in the third or fourth quarter of 2022, for an aggregate of $92.5 billion. Following the closing of the transaction, Blackstone will be entitled to designate one member of the board of directors of the Life and Retirement holding company, which will consist of 11 directors. Pursuant to the definitive agreement, Blackstone will be required to hold its ownership interest in SAFG following the completion of the separation of the Life and Retirement business, subject to exceptions permitting Blackstone to sell 25%, 67% and 75% of its shares after the first, second and third anniversaries, respectively, of the initial public offering of SAFG (the IPO), with the transfer restrictions terminating in full on the fifth anniversary of the IPO. In the event that the IPO of SAFG is not completed prior to the second anniversary of the closing of the transaction, Blackstone will have the right to require AIG to undertake the IPO, and in the event that the IPO has not been completed prior to the third anniversary of the closing, Blackstone will have the right to exchange all or a portion of its ownership interest in SAFG for shares of AIG's common stock on the terms set forth in the definitive agreement. These transactions are subject to customary closing conditions, including the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the HSR Act), and are expected to close in the third quarter of 2021. While we currently believe the IPO is the next step in the separation of the Life and Retirement business from AIG, no assurance can be given regarding the form that future separation transactions may take or the specific terms or timing thereof, or that a separation will in fact occur. Any separation transaction will be subject to the satisfaction of various conditions and approvals, including approval by the AIG Board of Directors, receipt of insurance and other required regulatory approvals, and satisfaction of any applicable requirements of the SEC.

On July 14, 2021, AIG and Blackstone Real Estate Income Trust (BREIT), a long-term, perpetual capital vehicle affiliated with Blackstone, announced that they have reached a definitive agreement for BREIT to acquire AIG's interests in a U.S. affordable housing portfolio for approximately $5.1 billion, subject to certain adjustments, in an all cash transaction. This transaction is subject to customary closing conditions and is expected to close in the fourth quarter of 2021.

Debt Cash Tender Offers

In the second quarter of 2021, we repurchased, through cash tender offers, and canceled approximately $254 million aggregate principal amount of certain notes and debentures issued or guaranteed by AIG for an aggregate purchase price of approximately $359 million and wrote off $4 million of unamortized debt issuance costs, resulting in a total loss on extinguishment of debt of approximately $109 million.

Sale of Certain AIG Life and Retirement Retail Mutual Funds Business

On February 8, 2021, AIG announced the execution of a definitive agreement with Touchstone Investments (Touchstone), an indirect wholly-owned subsidiary of Western & Southern Financial Group, to sell certain assets of AIG Life and Retirement's Retail Mutual Funds business. As of June 30, 2021, AIG Life and Retirement's Retail Mutual Funds business managed $7.1 billion in assets across eighteen funds. The transaction closed on July 16, 2021 at which time we received initial proceeds, and twelve retail mutual funds managed by SunAmerica Asset Management, LLC (SAAMCo), a member of AIG Life and Retirement, with $6.8 billion in assets, were reorganized into Touchstone funds. Additional proceeds may be earned over a three-year period based on asset levels in certain reorganized funds. Six retail mutual funds managed by SAAMCo and not included in the transaction were liquidated. AIG Life and Retirement will retain its fund management platform and capabilities dedicated to its variable insurance products.

Sale of Fortitude Holdings

On June 2, 2020, we completed the sale of a majority of the interests in Fortitude Group Holdings, LLC (Fortitude Holdings) to Carlyle FRL, L.P. (Carlyle FRL), an investment fund advised by an affiliate of The Carlyle Group Inc. (Carlyle), and T&D United Capital Co., Ltd. (T&D), a subsidiary of T&D Holdings, Inc., under the terms of a membership interest purchase agreement entered into on November 25, 2019 by and among AIG, Fortitude Holdings, Carlyle FRL, Carlyle, T&D and T&D Holdings, Inc. (the Majority Interest Fortitude Sale). AIG established Fortitude Re, a wholly owned subsidiary of Fortitude Holdings, in 2018 in a series of reinsurance transactions related to AIG's Run-Off portfolio. As of June 30, 2021, approximately $30.1 billion of reserves from AIG's Life and Retirement Run-Off Lines and approximately $4.0 billion of reserves from AIG's General Insurance Run-Off Lines, related to business written by multiple wholly-owned AIG subsidiaries, had been ceded to Fortitude Re under these reinsurance transactions. As of closing of the Majority Interest Fortitude Sale, these reinsurance transactions are no longer considered affiliated transactions and Fortitude Re is the reinsurer of the majority of AIG's Run-Off operations. As these reinsurance transactions are structured as modified coinsurance and loss portfolio transfers with funds withheld, following the closing of the Majority Interest Fortitude Sale, AIG continues to reflect the invested assets, which consist mostly of available for sale securities, supporting Fortitude Re's obligations, in AIG's financial statements.

AIG sold a 19.9 percent ownership interest in Fortitude Holdings to TC Group Cayman Investments Holdings, L.P., an affiliate of Carlyle, in November 2018. As a result of completion of the Majority Interest Fortitude Sale, Carlyle FRL purchased from AIG a 51.6 percent ownership interest in Fortitude Holdings and T&D purchased from AIG a 25 percent ownership interest in Fortitude Holdings; AIG retained a 3.5 percent ownership interest in Fortitude Holdings and one seat on its Board of Managers. The $2.2 billion of proceeds received by AIG at closing included (i) the $1.8 billion under the Majority Interest Fortitude Sale, subject to a post-closing purchase price adjustment pursuant to which AIG would pay Fortitude Re for certain adverse development in property casualty related reserves, based on an agreed methodology, that may occur through December 31, 2023, up to a maximum payment of $500 million; and (ii) a $383 million purchase price adjustment from Carlyle FRL and T&D, corresponding to their respective portions of a proposed $500 million non-pro rata distribution from Fortitude Holdings that was not received by AIG prior to the closing. Effective in the second quarter of 2021, AIG, Fortitude Holdings, Carlyle FRL, T&D and Carlyle amended the purchase agreement to finalize the post-closing purchase price adjustment for adverse reserve development. As a result of this amendment, during the three months ended June 30, 2021, AIG recorded a $21 million benefit through Policyholder benefits and losses incurred and eliminated further net exposure to adverse development on the reserves ceded to Fortitude Re.

For further discussion on the sale of Fortitude Holdings see Note 7 to the Condensed Consolidated Financial Statements.

AIG'S OPERATING STRUCTURE

AIG reports the results of its businesses through three segments – General Insurance, Life and Retirement and Other Operations. General Insurance consists of two operating segments – North America and International. Life and Retirement consists of four operating segments – Individual Retirement, Group Retirement, Life Insurance and Institutional Markets. Other Operations is primarily comprised of corporate, our institutional asset management business and consolidation and eliminations. On October 26, 2020, AIG announced its intention to separate its Life and Retirement business from AIG.

Consistent with how we manage our business, our General Insurance North America operating segment primarily includes insurance businesses in the United States, Canada and Bermuda, and our global reinsurance business, AIG Re. Our General Insurance International operating segment includes regional insurance businesses in Japan, the United Kingdom, Europe, Middle East and Africa (EMEA region), Asia Pacific, Latin America and Caribbean, and China. International also includes the results of Talbot Holdings, Ltd. as well as AIG's global specialty business.

For further discussion on our business segments see Note 3 to the Condensed Consolidated Financial Statements, and for further discussion on the separation of Life and Retirement see Note 1 to the Condensed Consolidated Financial Statements.

Business Segments

General Insurance

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

General Insurance includes the following major operating companies: National Union Fire Insurance Company of Pittsburgh, Pa. (National Union); American Home Assurance Company (American Home); Lexington Insurance Company (Lexington); AIG General Insurance Company, Ltd. (AIG Sonpo); AIG Asia Pacific Insurance, Pte, Ltd.; AIG Europe S.A.; American International Group UK Ltd.; Validus Reinsurance, Ltd. (Validus Re); Talbot Holdings Ltd. (Talbot); Western World Insurance Group, Inc. and Glatfelter Insurance Group (Glatfelter).

Life and Retirement

Life and Retirement is a unique franchise that brings together a broad portfolio of life insurance, retirement and institutional products offered through an extensive, multichannel distribution network. It holds long-standing, leading market positions in many of the markets it serves in the U.S. With its strong capital position, customer-focused service, breadth of product expertise and deep distribution relationships across multiple channels, Life and Retirement is well positioned to serve growing market needs.

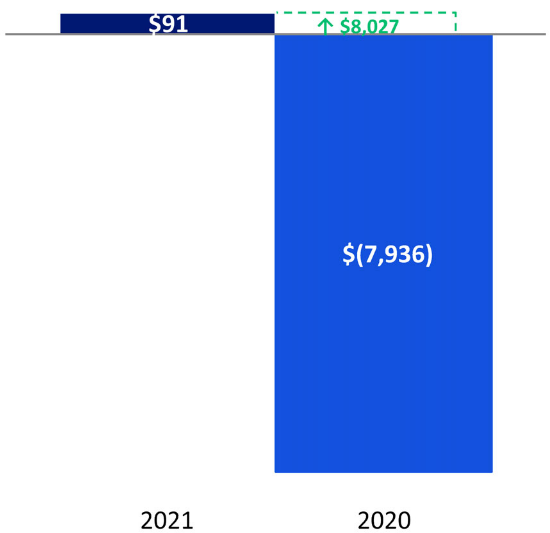
Life and Retirement includes the following major operating companies: American General Life Insurance Company (AGL); The Variable Annuity Life Insurance Company (VALIC); The United States Life Insurance Company in the City of New York (U.S. Life); Laya Healthcare Limited and AIG Life Limited.

Other Operations

Other Operations primarily consists of income from assets held by AIG Parent and other corporate subsidiaries, deferred tax assets related to tax attributes, corporate expenses and intercompany eliminations, our institutional asset management business and results of our consolidated investment entities, General Insurance portfolios in run-off as well as the historical results of our legacy insurance lines ceded to Fortitude Re.

FINANCIAL PERFORMANCE SUMMARY

Net Income (Loss) Attributable to AIG Common Shareholders
Three Months Ended June 30,
(in millions)



2021 and 2020 Quarterly Comparison

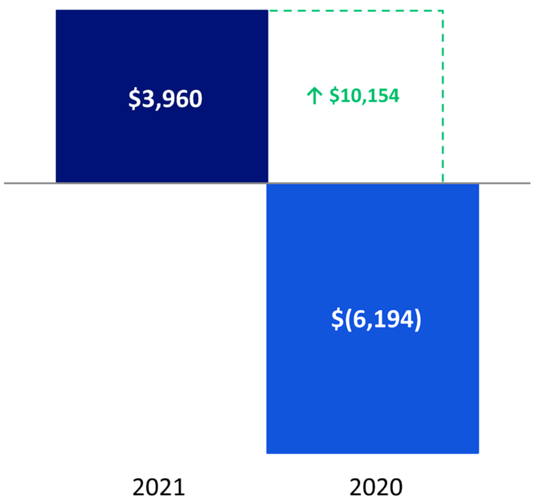
Net income attributable to AIG Common Shareholders increased $8.0 billion due to the following, on a pre-tax basis:

- the recognition of an $8.4 billion loss on the closing of the Majority Interest Fortitude Sale in 2020;
- $406 million lower net realized losses, as lower derivative losses on variable annuity embedded derivatives, net of related hedges ($957 million) and other derivative and hedge activity ($318 million) were offset by a larger mark-to-market net realized loss on the Fortitude Re embedded derivative ($1.2 billion), with remaining impacts driven primarily by other changes in realized gains across our investment portfolio;
- $309 million higher returns in our investment portfolio due primarily to Private Equity income compared to losses in the prior year period, partially offset by lower gains on fair value option bonds;
- General Insurance loss ratio improvement of 11.3 points primarily driven by change in business mix along with strong rate improvement, focused risk selection, improved terms and conditions and significantly lower catastrophe losses (9.8 points or $556 million); and
- General Insurance expense ratio improvement of 2.2 points primarily driven by change in business mix, ongoing expense discipline and a higher premium base.

These pre-tax increases were partially offset by $1.9 billion higher income tax expense with $1.7 billion attributable to the tax benefit on the deconsolidation of Fortitude Holdings in 2020.

For further discussion see Consolidated Results of Operations.

Net Income (Loss) Attributable to AIG Common Shareholders
Six Months Ended June 30,
(in millions)



2021 and 2020 Year-to-Date Comparison

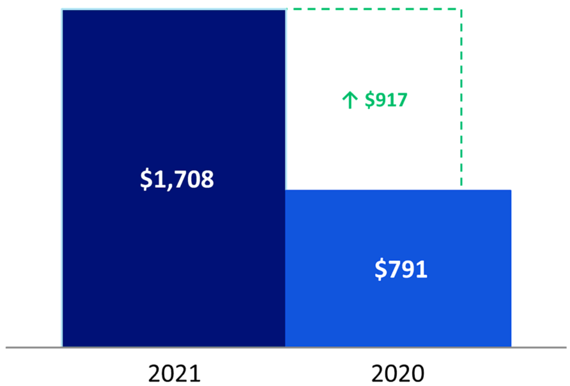
Net income attributable to AIG Common Shareholders increased $10.2 billion due to the following, on a pre-tax basis:

- the recognition of an $8.4 billion loss on the closing of the Majority Interest Fortitude Sale in 2020;
- $1.5 billion higher returns in our investment portfolio due primarily to higher income on our alternative investments and fair value option equity securities gains, which was driven primarily by positive returns achieved in equity markets. This compares to the prior year where we experienced losses on our alternative investments and fair value option equity securities, which were driven by the equity market downturn associated with the onset of the COVID-19 pandemic, partially offset by declines in fair value option and available for sale bonds;
- $137 million higher net realized gains, due to the favorable change in net realized gains on the Fortitude Re embedded derivative mark-to-market ($1.2 billion), a reduction in the allowance for credit losses on fixed maturity securities ($296 million) and other favorable changes in realized gains across our investment portfolio, largely offset by lower derivative gains on variable annuity embedded derivatives, net of related hedges ($1.1 billion) and other derivative and hedge activity ($1.0 billion);
- General Insurance loss ratio improvement of 6.2 points primarily driven by change in business mix along with strong rate improvement, focused risk selection, improved terms and conditions and significantly lower catastrophe losses (4.7 points or $542 million); and
- General Insurance expense ratio improvement of 2.0 points primarily due to change in business mix, ongoing expense discipline and a higher premium base.

These pre-tax increases were partially offset by $1.8 billion higher income tax expense with $1.7 billion attributable to the tax benefit on the deconsolidation of Fortitude Holdings in 2020.

For further discussion see Consolidated Results of Operations.

Adjusted Pre-Tax Income*
Three Months Ended June 30,
(in millions)

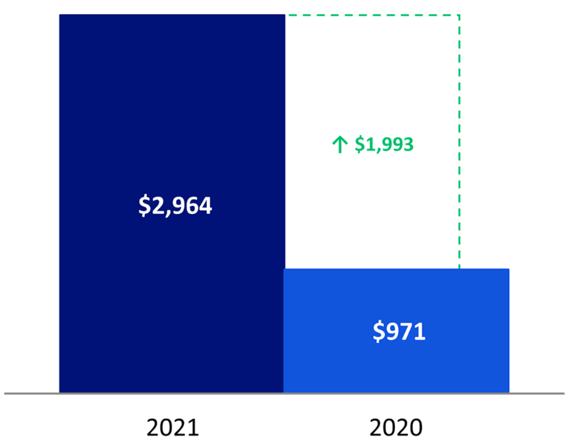


2021 and 2020 Quarterly Comparison

Adjusted pre-tax income increased $917 million primarily due to:

- General Insurance loss ratio improvement of 11.3 points primarily driven by change in business mix along with strong rate improvement, focused risk selection, improved terms and conditions and significantly lower catastrophe losses (9.8 points or $556 million); and
- General Insurance expense ratio improvement of 2.2 points primarily driven by change in business mix, ongoing expense discipline and a higher premium base.

Adjusted Pre-Tax Income*
Six Months Ended June 30,
(in millions)



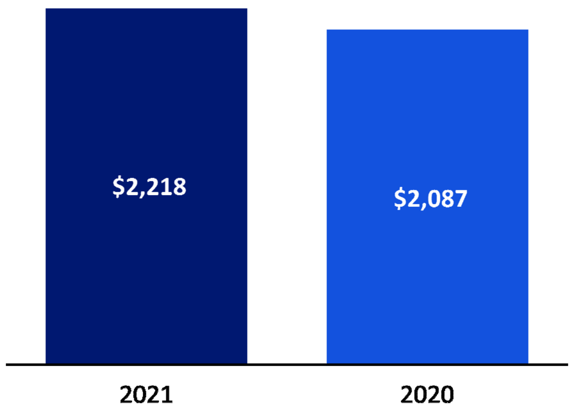
2021 and 2020 Year-to-Date Comparison

Adjusted pre-tax income increased $2.0 billion primarily due to:

- $476 million higher returns in our investment portfolio due primarily to higher income on our alternative investments, which was driven by positive returns achieved in equity markets. This compares to the prior year where we experienced losses on our alternative investments due to the equity market downturn associated with the onset of the COVID-19 pandemic;
- General Insurance loss ratio improvement of 6.2 points primarily driven by change in business mix along with strong rate improvement, focused risk selection, improved terms and conditions and significantly lower catastrophe losses (4.7 points or $542 million); and
- General Insurance expense ratio improvement of 2.0 points primarily due to change in business mix, ongoing expense discipline and a higher premium base.

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

General Operating and Other Expenses
Three Months Ended June 30,
(in millions)

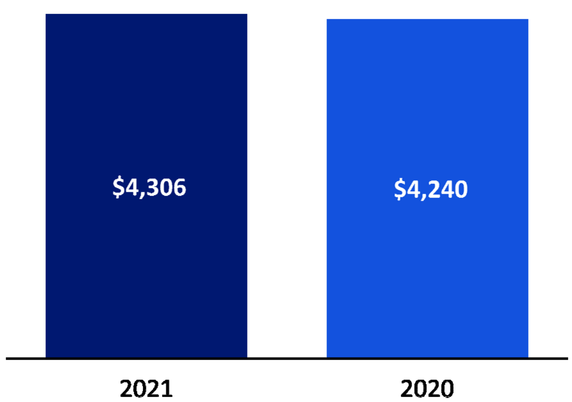


2021 and 2020 Quarterly Comparison

General operating and other expenses increased $131 million primarily due to increases in performance-based employee costs ($73 million) and transaction costs ($31 million) partially offset by decreases in restructuring and other costs.

General operating and other expenses in the three-month periods ended June 30, 2021 and 2020 included approximately $126 million and $134 million of pre-tax restructuring and other costs, respectively, which were primarily comprised of employee severance charges and other costs related to organizational simplification, operational efficiency, and business rationalization.

General Operating and Other Expenses
Six Months Ended June 30,
(in millions)

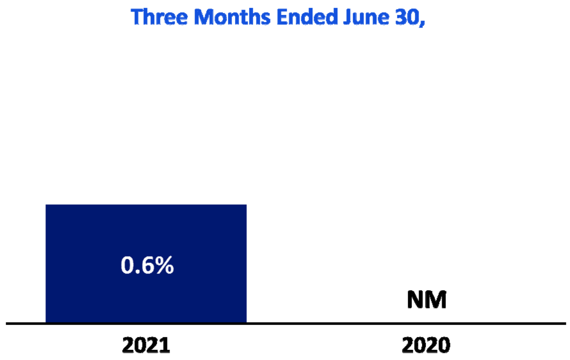


2021 and 2020 Year-to-Date Comparison

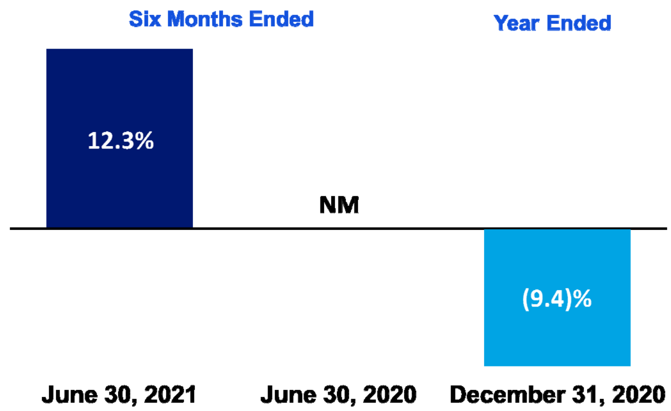
General operating and other expenses increased $66 million primarily due to increases in performance-based employee costs ($73 million).

General operating and other expenses in the six-month periods ended June 30, 2021 and 2020 included approximately $200 million and $224 million of pre-tax restructuring and other costs, respectively, which were primarily comprised of employee severance charges and other costs related to organizational simplification, operational efficiency, and business rationalization.

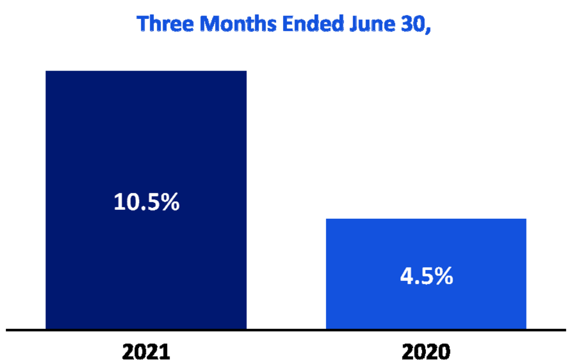
Return on Common Equity



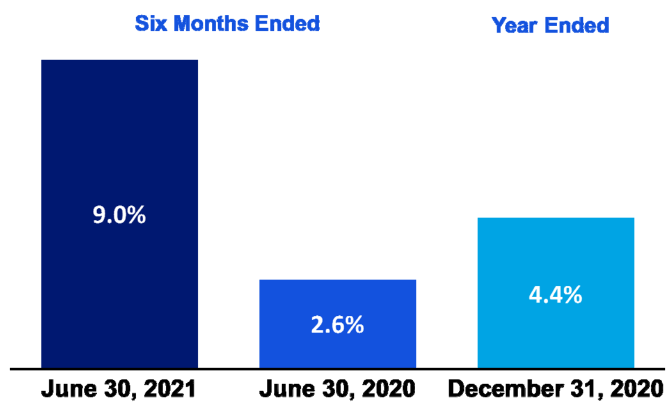
Return on Common Equity



Adjusted Return on Common Equity*

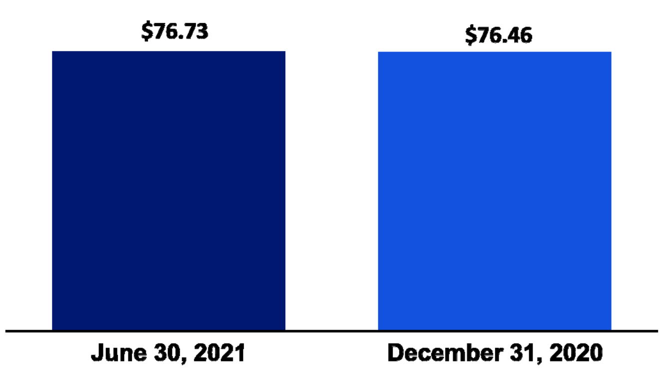


Adjusted Return on Common Equity*

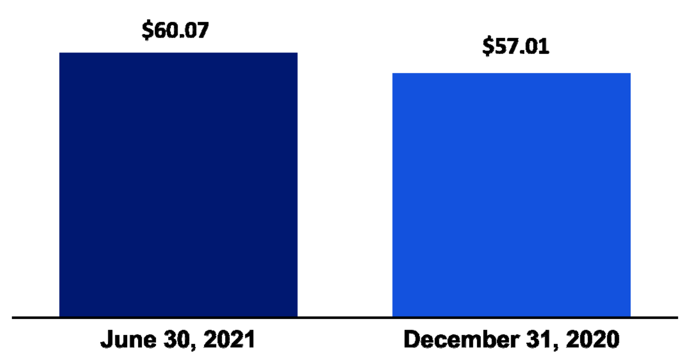


* Non-GAAP measure – *for reconciliation of Non-GAAP to GAAP measures see Consolidated Results of Operations.*

Book Value Per Common Share



Adjusted Book Value Per Common Share*



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

AIG'S OUTLOOK – INDUSTRY AND ECONOMIC FACTORS

Our business is affected by industry and economic factors such as interest rates, currency exchange rates, credit and equity market conditions, catastrophic claims events, regulation, tax policy, competition, and general economic, market and political conditions. We continued to operate under challenging market conditions in the first six months of 2021, characterized by factors such as the impact of COVID-19 and the related governmental and societal responses, interest rate volatility, inflationary pressures, an uneven global economic recovery, global trade tensions and Brexit. Brexit has also affected the U.S. dollar/British pound exchange rate and increased the volatility of exchange rates among the Euro, British pound and the Japanese yen (the Major Currencies), which may continue for some time.

On October 26, 2020, AIG announced its intention to separate its Life and Retirement business from AIG. On July 14, 2021, AIG and Blackstone announced that they have reached a definitive agreement for Blackstone to acquire a 9.9 percent equity stake in SAFG, which is the holding company for AIG's Life and Retirement business, for $2.2 billion in an all cash transaction, subject to adjustment if the final pro forma adjusted book value is greater or lesser than the target pro forma adjusted book value. The transaction contemplates that most of AIG's investment operations would be transferred to SAFG or its subsidiaries as part of the separation. As part of this agreement, AIG also agreed to enter into a long-term strategic asset management relationship with Blackstone to manage an initial $50 billion of Life and Retirement's existing investment portfolio upon closing of the equity investment, with that amount increasing by increments of $8.5 billion per year for the next five years beginning in the third or fourth quarter of 2022, for an aggregate of $92.5 billion. These transactions are subject to customary closing conditions, including the expiration or termination of the waiting period under the HSR Act, and are expected to close in the third quarter of 2021. While we currently believe an initial public offering is the next step in the separation of the Life and Retirement business from AIG, no assurance can be given regarding the form that a separation transaction may take or the specific terms or timing thereof, or that a separation will in fact occur. Any separation transaction will be subject to the satisfaction of various conditions and approvals, including approval by the AIG Board of Directors, receipt of insurance and other required regulatory approvals, and satisfaction of any applicable requirements of the SEC.

On July 14, 2021, AIG and BREIT, a long-term, perpetual capital vehicle affiliated with Blackstone, announced that they have reached a definitive agreement for BREIT to acquire AIG's interests in a U.S. affordable housing portfolio for approximately $5.1 billion, subject to certain adjustments, in an all cash transaction. This transaction is subject to customary closing conditions and is expected to close in the fourth quarter of 2021.

For additional information on the separation of AIG's Life and Retirement business, please see the 2020 Annual Report, Part I, Item 1A. Risk Factors – Business and Operations – No assurances can be given that the separation of our Life and Retirement business will occur or as to the specific terms or timing thereof. In addition, the separation could cause the emergence or exacerbate the effects of other risks to which AIG is exposed and Executive Summary – Overview.

Impact of COVID-19

We are continually assessing the impact on our business, operations and investments of COVID-19 and the resulting ongoing economic and societal disruption. These impacts initially included a global economic contraction, disruptions in financial markets, increased market volatility and declines in certain equity and other asset prices that had negative effects on our investments, our access to liquidity, our ability to generate new sales and the costs associated with claims. While many of the major global economies continue to recover and global financial markets appear to have largely stabilized, there remains a risk that the disruptions previously experienced could return as COVID-19 persists or new variants arise. In addition, in response to the crisis, new governmental, legislative and regulatory actions have been taken and continue to be developed that have resulted and could continue to result in additional restrictions and requirements, or court decisions rendered, relating to or otherwise affecting our policies that may have a negative impact on our business, operations and capital.

General Insurance offers numerous products for which we are monitoring claims activity and assessing adverse impact on future new and renewal business in relation to the COVID-19 crisis. We are continually reassessing our exposures in light of unfolding developments in the U.S. and globally and evaluating coverage by our reinsurance arrangements.

In our Life and Retirement business, the most significant impacts relating to COVID-19 have been the impact of interest rate and equity market levels on spread and fee income, deferred acquisition cost amortization and adverse mortality. We are actively monitoring our claims activity and the potential direct and indirect impacts that COVID-19 may have across our portfolio of Life and Retirement businesses.

We have a diverse investment portfolio with material exposures to various forms of credit risk. The far-reaching economic impacts of COVID-19 have been largely offset, to date, by intervention taken by governments and monetary authorities and equity market rebound resulting in a minimal impact on the value of the portfolio. At this point in time, uncertainty surrounding the duration and severity of the COVID-19 crisis makes the long-term financial impact difficult to quantify.

For additional information please see the 2020 Annual Report, Part I, Item 1A. Risk Factors – Market Conditions – COVID-19 is adversely affecting, and is expected to continue to adversely affect, our global business, financial condition and results of operations, and its ultimate impact will depend on future developments that are uncertain and cannot be predicted, including the scope, severity and duration of the crisis, and the governmental, legislative and regulatory actions taken and court decisions rendered in response thereto.

Impact of Changes in the Interest Rate Environment

Key U.S. benchmark rates initially rose sharply in the first three months of 2021 but subsequently fell reflecting concerns over future economic growth. The low interest rate environment negatively affects sales of interest rate sensitive products in our industry and negatively impacts the profitability of our existing business as we reinvest cash flows from investments, including increased calls and prepayments of fixed maturity securities and mortgage loans, at rates below the average yield of our existing portfolios. We actively manage our exposure to the interest rate environment through portfolio selection and asset-liability management, including spread management strategies for our investment-oriented products and economic hedging of interest rate risk from guarantee features in our variable and fixed index annuities. We may not be able to fully mitigate our interest rate risk by matching exposure of our assets relative to our liabilities. A low interest rate environment could also impair our ability to earn the returns assumed in the pricing and the reserving of our products at the time they were sold and issued.

Additionally, sustained low interest rates may result in higher pension expense due to the impact on discounting of projected benefit cash flows.

Annuity Sales and Surrenders

The 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. Rapidly rising interest rates could create the potential for increased sales, but may also drive higher surrenders. Fixed annuities have surrender charge periods, generally in the three-to-five year range, which may help mitigate increased early surrenders in a rising rate environment. In addition, older contracts that have higher minimum interest rates and continue to be attractive to the contract holders have driven better than expected persistency in fixed annuities, although the reserves for such contracts have continued to decrease over time in amount and as a percentage of the total annuity portfolio. We closely monitor surrenders of fixed annuities as contracts with lower minimum interest rates come out of the surrender charge period. Changes in interest rates significantly impact the valuation of our liabilities for annuities with guaranteed 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 light of the interest rate environment. A low interest rate environment puts margin pressure on pricing of new business and on existing products, due to the challenge of investing new money or recurring premiums and deposits, and reinvesting investment portfolio cash flows, in the low interest rate environment. In addition, there is investment risk associated with future premium receipts from certain in-force business. Specifically, the investment of these future premium receipts may be at a yield below that required to meet future policy liabilities.

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

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

For investment-oriented products, for example universal life, and variable, fixed and fixed indexed annuities, 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. As interest rates begin to rise again, we may need to raise crediting rates on in-force business for competitive and other reasons, potentially offsetting a portion of the additional investment income resulting from investing in a higher interest rate environment.

Of the aggregate fixed account values of our Individual Retirement and Group Retirement annuity products, 68 percent were crediting at the contractual minimum guaranteed interest rate at June 30, 2021. The percentage of fixed account values of our annuity products that are currently crediting at rates above one percent was 59 percent at both June 30, 2021 and December 31, 2020. These businesses continue to focus on pricing discipline and strategies to manage the minimum guaranteed interest crediting rates offered on new sales in the context of regulatory requirements and competitive positioning. In the universal life products in our Life Insurance business, 67 percent of the account values were crediting at the contractual minimum guaranteed interest rate at June 30, 2021.

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

	Current Crediting Rates			
June 30, 2021 Contractual Minimum Guaranteed Interest Rate *(in millions)*	At Contractual Minimum Guarantee	1-50 Basis Points Above Minimum Guarantee	More than 50 Basis Points Above Minimum Guarantee	Total
Individual Retirement*				
<=1%	$ 9,453	$ 2,132	$ 18,082	$ 29,667
> 1% - 2%	4,774	29	1,690	6,493
> 2% - 3%	10,684	1	18	10,703
> 3% - 4%	8,368	41	6	8,415
> 4% - 5%	491	-	4	495
> 5% - 5.5%	34	-	5	39
Total Individual Retirement	$ 33,804	$ 2,203	$ 19,805	$ 55,812
Group Retirement*				
<=1%	$ 2,107	$ 3,168	$ 4,677	$ 9,952
> 1% - 2%	6,080	703	117	6,900
> 2% - 3%	14,869	-	-	14,869
> 3% - 4%	741	-	-	741
> 4% - 5%	7,045	-	-	7,045
> 5% - 5.5%	166	-	-	166
Total Group Retirement	$ 31,008	$ 3,871	$ 4,794	$ 39,673
Universal life insurance				
<=1%	$ -	$ -	$ -	$ -
> 1% - 2%	101	24	361	486
> 2% - 3%	265	537	1,202	2,004
> 3% - 4%	1,437	180	205	1,822
> 4% - 5%	3,134	2	-	3,136
> 5% - 5.5%	240	-	-	240
Total universal life insurance	$ 5,177	$ 743	$ 1,768	$ 7,688
Total	$ 69,989	$ 6,817	$ 26,367	$ 103,173
Percentage of total	68 %	7 %	25 %	100 %

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

General Insurance

The impact of low interest rates on our General Insurance segment is primarily on our long-tail casualty line of business. We currently expect limited impacts on our existing long-tail casualty business as the duration of our assets is slightly longer than that of our liabilities. Sustained low interest rates would potentially 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 be disciplined in pricing and risk selection.

In addition, for our General Insurance segment, 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.

Standard of Care Developments

In our Life and Retirement business, we and our distributors are subject to laws and regulations regarding the standard of care applicable to sales of our products and the provision of advice to our customers. In recent years, many of these laws and regulations have been revised or reexamined while others have been newly adopted. We continue to closely follow these legislative and regulatory activities. *For additional information regarding these legislative and regulatory activities, see Item 1. Business – Regulation – U.S. Regulation – Standard of Care Developments in the 2020 Annual Report*. Changes in standard of care requirements or new standards issued by governmental authorities, such as the Department of Labor, the SEC, the National Association of Insurance Commissioners (NAIC) or state regulators and/or legislators, may affect our businesses, results of operations and financial condition. While we cannot predict the long-term impact of these legislative and regulatory developments on our Life and Retirement businesses, we believe our diverse product offerings and distribution relationships position us to compete effectively in this evolving marketplace.

Impact of Currency Volatility

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

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

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

Rate for 1 USD	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Percentage Change	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	Percentage Change
Currency:						
GBP	**0.72**	0.81	(11)%	**0.73**	0.79	(8)%
EUR	**0.83**	0.91	(9)%	**0.83**	0.91	(9)%
JPY	**108.95**	107.57	1 %	**106.62**	108.51	(2)%

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

Consolidated Results of Operations

The following section provides a comparative discussion of our consolidated results of operations on a reported basis for the three- and six-month periods ended June 30, 2021 and 2020. 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 Critical Accounting Estimates in this MD&A and Part II, Item 7. MD&A – Critical Accounting Estimates in the 2020 Annual Report.

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

	Three Months Ended June 30,		Percentage	Six Months Ended June 30,		Percentage
(in millions)	**2021**	2020	Change	**2021**	2020	Change
Revenues:						
Premiums	**$ 7,914**	$ 7,407	7 %	**$ 14,421**	$ 14,850	(3)%
Policy fees	**771**	749	3	**1,555**	1,504	3
Net investment income:			NM			
Net investment income - excluding Fortitude Re funds withheld assets	**3,168**	3,250	(3)	**6,339**	5,758	10
Net investment income - Fortitude Re funds withheld assets	**507**	116	337	**993**	116	NM
Total net investment income	**3,675**	3,366	9	**7,332**	5,874	25
Net realized gains (losses):			NM			
Net realized gains (losses) - excluding Fortitude Re funds withheld assets and embedded derivative	**(43)**	(1,591)	97	**652**	1,928	(66)
Net realized gains on Fortitude Re funds withheld assets	**173**	96	80	**346**	96	260
Net realized gains (losses) on Fortitude Re funds withheld embedded derivative	**(2,056)**	(837)	(146)	**326**	(837)	NM
Total net realized gains (losses)	**(1,926)**	(2,332)	17	**1,324**	1,187	12
Other income	**247**	206	20	**503**	424	19
Total revenues	**10,681**	9,396	14	**25,135**	23,839	5
Benefits, losses and expenses:						
Policyholder benefits and losses incurred	**6,084**	6,521	(7)	**11,223**	12,846	(13)
Interest credited to policyholder account balances	**872**	918	(5)	**1,740**	1,875	(7)
Amortization of deferred policy acquisition costs	**915**	754	21	**2,219**	2,616	(15)
General operating and other expenses	**2,218**	2,087	6	**4,306**	4,240	2
Interest expense	**338**	365	(7)	**680**	720	(6)
(Gain) loss on extinguishment of debt	**106**	-	NM	**98**	17	476
Net (gain) loss on sale or disposal of divested businesses	**1**	8,412	(100)	**(6)**	8,628	NM
Total benefits, losses and expenses	**10,534**	19,057	(45)	**20,260**	30,942	(35)
Income (loss) from continuing operations before income tax expense (benefit)	**147**	(9,661)	NM	**4,875**	(7,103)	NM
Income tax expense (benefit)	**(3)**	(1,896)	100	**795**	(992)	NM
Income (loss) from continuing operations	**150**	(7,765)	NM	**4,080**	(6,111)	NM
Loss from discontinued operations, net of income taxes	**-**	(1)	NM	**-**	(1)	NM
Net income (loss)	**150**	(7,766)	NM	**4,080**	(6,112)	NM
Less: Net income attributable to noncontrolling interests	**51**	162	(69)	**105**	67	57
Net income (loss) attributable to AIG	**99**	(7,928)	NM	**3,975**	(6,179)	NM
Less: Dividends on preferred stock	**8**	8	-	**15**	15	-
Net income (loss) attributable to AIG common shareholders	**$ 91**	$ (7,936)	NM%	**$ 3,960**	$ (6,194)	NM%

(in millions, except per common share data)		**June 30, 2021**		December 31, 2020
Balance sheet data:				
Total assets	**$**	**598,250**	$	586,481
Long-term debt		**26,161**		28,103
Debt of consolidated investment entities		**9,566**		9,431
Total AIG shareholders' equity		**66,083**		66,362
Book value per common share		**76.73**		76.46
Adjusted book value per common share		**60.07**		57.01

The following table presents a reconciliation of Book value per common share to Adjusted book value per common share, which is a non-GAAP measure. ***For additional information see Use of Non-GAAP Measures.***

(dollars in millions, except per common share data)		**June 30, 2021**		December 31, 2020
Total AIG shareholders' equity	**$**	**66,083**	$	66,362
Preferred equity		**485**		485
Total AIG common shareholders' equity		**65,598**		65,877
Less: Accumulated other comprehensive income (loss)		**10,209**		13,511
Add: Cumulative unrealized gains and losses related to Fortitude Re Funds Withheld Assets		**3,341**		4,657
Less: Deferred tax assets		**7,374**		7,907
Adjusted common shareholders' equity	**$**	**51,356**	$	49,116
Total common shares outstanding		**854,927,930**		861,558,049
Book value per common share	**$**	**76.73**	$	76.46
Adjusted book value per common share		**60.07**		57.01

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

	Three Months Ended June 30,				Six Months Ended June 30,				Year Ended December 31,	
(dollars in millions)		**2021**		2020		**2021**		2020		2020
Actual or annualized net income (loss) attributable to AIG common shareholders	**$**	**364**	$	(31,744)	**$**	**7,920**	$	(12,388)	$	(5,973)
Actual or annualized adjusted after-tax income attributable to AIG common shareholders		**5,324**		2,244		**4,508**		1,332		2,201
Average AIG common shareholders' equity	**$**	**63,896**	$	60,719	**$**	**64,556**	$	62,209	$	63,225
Less: Average AOCI		**8,338**		4,088		**10,062**		4,386		7,529
Add: Average cumulative unrealized gains and losses related to Fortitude Re Funds Withheld Assets		**2,794**		2,108		**3,415**		1,405		2,653
Less: Average DTA		**7,457**		8,589		**7,607**		8,718		8,437
Average adjusted AIG common shareholders' equity	**$**	**50,895**	$	50,150	**$**	**50,302**	$	50,510	$	49,912
Return on common equity		**0.6 %**		NM		**12.3 %**		NM		(9.4)%
Adjusted return on common equity		**10.5 %**		4.5 %		**9.0 %**		2.6 %		4.4 %

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

Three Months Ended June 30,	2021				2020			
(in millions, except per common share data)	Pre-tax	Total Tax (Benefit) Charge	Non-controlling Interests[d]	After Tax	Pre-tax	Total Tax (Benefit) Charge	Non-controlling Interests[d]	After Tax
Pre-tax income (loss)/net income (loss), including noncontrolling interests	**$ 147**	**$ (3)**	**$ -**	**$ 150**	$ (9,661)	$ (1,896)	$ -	$ (7,766)
Noncontrolling interests			**(51)**	**(51)**			(162)	(162)
Pre-tax income (loss)/net income (loss) attributable to AIG	**$ 147**	**$ (3)**	**$ (51)**	**$ 99**	$ (9,661)	$ (1,896)	$ (162)	$ (7,928)
Dividends on preferred stock				**8**				8
Net income (loss) attributable to AIG common shareholders				**$ 91**				$ (7,936)
Changes in uncertain tax positions and other tax adjustments[a]		**(35)**	**-**	**35**		(206)	-	206
Deferred income tax valuation allowance releases[b]		**25**	**-**	**(25)**		183	-	(183)
Changes in fair value of securities used to hedge guaranteed living benefits	**(13)**	**(2)**	**-**	**(11)**	(16)	(4)	-	(12)
Changes in benefit reserves and DAC, VOBA and SIA related to net realized gains (losses)	**(120)**	**(25)**	**-**	**(95)**	(255)	(53)	-	(202)
Changes in the fair value of equity securities	**13**	**3**	**-**	**10**	(56)	(12)	-	(44)
Loss on extinguishment of debt	**106**	**23**	**-**	**83**	-	-	-	-
Net investment income on Fortitude Re funds \withheld assets	**(507)**	**(107)**	**-**	**(400)**	(116)	(24)	-	(92)
Net realized gains on Fortitude Re funds withheld assets	**(173)**	**(37)**	**-**	**(136)**	(96)	(20)	-	(76)
Net realized losses on Fortitude Re funds withheld embedded derivative	**2,056**	**431**	**-**	**1,625**	837	176	-	661
Net realized losses[c]	**59**	**17**	**-**	**42**	1,607	367	-	1,240
Loss from discontinued operations				**-**				1
Loss from divested businesses	**1**	**-**	**-**	**1**	8,412	1,657	-	6,755
Non-operating litigation reserves and settlements	**-**	**-**	**-**	**-**	-	-	-	-
Favorable prior year development and related amortization changes ceded under retroactive reinsurance agreements	**(65)**	**(14)**	**-**	**(51)**	(33)	(7)	-	(26)
Net loss reserve discount charge	**22**	**5**	**-**	**17**	16	3	-	13
Integration and transaction costs associated with acquiring or divesting businesses	**35**	**7**	**-**	**28**	4	1	-	3
Restructuring and other costs	**126**	**26**	**-**	**100**	134	28	-	106
Non-recurring costs related to regulatory or accounting changes	**21**	**4**	**-**	**17**	14	3	-	11
Noncontrolling interests primarily related to net realized gains (losses) of Fortitude Holdings' standalone results[d]			**-**	**-**			136	136
Adjusted pre-tax income/Adjusted after-tax income attributable to AIG common shareholders	**$ 1,708**	**$ 318**	**$ (51)**	**$ 1,331**	$ 791	$ 196	$ (26)	$ 561
Weighted average diluted shares outstanding[e]				**872.9**				867.0
Income (loss) per common share attributable to AIG common shareholders (diluted)[e]				**$ 0.11**				$ (9.15)
Adjusted after-tax income per common share attributable to AIG common shareholders (diluted)[e]				**$ 1.52**				$ 0.64

Six Months Ended June 30, *(in millions, except per common share data)*	2021 Pre-tax	2021 Total Tax (Benefit) Charge	2021 Non-controlling Interests[d]	2021 After Tax	2020 Pre-tax	2020 Total Tax (Benefit) Charge	2020 Non-controlling Interests[d]	2020 After Tax
Pre-tax income (loss)/net income (loss), including noncontrolling interests	$ 4,875	$ 795	$ -	$ 4,080	$ (7,103)	$ (992)	$ -	(6,112)
Noncontrolling interests			(105)	(105)			(67)	(67)
Pre-tax income (loss)/net income (loss) attributable to AIG	$ 4,875	$ 795	(105)	$ 3,975	$ (7,103)	$ (992)	(67)	$ (6,179)
Dividends on preferred stock				15				15
Net income (loss) attributable to AIG common shareholders				$ 3,960				$ (6,194)
Changes in uncertain tax positions and other tax adjustments[a]		866	-	(866)		(211)	-	211
Deferred income tax valuation allowance charges[b]		(661)	-	661		(100)	-	100
Changes in fair value of securities used to hedge guaranteed living benefits	(35)	(7)	-	(28)	(9)	(2)	-	(7)
Changes in benefit reserves and DAC, VOBA and SIA related to net realized gains (losses)	83	18	-	65	283	60	-	223
Changes in the fair value of equity securities	(9)	(2)	-	(7)	135	28	-	107
(Gain) loss on extinguishment of debt	98	21	-	77	17	4	-	13
Net investment income on Fortitude Re funds \withheld assets	(993)	(209)	-	(784)	(116)	(24)	-	(92)
Net realized gains on Fortitude Re funds withheld assets	(346)	(73)	-	(273)	(96)	(20)	-	(76)
Net realized (gains) losses on Fortitude Re funds withheld embedded derivative	(326)	(68)	-	(258)	837	176	-	661
Net realized gains[c]	(568)	(128)	-	(440)	(1,887)	(398)	-	(1,489)
Loss from discontinued operations				-				1
(Income) loss from divested businesses	(6)	(1)	-	(5)	8,628	1,702	-	6,926
Non-operating litigation reserves and settlements	-	-	-	-	(6)	(1)	-	(5)
Favorable prior year development and related amortization changes ceded under retroactive reinsurance agreements	(84)	(18)	-	(66)	(41)	(9)	-	(32)
Net loss reserve discount (benefit) charge	(10)	(2)	-	(8)	72	15	-	57
Integration and transaction costs associated with acquiring or divesting businesses	44	9	-	35	6	1	-	5
Restructuring and other costs	200	42	-	158	224	47	-	177
Non-recurring costs related to regulatory or accounting changes	41	8	-	33	27	6	-	21
Noncontrolling interests primarily related to net realized gains (losses) of Fortitude Holdings' standalone results[d]			-	-			59	59
Adjusted pre-tax income/Adjusted after-tax income attributable to AIG common shareholders	$ 2,964	$ 590	(105)	$ 2,254	$ 971	$ 282	(8)	$ 666
Weighted average diluted shares outstanding[e]				874.6				870.6
Income (loss) per common share attributable to AIG common shareholders (diluted)[e]				$ 4.53				$ (7.11)
Adjusted after-tax income per common share attributable to AIG common shareholders (diluted)[e]				$ 2.58				$ 0.76

(a) Six months ended June 30, 2021 includes the recent completion of audit activity by the Internal Revenue Service (IRS).

(b) Six months ended June 30, 2021 includes an increase in the valuation allowance against a portion of certain tax attribute carryforwards of AIG's U.S. federal consolidated income tax group, as well as net valuation allowance release in certain foreign jurisdictions.

(c) Includes all net realized gains and losses except earned income (periodic settlements and changes in settlement accruals) on derivative instruments used for non-qualifying (economic) hedging or for asset replication and net realized gains and losses on Fortitude Re funds withheld assets.

(d) Prior to June 2, 2020, noncontrolling interests was primarily due to the 19.9 percent investment in Fortitude Holdings by an affiliate of Carlyle, which occurred in the fourth quarter of 2018. Carlyle was allocated 19.9 percent of Fortitude Holdings' standalone financial results through the June 2, 2020 closing date of the Majority Interest Fortitude Sale. Fortitude Holdings' results were mostly eliminated in AIG's consolidated income from continuing operations given that its results arose from intercompany transactions. Noncontrolling interests was calculated based on the standalone financial results of Fortitude Holdings. The most significant component of Fortitude Holdings' standalone results was the change in fair value of the embedded derivatives which changes with movements in interest rates and credit spreads, and which was recorded in net realized gains and losses of Fortitude Holdings. In accordance with AIG's adjusted after-tax income definition, realized gains and losses are excluded from noncontrolling interests. Subsequent to the Majority Interest Fortitude Sale, AIG owns 3.5 percent of Fortitude Holdings and no longer consolidates Fortitude Holdings in its financial statements as of such date. The minority interest in Fortitude Holdings is carried at cost within AIG's Other invested assets, which was $100 million as of June 30, 2021.

Fortitude Holdings' summarized financial information (standalone results), prior to the Majority Interest Fortitude Sale on June 2, 2020 is presented below:

	Three Months Ended June 30,2020		Six Months Ended June 30,2020	
(in millions)	Fortitude Holdings	AIG Noncontrolling Interest	Fortitude Holdings	AIG Noncontrolling Interest
Revenues	$ 423	$ 84	$ 653	$ 130
Expenses	244	49	702	140
Adjusted pre-tax income (loss)	179	35	(49)	(10)
Taxes (benefit) expense	38	8	(10)	(2)
Adjusted after-tax income (loss)	141	27	(39)	(8)
Net realized gains and other charges	872	174	383	77
Taxes on net realized gains and other charges	184	36	81	16
Net realized gains and other charges - after-tax	688	138	302	61
Net income	$ 829	$ 165	$ 263	$ 53

(e) For the three- and six-month periods ended June 30, 2020, because we reported net losses attributable to AIG common shareholders, all common stock equivalents are anti-dilutive and are therefore excluded from the calculation of diluted shares and diluted per share amounts. However, because we reported adjusted after-tax income attributable to AIG common shareholders, the calculation of adjusted after-tax income per diluted share attributable to AIG common shareholders includes 3,226,882 dilutive shares and 3,939,732 dilutive shares for the three- and six-month periods ended June 30, 2020, respectively.

QUARTERLY PRE-TAX INCOME (LOSS) COMPARISON FOR 2021 AND 2020

Pre-tax income of $147 million in the three-month period ended June 30, 2021 compared to pre-tax loss of $9.7 billion in the same period in 2020 primarily due to:

- the recognition of an $8.4 billion loss on the closing of the Majority Interest Fortitude Sale in 2020;
- $406 million decrease in net realized losses primarily due to:
  - Life and Retirement guaranteed living benefits, net of hedges, reflecting lower net realized losses in 2021 compared to the same period in the prior year, primarily due to changes in the movement in the non-performance risk adjustment (NPA), which is not hedged as part of our economic hedging program *(see Insurance Reserves – Life and Annuity Future Policy Benefits, Policyholder Contract Deposits and DAC – Variable Annuity Guaranteed Benefits and Hedging Results)*; and
  - other derivative and hedge activity ($318 million) and other changes in realized gains across our investment portfolio.
  - Partially offset by a larger mark-to-market net realized loss on the Fortitude Re embedded derivative ($1.2 billion).
- $309 million higher returns in our investment portfolio due primarily to Private Equity income compared to losses in the prior year period, partially offset by lower gains on fair value option bonds;
- General Insurance loss ratio improvement of 11.3 points primarily driven by change in business mix along with strong rate improvement, focused risk selection, improved terms and conditions and significantly lower catastrophe losses (9.8 points or $556 million); and
- General Insurance expense ratio improvement of 2.2 points primarily driven by change in business mix, ongoing expense discipline and a higher premium base.

YEAR-TO-DATE PRE-TAX INCOME (LOSS) COMPARISON FOR 2021 AND 2020

Pre-tax income of $4.9 billion in the six-month period ended June 30, 2021 compared to pre-tax loss of $7.1 billion in the same period in 2020 primarily due to:

- the recognition of an $8.4 billion loss on the closing of the Majority Interest Fortitude Sale in 2020;
- $1.5 billion higher returns in our investment portfolio due primarily to higher income on our alternative investments and fair value option equity securities gains, which was driven primarily by positive returns achieved in equity markets. This compares to the prior year where we experienced losses on our alternative investments and fair value option equity securities, which were driven by the equity market downturn associated with the onset of the COVID-19 pandemic, partially offset by declines in fair value option and available for sale bonds;
- $137 million increase in net realized gains primarily due to:
  - favorable change in net realized gains on the Fortitude Re embedded derivative mark-to-market ($1.2 billion); and
  - a reduction in the allowance for credit losses on fixed maturity securities ($296 million) and other favorable changes in realized gains across our investment portfolio.

These gains were largely offset by:

  - Life and Retirement guaranteed living benefits, net of hedges, reflecting lower net realized gains in 2021 compared to the same period in the prior year, primarily due to changes in the movement in the NPA, which is not hedged as part of our economic hedging program *(see Insurance Reserves – Life and Annuity Future Policy Benefits, Policyholder Contract Deposits and DAC – Variable Annuity Guaranteed Benefits and Hedging Results)*.
  - Other derivative and hedge activity ($1.0 billion).
- General Insurance loss ratio improvement of 6.2 points primarily driven by change in business mix along with strong rate improvement, focused risk selection, improved terms and conditions and significantly lower catastrophe losses (4.7 points or $542 million); and
- General Insurance expense ratio improvement of 2.0 points primarily due to change in business mix, ongoing expense discipline and a higher premium base.

U.S. TAX LAW CHANGES

On December 22, 2017, the U.S. enacted the Tax Act. The Tax Act includes provisions for Global Intangible Low-Taxed Income (GILTI) under which taxes are imposed on the excess of a deemed return on tangible assets of certain foreign subsidiaries and for Base Erosion and Anti-Abuse Tax (BEAT) under which taxes are imposed on certain base eroding payments to affiliated foreign companies. While the U.S. tax authorities issued formal guidance, including recently issued regulations for BEAT and other provisions of the Tax Act, there are still certain aspects of the Tax Act that remain unclear and subject to substantial uncertainties. Additional guidance is expected in future periods. Such guidance may result in changes to the interpretations and assumptions we made and actions we may take, which may impact amounts recorded with respect to international provisions of the Tax Act, possibly materially. Consistent with accounting guidance, we treat BEAT as a period tax charge in the period the tax is incurred and have made an accounting policy election to treat GILTI taxes in a similar manner.

On March 27, 2020, the U.S. enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act to mitigate the economic impacts of the COVID-19 crisis. The tax provisions of the CARES Act have not had and are currently not expected to have a material impact on AIG's U.S. federal tax liabilities.

Repatriation Assumptions

For 2021, we consider our foreign earnings with respect to certain operations in Canada, South Africa, the Far East, Latin America, Bermuda as well as the European, Asia Pacific and Middle East regions to be indefinitely reinvested. These earnings relate to ongoing operations and have been reinvested in active business operations. Deferred taxes, if necessary, have been provided on earnings of non-U.S. affiliates whose earnings are not indefinitely reinvested.

INTERIM TAX CALCULATION METHOD

We use the estimated annual effective tax rate method in computing our interim tax provision. Certain items, including those deemed to be unusual, infrequent or that cannot be reliably estimated, are excluded from the estimated annual effective tax rate. In these cases, the actual tax expense or benefit is reported in the same period as the related item. Certain tax effects are also not reflected in the estimated annual effective tax rate, primarily certain changes in uncertain tax positions and realizability of deferred tax assets, and are recorded in the period in which the change occurs. While certain impacts of the Tax Act are included in our annual effective tax rate, we continue to refine our calculations as additional information becomes available, which may result in changes to the estimated annual effective tax rate. As of June 30, 2021, the annual effective tax rate includes the tax effects of actual and projected COVID-19 related losses and market developments.

INCOME TAX EXPENSE ANALYSIS

For the three-month period ended June 30, 2021, the effective tax rate on income from continuing operations was (2.0) percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 21 percent primarily due to tax benefits associated with the release of reserves for uncertain tax positions and interest related to a New York State tax settlement based on the completion of recent audit activity, tax exempt income, remeasurement of deferred taxes as a result of the increase in the UK corporate statutory income tax rate, and reclassifications from AOCI to income from continuing operations related to the disposal of available for sale securities. These tax benefits were partially offset by tax charges associated with the effect of foreign operations, state and local income taxes, and non-deductible transfer pricing charges. We also recognized a tax charge associated with reduction of net operating loss deferred tax assets in certain foreign jurisdictions, with a corresponding decrease in the related deferred tax asset valuation allowance. The effect of foreign operations is primarily related to income of our foreign operations taxed at statutory tax rates higher than 21 percent, other foreign taxes, and foreign income subject to U.S. taxation.

For the six-month period ended June 30, 2021, the effective tax rate on income from continuing operations was 16.3 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 21 percent primarily due to tax benefits associated with the release of reserves for uncertain tax positions, penalties and interest related to the recent completion of audit activity by the IRS, release of reserves for uncertain tax positions and interest related to a New York State tax settlement based on the completion of recent audit activity, tax exempt income, remeasurement of deferred taxes as a result of an increase in the UK corporate income tax rate enacted during the second quarter, and reclassifications from AOCI to income from continuing operations related to the disposal of available for sale securities. These tax benefits were partially offset by tax charges associated with the establishment of U.S. federal valuation allowance related to certain tax attribute carryforwards, the effect of foreign operations, excess tax charges related to share based compensation payments recorded through the income statement, state and local income taxes, and non-deductible transfer pricing charges. We also recognized a tax charge associated with reduction of net operating loss deferred tax assets in certain foreign jurisdictions, with a corresponding decrease in the related deferred tax asset valuation allowance. The effect of foreign operations is primarily related to income of our foreign operations taxed at statutory tax rates higher than 21 percent, other foreign taxes, and foreign income subject to U.S. taxation.

For the three-month period ended June 30, 2020, the effective tax rate on loss from continuing operations was 19.6 percent. The effective tax rate on loss from continuing operations differs from the statutory tax rate of 21 percent primarily due to tax effects of the Majority Interest Fortitude Sale, tax charges associated with the increase of U.S. federal valuation allowance related to certain tax attribute carryforwards, accrual of interest associated with IRS and other tax authority matters, the effect of foreign operations, state and local income taxes, and non-deductible transfer pricing charges, partially offset by tax benefits associated with tax exempt income, and reclassifications from AOCI to income from continuing operations related to the disposal of available for sale securities. The effect of foreign operations is primarily related to income in our foreign operations taxed at statutory tax rates higher than 21 percent, other foreign taxes, and foreign income subject to U.S. taxation.

For the six-month period ended June 30, 2020, the effective tax rate on loss from continuing operations was 14.0 percent. The effective tax rate on loss from continuing operations differs from the statutory tax rate of 21 percent primarily due to tax effects of the Majority Interest Fortitude Sale, tax charges associated with the establishment of U.S. federal valuation allowance related to certain tax attribute carryforwards, accrual of interest associated with IRS and other tax authority matters, excess tax charges related to share based compensation payments recorded through the income statement, the effect of foreign operations, state and local income taxes, and non-deductible transfer pricing charges, partially offset by tax benefits associated with tax exempt income, and reclassifications from AOCI to income from continuing operations related to the disposal of available for sale securities. The effect of foreign operations is primarily related to income in our foreign operations taxed at statutory tax rates higher than 21 percent, other foreign taxes, and foreign income subject to U.S. taxation.

Business Segment Operations

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

General Insurance consists of two operating segments: North America and International. Life and Retirement consists of four operating segments: Individual Retirement, Group Retirement, Life Insurance and Institutional Markets. Other Operations is primarily comprised of corporate, our institutional asset management business and consolidation and eliminations.

On October 26, 2020, AIG announced its intention to separate its Life and Retirement business from AIG. *For further discussion on the separation of Life and Retirement see Note 1 to the Condensed Consolidated Financial Statements.*

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2021**	2020	**2021**	2020
General Insurance				
North America - Underwriting income (loss)	**$ 169**	$ (439)	**$ (33)**	$ (542)
International - Underwriting income	**294**	96	**569**	112
Net investment income	**731**	518	**1,503**	1,106
General Insurance	**1,194**	175	**2,039**	676
Life and Retirement				
Individual Retirement	**617**	549	**1,149**	854
Group Retirement	**347**	214	**654**	357
Life Insurance	**20**	2	**(20)**	80
Institutional Markets	**140**	130	**282**	205
Life and Retirement	**1,124**	895	**2,065**	1,496
Other Operations				
Other Operations before consolidation and eliminations	**(516)**	(332)	**(870)**	(1,167)
Consolidation and eliminations	**(94)**	53	**(270)**	(34)
Other Operations	**(610)**	(279)	**(1,140)**	(1,201)
Adjusted pre-tax income	**$ 1,708**	$ 791	**$ 2,964**	$ 971

General Insurance

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

PRODUCTS AND DISTRIBUTION

North America

International

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, mergers and acquisitions, fidelity, employment practices, fiduciary liability, cyber risk, kidnap and ransom, and errors and omissions insurance.

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

Global Specialty: Products include aerospace, political risk, trade credit, portfolio solutions, energy-related property insurance products and marine.

Crop Risk Services: Products include hailstorm and multi-peril insurance.

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

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

General Insurance products in North America and International markets are distributed through various channels, including captive and independent agents, brokers, affinity partners, airlines and travel agents, and retailers. Our global platform enables writing multi-national and cross-border risks in both Commercial Lines and Personal Insurance.

BUSINESS STRATEGY

Profitable Growth: Deploy capital efficiently to act opportunistically and optimize diversity within the portfolio to grow in profitable lines, geographies and customer segments, while taking a disciplined approach in reducing exposure where terms and conditions do not meet our risk/return appetite. Look to inorganic growth opportunities in profitable markets and segments to expand our capabilities and footprint.

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

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

COMPETITION AND CHALLENGES

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

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

Our challenges include:

- long-tail Commercial Lines exposures that create added challenges to pricing and risk management;
- over-capacity in certain lines of business that creates downward market pressure on pricing;
- tort environment volatility in certain jurisdictions and lines of business; and
- volatility in claims arising from natural and man-made catastrophes, including public health events, such as the COVID-19 crisis.

OUTLOOK–INDUSTRY AND ECONOMIC FACTORS

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

The worldwide health and economic impact of COVID-19 continues to evolve, influenced by the scope, severity and duration of the crisis as well as the actions of governments, judiciaries, legislative bodies, regulators and other third parties in response, all of which are subject to continuing uncertainty. While production in certain lines of business continues to remain near or below pre-COVID-19 levels, although uneven, the global economic recovery is having a positive impact on consumer and business demand across our Commercial Line and Personal Insurance businesses. The overall results of General Insurance for the six months ended June 30, 2021 reflect continued strong performance from our Commercial Lines portfolio and positive momentum within Personal Insurance. Across our North America and International Commercial Lines of business we have seen increased demand for our insurance products with improvement in rates as well as terms and conditions. We continue to monitor potential inflationary impacts resulting from central bank stimulus, sharp increases in demand and supply chain disruptions on rate adequacy and loss cost trends. While the global economic outlook continues to improve, the ultimate impact of COVID-19 on our business will depend upon the speed at which government-mandated safety precautions can be fully lifted, the distribution and effectiveness of vaccinations, and the manner and speed with which economic activity sustainably rebounds.

General Insurance – North America

The North America business remains in a firm market with common drivers being higher industry-wide claims severity trends driven by social and economic inflation, higher natural catastrophe losses over recent years and the uncertain impact of COVID-19. While market discipline continues to support price increases across most lines (outside of Workers' Compensation), we are beginning to see capacity move back into the market given the improved conditions. Despite the higher rates, we have focused on retaining our best accounts which has led to improving retention across the portfolio. These retention rates are often coupled with an exposure limit management strategy to reduce volatility within the portfolio. We continue to proactively identify and prioritize targeted businesses to grow as market conditions warrant through effective portfolio management.

Personal Insurance growth prospects are supported by the need for full life cycle products and coverage, increases in personal wealth accumulation, and awareness of insurance protection and risk management. We compete in the high net-worth market, accident and health insurance, travel insurance, and warranty services and will continue to expand our innovative products and services to distribution partners and clients.

During the first quarter of 2021, AIG amended a distribution agreement with one of its largest travel insurance distributors. Following the effectiveness of the amendments, the revised agreement no longer represents a risk transfer transaction and as such will be accounted for under deposit accounting.

General Insurance – International

We believe our global presence provides Commercial Lines and Personal Insurance a competitive advantage, as the demand for multinational cross-border coverage and services increases due to the growing number of international customers, while giving us the ability to respond quickly to local market conditions and build client relationships.

We are continuing to pursue growth in our most profitable lines of business and diversify our portfolio across all regions by expanding key business lines (i.e. Financial Lines and Accident & Health) while remaining a market leader in key developed and developing markets. Overall, Commercial Lines continue to show positive rate increases, particularly in our Global Specialty, Financial Lines and Property portfolio and across international markets where market events or withdrawal of capability and capacity have favorably impacted pricing. We are maintaining our underwriting discipline, reducing gross and net limits, increasing use of reinsurance to reduce volatility, as well as continuing our risk selection strategy to improve profitability.

Personal Insurance focuses on individual customers, as well as group and corporate clients. Although market competition within Personal Insurance has increased, we continue to benefit from the underwriting quality, portfolio diversity, and generally low volatility of the short-tailed risk in these business lines, although some product classes are exposed to catastrophe losses.

GENERAL INSURANCE RESULTS

	Three Months Ended June 30,			Six Months Ended June 30,		
(in millions)	**2021**	2020	Change	**2021**	2020	Change
Underwriting results:						
Net premiums written	**$ 6,860**	$ 5,549	24 %	**$ 13,339**	$ 11,470	16 %
(Increase) decrease in unearned premiums	**(645)**	188	NM	**(1,258)**	346	NM
Net premiums earned	**6,215**	5,737	8	**12,081**	11,816	2
Losses and loss adjustment expenses incurred[(a)]	**3,810**	4,167	(9)	**7,658**	8,226	(7)
Acquisition expenses:						
Amortization of deferred policy acquisition costs	**854**	866	(1)	**1,727**	1,852	(7)
Other acquisition expenses	**335**	281	19	**646**	626	3
Total acquisition expenses	**1,189**	1,147	4	**2,373**	2,478	(4)
General operating expenses	**753**	766	(2)	**1,514**	1,542	(2)
Underwriting income (loss)	**463**	(343)	NM	**536**	(430)	NM
Net investment income	**731**	518	41	**1,503**	1,106	36
Adjusted pre-tax income	**$ 1,194**	$ 175	NM%	**$ 2,039**	$ 676	202 %
Loss ratio[(a)]	**61.3**	72.6	(11.3)	**63.4**	69.6	(6.2)
Acquisition ratio	**19.1**	20.0	(0.9)	**19.6**	21.0	(1.4)
General operating expense ratio	**12.1**	13.4	(1.3)	**12.5**	13.1	(0.6)
Expense ratio	**31.2**	33.4	(2.2)	**32.1**	34.1	(2.0)
Combined ratio[(a)]	**92.5**	106.0	(13.5)	**95.5**	103.7	(8.2)
Adjustments for accident year loss ratio, as adjusted and accident year combined ratio, as adjusted:						
Catastrophe losses and reinstatement premiums	**(2.1)**	(11.9)	9.8	**(4.6)**	(9.3)	4.7
Prior year development, net of (additional) return premium on loss sensitive business	**0.7**	0.8	(0.1)	**0.8**	0.8	-
Accident year loss ratio, as adjusted	**59.9**	61.5	(1.6)	**59.6**	61.1	(1.5)
Accident year combined ratio, as adjusted	**91.1**	94.9	(3.8)	**91.7**	95.2	(3.5)

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

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

	Three Months Ended June 30,		Percentage Change in		Six Months Ended June 30,		Percentage Change in	
(in millions)	**2021**	2020	U.S. dollars	Original Currency	**2021**	2020	U.S. dollars	Original Currency
North America	**$ 3,156**	$ 2,153	47 %	46 %	**$ 6,086**	$ 4,852	25 %	25 %
International	**3,704**	3,396	9	4	**7,253**	6,618	10	4
Total net premiums written	**$ 6,860**	$ 5,549	24 %	20 %	**$ 13,339**	$ 11,470	16 %	13 %

The following tables present General Insurance accident year catastrophes[(a)] by geography[(b)] and number of events:

(in millions)	# of Events	North America	International	Total
Three Months Ended June 30, 2021				
Flooding and rainstorms	**1**	**$ -**	**$ -**	**$ -**
Windstorms and hailstorms	**3**	**72**	**-**	**72**
Winter storms	**3**	**(2)**	**41**	**39**
Earthquakes	**1**	**-**	**7**	**7**
Reinstatement premiums		**12**	**8**	**20**
Total catastrophe-related charges	**8**	**$ 82**	**$ 56**	**$ 138**
Three Months Ended June 30, 2020				
Flooding and rainstorms	3	$ 13	$ 6	$ 19
Windstorms and hailstorms	5	49	12	61
Earthquakes	2	9	1	10
COVID-19	N/A[(c)]	345	113	458
Civil unrest	1	81	45	126
Reinstatement premiums		2	18	20
Total catastrophe-related charges	11	$ 499	$ 195	$ 694
Six Months Ended June 30, 2021				
Flooding and rainstorms	**1**	**$ -**	**$ 10**	**$ 10**
Windstorms and hailstorms	**3**	**82**	**-**	**82**
Winter storms	**3**	**349**	**80**	**429**
Earthquakes	**1**	**-**	**19**	**19**
Reinstatement premiums		**18**	**14**	**32**
Total catastrophe-related charges	**8**	**$ 449**	**$ 123**	**$ 572**
Six Months Ended June 30, 2020				
Flooding and rainstorms	3	$ 30	$ 16	$ 46
Windstorms and hailstorms	5	79	76	155
Earthquakes	2	24	12	36
COVID-19	N/A[(c)]	468	262	730
Civil unrest	1	81	45	126
Reinstatement premiums		2	19	21
Total catastrophe-related charges	11	$ 684	$ 430	$ 1,114

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

(b) Geography: North America primarily includes insurance businesses in the United States, Canada and Bermuda, and our global reinsurance business, AIG Re. International includes regional insurance businesses in Japan, the United Kingdom, EMEA region, Asia Pacific, Latin America and Caribbean, and China. International also includes the results of Talbot as well as AIG's global specialty business.

(c) As COVID-19 continues to evolve, impacting many lines of business, the number of events is yet to be determined.

NORTH AMERICA RESULTS

(in millions)	Three Months Ended June 30, 2021	2020	Change	Six Months Ended June 30, 2021	2020	Change
Underwriting results:						
Net premiums written	$ 3,156	$ 2,153	47 %	$ 6,086	$ 4,852	25 %
(Increase) decrease in unearned premiums	(471)	321	NM	(1,013)	353	NM
Net premiums earned	2,685	2,474	9	5,073	5,205	(3)
Losses and loss adjustment expenses incurred[a]	1,810	2,218	(18)	3,712	4,203	(12)
Acquisition expenses:						
Amortization of deferred policy acquisition costs	309	337	(8)	616	768	(20)
Other acquisition expenses	112	61	84	207	178	16
Total acquisition expenses	421	398	6	823	946	(13)
General operating expenses	285	297	(4)	571	598	(5)
Underwriting income (loss)	$ 169	$ (439)	NM%	$ (33)	$ (542)	94 %
Loss ratio[a]	67.4	89.7	(22.3)	73.2	80.7	(7.5)
Acquisition ratio	15.7	16.1	(0.4)	16.2	18.2	(2.0)
General operating expense ratio	10.6	12.0	(1.4)	11.3	11.5	(0.2)
Expense ratio	26.3	28.1	(1.8)	27.5	29.7	(2.2)
Combined ratio[a]	93.7	117.8	(24.1)	100.7	110.4	(9.7)
Adjustments for accident year loss ratio, as adjusted and accident year combined ratio, as adjusted:						
Catastrophe losses and reinstatement premiums	(2.9)	(20.2)	17.3	(8.8)	(13.1)	4.3
Prior year development, net of (additional) return premium on loss sensitive business	1.6	1.0	0.6	2.1	0.9	1.2
Adjustment for ceded premiums under reinsurance contracts related to prior accident years and other	-	-	NM	-	(0.1)	NM
Accident year loss ratio, as adjusted	66.1	70.5	(4.4)	66.5	68.4	(1.9)
Accident year combined ratio, as adjusted	92.4	98.6	(6.2)	94.0	98.1	(4.1)

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

Business and Financial Highlights

The North America General Insurance business continues to make progress in strengthening our underwriting, actively managing our portfolio to improve business mix and articulating our revised risk appetite to the marketplace. We are at the forefront of the industry across multiple lines in terms of driving rate momentum while simultaneously increasing the level of business retained in targeted lines. As we see disruption in the marketplace, we are well placed to capitalize on opportunities.

During the second quarter of 2020, AIG entered into a series of quota share reinsurance agreements, including with Lloyd's Syndicate 2019, a Lloyd's syndicate managed by Talbot Underwriting Ltd., and with PCG 2019 Corporate Member Ltd., both of which are wholly-owned subsidiaries of AIG, to cede PCG business written by our General Insurance operations to third parties. Overall, these ceded reinsurance transactions, accounted for under ASC 944 Financial Services – Insurance, further AIG's continued optimization of its General Insurance portfolio, create additional products for clients and diversify AIG's capital base. We consolidate our interest in Syndicate 2019 and account for the reinsurance transactions in a manner consistent with other third-party reinsurance arrangements.

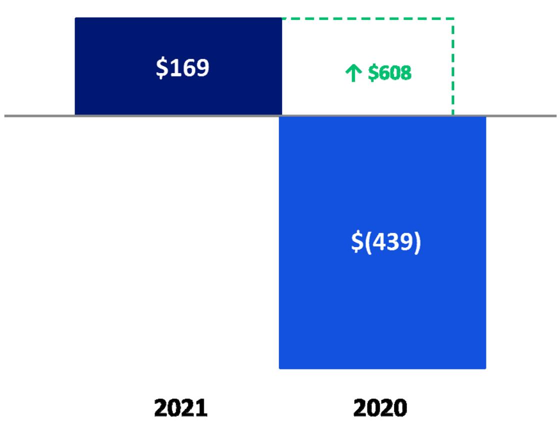
Underwriting income of $169 million in the three-month period ended June 30, 2021 compared to an underwriting loss of $439 million in the same period in the prior year primarily due to significantly lower catastrophe losses, improvement in the accident year loss ratio, as adjusted and lower general operating expense ratio.

Underwriting loss decreased by $509 million in the six-month period ended June 30, 2021 compared to the same period in the prior year primarily due to significantly lower catastrophe losses, improvement in the accident year loss ratio, lower acquisition ratio driven by changes in business mix including the impact of COVID-19 as well as favorable prior year reserve development.

Net premiums written increased in the three- and six-month periods ended June 30, 2021 compared to the same periods in the prior year by $1.0 billion and $1.2 billion, respectively, primarily due to growth in Commercial lines driven by strong rate improvement, higher renewal retentions, and strong new business production. While net premiums written increased across most Commercial Lines, it was particularly strong within our AIG Re, Property and Financial Lines businesses. Lower ceded premiums due to 2020 quota share reinsurance agreements, and growth in Travel and Warranty businesses driven by recovery in Travel activity and consumer spending also drove the increase in Personal Lines net premiums written. The increase in the six-month period ended June 30, 2021 was partially offset by lower production in Personal Lines due to the impact of COVID-19.

For a discussion of 2021 reinsurance programs see Part II, Item 7. MD&A – Enterprise Risk Management in the 2020 Annual Report.

North America Underwriting Income (Loss)
Three Months Ended June 30,
(in millions)

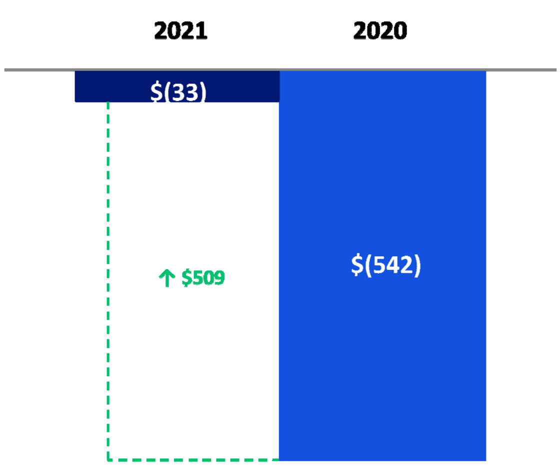


Quarterly 2021 and 2020 Comparison

Underwriting income of $169 million in 2021 compared to an underwriting loss of $439 million in 2020 primarily reflected:

- significantly lower catastrophe losses ($417 million), notably due to the impact of COVID-19 in 2020;
- improvement in the accident year loss ratio, as adjusted (4.4 points) primarily driven by change in business mix along with strong rate improvement, focused risk selection and improved terms and conditions;
- higher favorable prior year reserve development (0.6 points or $25 million), primarily driven by favorable development in PCG;
- lower general operating expense ratio (1.4 points) resulting from ongoing expense discipline and a higher premium base; and
- lower acquisition ratio (0.4 points) primarily driven by changes in business mix.

North America Underwriting Income (Loss)
Six Months Ended June 30,
(in millions)

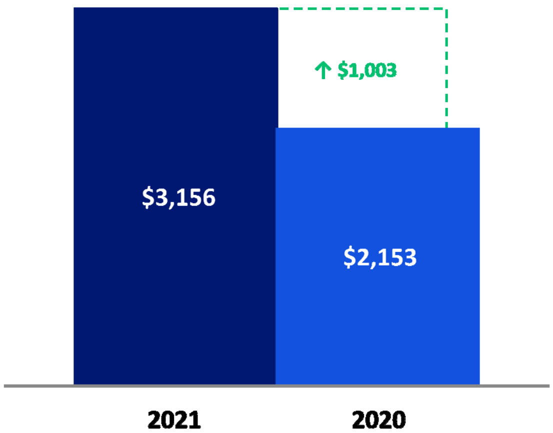


Year-to-Date 2021 and 2020 Comparison

Underwriting loss decreased by $509 million primarily due to:

- significantly lower catastrophe losses ($235 million), notably due to the impact of COVID-19 in 2020 and lower natural catastrophe losses;
- improvement in the accident year loss ratio, as adjusted (1.9 points) primarily driven by change in business mix along with strong rate improvement, focused risk selection and improved terms and conditions;
- lower acquisition ratio (2.0 points) primarily driven by changes in business mix including the impact of COVID-19 most notably in Travel; and
- higher favorable prior year reserve development (1.2 points or $58 million), primarily driven by favorable development in PCG.

North America Net Premiums Written
Three Months Ended June 30,
(in millions)

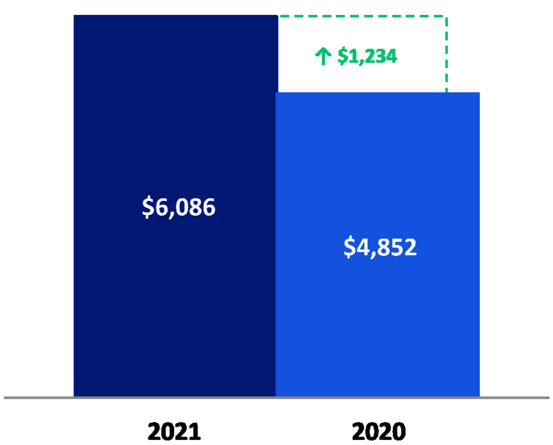


Quarterly 2021 and 2020 Comparison

Net premiums written increased by $1.0 billion primarily due to:

- increased PCG net premiums written resulting from changes in our reinsurance program ($510 million);
- growth in Commercial Lines ($352 million), particularly within our AIG Re business, Casualty, Property, and Financial Lines businesses driven by strong rate improvement, higher renewal retentions and strong new business production; and
- growth in Personal Lines ($142 million) particularly from our Travel and Warranty businesses driven by a rebound in travel activity and increased consumer spending.

North America Net Premiums Written
Six Months Ended June 30,
(in millions)

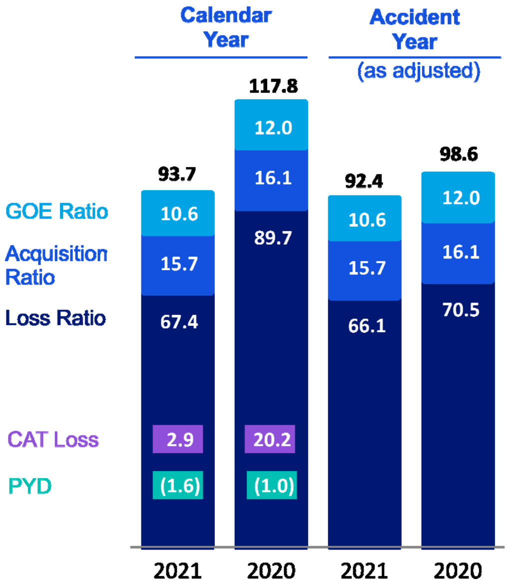


Year-to-Date 2021 and 2020 Comparison

Net premiums written increased by $1.2 billion primarily due to:

- growth in Commercial Lines ($985 million), particularly within our AIG Re business, Casualty, Property, and Financial Lines businesses, driven by strong rate improvement, higher renewal retentions and strong new business production as well as higher Crop business driven by higher commodity prices;
- increased PCG net premiums written resulting from changes in our reinsurance program ($249 million); and
- growth in Personal Lines in our Warranty business driven by increased consumer spending was offset by lower production in Travel due to the change in business mix and impact of COVID-19.

North America Combined Ratios
Three Months Ended June 30,



Quarterly 2021 and 2020 Comparison

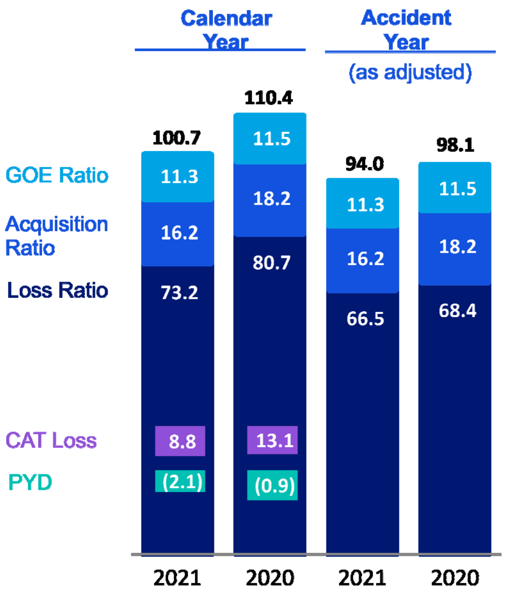
The decrease in the calendar year combined ratio of 24.1 points reflected a decrease in both the loss ratio (22.3 points) and the expense ratio (1.8 points).

The decrease in the loss ratio by 22.3 points reflected:

- significantly lower catastrophe losses (17.3 points);
- improvement in the accident year loss ratio, as adjusted (4.4 points) primarily driven by change in business mix along with strong rate improvement, focused risk selection and improved terms and conditions; and
- higher favorable prior year reserve development (0.6 points), primarily driven by favorable development in PCG.

The decrease in the expense ratio by 1.8 points reflected a lower general operating expense ratio (1.4 points) driven by higher premiums and impact of ongoing expense discipline and lower acquisition ratio (0.4 points) primarily driven by changes in business mix.

North America Combined Ratios
Six Months Ended June 30,



Year-to-Date 2021 and 2020 Comparison

The decrease in the calendar year combined ratio of 9.7 points reflected a decrease in both the loss ratio (7.5 points) and the expense ratio (2.2 points).

The decrease in the loss ratio of 7.5 points reflected:

- significantly lower catastrophe losses (4.3 points), notably due to the impact of COVID-19 in 2020 and lower natural catastrophe losses;
- improvement in the accident year loss ratio, as adjusted (1.9 points) primarily driven by change in business mix along with strong rate improvement, focused risk selection and improved terms and conditions; and
- higher favorable prior year reserve development (1.2 points), primarily driven by favorable development in PCG.

The decrease in the expense ratio of 2.2 points reflected a lower acquisition ratio (2.0 points) primarily driven by changes in business mix including the impact of COVID-19 most notably in Travel.

INTERNATIONAL RESULTS

	Three Months Ended June 30,			Six Months Ended June 30,		
(in millions)	**2021**	2020	Change	**2021**	2020	Change
Underwriting results:						
Net premiums written	**$ 3,704**	$ 3,396	9 %	**$ 7,253**	$ 6,618	10 %
Increase in unearned premiums	**(174)**	(133)	(31)	**(245)**	(7)	NM
Net premiums earned	**3,530**	3,263	8	**7,008**	6,611	6
Losses and loss adjustment expenses incurred	**2,000**	1,949	3	**3,946**	4,023	(2)
Acquisition expenses:						
Amortization of deferred policy acquisition costs	**545**	529	3	**1,111**	1,084	2
Other acquisition expenses	**223**	220	1	**439**	448	(2)
Total acquisition expenses	**768**	749	3	**1,550**	1,532	1
General operating expenses	**468**	469	-	**943**	944	-
Underwriting income	**$ 294**	$ 96	206 %	**$ 569**	$ 112	408 %
Loss ratio	**56.7**	59.7	(3.0)	**56.3**	60.9	(4.6)
Acquisition ratio	**21.8**	23.0	(1.2)	**22.1**	23.2	(1.1)
General operating expense ratio	**13.3**	14.4	(1.1)	**13.5**	14.3	(0.8)
Expense ratio	**35.1**	37.4	(2.3)	**35.6**	37.5	(1.9)
Combined ratio	**91.8**	97.1	(5.3)	**91.9**	98.4	(6.5)
Adjustments for accident year loss ratio, as adjusted and accident year combined ratio, as adjusted:						
Catastrophe losses and reinstatement premiums	**(1.5)**	(5.7)	4.2	**(1.7)**	(6.4)	4.7
Prior year development, net of (additional) return premium on loss sensitive business	**(0.1)**	0.7	(0.8)	**(0.1)**	0.9	(1.0)
Accident year loss ratio, as adjusted	**55.1**	54.7	0.4	**54.5**	55.4	(0.9)
Accident year combined ratio, as adjusted	**90.2**	92.1	(1.9)	**90.1**	92.9	(2.8)

Business and Financial Highlights

The International General Insurance business is focused on underwriting profits, driving operational efficiency, further improving underwriting margins, and growing profitably in businesses and geographies that support our growth strategy.

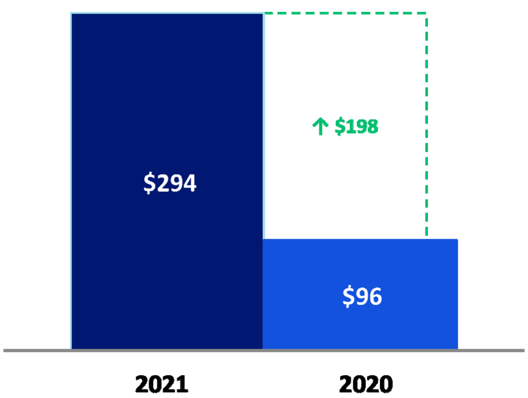
Underwriting income increased in the three- and six-month periods ended June 30, 2021 compared to the same periods in the prior year by $198 million and $457 million respectively, primarily due to significantly lower catastrophe losses, lower expense ratio partially offset by unfavorable prior year reserve development compared to favorable prior year reserve development in prior year. Underwriting income in the six-month period ended June 30, 2021 compared to the same period in the prior year also increased due to improved accident year loss ratio, as adjusted.

Net premiums written, excluding the impact of foreign exchange, increased in the three- and six-month periods ended June 30, 2021 compared to the same periods in the prior year by $156 million and $287 million, respectively, primarily due to growth across most Commercial Lines, in particular Financial Lines, Global Specialty and Talbot driven by strong rate improvement, higher renewal retentions and strong new business production, partially offset by lower production in Personal Lines driven by underwriting actions taken to strengthen our portfolio and to maintain pricing discipline.

The increase in the six-month period ended June 30, 2021 was partially offset by lower production in Personal Lines due to the impact of COVID-19.

For a discussion of 2021 reinsurance programs see Part II, Item 7 MD&A – Enterprise Risk Management in the 2020 Annual Report.

International Underwriting Income (Loss)
Three Months Ended June 30,
(in millions)



Quarterly 2021 and 2020 Comparison

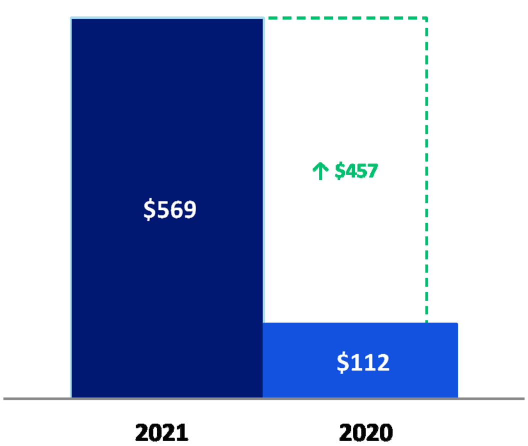
Underwriting income increased by $198 million primarily due to:

- significantly lower catastrophe losses ($139 million), notably due to the impact of COVID-19 in 2020; and
- a lower expense ratio by 2.3 points reflected a lower acquisition ratio (1.2 points) primarily driven by lower acquisition expenses as well as change in business mix and a lower general operating expense ratio (1.1 points) resulting from ongoing expense disciple and a higher premium base.

These increases were partially offset by:

- change in prior year reserve development against 2020 (0.8 points or $48 million), primarily due to favorable development in Property and Global Specialty in prior year.

International Underwriting Income (Loss)
Six Months Ended June 30,
(in millions)



Year-to-Date 2021 and 2020 Comparison

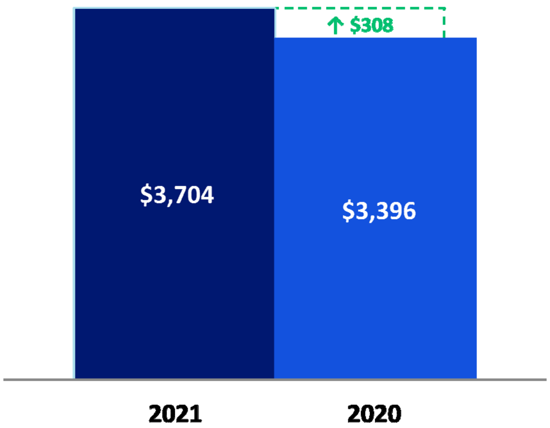
Underwriting income increased by $457 million primarily due to:

- significantly lower catastrophe losses ($307 million); notably due to the impact of COVID-19 in 2020;
- a lower expense ratio by 1.9 points reflected a lower acquisition ratio (1.1 points) primarily driven by lower acquisition cost as well as change in business mix and a lower general operating expense ratio (0.8 points) resulting from ongoing expense discipline and a higher premium base; and
- lower accident year loss ratio, as adjusted (0.9 points) primarily driven by change in business mix along with strong rate improvement, focused risk selection and improved terms and conditions.

These increases were partially offset by:

- change in prior year reserve development against 2020 (1.0 points or $85 million), primarily due to favorable development in Casualty, Global Specialty and Property in prior year.

International Net Premiums Written
Three Months Ended June 30,
(in millions)



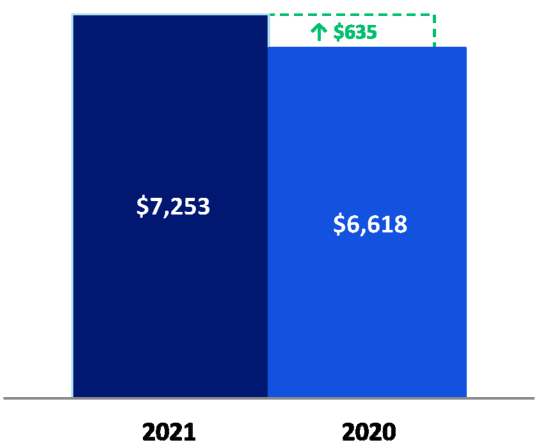
Quarterly 2021 and 2020 Comparison

Net premiums written, excluding the impact of foreign exchange, increased by $156 million due to:

- growth across most Commercial Lines ($182 million), notably in Financial Lines, Global Specialty and Talbot driven by strong rate improvement, higher renewal retentions and strong new business production.

This increase was partially offset by lower production in Personal Lines ($26 million) driven by underwriting actions taken to strengthen our portfolio and to maintain pricing discipline, partially offset by growth in Warranty.

International Net Premiums Written
Six Months Ended June 30,
(in millions)



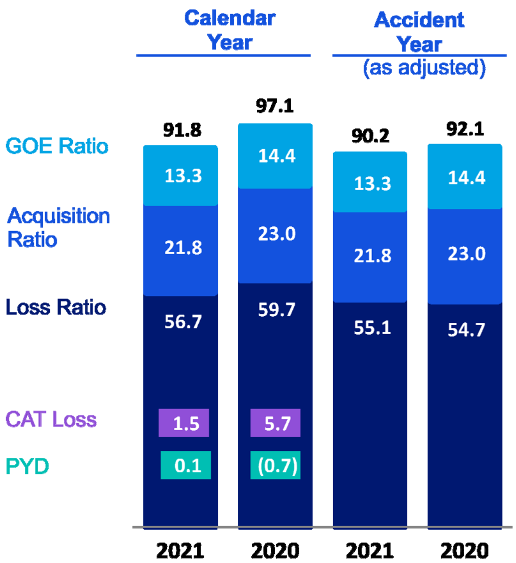
Year-to-Date 2021 and 2020 Comparison

Net premiums written, excluding the impact of foreign exchange, increased by $287 million due to:

- growth across most Commercial Lines ($413 million), notably in Financial Lines, Property, Global Specialty and Talbot driven by strong rate improvement, higher renewal retentions and strong new business production.

These increases were partially offset by lower production in Personal Lines ($126 million) driven by underwriting actions taken to strengthen our portfolio and to maintain pricing discipline as well as due to the impact of COVID-19, partially offset by growth in Warranty.

International Combined Ratios
Three Months Ended June 30,



Quarterly 2021 and 2020 Comparison

The decrease in the calendar year combined ratio of 5.3 points reflected a decrease in both the loss ratio (3.0 points) and the expense ratio (2.3 points).

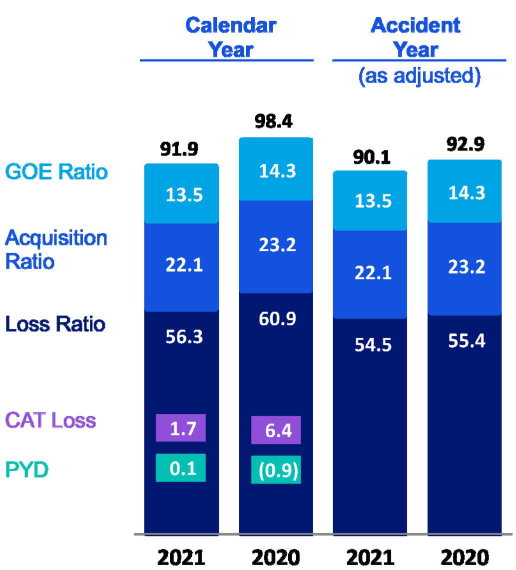
The decrease in the loss ratio by 3.0 points reflected:

- significantly lower catastrophe losses (4.2 points); partially offset by
- change in prior year reserve development against 2020 (0.8 points), primarily due to favorable development in Property and Global Specialty in prior year.

The decrease in the expense ratio by 2.3 points reflected:

- lower acquisition ratio (1.2 points) primarily driven by lower acquisition costs as well as change in business mix; and
- lower general operating expense ratio (1.1 points) resulting from ongoing expense discipline and a higher premium base.

International Combined Ratios
Six Months Ended June 30,



Year-to-Date 2021 and 2020 Comparison

The decrease in the calendar year combined ratio of 6.5 points reflected a decrease in both the loss ratio (4.6 points) and the expense ratio (1.9 points).

The decrease in the loss ratio by 4.6 points reflected:

- significantly lower catastrophe losses (4.7 points), notably due to the impact of COVID-19 in 2020; and
- lower accident year loss ratio, as adjusted (0.9 points) primarily driven by change in business mix along with strong rate improvement, focused risk selection and improved terms and conditions.

These decreases were partially offset by change in prior year reserve development against 2020 (1.0 points), primarily due to favorable development in Casualty, Global Specialty and Property in prior year.

The decrease in the expense ratio by 1.9 points reflected:

- lower acquisition ratio (1.1 points) primarily driven by lower acquisition costs, change in business mix and changes in 2021 reinsurance program; and
- lower general operating expense ratio (0.8 points) due to ongoing expense discipline and a higher premium base.

Life and Retirement

Life and Retirement consists of four operating segments: Individual Retirement, Group Retirement, Life Insurance and Institutional Markets. We offer a broad portfolio of products in the U.S. through a multichannel distribution network and life and health products in the UK and Ireland.

PRODUCTS AND DISTRIBUTION

Individual Retirement

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 as well as optional living guaranteed features that provide lifetime income protection. 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. Certain fixed deferred annuity products offer optional income protection features. The fixed annuities product line maintains an 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 offerings and related administration and servicing operations. Retail Mutual Funds are distributed primarily through broker-dealers. *For further details on the Sale of Certain Assets of the Retail Mutual Funds Business, see Executive Summary – Overview.*

Group Retirement

Group Retirement: Products and services consist of group mutual funds, group annuities, individual annuity and investment products, financial planning and advisory services, and plan administrative and compliance services.

AIG Retirement Services offers its products and services through The Variable Annuity Life Insurance Company and its subsidiaries, VALIC Financial Advisors, Inc. and VALIC Retirement Services Company.

AIG Retirement Services career financial advisors and independent financial advisors provide retirement plan participants with enrollment support and comprehensive financial planning services.

Life Insurance

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

Institutional Markets

Institutional Markets: Products primarily include stable value wrap products, structured settlement and pension risk transfer annuities (direct and assumed reinsurance), corporate- and bank-owned life insurance, high net worth products and guaranteed investment contracts (GICs). Institutional Markets products are primarily distributed through specialized marketing and consulting firms and structured settlement brokers.

FHLB Funding Agreements are issued through our Individual Retirement, Group Retirement and Institutional Markets operating segments. Funding agreements are issued by our U.S. Life and Retirement companies to FHLBs in their respective districts at fixed or floating rates over specified periods, which can be prepaid at our discretion. Proceeds are generally invested in fixed income securities and other suitable investments to generate spread income. These investment contracts do not have mortality or morbidity risk and are similar to GICs.

BUSINESS STRATEGY

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

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

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. AIG Retirement Services' self-service tools paired with its career financial advisors provide a compelling service platform. Group Retirement's strategy also involves providing financial planning services for its clients and meeting their need for income in retirement. In this advisory role, Group Retirement's clients may invest in assets in which AIG or a third-party is custodian.

Life Insurance in the U.S. will continue to position itself for growth and changing market dynamics while continuing to execute strategies to enhance returns. Our focus is on materializing success from a multi-year effort of building state-of-the-art platforms and underwriting innovations, which are expected to bring process improvements and cost efficiencies.

In the UK, AIG Life Insurance will continue to focus on growing the business organically and through potential acquisition opportunities.

Institutional Markets continues to grow its assets under management across multiple product lines, including stable value wrap, GICs and pension risk transfer annuities. Our growth strategy is opportunistic and allows us to pursue select transactions that meet our risk-adjusted return requirements.

Enhance Operational Effectiveness by simplifying processes and operating environments to increase competitiveness, improve service and product capabilities and facilitate delivery of our target customer experience. We continue to invest in technology to improve operating efficiency and ease of doing business for our distribution partners and customers. We believe that simplifying our operating models will enhance productivity and support further profitable growth.

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

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

COMPETITION AND CHALLENGES

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

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

Our primary challenges include:

- a 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 competitors with different profitability targets in the pension risk transfer space as well as other product lines;
- increasingly complex new and proposed regulatory requirements, which have affected industry growth and costs;
- upgrading our technology and underwriting processes while managing general operating expenses; and
- decreased premiums and deposits and adverse mortality experience due to COVID-19.

OUTLOOK–INDUSTRY AND ECONOMIC FACTORS

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

The worldwide health and economic impact of COVID-19 continues to evolve, influenced by the scope, severity and duration of the crisis as well as the actions of governments, judiciaries, legislative bodies, regulators and other third parties in response, as well as the distribution and effectiveness of vaccinations, all of which are subject to continuing uncertainty. The impact on the results for the first six months of 2021 with respect to COVID-19 is primarily but not limited to COVID-19-related mortality.

On October 26, 2020, AIG announced its intention to separate its Life and Retirement business from AIG. On July 14, 2021, AIG and Blackstone announced that they have reached a definitive agreement for Blackstone to acquire a 9.9 percent equity stake in SAFG, which is the holding company for AIG's Life and Retirement business, for $2.2 billion in an all cash transaction, subject to adjustment if the final pro forma adjusted book value is greater or lesser than the target pro forma adjusted book value. The transaction contemplates that most of AIG's investment operations would be transferred to SAFG or its subsidiaries as part of the separation. As part of this agreement, AIG also agreed to enter into a long-term strategic asset management relationship with Blackstone to manage an initial $50 billion of Life and Retirement's existing investment portfolio upon closing of the equity investment, with that amount increasing by increments of $8.5 billion per year for the next five years beginning in the third or fourth quarter of 2022, for an aggregate of $92.5 billion. These transactions are subject to customary closing conditions, including the expiration or termination of the waiting period under the HSR Act, and are expected to close in the third quarter of 2021. While we currently believe an initial public offering is the next step in the separation of the Life and Retirement business from AIG, no assurance can be given regarding the form that a separation transaction may take or the specific terms or timing thereof, or that a separation will in fact occur. Any separation transaction will be subject to the satisfaction of various conditions and approvals, including approval by the AIG Board of Directors, receipt of insurance and other required regulatory approvals, and satisfaction of any applicable requirements of the SEC.

On July 14, 2021, AIG and BREIT, a long-term, perpetual capital vehicle affiliated with Blackstone, announced that they have reached a definitive agreement for BREIT to acquire AIG's interests in a U.S. affordable housing portfolio for approximately $5.1 billion, subject to certain adjustments, in an all cash transaction. This transaction is subject to customary closing conditions and is expected to close in the fourth quarter of 2021.

On February 8, 2021, AIG announced the execution of a definitive agreement with Touchstone, an indirect wholly-owned subsidiary of Western & Southern Financial Group, to sell certain assets of AIG Life and Retirement's Retail Mutual Funds business. As of June 30, 2021, AIG Life and Retirement's Retail Mutual Funds business managed $7.1 billion in assets across eighteen funds. The transaction closed on July 16, 2021 at which time we received initial proceeds, and twelve retail mutual funds managed by SAAMCo, a member of AIG Life and Retirement, with $6.8 billion in assets, were reorganized into Touchstone funds. Additional proceeds may be earned over a three-year period based on asset levels in certain reorganized funds. Six retail mutual funds managed by SAAMCo and not included in the transaction were liquidated. AIG Life and Retirement will retain its fund management platform and capabilities dedicated to its variable insurance products.

For additional information regarding the separation of Life and Retirement please see Note 1 to the Condensed Consolidated Financial Statements and the 2020 Annual Report, Part I, Item 1A. Risk Factors – Business and Operations – No assurances can be given that the separation of our Life and Retirement business will occur or as to the specific terms or timing thereof. In addition, the separation could cause the emergence or exacerbate the effects of other risks to which AIG is exposed.

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 index and fixed deferred annuities with guaranteed income features has attracted increased competition in this product space. In response to the low interest rate environment, which has added pressure to profit margins, we have developed guaranteed income benefits for variable, fixed index, and fixed deferred annuities with margins that are less sensitive to the level of interest rates.

Changes in the capital markets (interest rate environment, equity markets, volatility) can have a significant impact on sales, surrender rates, investment returns, guaranteed income features, and net investment spreads in the annuity industry.

Group Retirement

Group Retirement competes in the defined contribution market under the AIG Retirement Services brand. AIG Retirement Services 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, AIG Retirement Services is investing in a client-focused technology platform to support improved compliance and self-service functionality. AIG Retirement Services' 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 and equity market environment can have a significant impact on investment returns, fee income, advisory and other income, guaranteed income features, and net investment spreads, and a moderate impact on sales and surrender rates.

Life Insurance

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

In response to consumer needs and a low interest rate environment, our Life Insurance product portfolio will continue to promote products with lower long-duration interest rate risk and mitigate exposure to products that have long-duration interest rate risk through sales levels and hedging strategies.

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

Institutional Markets

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

Changes in the interest rate environment can have a significant impact on investment returns and net investment spreads, as well as the tax efficiency associated with institutional life insurance products, impacting organic growth opportunities.

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

LIFE AND RETIREMENT RESULTS

(in millions)	Three Months Ended June 30, 2021	2020	Percentage Change	Six Months Ended June 30, 2021	2020	Percentage Change
Revenues:						
Premiums	$ 1,645	$ 1,622	1 %	$ 2,245	$ 2,889	(22)%
Policy fees	772	728	6	1,555	1,461	6
Net investment income	2,376	2,099	13	4,729	4,165	14
Advisory fee and other income	253	212	19	497	432	15
Total adjusted revenues	5,046	4,661	8	9,026	8,947	1
Benefits, losses and expenses:						
Policyholder benefits and losses incurred	2,223	2,082	7	3,480	3,871	(10)
Interest credited to policyholder account balances	882	880	-	1,752	1,777	(1)
Amortization of deferred policy acquisition costs	168	123	37	393	445	(12)
General operating and other expenses*	614	641	(4)	1,267	1,276	(1)
Interest expense	35	40	(13)	69	82	(16)
Total benefits, losses and expenses	3,922	3,766	4	6,961	7,451	(7)
Adjusted pre-tax income	$ 1,124	$ 895	26 %	$ 2,065	$ 1,496	38 %

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

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

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

INDIVIDUAL RETIREMENT RESULTS

(in millions)	Three Months Ended June 30, 2021	2020	Percentage Change	Six Months Ended June 30, 2021	2020	Percentage Change
Revenues:						
Premiums	$ 32	$ 38	(16)%	$ 57	$ 79	(28)%
Policy fees	241	205	18	473	412	15
Net investment income	1,089	955	14	2,157	1,928	12
Advisory fee and other income	157	133	18	309	280	10
Benefits and expenses:						
Policyholder benefits and losses incurred	95	50	90	211	188	12
Interest credited to policyholder account balances	433	427	1	859	870	(1)
Amortization of deferred policy acquisition costs	108	54	100	241	275	(12)
Non deferrable insurance commissions	89	83	7	177	162	9
Advisory fee expenses	54	49	10	106	101	5
General operating expenses	107	100	7	221	210	5
Interest expense	16	19	(16)	32	39	(18)
Adjusted pre-tax income	$ 617	$ 549	12 %	$ 1,149	$ 854	35 %
Fixed annuities base net investment spread:						
Base yield*	4.02 %	4.21 %	(19)bps	4.00 %	4.28 %	(28)bps
Cost of funds	2.58	2.66	(8)	2.60	2.63	(3)
Fixed annuities base net investment spread	1.44 %	1.55 %	(11)bps	1.40 %	1.65 %	(25)bps

* Includes returns from base portfolio including accretion and income (loss) from certain other invested assets.

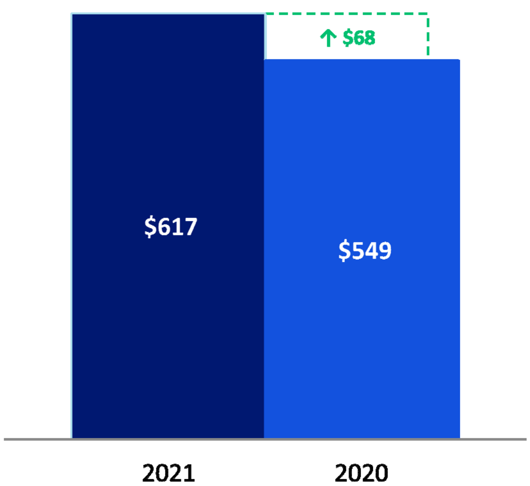
Business and Financial Highlights

The market environment continues to reflect uncertainties in the annuity business resulting from a low interest rate environment as well as the COVID-19 crisis. Premiums and deposits increased $2.2 billion and $2.4 billion in the three- and six-month periods ended June 30, 2021, respectively, compared to the same periods in the prior year. Net flows improved $1.4 billion and $2.4 billion in the three- and six-month periods ended June 30, 2021, respectively, compared to the same periods in the prior year.

Adjusted pre-tax income increased $68 million in the three-month period ended June 30, 2021 compared to the same period in the prior year, primarily due to higher net investment income ($134 million) and higher policy and advisory fee income, net of expenses ($55 million). Partially offsetting these increases was higher variable annuity DAC/SIA amortization and reserves ($95 million) compared to the same period in the prior year.

Adjusted pre-tax income increased $295 million in the six-month period ended June 30, 2021 compared to the same period in the prior year primarily due to higher net investment income ($229 million) and higher policy and advisory fee income, net of expenses ($85 million).

Individual Retirement Adjusted Pre-Tax Income (Loss)
Three Months Ended June 30,
(in millions)



Quarterly 2021 and 2020 Comparison

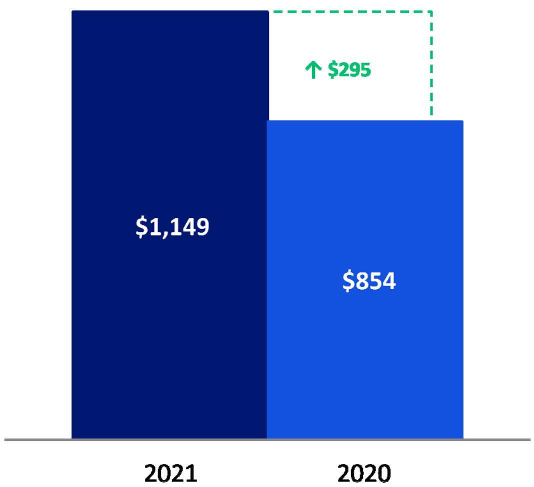
Adjusted pre-tax income increased $68 million primarily due to:

- increase in net investment income ($134 million) driven by higher private equity income ($149 million) and higher gains on call and tender income ($15 million) partially offset by lower gains on securities on which the fair value option was elected ($14 million) and lower base portfolio income ($11 million) primarily due to decreased reinvestment rates on the base portfolio; and
- higher policy and advisory fee income, net of expenses ($55 million), mostly due to an increase in variable annuity separate account assets driven by strong equity market performance.

Partially offsetting these increases were:

- increase in variable annuity DAC/SIA amortization and reserves ($95 million) mostly due to lower market returns ($78 million); and
- higher non-deferrable commissions ($6 million), and general operating expenses ($7 million).

Individual Retirement Adjusted Pre-Tax Income (Loss)
Six Months Ended June 30,
(in millions)



Year-to-Date 2021 and 2020 Comparison

Adjusted pre-tax income increased $295 million primarily due to:

- increase in net investment income ($229 million) driven by higher private equity ($204 million) and hedge fund ($16 million) income, higher call and tender income ($45 million) and higher gains on securities for which the fair value option was elected ($26 million), partially offset by lower base portfolio income resulting from decreased reinvestment rates on the base portfolio ($68 million); and
- higher policy and advisory fee income, net of expenses ($85 million), mostly due to an increase in variable annuity separate account assets driven by robust equity market performance.

Partially offsetting these increases were:

- higher non-deferrable commissions ($15 million) and general operating expenses ($11 million).

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

For Individual Retirement, premiums primarily represent amounts received on life-contingent payout annuities. Premiums decreased $6 million and $22 million in the three- and six-month periods ended June 30, 2021, respectively, compared to the same periods in the prior year. Premiums are generally not a significant driver of Individual Retirement results.

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2021**	2020	**2021**	2020
Premiums	**$ 32**	$ 38	**$ 57**	$ 79
Deposits	**3,949**	1,759	**7,298**	4,838
Other	**(3)**	(3)	**(4)**	(7)
Premiums and deposits	**$ 3,978**	$ 1,794	**$ 7,351**	$ 4,910

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	**2021**	2020
Surrenders as a percentage of average reserves				
Fixed annuities	**8.0 %**	4.8 %	**7.5 %**	5.7 %
Variable and index annuities	**6.5**	4.7	**6.4**	5.5
Variable annuities	**7.3**	5.1	**7.1**	6.1
Index annuities	**4.6**	3.5	**4.7**	3.8

The following table presents reserves for fixed annuities and variable and index annuities by surrender charge category:

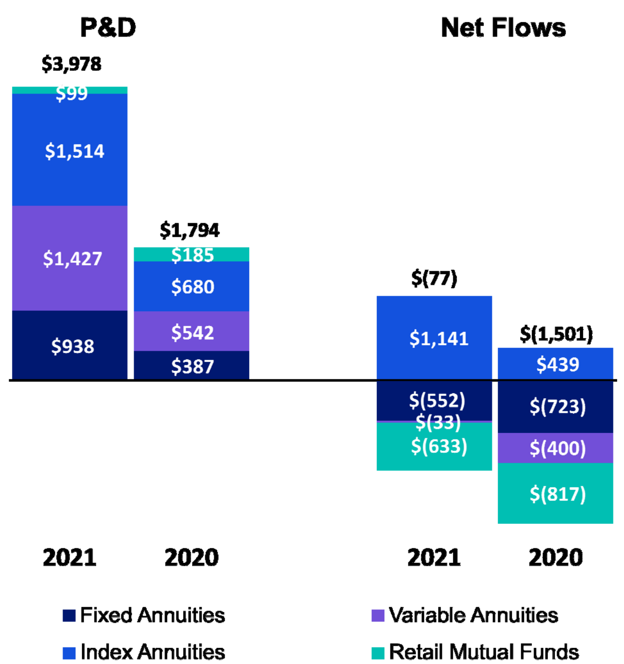
(in millions)	June 30, 2021 Fixed Annuities	June 30, 2021 Variable and Index Annuities	December 31, 2020* Fixed Annuities	December 31, 2020* Variable and Index Annuities
No surrender charge	$ 27,006	$ 33,996	$ 27,110	$ 30,954
Greater than 0% - 2%	1,730	12,139	2,298	11,647
Greater than 2% - 4%	3,006	15,061	2,758	15,361
Greater than 4%	15,980	33,937	16,163	32,261
Non-surrenderable	2,219	-	2,214	-
Total reserves	$ 49,941	$ 95,133	$ 50,543	$ 90,223

* Certain reclassifications have been made to the prior year amounts for consistency with the current year presentation.

Individual Retirement annuities are typically subject to a four- to seven-year surrender charge period, depending on the product. For fixed annuities, the proportion of reserves subject to surrender charge at June 30, 2021 decreased compared to December 31, 2020. The increase in reserves with no surrender charge for variable and index annuities at June 30, 2021 compared to December 31, 2020 was principally due to normal aging of business.

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

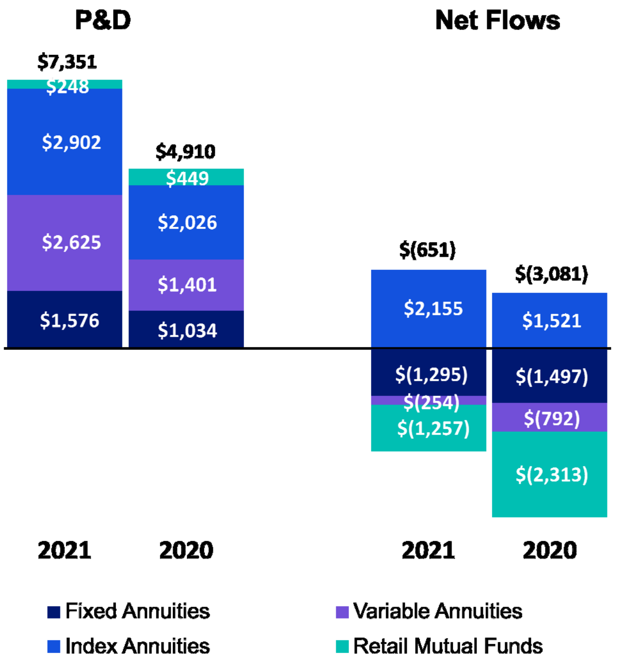
Individual Retirement Premiums and Deposits (P&D) and Net Flows
Three Months Ended June 30,
(in millions)



Quarterly 2021 and 2020 Comparison

- **Fixed Annuities** Net flows remained negative but improved ($171 million) over the prior year, mostly due to higher premiums and deposits ($551 million) due to improved interest rate environment and prior year impact from distribution channel disruptions related to COVID-19, offset by higher surrenders and withdrawals ($381 million).
- **Variable Annuities** Net flows improved ($367 million) primarily due to higher premium and deposits ($885 million) driven by growth in independent and regional broker dealers in part due to prior year impact from distribution channel disruptions related to COVID-19, partially offset by higher surrenders and withdrawals ($462 million) and death benefits ($56 million).
- **Index Annuities** Net flows increased ($702 million) primarily due to higher premiums and deposits ($834 million) driven by growth in wirehouse and bank channels partially due to prior year impact from distribution channel disruptions related to COVID-19, partially offset by higher surrenders and withdrawals ($114 million) and death benefits ($18 million).
- **Retail Mutual Funds** Net flows remained negative but improved ($184 million) due to lower surrenders and withdrawals ($270 million) partially offset by lower premiums and deposits ($86 million) due to investors' continued preference for passive, low-fee investment vehicles. *See discussion regarding sale of certain AIG Life and Retirement Retail Mutual Funds business in Note 1 to the Condensed Consolidated Financial Statements.*

Individual Retirement Premiums and Deposits (P&D) and Net Flows
Six Months Ended June 30,
(in millions)



Year-to-Date 2021 and 2020 Comparison

- **Fixed Annuities** Net flows remained negative but improved ($202 million) over the prior year, mostly due to higher premiums and deposits ($542 million) due to improved interest rate environment and prior year impact from distribution channel disruptions related to COVID-19, and lower death benefits ($97 million) partially offset by higher surrenders and withdrawals ($437 million).
- **Variable Annuities** Variable annuity net flows improved ($538 million) primarily due to higher premium and deposits ($1.2 billion) driven by growth in independent and regional broker dealers in part due to prior year impact from distribution channel disruptions related to COVID-19, partially offset by higher surrenders and withdrawal ($544 million) and death benefits ($143 million).
- **Index Annuities** Net flows increased ($634 million) primarily due to higher premiums and deposits ($876 million) driven by growth in wirehouse and bank channels partially due to prior year impact from distribution channel disruptions related to COVID-19, partially offset by higher surrenders and withdrawal ($201 million) and death benefits ($41 million).
- **Retail Mutual Funds** Net flows remained negative but improved ($1.1 billion) due to lower surrenders and withdrawals ($1.3 billion) partially offset by lower premiums and deposits ($201 million) due to investors' continued preference for passive, low-fee investment vehicles, and the distribution channel disruptions related to COVID-19. *See discussion regarding sale of certain AIG Life and Retirement Retail Mutual Funds business in Note 1 to the Condensed Consolidated Financial Statements.*

GROUP RETIREMENT RESULTS

	Three Months Ended June 30,		Percentage	Six Months Ended June 30,		Percentage
(in millions)	**2021**	2020	Change	**2021**	2020	Change
Revenues:						
Premiums	**$ 4**	$ 3	33 %	**$ 8**	$ 9	(11)%
Policy fees	**130**	100	30	**254**	209	22
Net investment income	**605**	541	12	**1,205**	1,058	14
Advisory fee and other income	**81**	68	19	**159**	130	22
Benefits and expenses:						
Policyholder benefits and losses incurred	**8**	14	(43)	**26**	47	(45)
Interest credited to policyholder account balances	**287**	279	3	**570**	560	2
Amortization of deferred policy acquisition costs	**13**	4	225	**29**	39	(26)
Non deferrable insurance commissions	**18**	28	(36)	**47**	56	(16)
Advisory fee expenses	**31**	30	3	**62**	54	15
General operating expenses	**106**	132	(20)	**219**	271	(19)
Interest expense	**10**	11	(9)	**19**	22	(14)
Adjusted pre-tax income	**$ 347**	$ 214	62 %	**$ 654**	$ 357	83 %
Base net investment spread:						
Base yield*	**4.17 %**	4.27 %	(10)bps	**4.14 %**	4.33 %	(19)bps
Cost of funds	**2.61**	2.64	(3)	**2.61**	2.66	(5)
Base net investment spread	**1.56 %**	1.63 %	(7)bps	**1.53 %**	1.67 %	(14)bps

* Includes returns from base portfolio including accretion and income (loss) from certain other invested assets.

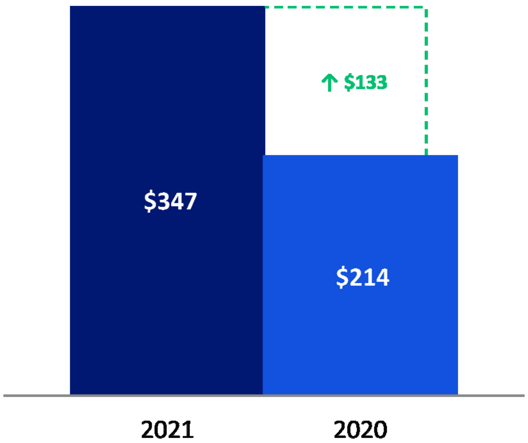
Business and Financial Highlights

Group Retirement is focused on implementing initiatives to grow its business. However, external factors, including increased competition and the consolidation of healthcare providers and other employers in target markets, continue to impact Group Retirement's customer retention. Premiums and deposits increased $585 million and $548 million in the three- and six-month periods ended June 30, 2021, respectively, compared to the same periods in the prior year. Net flows remained negative but improved $14 million in the three-month period ended June 30, 2021 compared to the same period in the prior year. Net flows remained negative and deteriorated $292 million in the six-month period ended June 30, 2021 compared to the same period in the prior year.

Adjusted pre-tax income increased $133 million in the three-month period ended June 30, 2021 compared to the same period in the prior year primarily from higher net investment income ($64 million), higher net policy and advisory fee income ($42 million) and lower general operating expenses ($26 million).

Adjusted pre-tax income increased $297 million in the six-month period ended June 30, 2021 compared to the same period in the prior year primarily from higher net investment income ($147 million), higher net policy and advisory fee income ($66 million), lower general operating expenses ($52 million) and decreases in variable annuity DAC amortization and reserves ($31 million).

Group Retirement Adjusted Pre-Tax Income (Loss)
Three Months Ended June 30,
(in millions)



Quarterly 2021 and 2020 Comparison

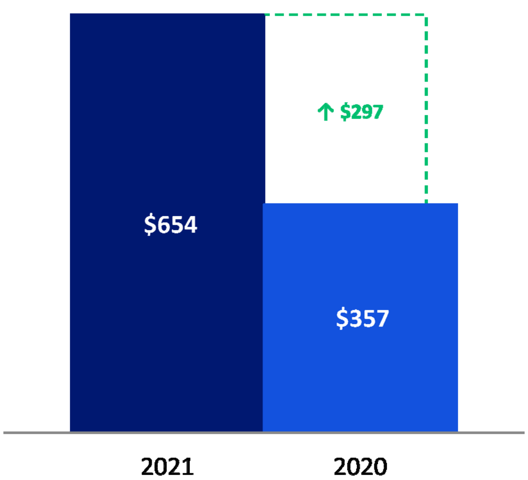
Adjusted pre-tax income increased $133 million primarily due to:

- higher net investment income ($64 million), primarily driven by higher private equity returns ($86 million) partially offset by lower yield enhancement income ($26 million);
- higher policy and advisory fee income, net of expenses ($42 million), due to an increase in separate account, mutual fund, and advisory average assets; and
- lower general operating expenses ($26 million) primarily due to decreased regulatory expenses.

Partially offsetting these increases were:

- lower base net investment spread ($11 million) resulting from decreased reinvestment rates on the base portfolio and lower average invested assets partially offset by crediting rate reductions.

Group Retirement Adjusted Pre-Tax Income (Loss)
Six Months Ended June 30,
(in millions)



Year-to-Date 2021 and 2020 Comparison

Adjusted pre-tax income increased $297 million primarily due to:

- higher net investment income ($147 million), primarily driven by higher private equity returns ($126 million) and higher gains on calls ($26 million);
- higher policy and advisory fee income, net of expenses, ($66 million) due to an increase in separate account, mutual fund, and advisory average assets;
- lower general operating expenses ($52 million) primarily due to decreased regulatory expenses and savings from COVID-19 travel restrictions; and
- decreases in variable annuity DAC amortization and reserves ($31 million) due to stronger equity market performance.

Partially offsetting these increases were:

- lower base net investment spread ($25 million) resulting from decreased reinvestment rates on the base portfolio, partially offset by higher average invested assets and crediting rate reductions.

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

For Group Retirement, premiums primarily represent amounts received on life-contingent payout annuities. Premiums in the three- and six-month periods ended June 30, 2021, which primarily represents immediate annuities, increased $1 million and decreased $1 million, respectively, compared to the same periods in the prior year. Premiums are not a significant driver of Group Retirement results.

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2021**	2020	**2021**	2020
Premiums	**$ 4**	$ 3	**$ 8**	$ 9
Deposits	**2,251**	1,667	**4,065**	3,516
Premiums and deposits	**$ 2,255**	$ 1,670	**$ 4,073**	$ 3,525

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	**2021**	2020
Surrenders as a percentage of average reserves and mutual funds	**7.9 %**	7.3 %	**8.4 %**	8.2 %

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

(in millions)	June 30, 2021(a)	December 31, 2020(a)
No surrender charge(b)	**$ 80,763**	$ 77,507
Greater than 0% - 2%	**694**	565
Greater than 2% - 4%	**848**	829
Greater than 4%	**6,186**	6,119
Non-surrenderable	**765**	616
Total reserves	**$ 89,256**	$ 85,636

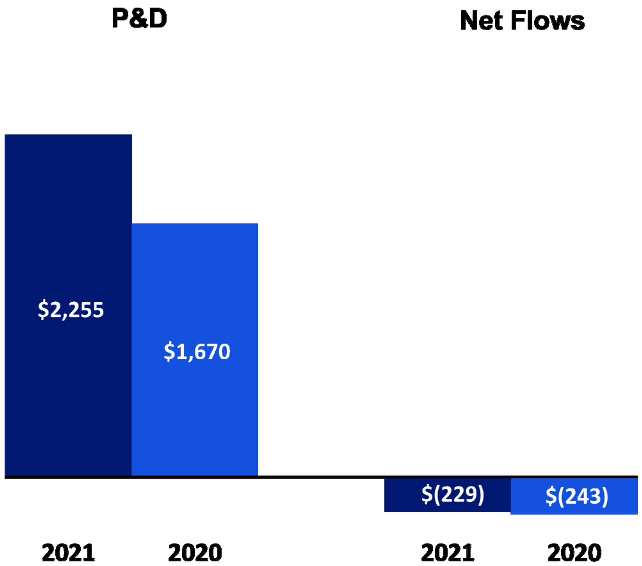
(a) Excludes mutual fund assets under administration of $27.7 billion and $25.0 billion at June 30, 2021 and December 31, 2020, respectively.

(b) Group Retirement amounts in this category include general account reserves of approximately $6.4 billion and $6.3 billion at June 30, 2021 and December 31, 2020 respectively, which are subject to 20 percent annual withdrawal limitations at the participant level and general account reserves of $6.2 billion at June 30, 2021 and $5.8 billion at December 31, 2020, respectively, which are subject to 20 percent annual withdrawal limitations at the plan level.

Group Retirement annuity deposits are typically subject to a five- to seven-year surrender charge period, depending on the product. At June 30, 2021, Group Retirement annuity reserves with no surrender charge increased compared to December 31, 2020 primarily due to growth in assets under management.

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

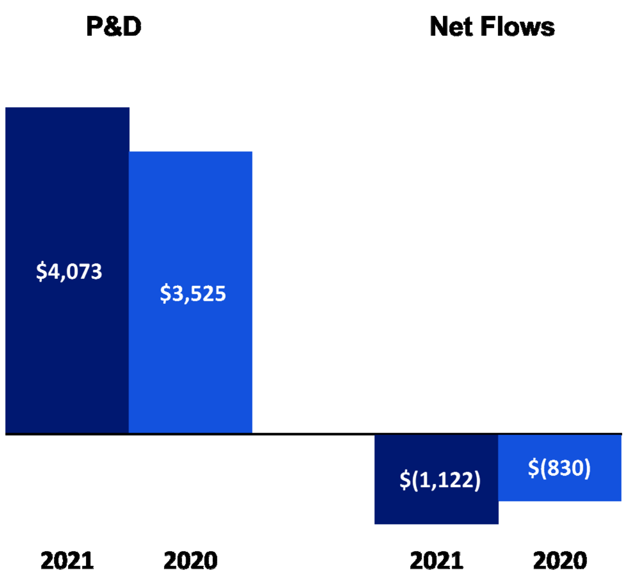
Group Retirement Premiums and Deposits and Net Flows
Three Months Ended June 30,
(in millions)



Quarterly 2021 and 2020 Comparison

Net flows remained negative but improved ($14 million) due to higher deposits ($585 million) partially offset by higher surrenders and withdrawals ($529 million) and death benefits ($42 million).

Group Retirement Premiums and Deposits and Net Flows
Six Months Ended June 30,
(in millions)



Year-to-Date 2021 and 2020 Comparison

Net flows remained negative and deteriorated ($292 million) due to higher surrenders ($753 million) and death benefits ($87 million) partially offset by higher deposits ($548 million). Large plan acquisitions and surrenders also contributed to the period over period volatility. In the six-month period ended June 30, 2021, large group activity contributed to net positive flows of $0.6 billion compared to the same period in the prior year. External factors including consolidation of healthcare providers and other employers in target markets continue to impact Group Retirement customer retention.

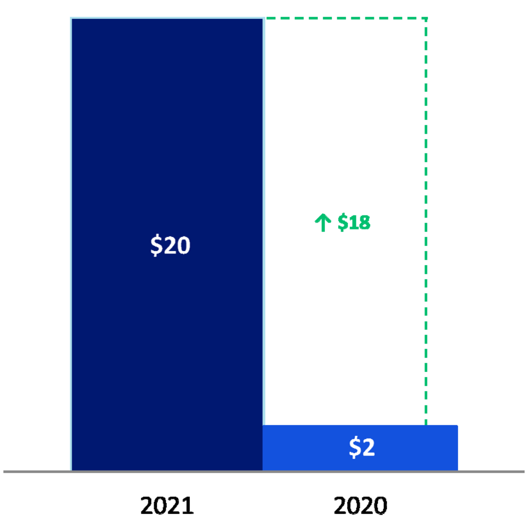
LIFE INSURANCE RESULTS

(in millions)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Percentage Change	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	Percentage Change
Revenues:						
Premiums	$ 532	$ 491	8 %	$ 1,064	$ 954	12 %
Policy fees	355	377	(6)	735	748	(2)
Net investment income	394	340	16	801	695	15
Other income	14	11	27	28	22	27
Benefits and expenses:						
Policyholder benefits and losses incurred	950	863	10	1,954	1,641	19
Interest credited to policyholder account balances	89	93	(4)	177	186	(5)
Amortization of deferred policy acquisition costs	45	64	(30)	120	129	(7)
Non deferrable insurance commissions	33	30	10	66	58	14
General operating expenses	152	160	(5)	318	310	3
Interest expense	6	7	(14)	13	15	(13)
Adjusted pre-tax income (loss)	$ 20	$ 2	NM%	$ (20)	$ 80	NM%

Business and Financial Highlights

Life Insurance is focused on selling profitable new products through strategic channels to enhance future returns. Adjusted pre-tax income increased $18 million in the three-month period ended June 30, 2021 compared to the same period in the prior year primarily due to higher net investment income ($54 million) and favorable general operating expenses ($8 million) partially offset by higher mortality net of lower COVID-19 claims ($45 million). Adjusted pre-tax loss in the six-month period ended June 30, 2021 compared to adjusted pre-tax income in the same period in the prior year decreased $100 million primarily due to higher mortality ($201 million) predominantly driven by COVID-19, and higher general operating expense ($8 million), partially offset by higher net investment income ($106 million).

Life Insurance Adjusted Pre-Tax Income (Loss)
Three Months Ended June 30,
(in millions)



Quarterly 2021 and 2020 Comparison

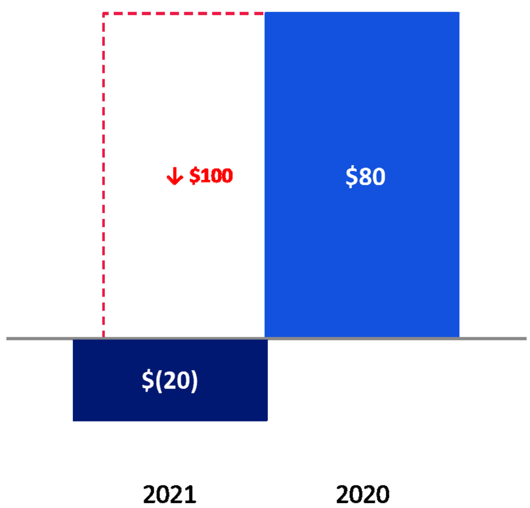
Adjusted pre-tax income increased $18 million primarily due to:

- higher net investment income ($54 million), primarily driven by higher private equity returns ($60 million) due to stronger equity market performance; and
- lower general operating expenses ($8 million).

Partially offsetting these increases were:

- higher mortality net of lower COVID-19 claims ($45 million).

Life Insurance Adjusted Pre-Tax Income (Loss)
Six Months Ended June 30,
(in millions)



Year-to-Date 2021 and 2020 Comparison

Adjusted pre-tax loss compared to adjusted pre-tax income decreased $100 million primarily due to:

- higher mortality ($201 million) predominantly driven by COVID-19; and
- higher general operating expenses ($8 million).

Partially offsetting these decreases were:

- higher net investment income ($106 million), primarily driven by higher private equity returns ($83 million) due to stronger equity market performance and higher gains on calls ($39 million) partially offset by lower base portfolio income ($24 million) driven by reduced fixed asset income.

LIFE INSURANCE GAAP PREMIUMS AND PREMIUMS AND DEPOSITS

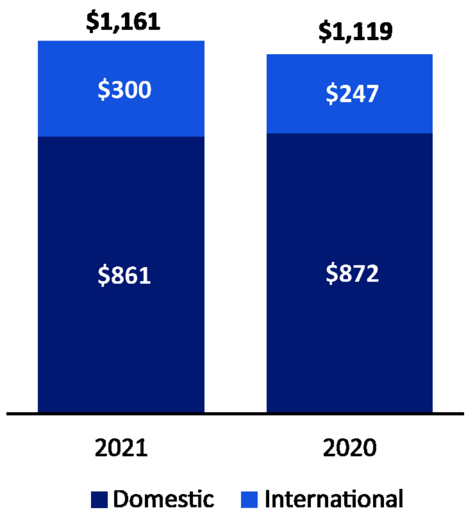
Premiums for Life Insurance represent amounts received on traditional life insurance policies, primarily term life and international life and health. Premiums, excluding the effect of foreign exchange, increased $21 million and $75 million in the three- and six-month periods ended June 30, 2021, respectively, compared to the same periods in the prior year. Premiums and deposits for Life Insurance is a non-GAAP financial measure that includes direct and assumed premiums as well as deposits received on universal life insurance.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2021**	2020	**2021**	2020
Premiums	**$ 532**	$ 491	**$ 1,064**	$ 954
Deposits	**409**	421	**806**	824
Other	**220**	207	**422**	403
Premiums and deposits	**$ 1,161**	$ 1,119	**$ 2,292**	$ 2,181

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

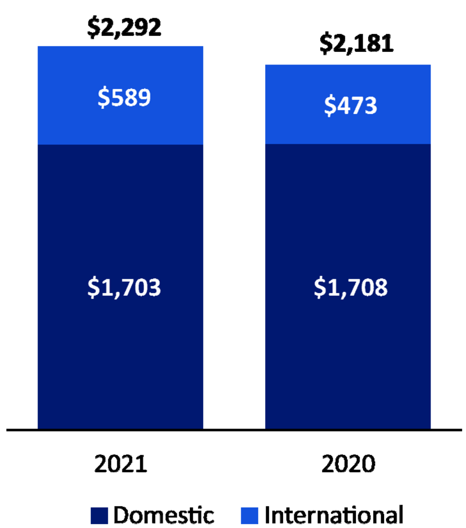
Life Insurance Premiums and Deposits
Three Months Ended June 30,
(in millions)



Quarterly 2021 and 2020 Comparison

Premiums and deposits, excluding the effect of foreign exchange, increased $14 million primarily due to growth in international life premiums.

Life Insurance Premiums and Deposits
Six Months Ended June 30,
(in millions)



Year-to-Date 2021 and 2020 Comparison

Premiums and deposits, excluding the effect of foreign exchange, increased $64 million primarily due to growth in international life premiums.

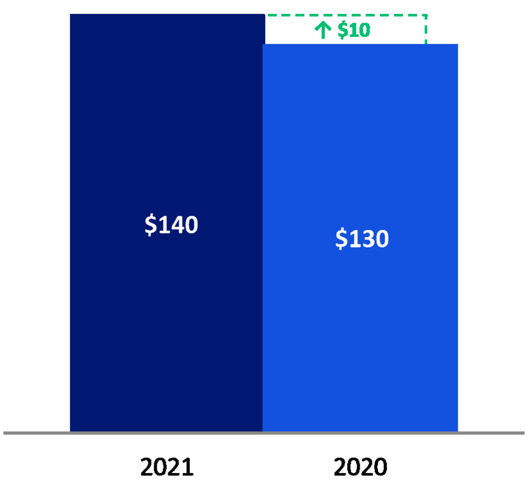
INSTITUTIONAL MARKETS RESULTS

(in millions)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Percentage Change	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	Percentage Change
Revenues:						
Premiums	$ 1,077	$ 1,090	(1)%	$ 1,116	$ 1,847	(40)%
Policy fees	46	46	-	93	92	1
Net investment income	288	263	10	566	484	17
Other income	1	-	NM	1	-	NM
Benefits and expenses:						
Policyholder benefits and losses incurred	1,170	1,155	1	1,289	1,995	(35)
Interest credited to policyholder account balances	73	81	(10)	146	161	(9)
Amortization of deferred policy acquisition costs	2	1	100	3	2	50
Non deferrable insurance commissions	6	8	(25)	13	16	(19)
General operating expenses	18	21	(14)	38	38	-
Interest expense	3	3	-	5	6	(17)
Adjusted pre-tax income	$ 140	$ 130	8 %	$ 282	$ 205	38 %

Business and Financial Highlights

Institutional Markets is focused on opportunities to grow its portfolio while maintaining pricing discipline. Product distribution continues to be strong. Growth in assets under management in recent years has partially driven higher net investment income and adjusted pre-tax income. Adjusted pre-tax income increased $10 million and $77 million in the three- and six-month periods ended June 30, 2021, respectively, compared to the same periods in the prior year.

Institutional Markets Adjusted Pre-Tax Income (Loss)
Three Months Ended June 30,
(in millions)



Quarterly 2021 and 2020 Comparison

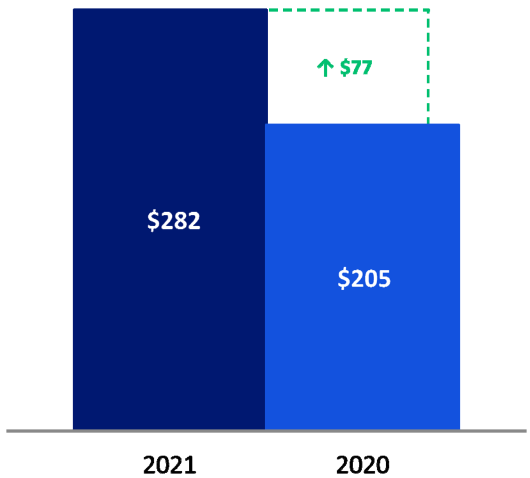
Adjusted pre-tax income increased $10 million primarily due to:

- higher private equity returns ($55 million) and higher base portfolio income ($19 million) driven by growth in average invested assets partially offset by lower yield enhancement income ($50 million).

Partially offsetting these increases was:

- higher policyholder benefit and losses incurred ($15 million).

Institutional Markets Adjusted Pre-Tax Income (Loss)
Six Months Ended June 30,
(in millions)



Year-to-Date 2021 and 2020 Comparison

Adjusted pre-tax income increased $77 million primarily due to:

- higher private equity returns ($79 million) and higher base portfolio income ($28 million) driven by growth in average invested assets partially offset by lower yield enhancement income ($29 million).

INSTITUTIONAL MARKETS GAAP PREMIUMS AND PREMIUMS AND DEPOSITS

Premiums for Institutional Markets primarily represent amounts received on pension risk transfer or structured settlement annuities with life contingencies. Premiums decreased $13 million in the three-month period ended June 30, 2021 compared to the same period in the prior year primarily driven by structured settlement annuities with life contingencies business. Premiums decreased $731 million in the six-month period ended June 30, 2021 compared to the same period in the prior year primarily driven by pension risk transfer business (direct and assumed reinsurance) written in 2020, as well as structured settlement annuities with life contingencies business and high net worth business.

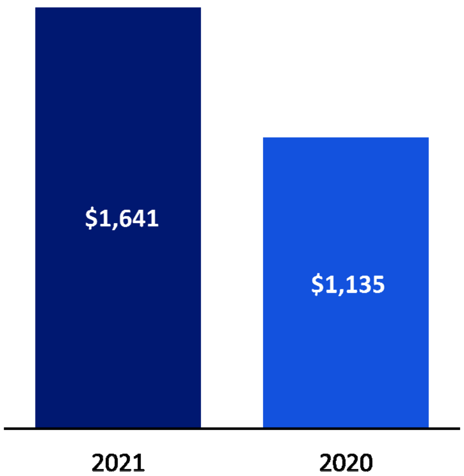
Premiums and deposits for Institutional Markets is a non-GAAP financial measure that includes direct and assumed premiums as well as deposits received on investment-type annuity contracts. Deposits include GICs and FHLB funding agreements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2021**	2020	**2021**	2020
Premiums	**$ 1,077**	$ 1,090	**$ 1,116**	$ 1,847
Deposits	**559**	39	**593**	250
Other	**5**	6	**12**	14
Premiums and deposits	**$ 1,641**	$ 1,135	**$ 1,721**	$ 2,111

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

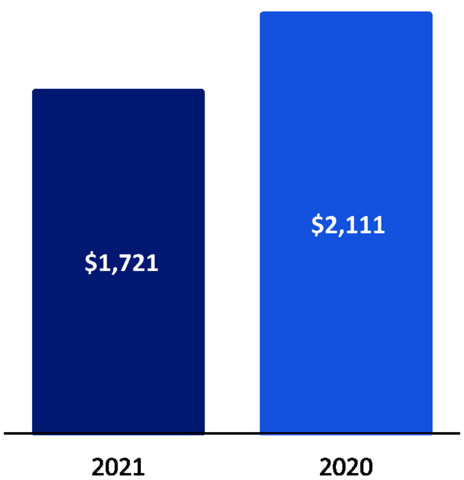
Institutional Markets Premiums and Deposits
Three Months Ended June 30,
(in millions)



Quarterly 2021 and 2020 Comparison

Premiums and deposits increased ($506 million) primarily due to higher deposits on GICs ($550 million) and higher premium on pension risk transfer business ($14 million), partially offset by lower premium and deposits on structured settlement annuities ($55 million).

Institutional Markets Premiums and Deposits
Six Months Ended June 30,
(in millions)



Year-to-Date 2021 and 2020 Comparison

Premiums and deposits decreased ($390 million) due to lower premiums on pension risk transfer ($669 million), lower premium and deposits on structured settlement annuities ($111 million), and lower deposits on high net worth products ($37 million), partially offset by higher deposits on GICs ($426 million).

Other Operations

Other Operations primarily consists of income from assets held by AIG Parent and other corporate subsidiaries, deferred tax assets related to tax attributes, corporate expenses and intercompany eliminations, our institutional asset management business and results of our consolidated investment entities, General Insurance portfolios in run-off as well as the historical results of our legacy insurance lines ceded to Fortitude Re.

OTHER OPERATIONS RESULTS

(in millions)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Percentage Change	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	Percentage Change
Revenues:						
Premiums	$ 54	$ 36	50 %	$ 106	$ 140	(24)%
Policy fees	-	21	NM %	-	42	NM
Net investment income:						
Interest and dividends	45	336	(87)	95	814	(88)
Alternative investments	118	(55)	NM	325	(78)	NM
Other investment income	45	287	(84)	43	39	10
Investment expenses	(8)	(18)	56	(14)	(35)	60
Total net investment income	200	550	(64)	449	740	(39)
Other income	5	-	NM	28	-	NM
Total adjusted revenues	259	607	(57)	583	922	(37)
Benefits, losses and expenses:						
Policyholder benefits and losses incurred	96	284	(66)	162	733	(78)
Interest credited to policyholder account balances	-	44	NM	-	93	NM
Acquisition expenses:						
Amortization of deferred policy acquisition costs	11	13	(15)	21	31	(32)
Other acquisition expenses	(1)	-	NM	(1)	1	NM
Total acquisition expenses	10	13		20	32	(38)
General operating expenses						
Corporate and Other	319	243	31	560	529	6
Asset Management	13	13	-	48	29	66
Amortization of intangible assets	10	10	-	20	20	-
Total General operating expenses	342	266	29	628	578	9
Interest expense:						
Interest - Corporate and Other	265	290	(9)	537	563	(5)
Interest - Asset Management*	62	42	48	106	90	18
Total interest expense	327	332	(2)	643	653	(2)
Total benefits, losses and expenses	775	939	(17)	1,453	2,089	(30)
Adjusted pre-tax loss before consolidation and eliminations	(516)	(332)	(55)	(870)	(1,167)	25
Consolidation and eliminations	(94)	53	NM	(270)	(34)	NM
Adjusted pre-tax loss	$ (610)	$ (279)	(119)%	$ (1,140)	$ (1,201)	5 %
Adjusted pre-tax income (loss) by activities:						
Corporate and Other	(617)	(248)	(149)	$ (1,169)	$ (1,127)	(4)%
Asset Management	101	(84)	NM	299	(40)	NM
Consolidation and eliminations	(94)	53	NM	(270)	(34)	NM
Adjusted pre-tax loss	$ (610)	$ (279)	(119)%	$ (1,140)	$ (1,201)	5 %

* Interest – Asset Management primarily represents interest expense on consolidated investment entities of $61 million and $41 million in the three-month periods ended June 30, 2021 and 2020, respectively, and $102 million and $87 million in the six-month periods ended June 30, 2021 and 2020, respectively.

QUARTERLY 2021 AND 2020 COMPARISON

Adjusted pre-tax loss before consolidation and eliminations of $516 million in 2021 compared to $332 million in 2020, an increase of $184 million, was primarily due to the sale of a majority of the interest in Fortitude Holdings on June 2, 2020, as prior period results included adjusted pre-tax income of $96 million. Excluding the results of Fortitude Re, adjusted pre-tax loss increased $88 million primarily due to:

- higher general operating expenses primarily driven by increases in performance-based employee costs of $73 million; and
- higher underwriting loss attributable to net prior year development in 2021 of $65 million within Other Operations Run-off, primarily attributable to Blackboard insurance companies.

The increase in adjusted pre-tax loss was partially offset by:

- higher net investment income associated with consolidated investment entities of $195 million, partially offset by decline in net mark to market gains on CDO securities of $124 million and losses on fair value option assets of $17 million.

Adjusted pre-tax loss on consolidation and eliminations of $94 million in 2021 compared to adjusted pre-tax income on consolidation and eliminations of $53 million in 2020, was primarily due to the elimination of the insurance companies' net investment income on their investment in the consolidated investment entities of $167 million.

YEAR-TO-DATE 2021 AND 2020 COMPARISON

Adjusted pre-tax loss before consolidation and eliminations of $870 million in 2021 compared to $1.2 billion in 2020, a decrease of $297 million, was primarily due to the sale of a majority of the interest in Fortitude Holdings on June 2, 2020, as prior period results included adjusted pre-tax loss of $233 million. Excluding the results of Fortitude Re, adjusted pre-tax loss decreased $64 million primarily due to:

- higher net investment income associated with consolidated investment entities of $357 million was partially offset by decline in net mark to market gains on CDO securities of $124 million.

The decrease in adjusted pre-tax loss was partially offset by:

- higher underwriting loss attributable to net prior year development in 2021 of $84 million within Other Operations Run-off, primarily attributable to Blackboard insurance companies; and
- higher general operating expenses primarily driven by increases in performance-based employee costs of $73 million.

Adjusted pre-tax loss on consolidation and eliminations of $270 million in 2021 compared to $34 million in 2020, an increase of $236 million, was primarily due to the elimination of the insurance companies' net investment income on their investment in the consolidated investment entities of $216 million.

Investments

OVERVIEW

Our investment strategies are tailored to the specific business needs of each operating unit by targeting an asset allocation mix that supports estimated cash flows of our outstanding liabilities and provides diversification from an asset class, sector, issuer, and geographic perspective. The primary objectives are generation of investment income, preservation of capital, liquidity management and growth of surplus. The majority of assets backing our insurance liabilities consist of fixed maturity securities.

The worldwide health and economic impact of COVID-19 continues to evolve, influenced by the scope, severity and duration of the crisis as well as the actions of governments, judiciaries, legislative bodies, regulators and other third parties in response, including the distribution and effectiveness of vaccinations, all of which are subject to continuing uncertainty. Weak initial economic conditions resulting from COVID-19 have been met with intervention taken by governments and monetary authorities aimed at stimulating growth, resulting in a sharp recovery on our overall investment portfolio to pre-COVID-19 conditions. In certain segments of our diversified investment portfolio, there have been exposures to sectors of the economy significantly affected by the crisis, which has, in certain periods, resulted in the recognition of credit losses and increases in our allowance for credit losses. Further recognition of credit losses and increases in our allowances for credit losses could result if new business closures are imposed or economic conditions worsen in response to a future resurgence of the virus.

INVESTMENT HIGHLIGHTS IN THE SIX MONTHS ENDED JUNE 30, 2021

- A rise in interest rates resulted in a net unrealized loss movement in our investment portfolio. Net unrealized gains in our available for sale portfolio decreased to approximately $21.4 billion as of June 30, 2021 from approximately $27.4 billion as of December 31, 2020.
- We continued to make investments in structured securities and other fixed maturity securities with favorable risk compared to return characteristics to improve yields and increase net investment income.
- We experienced an increase in net investment income in the six-month period ended June 30, 2021 compared to the same period in the prior year due primarily to the higher income on our alternative investments and fair value option equity security holdings that directionally followed the positive returns achieved in equity markets. The same period in the prior year experienced significant volatility and declines in equity markets due to the onset of the COVID-19 crisis.
- Blended investment yields on new investments were lower than blended rates on investments that were sold, matured or called.

Change in Unrealized Gains and Losses on Investments

The change in net unrealized gains and losses on investments in the three- and six-month periods ended June 30, 2021 was primarily attributable to movements in interest rates and spreads. There was a drop in rates and narrowing spreads in the three-month period ended June 30, 2021 that resulted in unrealized gains of approximately $5.9 billion on fixed maturity securities. For the six-month period ended June 30, 2021, net unrealized losses related to fixed maturity securities were by $5.8 billion due primarily to an increase in interest rates.

The change in net unrealized gains and losses on investments in the three- and six-month periods ended June 30, 2020 was primarily attributable to increases in the fair value of fixed maturity securities. For the six-month period ended June 30, 2020, there were net unrealized gains related to fixed maturity securities of $3.5 billion due primarily to lower rates partially offset by a widening of credit spreads.

For further discussion of our investment portfolio see Note 5 to the Condensed Consolidated Financial Statements.

Net Realized Gains and Losses

Lower net realized losses excluding Fortitude Re Funds Withheld Assets in the three-month period ended June 30, 2021 compared to the same period in the prior year were primarily due to higher foreign exchange gains and allowance releases in the prior year compared to allowance increases in the current year. Lower net realized gains excluding Fortitude Re Funds Withheld Assets in the six-month period ended June 30, 2021 compared to the same period in the prior year were primarily due to lower derivatives gains, which more than offset foreign exchange gains and allowance releases compared to losses and increases, respectively, in the prior year.

Variable annuity embedded derivatives, net of related hedges, reflected lower losses in the three-month period ended June 30, 2021 and lower gains in the six-month period ended June 30, 2021 compared to the same periods in the prior year. Fair value gains or losses in the hedging portfolio are typically not fully offset by increases or decreases in liabilities due to the non-performance or “own credit” risk adjustment used in the valuation of the variable annuities with guaranteed minimum withdrawal benefits (GMWB) embedded derivative, which are not hedged as part of our economic hedging program, and other risk margins used for valuation that cause the embedded derivatives to be less sensitive to changes in market rates than the hedge portfolio.

Net realized gains (losses) on Fortitude Re funds withheld assets primarily reflect changes in the valuation of the modified coinsurance and funds withheld assets. Increases in the valuation of these assets result in losses to AIG as the appreciation on the assets must under those reinsurance arrangements be transferred to Fortitude Re. Decreases in valuation of the assets result in gains to AIG as the depreciation on the assets under those reinsurance arrangements must be transferred to Fortitude Re. *For further details on the impact of the funds withheld arrangements with Fortitude Re see Note 7 to the Condensed Consolidated Financial Statements.*

For further details on net realized gains and losses, see – Net Realized Gains and Losses below.

For additional discussion of market risk management related to these product features see Part II, Item 7. MD&A – Enterprise Risk Management – Insurance Risks – Life and Retirement Companies' Key Risks – Variable Annuity, Index Annuity and Universal Life Risk Management and Hedging Programs in the 2020 Annual Report. For more information on the economic hedging target and the impact to pre-tax income of this program see Insurance Reserves – Life and Annuity Future Policy Benefits, Policyholder Contract Deposits and DAC – Variable Annuity Guaranteed Benefits and Hedging Results in this MD&A.

For further discussion of our investment portfolio see Note 5 to the Condensed Consolidated Financial Statements.

INVESTMENT STRATEGIES

Investment strategies are assessed at the segment level and involve considerations that include local and general market conditions, duration and cash flow management, risk appetite and volatility constraints, rating agency and regulatory capital considerations, and tax and legal investment limitations.

Some of our key investment strategies are as follows:

- Our fundamental strategy across the portfolios is to seek investments with similar characteristics to the associated insurance liabilities to the extent practicable. AIG embeds Environmental, Social and Governance (ESG) considerations in its fundamental investment analysis of the companies or projects we invest in to ensure that they have sustainable earnings over the full term of our investment. AIG considers internal and external factors and evaluates changes in consumer behavior, industry trends related to ESG factors as well as the ability of the management of companies to respond appropriately to these changes in order to maintain their competitive advantage.
- We seek to originate investments that offer enhanced yield through illiquidity premiums, such as private placements and commercial mortgage loans, which also add portfolio diversification. These assets typically afford credit protections through covenants, ability to customize structures that meet our insurance liability needs, and deeper due diligence given information access.
- Given our global presence, we have access to assets that provide diversification from local markets. To the extent we purchase these investments, we generally hedge any currency risk using derivatives, which could provide opportunities to earn higher risk adjusted returns compared to assets in the functional currency.
- AIG Parent, included in Other Operations, actively manages its assets and liabilities, 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 that can be readily monetized through sales or repurchase agreements. This strategy allows us to both diversify our sources of liquidity and reduce the cost of maintaining sufficient liquidity.

- Within the U.S., the Life and Retirement and General Insurance investments are generally split between reserve backing and surplus portfolios.
  – Insurance reserves are backed by mainly investment grade fixed maturity securities that meet our duration, risk-return, tax, liquidity, credit quality and diversification objectives. We assess asset classes based on their fundamental underlying risk factors, including credit (public and private), commercial real estate and residential real estate regardless of whether such investments are bonds, loans, or structured products.
  – Surplus investments seek to enhance portfolio returns and are generally comprised of a mix of fixed maturity investment grade and below investment grade securities and various alternative asset classes, including private equity, real estate equity, and hedge funds. Over the past few years, hedge fund investments have been reduced with more emphasis given to private equity, real estate and below investment grade credit.
- Outside of the U.S., fixed maturity securities held by insurance companies consist primarily of investment-grade securities generally denominated in the currencies of the countries in which we operate.

Asset Liability Management

The investment strategy within the General Insurance companies focuses on growth of surplus, maintenance of sufficient liquidity for unanticipated insurance claims, and preservation of capital. General Insurance invests 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. Fixed maturity securities of the General Insurance companies' North America operations have an average duration of 3.9 years. Fixed maturity securities of the General Insurance companies' International operations have an average duration of 4.3 years.

While invested assets backing reserves of the General Insurance companies are primarily invested in conventional liquid fixed maturity securities, we have continued to allocate to asset classes that offer higher yields through structural and illiquidity premiums, particularly in our North America operations. In addition, we continue to invest in both fixed rate and floating rate asset-backed investments to manage our exposure to potential changes in interest rates and inflation. We seek to diversify the portfolio across asset classes, sectors and issuers to mitigate idiosyncratic portfolio risks.

In addition, a portion of the surplus of General Insurance is invested in a diversified portfolio of alternative investments that seek to balance liquidity, volatility and growth of surplus. There is a higher allocation to equity-oriented investments in General Insurance surplus relative to other AIG portfolios given the underlying inflation risks inherent in that business. Although these alternative investments are subject to periodic earnings fluctuations, they have historically achieved yields in excess of the fixed maturity portfolio yields and have provided added diversification to the broader portfolio.

The investment strategy of the Life and Retirement companies is to provide net investment income to back liabilities that result in stable distributable earnings and enhance portfolio value, subject to asset liability management, capital, liquidity and regulatory constraints.

The Life and Retirement companies use asset-liability management as a primary tool to monitor and manage risk in their businesses. The Life and Retirement companies maintain a diversified, high-to-medium quality portfolio of 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 that, to the extent practicable, match the duration characteristics of the liabilities. We seek to diversify the portfolio across asset classes, sectors, and issuers to mitigate idiosyncratic portfolio risks. The investment portfolio of each product line is tailored to the specific characteristics of its insurance liabilities, and as a result, duration varies between distinct portfolios. The interest rate environment has a direct impact on the asset-liability management profile of the businesses, and 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. A further lengthening of the portfolio will be assessed in the context of available market opportunities as longer duration markets may not provide similar diversification benefits as shorter duration markets.

Fixed maturity securities of the Life and Retirement companies' domestic operations have an average duration of 9 years.

In addition, the Life and Retirement companies seek to enhance surplus portfolio returns through investments in a diversified portfolio of alternative investments. Although these alternative investments are subject to periodic earnings fluctuations, they have historically achieved returns in excess of the fixed maturity portfolio returns.

NAIC Designations of Fixed Maturity Securities

The Securities Valuation Office (SVO) of the 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. NAIC Designations for non-agency RMBS and CMBS are calculated using third party modeling results provided through the NAIC. 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 AIG subsidiaries’ fixed maturity security portfolio by NAIC Designation, and the distribution by composite AIG credit rating, which is generally based on ratings of the three major rating agencies.

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

The following table presents the fixed maturity security portfolio categorized by NAIC Designation, at fair value:

June 30, 2021
(in millions)

NAIC Designation	1	2	Total Investment Grade	3	4	5	6	Total Below Investment Grade	Total
Other fixed maturity securities	$ 103,618	$ 90,354	**$ 193,972**	$ 9,409	$ 8,217	$ 1,300	$ 132	**$ 19,058**	**$ 213,030**
Mortgage-backed, asset-backed and collateralized	57,927	4,584	**62,511**	343	97	44	1,897	**2,381**	**64,892**
Total*	$ 161,545	$ 94,938	**$ 256,483**	$ 9,752	$ 8,314	$ 1,344	$ 2,029	**$ 21,439**	**$ 277,922**

* Excludes $14 million of fixed maturity securities for which no NAIC Designation is available.

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

June 30, 2021
(in millions)

Composite AIG Credit Rating	AAA/AA/A	BBB	Total Investment Grade	BB	B	CCC and Lower	Total Below Investment Grade	Total
Other fixed maturity securities	$ 107,619	$ 85,967	**$ 193,586**	$ 9,325	$ 7,499	$ 2,620	**$ 19,444**	**$ 213,030**
Mortgage-backed, asset-backed and collateralized	49,252	4,986	**54,238**	627	351	9,676	**10,654**	**64,892**
Total*	$ 156,871	$ 90,953	**$ 247,824**	$ 9,952	$ 7,850	$ 12,296	**$ 30,098**	**$ 277,922**

* Excludes $14 million of fixed maturity securities for which no NAIC Designation is available.

CREDIT RATINGS

At June 30, 2021, approximately 88 percent of our fixed maturity securities were held by our domestic entities. Approximately 89 percent of these securities were rated investment grade by one or more of the principal rating agencies. 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 June 30, 2021, approximately 94 percent of such investments were either rated investment grade or, on the basis of our internal analysis, were equivalent from a credit standpoint to securities rated investment grade. Approximately 26 percent of the foreign entities’ fixed maturity securities portfolio is comprised of sovereign fixed maturity securities supporting policy liabilities in the country of issuance.

Composite AIG Credit Ratings

With respect to our fixed maturity securities, the credit ratings in the table below and in subsequent tables reflect: (i) 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 (99 percent of total fixed maturity securities), or (ii) our equivalent internal ratings when these investments have not been rated by any of the major rating agencies or the NAIC. The “Non-rated” category in those tables consists of fixed maturity securities that have not been rated by any of the major rating agencies, the NAIC or us.

For a discussion of credit risks associated with Investments see Part II, Item 7. MD&A – Enterprise Risk Management – Credit Risk Management in the 2020 Annual Report.

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

	Available for Sale		Other		Total	
(in millions)	June 30, 2021	December 31, 2020	June 30, 2021	December 31, 2020	June 30, 2021	December 31, 2020
Rating:						
Other fixed maturity securities						
AAA	$ 11,957	$ 11,758	$ 1,736	$ 1,803	$ 13,693	$ 13,561
AA	37,668	36,146	42	42	37,710	36,188
A	56,202	57,255	12	12	56,214	57,267
BBB	85,969	80,878	-	-	85,969	80,878
Below investment grade	18,200	18,087	-	-	18,200	18,087
Non-rated	1,258	769	-	-	1,258	769
Total	$ 211,254	$ 204,893	$ 1,790	$ 1,857	$ 213,044	$ 206,750
Mortgage-backed, asset-backed and collateralized						
AAA	$ 28,163	$ 31,133	$ 274	$ 347	$ 28,437	$ 31,480
AA	14,332	15,287	150	195	14,482	15,482
A	6,189	6,711	144	145	6,333	6,856
BBB	4,672	4,137	314	343	4,986	4,480
Below investment grade	8,432	9,281	1,947	2,165	10,379	11,446
Non-rated	28	54	247	239	275	293
Total	$ 61,816	$ 66,603	$ 3,076	$ 3,434	$ 64,892	$ 70,037
Total						
AAA	$ 40,120	$ 42,891	$ 2,010	$ 2,150	$ 42,130	$ 45,041
AA	52,000	51,433	192	237	52,192	51,670
A	62,391	63,966	156	157	62,547	64,123
BBB	90,641	85,015	314	343	90,955	85,358
Below investment grade	26,632	27,368	1,947	2,165	28,579	29,533
Non-rated	1,286	823	247	239	1,533	1,062
Total	$ 273,070	$ 271,496	$ 4,866	$ 5,291	$ 277,936	$ 276,787

Available-for-Sale Investments

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

(in millions)	Fair Value at June 30, 2021	Fair Value at December 31, 2020
Bonds available for sale:		
U.S. government and government sponsored entities	$ 4,501	$ 4,126
Obligations of states, municipalities and political subdivisions	15,179	16,124
Non-U.S. governments	16,021	15,345
Corporate debt	175,553	169,298
Mortgage-backed, asset-backed and collateralized:		
RMBS	28,584	31,465
CMBS	15,464	16,133
CDO/ABS	17,768	19,005
Total mortgage-backed, asset-backed and collateralized	61,816	66,603
Total bonds available for sale*	$ 273,070	$ 271,496

* At June 30, 2021 and December 31, 2020, the fair value of bonds available for sale held by us that were below investment grade or not rated totaled $27.9 billion and $28.2 billion, respectively.

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

(in millions)	June 30, 2021	December 31, 2020
Japan	$ 1,318	$ 1,510
Canada	1,205	986
France	757	790
United Kingdom	742	820
Germany	634	642
Indonesia	634	554
Israel	529	535
Chile	495	398
United Arab Emirates	460	519
Mexico	445	358
Other	8,802	8,233
Total	$ 16,021	$ 15,345

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

	June 30, 2021					
(in millions)	Sovereign	Financial Institution	Non-Financial Corporates	Structured Products	Total	December 31, 2020 Total
Euro-Zone countries:						
France	$ 757	$ 1,808	$ 1,479	$ -	$ 4,044	$ 4,206
Germany	634	232	2,802	-	3,668	3,691
Netherlands	245	1,104	1,298	29	2,676	2,804
Ireland	12	137	507	1,392	2,048	2,162
Belgium	136	296	1,152	-	1,584	1,538
Spain	26	375	551	-	952	989
Luxembourg	87	289	413	-	789	712
Italy	23	99	500	-	622	580
Finland	78	38	45	-	161	123
Austria	68	-	-	-	68	93
Other Euro-Zone	558	96	245	-	899	928
Total Euro-Zone	$ 2,624	$ 4,474	$ 8,992	$ 1,421	$ 17,511	$ 17,826
Remainder of Europe:						
United Kingdom	$ 742	$ 4,458	$ 10,054	$ 1,954	$ 17,208	$ 17,066
Switzerland	19	983	844	-	1,846	1,778
Norway	383	56	176	-	615	556
Sweden	190	216	131	-	537	646
Russian Federation	205	22	145	-	372	407
Other - Remainder of Europe	82	295	175	-	552	227
Total - Remainder of Europe	$ 1,621	$ 6,030	$ 11,525	$ 1,954	$ 21,130	$ 20,680
Total	$ 4,245	$ 10,504	$ 20,517	$ 3,375	$ 38,641	$ 38,506

Investments in Municipal Bonds

At June 30, 2021, the U.S. municipal bond portfolio was composed primarily of essential service revenue bonds and high-quality tax-exempt bonds with 93 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:

	June 30, 2021				
(in millions)	State General Obligation	Local General Obligation	Revenue	Total Fair Value	December 31, 2020 Total Fair Value
State:					
California	$ 732	$ 416	$ 1,989	$ 3,137	$ 3,301
New York	7	246	2,584	2,837	3,135
Texas	85	503	942	1,530	1,553
Illinois	90	97	865	1,052	1,106
Massachusetts	421	1	350	772	800
Ohio	19	-	513	532	542
Georgia	105	71	297	473	494
Florida	6	-	412	418	436
Virginia	11	-	378	389	456
Washington	166	6	215	387	413
Pennsylvania	17	2	363	382	399
Washington, D.C.	11	-	290	301	328
New Jersey	12	1	273	286	269
All other states[(a)]	330	197	2,156	2,683	2,892
Total[(b)(c)]	$ 2,012	$ 1,540	$ 11,627	$ 15,179	$ 16,124

(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 $545 million 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 *(in millions)*	Fair Value at June 30, 2021	Fair Value at December 31, 2020
Financial institutions:		
Money center/Global bank groups	$ 10,256	$ 10,512
Regional banks – other	470	627
Life insurance	3,068	3,175
Securities firms and other finance companies	355	312
Insurance non-life	6,460	5,805
Regional banks – North America	7,481	7,505
Other financial institutions	16,728	15,581
Utilities	24,306	23,470
Communications	11,745	11,137
Consumer noncyclical	24,839	24,826
Capital goods	9,346	8,773
Energy	13,613	13,293
Consumer cyclical	13,625	13,213
Basic	6,232	5,894
Other	27,029	25,175
Total*	$ 175,553	$ 169,298

* At June 30, 2021 and December 31, 2020, approximately 90 percent of these investments were rated investment grade.

Our investments in the energy category, as a percentage of total investments in available-for-sale fixed maturities, was 5.0 percent and 4.9 percent, at June 30, 2021 and December 31, 2020, respectively. While the energy investments are primarily investment grade and are actively managed, the category continues to experience volatility that could adversely affect credit quality and fair value.

Investments in RMBS

The following table presents AIG's RMBS available for sale securities:

(in millions)	Fair Value at June 30, 2021	Fair Value at December 31, 2020
Agency RMBS	$ 13,934	$ 15,816
Alt-A RMBS	6,649	7,278
Subprime RMBS	2,396	2,575
Prime non-agency	3,583	3,847
Other housing related	2,022	1,949
Total RMBS[(a)(b)]	$ 28,584	$ 31,465

(a) Includes approximately $6.9 billion and $7.6 billion at June 30, 2021 and December 31, 2020, respectively, of certain RMBS that had experienced deterioration in credit quality since their origination. *For additional discussion on Purchased Credit Impaired Securities see Note 5 to the Condensed Consolidated Financial Statements*.

(b) The weighted average expected life was five years at June 30, 2021 and December 31, 2020.

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

Investments in CMBS

The following table presents our CMBS available for sale securities:

(in millions)	Fair Value at June 30, 2021	Fair Value at December 31, 2020
CMBS (traditional)	$ 12,540	$ 12,917
Agency	1,823	2,078
Other	1,101	1,138
Total	$ 15,464	$ 16,133

The fair value of CMBS holdings remained stable during the second quarter of 2021. 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 ABS/CDOs

The following table presents our ABS/CDO available for sale securities by collateral type:

(in millions)	Fair value at June 30, 2021	Fair value at December 31, 2020
Collateral Type:		
ABS	$ 9,005	$ 9,178
Bank loans (collateralized loan obligation)	8,743	9,793
Other	20	34
Total	$ 17,768	$ 19,005

Unrealized Losses of Fixed Maturity Securities

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

June 30, 2021	Less Than or Equal to 20% of Cost[b]			Greater Than 20% to 50% of Cost[b]			Greater Than 50% of Cost[b]			Total		
Aging[a]		Unrealized			Unrealized			Unrealized			Unrealized	
(dollars in millions)	Cost[c]	Loss	Items[e]	Cost[c]	Loss	Items[e]	Cost[c]	Loss	Items[e]	Cost[c]	Loss[d]	Items[e]
Investment grade bonds												
0-6 months	$ 28,681	$ 600	5,380	$ 6	$ 2	4	$ 3	$ 2	7	$ 28,690	$ 604	5,391
7-11 months	5,426	262	736	6	1	-	-	-	-	5,432	263	736
12 months or more	4,218	201	548	80	20	8	1	1	2	4,299	222	558
Total	$ 38,325	$ 1,063	6,664	$ 92	$ 23	12	$ 4	$ 3	9	$ 38,421	$ 1,089	6,685
Below investment grade bonds												
0-6 months	$ 3,433	$ 46	1,691	$ 18	$ 7	11	$ 15	$ 14	8	$ 3,466	$ 67	1,710
7-11 months	242	9	122	97	25	16	1	1	2	340	35	140
12 months or more	3,450	133	851	314	74	32	22	17	16	3,786	224	899
Total	$ 7,125	$ 188	2,664	$ 429	$ 106	59	$ 38	$ 32	26	$ 7,592	$ 326	2,749
Total bonds												
0-6 months	$ 32,114	$ 646	7,071	$ 24	$ 9	15	$ 18	$ 16	15	$ 32,156	$ 671	7,101
7-11 months	5,668	271	858	103	26	16	1	1	2	5,772	298	876
12 months or more	7,668	334	1,399	394	94	40	23	18	18	8,085	446	1,457
Total[e]	$ 45,450	$ 1,251	9,328	$ 521	$ 129	71	$ 42	$ 35	35	$ 46,013	$ 1,415	9,434

(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 June 30, 2021.

(c) For bonds, represents amortized cost net of allowance.

(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.

The allowance for credit losses was $4 million for investment grade bonds and $94 million for below investment grade bonds as of June 30, 2021.

Change in Unrealized Gains and Losses on Investments

The change in net unrealized gains and losses on investments in the three- and six-month periods ended June 30, 2021 was primarily attributable to increases (decreases) in the fair value of fixed maturity securities. For the three-month period ended June 30, 2021, net unrealized gains related to fixed maturity securities increased by $5.9 billion due primarily to a drop in rates and narrowing of credit spreads. For the six-month period ending June 30, 2021, net unrealized gains related to fixed maturities decreased by $5.8 billion due primarily to an increase in interest rates.

The change in net unrealized gains and losses on investments in the three- and six-month periods ended June 30, 2020 was primarily attributable to increases in the fair value of fixed maturity securities. For the six-month period ended June 30, 2020, net unrealized gains related to fixed maturity securities increased by $3.5 billion due primarily to lower rates partially offset by a widening of credit spreads.

For further discussion of our investment portfolio see Note 5 to the Condensed Consolidated Financial Statements.

Commercial Mortgage Loans

At June 30, 2021, we had direct commercial mortgage loan exposure of $36.4 billion.

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

(dollars in millions)	Number of Loans	Class: Apartments	Offices	Retail	Industrial	Hotel	Others	Total	Percent of Total
June 30, 2021									
State:									
New York	**103**	**$ 2,318**	**$ 5,224**	**$ 436**	**$ 442**	**$ 103**	**$ -**	**$ 8,523**	**23 %**
California	**63**	**822**	**1,322**	**244**	**559**	**771**	**32**	**3,750**	**10**
New Jersey	**46**	**1,825**	**31**	**424**	**101**	**12**	**33**	**2,426**	**7**
Texas	**52**	**690**	**1,144**	**168**	**114**	**143**	**-**	**2,259**	**6**
Florida	**67**	**479**	**153**	**464**	**214**	**217**	**-**	**1,527**	**4**
Massachusetts	**11**	**533**	**197**	**544**	**24**	**-**	**-**	**1,298**	**5**
Illinois	**21**	**558**	**571**	**10**	**17**	**-**	**21**	**1,177**	**3**
Pennsylvania	**22**	**79**	**144**	**483**	**76**	**25**	**-**	**807**	**2**
Washington D.C.	**13**	**498**	**211**	**-**	**-**	**19**	**-**	**728**	**2**
Ohio	**23**	**169**	**10**	**179**	**258**	**-**	**-**	**616**	**2**
Other states	**170**	**2,053**	**614**	**1,145**	**657**	**388**	**-**	**4,857**	**13**
Foreign	**83**	**4,280**	**1,015**	**1,027**	**1,285**	**465**	**375**	**8,447**	**23**
Total*	**674**	**$ 14,304**	**$ 10,636**	**$ 5,124**	**$ 3,747**	**$ 2,143**	**$ 461**	**$ 36,415**	**100 %**
December 31, 2020									
State:									
New York	107	$ 2,624	$ 5,237	$ 465	$ 393	$ 102	$ -	$ 8,821	24 %
California	66	842	1,343	247	532	775	32	3,771	10
New Jersey	47	1,756	31	420	92	12	33	2,344	6
Texas	51	605	1,165	170	100	144	-	2,184	6
Florida	69	421	153	497	216	217	-	1,504	4
Massachusetts	12	536	227	551	25	-	-	1,339	4
Illinois	20	504	574	10	18	-	22	1,128	3
Washington, D.C.	13	465	213	-	-	19	-	697	2
Pennsylvania	21	79	17	489	76	25	-	686	2
Ohio	23	170	10	183	261	-	-	624	2
Other states	187	1,992	722	1,192	731	399	-	5,036	14
Foreign	84	3,975	1,020	1,025	1,322	575	373	8,290	23
Total*	700	$ 13,969	$ 10,712	$ 5,249	$ 3,766	$ 2,268	$ 460	$ 36,424	100 %

* Does not reflect allowance for credit losses.

For additional discussion on commercial mortgage loans see Note 7 to the Consolidated Financial Statements in the 2020 Annual Report.

Net Realized Gains and Losses

The following table presents the components of Net realized gains (losses):

Three Months Ended June 30,	2021			2020		
(in millions)	Excluding Fortitude Re Funds Withheld Assets	Fortitude Re Funds Withheld Assets	Total	Excluding Fortitude Re Funds Withheld Assets	Fortitude Re Funds Withheld Assets	Total
Sales of fixed maturity securities	$ 40	$ 95	$ 135	$ 27	$ 122	$ 149
Intent to sell	-	-	-	(3)	-	(3)
Change in allowance for credit losses on fixed maturity securities	10	4	14	(24)	(7)	(31)
Change in allowance for credit losses on loans	67	8	75	(22)	4	(18)
Foreign exchange transactions	139	9	148	44	3	47
Variable annuity embedded derivatives, net of related hedges	(53)	-	(53)	(1,010)	-	(1,010)
All other derivatives and hedge accounting	(336)	60	(276)	(568)	(26)	(594)
Other	90	(3)	87	(35)	-	(35)
Net realized gains (losses) – excluding Fortitude Re funds withheld embedded derivative	(43)	173	130	(1,591)	96	(1,495)
Net realized losses on Fortitude Re funds withheld embedded derivative	-	(2,056)	(2,056)	-	(837)	(837)
Net realized losses	$ (43)	$ (1,883)	$ (1,926)	$ (1,591)	$ (741)	$ (2,332)

Six Months Ended June 30,	2021			2020		
(in millions)	Excluding Fortitude Re Funds Withheld Assets	Fortitude Re Funds Withheld Assets	Total	Excluding Fortitude Re Funds Withheld Assets	Fortitude Re Funds Withheld Assets	Total
Sales of fixed maturity securities	$ 134	$ 390	$ 524	$ 241	$ 122	$ 363
Intent to sell	-	-	-	(3)	-	(3)
Change in allowance for credit losses on fixed maturity securities	61	6	67	(222)	(7)	(229)
Change in allowance for credit losses on loans	108	3	111	(60)	4	(56)
Foreign exchange transactions	90	3	93	(210)	3	(207)
Variable annuity embedded derivatives, net of related hedges	36	-	36	1,182	-	1,182
All other derivatives and hedge accounting	15	(57)	(42)	991	(26)	965
Other	208	1	209	9	-	9
Net realized gains – excluding Fortitude Re funds withheld embedded derivative	652	346	998	1,928	96	2,024
Net realized gains (losses) on Fortitude Re funds withheld embedded derivative	-	326	326	-	(837)	(837)
Net realized gains (losses)	$ 652	$ 672	$ 1,324	$ 1,928	$ (741)	$ 1,187

Lower net realized losses excluding Fortitude Re Funds Withheld Assets in the three-month period ended June 30, 2021 compared to the same period in the prior year were primarily due to higher foreign exchange gains and allowance releases in the prior year compared to allowance increases in the current year. Lower net realized gains excluding Fortitude Re Funds Withheld Assets in the six-month period ended June 30, 2021 compared to the same period in the prior year were primarily due to lower derivatives gains, which more than offset foreign exchange gains and allowance releases compared to losses and increases, respectively, in the prior year.

Variable annuity embedded derivatives, net of related hedges, reflected lower losses in the three-month period ended June 30, 2021 and lower gains in the six-month period ended June 30, 2021 compared to the same periods in the prior year. Fair value gains or losses in the hedging portfolio are typically not fully offset by increases or decreases in liabilities due to the non-performance or "own credit" risk adjustment used in the valuation of the variable annuities with GMWB embedded derivative, which are not hedged as part of our economic hedging program, and other risk margins used for valuation that cause the embedded derivatives to be less sensitive to changes in market rates than the hedge portfolio.

Net realized gains (losses) on Fortitude Re funds withheld assets primarily reflect changes in the valuation of the modified coinsurance and funds withheld assets. Increases in the valuation of these assets result in losses to AIG as the appreciation on the assets must under those reinsurance arrangements be transferred to Fortitude Re. Decreases in valuation of the assets result in gains to AIG as the depreciation on the assets under those reinsurance arrangements must be transferred to Fortitude Re. *For further details on the impact of the funds withheld arrangements with Fortitude Re see Note 7 to the Condensed Consolidated Financial Statements.*

For additional discussion of market risk management related to these product features see Part II, Item 7. MD&A – Enterprise Risk Management – Insurance Risks – Life and Retirement Companies' Key Risks – Variable Annuity, Index Annuity and Universal Life Risk Management and Hedging Programs in the 2020 Annual Report. For more information on the economic hedging target and the impact to pre-tax income of this program see Insurance Reserves – Life and Annuity Future Policy Benefits, Policyholder Contract Deposits and DAC – Variable Annuity Guaranteed Benefits and Hedging Results in this MD&A.

For further discussion of our investment portfolio see Note 5 to the Condensed Consolidated Financial Statements.

Insurance Reserves

LIABILITY FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES (LOSS RESERVES)

The following table presents the components of our gross and net loss reserves by segment and major lines of business[a]:

	June 30, 2021			December 31, 2020		
(in millions)	Net liability for unpaid losses and loss adjustment expenses	Reinsurance recoverable on unpaid losses and loss adjustment expenses	Gross liability for unpaid losses and loss adjustment expenses	Net liability for unpaid losses and loss adjustment expenses	Reinsurance recoverable on unpaid losses and loss adjustment expenses	Gross liability for unpaid losses and loss adjustment expenses
General Insurance:						
U.S. Workers' Compensation (net of discount)	**$ 3,766**	**$ 5,533**	**$ 9,299**	$ 3,905	$ 5,653	$ 9,558
U.S. Excess Casualty	**3,711**	**4,512**	**8,223**	3,746	4,584	8,330
U.S. Other Casualty	**3,560**	**4,490**	**8,050**	3,520	4,568	8,088
U.S. Financial Lines	**4,837**	**2,093**	**6,930**	4,838	2,193	7,031
U.S. Property and Special Risks	**6,472**	**2,734**	**9,206**	6,181	2,571	8,752
U.S. Personal Insurance	**1,225**	**1,825**	**3,050**	1,116	1,626	2,742
UK/Europe Casualty and Financial Lines	**7,131**	**1,446**	**8,577**	6,826	1,225	8,051
UK/Europe Property and Special Risks	**2,918**	**1,305**	**4,223**	2,679	1,215	3,894
UK/Europe and Japan Personal Insurance	**2,247**	**575**	**2,822**	2,219	505	2,724
Other product lines[b]	**6,138**	**5,561**	**11,699**	6,202	5,410	11,612
Unallocated loss adjustment expenses[b]	**1,443**	**1,087**	**2,530**	1,526	1,106	2,632
Total General Insurance	**43,448**	**31,161**	**74,609**	42,758	30,656	73,414
Other Operations Run-Off:						
U.S. Run-Off Long Tail Insurance Lines (net of discount)	**243**	**3,441**	**3,684**	205	3,500	3,705
Other run-off product lines	**197**	**63**	**260**	210	60	270
Blackboard	**198**	**87**	**285**	88	101	189
Unallocated loss adjustment expenses	**29**	**114**	**143**	28	114	142
Total Other Operations Run-Off	**667**	**3,705**	**4,372**	531	3,775	4,306
Total	**$ 44,115**	**$ 34,866**	**$ 78,981**	$ 43,289	$ 34,431	$ 77,720

(a) Includes net loss reserve discount of $791 million and $725 million as of June 30, 2021 and December 31, 2020, respectively. *For discussion of loss reserve discount see Note 10 to the Condensed Consolidated Financial Statements.*

(b) Other product lines and Unallocated loss adjustment expenses includes $3.7 billion and $3.8 billion within Gross liability for unpaid losses and loss adjustment expense and Reinsurance recoverable on unpaid losses and loss adjustment expense as of June 30, 2021 and December 31, 2020, respectively, for the Fortitude Re reinsurance.

Prior Year Development

The following table summarizes incurred (favorable) unfavorable prior year development net of reinsurance by segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2021**	2020	**2021**	2020
General Insurance:				
North America*	**$ (58)**	$ (33)	**$ (116)**	$ (58)
International	**7**	(41)	**9**	(76)
Total General Insurance	**$ (51)**	$ (74)	**$ (107)**	$ (134)
Other Operations Run-Off	**65**	(2)	**84**	(2)
Total prior year (favorable) unfavorable development	**$ 14**	$ (76)	**$ (23)**	$ (136)

* Includes the amortization attributed to the deferred gain at inception from the National Indemnity Company (NICO) adverse development reinsurance agreement of $49 million and $53 million for the three-month periods ended June 30, 2021 and 2020, respectively, and $101 million and $106 million for the six-month periods ended June 30, 2021 and 2020, respectively. Consistent with our definition of APTI, the amount excludes the portion of (favorable)/unfavorable prior year reserve development for which we have ceded the risk under the NICO reinsurance agreements of $(92) million and $(2) million for the three-month periods ended June 30, 2021 and 2020, respectively, and $(91) million and $4 million for the six-month periods ended June 30, 2021 and 2020, respectively. Also excludes the related changes in amortization of the deferred gain, which were $(27) million and $23 million for the three-month periods ended June 30, 2021 and 2020, respectively, and $(7) million and $45 million for the six-month periods ended June 30, 2021 and 2020, respectively.

Net Loss Development

In the three-month period ended June 30, 2021, we recognized adverse prior year loss reserve development of $14 million. The key components of this development were:

North America

- Amortization of the deferred gain on the adverse development cover and favorable development on Workers Compensation partially offset by adverse development on U.S. Property, Special Risks and Financial Lines.

International

- Adverse development on Property and Other short-tail lines.

Other Operations

- Adverse development on the Blackboard insurance companies and other runoff companies due to increased severity on reported claims.

In the six-month period ended June 30, 2021, we recognized favorable prior year loss reserve development of $(23) million. The key components of this development were:

North America

- Amortization of the deferred gain from the adverse development cover and favorable development on Workers Compensation partially offset by adverse development on Commercial Property and Financial Lines.

International

- Adverse development in Property and Other short-tailed lines.

Other Operations

- Adverse development on the Blackboard insurance companies and other runoff companies due to increased severity on reported claims.

In the three-month period ended June 30, 2020, we recognized favorable prior year loss reserve development of $(76) million. The key components of this development were:

North America

- amortization of the deferred gain from the adverse development reinsurance agreement with NICO; and
- favorable development on North American Property;
- partially offset by adverse development in the Programs business driven by discontinued programs.

International

- favorable development in International Property and Special Risks businesses, largely driven by UK/Europe.

In the six-month period ended June 30, 2020, we recognized favorable prior year loss reserve development of $(136) million. The key components of this development were:

North America

- amortization of the deferred gain from the adverse development reinsurance agreement with NICO; and
- favorable development on North American Property;
- partially offset by adverse development in the Programs business driven by discontinued programs, and in Personal Insurance.

International

- favorable development in International Casualty recoveries; and
- favorable development in International Property and Special Risks businesses, largely driven by UK/Europe.

The following tables summarize incurred (favorable) unfavorable prior year development net of reinsurance, by segment and major lines of business, and by accident year groupings:

Three Months Ended June 30, 2021 *(in millions)*	Total	2020	2019 & Prior
General Insurance North America:			
U.S. Workers' Compensation	**$ (79)**	**$ 11**	**$ (90)**
U.S. Excess Casualty	**(12)**	**-**	**(12)**
U.S. Other Casualty	**3**	**(2)**	**5**
U.S. Financial Lines	**30**	**-**	**30**
U.S. Property and Special Risks	**22**	**5**	**17**
U.S. Personal Insurance	**(18)**	**(10)**	**(8)**
Other Product Lines	**(4)**	**(4)**	**-**
Total General Insurance North America	**$ (58)**	**$ -**	**$ (58)**
General Insurance International:			
UK/Europe Casualty and Financial Lines	**$ 12**	**$ 2**	**$ 10**
UK/Europe Property and Special Risks	**(13)**	**(10)**	**(3)**
UK/Europe and Japan Personal Insurance	**(3)**	**-**	**(3)**
Other product lines	**11**	**7**	**4**
Total General Insurance International	**$ 7**	**$ (1)**	**$ 8**
Other Operations Run-Off	**65**	**34**	**31**
Total Prior Year (Favorable) Unfavorable Development	**$ 14**	**$ 33**	**$ (19)**

Three Months Ended June 30, 2020 *(in millions)*	Total	2019	2018 & Prior
General Insurance North America:			
U.S. Workers' Compensation	$ (28)	$ 20	$ (48)
U.S. Excess Casualty	(13)	-	(13)
U.S. Other Casualty	(35)	(20)	(15)
U.S. Financial Lines	(7)	-	(7)
U.S. Property and Special Risks	65	5	60
U.S. Personal Insurance	6	1	5
Other Product Lines	(21)	(10)	(11)
Total General Insurance North America	$ (33)	$ (4)	$ (29)
General Insurance International:			
UK/Europe Casualty and Financial Lines	$ -	$ -	$ -
UK/Europe Property and Special Risks	(22)	(8)	(14)
UK/Europe and Japan Personal Insurance	12	15	(3)
Other product lines	(31)	7	(38)
Total General Insurance International	$ (41)	$ 14	$ (55)
Other Operations Run-Off	(2)	(2)	-
Total Prior Year (Favorable) Unfavorable Development	$ (76)	$ 8	$ (84)

Six Months Ended June 30, 2021						
(in millions)		Total		2020		2019 & Prior
General Insurance North America:						
U.S. Workers' Compensation	**$**	**(105)**	**$**	**13**	**$**	**(118)**
U.S. Excess Casualty		**(24)**		**-**		**(24)**
U.S. Other Casualty		**1**		**(2)**		**3**
U.S. Financial Lines		**21**		**-**		**21**
U.S. Property and Special Risks		**20**		**(9)**		**29**
U.S. Personal Insurance		**(22)**		**(9)**		**(13)**
Other Product Lines		**(7)**		**(6)**		**(1)**
Total General Insurance North America	**$**	**(116)**	**$**	**(13)**	**$**	**(103)**
General Insurance International:						
UK/Europe Casualty and Financial Lines	**$**	**8**	**$**	**(1)**	**$**	**9**
UK/Europe Property and Special Risks		**(10)**		**(1)**		**(9)**
UK/Europe and Japan Personal Insurance		**(4)**		**(4)**		**-**
Other product lines		**15**		**18**		**(3)**
Total General Insurance International	**$**	**9**	**$**	**12**	**$**	**(3)**
Other Operations Run-Off		**84**		**33**		**51**
Total Prior Year (Favorable) Unfavorable Development	**$**	**(23)**	**$**	**32**	**$**	**(55)**

Six Months Ended June 30, 2020						
(in millions)		Total		2019		2018 & Prior
General Insurance North America:						
U.S. Workers' Compensation	$	(56)	$	22	$	(78)
U.S. Excess Casualty		(26)		-		(26)
U.S. Other Casualty		(46)		(20)		(26)
U.S. Financial Lines		(15)		-		(15)
U.S. Property and Special Risks		58		1		57
U.S. Personal Insurance		46		48		(2)
Other Product Lines		(19)		(24)		5
Total General Insurance North America	$	(58)	$	27	$	(85)
General Insurance International:						
UK/Europe Casualty and Financial Lines	$	-	$	-	$	-
UK/Europe Property and Special Risks		(31)		(21)		(10)
UK/Europe and Japan Personal Insurance		-		3		(3)
Other product lines		(45)		10		(55)
Total General Insurance International	$	(76)	$	(8)	$	(68)
Other Operations Run-Off		(2)		(2)		-
Total Prior Year (Favorable) Unfavorable Development	$	(136)	$	17	$	(153)

We note that for certain categories of claims (e.g., construction defect claims and environmental claims) and for reinsurance recoverable, losses may sometimes be reclassified to an earlier or later accident year as more information about the date of occurrence becomes available to us.

Significant Reinsurance Agreements

In the first quarter of 2017, we entered into an adverse development reinsurance agreement with NICO, under which we transferred to NICO 80 percent of the reserve risk on substantially all of our U.S. Commercial long-tail exposures for accident years 2015 and prior. Under this agreement, we ceded to NICO 80 percent of the losses on subject business paid on or after January 1, 2016 in excess of $25 billion of net paid losses, up to an aggregate limit of $25 billion. We account for this transaction as retroactive reinsurance. This transaction resulted in a gain, which under GAAP retroactive reinsurance accounting is deferred and amortized into income over the settlement period. NICO created a collateral trust account as security for their claim payment obligations to us, into which they deposited the consideration paid under the agreement, and Berkshire Hathaway Inc. has provided a parental guarantee to secure NICO's obligations under the agreement.

For a description of AIG's catastrophe reinsurance protection for 2021, see Part II, Item 7. MD&A – Enterprise Risk Management – Insurance Risks – General Insurance Companies' Key Risks – Natural Catastrophe Risk in the 2020 Annual Report.

The table below shows the calculation of the deferred gain on the adverse development reinsurance agreement as of June 30, 2021 and as of December 31, 2020, showing the effect of discounting of loss reserves and amortization of the deferred gain.

(in millions)	June 30, 2021	December 31, 2020
Gross Covered Losses		
Covered reserves before discount	$ 15,589	$ 16,534
Inception to date losses paid	26,030	25,198
Attachment point	(25,000)	(25,000)
Covered losses above attachment point	$ 16,619	$ 16,732
Deferred Gain Development		
Covered losses above attachment ceded to NICO (80%)	$ 13,295	$ 13,386
Consideration paid including interest	(10,188)	(10,188)
Pre-tax deferred gain before discount and amortization	3,107	3,198
Discount on ceded losses[(a)]	(855)	(911)
Pre-tax deferred gain before amortization	2,252	2,287
Inception to date amortization of deferred gain at inception	(1,005)	(904)
Inception to date amortization attributed to changes in deferred gain[(b)]	(61)	(86)
Deferred gain liability reflected in AIG's balance sheet	$ 1,186	$ 1,297

(a) For the period from inception to June 30, 2021, the accretion of discount and a reduction in effective interest rates was offset by changes in estimates of the amount and timing of future recoveries under the adverse development reinsurance agreement.

(b) Excluded from our definition of APTI.

The following table presents the rollforward of activity in the deferred gain from the adverse development reinsurance agreement:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2021	2020	2021	2020
Balance at beginning of year, net of discount	$ 1,282	$ 1,392	$ 1,297	$ 1,381
(Favorable) unfavorable prior year reserve development ceded to NICO[(a)]	(92)	(2)	(91)	4
Amortization attributed to deferred gain at inception[(b)]	(49)	(53)	(101)	(106)
Amortization attributed to changes in deferred gain[(c)]	28	(12)	25	(26)
Changes in discount on ceded loss reserves	17	(14)	56	58
Balance at end of period, net of discount	$ 1,186	$ 1,311	$ 1,186	$ 1,311

(a) Prior year reserve development ceded to NICO under the retroactive reinsurance agreement is deferred under GAAP.

(b) Represents amortization of the deferred gain recognized in APTI.

(c) Excluded from APTI and included in GAAP.

The lines of business subject to this agreement have been the source of the majority of the prior year adverse development charges over the past several years. The agreement has resulted in lower capital charges for reserve risks at our U.S. insurance subsidiaries. In addition, net investment income declined as a result of lower invested assets.

Fortitude Re was established during the first quarter of 2018 in a series of reinsurance transactions related to our Run-Off operations. Those reinsurance transactions were designed to consolidate most of our Insurance Run-Off Lines into a single legal entity. As of June 30, 2021, approximately $30.1 billion of reserves from our Life and Retirement Run-Off Lines and approximately $4.0 billion of reserves from our General Insurance Run-Off Lines related to business written by multiple wholly-owned AIG subsidiaries, had been ceded to Fortitude Re under these reinsurance transactions.

Of the Fortitude Re reinsurance agreements, the largest is the Amended and Restated Combination Coinsurance and Modified Coinsurance Agreement by and between our subsidiary AGL and Fortitude Re. Under this treaty, approximately $23.0 billion of AGL reserves as of June 30, 2021 were ceded to Fortitude Re representing a mix of life and annuity risks. Fortitude Re provides 100 percent reinsurance of the ceded risks. AGL continues to administer the policies, including handling claims, although it is anticipated that much of the administration will move to a Fortitude Re administrative subsidiary over time, subject to regulatory approvals being obtained and the satisfaction of other conditions. Until such time, Fortitude Re has certain rights to consult on and participate in such administration, and AGL retains the risk of collection of any third party reinsurance covering the ceded business. At effectiveness of the treaty, an amount equal to the aggregate ceded reserves was deposited by AGL into a modified coinsurance account of AGL to secure the obligations of Fortitude Re. Fortitude Re receives or makes quarterly payments that represent the net gain or loss under the treaty for the relevant quarter, including any net investment gain or loss on the assets in the modified coinsurance account. An AIG affiliate will serve as portfolio manager of assets in the modified coinsurance account for a minimum of three years after the June 2, 2020 closing of the Majority Interest Fortitude Sale.

For a summary of significant reinsurers see Part II, Item 7. MD&A – Enterprise Risk Management – Insurance Risks – Reinsurance Activities – Reinsurance Recoverable in the 2020 Annual Report.

LIFE AND ANNUITY FUTURE POLICY BENEFITS, POLICYHOLDER CONTRACT DEPOSITS AND DAC

The following section provides discussion of life and annuity future policy benefits, policyholder contract deposits and deferred policy acquisition costs.

Variable Annuity Guaranteed Benefits and Hedging Results

Our Individual Retirement and Group Retirement businesses offer variable annuity products with GMWB riders that provide guaranteed living benefit features. The liabilities for GMWB are accounted for as embedded derivatives measured at fair value. The fair value of the embedded derivatives may fluctuate significantly based on market interest rates, equity prices, credit spreads, market volatility, policyholder behavior and other factors.

In addition to risk-mitigating features in our variable annuity product design, we have an economic hedging program designed to manage market risk from GMWB, including exposures to changes in interest rates, equity prices, credit spreads and volatility. The hedging program utilizes derivative instruments, including but not limited to equity options, futures contracts and interest rate swap and swaption contracts, as well as fixed maturity securities with a fair value election.

For additional discussion of market risk management related to these product features see Part II, Item 7. MD&A – Enterprise Risk Management – Insurance Risks – Life and Retirement Companies' Key Risks – Variable Annuity, Index Annuity and Universal Life Risk Management and Hedging Programs in the 2020 Annual Report.

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 GAAP valuation of the GMWB embedded derivatives primarily due to the following:

- The economic hedge target includes 100 percent of rider fees in present value calculations; the 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 GAAP valuation, such as margins for policyholder behavior, mortality, and volatility; and
- The economic hedge target excludes the non-performance or "own credit" risk adjustment used in the GAAP valuation, which reflects a market participant's view of our claims-paying ability by incorporating a different spread (the NPA spread) to the curve used to discount projected benefit cash flows. Because the discount rate includes the NPA spread and other explicit risk margins, the GAAP valuation is generally less sensitive to movements in interest rates and other market factors, and to changes from actuarial assumption updates, than the economic hedge target. *For more information on our valuation methodology for embedded derivatives within policyholder contract deposits see Note 4 to the Condensed Consolidated Financial Statements.*

The market value of the hedge portfolio compared to the economic hedge target at any point in time may be different and is not expected to be fully offsetting. In addition to the derivatives held in conjunction with the variable annuity hedging program, the Life and Retirement companies have cash and invested assets available to cover future claims payable under these guarantees. The primary sources of difference between the change in the fair value of the hedging portfolio and the economic hedge target include:

- Basis risk due to the variance between expected and actual fund returns, which may be either positive or negative;
- Realized volatility versus implied volatility;
- Actual versus expected changes in the hedge target driven by assumptions not subject to hedging, particularly policyholder behavior; and
- Risk exposures that we have elected not to explicitly or fully hedge.

The following table presents a reconciliation between the fair value of the GAAP embedded derivatives and the value of our economic hedge target:

(in millions)	June 30, 2021	December 31, 2020
Reconciliation of embedded derivatives and economic hedge target:		
Embedded derivative liability	$ 2,484	$ 3,572
Exclude non-performance risk adjustment	(2,501)	(2,958)
Embedded derivative liability, excluding NPA	4,985	6,530
Adjustments for risk margins and differences in valuation	(2,107)	(2,502)
Economic hedge target liability	$ 2,878	$ 4,028

Impact on Pre-tax Income (Loss)

The impact on our pre-tax income (loss) of the variable annuity guaranteed living benefits and related hedging results includes changes in the fair value of the GMWB embedded derivatives, and changes in the fair value of related derivative hedging instruments, both of which are recorded in Net realized gains (losses). Realized gains (losses), as well as net investment income from changes in the fair value of fixed maturity securities used in the hedging program, are excluded from adjusted pre-tax income of Individual Retirement and Group Retirement.

The change in the fair value of the embedded derivatives and the change in the value of the hedging portfolio are not expected to be fully offsetting, primarily due to the differences in valuation between the economic hedge target, the GAAP embedded derivatives and the fair value of the hedging portfolio, as discussed above. When corporate credit spreads widen, the change in the NPA spread generally reduces the fair value of the embedded derivative liabilities, resulting in a gain, and when corporate credit spreads narrow or tighten, the change in the NPA spread generally increases the fair value of the embedded derivative liabilities, resulting in a loss. In addition to changes driven by credit market-related movements in the NPA spread, the NPA balance also reflects changes in business activity and in the net amount at risk from the underlying guaranteed living benefits.

The following table presents the net increase (decrease) to consolidated pre-tax income (loss) from changes in the fair value of the GMWB embedded derivatives and related hedges, excluding related DAC amortization:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2021	2020	2021	2020
Change in fair value of embedded derivatives, excluding NPA	$ (762)	$ 1,298	$ 1,917	$ (4,303)
Change in fair value of variable annuity hedging portfolio:				
Fixed maturity securities*	13	11	31	18
Interest rate derivative contracts	760	35	(644)	2,229
Equity derivative contracts	(390)	(891)	(780)	493
Change in fair value of variable annuity hedging portfolio	383	(845)	(1,393)	2,740
Change in fair value of embedded derivatives excluding NPA, net of hedging portfolio	(379)	453	524	(1,563)
Change in fair value of embedded derivatives due to NPA spread	18	(1,094)	(93)	1,552
Change in fair value of embedded derivatives due to change in NPA volume	321	(358)	(364)	1,211
Total change due to NPA	339	(1,452)	(457)	2,763
Net impact on pre-tax income (loss)	$ (40)	$ (999)	$ 67	$ 1,200
Impact to Consolidated Income Statement				
Net investment income, net of related interest credited to policyholder account balances	$ 13	$ 11	$ 31	$ 18
Net realized gains (losses)	(53)	(1,010)	36	1,182
Net impact on pre-tax income (loss)	$ (40)	$ (999)	$ 67	$ 1,200
Net change in value of economic hedge target and related hedges				
Net impact on economic gains (losses)	$ 267	$ (801)	$ 77	$ 1,167

* The change in fair value of available-for-sale fixed maturity securities recognized as a component of other comprehensive income were gains of $105 million for the three-month period ended June 30, 2021, due to lower interest rates, and losses of $111 million for the six-month period ended June 30, 2021, due to higher interest rates. The change in fair value of available-for-sale fixed maturity securities recognized as a component of other comprehensive income were gains of $142 million and $129 million for the three- and six-month periods ended June 30, 2020, respectively, due to lower interest rates.

The net impact on pre-tax loss of $40 million from the GMWB embedded derivatives and related hedges in the three-month period ended June 30, 2021 (excluding related DAC amortization) was driven by losses from the impact of lower interest rates on the change in the fair value of embedded derivatives excluding NPA, offset by gains from higher equity markets, widening of credit spreads on the economic hedge target and the NPA spread, and impact of lower interest rates that resulted in NPA volume gains from higher expected GMWB payments, net of the hedging portfolio. The net impact on pre-tax income of $67 million from the GMWB embedded derivatives and related hedges in the six-month period ended June 30, 2021 (excluding related DAC amortization) was driven by gains from higher equity markets, impact of higher interest rates on the change in the fair value of embedded derivatives excluding NPA, net of the hedging portfolio, offset by the tightening of NPA credit spreads and impact of higher interest rates that resulted in NPA volume losses from lower expected GMWB payments. The net impact on pre-tax loss of $999 million from the GMWB embedded derivatives and related hedges in the three-month period ended June 30, 2020 (excluding related DAC amortization) was driven by tightening of credit spreads on the economic hedge target and NPA spread, and NPA volume losses from lower expected GMWB payments, partially offset by the impact of higher equity markets on the change in the fair value of embedded derivatives excluding NPA, net of the hedging portfolio. The net impact on pre-tax income of $1.2 billion from the GMWB embedded derivatives and related hedges in the six-month period ended June 30, 2020 (excluding related DAC amortization) was driven by widening of credit spreads on the economic hedge target and the NPA spread, and impact of lower interest rates that resulted in NPA volume gains from higher expected GMWB payments, partially offset by the impact of lower interest rates on the change in the fair value of embedded derivatives excluding NPA, net of the hedging portfolio.

The change in the fair value of the GMWB embedded derivatives, excluding NPA, in the three-month period ended June 30, 2021 reflected losses from decreases in interest rates, partially offset by gains from higher equity markets. The change in the fair value of the GMWB embedded derivatives, excluding NPA, in the six-month period ended June 30, 2021 reflected gains from increases in interest rates and gains from higher equity markets. The change in the fair value of the GMWB embedded derivatives, excluding NPA, in the three-month period ended June 30, 2020 reflected gains from higher equity markets, offset by lower interest rates. The change in the fair value of the GMWB embedded derivatives, excluding NPA, in the six-month period ended June 30, 2020 reflected losses from decreases in interest rates and lower equity markets, offset by widening of credit spreads.

Fair value gains or losses in the hedging portfolio are typically not fully offset by increases or decreases in liabilities on a GAAP basis, due to the NPA and other risk margins used for GAAP valuation that cause the embedded derivatives to be less sensitive to changes in market rates than the hedge portfolio. On an economic basis, the changes in the fair value of the hedge portfolio were partially offset by the changes in the economic hedge target, as discussed below. In the three-month period ended June 30, 2021, we had a net mark to market gain of approximately $267 million from our hedging activities related to our economic hedge target primarily driven by widening credit spreads. In the six-month period ended June 30, 2021, we had a net mark to market gain of approximately $77 million from our hedging activities related to our economic hedge target primarily driven by widening credit spreads, and higher equity markets. In the three-month period ended June 30, 2020, we had a net mark to market loss of approximately $801 million from our hedging activities related to our economic hedge target primarily driven by higher equity markets, offset by tightening credit spreads. In the six-month period ended June 30, 2020, we had a net mark to market gain of approximately $1.2 billion, from our hedging activities related to our economic hedge target primarily driven by lower interest rates and equity markets, offset by widening credit spreads.

Change in Economic Hedge Target

The increase in the economic hedge target liability in the three-month period ended June 30, 2021 was primarily driven by the decrease in rates offset by higher equity markets. The decrease in the economic hedge target liability in the first half of 2021 was primarily due to higher interest rates and equity markets. The increase in the economic hedge target liability in the three-month period ended June 30, 2020 was primarily driven by the tightening of credit spreads and decrease in interest rates, offset by the increase in equity markets. The increase in the economic hedge target liability in the first half of 2020 was primarily due to lower interest rates and lower equity markets, offset by widening credit spreads.

Change in Fair Value of the Hedging Portfolio

The changes in the fair value of the economic hedge target and, to a lesser extent, the embedded derivative valuation under GAAP, were offset in part by the following changes in the fair value of the variable annuity hedging portfolio:

- Changes in the fair value of interest rate derivative contracts, which included swaps, swaptions and futures, resulted in gains driven by declining interest rates in the three-month period ended June 30, 2021 and losses driven by higher interest rates in the six-month period ended June 30, 2021 compared to gains due to lower interest rates in the three- and six-month periods ended June 30, 2020.
- Changes in the fair value of equity derivative contracts, which included futures and options, resulted in losses in the three- and six-month periods ended June 30, 2021 compared to losses in the three-month period ended June 30, 2020 and gains in the six-month period ended June 30, 2020, which varied based on the relative change in equity market returns in the respective periods.
- Changes in the fair value of fixed maturity securities, primarily corporate bonds, are used as a capital-efficient way to economically hedge interest rate and credit spread-related risk. The change in the fair value of the corporate bond hedging program in the three-month period ended June 30, 2021 reflected gains due to decreases in interest rates. The change in the fair value of the corporate bond hedging program in the six-month period ended June 30, 2021 reflected losses due to increases in interest rates, offset by tightening credit spreads. The change in the fair value of the corporate bond hedging program in the three -month period ended June 30, 2020 reflected gains due to decreases in interest rates and tightening of credit spreads, while in the six-month period ended June 30, 2020 reflected gains due to decreases in interest rates offset by widening credit spreads.

DAC

The following table summarizes the major components of the changes in DAC, including VOBA, within the Life and Retirement companies:

Six Months Ended June 30, *(in millions)*	2021	2020
Balance, beginning of year	**$ 7,316**	$ 8,119
Initial allowance upon the adoption of the current expected credit loss accounting standard	**-**	15
Acquisition costs deferred	**535**	455
Amortization expense:		
Related to realized gains and losses	**(78)**	(287)
All other operating amortization	**(393)**	(445)
Increase (decrease) in DAC due to foreign exchange	**6**	(35)
Change related to unrealized depreciation (appreciation) of investments	**603**	(330)
Balance, end of period[(a)]	**$ 7,989**	$ 7,492

(a) DAC balance excluding the amount related to unrealized depreciation (appreciation) of investments was $10.5 billion and $9.8 billion at June 30, 2021 and 2020, respectively.

DAC and Reserves Related to Unrealized Appreciation of Investments

DAC and Reserves for universal life and investment-oriented products are adjusted at each balance sheet date to reflect the change in DAC, unearned revenue, and benefit reserves with an offset to Other comprehensive income (OCI) as if securities available for sale had been sold at their stated aggregate fair value and the proceeds reinvested at current yields (shadow Investment-Oriented Adjustments). Similarly, for long-duration traditional products, significant unrealized appreciation of investments in a sustained low interest rate environment may cause additional future policy benefit liabilities with an offset to OCI to be recorded.

Shadow adjustments to DAC and unearned revenue generally move in the opposite direction of the change in unrealized appreciation of the available for sale securities portfolio, reducing the reported DAC and unearned revenue balance when market interest rates decline. Conversely, shadow adjustments to benefit reserves generally move in the same direction as the change in unrealized appreciation of the available for sale securities portfolio, increasing reported future policy benefit liabilities balance when market interest rates decline.

Market conditions in the six-month period ended June 30, 2021 drove a $4.9 billion decrease in the unrealized appreciation of fixed maturity securities held to support the Life and Retirement businesses at June 30, 2021 compared to December 31, 2020. At June 30, 2021, the shadow Investment-Oriented Adjustments reflected increases in amortized balances including DAC and unearned revenue reserves, while policyholder benefit liabilities including shadow loss recognition reserves decreased $760 million from December 31, 2020.

Reserves

The following table presents a rollforward of insurance reserves by operating segments for Life and Retirement, including future policy benefits, policyholder contract deposits, other policyholder funds, and separate account liabilities, as well as Retail Mutual Funds and Group Retirement mutual fund assets under administration:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2021**	2020	**2021**	2020
Individual Retirement				
Balance at beginning of period, gross	**$ 148,110**	$ 135,898	**$ 148,837**	$ 144,753
Premiums and deposits	**3,978**	1,794	**7,351**	4,910
Surrenders and withdrawals	**(3,238)**	(2,551)	**(6,349)**	(6,424)
Death and other contract benefits	**(817)**	(744)	**(1,653)**	(1,567)
Subtotal	**148,033**	134,397	**148,186**	141,672
Change in fair value of underlying assets and reserve accretion, net of policy fees	**3,777**	7,001	**3,534**	(418)
Cost of funds[(a)]	**415**	420	**829**	832
Other reserve changes	**234**	238	**(90)**	(30)
Balance at end of period	**152,459**	142,056	**152,459**	142,056
Reinsurance ceded	**(312)**	(310)	**(312)**	(310)
Total Individual Retirement insurance reserves and mutual fund assets	**$ 152,147**	$ 141,746	**$ 152,147**	$ 141,746
Group Retirement				
Balance at beginning of period, gross	**$ 112,732**	$ 90,947	**$ 110,651**	$ 102,049
Premiums and deposits	**2,255**	1,670	**4,073**	3,525
Surrenders and withdrawals	**(2,263)**	(1,734)	**(4,747)**	(3,994)
Death and other contract benefits	**(221)**	(179)	**(448)**	(361)
Subtotal	**112,503**	90,704	**109,529**	101,219
Change in fair value of underlying assets and reserve accretion, net of policy fees	**4,206**	8,552	**7,049**	(2,153)
Cost of funds[(a)]	**284**	277	**564**	555
Other reserve changes	**(51)**	(10)	**(200)**	(98)
Balance at end of period	**116,942**	99,523	**116,942**	99,523
Total Group Retirement insurance reserves and mutual fund assets	**$ 116,942**	$ 99,523	**$ 116,942**	$ 99,523
Life Insurance				
Balance at beginning of period, gross	**$ 27,589**	$ 26,743	**$ 27,998**	$ 27,397
Premiums and deposits	**1,056**	1,027	**2,085**	1,999
Surrenders and withdrawals	**(116)**	(96)	**(260)**	(267)
Death and other contract benefits	**(138)**	(170)	**(311)**	(301)
Subtotal	**28,391**	27,504	**29,512**	28,828
Change in fair value of underlying assets and reserve accretion, net of policy fees	**(198)**	(275)	**(406)**	(658)
Cost of funds[(a)]	**89**	93	**177**	186
Other reserve changes	**25**	364	**(976)**	(670)
Balance at end of period	**28,307**	27,686	**28,307**	27,686
Reinsurance ceded	**(1,488)**	(1,365)	**(1,488)**	(1,365)
Total Life Insurance reserves	**$ 26,819**	$ 26,321	**$ 26,819**	$ 26,321

Institutional Markets				
Balance at beginning of period, gross	**$ 26,813**	$ 24,389	**$ 27,342**	$ 23,673
Premiums and deposits	**1,641**	1,135	**1,721**	2,111
Surrenders and withdrawals	**(607)**	(107)	**(919)**	(216)
Death and other contract benefits	**(194)**	(235)	**(402)**	(529)
Subtotal	**27,653**	25,182	**27,742**	25,039
Change in fair value of underlying assets and reserve accretion, net of policy fees	**280**	219	**445**	268
Cost of funds[a]	**73**	81	**146**	161
Other reserve changes	**(7)**	90	**(334)**	104
Balance at end of period	**27,999**	25,572	**27,999**	25,572
Reinsurance ceded	**(45)**	(46)	**(45)**	(46)
Total Institutional Markets reserves	**$ 27,954**	$ 25,526	**$ 27,954**	$ 25,526
Total insurance reserves and mutual fund assets				
Balance at beginning of period, gross	**$ 315,244**	$ 277,977	**$ 314,828**	$ 297,872
Premiums and deposits	**8,930**	5,626	**15,230**	12,545
Surrenders and withdrawals	**(6,224)**	(4,488)	**(12,275)**	(10,901)
Death and other contract benefits	**(1,370)**	(1,328)	**(2,814)**	(2,758)
Subtotal	**316,580**	277,787	**314,969**	296,758
Change in fair value of underlying assets and reserve accretion, net of policy fees	**8,065**	15,497	**10,622**	(2,961)
Cost of funds[a]	**861**	871	**1,716**	1,734
Other reserve changes	**201**	682	**(1,600)**	(694)
Balance at end of period, excluding Fortitude Re reserves	**325,707**	294,837	**325,707**	294,837
Fortitude Re reserves[b]	**28,118**	28,568	**28,118**	28,568
Balance at end of period, including Fortitude Re reserves	**353,825**	323,405	**353,825**	323,405
Fortitude Re reinsurance ceded[b]	**(28,118)**	(28,568)	**(28,118)**	(28,568)
Reinsurance ceded	**(1,845)**	(1,721)	**(1,845)**	(1,721)
Total insurance reserves and mutual fund assets	**$ 323,862**	$ 293,116	**$ 323,862**	$ 293,116

(a) Excludes amortization of deferred sales inducements.

(b) Includes amounts related to policies where AIG has partially ceded to other reinsurers and Fortitude Re.

Insurance reserves, as well as Retail Mutual Funds and Group Retirement mutual fund assets under administration, were comprised of the following balances:

(in millions)	**June 30, 2021**	December 31, 2020
Future policy benefits	**$ 49,533**	$ 48,864
Policyholder contract deposits	**161,280**	160,450
Other policyholder funds*	**948**	957
Separate account liabilities	**107,306**	100,290
Total insurance reserves	**319,067**	310,561
Mutual fund assets	**34,758**	32,772
Total insurance reserves and mutual fund assets	**$ 353,825**	$ 343,333

* Excludes unearned revenue liability.

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 endeavor to manage our liquidity prudently through various risk committees, policies and procedures, and a stress testing and liquidity risk framework established by our Treasury group with oversight by Enterprise Risk Management (ERM). Our liquidity risk framework is designed to manage liquidity at both AIG Parent and its subsidiaries to meet our financial obligations for a minimum of six months under a liquidity stress scenario.

See Part II, Item 7. MD&A – Enterprise Risk Management – Risk Appetite, Limits, Identification and Measurement and Enterprise Risk Management – Liquidity Risk Management in the 2020 Annual Report for additional information.

Capital refers to the long-term financial resources available to support the operation of our businesses, fund business growth, and cover financial and operational needs that arise from adverse circumstances. Our primary source of ongoing capital generation is derived from the profitability of our insurance subsidiaries. We must comply with numerous constraints on our minimum capital positions. These constraints drive the requirements for capital adequacy at AIG and the individual businesses and are based on internally-defined risk tolerances, regulatory requirements, rating agency and creditor expectations and business needs. Actual capital levels are monitored on a regular basis, and using ERM's stress testing methodology, we evaluate the capital impact of potential macroeconomic, financial and insurance stresses in relation to the relevant capital constraints of both AIG and our insurance subsidiaries.

We believe that we have sufficient liquidity and capital resources to satisfy future requirements and meet our obligations to policyholders, customers, creditors and debt-holders, including those arising from reasonably foreseeable contingencies or events.

Nevertheless, some circumstances may cause our cash or capital needs to exceed projected liquidity or readily deployable capital resources. Additional collateral calls, deterioration in investment portfolios or reserve strengthening affecting statutory surplus, higher surrenders of annuities and other policies, downgrades in credit ratings, catastrophic losses or fluctuations in the capital markets generally may result in significant additional cash or capital needs and loss of sources of liquidity and 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. In addition, regulatory and other legal restrictions could limit our ability to transfer funds freely, either to or from our subsidiaries.

For a discussion regarding risks associated with COVID-19, see the 2020 Annual Report, Part I, Item 1A. Risk Factors – Market Conditions – COVID-19 is adversely affecting, and is expected to continue to adversely affect, our global business, financial condition and results of operations, and its ultimate impact will depend on future developments that are uncertain and cannot be predicted, including the scope, severity and duration of the crisis, and the governmental, legislative and regulatory actions taken and court decisions rendered in response thereto.

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, issuing preferred stock, paying dividends to our shareholders on the AIG Common Stock, par value $2.50 per share (AIG Common Stock), paying dividends to the holders of our Series A 5.85% Non-Cumulative Perpetual Preferred Stock (Series A Preferred Stock), and repurchases of AIG Common Stock.

LIQUIDITY AND CAPITAL RESOURCES HIGHLIGHTS

SOURCES

Liquidity to AIG Parent from Subsidiaries

During the six-month period ended June 30, 2021, our General Insurance companies distributed cash and fixed maturity securities of $855 million, and our Life and Retirement companies distributed cash of $1.4 billion, to AIG Parent or applicable intermediate holding companies.

Warrant Exercises

In January 2021, we received aggregate proceeds of approximately $92 million in connection with warrant exercises to purchase approximately 2 million shares of AIG Common Stock that occurred prior to the January 19, 2021 expiration of warrants to purchase shares of AIG Common Stock.

Tax Sharing Payment from Fortitude Re

In January 2021, we received $109 million in tax sharing payments in the form of cash from Fortitude Re related to periods prior to the Majority Interest Fortitude Sale. The tax sharing payments from Fortitude Re may be subject to further adjustment in future periods.

USES

General Borrowings*

During the six-month period ended June 30, 2021, $1.8 billion of debt categorized as general borrowings matured, was repaid or redeemed as follows:

- Redeemed $1.5 billion aggregate principal amount of our 3.300% Notes Due 2021.
- Repurchased, through cash tender offers, $254 million aggregate principal amount of certain notes and debentures issued or guaranteed by AIG for an aggregate purchase price of approximately $359 million.

We made interest payments on our general borrowings totaling $551 million during the six-month period ended June 30, 2021. Of this amount, AIG Parent made interest payments on AIG Parent-issued debt instruments totaling $524 million during the six-month period ended June 30, 2021.

Dividends

We paid a cash dividend of $365.625 per share on AIG's Series A Preferred Stock during each of the first and second quarters of 2021 totaling $15 million.

We paid a cash dividend of $0.32 per share on AIG Common Stock during each of the first and second quarters of 2021 totaling $550 million.

Repurchases of Common Stock

During the six-month period ended June 30, 2021, we repurchased approximately 13 million shares of AIG Common Stock, for an aggregate purchase price of approximately $592 million pursuant to Exchange Act Rule 10b5-1 repurchase plans. Approximately $92 million of these share repurchases were funded with proceeds received from warrant exercises that occurred prior to the expiration of warrants to purchase shares of AIG Common Stock on January 19, 2021.

IRS Tax Prepayment

In June 2021, AIG Parent made a prepayment of approximately $354 million to the U.S. Treasury in connection with certain settlement agreements described in Tax Matters below.

* On July 1, 2021, we repurchased through cash tender offers an additional $8 million aggregate principal amount of certain notes and debentures issued or guaranteed by AIG for an aggregate purchase price of approximately $10 million.

ANALYSIS OF SOURCES AND USES OF CASH

The following table presents selected data from AIG's Condensed Consolidated Statements of Cash Flows:

Six Months Ended June 30, *(in millions)*		2021		2020
Sources:				
Net cash provided by operating activities	$	2,810	$	-
Changes in policyholder contract balances		1,958		1,407
Issuance of long-term debt		54		4,139
Issuance of debt of consolidated investment entities		2,542		1,370
Total sources		7,364		6,916
Uses:				
Net cash used in operating activities		-		(239)
Net cash used in investing activities		(1,645)		(2,903)
Repayments of long-term debt		(1,839)		(513)
Repayments of debt of consolidated investment entities		(2,560)		(1,364)
Purchase of common stock		(592)		(500)
Dividends paid on preferred stock		(15)		(15)
Dividends paid on common stock		(550)		(551)
Net cash used in other financing activities		(298)		(269)
Total uses		(7,499)		(6,354)
Effect of exchange rate changes on cash and restricted cash		(34)		3
Increase (decrease) in cash and restricted cash	$	(169)	$	565

The following table presents a summary of AIG's Condensed Consolidated Statements of Cash Flows:

Six Months Ended *(in millions)*		2021		2020
Summary:				
Net cash provided by (used in) operating activities	$	2,810	$	(239)
Net cash used in investing activities		(1,645)		(2,903)
Net cash provided by (used in) financing activities		(1,300)		3,704
Effect of exchange rate changes on cash and restricted cash		(34)		3
Net Increase (decrease) in cash and restricted cash		(169)		565
Cash and restricted cash at beginning of year		3,230		3,287
Cash and restricted cash at end of period	$	3,061	$	3,852

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 $592 million in the six-month period ended June 30, 2021 compared to $581 million in the same period in the prior year. Excluding interest payments, AIG had operating cash inflows of $3.4 billion in the six-month period ended June 30, 2021 compared to operating cash inflows of $342 million in the same period in the prior year.

Investing Cash Flow Activities

Net cash used in investing activities in the six-month period ended June 30, 2021 was $1.6 billion compared to net cash used in investing activities of $2.9 billion in the same period in the prior year.

Financing Cash Flow Activities

Net cash used in financing activities in the six-month period ended June 30, 2021 reflected:

- approximately $550 million in the aggregate to pay a dividend of $0.32 per share on AIG Common Stock in each of the first and second quarters of 2021;
- approximately $15 million in the aggregate to pay a dividend of $365.625 per share on AIG's Series A Preferred Stock in each of the first and second quarters of 2021;
- approximately $592 million in the aggregate to repurchase approximately 13 million shares of AIG Common Stock;
- approximately $1.8 billion in net outflows from the issuance and repayment of long-term debt; and
- approximately $18 million in net outflows from the issuance and repayment of debt of consolidated investment entities.

Net cash provided by financing activities in the six-month period ended June 30, 2020 reflected:

- approximately $551 million in the aggregate to pay a dividend of $0.32 per share on AIG Common Stock in each of the first and second quarters of 2020;
- approximately $15 million in the aggregate to pay a dividend of $365.625 per share on AIG's Series A Preferred Stock in each of the first and second quarters of 2020;
- $500 million to repurchase approximately 12 million shares of AIG Common Stock;
- approximately $3.6 billion in net inflows from the issuance and repayment of long-term debt; and
- approximately $6 million in net inflows from the issuance and repayment of debt of consolidated investment entities.

LIQUIDITY AND CAPITAL RESOURCES OF AIG PARENT AND SUBSIDIARIES

AIG Parent

As of June 30, 2021, AIG Parent had approximately $11.7 billion in liquidity sources. AIG Parent's liquidity sources are primarily held in the form of cash, short-term investments and publicly traded, investment grade rated fixed maturity securities and also include a committed, revolving syndicated credit facility. Fixed maturity securities primarily include U.S. government and government sponsored entity securities, U.S. agency mortgage-backed securities, corporate and municipal bonds and certain other highly rated securities. AIG Parent actively manages its assets and liabilities in terms of products, counterparties and duration. Based upon an assessment of funding needs, the liquidity sources can be readily monetized through sales or repurchase agreements or contributed as admitted assets to regulated insurance companies. AIG Parent liquidity is monitored through the use of various internal liquidity risk measures. AIG Parent's primary sources of liquidity are dividends, distributions, loans and other payments from subsidiaries and credit facilities. AIG Parent's primary uses of liquidity are for debt service, capital and liability management, and operating expenses.

We believe that we have sufficient liquidity and capital resources to satisfy our reasonably foreseeable future requirements and meet our obligations to our creditors, debt-holders and insurance company subsidiaries. We expect to access the debt and preferred equity 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 AIG Common Stock repurchase authorizations or deploy such capital towards liability management.

In the normal course, it is expected that a portion of the capital released by our insurance operations, by our other operations or through the utilization of AIG's deferred tax assets may be available to support our business strategies, for distribution to shareholders or for liability management.

In developing plans to distribute capital, AIG considers a number of factors, including, but not limited to: AIG's business and strategic plans, expectations for capital generation and utilization, AIG's funding capacity and capital resources in comparison to internal benchmarks, as well as rating agency expectations, regulatory requirements, bank creditor covenants and internal stress tests for capital.

The following table presents AIG Parent's liquidity sources:

(in millions)	As of June 30, 2021	As of December 31, 2020
Cash and short-term investments[(a)]	$ 3,465	$ 6,762
Unencumbered fixed maturity securities[(b)]	3,725	3,711
Total AIG Parent liquidity	7,190	10,473
Available capacity under committed, syndicated credit facility[(c)]	4,500	4,500
Total AIG Parent liquidity sources	$ 11,690	$ 14,973

(a) Cash and short-term investments include reverse repurchase agreements totaling $2.0 billion and $5.4 billion as of June 30, 2021 and December 31, 2020, 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. Includes $20 million of securities received as dividends in the six months ended June 30, 2021 with a forward settle date of July 14, 2021.

(c) *For additional information relating to this committed, syndicated credit facility see – Credit Facilities below.*

Insurance Companies

We expect that our insurance companies will be able to continue to satisfy reasonably foreseeable future liquidity requirements and meet their obligations, including those arising from reasonably foreseeable contingencies or events, through cash from operations and, to the extent necessary, monetization of invested assets. Our insurance companies' liquidity resources are primarily held in the form of cash, short-term investments and publicly traded, investment grade rated fixed maturity securities.

Each of our material insurance companies' liquidity is monitored through various internal liquidity risk measures. The primary sources of liquidity are premiums, fees, reinsurance recoverables and investment income and maturities. The primary uses of liquidity are paid losses, reinsurance payments, benefit claims, surrenders, withdrawals, interest payments, dividends, expenses, investment purchases and collateral requirements.

Our General Insurance companies may require additional funding to meet capital or liquidity needs under certain circumstances. Large catastrophes may require us to provide additional support to our affected operations. Downgrades in our credit ratings could put pressure on the insurer financial strength ratings of our subsidiaries, which could result in non-renewals or cancellations by policyholders and adversely affect a 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.

Management believes that because of the size and liquidity of our Life and Retirement companies' investment portfolios, normal deviations from projected claim or surrender experience would not create significant liquidity risk. Furthermore, our Life and Retirement companies' products contain certain features that mitigate surrender risk, including surrender charges. However, in times of extreme capital markets disruption or as a result of fluctuations in the capital markets generally, liquidity needs could outpace resources. As part of their risk management framework, our Life and Retirement companies continue to evaluate and, where appropriate, pursue strategies and programs to improve their liquidity position and facilitate their ability to maintain a fully invested asset portfolio.

Certain of our U.S. insurance companies are members of the FHLBs in their respective districts. Borrowings from FHLBs are used to supplement liquidity or for other uses deemed appropriate by management. Our U.S. General Insurance companies had no outstanding borrowings from FHLBs at both June 30, 2021 and December 31, 2020. Our U.S. Life and Retirement companies had $3.6 billion which were due to FHLBs in their respective districts at both June 30, 2021 and December 31, 2020, under funding agreements issued through our Individual Retirement, Group Retirement and Institutional Markets operating segments, which were reported in Policyholder contract deposits. Proceeds from funding agreements are generally invested in fixed income securities and other investments intended to generate spread income. These investment contracts do not have mortality or morbidity risk and are similar to GICs. In addition, our U.S. Life and Retirement companies had no outstanding borrowings in the form of cash advances from FHLBs at both June 30, 2021 and December 31, 2020.

Certain of our U.S. Life and Retirement companies have programs, which began in 2012, that lend securities from their investment portfolio to supplement liquidity or for other uses as deemed appropriate by management. Under these programs, these U.S. Life and Retirement companies lend securities to financial institutions and receive cash as collateral equal to 102 percent of the fair value of the loaned securities. Cash collateral received is invested in short-term investments or partially used for short-term liquidity purposes. Additionally, the aggregate amount of securities that a Life and Retirement company is able to lend under its program at any time is limited to five percent of its general account statutory-basis admitted assets. Our U.S. Life and Retirement companies had $3.4 billion of securities subject to these agreements at both June 30, 2021 and December 31, 2020, respectively, and $3.4 billion and $3.5 billion of liabilities to borrowers for collateral received at June 30, 2021 and December 31, 2020, respectively.

AIG generally manages capital between AIG Parent and our insurance companies through internal, Board-approved policies and limits, as well as management standards. In addition, AIG Parent has unconditional capital maintenance agreements (CMAs) in place with certain subsidiaries. Nevertheless, regulatory and other legal restrictions could limit our ability to transfer capital freely, either to or from our subsidiaries.

AIG Parent and/or certain subsidiaries are parties to several letter of credit agreements with various financial institutions, which issue letters of credit from time to time in support of our insurance companies. These letters of credit are subject to reimbursement by AIG Parent and/or certain subsidiaries in the event of a drawdown by our insurance companies. Letters of credit issued in support of the General Insurance companies totaled approximately $4.0 billion at June 30, 2021. Letters of credit issued in support of the Life and Retirement companies totaled approximately $613 million at June 30, 2021.

In the six-month period ended June 30, 2021, our General Insurance companies collectively paid to AIG Parent or applicable intermediate holding companies a total of approximately $829 million in dividends in the form of cash and fixed maturity securities and $26 million in tax sharing payments in the form of cash. The fixed maturity securities primarily included U.S. treasuries and securities issued by other U.S. agencies.

In the six-month period ended June 30, 2021, our Life and Retirement companies collectively paid to AIG Parent or applicable intermediate holding companies a total of approximately $649 million in dividends in the form of cash and $738 million in tax sharing payments in the form of cash.

Tax Matters

In October 2020, the Southern District of New York dismissed the case for the 1997 tax year related to the disallowance of foreign tax credits associated with cross border financing transactions based upon the settlement reached between AIG and the government. The settlement concluded our ongoing dispute related to the disallowance of foreign tax credits associated with cross border financing transactions for all years and as a result of the settlement, we will be required to make a payment to the U.S. Treasury. The amount we currently expect to pay based on settlement terms is approximately $0.4 billion, including obligations of AIG Parent and subsidiaries. This amount is net of payments previously made with respect to cross border financing transactions from tax years 1997 through 2006 and other matters related to 2006 and prior, including prepayments of approximately $548 million and $354 million that AIG made to the U.S. Treasury in June 2020 and June 2021, respectively. The amount also includes interest that will become due after review of the interest calculations and will reflect benefits from the application of interest netting which AIG has requested. While we continue to finalize the interest calculations with the IRS, AIG expects to make the remaining payment as early as the third quarter of 2021.

For additional information regarding this matter see Note 15 to the Condensed Consolidated Financial Statements.

CREDIT FACILITIES

We maintain a committed, revolving syndicated credit facility (the Facility) as a potential source of liquidity for general corporate purposes. The Facility provides for aggregate commitments by the bank syndicate to provide unsecured revolving loans and/or standby letters of credit of up to $4.5 billion without any limits on the type of borrowings and is scheduled to expire in June 2022.

As of June 30, 2021, a total of $4.5 billion remains available under the Facility. Our ability to utilize the Facility is not contingent on our credit ratings. However, our ability to utilize the Facility is conditioned on the satisfaction of certain legal, operating, administrative and financial covenants and other requirements contained in the Facility. These include covenants relating to our maintenance of a specified total consolidated net worth and total consolidated debt to total consolidated capitalization. Failure to satisfy these and other requirements contained in the Facility would restrict our access to the Facility and could have a material adverse effect on our financial condition, results of operations and liquidity. We expect to utilize the Facility from time to time, and may use the proceeds for general corporate purposes.

CONTRACTUAL OBLIGATIONS

As of June 30, 2021, there have been no material changes in our contractual obligations from December 31, 2020, a description of which may be found in Part II, Item 7. MD&A – Liquidity and Capital Resources – Contractual Obligations in the 2020 Annual Report.

OFF-BALANCE SHEET ARRANGEMENTS AND COMMERCIAL COMMITMENTS

As of June 30, 2021, there have been no material changes in our off-balance sheet arrangements and commercial commitments from December 31, 2020, a description of which may be found in Part II, Item 7. MD&A – Liquidity and Capital Resources – Off-Balance Sheet Arrangements and Commercial Commitments in the 2020 Annual Report.

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 8 to the Condensed Consolidated Financial Statements.

DEBT

The following table provides the rollforward of AIG's total debt outstanding:

Six Months Ended June 30, 2021 *(in millions)*	Balance at December 31, 2020	Issuances	Maturities and Repayments	Effect of Foreign Exchange	Other Changes	**Balance at June 30, 2021**
Debt issued or guaranteed by AIG:						
AIG general borrowings:						
Notes and bonds payable	$ 23,068	$ -	$ (1,537)	$ (60)	$ 20	**$ 21,491**
Junior subordinated debt	1,561	-	-	(5)	-	**1,556**
AIG Japan Holdings Kabushiki Kaisha	361	-	-	(18)	-	**343**
AIGLH notes and bonds payable	282	-	(82)	-	-	**200**
AIGLH junior subordinated debt	361	-	(135)	-	1	**227**
Validus notes and bonds payable	348	-	-	-	(2)	**346**
Total AIG general borrowings	25,981	-	(1,754)	(83)	19	**24,163**
AIG borrowings supported by assets:[(a)]						
Series AIGFP matched notes and bonds payable	21	-	-	-	-	**21**
GIAs, at fair value	2,033	54	(121)	-	(62)[(b)]	**1,904**
Notes and bonds payable, at fair value	64	-	(4)	-	10 [(b)]	**70**
Total AIG borrowings supported by assets	2,118	54	(125)	-	(52)	**1,995**
Total debt issued or guaranteed by AIG	28,099	54	(1,879)	(83)	(33)	**26,158**
Other subsidiaries' notes, bonds, loans and mortgages payable - not guaranteed by AIG	4	-	(1)	-	-	**3**
Total long-term debt	28,103	54	(1,880)	(83)	(33)	**26,161**
Debt of consolidated investment entities - not guaranteed by AIG[(c)]	9,431	2,542	(2,560)	(4)	157 [(d)]	**9,566**
Total debt	$ 37,534	$ 2,596	$ (4,440)	$ (87)	$ 124	**$ 35,727**

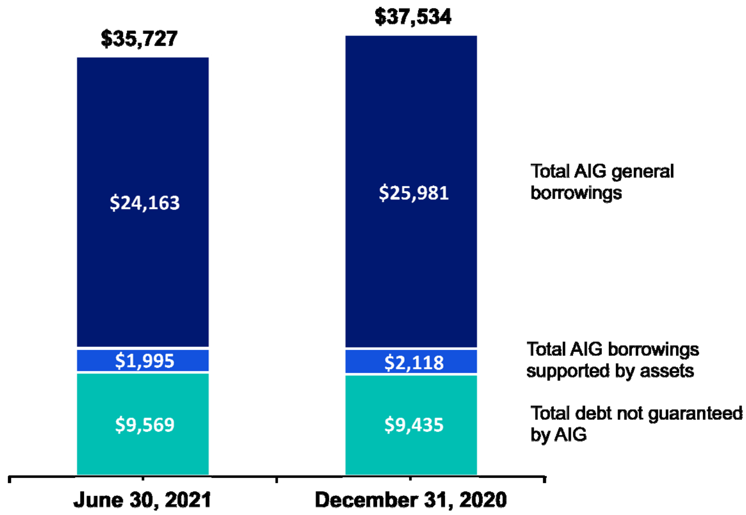
(a) AIG Parent guarantees all such debt, except for Series AIGFP matched notes and bonds payable, which are direct obligations of AIG Parent. Collateral posted to third parties were $1.4 billion at both June 30, 2021 and December 31, 2020. This collateral primarily consists of securities of the U.S. government and government sponsored entities and generally cannot be repledged or resold by the counterparties.

(b) Primarily represents adjustments to the fair value of debt.

(c) At June 30, 2021, includes debt of consolidated investment entities related to real estate investments of $3.0 billion, affordable housing partnership investments of $2.5 billion and other securitization vehicles of $4.1 billion. At December 31, 2020, includes debt of consolidated investment entities related to real estate investments of $3.1 billion, affordable housing partnership investments of $2.3 billion and other securitization vehicles of $4.0 billion.

(d) Includes the effect of consolidating previously unconsolidated partnerships.

TOTAL DEBT OUTSTANDING
(in millions)



Debt Maturities

The following table summarizes maturing long-term debt at June 30, 2021 of AIG for the next four quarters:

(in millions)	Third Quarter 2021	Fourth Quarter 2021	First Quarter 2022	Second Quarter 2022	Total
AIG general borrowings	$ -	$ -	$ -	$ 1,498	**$ 1,498**
AIG borrowings supported by assets	54	35	-	20	**109**
Other subsidiaries' notes, bonds, loans and mortgages payable	1	-	-	-	**1**
Total	$ 55	$ 35	$ -	$ 1,518	**$ 1,608**

The following table presents maturities of long-term debt (including unamortized original issue discount, hedge accounting valuation adjustments and fair value adjustments, when applicable):

June 30, 2021		Remainder	Year Ending					
(in millions)	Total	of 2021	2022	2023	2024	2025	2026	Thereafter
Debt issued or guaranteed by AIG:								
AIG general borrowings:								
Notes and bonds payable	$ 21,491	$ -	$ 1,515	$ 1,668	$ 999	$ 2,751	$ 1,545	$ 13,013
Junior subordinated debt	1,556	-	-	-	-	-	-	1,556
AIG Japan Holdings Kabushiki Kaisha	343	-	-	225	-	118	-	-
AIGLH notes and bonds payable	200	-	-	-	-	101	-	99
AIGLH junior subordinated debt	227	-	-	-	-	-	-	227
Validus notes and bonds payable	346	-	-	-	-	-	-	346
Total AIG general borrowings	**24,163**	**-**	**1,515**	**1,893**	**999**	**2,970**	**1,545**	**15,241**
AIG borrowings supported by assets:								
Series AIGFP matched notes and bonds payable	21	-	-	-	-	-	-	21
GIAs, at fair value	1,904	89	52	127	147	579	102	808
Notes and bonds payable, at fair value	70	-	-	-	-	-	-	70
Total AIG borrowings supported by assets	**1,995**	**89**	**52**	**127**	**147**	**579**	**102**	**899**
Total debt issued or guaranteed by AIG	**26,158**	**89**	**1,567**	**2,020**	**1,146**	**3,549**	**1,647**	**16,140**
Debt not guaranteed by AIG:								
Other subsidiaries notes, bonds, loans and mortgages payable	3	1	1	1	-	-	-	-
Total debt not guaranteed by AIG	3	1	1	1	-	-	-	-
Total*	**$ 26,161**	**$ 90**	**$ 1,568**	**$ 2,021**	**$ 1,146**	**$ 3,549**	**$ 1,647**	**$ 16,140**

* Does not reflect $9.6 billion of notes issued by consolidated investment entities, for which recourse is limited to the assets of the respective investment entities and for which there is no recourse to the general credit of AIG.

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 the date of this filing. Figures in parentheses indicate the relative ranking of the ratings within the agency's rating categories; that ranking refers only to the major rating category and not to the modifiers assigned by the rating agencies.

	Short-Term Debt		Senior Long-Term Debt		
	Moody's	S&P	Moody's[(a)]	S&P[(b)]	Fitch[(c)]
American International Group, Inc.	**P-2 (2nd of 3)**	**A-2 (2nd of 8)**	**Baa 2 (4th of 9) / Stable outlook**	**BBB+ (4th of 9) *CreditWatch Negative***	**BBB+ (4th of 9) *Rating Watch Negative***
AIG Financial Products Corp.[(d)]	**P-2**	**A-2**	**Baa 2 (4th of 9) / Stable outlook**	**BBB+ *CreditWatch Negative***	

(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 Inc. (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. *For a discussion of rating agency actions in response to AIG's announced intention to separate its Life and Retirement business from AIG, see –Rating Agency Actions Related to the Announced Separation of Life and Retirement below.*

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 a downgrade of AIG's long-term senior debt ratings, AIG Financial Products Corp. and related subsidiaries (collectively AIGFP) and certain other AIG entities would be required to post additional collateral under some derivative and other transactions, or certain of the counterparties of AIGFP or of such other AIG entities would be permitted to terminate such transactions 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 9 to the Condensed Consolidated Financial Statements and Part I, Item 1A. Risk Factors – Liquidity, Capital and Credit in the 2020 Annual Report.

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 the date of this filing.

	A.M. Best	S&P	Fitch	Moody's
National Union Fire Insurance Company of Pittsburgh, Pa.	A	A+	A	A2
Lexington Insurance Company	A	A+	A	A2
American Home Assurance Company	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 S.A.	NR	A+	NR	A2
American International Group UK Ltd.	A	A+	NR	A2
AIG General Insurance Co. Ltd.	NR	A+	NR	NR
Validus Reinsurance, Ltd.	A	A+	NR	A2

These financial strength ratings are current opinions of the rating agencies. They may be changed, suspended or withdrawn at any time by the rating agencies as a result of changes in, or unavailability of, information or based on other circumstances.

For a discussion of the effects of downgrades in our financial strength ratings see Note 9 to the Condensed Consolidated Financial Statements and Part I, Item 1A. Risk Factors – Liquidity, Capital and Credit in the 2020 Annual Report.

RATING AGENCY ACTIONS RELATED TO THE ANNOUNCED SEPARATION OF LIFE AND RETIREMENT

On October 26, 2020, AIG announced its intention to separate its Life and Retirement business from AIG, and on July 14, 2021, AIG and Blackstone announced that they have reached a definitive agreement for Blackstone to acquire a 9.9 percent equity stake in AIG's Life and Retirement business. In response to such announcements, the rating agencies in the tables above took the following actions:

- On October 27, 2020, A.M. Best issued a comment stating that its financial strength and issuer credit ratings on AIG and subsidiaries are unchanged as a result of the announcement.
- On October 28, 2020, Fitch placed the credit ratings of AIG on "Rating Watch Negative." Fitch also affirmed the financial strength ratings and outlooks on AIG's insurance subsidiaries.
- On October 28, 2020, Moody's placed the debt ratings of AIG on review for downgrade. Moody's also affirmed the financial strength ratings and outlooks on AIG's insurance subsidiaries. On July 15, 2021, Moody's lowered its debt ratings of AIG to Baa2 from Baa1 and assigned a stable outlook. Moody's also revised the outlook on the A2 financial strength ratings of the Life and Retirement subsidiaries to negative from stable. The ratings of the General Insurance subsidiaries were unaffected by these announcements.
- On October 27, 2020, S&P placed the credit ratings of AIG and the financial strength ratings of most of the General Insurance subsidiaries on CreditWatch with negative implications. S&P also placed the financial strength ratings of the Life and Retirement subsidiaries on CreditWatch with developing implications.

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 Part I, Item 1. Business – Regulation and Part I, Item 1A. Risk Factors – Regulation in the 2020 Annual Report, and Regulatory Environment below in this MD&A.

DIVIDENDS

On February 16, 2021, our Board of Directors declared a cash dividend on AIG Common Stock of $0.32 per share, payable on March 30, 2021 to shareholders of record on March 16, 2021. On May 6, 2021, our Board of Directors declared a cash dividend on AIG Common Stock of $0.32 per share, payable on June 29, 2021 to shareholders of record on June 15, 2021. On August 5, 2021, our Board of Directors declared a cash dividend on AIG Common Stock of $0.32 per share, payable on September 30, 2021 to shareholders of record on September 16, 2021.

On February 16, 2021, our Board of Directors declared a cash dividend on AIG's Series A Preferred Stock of $365.625 per share, payable on March 15, 2021 to holders of record on February 26, 2021. On May 6, 2021, our Board of Directors declared a cash dividend on AIG's Series A Preferred Stock of $365.625 per share, payable on June 15, 2021 to holders of record on May 31, 2021. On August 5, 2021, our Board of Directors declared a cash dividend on AIG's Series A Preferred Stock of $365.625 per share, payable on September 15, 2021 to holders of record on August 31, 2021.

The payment of any future dividends will be at the discretion of our Board of Directors and will depend on various factors, as discussed further in Note 12 to the Condensed Consolidated Financial Statements.

REPURCHASES OF AIG COMMON STOCK

Our Board of Directors has authorized the repurchase of shares of AIG Common Stock through a series of actions.

During the six-month period ended June 30, 2021, we repurchased approximately 13 million shares of AIG Common Stock for an aggregate purchase price of $592 million pursuant to Exchange Act Rule 10b5-1 repurchase plans. As of June 30, 2021, approximately $908 million remained under our then-existing share repurchase authorization.

On August 3, 2021, our Board of Directors authorized a share repurchase authorization of AIG Common Stock of $6.0 billion (inclusive of the approximately $908 million remaining under the Board's prior share repurchase authorization). As of August 5, 2021, $6.0 billion remained under the authorization. Shares may be repurchased from time to time in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise. Certain of our share repurchases have been and may from time to time be effected through the Exchange Act Rule 10b5-1 repurchase plans. The timing of any future share repurchases will depend on market conditions, our business and strategic plans, financial condition, results of operations, liquidity and other factors, as discussed further in Note 12 to the Condensed Consolidated Financial Statements.

DIVIDEND RESTRICTIONS

Payments of dividends to AIG by its insurance subsidiaries are subject to certain restrictions imposed by regulatory authorities.

For a discussion of restrictions on payments of dividends by our subsidiaries see Note 19 to the Consolidated Financial Statements in the 2020 Annual Report.

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 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 targeted risk tolerances within the framework provided by ERM. ERM supports our businesses and management by embedding risk management in our key day-to-day business processes and in identifying, assessing, quantifying, monitoring, reporting, and mitigating the risks taken by our businesses and AIG overall. 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.

AIG employs a Three Lines of Defense model. AIG's business leaders assume full accountability for the risks and controls in their operating units, and ERM performs a review, challenge and oversight function. The third line consists of our Internal Audit Group that provides independent assurance for AIG's Board.

For a further discussion of AIG's risk management program see Part II, Item 7. MD&A — Enterprise Risk Management in the 2020 Annual Report.

As of June 30, 2021, there have been no material changes in our economic exposure to market risk from December 31, 2020, a description of which may be found in Part II, Item 7A. Quantitative and Qualitative Disclosures about Market Risk in the 2020 Annual Report. *See Part I, Item 1A. Risk Factors in the 2020 Annual Report on how difficult conditions in the financial markets and the economy generally may materially adversely affect our business and results of our operations.*

Regulatory Environment

OVERVIEW

Our operations around the world are subject to regulation by many different types of regulatory authorities, including insurance, securities, derivatives, investment advisory and thrift regulators in the United States and abroad. The insurance and financial services industries are generally subject to close regulatory scrutiny and supervision.

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

In particular, significant legislative and regulatory activity has occurred at both the U.S. federal and state levels, as well as globally, in response to COVID-19 and its impact on insurance consumers. For example, many jurisdictions have issued regulations and guidance advising or requiring insurers to offer accommodations to policyholders adversely impacted by COVID-19, including requirements to defer payment of, or refund, premiums, postpone policy lapses, and have sought information and data from insurers on a number of topics, including operational preparedness, policyholder data, claims data, and other matters. While some of these legislative and regulatory initiatives have expired, a resurgence of the COVID-19 virus may lead to a renewal of those initiatives. A number of U.S. states have also passed legislation or issued other guidance that creates a presumption of coverage under workers' compensation insurance for certain people impacted by COVID-19. In most cases, the presumption applies to first responders and medical professionals, but some states apply the scope of the presumption more broadly, and efforts are underway in other states to further expand the scope of the presumption. Members of the U.S. Congress have held discussions and sought information with respect to business interruption, travel and other insurance lines impacted by the COVID-19 crisis and legislators both in the U.S. and overseas are discussing a number of potential loss-sharing programs, some of which contemplate participation by insurers, including a proposed pandemic risk insurance bill relating to business interruption and event cancellation insurance. In the EU and UK, insurance regulators issued guidance in 2020 for insurance groups subject to their jurisdiction to carefully consider the prudential impact of dividend payments and share buybacks for the benefit of shareholders, and variable remuneration policies such as cash bonuses. In the UK, the Prudential Regulation Authority announced in December 2020 that they would not be extending these recommendations into 2021. In the EU, the European Insurance and Occupational Pensions Authority and the Luxembourg Commissariat aux Assurances guidance requiring disclosure to national regulators in advance of dividends being paid remain in place until September 2021. We cannot predict what form any further legal and regulatory responses to concerns about COVID-19 and related public health issues will take, or how such responses will impact our business. We continue to actively monitor these developments and to cooperate fully with all government and regulatory authorities as they further develop their responses.

In addition to the information set forth in this Quarterly Report on Form 10-Q, our regulatory status is also discussed in the 2020 Annual Report, Part I, Item 1A. Risk Factors – Market Conditions – COVID-19 is adversely affecting, and is expected to continue to adversely affect, our global business, financial condition and results of operations, and its ultimate impact will depend on future developments that are uncertain and cannot be predicted, including the scope, severity and duration of the crisis, and the governmental, legislative and regulatory actions taken and court decisions rendered in response thereto.

Glossary

Accident year The annual calendar accounting period in which loss events occurred, regardless of when the losses are actually reported, booked or paid.

Accident year combined ratio, as adjusted The combined ratio excluding catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting.

Accident year loss ratio, as adjusted The loss ratio excluding catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting.

Acquisition ratio Acquisition costs divided by net premiums earned. Acquisition costs are those costs incurred to acquire new and renewal insurance contracts and also include the amortization of VOBA and DAC. Acquisition costs vary with sales and include, but are not limited to, commissions, premium taxes, direct marketing costs and certain costs of personnel engaged in sales support activities such as underwriting.

Additional premium represents a premium on an insurance policy over and above the initial premium imposed at the beginning of the policy. An additional premium may be assessed if the insured's risk is found to have increased significantly.

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

Assets under administration include assets under management and Retail Mutual Funds and Group Retirement mutual fund assets that we sell or administer.

Assets under management include assets in the general and separate accounts of our subsidiaries that support liabilities and surplus related to our life and annuity insurance products and the notional value of stable value wrap contracts.

Attritional losses are losses recorded in the current accident year, which are not catastrophe losses.

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) adjusted for the cumulative unrealized gains and losses related to Fortitude Re funds withheld assets and deferred tax assets (DTA) (Adjusted book value per common share) is a non-GAAP measure and is used to show the amount of our net worth on a per-common share basis. Adjusted book value per common share is derived by dividing total AIG common shareholders' equity, excluding AOCI adjusted for the cumulative unrealized gains and losses related to Fortitude Re funds withheld assets and DTA (Adjusted Common Shareholders' Equity), by total common shares outstanding.

Casualty insurance Insurance that is primarily associated with the losses caused by injuries to third persons, i.e., not the insured, and the legal liability imposed on the insured as a result.

Combined ratio Sum of the loss ratio and the acquisition and general operating expense ratios.

CSA *Credit Support Annex* A legal document generally associated with an ISDA Master Agreement that provides for collateral postings which could vary depending on ratings and threshold levels.

Credit Valuation Adjustment (CVA)/Non-Performance Risk Adjustment (NPA) The CVA/NPA adjusts the valuation of derivatives to account for nonperformance risk of our counterparty with respect to all net derivative assets positions. Also, the CVA/NPA 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/NPA 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 and Reserves for investment-oriented products, equal to the change in DAC and unearned revenue amortization that would have been recorded if fixed maturity securities available for sale and also, prior to 2018, equity securities at fair value had been sold at their stated aggregate fair value and the proceeds reinvested at current yields. An adjustment to benefit reserves for investment-oriented products is also recognized to reflect the application of the benefit ratio to the accumulated assessments that would have been recorded if fixed maturity securities available for sale and also, prior to 2018, equity securities at fair value had been sold at their stated aggregate fair value and the proceeds reinvested at current yields (collectively referred to as shadow Investment-Oriented Adjustments).

For long-duration traditional products, significant unrealized appreciation of investments in a sustained low interest rate environment may cause additional future policy benefit liabilities to be recorded (shadow loss reserves).

Deferred Gain on Retroactive Reinsurance Retroactive reinsurance is a reinsurance contract in which an assuming entity agrees to reimburse a ceding entity for liabilities incurred as a result of past insurable events. If the amount of premium paid by the ceding reinsurer is less than the related ceded loss reserves, the resulting gain is deferred and amortized over the settlement period of the reserves. Any related development on the ceded loss reserves recoverable under the contract would increase the deferred gain if unfavorable, or decrease the deferred gain if favorable.

Expense ratio Sum of acquisition expenses and general operating expenses, divided by net premiums earned.

General operating expense ratio General operating expenses divided by net premiums earned. General operating expenses are those costs that are generally attributed to the support infrastructure of the organization and include but are not limited to personnel costs, projects and bad debt expenses. General operating expenses exclude losses and loss adjustment expenses incurred, acquisition expenses, and investment expenses.

GIC/GIA *Guaranteed Investment Contract/Guaranteed Investment Agreement* A contract whereby the seller provides a guaranteed repayment of principal and a fixed or floating interest rate for a predetermined period of time.

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.

Loan-to-Value Ratio Principal amount of loan amount divided by appraised value of collateral securing the loan.

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.

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 and man-made catastrophe losses, such as terrorism and civil disorders that exceed 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.

Noncontrolling interests The portion of equity ownership in a consolidated subsidiary not attributable to the controlling parent company.

Policy fees An amount added to a policy premium, or deducted from a policy cash value or contract holder account, to reflect the cost of issuing a policy, establishing the required records, sending premium notices and other related expenses.

Pool A reinsurance arrangement whereby all of the underwriting results of the pool members are combined and then shared by each member in accordance with its pool participation percentage.

Premiums and deposits – Life and Retirement 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, FHLB funding agreements and mutual funds.

Prior year development *See Loss reserve development*.

RBC *Risk-Based Capital* A formula designed to measure the adequacy of an insurer's statutory surplus compared to the risks inherent in its business.

Reinstatement premiums Additional premiums payable to reinsurers or receivable from insurers to restore coverage limits that have been reduced or exhausted as a result of reinsured losses under certain excess of loss reinsurance contracts.

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 common equity – Adjusted after-tax income excluding AOCI adjusted for the cumulative unrealized gains and losses related to Fortitude Re funds withheld assets and DTA (Adjusted return on common equity) is a non-GAAP measure and is used to show the rate of return on common shareholders' equity. Adjusted return on common equity is derived by dividing actual or annualized adjusted after-tax income attributable to AIG common shareholders by average Adjusted Common Shareholders' Equity.

Return premium represents amounts given back to the insured in the case of a cancellation, an adjustment to the rate or an overpayment of an advance premium.

SIA *Sales Inducement Asset* Represents enhanced crediting rates or bonus payments to contract holders on certain annuity and investment contract products that meet the criteria to be deferred and amortized over the life of the contract.

Solvency II Legislation in the European Union which reforms the insurance industry's solvency framework, including minimum capital and solvency requirements, governance requirements, risk management and public reporting standards. The Solvency II Directive (2009/138/EEC) was adopted on November 25, 2009 and became effective on January 1, 2016.

Subrogation The amount of recovery for claims we have paid our policyholders, generally from a negligent third party or such party's insurer.

Surrender charge A charge levied against an investor for the early withdrawal of funds from a life insurance or annuity contract, or for the cancellation of the agreement.

Surrender rate represents annualized surrenders and withdrawals as a percentage of average reserves and Group Retirement mutual fund assets under administration.

Unearned premium reserve Liabilities established by insurers and reinsurers to reflect unearned premiums, which are usually refundable to policyholders if an insurance or reinsurance contract is canceled prior to expiration of the contract term.

VOBA *Value of Business Acquired* Present value of projected future gross profits from in-force policies of acquired businesses.

Acronyms

A&H Accident and Health Insurance

ABS Asset-Backed Securities

AUM Assets Under Management

APTI Adjusted pre-tax income

CDO Collateralized Debt Obligations

CDS Credit Default Swap

CMA Capital Maintenance Agreement

CMBS Commercial Mortgage-Backed Securities

EGPs Estimated Gross Profits

FASB Financial Accounting Standards Board

FRBNY Federal Reserve Bank of New York

GAAP Accounting Principles Generally Accepted in the United States of America

GMDB Guaranteed Minimum Death Benefits

GMWB Guaranteed Minimum Withdrawal Benefits

ISDA International Swaps and Derivatives Association, Inc.

Moody's Moody's Investors' Service Inc.

NAIC National Association of Insurance Commissioners

NM Not Meaningful

ORR Obligor Risk Ratings

OTC Over-the-Counter

OTTI Other-Than-Temporary Impairment

RMBS Residential Mortgage-Backed Securities

S&P Standard & Poor's Financial Services LLC

SEC Securities and Exchange Commission

URR Unearned Revenue Reserve

VIE Variable Interest Entity

ITEM 3 | Quantitative and Qualitative Disclosures About Market Risk

Included in Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Enterprise Risk Management.

ITEM 4 | 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 Quarterly Report on Form 10-Q, an evaluation was carried out by American International Group, Inc. (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 June 30, 2021. Based on this evaluation, AIG's Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2021.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f)) that have occurred during the quarter ended June 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II – Other Information

ITEM 1 | Legal Proceedings

For a discussion of legal proceedings see Note 11 to the Condensed Consolidated Financial Statements, which is incorporated herein by reference.

ITEM 1A | Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A. Risk Factors in the 2020 Annual Report.

ITEM 2 | Unregistered Sales of Equity Securities and Use of Proceeds

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)
April 1 – 30	1,203,662	$ 46.80	1,203,662	$ 1,081
May 1 – 31	1,335,896	50.62	1,335,896	1,014
June 1 – 30	2,074,198	51.00	2,074,198	908
Total	**4,613,756**	**$ 49.79**	**4,613,756**	**$ 908**

During the three-month period ended June 30, 2021, we repurchased approximately 5 million shares of AIG Common Stock, par value $2.50 per share (AIG Common Stock) for an aggregate purchase price of $230 million pursuant to Exchange Act Rule 10b5-1 repurchase plans.

As of June 30, 2021, approximately $908 million remained under our then-existing share repurchase authorization of AIG Common Stock. On August 3, 2021, our Board of Directors authorized a share repurchase authorization of AIG Common Stock of $6.0 billion (inclusive of the approximately $908 million remaining under the Board's prior 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. Certain of our share repurchases have been and may from time to time be effected through Exchange Act Rule 10b5-1 repurchase plans. The timing of any future share repurchases will depend on market conditions, our business and strategic plans, financial condition, results of operations, liquidity and other factors. The repurchase of AIG Common Stock is also subject to the terms of AIG's Series A 5.85% Non-Cumulative Preferred Stock (Series A Preferred Stock), pursuant to which AIG may not (other than in limited circumstances) purchase, redeem or otherwise acquire AIG Common Stock unless the full dividends for the latest completed dividend period on all outstanding shares of Series A Preferred Stock have been declared and paid or provided for.

ITEM 4 | Mine Safety Disclosures

Not applicable.

Exhibit Index

Exhibit Number	Description	Location
4	Second Supplemental Indenture, dated as of June 10, 2021, to Junior Subordinated Indenture, dated as of December 1, 1996, among AIG Life Holdings, Inc. (as successor to America General Corporation), AIG and Deutsche Bank Trust Company Americas, as trustee.	Filed herewith.
10	(1) AIG Long Term Incentive Plan (as amended and restated April 2021)*	Incorporated by reference to Exhibit 10.6 to AIG's Quarterly Report on Form 10-Q, filed with the SEC on May 7, 2021 (File No. 1-8787).
	(2) AIG Long Term Incentive Plan Form of Award Agreement*	Incorporated by reference to Exhibit 10.7 to AIG's Quarterly Report on Form 10-Q, filed with the SEC on May 7, 2021 (File No. 1-8787).
	(3) Stock Purchase Agreement, dated as of July 14, 2021, between American International Group, Inc. and Argon Holdco LLC (an affiliate of The Blackstone Group, Inc.)	Filed herewith.
	(4) Purchase Agreement, dated as of July 14, 2021, between American International Group, Inc. and Aztec Holdco LLC (an affiliate of The Blackstone Group, Inc.)	Filed herewith.
22	Guaranteed Securities	None.
31	Rule 13a-14(a)/15d-14(a) Certifications	Filed herewith.
32	Section 1350 Certifications**	Filed herewith.
101	Interactive data files pursuant to Rule 405 of Regulation S-T formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets as of June 30, 2021 and December 31, 2020, (ii) the Condensed Consolidated Statements of Income (Loss) for the three and six months ended June 30, 2021 and 2020, (iii) the Condensed Consolidated Statements of Equity for the three and six months ended June 30, 2021 and 2020, (iv) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2021 and 2020, (v) the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2021 and 2020 and (vi) the Notes to the Condensed Consolidated Financial Statements	Filed herewith.
104	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101)	Filed herewith.

* This exhibit is a management contract or compensatory 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.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN INTERNATIONAL GROUP, INC.

(Registrant)

/S/ MARK D. LYONS

Mark D. Lyons

Executive Vice President and

Chief Financial Officer

(Principal Financial Officer)

/S/ ELIAS F. HABAYEB

Elias F. Habayeb

Senior Vice President

Deputy Chief Financial Officer and

Chief Accounting Officer, AIG and

Chief Financial Officer, General Insurance

(Principal Accounting Officer)

Dated: August 6, 2021

Exhibit 31

CERTIFICATIONS

I, Peter S. Zaffino, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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: August 6, 2021

/S/ PETER S. ZAFFINO

Peter S. Zaffino

President and Chief Executive Officer

CERTIFICATIONS

I, Mark D. Lyons, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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: August 6, 2021

/S/ MARK D. LYONS

Mark D. Lyons

Executive Vice President and

Chief Financial Officer

CERTIFICATION

In connection with this Quarterly Report on Form 10-Q of American International Group, Inc. (the "Company") for the quarter ended June 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Peter S. Zaffino, 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: August 6, 2021

/S/ PETER S. ZAFFINO

Peter S. Zaffino

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 Quarterly Report on Form 10-Q of American International Group, Inc. (the "Company") for the quarter ended June 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark D. Lyons, 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: August 6, 2021

/S/ MARK D. LYONS

Mark D. Lyons

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.