

AMERICAN INTERNATIONAL GROUP INC  
Form 10-K  
February 15, 2019

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

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**FORM 10-K**

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

**For the fiscal year ended December 31, 2018**

**Commission file number 1-8787**

**American International Group, Inc.**

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

**Delaware**

**13-2592361**

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

(State or other jurisdiction of  
incorporation or organization)

**175 Water Street, New York, New York**

**10038**

(Address of principal executive offices)

(Zip Code)

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

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

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

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

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

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

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

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

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

The aggregate market value of the voting and nonvoting common equity held by nonaffiliates of the registrant (based on the closing price of the registrant's most recently completed second fiscal quarter) was approximately \$47,252,000,000.

As of February 6, 2019, there were outstanding 869,486,334 shares of Common Stock, \$2.50 par value per share, of the registrant.

## DOCUMENTS INCORPORATED BY REFERENCE

### Document of the Registrant

### Form 10-K Reference Locations

Portions of the registrant's definitive proxy statement for Part II, Item 5 and Part III, Items 10, 11, 12, 13 and the 2019 Annual Meeting of Shareholders	14
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**AMERICAN INTERNATIONAL GROUP, INC.  
ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2018**

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## Part I

### ITEM 1 | [Business](#)

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

is a leading global insurance organization. Building on 100 years of experience, today we provide a wide range of property casualty insurance, life insurance, retirement products, and other financial services to customers in more than 80 countries and jurisdictions. These diverse offerings include products and services that help businesses and individuals protect their assets, manage risks and provide for retirement security. AIG common stock is listed on the New York Stock Exchange.

Throughout 2018 we executed on our strategy to deliver long-term, profitable growth by improving underwriting capabilities, mitigating risk and volatility by repositioning reinsurance structures and risk limits, adding world-class talent and utilizing capital opportunistically to re-invest in the business. Looking ahead, we continue to take decisive actions to enhance AIG's positioning for the future.

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



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

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

**Balance Sheet Quality and Strength**

as demonstrated by over \$56 billion in shareholders' equity and AIG Parent liquidity sources of \$8.3 billion as of December 31, 2018.

**Effective Capital Management**

of one of the largest insurance companies in the world by shareholders' equity<sup>(a)</sup>.

**Breadth of Customers**

which include over 87 percent of companies in the Fortune Global 500<sup>(b)</sup> and 81 percent of the Forbes 2000<sup>(b)</sup>.

**A Diverse Mix of Businesses**

supported through a presence in most international markets.

(a) At September 30, 2018, the latest date for which information was available for certain foreign insurance companies.

(b) At November 1, 2018.

**Creating Value Through Profitable Growth****2019 Priorities**

- **Balance and Diversification of Products** – Shifting our business mix to grow the best-performing lines of business and optimizing our global footprint
- **Leadership, Culture and Talent** – Continuing to structure and cultivate teams to deliver world-class performance
- **Technology** – Improving operations that help employees evaluate business and serve customers while strengthening essential corporate system security and efficiency
- **Capital and Growth** – Managing capital efficiently and making selective investments in complementary growth opportunities that advance profitability improvement efforts



- **Underwriting Excellence** – Using newly implemented framework and guidelines – while further integrating underwriting, claims and actuarial – to enhance the portfolio  
**2018 Highlights**

- **Reinsurance Optimization** – Partnering strategically with reinsurers on portfolio positioning and programs designed to reduce exposures and severity from individual risk losses

### Underwriting Approach

### Leadership Changes

### Growth & Balance

Addressed volatility and severity by reducing gross and net limits in property and casualty, and by repositioning reinsurance structures

Recruited some of the industry's leading talent for senior roles. Appointed 3 members of the AIG Executive Leadership Team and more than 12 General Insurance senior leaders in 2018

Complemented product and service offerings with strategic acquisitions including:

- **Validus:** reinsurance platform, insurance-linked securities, Lloyd's syndicate, excess & surplus specialty, crop risk

- **Glatfelter Insurance:** specialty programs

- **Ellipse:** group life, critical illness and income protection

Provided underwriters across the globe with a supportive underwriting framework, and reissued underwriting authorities aligned with revised risk appetite

ITEM 1 | **Business** | **AIG****AIG'S OPERATING STRUCTURE**

Our Core businesses include General Insurance, Life and Retirement and Other Operations. General Insurance consists of two operating segments – North America and International. Life and Retirement consists of four operating segments – Individual Retirement, Group Retirement, Life Insurance and Institutional Markets. Blackboard U.S. Holdings, Inc. (Blackboard), AIG's technology-driven subsidiary, is reported within Other Operations. We also report a Legacy Portfolio consisting of our run-off insurance lines and legacy investments that we consider non-core. Effective February 2018, our Bermuda-domiciled composite reinsurer, Fortitude Reinsurance Company Ltd (Fortitude Re.) is included in our Legacy Portfolio.

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. Our General Insurance International operating segment includes insurance businesses in Japan, the United Kingdom, Europe, the Asia Pacific region, Latin America, Puerto Rico, Australia, the Middle East and Africa. General Insurance results are presented before consideration of internal reinsurance agreements.

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

**Life and Retirement**

**Life and Retirement** is a unique franchise that brings together a broad portfolio of life and services for commercial and personal insurance customers. It includes one of the world's most 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.

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.; Talbot Holdings Ltd.; Western World Insurance Group, Inc. and Glatfelter Insurance Group.

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

#### Other Operations

**Other Operations** consists of businesses and items not attributed to our General Insurance and Life and Retirement segments or our Legacy Portfolio. It includes AIG Parent; Blackboard; deferred tax assets related to tax attributes; corporate expenses and intercompany eliminations.

#### Legacy Portfolio

**Legacy Portfolio** includes Legacy Life and Retirement Run-Off Lines, Legacy General Insurance Run-Off Lines, and Legacy Investments. Effective February 2018, Fortitude Re, our Bermuda-domiciled composite reinsurer, is included in our Legacy Portfolio.

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

Diversified Mix of Businesses

*(dollars in millions)*

\* Our Total revenues were \$47.4 billion in 2018. The graph above represents Adjusted revenues excluding revenues from our Legacy Portfolio operations of \$3.0 billion. *For reconciliation of Adjusted revenues to Total revenues see Note 3 to the Consolidated Financial Statements.*

**Geographic Concentration**

In 2018, 5.7 percent of our property casualty direct premiums were written in the state of California, and 16.4 percent and 7.1 percent were written in Japan and the United Kingdom, respectively. No other state or foreign jurisdiction accounted for more than five percent of our property casualty direct premiums.

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

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

**How We Generate Revenues and Profitability**

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

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

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

**Investment Activities of Our Insurance Operations**

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

The practice for managing the investments of the insurance companies places primary emphasis in corporate bonds, government or government-related bonds and mortgage backed securities and loans. Our fundamental strategy across all of our investment portfolios is to optimize the duration characteristics of the assets within a target range based on comparable liability characteristics, to the extent practicable.

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

**Loss Reserve Development Process**

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

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

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

## Our Employees

At AIG, we believe that a major strength of ours is the quality and dedication of our people. At December 31, 2018 and 2017, we had approximately 49,600 and 49,800 employees, respectively. We believe that our relations with our employees are satisfactory.

ITEM 1 | **Business**

## Regulation

**OVERVIEW**

Our operations around the world are subject to regulation by many different types of regulatory authorities, including insurance, securities, derivatives, investment advisory and thrift regulators in the United States and abroad. The insurance and financial services industries generally have been subject to heightened regulatory scrutiny and supervision since the financial crisis.

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

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

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), which brought about the most extensive changes to financial regulation in the United States in many years, was signed into law. On July 8, 2013, the Financial Stability Oversight Council (Council) made a determination that material financial distress at AIG could pose a threat to U.S. financial stability. On September 29, 2017, the Council rescinded its determination that material financial distress at AIG could pose a threat to U.S. financial stability and as a result, AIG is no longer designated as a nonbank systemically important financial institution (nonbank SIFI). With the rescission of its designation as a nonbank SIFI, AIG is no longer subject to the consolidated supervision of the Board of Governors of the Federal Reserve System (FRB) or subject to the enhanced prudential standards set forth in Dodd-Frank and its implementing regulations. Although the Council has rescinded its designation of AIG as a nonbank SIFI, certain provisions of Dodd-Frank remain relevant to insurance groups generally.

- The Council has authority to determine, subject to certain statutory and regulatory standards, that any nonbank financial company be designated as a nonbank SIFI subject to supervision by the FRB and enhanced prudential standards. The Council may also recommend that state insurance regulators or other regulators apply new or heightened standards and safeguards for activities or practices that nonbank financial services companies, including insurers, engage in.
- Title II of Dodd-Frank (Orderly Liquidation Authority) provides that a financial company whose largest United States subsidiary is an insurer may be subject to a special orderly liquidation process outside the Bankruptcy Code. That process is to be administered by the FDIC upon a determination that the company is: (i) in default or in danger of default, (ii) would have serious adverse effects on U.S. financial stability were it to fail and be resolved, (iii) is not likely to attract private sector alternatives to default and (iv) is not suitable for resolution under the Bankruptcy Code. Dodd-Frank authorizes possible assessments to cover

the costs of any special resolution of a financial company conducted under Title II. U.S. insurance subsidiaries of any such financial company, however, would be subject to rehabilitation and liquidation proceedings under state insurance law.

- Title VII of Dodd-Frank provides for significantly increased regulation of and restrictions on derivatives markets and transactions that have affected and, as additional regulations come into effect, could affect various activities of insurance and other financial services companies, including (i) regulatory reporting for swaps and security-based swaps, (ii) mandated clearing through central counterparties and execution through regulated swap execution facilities for certain swaps and security-based swaps and (iii) margin and collateral requirements. Although the Commodities Futures Trading Commission (CFTC), which oversees and regulates the U.S. swap, commodities and futures markets, has finalized most of its requirements, the SEC has yet to finalize the majority of rules comprising its security-based swap regulatory regime. Increased regulation of and restrictions on derivatives markets and transactions could increase the cost of our trading and hedging activities, reduce liquidity and reduce the availability of customized hedging solutions and derivatives.
- Dodd-Frank mandated a study to determine whether stable value contracts should be included in the definition of "swap." If that study concludes that stable value contracts are swaps, Dodd-Frank authorizes certain federal regulators to determine whether an exemption from the definition of a swap for stable value contracts is appropriate and in the public interest. Certain of our affiliates participate in the stable value contract business. We cannot predict what regulations might emanate from the aforementioned study or be promulgated applicable to this business in the future.
- Title V of Dodd-Frank authorizes the United States to enter into covered agreements with foreign governments or regulatory entities regarding the business of insurance and reinsurance. On September 22, 2017, the U.S. and the European Union (EU) entered into such an agreement, and on December 18, 2018, the U.S. signed a covered agreement with the United Kingdom (UK)



ITEM 1 | **Business**

in anticipation of the UK's withdrawal of its membership in the EU, commonly referred to as Brexit. *For additional information, see — International Regulation.*

- Dodd-Frank established the Bureau of Consumer Financial Protection (BCFP), an independent agency within the FRB, to regulate certain non-insurance consumer financial products and services offered primarily for personal, family or household purposes. Insurance products and services are not within the BCFP's general jurisdiction. Broker-dealers and investment advisers are not subject to the BCFP's jurisdiction when acting in their registered capacity.
- Dodd-Frank established the Federal Insurance Office (FIO) to serve as the central insurance authority in the federal government. While not serving a regulatory function, FIO performs certain duties related to the business of insurance. FIO serves as a non-voting member of the Council, has authority to collect information on the insurance industry and recommend prudential standards, monitors market access issues, represents the United States in international insurance forums, has authority to determine, after consulting with the relevant State and the United States Trade Representative, if certain regulations are preempted by covered agreements, and assists the Secretary of the Treasury in administering the Terrorism Risk Insurance Program under the Terrorism Risk Insurance Act of 2002.

On February 3, 2017, the President of the United States signed an Executive Order that directed the Secretary of the Treasury, in consultation with federal financial regulators, to assess all laws, rules and policies that regulate the U.S. financial system, including requirements put into place under Dodd-Frank since 2010, and to recommend necessary changes to make sure they conform to certain core principles. Treasury divided its review into four parts and published four reports: Banks and Credit Unions (June 12, 2017), Capital Markets (October 6, 2017), Asset Management and Insurance (October 26, 2017) and Nonbank Financials, Fintech and Innovation (July 31, 2018). In its report on insurance regulation, Treasury identified several areas for improvement at the federal and state levels and defined the role it intends for federal agencies. Among the points made in the report:

- Treasury expressed support for an activities-based approach to regulating systemic risk in the insurance industry rather than designating individual entities;
- Treasury recommended continued U.S. engagement in international standard-setting forums and charged FIO with coordinating the efforts of the federal government, state regulators, the National Association of Insurance Commissioners (NAIC), and other stakeholders on the issues within its scope, such as covered agreements, matters related to the Terrorism Risk Insurance Program, and standard-setting at the International Association of Insurance Supervisors (IAIS), including discussions regarding capital and liquidity requirements;
- Treasury expressed support for robust liquidity risk management programs for insurers and encouraged regulators to continue work on addressing potential liquidity risk in the insurance sector; and

- Treasury supported the Department of Labor (the DOL) in delaying full implementation of the final fiduciary rule issued by the DOL in April 2016 (the DOL Fiduciary Rule) until relevant issues are further evaluated and addressed by the DOL, SEC, and state insurance regulators working together. The DOL Fiduciary Rule was subsequently vacated by the U.S. Court of Appeals for the Fifth Circuit. *For additional information regarding legislative and regulatory developments surrounding a standard of care for the sale of investment products and services, see – U.S. Regulation – ERISA and Standard of Care Developments below and Item 7. MD&A – Executive Summary – AIG’s Outlook – Industry and Economic Factors – Standard of Care Developments.*

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

## Insurance Regulation

Certain states and other jurisdictions require registration and periodic reporting by (re)insurance companies that are licensed in such jurisdictions and are controlled by other entities. Applicable legislation typically requires periodic disclosure concerning the entity that controls the registered insurer and the other companies in the holding company system and prior approval of intercompany transactions and transfers of assets, including in some instances payment of dividends by the (re)insurance subsidiary, within the holding company system. This legislation also requires any person or entity desiring to purchase more than a specified percentage (commonly 10 percent) of our outstanding voting securities to obtain regulatory approval prior to such purchase. Our subsidiaries are registered under such legislation in those jurisdictions that have such requirements.

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

ITEM 1 | **Business**

powers to a state insurance official. The regulation and supervision relate primarily to the financial condition of the insurers and their corporate conduct and market conduct activities. This includes approval of policy forms and rates, the standards of solvency that must be met and maintained, including with respect to risk-based capital, the standards on transactions between (re)insurance company subsidiaries and their affiliates, including restrictions and limitations on the amount of dividends or other distributions payable by (re)insurance company subsidiaries to their parent companies, the licensing of insurers and their agents, restrictions on the size of risks that may be insured under a single policy, deposits of securities for the benefit of policyholders, requirements for acceptability of reinsurers, periodic examinations of the affairs of (re)insurance companies, the form and content of reports of financial condition required to be filed, reserves for unearned premiums, losses and other purposes and enterprise risk management and corporate governance requirements. Our (re)insurance subsidiaries are also subject to requirements on investments, which prescribe the kind, quality and concentration of investments they can make. In general, such regulation is for the protection of policyholders rather than the creditors or equity owners of these companies.

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

In the U.S., the NAIC is a standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. The NAIC itself is not a regulator, but, with assistance from the NAIC, state insurance regulators establish standards and best practices, conduct peer review and coordinate regulatory oversight. Every state has adopted, in substantial part, the Risk-Based Capital (RBC) Model Law promulgated by the NAIC or a substantially similar law, which allows states to act upon the results of RBC calculations, and provides four incremental levels of regulatory action regarding insurers whose RBC calculations fall below specific thresholds. Those levels of action range from the requirement to submit a plan describing how an insurer would regain a specified RBC ratio to a mandatory regulatory takeover of the company. The RBC formula is designed to measure the adequacy of an insurer's statutory surplus in relation to the risks inherent in its business and computes a risk-adjusted surplus level by applying discrete factors to various asset, premium, reserve and other financial statement items. These factors are developed to be risk-sensitive so that higher factors are applied to items exposed to greater risk. The statutory surplus of each of our U.S. based (re)insurance companies exceeded RBC minimum required levels as of December 31, 2018.

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

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

Principle-based reserving (PBR) is designed to tailor the reserving process to specific products in an effort to create a principle-based modeling approach to reserving rather than the factor-based approach historically employed. PBR became effective on January 1, 2017, after the NAIC's model Standard Valuation Law was enacted by the requisite number of states representing the required premium volume, replacing Regulation XXX and Guideline AXXX with respect to new life insurance business issued after that date. Two of our domiciliary states (Missouri and Texas) have adopted the regulations necessary to implement PBR. On December 10, 2018, a third domiciliary state (New York) adopted an emergency regulation to begin the implementation of PBR for regulated life insurers. We have up to three years after January 1, 2017 to implement PBR, and have currently elected to defer implementation.

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

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

ITEM 1 | **Business****ERISA and Standard of Care Developments**

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

Certain of our retirement products and services were also subject to the DOL Fiduciary Rule before the final rule was formally vacated by the U.S. Court of Appeals for the Fifth Circuit (the Fifth Circuit) on March 15, 2018 with the Fifth Circuit ruling that the DOL exceeded its authority in promulgating the DOL Fiduciary Rule, specifically in its broadening of the scope of fiduciary “investment advice” under ERISA and in the terms of the best interest contract exemption. As the Fifth Circuit’s final judgment was not further appealed, the ruling has the effect of invalidating the DOL Fiduciary Rule in its entirety. While the DOL has indicated that it plans to issue in September 2019 a revised final fiduciary rule package to replace the DOL Fiduciary Rule vacated by the Fifth Circuit, we cannot predict at this time the scope or substance of the new regulation that may be ultimately promulgated by the DOL or the impact such regulation may have on our businesses and operations.

In addition to the DOL, the SEC, federal and state lawmakers and state insurance regulators continue their efforts to evaluate what is an appropriate regulatory framework around a standard of care for the sale of investment products and services. On April 18, 2018, the SEC proposed a package of proposed rules and interpretations designed to address standard of care issues and the transparency of retail investors’ relationships with investment advisors and broker-dealers. On July 18, 2018, the New York State Department of Financial Services (NYDFS) adopted a best interest standard of care regulation applicable to annuity and life transactions through issuance of the First Amendment to Insurance Regulation 187 – Suitability and Best Interests in Life Insurance and Annuity Transactions (Regulation 187).

*For additional information regarding these developments, see Item 7. MD&A – Executive Summary – AIG’s Outlook – Industry and Economic Factors –Standard of Care Developments.*

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

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

The subsidiaries that manage the operations of our investment products and services are registered as investment advisers with the SEC under the Investment Advisers Act of 1940 (the Investment Advisers Act) and are required to supervise the activities of their personnel. Our affiliates that offer interests in insurance company separate accounts, mutual funds and other pooled investment products, and that provide other financial services to customers, are registered as broker-dealers and/or investment advisers with the SEC under the Exchange Act or the Investment Advisers Act, with certain states, and/or are also members of FINRA, as applicable. Our broker-dealer subsidiaries and their personnel are subject to examination by the SEC, FINRA, and the states for compliance with law, and certain personnel of these broker-dealers are also required to pass qualification examinations. The investment products that are offered by our affiliates may be registered under the Securities Act, which regulates disclosure regarding the products, and/or the Investment Company of 1940, which imposes substantive regulation on the structure and governance of the products, as well as being subject to insurance regulation in the case of separate accounts. Some products may also be qualified for sale in various states, the District of Columbia and Puerto Rico.

Our subsidiary, AlphaCat Managers Ltd., is a licensed insurance manager and is registered as an investment adviser with the SEC under the Investment Advisers Act. AlphaCat Managers Ltd. is also registered as a “commodity pool operator” with the CFTC and is a member of the National Futures Association.

*For additional information regarding legislative and regulatory developments surrounding a standard of care for the sale of investment products and services, see Item 7. MD&A – Executive Summary – AIG’s Outlook – Industry and Economic Factors – Standard of Care Developments.*

### **Privacy, Data Protection and Cybersecurity**

We are subject to U.S. laws and regulations that require financial institutions and other businesses to protect the security and confidentiality of personal and other sensitive information and provide notice of their practices relating to the collection and disclosure of personal information. We also are subject to laws and regulations requiring notification to affected individuals and regulators of security breaches.

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In October 2017, the NAIC adopted the Insurance Data Security Model Law (NAIC Model Law), which would require insurers, insurance producers and other entities required to be licensed under state insurance laws to develop and maintain a written information security program, conduct risk assessments, oversee the data security practices of third-party service providers and other related requirements. Legislation based on the NAIC Model Law has been enacted in South Carolina, Ohio and Michigan, and may be enacted in other states.

Effective March 1, 2017, the NYDFS promulgated a cybersecurity regulation requiring covered financial services institutions to implement a cybersecurity program designed to protect information systems. The regulation imposes specific technical safeguards as well as governance, risk assessment, monitoring and testing, third party service provider incident response and reporting and other requirements. The regulation sets forth transitional periods for compliance with different sections of the regulation through early 2019. AIG companies covered by the regulation periodically file certifications of compliance with the requirements in force at the time of each such filing. Requirements under the NYDFS' cybersecurity regulation are similar to those under the NAIC Model Law, with some differences.

In 2018, California enacted the California Consumer Privacy Act of 2018 (CCPA), which will go into effect in 2020. The CCPA contains a number of new requirements regarding the personal information of California consumers as defined by the statute, including new individual rights and mandatory disclosures regarding consumers' personal information. The statute also establishes a private right of action in some cases if consumers' personal information is subject to a data breach as a result of a business' failure to implement and maintain reasonable security practices.

*For information on privacy, data protection and cybersecurity regulation in the EU and other international jurisdictions, see International Regulation – Privacy, Data Protection and Cybersecurity.*

**Thrift Regulator**

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

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

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

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

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

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



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management, regulatory reporting and clearing requirements. Solvency II governs the insurance industry's solvency framework, including minimum capital and solvency requirements, governance requirements, risk management and public reporting standards. In accordance with Solvency II, the European Commission is required to make a determination as to whether a supervisory regime outside of the EU is "equivalent."

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

Under the agreement, AIG will be supervised at the worldwide group level only by its relevant U.S. insurance supervisors, and will not have to satisfy EU Solvency II group capital, reporting and governance requirements for its worldwide group. The agreement, however, would permit the imposition of EU Solvency II group capital requirements if, after five years from the signing of the agreement, a U.S. insurer is not subject to a group capital assessment by its applicable state regulator. The NAIC is in the process of developing a group capital calculation that, once adopted by the states, is expected to satisfy this condition. The agreement further provides that if the summary risk reports submitted to the supervisory authority of a host jurisdiction expose any serious threat to policyholder protection or financial stability in such host state, the host supervisor may request further information from the insurance group and/or impose preventive or corrective measures with respect to the (re)insurer in its jurisdiction. The agreement also seeks to impose equal treatment of U.S. and EU-based reinsurers that meet certain qualifications. In the U.S., once fully implemented, the agreement requires U.S. states to lift reinsurance collateral requirements on qualifying EU-based reinsurers and provide them equal treatment with U.S. reinsurers or be subject to federal preemption. While this provision does not preclude AIG from continuing to request collateral from an EU reinsurer that is party to a bilateral reinsurance transaction, it is unclear how much collateral AIG will be able to obtain from EU reinsurers going forward.

On December 18, 2018, the U.S. Treasury Department and the Office of the U.S. Trade Representative signed the Bilateral Agreement between the U.S. and the UK on Prudential Measures Regarding Insurance and Reinsurance (the U.S.-UK Covered Agreement). The terms of the agreement are substantially similar to the U.S.-EU Covered Agreement. The agreement has been entered into in order to maintain regulatory certainty and market continuity as the UK prepares to leave the EU. The agreement is still subject to U.S. and UK internal requirements and procedures, including a 90 day Congressional notification period in the U.S. In addition, the agreement notes with respect to the date of entry into force that the UK must take into

account its obligations arising in respect of any agreement between the EU and the UK pursuant to Article 50 of the Treaty on European Union, which sets out the process under which an EU member state may withdraw from the EU.

The Bermuda Monetary Authority (the BMA) regulates AIG's operating (re)insurance subsidiaries in Bermuda. The Insurance Act 1978 and its related regulations (as amended, the Insurance Act), as enforced by the BMA, impose a variety of requirements and restrictions on our Bermuda operating (re)insurance subsidiaries including: the filing of annual statutory financial returns; the filing of annual GAAP financial statements; compliance with minimum enhanced capital requirements; compliance with the BMA's Insurance Code of Conduct; compliance with minimum solvency margins and liquidity ratios; limitations on dividends and distributions; preparation of an annual Financial Condition Report providing details of measures governing the business operations, corporate governance framework, solvency and financial performance; and restrictions on certain changes in control of regulated (re)insurers.

### **Privacy, Data Protection and Cybersecurity**

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

We are addressing the new requirements regarding the processing of personal data about individuals, including mandatory security breach reporting, new and strengthened individual rights, evidenced data controller accountability for compliance with the GDPR principles (including fairness and transparency), maintenance of data processing activity records and the implementation of "privacy by design", including through the completion of mandatory Data Protection Impact Assessments in connection with higher risk data processing activities. Sanctions for non-compliance with the GDPR are more onerous than the previous regulatory regime with the potential for fines of up to 4 percent of global revenue for the most serious infringements.

We also are subject to other international laws and regulations that require financial institutions and other businesses to protect the security and confidentiality of personal and other sensitive information and provide notice of their practices relating to the collection

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and disclosure of personal information, and to international laws and regulations requiring notification to affected individuals and regulators of security breaches. In addition, we must comply with laws and regulations regarding the cross-border transfer of information.

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

**FSB and IAIS**

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

The IAIS represents insurance regulators and supervisors of more than 200 jurisdictions (including regions and states) in nearly 140 countries and seeks to promote globally consistent insurance industry supervision. The IAIS itself is not a regulator, but one of its activities is to develop insurance regulatory standards for use by local authorities across the globe. The FSB has charged the IAIS with developing a framework for measuring systemic risks posed by insurance groups and has directed the IAIS to create standards relative to many of the areas of focus of the FSB, which go beyond the IAIS' basic Insurance Core Principles. The IAIS is developing ComFrame, a Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs). ComFrame sets out qualitative and quantitative standards in order to assist supervisors in collectively addressing an IAIG's activities and risks, identifying and avoiding regulatory gaps and coordinating supervisory activities. ComFrame is expected to include standards for group supervision, governance and internal controls, enterprise risk management, and recovery and resolution planning. Also in connection with ComFrame, the IAIS is in the process of developing a risk-based global insurance capital standard (ICS) applicable to IAIGs. We currently meet the parameters set forth to define an IAIG. ComFrame standards are expected to be finalized in 2019. Following completion of field testing in 2019, the IAIS will put forward ICS version 2.0 for implementation in 2020. Implementation of ICS version 2.0 will consist of two phases: (1) a five year monitoring phase in which ICS version 2.0 will be used for confidential reporting to group-wide supervisors and discussion in supervisory colleges; and (2) an implementation phase whereby the ICS will be applied as a group-wide prescribed capital requirement at which point results will be used as the basis for supervisory action. Confidential reporting of ICS version 2.0 will include reporting by IAIGs of a standard formula based on market adjusted valuation and the option, at the discretion of the group-wide supervisor, of additional ICS reporting based on GAAP with adjustments and/or an internal model based-calculation. In recognition of

U.S. Federal Reserve and NAIC plans to develop an “aggregation method” for group capital, the IAIS has agreed to aid in the development of - and collect data from jurisdictions that are party to - the aggregation method. Although the aggregation method will not be part of ICS version 2.0, the IAIS aims to be in a position at the end of the monitoring phase to determine whether the aggregated approach provides substantially the same outcome as the ICS, in which case it could be incorporated into the ICS as an outcome-equivalent approach.

In February 2017, the IAIS announced the adoption of a three-year systemic risk assessment and policy workplan due to be finalized by year-end 2019. This initiative is comprised of a new macroprudential activities-based approach (ABA) to regulating systemic risk which will be developed in conjunction with the IAIS’ previously announced work in finalizing ComFrame, including the ICS, as well as any improvements to the methodology for identifying global systemically important insurers (G-SIIs). Based on the IAIS’ G-SII assessment methodology, since July 2013 the FSB has published an annual list of G-SIIs, which has included us. However, on November 30, 2017 the FSB announced that it would not be proceeding with the publication of a G-SII list for 2017 in light of the IAIS’ development of the ABA and its implications for the assessment of systemic risk in insurance and, by extension, the identification of G-SIIs and related policy measures for G-SIIs. On November 14, 2018, the FSB announced that, in light of IAIS progress in developing a proposed holistic framework for the assessment and mitigation of potential systemic risk in the insurance sector, inclusive of the ABA as a key component of the framework, it has decided not to engage in an identification of G-SIIs in 2018. In its public consultation on the holistic framework, issued on November 14, 2018, the IAIS noted that, in its view, the implementation of the holistic framework would obviate the need for the FSB’s annual G-SII identification process. The FSB stated that it will (i) assess the IAIS’s recommendation to suspend G-SII identification from 2020, once the holistic framework is finalized in November 2019; and (ii) in November 2022, based on the initial years of implementation of the holistic framework, review the need to either discontinue or re-establish an annual identification of G-SIIs.

The standards issued by the FSB and/or the IAIS are not binding on the United States or other jurisdictions around the world unless and until the appropriate local governmental bodies or regulators adopt laws and regulations implementing such standards. At this

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time, it is not known how the IAIS' frameworks and/or standards might be implemented in the United States and other jurisdictions around the world, or how they might apply to us.

**Brexit**

On June 23, 2016, the UK held a referendum in which a majority voted for the UK to withdraw its membership in the EU, commonly referred to as Brexit. The terms of withdrawal remain uncertain, with the draft withdrawal agreement having to date been rejected by the UK Parliament. There can be no assurance that a withdrawal agreement will be reached prior to Brexit.

AIG has significant operations and employees in the UK and other EU member states. Prior to December 1, 2018, our General Insurance business operated through AIG Europe Limited (AEL), a UK-incorporated insurer with branches across the EEA. These branches operated through the EU concept of Freedom of Establishment, which allows an insurer in any member state to establish branch operations in any other member state but with a single capital pool and a single prudential regulator (which in this case was the UK's Prudential Regulation Authority as AEL was UK-authorized). In addition, the various establishments of AEL were able to sell insurance products across borders into other member states under the EU principle of Freedom of Services. In the event that the UK leaves the EU without a withdrawal agreement in place, or in the event that a withdrawal agreement does not preserve access to these EU freedoms for UK insurers, AEL would be severely constrained in its ability to utilize and benefit from such freedoms. UK government policy has not been to pursue continued UK membership of the EU single market and so even if the UK and EU are able to settle on a withdrawal agreement, it is unlikely that AEL's structure would have remained efficient beyond any proposed temporary transitional period.

As a result, in order to adapt to and be prepared ahead of Brexit, on December 1, 2018, we completed a reorganization of our operations and legal entity structure in the UK and the EU through the establishment of a new European subsidiary in Luxembourg, AIG Europe S.A. (AESA), which has branches across the EEA and Switzerland, and a new UK subsidiary, American International Group UK Limited (AIG UK). Business written by AEL's branches in the remaining EEA countries was transferred to AESA, along with business previously written on a Freedom of Services basis from AEL's UK operations. The remaining business written by AEL's UK operations was transferred to AIG UK and AEL was merged into AESA, allowing AIG to operate in both the EEA and UK on a standalone basis.

This reorganization addresses the uncertainty for UK insurers generated by Brexit because it ensures that even in the event that no agreement is reached between the UK and EU in this sector, AIG will be able to continue to service and pay claims on existing policies, and write new and renewal business where the insured risk is located in the remaining EEA countries. AIG continues to monitor, adapt to and prepare for other risks relating to a "no deal" Brexit that could impact its business including, for example, the effect on the wider UK and EU economies and on investments, legislative changes, updates to policy wording that may become necessary and other specific areas such as the issuance of additional documentation to motorists it insures who travel cross border.

## Derivatives

Regulation of and restrictions on derivatives markets and transactions have been proposed or adopted outside the United States. For instance, the EU has also established a set of new regulatory requirements for EU derivatives activities under EMIR. These requirements include, among other things, various risk mitigation, risk management, margin posting, regulatory reporting and, for certain categories of derivatives, clearing requirements. Aside from certain margin obligations, these requirements are now in force. There remains the possibility of increased administrative costs with respect to our EU derivatives activities and overlapping or inconsistent regulation depending on the ultimate application of cross-border regulatory requirements between and among U.S. and non-U.S. jurisdictions.

## Markets in Financial Instruments Directive (MiFID) II

The Markets in Financial Instruments Directive (MiFID II) and Markets in Financial Instruments Regulation took effect in Europe on January 3, 2018. MiFID II and the related regulations are intended to create transparency in market trading by, for example, imposing trade and transaction reporting and other requirements. AIG Asset Management (Europe) Limited (AAMEL) has and continues to implement new policies, procedures and reporting protocols required to ensure compliance with this legislation and its related rules.

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## Available Information about AIG

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

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

Also available on our corporate website:

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

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

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

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

**MARKET CONDITIONS**

**Deterioration of economic conditions, geopolitical tensions or weakening in global capital markets may materially affect our businesses, results of operations, financial condition and liquidity.** Our businesses are highly dependent on global economic and market conditions. Weaknesses in economic conditions and the capital markets and market volatility have in the past led, and may in the future lead, to a poor operating environment, erosion of consumer and investor confidence, reduced business volumes, deteriorating liquidity and declines in asset valuations. Adverse economic conditions may result from global economic and political developments, including plateauing business activity and inflationary pressures in developed economies, uncertainty surrounding China's ability to successfully maintain growth, the effects of Brexit (as defined below) on business investment, hiring, migration and labor supply and intensifying trade protectionism. These and other market, economic, and political factors could have a material adverse effect on our businesses, results of operations, financial condition and liquidity in many ways, including (i) lower levels of consumer and commercial business activities that could decrease revenues and profitability and decrease value in goodwill, deferred tax assets and other long-term assets, (ii) increases in credit spreads and defaults that could reduce investment asset valuations, increase credit losses across numerous asset classes, and increase statutory capital requirements and (iii) increased market volatility and uncertainty that could decrease liquidity and increase borrowing costs. Other ways in which we could be negatively affected by economic conditions include, but are not limited to: increases in policy surrenders and cancellations; write-offs of deferred policy acquisition costs; increases in liability for future policy benefits due to loss recognition on certain long-duration insurance and reinsurance contracts; and increases in expenses associated with third-party reinsurance, or decreased ability to obtain reinsurance at acceptable terms.

**Sustained low interest rates, or rapidly increasing interest rates, may materially and adversely affect our profitability.** Although interest rates have been rising recently, particularly in the United States, rates remain low relative to historical levels. Sustained low interest rates can negatively affect the performance of our investment securities and reduce the level of investment income earned on our



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

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

## Reserves and Exposures

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

ITEM 1A | **Risk Factors**

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

While we use a number of analytical reserve development techniques to project future loss development, reserves have been and may be significantly affected by changes in loss cost trends or loss development factors that were relied upon in setting the reserves. For example, in 2018, 2017 and 2016, we recorded pre-tax net charges of \$1.4 billion, \$1.6 billion and \$5.8 billion, respectively, to strengthen our General Insurance loss reserves, reflecting adverse development in classes of business with long reporting tails, primarily in Casualty and Financial Lines. These changes in loss cost trends or loss development factors could be due to changes in actual versus expected claims and losses, difficulties in predicting changes, such as changes in inflation, unemployment duration, or other social or economic factors affecting claims, including judicial and legislative approaches. Any deviation in loss cost trends or in loss development factors might not be identified for an extended period of time after we record the initial loss reserve estimates for any accident year or number of years.

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

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

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

catastrophes have adversely affected our business in the past and could do so in the future. For example, we had pre-tax catastrophe losses of \$2.9 billion in 2018, which included losses from Hurricanes Florence and Michael, typhoons and earthquakes in Japan and mudslides and wildfires in California.

In addition, we recognize the scientific consensus that climate change is a reality of increasing concern, indicated by higher concentrations of greenhouse gases, a warming atmosphere and ocean, diminished snow and ice, and sea level rise. We understand that climate change potentially poses a serious financial threat to society as a whole, with implications for the insurance industry in areas such as catastrophe risk perception, pricing and modeling assumptions, particularly if the frequency and severity of natural catastrophic events continue to increase. Because there is significant variability associated with the impacts of climate change, we cannot predict how physical, legal, regulatory and social responses may impact our business.

Catastrophic events, and any relevant regulations, could expose us to:

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

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

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

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

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

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

Additionally, the use of reinsurance placed in the capital markets may not provide the same levels of protection as traditional reinsurance transactions. Any disruption, volatility and uncertainty in these markets, such as following a major catastrophic event, may limit our ability to access such markets on terms favorable to us or at all. Also, to the extent that we intend to use structures based on an industry loss index or other non-indemnity trigger rather than on actual losses incurred by us, we could be subject to residual

risk.

We currently have limited reinsurance coverage for terrorist attacks. Further, the availability of private sector reinsurance for terrorism is limited. We rely heavily on the Terrorism Risk Insurance Program (TRIP), which provides U.S. government risk assistance to the insurance industry to manage the exposure to terrorism incidents in the U.S. TRIP was reauthorized in January 2015 and is scheduled to expire on December 31, 2020. Under TRIP, once our losses for certain acts of terrorism exceed a deductible equal to 20 percent of our commercial property and casualty insurance premiums for covered lines for the prior calendar year, the federal government will reimburse us for losses in excess of our deductible, starting at 85 percent of losses in 2015 (81 percent in 2019), and reducing by one percentage point each year, ending at 80 percent in 2020, up to a total industry program limit of \$100 billion. TRIP does not cover losses in certain lines of business such as personal property and personal casualty. We also rely on the government sponsored and government arranged terrorism reinsurance programs, including pools, in force in applicable non-U.S. jurisdictions. There can be no assurance that TRIP will be reauthorized and extended past December 31, 2020.

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

**Concentration of our insurance, reinsurance and other risk exposures may have adverse effects.**

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

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

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

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

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

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

**Losses due to nonperformance or defaults by counterparties can materially and adversely affect the value of our investments, our profitability and sources of liquidity.** We incur credit risk with regard to counterparties related to investments, derivatives, premiums receivable, certain General Insurance businesses and reinsurance recoverables. These counterparties include issuers of fixed maturity and equity securities we hold, borrowers of loans we hold, customers, trading counterparties, counterparties under swaps and other derivative contracts, reinsurers, corporate and governmental entities whose payments or performance we insure, clearing agents, exchanges, clearing houses and other financial intermediaries and guarantors. These counterparties may default on their obligations to us due to bankruptcy, insolvency, receivership, lack of liquidity, adverse economic conditions, operational failure, fraud, government

intervention and other reasons. In addition, for exchange-traded derivatives, such as futures, options and "cleared" over-the-counter derivatives, we are generally exposed to the credit risk of the relevant central counterparty clearing house. Defaults by these counterparties on their obligations to us could have a material adverse effect on the value of our investments, business, financial condition, results of operations and liquidity. Additionally, if the underlying assets supporting the structured securities we invest in default on their payment obligations, our securities may incur losses.

## **Investment Portfolio AND Concentration of Investments**

**The performance and value of our investment portfolio are subject to a number of risks and uncertainties, including changes in interest rates.** Our investment securities are subject to market risks and uncertainties. In particular, interest rates are highly sensitive to many factors, including monetary and fiscal policy, domestic and international economic and political issues and other factors beyond our control. Changes in monetary policy or other factors may cause interest rate volatility, which could adversely affect the value of the fixed income securities that we hold and could adversely affect our ability to sell these securities. In addition, the evaluation of available-for-sale securities for other-than-temporary impairments, which may occur if interest rates rise, is a quantitative and qualitative process that is subject to significant management judgment.

*For a sensitivity analysis of our exposure to certain market risk factors see Item 7. MD&A – Enterprise Risk Management – Market Risk Management.*

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

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

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

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

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

**LIQUIDITY, CAPITAL AND CREDIT**

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

**Our internal sources of liquidity may be insufficient to meet our needs, including providing capital that may be required by our subsidiaries.** We need liquidity to pay our operating expenses, interest on



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

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

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

*For further discussion of rating agency requirements, see “A downgrade in the Insurer Financial Strength ratings of our insurance or reinsurance companies could limit their ability to write or prevent them from writing new business and retaining customers and business” below.*

**Our subsidiaries may not be able to generate cash to meet their needs due to the illiquidity of some of their investments.** Our subsidiaries have investments in certain securities that may be illiquid, including certain fixed income securities and certain structured securities, private company securities, investments in private equity funds and hedge funds, mortgage loans, finance receivables and real estate. Collectively, investments in these assets had a fair value of \$62 billion at December 31, 2018. Adverse real estate and capital markets, and wider credit spreads, have in the past, and may in the future, materially adversely affect the liquidity of our other securities portfolios, including our residential and commercial mortgage related securities portfolios. In the event

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additional liquidity is required by one or more of our subsidiaries and AIG Parent is unable to provide it, it may be difficult for these subsidiaries to generate additional liquidity by selling, pledging or otherwise monetizing these less liquid investments.

**A downgrade in the Insurer Financial Strength ratings of our insurance or reinsurance companies could limit their ability to write or prevent them from writing new business and retaining customers and business.** Insurer Financial Strength (IFS) ratings are an important factor in establishing the competitive position of insurance or reinsurance companies. IFS ratings measure an insurance or reinsurance company's ability to meet its obligations to contract holders and policyholders. High ratings help maintain public confidence in a company's products, facilitate marketing of products and enhance its competitive position. Downgrades of the IFS ratings of our insurance or reinsurance companies could prevent these companies from selling, or make it more difficult for them to succeed in selling, products and services, or result in increased policy cancellations, lapses and surrenders, termination of assumed reinsurance contracts, or return of premiums. Under credit rating agency policies concerning the relationship between parent and subsidiary ratings, a downgrade in AIG Parent's credit ratings could result in a downgrade of the IFS ratings of our insurance or reinsurance subsidiaries. Certain rating agencies negatively revised the outlook for our IFS ratings in early 2017, primarily as a result of our reserve strengthening in the fourth quarter of 2016 and related concerns regarding our profitability outlook. These same rating agencies maintained negative outlooks on our ratings throughout 2018 and 2019 to date. We cannot predict what actions rating agencies may take, or what actions we may take in response to the actions of rating agencies, which could adversely affect our business.

**A downgrade in our credit ratings could adversely affect our business, our results of operations or our liquidity.** Credit ratings estimate a company's ability to meet its obligations. A downgrade of our long-term debt ratings by the major rating agencies could potentially increase our financing costs and limit the availability of financing. A downgrade would also require us to post additional collateral payments related to derivative transactions to which we are a party, and could permit the termination of these derivative transactions. This could adversely affect our business, our consolidated results of operations in a reporting period and/or our liquidity. Certain rating agencies negatively revised our credit ratings and ratings outlooks in early 2017, primarily as a result of our reserve strengthening in the fourth quarter of 2016 and related concerns regarding our profitability outlook. These same rating agencies maintained negative outlooks on our ratings throughout 2018 and 2019 to date. We cannot predict what actions rating agencies may take, or what actions we may take in response to the actions of rating agencies, which could adversely affect our business.

**We may be required to post additional collateral because of changes in our reinsurance liabilities to regulated insurance companies, or because of regulatory changes that affect our businesses.** If our reinsurance liabilities increase, we may be required to post additional collateral for insurance company clients that we reinsure. In addition, regulatory changes could sometimes require us to post additional collateral. The need to post this additional collateral, if significant enough, may require us to sell investments at a loss in order to provide securities of suitable credit quality or otherwise secure adequate

capital at an unattractive cost. This could adversely impact our consolidated results of operations, liquidity and financial condition.

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

For example, on July 27, 2017, the UK Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021, which is expected to result in these widely used reference rates no longer being available. Potential changes to LIBOR, as well as uncertainty related to such potential changes and the establishment of any alternative reference rates, may adversely affect the market for LIBOR-based securities and could adversely impact the substantial amount of derivatives contracts used to hedge our insurance liabilities. In addition, the discontinuance of LIBOR or changes or reforms to the determination or supervision of LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on the market for LIBOR-based securities or the value of our investment portfolio and the derivatives contracts used to hedge our insurance liabilities.

## **Business and operations**

**Our restructuring initiatives may not yield our expected reductions in expenses and improvements in operational and organizational efficiency.** We may not be able to fully realize the anticipated expense reductions and operational and organizational efficiency improvements we expect to result from our restructuring initiatives, including the reorganization of AIG into General Insurance and Life and Retirement segments. Actual costs to implement these initiatives may exceed our estimates or we may be unable to fully implement and execute these initiatives as planned. The implementation of these initiatives may harm our relationships with customers or employees or our competitive position. Our businesses and results of operations may be negatively impacted if we are unable to realize these anticipated expense reductions and efficiency improvements or if implementing these initiatives harms our

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relationships with customers or employees or our competitive position. The successful implementation of these initiatives may continue to require us to effect workforce reductions, business rationalizations, systems enhancements, business process outsourcing, business and asset dispositions and acquisitions and other actions, which depend on a number of factors, some of which are beyond our control.

**Pricing for our products is subject to our ability to adequately assess risks and estimate losses.**

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

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

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

Differences between the change in fair value of the embedded derivatives associated with some of these guarantees and the related hedging portfolio can be caused by extreme and unanticipated movements in the equity markets, interest rates and market volatility, policyholder behavior that differs from our assumptions and our inability to purchase hedging instruments at prices consistent with the desired risk and return trade-off. The occurrence of one or more of these events could result in an increase in the liabilities associated with the guaranteed benefits, reducing our net income and shareholders' equity. While we believe that our actions have reduced the risks related to guaranteed benefits and guaranteed interest crediting, our exposure may not be fully or correctly hedged.

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

**Our foreign operations expose us to risks that may affect our operations.** We provide insurance, reinsurance, investment and other financial products and services to both businesses and individuals in

more than 80 countries and jurisdictions. A substantial portion of our business is conducted outside the U.S., and we intend to continue to grow business in strategic markets. Operations outside the U.S. may be affected by regional economic downturns, changes in foreign currency exchange rates, political events or upheaval, nationalization and other restrictive government actions, which could also affect our other operations.

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

On June 23, 2016, the United Kingdom (UK) held a referendum in which a majority voted for the UK to withdraw its membership in the European Union (EU), commonly referred to as Brexit. The terms of withdrawal remain uncertain, with the draft withdrawal agreement having to date been rejected by the UK Parliament. There can be no assurance that a withdrawal agreement will be reached prior to Brexit. We have significant operations and employees in the UK and other EU member states, and, as a result of Brexit, we have completed a reorganization of our operations and legal entity structure in the UK and the EU through the establishment of a new European subsidiary in Luxembourg with branches across the EEA and Switzerland, and a new UK subsidiary. For additional information regarding the reorganization of our European operations in light of Brexit, see Item 1. Business – Regulation – International Regulation – Brexit. However, there remains uncertainty around the post-Brexit regulatory environment. Brexit has also affected the U.S. dollar/British pound exchange rate, increased the volatility of exchange rates among the euro, British pound and the Japanese yen, and created volatility in the financial markets. It is possible that the uncertainty around the outcome of the negotiations between the UK and the EU will lead to further turbulence in the financial markets, which may affect the value of our investments.

**We may experience difficulty in marketing and distributing products through our current and future distribution channels.** Although we distribute our products through a wide variety of distribution channels, we maintain relationships with certain key distributors. Distributors have in the past, and may in the future, elect to renegotiate the terms of existing relationships, or reduce or

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terminate their distribution relationships with us, including for such reasons as industry consolidation of distributors or other industry changes that increase the competition for access to distributors, developments in legislation or regulation that affect our business, adverse developments in our business, adverse rating agency actions or concerns about market-related risks. An interruption in certain key relationships could materially affect our ability to market our products and could have a material adverse effect on our businesses, operating results and financial condition.

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

**We are exposed to certain risks if we are unable to maintain the availability of our electronic data systems and safeguard the security of our data, which could compromise our ability to conduct business and adversely affect our consolidated financial condition or results of operations.** We use computer systems to store, retrieve, evaluate and use customer, employee, and company data and information. Some of these systems, in turn, rely upon third-party systems. Additionally, some of our systems are older, legacy-type systems that are less efficient and require an ongoing commitment of significant resources to maintain or upgrade. Our business is highly dependent on our ability to access these systems to perform necessary business functions. These functions include providing insurance or reinsurance quotes, processing premium payments, making changes to existing policies, filing and paying claims, administering life and annuity products and mutual funds, providing customer support, executing transactions and managing our investment portfolios. Systems failures or outages could compromise our ability to perform these functions in a timely manner, which could harm our ability to conduct business, hurt our relationships with our business partners and customers and expose us to legal claims as well as regulatory investigations and sanctions. In the event of a natural disaster, a computer virus, unauthorized access, a terrorist attack, cyberattack or other disruption inside or outside the U.S., our systems may be inaccessible to our employees, customers or business partners for an extended period of time, and our employees may be unable to perform their duties for an extended period of time if our data or systems are disabled, manipulated, destroyed or otherwise compromised.

Like other global companies, our systems have in the past been, and will likely in the future be, subject to or targets of unauthorized or fraudulent access, including physical or electronic break-ins or unauthorized tampering, as well as attempted cyber and other security threats and other computer-related penetrations. The frequency and sophistication of such threats continue to increase. We must continuously monitor and develop our information technology networks and infrastructure to prevent, detect, address and mitigate the risk of threats to our data and systems, including malware and computer virus attacks, ransomware, unauthorized access, misuse, denial-of-service attacks, system failures and disruptions. There is no assurance that our security measures, including information security policies, administrative, technical and physical controls and other preventative actions, will provide fully effective protection from such events. AIG maintains cyber risk insurance, but this insurance may not cover all costs associated with the

consequences of personal, confidential or proprietary information being compromised. In some cases, such unauthorized access may not be immediately detected. This may impede or interrupt our business operations and could adversely affect our consolidated financial condition or results of operations.

In addition, we routinely transmit, receive and store personal, confidential and proprietary information by email and other electronic means. Although we attempt to keep such information confidential, we may be unable to do so in all events, especially with clients, vendors, service providers, counterparties and other third parties who may not have or use appropriate controls to protect personal, confidential or proprietary information. Any problems caused by these third parties, including those resulting from breakdowns or other disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher volumes, cyber-attacks and security breaches at a vendor could adversely affect our ability to deliver products and services to our customers and otherwise conduct our business.

Furthermore, certain of our businesses are subject to compliance with laws and regulations enacted by U.S. federal and state governments, the European Union or other jurisdictions or enacted by various regulatory organizations or exchanges relating to the privacy and security of the information of clients, employees or others. The variety of applicable privacy and information security laws and regulations could expose us to heightened regulatory scrutiny and may require us to incur significant technical, legal and other expenses to ensure and maintain compliance. If we are found not to be in compliance with these laws and regulations, we could be subjected to significant civil and criminal liability and exposed to reputational harm. For additional information on data protection and cybersecurity regulations, see Item 1. Business – Regulation – U.S. Regulation – Privacy, Data Protection and Cybersecurity and – International Regulation – Privacy, Data Protection and Cybersecurity. Additionally, the compromise of personal, confidential or proprietary information could cause a loss of data, give rise to remediation or other expenses, expose us to liability under U.S. and international laws and regulations, and subject us to litigation, investigations, sanctions and regulatory and law enforcement action, and result in reputational harm and loss of business, which could have a material adverse effect on our business, cash flows, financial condition and results of operations.

We are continuously evaluating and enhancing systems and creating new systems and processes as our business depends on our ability to maintain and improve our technology systems for interacting with customers, brokers and employees. Due to the complexity

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and interconnectedness of our systems and processes, these changes, as well as changes designed to update and enhance our protective measures to address new threats, may increase the risk of a system or process failure or the creation of a gap in our security measures. Any such failure or gap could adversely affect our business operations and the advancement of our business or strategic initiatives.

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

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

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

**Significant legal proceedings may adversely affect our results of operations or financial condition.** Like others in the insurance and financial services industries in general, in the ordinary course of operating our businesses we face significant risk from regulatory and governmental investigations and civil actions, litigation and other forms of dispute resolution in various domestic and foreign jurisdictions. In our insurance and reinsurance operations, we frequently engage in litigation and arbitration concerning the scope of coverage under insurance and reinsurance contracts, and face litigation and arbitration in which our subsidiaries defend or indemnify their insureds under insurance contracts. AIG, our subsidiaries and their



respective officers and directors are also subject to a variety of additional types of legal disputes brought by holders of AIG securities, customers, employees and others, alleging, among other things, breach of contractual or fiduciary duties, bad faith and violations of federal and state statutes and regulations. Certain of these matters involve potentially significant risk of loss due to the possibility of significant jury awards and settlements, punitive damages or other penalties. Many of these matters are also highly complex and seek recovery on behalf of a class or similarly large number of plaintiffs. It is therefore inherently difficult to predict the size or scope of potential future losses arising from them, and developments in these matters could have a material adverse effect on our consolidated financial condition or consolidated results of operations for an individual reporting period.

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

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

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

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

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

**Our businesses are heavily regulated and changes in regulation may affect our operations, increase our insurance subsidiary capital requirements or reduce our profitability.** Our operations generally, and our insurance and reinsurance subsidiaries, in particular, are subject to extensive and potentially conflicting supervision and regulation by national authorities and by the various jurisdictions in which we do business. Supervision and regulation relate to numerous aspects of our business and financial condition. Federal, state and foreign regulators also periodically review and investigate our insurance and reinsurance businesses, including AIG-specific and industry-wide practices. The primary purpose of insurance regulation is the protection of our insurance and reinsurance contract holders, and not our investors. The extent of domestic regulation varies, but generally is governed by state statutes which delegate regulatory, supervisory and administrative authority to state insurance departments. In addition, federal and state securities laws and regulations apply to certain of our insurance products that are considered ‘securities’ under such laws, including our variable annuity contracts, variable life insurance policies and the separate accounts that issue them, as well as our broker-dealer, investment advisor and mutual funds operations. These laws and regulations generally grant regulatory agencies and self-regulatory organizations broad rulemaking and enforcement powers, including the power to regulate the issuance, sale and distribution of our products and limit or restrict the conduct of business for failure to comply with applicable securities laws and regulations.

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

In the U.S., the RBC formula is designed to measure the adequacy of an insurer’s statutory surplus in relation to the risks inherent in its business. Every state has adopted, in substantial part, the RBC Model Law promulgated by the NAIC or a substantially similar law, which specifies the regulatory actions the insurance regulator may take if an insurer’s RBC calculations fall below specific thresholds. Those actions range from requiring an insurer to submit a plan describing how it would regain a specified RBC ratio to a mandatory regulatory takeover of the company. The NAIC and certain international standard-setting bodies are also considering methodologies for assessing group-wide regulatory capital, which might evolve into more formal group-wide capital requirements on certain insurance companies that may augment state-law RBC standards that apply at the legal entity level, and such capital calculations may be made, in whole or in part, on bases other than the statutory statements of our U.S. insurance subsidiaries. We cannot predict

the effect these initiatives may have on our business, consolidated results of operations, liquidity and financial condition.

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

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

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

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

ITEM 1A | **Risk Factors**

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

**Actions by foreign governments, regulators and international standard setters could result in substantial additional regulation to which we may be subject.** We cannot predict the impact laws and regulations adopted in foreign jurisdictions may have on the financial markets generally or our businesses, results of operations or cash flows. It is possible such laws and regulations, our status as an Internationally Active Insurance Group (IAIG) and certain standard-setting initiatives by the FSB and the IAIS, including, but not limited to, the ongoing development of a holistic framework for the assessment and mitigation of systemic risk and a risk-based global insurance capital standard (ICS), and implementation of Solvency II in the European Union, may significantly alter our business practices. They may also limit our ability to engage in capital or liability management, require us to raise additional capital, and impose burdensome requirements and additional costs. It is possible that the laws and regulations adopted in foreign jurisdictions will differ from one another, and that they could be inconsistent with the laws and regulations of other jurisdictions including the U.S.

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

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

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

Our domestic Life and Retirement companies manage the capital impact of statutory reserve requirements under Regulation XXX and Guideline AXXX through reinsurance transactions, to maintain their ability to

offer competitive pricing and successfully market such products. The application of Regulation XXX and Guideline AXXX involve numerous interpretations. If state insurance departments do not agree with our interpretations or if regulations change with respect to our ability to manage the capital impact of certain statutory reserve requirements, our statutory reserve requirements could increase, or our ability to take reserve credit for reinsurance transactions could be reduced or eliminated. As a result, we could be required to increase prices on our products, raise capital to replace the reserve credit provided by the reinsurance transactions or incur higher costs to obtain reinsurance, each of which could adversely affect our competitive position, financial condition or results of operations. If our actions to efficiently manage the impact of Regulation XXX or Guideline AXXX on future sales of term and universal life insurance products are not successful, we may incur higher operating costs or our sales of these products may be affected.

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

**Third parties we rely upon to provide certain business and administrative services on our behalf may not perform as anticipated, which could have an adverse effect on our business and results of operations.** We rely on the use of third-party providers to deliver contracted services in a broad range of areas, including the administration or servicing of certain policies and contracts and investment accounting and operation functions. Some of these providers are located outside the U.S., which exposes us to business disruptions and political risks inherent when conducting business outside of the U.S. We periodically negotiate provisions and renewals of these relationships, and there can be no assurance that such terms will remain acceptable to us or such third parties. If such third-party providers experience disruptions or do not perform as anticipated or in compliance with applicable laws and regulations, or we experience problems with a transition to a third-party provider, we may experience operational difficulties, an inability to meet obligations (including, but not limited to, legal, regulatory or policyholder obligations), a loss of business and increased costs, reputational harm, or suffer other negative consequences, all of which may have a material adverse effect on our business, consolidated results of operations, liquidity and financial condition.

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*For a discussion regarding cyber risk arising from third-party providers, see “We are exposed to certain risks if we are unable to maintain the availability of our electronic data systems and safeguard the security of our data, which could compromise our ability to conduct business and adversely affect our consolidated financial condition or results of operations” above.*

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

**An “ownership change” could limit our ability to utilize tax loss and credit carryforwards to offset future taxable income.** As of December 31, 2018, on a tax basis, we had U.S. federal net operating loss carryforwards of approximately \$36.3 billion, \$82 million in capital loss carryforwards, \$3.5 billion in foreign tax credits and \$814 million in other tax credits (tax loss and credit carryforwards). Our ability to use these tax attributes to offset future taxable income may be significantly limited if we experience an “ownership change” as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the Code). In general, an ownership change will occur when the percentage of AIG Parent's ownership (by value) of one or more “5-percent shareholders” (as defined in the Code) has increased by more than 50 percent over the lowest percentage owned by such shareholders at any time during the prior three years (calculated on a rolling basis). An entity that experiences an ownership change generally will be subject to an annual limitation on its pre-ownership change tax loss and credit carryforwards equal to the equity value of the corporation immediately before the ownership change, multiplied by the long-term, tax-exempt rate posted monthly by the IRS (subject to certain adjustments). The annual limitation would be increased each year to the extent that there is an unused limitation in a prior year. The limitation on our ability to utilize tax loss and credit carryforwards arising from an ownership change under Section 382 would depend on the value of our equity at the time of any ownership change. If we were to experience an “ownership change”, it is possible that a significant portion of our tax loss and credit carryforwards could expire before we would be able to use them to offset future taxable income.

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

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

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

**Changes to tax laws, including U.S. legislation enacted in late 2017, could increase our corporate taxes or make some of our products less attractive to consumers.**

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

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

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changes, including the calculation of insurance tax reserves and the amortization of deferred acquisition costs, will impact the timing of our tax expense items and could impact the pricing of certain insurance products.

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

Furthermore, the overall impact of the Tax Act is subject to the effect of other complex provisions in the Tax Act (including the base erosion and anti-abuse tax (BEAT) and global intangible low-taxed income (GILTI)), which reduce a portion of the benefit from the lower statutory U.S. federal rate. While the U.S. tax authorities issued formal guidance and proposed regulations for BEAT and other provisions of the Tax Act, there are still certain aspects of the Tax Act that remain unclear. AIG will continue to review the impact of both BEAT and GILTI as further guidance is issued. Any further guidance may result in changes to the interpretations and assumptions we made and actions we may take, which as a result may impact the amounts recorded with respect to international provisions of the Tax Act, possibly materially. In addition, if BEAT induces other countries to enact similar legislation that could impact cross-border reinsurance transactions, AIG could be negatively impacted by increased tax costs in those countries.

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

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

**COMPETITION and employees**

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



groups and local companies. Technological advancements and innovation in the insurance industry may present competitive risks; technological advancements and innovation are occurring in distribution, underwriting, claims and operations and at a pace that may increase, particularly as companies increasingly use data analytics and technology as part of their business strategy. Our business and results of operations could be materially and adversely affected if technological advancements or innovation limit our ability to retain existing business, write new business at adequate rates or on appropriate terms, render our insurance products less suitable or impact our ability to adapt or deploy current products as quickly and effectively as our competitors.

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

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

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

ITEM 1A | **Risk Factors**

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

**We may not be able to protect our intellectual property and may be subject to infringement claims.** We rely on a combination of contractual rights and copyright, trademark, patent and trade secret laws to establish and protect our intellectual property. Although we use a broad range of measures to protect our intellectual property rights, third parties may infringe or misappropriate our intellectual property. We may have to litigate to enforce and protect our intellectual property and to determine its scope, validity or enforceability, which could divert significant resources and may not prove successful. Litigation to enforce our intellectual property rights may not be successful and cost a significant amount of money. The inability to secure or enforce the protection of our intellectual property assets could harm our reputation and have a material adverse effect on our business and our ability to compete. We also may be subject to costly litigation in the event that another party alleges our operations or activities infringe upon their intellectual property rights, including patent rights, or violate license usage rights. Any such intellectual property claims and any resulting litigation could result in significant expense and liability for damages, and in some circumstances we could be enjoined from providing certain products or services to our customers, or utilizing and benefiting from certain patent, copyrights, trademarks, trade secrets or licenses, or alternatively could be required to enter into costly licensing arrangements with third parties, all of which could have a material adverse effect on our business, consolidated results of operations and financial condition.

**ESTIMATES AND ASSUMPTIONS**

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

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

**Changes in accounting principles and financial reporting requirements could impact our consolidated results of operations and financial condition.** Our financial statements are subject to the application of U.S. GAAP, which is periodically revised. Accordingly, from time to time, we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the Financial Accounting Standards Board (FASB).

The International Accounting Standards Board (IASB) has issued International Financial Reporting Standard (IFRS) 17, Insurance Contracts, with an effective date of January 1, 2021. This new standard will require significant changes to accounting measurements for long-duration insurance contracts for many of our international operations.

The FASB has revised the accounting standards for insurance contracts. The FASB adopted standards as of December 31, 2017 focused on disclosures for short-duration insurance contracts, which primarily relate to our property casualty products. In addition, the FASB issued Accounting Standards Update (ASU) No. 2018-12 – Targeted Improvements to the Accounting for Long-Duration Contracts, which has an effective date of January 1, 2021 and is intended to improve, simplify and enhance the accounting measurements and disclosures for long-duration insurance contracts, which primarily relates to our life and annuity products. Changes to the manner in which we account for long-duration products could impact our consolidated results of operations, liquidity and financial condition.

The FASB issued ASU No. 2016-13 – Measurement of Credit Losses on Financial Instruments, which has an effective date of January 1, 2020. This standard will change how we account for credit losses for most financial assets, trade receivables and reinsurance receivables. The standard will replace the existing incurred loss impairment model with a new “current expected credit loss model” that generally will result in earlier recognition of credit losses. The standard will apply to financial assets subject to credit

ITEM 1A | **Risk Factors**

losses, including loans measured at amortized cost, reinsurance receivables and certain off-balance sheet credit exposures. Additionally, the impairment of available-for-sale debt securities, including purchased credit deteriorated securities, are subject to the new guidance and will be measured in a similar manner, except that losses will be recognized as allowances rather than reductions in the amortized cost of the securities. The standard will impact our consolidated results of operations, liquidity and financial condition and will require additional information to be disclosed in the Notes to the Consolidated Financial Statements.

The adoption of the newly issued standards as well as other future accounting standards could impact our reported consolidated results of operations, liquidity and reported financial condition.

*For a discussion of the impact of accounting pronouncements that have been issued but are not yet required to be implemented see Note 2 to the Consolidated Financial Statements.*

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

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

**If our businesses do not perform well and/or their estimated fair values decline or the price of our common stock does not increase, we may be required to recognize an impairment of our goodwill or to establish a valuation allowance against the deferred income tax assets, which could have a material adverse effect on our results of operations and financial condition.** Goodwill represents the excess of the amounts we paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. We test goodwill at least annually for impairment. Impairment testing is performed based upon estimates of the fair value of the “reporting unit” to which the goodwill relates. The fair value of the reporting unit is impacted by the performance of the business and could be adversely impacted if new business, customer retention, profitability or other drivers of performance differ from expectations, or upon the occurrence of certain events, including a significant and adverse change in regulations, legal factors, accounting standards or business climate, or an adverse action or assessment by a regulator. If it is determined that goodwill has been impaired, we must write down goodwill by the amount of the impairment, with a corresponding charge to net income (loss). These write downs could have a material adverse effect on our consolidated results of operations, liquidity and financial condition. *For further discussion regarding goodwill impairment, see Item 7. MD&A – Critical Accounting Estimates – Impairment Charges – Goodwill Impairment and Note 12 to the Consolidated Financial Statements.*

Deferred income tax represents the tax effect of the differences between the book and tax basis of assets and liabilities. Deferred tax assets are assessed periodically by management to determine if they are realizable. The performance of the business, including the ability to generate future taxable income from a variety of sources and planning strategies, is factored into management's determination. If, based on available evidence, it is more likely than not that the deferred tax asset will not be realized, then a valuation allowance must be established with a corresponding charge to net income. Such charges could have a material adverse effect on our consolidated results of operations, liquidity and financial condition. *For further discussion regarding deferred tax assets, see Item 7. MD&A – Critical Accounting Estimates – Income Taxes and Note 23 to the Consolidated Financial Statements.*

ITEM 1B | [Unresolved Staff Comments](#)

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

ITEM 2 | [Properties](#)

We operate from approximately 166 offices in the United States and approximately 351 offices in approximately 56 foreign countries. The following offices are located in buildings in the United States owned by us:

**General Insurance Companies:**

- Stevens Point, Wisconsin

**Life and Retirement Companies:**

- Amarillo and Houston, Texas

**Other Operations:**

- 175 Water Street in New York, New York (Corporate Headquarters; also includes General Insurance companies)
- Livingston, New Jersey
- Ft. Worth, Texas

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

**LOCATIONS OF CERTAIN ASSETS**

As of December 31, 2018, approximately 15 percent of our consolidated assets were located outside the U.S. and Canada, including \$413 million of cash and securities on deposit with regulatory authorities in those locations.

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

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

Operations outside the U.S. and Canada and assets held abroad may be adversely affected by political developments in foreign countries, including tax changes, nationalization and changes in regulatory policy, as well as by consequence of hostilities and unrest. The risks of such occurrences and their overall effect upon us vary from country to country and cannot be predicted. If expropriation or nationalization does occur, our policy is to take all appropriate measures to seek recovery of any affected assets. Certain of the

countries in which our business is conducted have currency restrictions that generally cause a delay in a company's ability to repatriate assets and profits.

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

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

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

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

Not applicable.

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

AIG’s common stock, par value \$2.50 per share (AIG Common Stock), is listed on the New York Stock Exchange (NYSE: AIG). On December 3, 2018, AIG’s Common Stock was voluntarily delisted from the Tokyo Stock Exchange. There were approximately 24,334 stockholders of record of AIG Common Stock as of February 11, 2019.

**Equity Compensation Plans**

Our table of equity compensation plans will be included in the definitive proxy statement for AIG’s 2019 Annual Meeting of Shareholders. The definitive proxy statement will be filed with the SEC no later than 120 days after the end of AIG’s fiscal year pursuant to Regulation 14A.

**Purchases of Equity Securities**

**The following table provides information about purchases made by or on behalf of AIG or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934 (the Exchange Act)) of AIG Common Stock during the three months ended December 31, 2018:**

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)
October 1 – 31	-	\$ -	-	\$ 1,262
November 1 – 30 <sup>(a)</sup>	11,563,973	42.99	11,563,973	762 <sup>(b)</sup>
December 1 – 31 <sup>(a)</sup>	6,510,320	38.07	6,510,320	512 <sup>(b)</sup>
<b>Total</b>	<b>18,074,293</b>	<b>\$ 41.22</b>	<b>18,074,293</b>	<b>\$ 512</b>

(a) During the November 1-30 period, we also repurchased 343,293 warrants to purchase shares of AIG Common Stock, at an average purchase price per warrant of \$8.21, for an aggregate purchase price of \$3 million. During the December 1-31 period, we also repurchased 406,162 warrants to purchase shares of AIG Common Stock, at an average purchase price per warrant of \$5.22, for an aggregate purchase price of \$2 million.

(b) Reflects the purchase of 343,293 and 406,162 warrants to purchase shares of AIG Common Stock in the November 1-30 and December 1-31 periods, respectively, which reduced the dollar value of the remaining repurchase authorization.



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

During the three-month period ended December 31, 2018 we purchased approximately 18 million shares of AIG Common Stock under this authorization for an aggregate purchase price of approximately \$745 million. We also repurchased 749,455 warrants to purchase shares of AIG Common Stock during the three-month period ended December 31, 2018 for an aggregate purchase price of approximately \$5 million.

On February 13, 2019, our Board of Directors authorized an additional increase to its previous repurchase authorization of AIG Common Stock of \$1.5 billion, resulting in an aggregate remaining authorization on such date of approximately \$2.0 billion. We did not repurchase any shares of AIG Common Stock from January 1, 2019 to February 13, 2019. Shares may be repurchased from time to time in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise (including through the purchase of warrants). Certain of our share repurchases have been and may from time to time be effected through Exchange Act Rule 10b5-1 repurchase plans. The timing of any future share repurchases will depend on market conditions, our business and strategic plans, financial condition, results of operations, liquidity and other factors.

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

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

**Common Stock Performance Graph**

The following Performance Graph compares the cumulative total shareholder return on AIG Common Stock for a five-year period (December 31, 2013 to December 31, 2018) with the cumulative total return of the S&P’s 500 stock index (which includes AIG), the S&P Property and Casualty Insurance Index (S&P P&C Index) and the S&P Life and Health Insurance Index (S&P L&H Index).

**Value of \$100 Invested on December 31, 2013**

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

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

	<b>As of December 31,</b>					
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
AIG	\$ 100.00	\$ 110.74	\$ 124.22	\$ 133.86	\$ 124.67	<b>\$ 84.64</b>
S&P 500	100.00	113.69	115.26	129.05	157.22	<b>150.33</b>

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S&P 500 Property & Casualty Insurance Index	100.00	115.74	126.77	146.68	179.52	<b>171.10</b>
S&P 500 Life & Health Insurance	100.00	101.95	95.51	119.26	138.85	<b>110.01</b>

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ITEM 6 | **Selected Financial Data**ITEM 6 | [Selected Financial Data](#)

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

<i>(in millions, except per share data)</i>	<b>Years Ended December 31,</b>				
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Revenues:</b>					
Premiums	<b>\$ 30,614</b>	\$ 31,374	\$ 34,393	\$ 36,655	\$ 37,254
Policy fees	<b>2,791</b>	2,935	2,732	2,755	2,615
Net investment income	<b>12,476</b>	14,179	14,065	14,053	16,079
Net realized capital gains (losses)	<b>(130)</b>	(1,380)	(1,944)	776	739
Aircraft leasing revenue	-	-	-	-	1,602
Other income	<b>1,638</b>	2,412	3,121	4,088	6,117
<b>Total revenues</b>	<b>47,389</b>	49,520	52,367	58,327	64,406
<b>Benefits, losses and expenses:</b>					
Policyholder benefits and losses incurred	<b>27,412</b>	29,972	32,437	31,345	28,281
Interest credited to policyholder account balances	<b>3,754</b>	3,592	3,705	3,731	3,768
Amortization of deferred policy acquisition costs	<b>5,386</b>	4,288	4,521	5,236	5,330
General operating and other expenses	<b>9,302</b>	9,107	10,989	12,686	13,138
Interest expense	<b>1,309</b>	1,168	1,260	1,281	1,718
Aircraft leasing expenses	-	-	-	-	1,585
Net (gain) loss on extinguishment of debt	<b>7</b>	(5)	74	756	2,282
Net (gain) loss on sale of divested businesses	<b>(38)</b>	(68)	(545)	11	(2,197)
<b>Total benefits, losses and expenses</b>	<b>47,132</b>	48,054	52,441	55,046	53,905
Income (loss) from continuing operations before income taxes	<b>257</b>	1,466	(74)	3,281	10,501
Income tax expense	<b>154</b>	7,526	185	1,059	2,927
Income (loss) from continuing operations	<b>103</b>	(6,060)	(259)	2,222	7,574
Income (loss) from discontinued operations, net of taxes	<b>(42)</b>	4	(90)	-	(50)
<b>Net income (loss)</b>	<b>61</b>	(6,056)	(349)	2,222	7,524
<b>Net income (loss) from continuing operations attributable to noncontrolling interests</b>	<b>67</b>	28	500	26	(5)

<b>Net income (loss) attributable to AIG</b>	<b>\$ (6)</b>	\$ (6,084)	\$ (849)	\$ 2,196	\$ 7,529
<b>Income (loss) per common share attributable to AIG</b>					
<b>common shareholders</b>					
Basic					
Income (loss) from continuing operations	<b>\$ 0.04</b>	\$ (6.54)	\$ (0.70)	\$ 1.69	\$ 5.31
Income (loss) from discontinued operations	<b>(0.05)</b>	-	(0.08)	-	(0.04)
Net income (loss) attributable to AIG	<b>(0.01)</b>	(6.54)	(0.78)	1.69	5.27
Diluted					
Income (loss) from continuing operations	<b>0.04</b>	(6.54)	(0.70)	1.65	5.24
Income (loss) from discontinued operations	<b>(0.05)</b>	-	(0.08)	-	(0.04)
Net income (loss) attributable to AIG	<b>(0.01)</b>	(6.54)	(0.78)	1.65	5.20
Dividends declared per common share	<b>1.28</b>	1.28	1.28	0.81	0.50

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ITEM 6 | **Selected Financial Data****Year-end balance sheet data:**

Total investments	<b>\$314,209</b>	\$322,292	\$328,175	\$338,354	\$355,766
Total assets	<b>491,984</b>	498,301	498,264	496,842	515,500
Long-term debt	<b>34,540</b>	31,640	30,912	29,249	31,136
Total liabilities	<b>434,675</b>	432,593	421,406	406,632	408,228
Total AIG shareholders' equity	<b>56,361</b>	65,171	76,300	89,658	106,898
Total equity	<b>57,309</b>	65,708	76,858	90,210	107,272
Book value per common share	<b>65.04</b>	72.49	76.66	75.10	77.69
Book value per common share, excluding Accumulated other comprehensive income (loss) <sup>(a)</sup>	<b>66.67</b>	66.41	73.41	72.97	69.98
Adjusted book value per common share <sup>(a)</sup>	<b>54.95</b>	54.74	58.57	58.94	58.23
ROE	<b>0.0%</b>	(8.4)%	(1.0)%	2.2%	7.1%
Adjusted ROE <sup>(a)</sup>	<b>2.1</b>	4.1	0.6	3.7	8.8

<i>(in millions, except per share data)</i>	<b>Years Ended December 31,</b>				
	<b>2018</b>	2017	2016	2015	2014
<b>Other data:</b>					
Catastrophe-related losses <sup>(b)</sup>	<b>\$ 2,885</b>	\$ 4,167	\$ 1,331	\$ 731	\$ 728
Prior year unfavorable development	<b>362</b>	978	5,788	4,119	703
Other-than-temporary impairments	<b>251</b>	260	559	671	247
Adjustment to federal deferred tax valuation allowance	<b>21</b>	43	83	110	(181)
Impact of Tax Act	<b>62</b>	6,687	-	-	-
Net positive (negative) adjustment from update of Life and Retirement actuarial assumptions	<b>\$ (228)</b>	\$ 68	\$ (427)	\$ 3	\$ 168

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

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

**Items Affecting Comparability Between Periods**

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

## **business acquisition**

On July 18, 2018, we completed the purchase of Validus.

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

In 2015, we sold all of our ordinary shares of AerCap Holdings N.V. (AerCap) received as part of the consideration for the sale of International Lease Finance Corporation (ILFC). In 2016, we sold United Guaranty to Arch Capital Group Ltd. (Arch). In 2017, we sold Fuji Life to FWD Group and certain international insurance operations to Fairfax Financial Holdings Limited (Fairfax).

*For further discussion on the 2016 and 2017 asset dispositions and the 2018 purchase of Validus, see Note 1 to the Consolidated Financial Statements.*

## ITEM 6 | Selected Financial Data

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

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

<i>(in millions, except per share data)</i>	At December 31,				
	2018	2017	2016	2015	2014
Total AIG shareholders' equity	\$ 56,361	\$ 65,171	\$ 76,300	\$ 89,658	\$ 106,898
Accumulated other comprehensive income (loss)	(1,413)	5,465	3,230	2,537	10,617
<b>Total AIG shareholders' equity, excluding AOCI</b>	<b>57,774</b>	59,706	73,070	87,121	96,281
Deferred tax assets	10,153	10,492	14,770	16,751	16,158
<b>Adjusted shareholders' equity</b>	<b>47,621</b>	49,214	58,300	70,370	80,123
Total common shares outstanding	866,609,429	899,044,657	995,335,841	1,193,916,617	1,375,926,971
<b>Book value per common share</b>	<b>\$ 65.04</b>	\$ 72.49	\$ 76.66	\$ 75.10	\$ 77.69
<b>Book value per common share, excluding AOCI</b>	<b>66.67</b>	66.41	73.41	72.97	69.98
<b>Adjusted book value per common share</b>	<b>54.95</b>	54.74	58.57	58.94	58.23

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

## Years Ended December 31,

*(dollars in millions)*

	2018	2017	2016	2015	2014
Net income (loss) attributable to AIG	\$ (6)	\$ (6,084)	\$ (849)	\$ 2,196	\$ 7,522
Adjusted after-tax income attributable to AIG	1,064	2,231	406	2,872	6,942
Average AIG Shareholders' equity	\$60,819	\$ 72,348	\$ 86,617	\$ 101,558	\$ 105,583
Average AOCI	1,193	4,675	5,722	7,598	9,783
Average AIG Shareholders' equity, excluding average AOCI	59,626	67,673	80,895	93,960	95,800
Average DTA	10,133	13,806	15,905	15,803	16,617
Average adjusted Shareholders' equity	\$49,493	\$ 53,867	\$ 64,990	\$ 78,157	\$ 79,190
<b>ROE</b>	<b>0.0%</b>	(8.4)%	(1.0)%	2.2%	7.1%
<b>Adjusted Return on Equity</b>	<b>2.1</b>	4.1	0.6	3.7	8.1





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

This Annual Report on Form 10-K 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 our control. These projections, goals, assumptions and statements include statements preceded by, followed by or including words such as “will,” “believe,” “anticipate,” “expect,” “intend,” “plan,” “focused on achieving,” “view,” “target,” “goal” or “estimate.” These projections, goals, assumptions and statements may 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, anticipated sales, 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 our actual results and financial condition will differ, possibly materially, from the results and financial condition indicated in these projections, goals, assumptions and statements. Factors that could cause our actual results to differ, possibly materially, from those in the specific projections, goals, assumptions and statements include:

- changes in market and industry conditions;
- the occurrence of catastrophic events, both natural and man-made;
- our ability to successfully reorganize our businesses and execute on our initiatives to improve our underwriting capabilities and reinsurance programs, as well as improve profitability, without negatively impacting client relationships or our competitive position;
- our ability to successfully dispose of, monetize and/or acquire businesses or assets or successfully integrate acquired businesses;
- actions by credit rating agencies;
- changes in judgments concerning insurance underwriting and insurance liabilities;
- changes in judgments concerning potential cost saving opportunities;
- disruptions in the availability of our electronic data systems or those of third parties;
- the effectiveness of our strategies to recruit and retain key personnel and our ability to implement effective succession plans;
- negative impacts on customers, business partners and other stakeholders;
- our ability to successfully manage Legacy portfolios;
- concentrations in our investment portfolios;
- the requirements, which may change from time to time, of the global regulatory framework to which we are subject;
- significant legal, regulatory or governmental proceedings;
- changes in judgments concerning the recognition of deferred tax assets and goodwill impairment; and

- the impact of potential information technology, cybersecurity or data security breaches, including as a result of cyber-attacks or security vulnerabilities;
- such other factors discussed in:
  - Part I, Item 1A. Risk Factors of this Annual Report; and
  - this Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) of this Annual Report.

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

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

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

ITEM 7 | **Use of Non-GAAP Measures****Use of Non-GAAP Measures**

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

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

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

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

AIG:

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

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

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

ITEM 7 | **Use of Non-GAAP Measures**

**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 capital gains and losses;
  - loss (gain) on extinguishment of debt;
  - all net realized capital 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 capital 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);
  - **General Insurance**
- 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; and
  - integration and transaction costs associated with acquired businesses.

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



associated ratios.

– **Accident year loss and combined ratios, as adjusted:** both the accident year loss and combined ratios, as adjusted, exclude catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting. Natural and man-made catastrophe losses are generally weather or seismic events having a net impact on AIG in excess of \$10 million each and also include certain man-made events, such as terrorism and civil disorders that 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.

ITEM 7 | **Critical Accounting Estimates**

**Critical Accounting Estimates**

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

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

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

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

**Insurance Liabilities**

**Loss Reserves**

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

- the determination of the actuarial models used as the basis for these estimates;

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

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

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

## Overview of Loss Reserving Process and Methods

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

### Short-Tail Reserves

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

### Long-Tail Reserves

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

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

- **Loss cost trend factors** are used to establish expected loss ratios for subsequent accident years based on the projected loss ratios for prior accident years.
- **Expected loss ratios** are used for the latest accident year (i.e., accident year 2018 for the year-end 2018 loss reserve analysis) and, in some cases for accident years prior to the latest accident year. The expected loss ratio generally reflects the projected loss ratio from prior accident years, adjusted for the loss cost trend and the effect of rate changes and other quantifiable factors on the loss ratio. For low-frequency, high-severity lines of business such as excess casualty, expected loss ratios generally are used for at least the three most recent accident years.
- **Loss development factors** are used to project the reported losses for each accident year to an ultimate basis. Generally, the actual loss development factors observed from prior accident years would be used as a basis to determine the loss development factors for the subsequent accident years.
- **Tail factors are development factors** used for certain longer tailed lines of business (for example, excess casualty, workers' compensation and general liability), to project future loss development for periods that extend beyond the available development data. The development of losses to the ultimate loss for a given accident year for these lines may take decades and the projection of ultimate losses for an accident year is very sensitive to the tail factors selected beyond a certain age.

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

**Details of the Loss Reserving Process**

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

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

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

overall actuarial best estimate for that line of business.

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

Line of

Business or Category Key Assumptions

**U.S. Workers'  
Compensation**

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

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

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

The tail factor is typically the most critical assumption, and small changes in the selected tail factor can have a material effect on our carried reserves. For example, the tail factors beyond twenty years for guaranteed cost business could vary by one and one-half percent below to two percent above those actually indicated in the 2018 loss reserve review. For excess of deductible business, in our judgment, it is reasonably likely that tail factors beyond twenty years could vary by four percent below to six percent above those actually indicated in the 2018 loss reserve review.

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Line of Business or Category	Key Assumptions
<b>U.S. Excess Casualty</b>	<p>We utilize various loss cost trend assumptions for different segments of the portfolio. After evaluating the historical loss cost trends from prior accident years since the early 1990s, in our judgment, it is reasonably likely that actual loss cost trends applicable to the year-end 2018 loss reserve review for U.S. Excess Casualty may range five percent lower or higher than this estimated loss trend. The loss cost trend assumption is critical for the U.S. Excess Casualty class of business due to the long-tail nature of the losses, and is applied across many accident years. Thus, there is the potential for the loss reserves with respect to a number of accident years (the expected loss ratio years) to be significantly affected by changes in loss cost trends that were initially relied upon in setting the loss reserves. These changes in loss trends could be attributable to changes in inflation or in the judicial environment, or in other social or economic conditions affecting losses.</p> <p>U.S. Excess Casualty is a long-tail class of business and any deviation in loss development factors might not be discernible for an extended period of time subsequent to the recording of the initial loss reserve estimates for any accident year. Mass tort claims in particular may develop over a very extended period and impact multiple accident years, so we usually select a separate pattern for them. Thus, there is the potential for the loss reserves with respect to a number of accident years to be significantly affected by changes in loss development factors that were initially relied upon in setting the reserves.</p> <p>After evaluating the historical loss development factors from prior accident years since the early 1990s, in our judgment, it is reasonably likely that the actual loss development factors could vary by an amount equivalent to a six month shift from those actually utilized in the year-end 2018 reserve review. This would impact projections both for accident years where the selections were directly based on loss development methods as well as the a priori loss ratio assumptions for accident years with selections based on Bornhuetter-Ferguson or Cape Cod methods. Similar to loss cost trends, these changes in loss development factors could be attributable to changes in inflation or in the judicial environment, or in other social or economic conditions affecting losses.</p>
<b>U.S. Other Casualty</b>	<p>The key uncertainties for other casualty lines are similar to excess casualty, as the underlying business is long-tailed and can be subject to variability in loss cost trends and changes in loss development factors. These may differ significantly by line of business as coverages such as general liability, medical malpractice and environmental may be subject to different risk drivers.</p>
<b>U.S. Financial Lines</b>	<p>The loss cost trends for U.S. D&amp;O business vary by year and subset, but for the most recent accident years, it is assumed to have been generally close to zero. After evaluating the historical loss cost levels from prior accident years since the early 1990s, including the potential effect of losses relating to the credit crisis, in our</p>

judgment, it is reasonably likely that the actual variation in loss cost levels for these subsets could vary by approximately 10 percent lower or higher on a year-over-year basis than the assumptions actually utilized in the year-end 2018 reserve review. Because U.S. D&O business has exhibited highly volatile loss trends from one accident year to the next, there is the possibility of an exceptionally high deviation. In our analysis, the effects of loss cost trend assumptions affect the results through the a priori loss ratio assumptions used for the Bornhuetter-Ferguson and Cape Cod methods, which impact the projections for the more recent accident years.

The selected loss development factors are also an important assumption, but are less critical than for U.S. Excess Casualty. Because these classes are written on a claims made basis, the loss reporting and development tail is much shorter than for U.S. Excess Casualty. However, the high severity nature of the losses does create the potential for significant deviations in loss development patterns from one year to the next. Similar to U.S. Excess Casualty, after evaluating the historical loss development factors from prior accident years since the early 1990s, in our judgment, it is reasonably likely that actual loss development factors could change by an amount equivalent to a shift by six months from those actually utilized in the year-end 2018 reserve review.

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

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

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

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## Line of

Business or Category **Key Assumptions**

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

U.S. Run-off Long Tail Insurance lines is an extremely long-tail class of business, with a much greater than normal uncertainty as to the appropriate loss development factors for the tail of the loss development. Specifically for excess workers' compensation, after evaluating the historical loss development factors for prior accident years since the 1980s as well as the development over the past several years of the ground up loss projections utilized to help select the loss development factors in the tail for this class of business, in our judgment, it is reasonably likely that the tail factor beyond 30 years could vary by 10 percent above or below that actually indicated in the 2018 loss reserve review.

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

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

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

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



The following sensitivity analysis table summarizes the effect on the loss reserve position of using certain alternative loss cost trend (for accident years where we use expected loss ratio methods) or loss development factor assumptions rather than the assumptions actually used in determining our estimates in the year-end loss reserve analyses in 2018:

December 31, 2018 (in millions)	Increase (Decrease) to Loss Reserves		Increase (Decrease) to Loss Reserves
<b>Loss cost trends:</b>		<b>Loss development factors:</b>	
<b>U.S. Excess Casualty:</b>		<b>U.S. Excess Casualty:</b>	
5 percent increase	\$ 1,150	6-months slower	\$ 1,200
5 percent decrease	(750)	6-months faster	(900)
<b>U.S. Financial Lines (D&amp;O)</b>		<b>U.S. Financial Lines (D&amp;O)</b>	
10 percent increase	650	6-months slower	950
10 percent decrease	(450)	6-months faster	(650)
		<b>U.S. Run-off P&amp;C Lines (Excess Workers' Compensation):</b>	
		10% tail factor increase	460
		10% tail factor decrease	(460)
		<b>U.S. Workers' Compensation:</b>	
		Tail factor increase <sup>(a)</sup>	1,100
		Tail factor decrease <sup>(b)</sup>	(750)

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

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

**Future Policy Benefits for Life and Accident and Health Insurance Contracts**

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

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

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

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

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

- To determine investment returns used in loss recognition tests, we typically match liabilities with assets of comparable duration, to the extent practicable, and then project future cash flows on those assets. Assets supporting insurance liabilities are primarily comprised of a diversified portfolio of high to medium quality fixed maturity securities, and may also include, to a lesser extent, alternative investments. Our projections include a reasonable allowance for investment expenses and expected credit losses over the projection horizon. A critical assumption in the projection of expected investment income is the assumed net rate of investment return at which excess cash flows are to be reinvested. For products in which asset and liability durations are matched relatively well, this is less of a consideration since interest on excess

cash flows are not a significant component of future cash flows. For the reinvestment rate assumption, anticipated future changes to the yield curves could have a large effect. Given the interest rate environment applicable at the date of our most recent loss recognition tests, we assumed a modest and gradual increase in long-term interest rates over time.

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

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

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

**Guaranteed Benefit Features of Variable Annuity Products**

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

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

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

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

*For sensitivity analysis which includes the sensitivity of reserves for guaranteed benefit features to changes in the assumptions for interest rates, equity market returns, volatility, and mortality see Estimated Gross Profits for Investment-Oriented Products below.*

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

*Management and Hedging Program.*

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

**Guaranteed Benefit Feature**    **Reserving Methodology & Assumptions and Accounting Judgments**

**GMDB**    We determine the GMDB liability at each balance sheet date by estimating the expected value of death benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected fee assessments. *For additional information on how we reserve for variable annuity products with guaranteed benefit features see Note 14 to the Consolidated Financial Statements.*

Key assumptions include:

- Mortality rates, which are based upon actual experience modified to allow for variations in policy form
- Lapse rates, which are based upon actual experience modified to allow for variations in policy form
- Investment returns, using assumptions from a stochastic equity model

**GMWB**

In applying asset growth assumptions for the valuation of the GMDB liability, we use a reversion to the mean methodology, similar to that applied for DAC. *For a description of this methodology see Estimated Gross Profits for Investment-Oriented Products below.* GMWB living benefits are embedded derivatives that are required to be bifurcated from the host contract and carried at fair value. *For additional information on how we reserve for variable annuity products with guaranteed benefit features see Note 14 to the Consolidated Financial Statements, and for information on fair value measurement of these embedded derivatives, including how we incorporate our own non-performance risk see Note 5 to the Consolidated Financial Statements.*

The fair value of the embedded derivatives is based on actuarial and capital market assumptions related to projected cash flows over the expected lives of the contracts. Key assumptions include:

- Interest rates
- Equity market returns
- Market volatility
- Credit spreads
- Equity / interest rate correlation

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

#### **valuation of embedded derivatives for fixed index annuity and Life Products**

Fixed index annuity and life products provide growth potential based in part on the performance of a market index. Certain fixed index annuity products offer optional guaranteed benefit features similar to those offered on variable annuity products. The index crediting feature of these products results in the recognition of an embedded derivative that is required to be bifurcated from the host contract and carried at fair value. Option pricing models are used to estimate fair value, taking into account assumptions for future equity index growth rates, volatility of the equity index, future interest rates, and our ability to adjust the participation rate and the cap on equity indexed credited rates in light of market conditions and policyholder behavior assumptions.

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

#### **Estimated Gross Profits for Investment–Oriented Products**

Policy acquisition costs and policy issuance costs that are incremental and directly related to the successful acquisition of new or renewal of existing insurance contracts related to universal life and investment-type products (collectively, investment-oriented products) are generally deferred and amortized, with interest, in relation to the incidence of estimated gross profits to be realized over the expected lives of the contracts, except in instances where significant negative gross profits are expected in one or more periods.

Estimated gross profits include current and expected interest rates, net investment income and spreads, net realized capital gains and losses, fees, surrender rates, mortality experience and equity market returns and volatility. In estimating future gross profits, lapse assumptions require judgment and can have a material impact on DAC amortization. For fixed deferred annuity contracts, the future spread between investment income and interest credited to policyholders is a significant judgment, particularly in a low interest rate environment.

**TABLE OF CONTENTS**ITEM 7 | **Critical Accounting Estimates**

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

In estimating future gross profits for variable annuity products as of December 31, 2018, a long-term annual asset growth assumption of 7.0 percent (before expenses that reduce the asset base from which future fees are projected) was applied to estimate the future growth in assets and related asset-based fees. In determining the asset growth rate, the effect of short-term fluctuations in the equity markets is partially mitigated through the use of a reversion to the mean methodology, whereby short-term asset growth above or below the long-term annual rate assumption impacts the growth assumption applied to the five-year period subsequent to the current balance sheet date. The reversion to the mean methodology allows us to maintain our long-term growth assumptions, while also giving consideration to the effect of actual investment performance. When actual performance significantly deviates from the annual long-term growth assumption, as evidenced by growth assumptions for the five-year reversion to the mean period falling below a certain rate (floor) or above a certain rate (cap) for a sustained period, judgment may be applied to revise or “unlock” the growth rate assumptions to be used for both the five-year reversion to the mean period as well as the long-term annual growth assumption applied to subsequent periods. The use of a reversion to the mean assumption is common within the industry; however, the parameters used in the methodology are subject to judgment and vary within the industry.

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

**The following table summarizes the sensitivity of changes in certain assumptions for DAC and SIA, embedded derivatives and other reserves related to guaranteed benefits and URR, measured as the related hypothetical impact on December 31, 2018 balances and the resulting hypothetical impact on pre-tax income, before hedging.**

December 31, 2018 (in millions)	DAC/SIA Asset	Increase (decrease) in			Pre-Tax Income
		Other Reserves Related to Guaranteed Benefits	Unearned Revenue Reserve	Embedded Derivatives Related to Guaranteed Benefits	
<b>Assumptions:</b>					
<b>Net Investment Spread</b>					
Effect of an increase by 10 basis points	\$ 138	\$ (31)	\$ 20	\$ (136)	\$ 285
Effect of a decrease by 10 basis points	(151)	32	(27)	139	(295)
<b>Equity Return<sup>(a)</sup></b>					
Effect of an increase by 1%	71	(43)	-	(44)	158
Effect of a decrease by 1%	(67)	53	-	46	(166)
<b>Volatility<sup>(b)</sup></b>					



Effect of an increase by 1%	(1)	22	-	(43)	20
Effect of a decrease by 1%	-	(21)	-	41	(20)
<b>Interest Rate<sup>(c)</sup></b>					
Effect of an increase by 1%	-	-	-	(1,537)	1,537
Effect of a decrease by 1%	-	-	-	2,070	(2,070)
<b>Mortality</b>					
Effect of an increase by 1%	(14)	51	(3)	(29)	(33)
Effect of a decrease by 1%	12	(51)	1	29	33
<b>Lapse</b>					
Effect of an increase by 10%	(134)	(86)	(22)	(58)	32
Effect of an decrease by 10%	138	90	22	58	(32)

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

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

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

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

**TABLE OF CONTENTS**ITEM 7 | **Critical Accounting Estimates**

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

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

**Reinsurance Assets**

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

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

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

At December 31, 2018, the allowance for estimated unrecoverable reinsurance was \$140 million, or less than one percent of the consolidated reinsurance recoverable.

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

## Impairment Charges

### Impairments of Investments

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

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

### Goodwill Impairment

*For a discussion of goodwill impairment see Part I, Item 1A. Risk Factors – Estimates and Assumptions and Note 12 to the Consolidated Financial Statements.* In 2018, 2017 and 2016, for substantially all of the reporting units we elected to bypass the qualitative assessment of whether goodwill impairment may exist and, therefore, performed quantitative assessments that supported a conclusion that the fair value of all of the reporting units tested exceeded their book value. To determine fair value, we primarily use a discounted expected future cash flow analysis that estimates and discounts projected future distributable earnings. Such analysis is principally based on our business projections that inherently include judgments regarding business trends.

**TABLE OF CONTENTS**ITEM 7 | **Critical Accounting Estimates****Liability for Legal Contingencies**

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

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

**Fair Value Measurements of Certain Financial Assets and Financial Liabilities**

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

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

<b>December 31, 2018</b> <i>(in billions)</i>	Fair Value	Percent of Total
Fair value based on external sources <sup>(a)</sup>	\$ 222	92%
Fair value based on internal sources	20	8
<b>Total fixed maturity and equity securities<sup>(b)</sup></b>	<b>\$ 242</b>	<b>100%</b>

(a) Includes \$15.6 billion for which the primary source is broker quotes.

(b) Includes available for sale and other securities.

**Level 3 Assets and Liabilities**

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

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

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

<i>(in billions)</i>	<b>December 31, 2018</b>		<b>Percentage of Total</b>		<b>December 31, 2017</b>		<b>Percentage of Total</b>	
Assets	\$	<b>33.7</b>	<b>6.9%</b>		\$	35.9	7.2%	
Liabilities		<b>4.4</b>	<b>1.0</b>			4.4	1.0	

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

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

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

**TABLE OF CONTENTS**ITEM 7 | **Critical Accounting Estimates****Income Taxes****Recoverability of Net Deferred Tax Asset**

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

We consider a number of factors to reliably estimate future taxable income so we can determine the extent of our ability to realize net operating losses (NOLs), foreign tax credits (FTCs), realized capital loss and other carryforwards. These factors include forecasts of future income for each of our businesses and actual and planned business and operational changes, both of which include assumptions about future macroeconomic and AIG specific conditions and events. We subject the forecasts to stresses of key assumptions and evaluate the effect on tax attribute utilization. We also apply stresses to our assumptions about the effectiveness of relevant prudent and feasible tax planning strategies. In 2018, we have also considered the impact of the Tax Act on our forecasts of taxable income, made certain assumptions related to interpretation of relevant new rules, and incorporated guidance issued by the U.S. tax authority. Our analysis also reflected the effect of slower utilization of our tax credits due to a reduction in the U.S. statutory tax rate as a result of the Tax Act. Our income forecasts, coupled with our tax planning strategies, all resulted in sufficient taxable income to achieve realization of the U.S. tax attributes prior to their expiration.

For the year ended December 31, 2018, recent changes in market conditions, including rising interest rates, impacted the unrealized tax gains and losses in the U.S. Non-Life Companies' available for sale securities portfolio, resulting in a decrease to the deferred tax liability related to net unrealized tax capital gains. As of December 31, 2018, we continue to be in an overall unrealized tax gain position with respect to the U.S. Non-Life Companies' available for sale securities portfolio and thus concluded no valuation allowance is necessary in the U.S. Non-Life Companies' available for sale securities portfolio.

We also assess the recoverability of deferred tax assets related to unrealized tax capital losses in the U.S. life insurance companies' available for sale portfolio. For the year ended December 31, 2018, recent changes in market conditions, including interest rate fluctuations, impacted the unrealized tax gains and losses in the U.S. life insurance companies' available for sale securities portfolio, resulting in a deferred tax asset related to net unrealized tax capital losses. The deferred tax asset relates to the unrealized losses for which the carryforward period has not yet begun, and as such, when assessing its recoverability, we consider our ability and intent to hold the underlying securities to recovery. As of December 31, 2018, based on all available evidence, we concluded that a valuation allowance should be established on a portion of the deferred tax asset related to unrealized losses that are not more-likely-than-not to be realized.

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

### **Uncertain Tax Positions**

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

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

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

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

**TABLE OF CONTENTS**ITEM 7 | **Critical Accounting Estimates****U.S. Tax Reform**

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

The Tax Act includes a provision for Global Intangible Low-Taxed Income (GILTI) under which taxes on foreign income are imposed on the excess of a deemed return on tangible assets of certain foreign subsidiaries and for Base Erosion and Anti-Abuse Tax (BEAT) under which taxes are imposed on certain base eroding payments to affiliated foreign companies. There are substantial uncertainties in the interpretation of BEAT and GILTI and while certain formal guidance was issued by the U.S. tax authority, there are still aspects of the Tax Act that remain unclear and additional guidance is expected in 2019. 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. 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.

As of December 31, 2018, we have completed our accounting for the tax effects of the Tax Act. As further guidance is issued by the U.S. tax authority, any resulting changes in our estimates will be treated in accordance with the relevant accounting guidance.

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

**Executive Summary****Overview**

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

On July 18, 2018, we completed our acquisition of Validus Holdings, Ltd. (Validus), a leading provider of reinsurance, primary insurance, and asset management services, for approximately \$5.5 billion in cash.



This transaction strengthens our global General Insurance business by expanding our current product portfolio through additional distribution channels and advancing the tools available to enhance underwriting. The results of Validus following the date of the acquisition are included in our General Insurance segment starting in the third quarter of 2018. Our North America results include the results of Validus Reinsurance, Ltd. and Western World Insurance Group, Inc., while our International results include the results of Talbot Holdings Ltd.

In February 2018, we closed a series of affiliated reinsurance transactions impacting the Legacy Portfolio. These transactions were designed to consolidate most of our Legacy Insurance Run-Off Lines into a single legal entity, Fortitude Re, formerly known as DSA Reinsurance Company, Ltd., a Bermuda domiciled composite reinsurer. The transactions include the cession of approximately \$31 billion of reserves from our Legacy Life and Retirement Run-Off Lines and approximately \$4 billion of reserves from our Legacy General Insurance Run-Off Lines relating to business written by multiple AIG legal entities, which represented over 83 percent of the insurance reserves in the Legacy Portfolio as of December 31, 2018. Fortitude Re has approximately \$40 billion of total assets, primarily managed by AIG Investments, and is AIG's main run-off reinsurer with its own dedicated management team.

We formed Fortitude Group Holdings, LLC (Fortitude Holdings) to act as a holding company for Fortitude Re. On November 13, 2018, we completed the sale of a 19.9 percent ownership interest in Fortitude Holdings to TC Group Cayman Investment Holdings, L.P. (TCG), an affiliate of The Carlyle Group L.P. (Carlyle) (the Fortitude Re Closing). Fortitude Holdings owns 100 percent of the outstanding common shares of Fortitude Re and AIG has an 80.1 percent ownership interest in Fortitude Holdings. In connection with the sale, we agreed to certain investment commitment targets into various Carlyle strategies and to certain minimum investment management fee payments within thirty-six months following the closing. We also will be required to pay a proportionate amount of an agreed make-whole fee to the extent we fail to satisfy such investment commitment targets.

On November 6, 2018 we completed our acquisition of Glatfelter Insurance Group, a full-service broker and insurance company providing services for specialty programs and retail operations.

On December 31, 2018 AIG Life Ltd., a U.K. AIG Life and Retirement company, completed its acquisition of Ellipse, a specialist provider of group life risk protection in the U.K.

*See Business Segment Operations – General Insurance and Legacy Portfolio.*

## **Financial Performance Summary**

### **Net Loss Attributable To AIG**

*(\$ in millions)*

#### **2018 and 2017 Comparison**

Decrease in Net loss attributable to AIG in 2018 compared to 2017. Excluding the \$6.7 billion tax charge related to the enactment of the Tax Act in 2017, we recorded a Net loss attributable to AIG in 2018 compared to Net income attributable to AIG in 2017 primarily due to:

- lower investment returns primarily driven by lower hedge fund performance, a decline in income from fixed maturity securities for which the fair value option was elected when compared to higher returns on this portfolio in 2017 as a result of significant spread tightening that occurred, losses on our fair value option equities portfolio, and lower invested assets resulting from the funding of the adverse development reinsurance agreement with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc. (Berkshire), late in the first quarter of 2017;
- a net unfavorable adjustment from the review and update of Life and Retirement actuarial assumptions compared to a net favorable adjustment in the prior year; and
- higher general operating and other expenses.

This decrease was partially offset by:

- lower losses incurred from General Insurance operations driven by significantly lower catastrophe losses and lower unfavorable prior year loss reserve development, partially offset by higher severe losses; and
- lower net realized capital losses.

### **2017 and 2016 Comparison**

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

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

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

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

*(\$ in millions)*

### **2018 and 2017 Comparison**

Adjusted pre-tax income decreased primarily due to:

- lower investment returns primarily driven by lower hedge fund performance, a decline in income from fixed maturity securities for which the fair value option was elected when compared to higher returns on this portfolio in 2017 as a result of significant spread tightening that occurred, losses on our fair value option equities portfolio, and lower invested assets resulting from the funding of the adverse development reinsurance agreement with NICO late in the first quarter of 2017;
- a net unfavorable adjustment from the review and update of Life and Retirement actuarial assumptions compared to a net favorable adjustment in the prior year; and
- higher general operating and other expenses.

This decrease was partially offset by lower losses incurred from General Insurance operations driven by significantly lower catastrophe losses and lower unfavorable prior year loss reserve development, partially offset by higher severe losses.

### **2017 and 2016 Comparison**

Increased primarily due to:

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

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

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

### **General Operating and Other Expenses**

*(\$ in millions)*

General operating and other expenses increased in 2018 compared to 2017 due to the acquisition of Validus, business growth and continued investments in business platforms. General operating and other expenses declined in 2017 compared to 2016 due to lower employee-related expenses and professional fee reductions related to our ongoing efficiency program and divestitures of businesses, including United Guaranty, AIG Advisor Group, Fuji Life and NSM Insurance Group LLC (NSM).

In keeping with our broad and ongoing efforts to transform for long-term competitiveness, general operating and other expenses for 2018, 2017 and 2016 included approximately \$395 million, \$413 million and \$694 million of pre-tax restructuring and other costs, respectively, which were primarily comprised of employee severance charges related to efficiency initiatives.

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

**Return on Equity**

**Adjusted Return on Equity\***

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

**Book Value Per Share**

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

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

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

Our business is affected by industry and economic factors such as interest rates, currency exchange rates, credit and equity market conditions, catastrophic claims events, regulation, tax policy, competition, and general economic, market and political conditions. We continued to operate under difficult market conditions in 2018, characterized by factors such as the impact of historically low interest rates, uncertainties in the annuity marketplace resulting from legislative and regulatory initiatives aimed at re-evaluating the standard of care for sales of investment products and services, historically high levels of



catastrophic events, slowing growth in China and Euro-Zone economies, global trade tensions and the UK's pending withdrawal from its membership in the European Union (the EU) (commonly referred to as Brexit). Brexit has also affected the U.S. dollar/British pound exchange rate and increased the volatility of exchange rates among the euro, British pound and the Japanese yen (the Major Currencies), which may continue for some time.

### **Impact of Changes in the Interest Rate Environment**

While interest rates remain low by historical standards, interest rates during 2018, particularly in the United States, have risen, in some cases close to highs of the last five to ten years. In early 2019, the Federal Open Market Committee of the Federal Reserve System indicated that it expects the pace of rate increases to slow. The low interest rate environment negatively affects sales of interest rate sensitive products in our industry and may negatively impact the profitability of our existing business as we reinvest cash flows from investments, including increased calls and prepayments of fixed maturity securities and mortgage loans, at rates below the average yield of our existing portfolios. As rates rise, some of these impacts may abate while there may be different impacts, some of which are highlighted below. We actively manage our exposure to the interest rate environment through portfolio selection and asset-

ITEM 7 | **Executive Summary**

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.

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

**Annuity Sales and Surrenders**

The sustained low interest rate environment has a significant impact on the annuity industry. Low long-term interest rates put pressure on investment returns, which may negatively affect sales of interest rate sensitive products and reduce future profits on certain existing fixed rate products. However, our disciplined rate setting has helped to mitigate some of the pressure on investment spreads. Rapidly rising interest rates could create the potential for increased sales, but may also drive higher surrenders. Customers are, however, currently buying fixed annuities with surrender charge periods of four to seven years in pursuit of higher returns, which may help mitigate 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 will closely monitor surrenders of Fixed Annuities as contracts with lower minimum interest rates come out of the surrender charge period in a more attractive rate environment. Low interest rates have also driven growth in our fixed index annuity products, which provide additional interest crediting, tied to favorable performance in certain equity market indices and the availability of guaranteed living benefits. Changes in interest rates significantly impact the valuation of our liabilities for 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 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 rise, we may need to raise crediting rates on in-force business for competitive and other reasons potentially reducing the impact of investing in a higher interest rate environment.

Of the aggregate fixed account values of our Individual Retirement and Group Retirement annuity products, 66 percent were crediting at the contractual minimum guaranteed interest rate at December 31, 2018. The percentage of fixed account values of our annuity products that are currently crediting at rates above one percent was 66 percent and 69 percent at December 31, 2018 and 2017, respectively. 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 core universal life business in our Life Insurance business, 65 percent of the account values were crediting at the contractual minimum guaranteed interest rate at December 31, 2018.

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

December 31, 2018 Contractual Minimum Guaranteed Interest Rate (in millions)	At Contractual Minimum Guarantee	Current Crediting Rates		Total
		1-50 Basis Points Above Minimum Guarantee	More than 50 Basis Points Above Minimum Guarantee	
<b>Individual Retirement*</b>				
<=1%	\$ 1,432	\$ 4,464	\$ 18,933	\$ 24,829
> 1% - 2%	6,845	153	1,408	8,406
> 2% - 3%	12,540	273	77	12,890
> 3% - 4%	9,646	45	7	9,698
> 4% - 5%	536	-	4	540
> 5% - 5.5%	34	-	5	39
<b>Total Individual Retirement</b>	<b>\$ 31,033</b>	<b>\$ 4,935</b>	<b>\$ 20,434</b>	<b>\$ 56,402</b>
<b>Group Retirement*</b>				
1%	\$ 1,659	\$ 3,002	\$ 2,451	\$ 7,112
> 1% - 2%	6,058	848	451	7,357
> 2% - 3%	15,178	3	-	15,181
> 3% - 4%	836	-	-	836
> 4% - 5%	7,064	-	-	7,064
> 5% - 5.5%	174	-	-	174
<b>Total Group Retirement</b>	<b>\$ 30,969</b>	<b>\$ 3,853</b>	<b>\$ 2,902</b>	<b>\$ 37,724</b>
<b>Universal life insurance</b>				
1%	\$ -	\$ -	\$ -	\$ -
> 1% - 2%	87	24	367	478
> 2% - 3%	279	578	1,075	1,932
> 3% - 4%	1,575	497	7	2,079
> 4% - 5%	3,024	224	-	3,248
> 5% - 5.5%	265	-	-	265
<b>Total universal life insurance</b>	<b>\$ 5,230</b>	<b>\$ 1,323</b>	<b>\$ 1,449</b>	<b>\$ 8,002</b>
<b>Total</b>	<b>\$ 67,232</b>	<b>\$ 10,111</b>	<b>\$ 24,785</b>	<b>\$ 102,128</b>
<b>Percentage of total</b>	<b>66%</b>	<b>10%</b>	<b>24%</b>	<b>100%</b>

\* 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 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 maintain pricing discipline and risk selection.

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

**Standard of Care Developments**

The SEC, federal and state lawmakers and state insurance regulators continue their efforts at evaluating what is an appropriate regulatory framework around a standard of care for the sale of investment products and services. For example, on April 18, 2018, the SEC proposed a package of rulemakings and interpretations designed to address the standard of care issues and the transparency of retail investors' relationships with investment advisors and broker-dealers. Additionally, on July 18, 2018, the New York State Department of Financial Services adopted a best interest standard of care regulation applicable to annuity and life transactions through issuance of the First Amendment to Insurance Regulation 187 – Suitability and Best Interests in Life Insurance and Annuity Transactions (Regulation 187). The compliance date for Regulation 187 is August 1, 2019 for annuity products and February 1, 2020 for life products. As amended, Regulation 187 requires producers to act in their client's best interest when making point-of-sale and in-force recommendations, and provide in writing the basis for the recommendation, as well as the facts and analysis to support the recommendation. The amended regulation also imposes additional duties on life insurance companies in relation to these transactions, such as requiring insurers to establish and maintain procedures designed to prevent financial exploitation and abuse. We will implement and enhance processes and procedures, where needed, to comply with this regulation. Other states, such as Nevada, Maryland and New Jersey, have also proposed similar standard of care regulations applicable to insurance producers and/or insurance companies. We continue to closely follow these proposals and other relevant federal and state-level regulatory and legislative developments in this area. While we cannot predict the long-term impact of these 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 announced exit from the EU, and such fluctuations will affect net premiums written growth trends reported in U.S. dollars, as well as financial statement line item comparability.

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

Years Ended December 31, Rate for 1 USD	2018	2017	2016	Percentage Change	
				2018 vs. 2017	2017 vs. 2016
<b>Currency:</b>					

GBP	<b>0.75</b>	0.78	0.73	(4)%	7%
EUR	<b>0.84</b>	0.90	0.90	(7)%	-%
JPY	<b>110.50</b>	112.44	109.19	(2)%	3%

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

### Other Industry Developments

On September 7, 2017, the UK Ministry of Justice announced a proposal to increase the Ogden rate from negative 0.75 percent to between zero and one percent. Following this announcement, on December 20, 2018 the UK Parliament passed the Civil Liability Act 2018 which implements a new framework for determining the Ogden rate and requires the UK Ministry of Justice to start a review of the Ogden rate within 90 days of its commencement and review periodically thereafter. The Ministry of Justice concluded a public call for evidence on January 30, 2019 prior to beginning its first review. We will continue to monitor the progress of potential changes to the Ogden rate.

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## ITEM 7 | Consolidated Results of Operations

## Consolidated Results of Operations

The following section provides a comparative discussion of our Consolidated Results of Operations on a reported basis for the three-year period ended December 31, 2018. Factors that relate primarily to a specific business are discussed in more detail within the business segment operations section.

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

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

Year Ended December 31, (in millions)	2018	2017	2016	Percentage Change 2018 vs. 2017	Percentage Change 2017 vs. 2016
<b>Revenues:</b>					
Premiums	\$30,614	\$31,374	\$34,393	(2)%	(9)
Policy fees	2,791	2,935	2,732	(5)	7
Net investment income	12,476	14,179	14,065	(12)	1
Net realized capital losses	(130)	(1,380)	(1,944)	91	29
Other income	1,638	2,412	3,121	(32)	(23)
<b>Total revenues</b>	<b>47,389</b>	<b>49,520</b>	<b>52,367</b>	<b>(4)</b>	<b>(5)</b>
<b>Benefits, losses and expenses:</b>					
Policyholder benefits and losses incurred	27,412	29,972	32,437	(9)	(8)
Interest credited to policyholder account balances	3,754	3,592	3,705	5	(3)
Amortization of deferred policy acquisition costs	5,386	4,288	4,521	26	(5)
General operating and other expenses	9,302	9,107	10,989	2	(17)
Interest expense	1,309	1,168	1,260	12	(7)
(Gain) loss on extinguishment of debt	7	(5)	74	NM	NM
Net gain on sale of divested businesses	(38)	(68)	(545)	44	88
<b>Total benefits, losses and expenses</b>	<b>47,132</b>	<b>48,054</b>	<b>52,441</b>	<b>(2)</b>	<b>(8)</b>
<b>Income (loss) from continuing operations before income tax expense (benefit)</b>	<b>257</b>	<b>1,466</b>	<b>(74)</b>	<b>(82)</b>	<b>NM</b>
Current	336	636	576	(47)	10
Deferred	(182)	6,890	(391)	NM	NM
<b>Income tax expense (benefit)</b>	<b>154</b>	<b>7,526</b>	<b>185</b>	<b>(98)</b>	<b>NM</b>
<b>Income (loss) from continuing operations</b>	<b>103</b>	<b>(6,060)</b>	<b>(259)</b>	<b>NM</b>	<b>NM</b>
<b>Income (loss) from discontinued operations, net of income tax expense (benefit)</b>	<b>(42)</b>	<b>4</b>	<b>(90)</b>	<b>NM</b>	<b>NM</b>
<b>Net income (loss)</b>	<b>61</b>	<b>(6,056)</b>	<b>(349)</b>	<b>NM</b>	<b>NM</b>
<b>Less: Net income (loss) attributable to noncontrolling interests</b>	<b>67</b>	<b>28</b>	<b>500</b>	<b>139</b>	<b>(94)</b>
<b>Net loss attributable to AIG</b>	<b>\$ (6)</b>	<b>\$ (6,084)</b>	<b>\$ (849)</b>	<b>100%</b>	<b>NM</b>

Years Ended December 31, 2018 2017 2016



Return on equity	<b>0.0%</b>	(8.4)%	(1.0)%
Adjusted Return on equity	<b>2.1</b>	4.1	0.6

	<b>December 31, 2018</b>	December 31, 2017
<i>(in millions, except per share data)</i>		
<b>Balance sheet data:</b>		
Total assets	<b>\$ 491,984</b>	\$ 498,301
Long-term debt	<b>34,540</b>	31,640
Total AIG shareholders' equity	<b>56,361</b>	65,171
Book value per common share	<b>65.04</b>	72.49
Book value per common share, excluding AOCI	<b>66.67</b>	66.41
Adjusted book value per common share	<b>54.95</b>	54.74
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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:

Year Ended December 31,	2018			2017		
	Pre-tax	Total Tax (Benefit) Charge	After Tax	Pre-tax	Total Tax (Benefit) Charge	After Tax
<i>(in millions, except per share data)</i>						
<b>Pre-tax income/net income (loss), including noncontrolling interests</b>	\$ 257	\$ 154	\$ 15	\$ 1,466	\$ 7,526	\$ (6,063)
Noncontrolling interest			(21)			(21)
<b>Pre-tax income/net income (loss) attributable to AIG</b>	\$ 257	\$ 154	\$ (6)	\$ 1,466	\$ 7,526	\$ (6,084)
Changes in uncertain tax positions and other tax adjustments		(48)	48		(488)	488
Deferred income tax valuation allowance charges		(21)	21		(43)	43
Impact of Tax Act		-	-		(6,687)	6,687
Changes in fair value of securities used to hedge guaranteed living benefits	154	32	122	(146)	(51)	(95)
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses)	(6)	(3)	(3)	(303)	(106)	(197)
Unfavorable (favorable) prior year development and related amortization changes ceded under retroactive reinsurance agreements	675	142	533	303	106	197
(Gain) loss on extinguishment of debt	7	1	6	(5)	(2)	(3)
Net realized capital losses <sup>(a)</sup>	193	41	152	1,380	506	874
Noncontrolling interest on net realized capital losses			46			7
(Income) loss from discontinued operations			42			(4)
Income from divested businesses	(38)	(8)	(30)	(68)	(41)	(27)
Non-operating litigation reserves and settlements	19	4	15	(129)	(45)	(84)
Net loss reserve discount (benefit) charge	(371)	(79)	(292)	187	65	122
Pension expense related to a one-time lump sum payment to former employees	-	-	-	60	21	39
Integration and transaction costs associated with acquired businesses	124	26	98	-	-	-
Restructuring and other costs	395	83	312	413	145	268
<b>Adjusted pre-tax income/Adjusted after-tax income</b>	\$ 1,409	\$ 324	\$ 1,064	\$ 3,158	\$ 906	\$ 2,231
<b>Weighted average diluted shares outstanding</b>			910.1			930.6
<b>Loss per common share attributable to AIG (diluted)</b>			\$(0.01)			\$(6.54)
<b>Adjusted after-tax income per</b>						

**common share attributable to AIG (diluted)<sup>(b)</sup>**

**\$ 1.17**

**\$ 2.34**

(a) Includes all net realized capital 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.

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

ITEM 7 | **Consolidated Results of Operations****pre-tax income Comparison for 2018 and 2017**

Pre-tax income decreased in 2018 compared to 2017 primarily due to:

- lower investment returns primarily driven by lower hedge fund performance, a decline in income from fixed maturity securities for which the fair value option was elected compared to higher returns on this portfolio in 2017 as a result of significant spread tightening that occurred, losses on our fair value option equities portfolio, and lower invested assets resulting from the funding of the adverse development reinsurance agreement with NICO late in the first quarter of 2017;
- a net unfavorable adjustment from the review and update of Life and Retirement actuarial assumptions compared to a net favorable adjustment in the prior year; and
- higher general operating and other expenses due to the acquisition of Validus, business growth and continued investments in business platforms.

Partially offset by:

- lower losses incurred from General Insurance operations driven by significantly lower catastrophe losses and lower unfavorable prior year loss reserve development, partially offset by higher severe losses; and
- lower net realized capital losses due to:
  - Life and Retirement guaranteed living benefits, net of hedges, which reflected net realized capital gains in 2018 compared to net realized capital losses in 2017, primarily due to changes in the movement in the non-performance or “own credit” risk adjustment (NPA), which is not hedged as part of our economic hedging program (see *Insurance Reserves – Life and Annuity Reserves and DAC – Variable Annuity Guaranteed Benefits and Hedging Results*);
  - Partially offset by losses on the sale of securities in 2018 due to a decline in the credit and equity markets in the fourth quarter of 2018 compared to gains in the prior year.

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

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

- an increase in General Insurance Adjusted pre-tax income due to unfavorable prior year loss reserve development of \$1.0 billion in 2017 driven by higher than expected loss emergence in General Insurance primarily related to accident year 2016 compared to \$5.4 billion in 2016, partially offset by higher aggregate pre-tax catastrophe losses of \$4.2 billion, which included losses from Hurricanes Harvey, Irma and Maria, the earthquake in Mexico and the wildfires in California, compared to catastrophe losses of \$1.3 billion in the prior year;

- lower general operating and other expenses reflecting strategic actions to reduce expenses and divestitures of businesses, including United Guaranty, AIG Advisor Group, Inc. (AIG Advisor Group), Fuji Life and NSM;
- a net favorable adjustment from the update of Life and Retirement actuarial assumptions compared to a net unfavorable adjustment in the prior year;
- higher Adjusted pre-tax income from the Legacy Portfolio;
- an increase in net investment income due to higher income on alternative investments, primarily in our hedge fund portfolio and higher gains on assets for which we elected the fair value option, which more than offset lower invested assets and blended investment yields on new investments that were lower than the average yield of our existing portfolios; and
- a decrease in net realized capital losses reflecting:
  - foreign exchange gains in 2017 compared to foreign exchange losses in the prior year due to \$910 million of remeasurement losses for a short-term intercompany balance in 2016; and
  - lower other-than-temporary impairments.

Partially offset by:

- movement in the NPA, driven by tightening credit spreads and lower expected GMWB payments due to higher equity markets, and higher derivative losses from variable annuity GMWB, net of hedges, including losses from guaranteed living benefit embedded derivatives, net of hedging, primarily due to a higher net unfavorable adjustment from updates of actuarial assumptions; and
- gains in the prior year on the sale of a portion of our investment in People's Insurance Company (Group) of China Limited and PICC Property & Casualty Company Limited (collectively, our PICC Investment).

ITEM 7 | **Consolidated Results of Operations**

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

**U.S. Tax Reform Overview**

On December 22, 2017, the U.S. enacted Public Law 115-97, known informally as the Tax Cuts and Jobs Act (the Tax Act). The Tax Act reduced the statutory rate of U.S. federal corporate income tax to 21 percent and enacted numerous other changes impacting AIG and the insurance industry. At December 31, 2017, we originally recorded a provisional estimate of income tax effects of the Tax Act of \$6.7 billion, including a tax charge of \$6.7 billion attributable to the reduction in the U.S. corporate income tax rate and tax benefit of \$38 million related to the deemed repatriation tax. Our provisional estimate of \$6.7 billion was based in part on a reasonable estimate of the effects of the statutory income tax rate reduction on existing deferred tax balances and of certain provisions of the Tax Act. We filed our 2017 consolidated U.S. income tax return and have completed our review of the primary impact of the Tax Act provisions on our deferred taxes. As a result, we consider the accounting for the effects of the rate change on deferred tax balances to be complete and no material measurement period changes were recorded for this item.

Changes specific to the insurance industry include the calculation of insurance tax reserves and related transition adjustments, amortization of specified policy acquisition expenses, treatment of separate account dividends received deductions and computation of pro-rata adjustments. Provisions of the Tax Act with broader application include reductions or elimination of deductions for certain items, e.g., reductions to corporate dividends received deductions, disallowance of entertainment expenses and limitations on the deduction of certain executive compensation costs. These provisions, generally, result in an increase in AIG's taxable income.

The Tax Act includes provisions for Global Intangible Low-Taxed Income (GILTI) under which taxes on foreign income are imposed on the excess of a deemed return on tangible assets of certain foreign subsidiaries and for Base Erosion and Anti-Abuse Tax (BEAT) under which taxes are imposed on certain base eroding payments to affiliated foreign companies. There are substantial uncertainties in the interpretation of BEAT and GILTI and while certain formal guidance was issued by the U.S. tax authority, there are still aspects of the Tax Act that remain unclear and additional guidance is either still pending or expected in 2019. 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.

During the period ended December 31, 2018, we have completed our review of the impact of the Tax Act on our forecasts of taxable income, made certain assumptions related to interpretation of relevant new rules, and incorporated guidance issued by the U.S. tax authority. While the prescribed SAB 118 measurement period has ended, there are still certain aspects of the Tax Act that remain unclear, including

the complex interplay of the new tax rules with the rules governing the utilization of our tax attributes, and formal guidance from the U.S. tax authority is still pending. We will continue to review the impact of any additional guidance issued by the U.S. tax authority on our valuation allowance analysis in accordance with the relevant accounting guidance. Accordingly, as of December 31, 2018, we consider the determination of the need for a valuation allowance related to the Tax Act to be complete based on our analysis of existing tax law and relevant tax guidance, and no measurement period adjustment was recorded.

### Repatriation Assumptions

As a result of the Tax Act, the majority of accumulated foreign earnings that were previously untaxed are subject to a one-time deemed repatriation tax. Going forward, foreign earnings not taxed as part of the one-time deemed repatriation (or otherwise taxed currently under the GILTI or subpart F regimes) will generally be exempt from U.S. tax upon repatriation. Notwithstanding the changes, U.S. tax on foreign exchange gain or loss and certain non-U.S. withholding taxes will continue to be applicable upon future repatriations of foreign earnings. For 2018, 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. While, following the enactment of the Tax Act, distributions from foreign affiliates are, generally, not subject to U.S. income tax, such distributions may be subject to local withholding taxes. A deferred tax liability of approximately \$100 million to \$150 million related to such withholding taxes has not been recorded for those foreign subsidiaries whose earnings are considered to be indefinitely reinvested. Deferred taxes, if necessary, have been provided on earnings of non-U.S. affiliates whose earnings are not indefinitely reinvested.

### Deemed Repatriation Tax & Impact on Liquidity

The Tax Act requires companies to pay a one-time transition tax, net of tax credits, related to applicable foreign taxes paid, on previously untaxed current and accumulated earnings and profits of certain of our foreign subsidiaries. We were able to reasonably estimate the deemed repatriation tax and originally recorded a provisional estimated tax benefit of \$38 million at December 31, 2017.

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We have completed our review of post-1986 earnings and profits of our foreign affiliates. Incorporating additional IRS guidance issued with respect to the deemed repatriation tax, as well as the relevant basis adjustments, we recognized a measurement period tax charge of \$62 million. The effect of deemed repatriation tax, which has now been determined to be complete, resulted in a liability of \$24 million.

**INCOME TAX EXPENSE ANALYSIS**

For the year ended December 31, 2018, the effective tax rate on income from continuing operations was 59.9 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 21 percent primarily due to

- tax charges of:
  - \$62 million measurement period adjustment related to the deemed repatriation tax,
  - \$48 million net charge primarily related to the accrual of IRS interest (including interest related to uncertain tax positions),
  - \$44 million associated with the effect of foreign operations,
  - \$21 million of additional U.S. taxes imposed on income of our foreign subsidiaries under international provisions of the Tax Act,
  - \$21 million valuation allowance activity related to certain foreign subsidiaries and state jurisdictions, and
  - \$29 million of non-deductible transfer pricing charges;
- partially offset by tax benefits of
  - \$72 million of reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities,
  - \$37 million of tax exempt income, and
  - \$13 million of excess tax deductions related to share based compensation payments recorded through the income statement.

The effect of foreign operations is primarily related to income and losses in our foreign operations taxed at statutory tax rates different than 21 percent and foreign income subject to U.S. taxation.

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



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

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

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

- tax charges of:
  - \$234 million associated with the effect of foreign operations,
  - \$216 million of tax and related interest associated with increases in uncertain tax positions related to cross border financing transactions,
  - \$118 million related to disposition of subsidiaries,
  - \$102 million related to non-deductible transfer pricing charges, and
  - \$83 million related to increases in the deferred tax asset valuation allowances associated with U.S. federal and certain foreign jurisdictions;

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- partially offset by tax benefits of:
  - \$253 million related to tax exempt income,
  - \$164 million associated with a portion of the U.S. Life Insurance companies capital loss carryforwards previously treated as expired that was restored and utilized,
  - \$116 million related to the impact of an agreement reached with the Internal Revenue Service (IRS) related to certain tax issues under audit, and
  - \$132 million of reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities.

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

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

**Business Segment Operations**

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

General Insurance consists of two operating segments: North America and International. Life and Retirement consists of four operating segments: Group Retirement, Individual Retirement, Life Insurance and Institutional Markets. Other Operations consists of businesses and items not allocated to our other businesses, which are primarily AIG Parent, Blackboard and Fuji Life, which was sold on April 30, 2017. Our Legacy Portfolio consists of our Legacy Life and Retirement Run-Off Lines, Legacy General Insurance Run-Off Lines, and Legacy Investments. Effective February 2018, Fortitude Re is included in our Legacy Portfolio.

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

<b>Years Ended December 31,</b> <i>(in millions)</i>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Core business:</b>			
<b>General Insurance</b>			
North America	\$ (8)	\$ (232)	\$ (2,399)
International	(461)	(581)	348

<b>General Insurance</b>	<b>(469)</b>	(813)	(2,051)
<b>Life and Retirement</b>			-
Individual Retirement	<b>1,681</b>	2,289	2,269
Group Retirement	<b>933</b>	1,004	931
Life Insurance	<b>330</b>	274	(37)
Institutional Markets	<b>246</b>	264	265
<b>Life and Retirement</b>	<b>3,190</b>	3,831	3,428
Other Operations	<b>(1,584)</b>	(1,405)	(1,011)
Consolidations, eliminations and other adjustments	<b>59</b>	75	42
Total Core	<b>1,196</b>	1,688	408
Legacy Portfolio	<b>213</b>	1,470	1,007
<b>Adjusted pre-tax income</b>	<b>\$ 1,409</b>	<b>\$ 3,158</b>	<b>\$ 1,415</b>

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

**General Insurance**

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

**PRODUCTS AND DISTRIBUTION**

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

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

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

**Special Risks:** Products include aerospace, political risk, trade credit, portfolio solutions, energy-related property insurance products, surety, marine and crop insurance.

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

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

General Insurance products in North America and International markets are distributed through various channels, including captive and independent agents, brokers, affinity partners, airlines and travel agents, and retailers. Our distribution network is aided by our competitive position to write multiple-national and cross-border risks in both Commercial Lines and Personal Insurance.

## **BUSINESS STRATEGY**

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

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

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

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

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

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

Our challenges include:

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

**OUTLOOK—INDUSTRY AND ECONOMIC FACTORS**

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

**General Insurance – North America**

Commercial Lines over recent years has experienced challenging market conditions, with widespread surplus capacity increasing competition and suppressing rates across multiple classes of business. However, we are seeing growing market support for rate increases in certain U.S. liability segments (outside of workers' compensation), with increasing traction in excess casualty, D&O and commercial auto, where rates are supported by a trend of higher loss cost inflation. On the shorter tailed lines, the market is supporting higher rates for accounts which suffered losses from major catastrophe events in 2017 and 2018. We continue to achieve positive rate increases across a number of lines and classes of business as a result of our disciplined underwriting strategy and focus on risk selection. Further, we continue to achieve growth in several of our Commercial Lines high margin businesses, although these market segments remain highly competitive.

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

### **General Insurance – International**

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

The Commercial Lines market continues to be highly competitive, due to increased market capacity and ample availability of capital. Despite this, we continue to grow our most profitable segments and diversify our portfolio across all regions by expanding into new product lines (e.g. cyber), new client segments (e.g. middle market) and new distribution channels (e.g. digital and national brokers) while remaining a market leader in key developed and developing markets. We are maintaining our underwriting discipline and 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 low volatility of the short-tailed risk in these business lines.

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

Years Ended December 31, (in millions)	2018	2017	2016	Percentage Change	
				2018 vs. 2017	2017 vs. 2016
<b>Underwriting results:</b>					
Net premiums written	\$ 26,407	\$ 25,438	\$ 28,393	4%	(10)%
Decrease in unearned premiums	1,098	588	1,193	87	(51)
<b>Net premiums earned</b>	<b>27,505</b>	26,026	29,586	6	(12)
Losses and loss adjustment expenses incurred <sup>(a)</sup>	20,824	21,642	25,103	(4)	(14)
Acquisition expenses:					
Amortization of deferred policy acquisition costs	4,596	3,765	4,121	22	(9)
Other acquisition expenses	1,385	1,388	1,732	-	(20)
<b>Total acquisition expenses</b>	<b>5,981</b>	5,153	5,853	16	(12)
General operating expenses	3,837	3,712	4,235	3	(12)
<b>Underwriting loss</b>	<b>(3,137)</b>	(4,481)	(5,605)	30	20
Net investment income	2,668	3,668	3,554	(27)	3
<b>Adjusted pre-tax loss</b>	<b>\$ (469)</b>	\$ (813)	\$ (2,051)	42%	60%
<b>Loss ratio<sup>(a)</sup></b>	<b>75.7</b>	83.2	84.8	(7.5)	(1.6)
Acquisition ratio	21.7	19.8	19.8	1.9	-
General operating expense ratio	14.0	14.3	14.3	(0.3)	-
<b>Expense ratio</b>	<b>35.7</b>	34.1	34.1	1.6	-
<b>Combined ratio<sup>(a)</sup></b>	<b>111.4</b>	117.3	118.9	(5.9)	(1.6)
<b>Adjustments for accident year loss ratio, as adjusted and accident year combined ratio, as adjusted:</b>					
Catastrophe losses and reinstatement premiums	(10.5)	(16.1)	(4.4)	5.6	(11.7)
Prior year development, net of (additional) return premium on loss sensitive business	(1.5)	(4.0)	(18.5)	2.5	14.5
Adjustment for ceded premiums under reinsurance contracts related to prior accident years and other	0.3	(0.1)	-	0.4	(0.1)
<b>Accident year loss ratio, as adjusted</b>	<b>64.0</b>	63.0	61.9	1.0	1.1
<b>Accident year combined ratio, as adjusted</b>	<b>99.7</b>	97.1	96.0	2.6	1.1

(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.

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

Years Ended December 31, (in millions)	Percentage Change in			Percentage Change in			
	2018	2017	2016	U.S. dollars 2018 vs. 2017	U.S. dollars 2017 vs. 2016	Original Currency 2018 vs. 2017	Original Currency 2017 vs. 2016
North America <sup>(a)(b)</sup>	\$ 11,383	\$ 10,973	\$ 13,026	4%	(16)%	4%	(16)%



International <sup>(c)</sup>	<b>15,024</b>	14,465	15,367	4	(6)	1	(4)
<b>Total net premiums written</b>	<b>\$26,407</b>	\$25,438	\$28,393	4%	(10)%	3%	(10)%

(a) As a result of the Validus acquisition, 2018 includes additional Net premiums written for North America and International of \$500 million and \$371 million, respectively.

(b) As a result of the Glatfelter acquisition, 2018 includes additional Net premiums written for North America of \$27 million.

(c) As a result of the merger of AIUI Japan and Fuji Fire and Marine Insurance Company (Fuji), Fuji's fiscal reporting period was conformed to that of AIUI Japan (Japan Merger Impact). Therefore, 2018 includes approximately \$300 million for two additional months of Net premiums written from Fuji. This also resulted in Fuji's annual policy renewal period being reported in the second quarter of 2018 compared to the third quarter of the prior year.

## ITEM 7 | Business Segment Operations | General Insurance

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

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

<i>(in millions)</i>	# of Events	North America	International	Total
<b>Year Ended December 31, 2018</b>				
Flooding	3	\$ 16	\$ 154	\$ 170
Windstorms and hailstorms	23	1,123	791	1,914
Wildfire	5	712	4	716
Earthquakes	3	19	82	101
Volcanic eruptions	1	16	2	18
Reinstatement premiums	-	(33)	(1)	(34)
<b>Total catastrophe-related charges</b>	<b>35</b>	<b>\$ 1,853</b>	<b>\$ 1,032</b>	<b>\$ 2,885</b>
<b>Year Ended December 31, 2017</b>				
Flooding	-(c)	\$ 962	\$ 158	\$ 1,120
Windstorms and hailstorms	20	1,771	616	2,387
Wildfire	2	562	10	572
Tropical cyclone	1	-	66	66
Earthquakes	1	-	41	41
Reinstatement premiums	-	(23)	-	(23)
<b>Total catastrophe-related charges</b>	<b>24</b>	<b>\$ 3,272</b>	<b>\$ 891</b>	<b>\$ 4,163</b>
<b>Year Ended December 31, 2016</b>				
Flooding	3	\$ 134	\$ 27	\$ 161
Windstorms and hailstorms	19	631	127	758
Wildfire	2	129	7	136
Earthquakes	3	25	205	230
Other	1	-	40	40
Reinstatement premiums	-	(2)	3	1
<b>Total catastrophe-related charges</b>	<b>28</b>	<b>\$ 917</b>	<b>\$ 409</b>	<b>\$ 1,326</b>

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

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

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

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

<b>Years Ended December 31,</b> <i>(in millions)</i>	<b># of</b> <b>Events</b>	<b>North</b> <b>America</b>	<b>International</b>	<b>Total</b>
<b>2018<sup>(e)</sup></b>	<b>42 \$</b>	<b>300 \$</b>	<b>376 \$</b>	<b>676</b>
2017 <sup>(e)</sup>	27 \$	203 \$	273 \$	476
2016	24 \$	110 \$	323 \$	433

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

(e) The amounts presented for 2018, are net of \$207 million of recoveries, \$96 million in North America and \$111 million in International, under aggregate reinsurance contracts. Eligible incurred losses under these agreements exceeded the applicable aggregate attachment point in the third quarter of 2018. The amount presented for 2017 is net of \$121 million of recoveries, \$65 million in North America and \$56 million in International, under an aggregate reinsurance contract. Eligible incurred losses under this agreement exceeded the applicable aggregate attachment point in the fourth quarter of 2017. There were no aggregate recoveries included in the amounts presented or 2016.

ITEM 7 | **Business Segment Operations** | **General Insurance****North America Results**

<b>Years Ended December 31,</b> <i>(in millions)</i>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>Percentage Change</b>	
				<b>2018 vs. 2017</b>	<b>2017 vs. 2016</b>
<b>Underwriting results:</b>					
Net premiums written	<b>\$ 11,383</b>	\$ 10,973	\$ 13,026	4%	(16)%
(Increase) decrease in unearned premiums	<b>931</b>	482	938	93	(49)
<b>Net premiums earned</b>	<b>12,314</b>	11,455	13,964	7	(18)
Losses and loss adjustment expenses incurred <sup>(a)</sup>	<b>10,776</b>	11,646	15,692	(7)	(26)
<b>Acquisition expenses:</b>					
Amortization of deferred policy acquisition costs	<b>1,859</b>	1,305	1,444	42	(10)
Other acquisition expenses	<b>515</b>	485	718	6	(32)
<b>Total acquisition expenses</b>	<b>2,374</b>	1,790	2,162	33	(17)
General operating expenses	<b>1,477</b>	1,396	1,550	6	(10)
<b>Underwriting loss</b>	<b>(2,313)</b>	(3,377)	(5,440)	32	38
Net investment income	<b>2,305</b>	3,145	3,041	(27)	3
<b>Adjusted pre-tax loss</b>	<b>\$ (8)</b>	\$ (232)	\$ (2,399)	97%	90%
<b>Loss ratio<sup>(a)</sup></b>		<b>87.5</b>	101.7	112.4	(14.2)
Acquisition ratio		<b>19.3</b>	15.6	15.5	3.7
General operating expense ratio		<b>12.0</b>	12.2	11.1	(0.2)
<b>Expense ratio</b>		<b>31.3</b>	27.8	26.6	3.5
<b>Combined ratio<sup>(a)</sup></b>		<b>118.8</b>	129.5	139.0	(10.7)
<b>Adjustments for accident year loss ratio, as adjusted and accident year combined ratio, as adjusted:</b>					
Catastrophe losses and reinstatement premiums		<b>(15.1)</b>	(28.7)	(6.6)	13.6
Prior year development, net of (additional) return premium on loss sensitive business		<b>(3.1)</b>	(3.6)	(37.9)	0.5
Adjustment for ceded premiums under reinsurance contracts related to prior accident years and other		<b>0.8</b>	(0.3)	-	1.1
<b>Accident year loss ratio, as adjusted</b>		<b>70.1</b>	69.1	67.9	1.0
<b>Accident year combined ratio, as adjusted</b>		<b>101.4</b>	96.9	94.5	4.5

(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.

**Business and Financial Highlights**

The North America General Insurance business is focused on making progress towards improved underwriting results and efficiencies. This includes strengthening our talent base; ongoing investment in pricing and monitoring tools; continuous review of our risk appetite combined with enhanced focus on portfolio management and individual business strategy; reduction of our gross and net limits; and increased use of reinsurance.

Adjusted pre-tax loss decreased in the year ended December 31, 2018 compared to the prior year, primarily due to lower catastrophe losses and lower unfavorable prior year loss reserve development, partially offset by lower net investment income mainly due to lower investment returns on alternative investments and higher severe losses. Net premiums written increased primarily due to growth in Personal Insurance, lower ceded premiums driven by changes in the 2018 reinsurance programs and the inclusion of the Validus acquisition.

*For further discussion on prior year loss reserve development see Insurance Reserves.*

*For a discussion of 2018 reinsurance programs see Part II, Item 7 Management's Discussion and Analysis of Financial Condition Results of Operation - Enterprise Risk Management.*

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

**North America Adjusted Pre-Tax Loss**

*(in millions)*

**2018 and 2017 Comparison**

Adjusted pre-tax loss decreased primarily due to:

- significantly lower catastrophe losses; and
- lower unfavorable prior year loss reserve development.

These were partially offset by:

- lower investment returns on alternative investments, primarily driven by less robust private equity and hedge fund performance compared to 2017, and a decline in income from securities for which the fair value option was elected as well as lower interest and dividends due to lower invested assets resulting from the first quarter 2017 funding of the adverse development reinsurance agreement with NICO;
- higher severe losses;
- higher acquisition ratio primarily driven by changes in portfolio mix, higher insurance taxes, licenses and fees, and changes in the 2018 reinsurance programs; and
- higher general operating expenses due to the inclusion of the Validus and Glatfelter acquisition; however general operating expense ratio decreased slightly.

**North America Adjusted Pre-Tax Loss**

*(in millions)*

### 2017 and 2016 Comparison

Adjusted pre-tax loss decreased primarily due to:

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

This decrease was partially offset by:

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

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

**North America Net Premiums Written**

*(in millions)*

**2018 and 2017 Comparison**

Net premiums written increased primarily due to:

- growth in the Travel business within Personal Insurance;
- lower ceded premiums due to changes in the 2018 reinsurance programs; and
- the inclusion of the Validus and Glatfelter acquisitions.

This increase was partially offset by:

- lower production primarily in Property, Programs business, and D&O products within Financial Lines mainly due to underwriting actions taken to strengthen our portfolio and to maintain pricing discipline; and
- exiting of certain businesses in Accident & Health in 2017.

**North America Net Premiums Written**

*(in millions)*

**2017 and 2016 Comparison**

Net premiums written decreased primarily due to:

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



This decrease was partially offset by:

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

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

**North America Combined Ratios**

**2018 and 2017 Comparison**

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

The decrease in the loss ratio reflected:

- significantly lower catastrophe losses; and
- lower unfavorable prior year loss reserve development.

These decreases in the loss ratio were partially offset by a higher current accident year loss ratio, as adjusted, driven primarily by higher severe losses.

The increase in the expense ratio reflected a higher acquisition ratio primarily due to changes in portfolio mix, higher insurance taxes, licenses and fees, and changes in the 2018 reinsurance programs.

**North America Combined Ratios**

**2017 and 2016 Comparison**

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

The decrease in the loss ratio was primarily due to lower prior year unfavorable development. Prior year reserve development is net of the losses ceded under the NICO reinsurance agreement as well as the amortization of the related deferred gain.

This decrease in the loss ratio was partially offset by:

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

- a slightly elevated current accident year loss ratio, as adjusted, driven primarily by higher severe losses and an increase in loss estimates in Casualty and Financial Lines reflecting the result of 2017 detailed valuation reviews, partially offset by lower current accident year losses in Personal Insurance.

The increase in the expense ratio was primarily due to a higher general operating expense ratio primarily driven by a decrease in net premiums earned reflecting portfolio optimization, which more than offset expense reductions.

## ITEM 7 | Business Segment Operations | General Insurance

## International Results

Years Ended December 31, (in millions)	2018	2017	2016	Percentage Change		
				2018 vs. 2017	2017 vs. 2016	
<b>Underwriting results:</b>						
Net premiums written	\$ 15,024	\$ 14,465	\$ 15,367	4%	(6)%	
Decrease in unearned premiums	167	106	255	58	(58)	
<b>Net premiums earned</b>	<b>15,191</b>	14,571	15,622	4	(7)	
Losses and loss adjustment expenses incurred	10,048	9,996	9,411	1	6	
Acquisition expenses:						
Amortization of deferred policy acquisition costs	2,737	2,460	2,677	11	(8)	
Other acquisition expenses	870	903	1,014	(4)	(11)	
<b>Total acquisition expenses</b>	<b>3,607</b>	3,363	3,691	7	(9)	
General operating expenses	2,360	2,316	2,685	2	(14)	
<b>Underwriting loss<sup>(a)</sup></b>	<b>(824)</b>	(1,104)	(165)	25	NM	
Net investment income	363	523	513	(31)	2	
<b>Adjusted pre-tax income (loss)</b>	<b>\$ (461)</b>	\$ (581)	\$ 348	21%	NM%	
<b>Loss ratio</b>		<b>66.1</b>	68.6	60.2	(2.5)	8.4
Acquisition ratio		<b>23.7</b>	23.1	23.6	0.6	(0.5)
General operating expense ratio		<b>15.5</b>	15.9	17.2	(0.4)	(1.3)
<b>Expense ratio</b>		<b>39.2</b>	39.0	40.8	0.2	(1.8)
<b>Combined ratio</b>		<b>105.3</b>	107.6	101.0	(2.3)	6.6
<b>Adjustments for accident year loss ratio, as adjusted and accident year combined ratio, as adjusted:</b>						
Catastrophe losses and reinstatement premiums		<b>(6.8)</b>	(6.1)	(2.6)	(0.7)	(3.5)
Prior year development, net of (additional) return premium on loss sensitive business		<b>(0.2)</b>	(4.3)	(1.0)	4.1	(3.3)
Adjustment for ceded premiums under reinsurance contracts related to prior accident years		-	-	-	NM	NM
<b>Accident year loss ratio, as adjusted</b>		<b>59.1</b>	58.2	56.6	0.9	1.6
<b>Accident year combined ratio, as adjusted</b>		<b>98.3</b>	97.2	97.4	1.1	(0.2)

(a) As a result of the Japan Merger Impact, 2018 includes two additional months of operating earnings increasing Net premiums written, Net premiums earned, Losses and loss adjustment expenses incurred, and Adjusted pre-tax income by approximately \$300 million, \$300 million, \$200 million and \$15 million, respectively.

## Business and Financial Highlights

The International General Insurance business is focused on underwriting profits and improved efficiency, further improving underwriting margins, and growing profitably in segments and geographies that support our growth strategy. This includes creating operating leverage by improving the expense ratio, a focus on new business sales in Japan, a strategic review of the use of reinsurance and leveraging Talbot, International's newly acquired Lloyd's of London insurance syndicate.

Adjusted pre-tax loss decreased in 2018 compared to the same period in the prior year primarily due to significantly lower unfavorable prior year loss reserve development, partially offset by higher severe and catastrophe losses and lower net investment income.

*For further discussion on prior year loss reserve development see Insurance Reserves.*

Net premiums written, excluding the impact of foreign exchange, increased primarily due to the inclusion of the Validus acquisition and business growth, partially offset by the sale of certain insurance operations and assets to Fairfax.

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

**International Adjusted Pre-Tax Income (Loss)**

*(in millions)*

**2018 and 2017 Comparison**

Adjusted pre-tax loss decreased primarily due to significantly lower unfavorable prior year loss reserve development.

This decrease was partially offset by:

- higher catastrophe losses;
- higher current accident year loss ratio, as adjusted, driven primarily by higher severe losses; and
- lower net investment income driven by weaker market performance of equity securities for which the fair value option was elected, a decrease in alternative investments portfolio holdings and lower income from equity method investments.

**International Adjusted Pre-Tax Income (Loss)**

*(in millions)*

**2017 and 2016 Comparison**

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

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

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

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

**International Net Premiums Written**

*(in millions)*

**2018 and 2017 Comparison**

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

- growth in Accident & Health and Personal Lines business in Asia Pacific and in the Financial Lines business in Europe;
- inclusion of the Validus acquisition; and
- the Japan Merger Impact.

This increase was partially offset by:

- sale of certain insurance operations and assets to Fairfax;
- lower business production in Japan because of delayed product introduction related to the Japan Merger Impact and exit from unprofitable distribution channels;
- higher ceded premiums due to changes in 2018 reinsurance programs; and
- lower production primarily driven by portfolio remediation efforts.

**International Net Premiums Written**

*(in millions)*



### 2017 and 2016 Comparison

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

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

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

**International Combined Ratios**

**2018 and 2017 Comparison**

The decrease in the combined ratio reflected a lower loss ratio partially offset by a slightly higher expense ratio.

This decrease in the loss ratio was primarily driven by significantly lower unfavorable prior year loss reserve development partially offset by:

- a higher current accident year loss ratio, as adjusted, driven primarily by higher severe losses; and
- higher catastrophe losses.

The slight increase in the expense ratio was primarily driven by a higher acquisition ratio mainly due to changes in business mix combined with changes in 2018 reinsurance programs.

**International Combined Ratios**

**2017 and 2016 Comparison**

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

The higher loss ratio reflected:

- higher catastrophe losses primarily driven by hurricanes Maria, Harvey and Irma;
- higher prior year unfavorable loss reserve development impacted by unfavorable loss emergence in Europe Casualty and Property; and
- a higher current accident year loss ratio, as adjusted, in Europe Casualty driven by an increase in loss estimates as a result of 2017 year-end detailed reserve

valuation reviews slightly offset by lower severe losses and improved current accident year performance in Europe and Japan Personal Insurance.

The decrease in the expense ratio was primarily due to:

- a lower general operating expense ratio driven by lower employee-related expenses and other expense reduction initiatives; and
- a lower acquisition ratio driven by the sale of our interest in the Ascot business.

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

Life and Retirement

**PRODUCTS AND DISTRIBUTION**

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

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

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

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

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

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

**Life Insurance:** In the U.S., products primarily include term life and universal life insurance 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 U.K. and Ireland.

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

**Federal Home Loan Bank (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 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 spreads. These investment contracts do not have mortality or morbidity risk and are similar to GICs.

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

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

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

**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.

**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 U.K., AIG Life Insurance will continue to focus on growing the business organically and through potential acquisition opportunities.

**Group Retirement** continues to enhance its technology platform to improve the customer experience for plan sponsors and individual participants. VALIC's self-service tools paired with its career financial advisors provide a compelling service platform. Group Retirement's strategy also involves providing financial planning services for its clients and meeting their need for income in retirement.

**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 maximize our ability to meet cash and liquidity needs under various operating scenarios.

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



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

Life and Retirement operates in the highly competitive insurance and financial services industry in the U.S. and select international markets, competing against various financial services companies, including 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 sustained low interest rate environment, which makes it difficult to profitably price new products and puts margin pressure on existing business due to lower reinvestment yields;
- increased competition in our primary markets, including aggressive pricing of annuities by private equity-backed annuity writers, increased competition and consolidation of employer groups in the group retirement planning market, and peers with different profitability targets in the pension risk transfer space;
- increasingly complex new and proposed regulatory requirements, which have affected industry growth; and
- upgrading our technology and underwriting processes while managing general operating expenses.

**OUTLOOK—INDUSTRY AND ECONOMIC FACTORS**

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

**Individual Retirement**

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

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

**Group Retirement**

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

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

ITEM 7 | **Business Segment Operations | Life and Retirement****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 sustained 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 U.K., efforts to expand the reach and increase the affordability of life insurance are critical. The industry is investing in consumer-centric efforts to reduce traditional barriers to securing life protection by simplifying the sales and service experience. Digitally enabled processes and tools provide a fast, friendly and simple path to life insurance protection.

**Institutional Markets**

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

Changes in the interest rate environment can have a significant impact on investment returns and net investment spreads, as well as reduce the tax efficiency associated with institutional life insurance products, dampening 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**

<b>Years Ended December 31,</b> <i>(in millions)</i>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>Percentage Change</b>	
				<b>2018 vs. 2017</b>	<b>2017 vs. 2016</b>
<b>Revenues:</b>					
Premiums	\$ 2,592	\$ 4,046	\$ 2,288	(36)%	77%
Policy fees	2,669	2,798	2,590	(5)	8
Net investment income	7,922	7,816	7,622	1	3
Other income	953	926	1,278	3	(28)
Total adjusted revenues	14,136	15,586	13,778	(9)	13

**Benefits and expenses:**

Policyholder benefits and losses incurred	<b>4,179</b>	5,247	3,496	(20)	50
Interest credited to policyholder account balances	<b>3,513</b>	3,360	3,449	5	(3)
Amortization of deferred policy acquisition costs	<b>680</b>	743	613	(8)	21
General operating and other expenses*	<b>2,412</b>	2,296	2,700	5	(15)
Interest expense	<b>162</b>	109	92	49	18
Total operating expenses	<b>10,946</b>	11,755	10,350	(7)	14
<b>Adjusted pre-tax income</b>	<b>\$ 3,190</b>	\$ 3,831	\$ 3,428	(17)%	12%

\* 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.*

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

<b>Years Ended December 31,</b> <i>(in millions)</i>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>Percentage Change</b>	
				<b>2018 vs. 2017</b>	<b>2017 vs. 2016</b>
<b>Revenues:</b>					
Premiums	\$ 52	\$ 91	\$ 163	(43)%	(44)%
Policy fees	804	767	709	5	8
Net investment income	3,827	4,013	3,878	(5)	3
Advisory fee and other income	655	643	1,008	2	(36)
<b>Benefits and expenses:</b>					
Policyholder benefits and losses incurred	261	161	173	62	(7)
Interest credited to policyholder account balances	1,679	1,616	1,684	4	(4)
Amortization of deferred policy acquisition costs	630	415	298	52	39
Non deferrable insurance commissions	324	308	226	5	36
Advisory fee expenses	238	241	570	(1)	(58)
General operating expenses	443	426	488	4	(13)
Interest expense	82	58	50	41	16
<b>Adjusted pre-tax income</b>	<b>\$ 1,681</b>	<b>\$ 2,289</b>	<b>\$ 2,269</b>	<b>(27)%</b>	<b>1%</b>
<b>Fixed Annuities base net investment spread:</b>					
Base yield	4.60%	4.80%	4.90%	(20)bps	(10)bps
Cost of funds	2.65	2.65	2.74	-	(9)
<b>Fixed Annuities base net investment spread</b>	<b>1.95%</b>	<b>2.15%</b>	<b>2.16%</b>	<b>(20)bps</b>	<b>(1)bps</b>

**Business and Financial Highlights**

The market environment continues to reflect uncertainties in the annuity business resulting from a sustained low interest rate environment. While interest rates increased during 2018, rates remain low relative to historical levels. Premiums and deposits improved in 2018 compared to 2017 but were lower than 2016. Premiums and deposits in 2018 included deposits from FHLB funding agreements. Net flows in 2018 deteriorated compared to 2017 and 2016 and continued to be negative primarily due to higher surrenders and withdrawals, mainly in Retail Mutual Funds.

Excluding the impact of the review and update of actuarial assumptions, adjusted pre-tax income decreased in 2018 compared to 2017 and 2016. In 2018 compared to 2017, results reflect decreased Fixed Annuity base spread income primarily due to lower reinvestment yields and decreased gains on securities for which the fair value option was elected, and higher Variable Annuity DAC amortization and reserves due

to lower equity market performance. Partially offsetting these decreases were higher policy and advisory fees, and increased base spread income for Index Annuities. In 2017 compared to 2016, results reflected higher gains on securities for which the fair value option was elected, higher net investment spread for Indexed Annuities, higher policy fees, and higher returns from alternative investments. Offsetting these increases were decreased net investment income due to reduction of the size of the hedge fund portfolio as well as impact of the sale of the Advisor Group in May 2016 resulting in decreased advisory fee income, advisory fee expenses, and general operating expenses. In addition, Fixed Annuities base net investment spread in 2017 declined compared to 2016 primarily due to lower reinvestment yields.

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

**Individual Retirement Adjusted Pre-Tax Income**

*(in millions)*

**2018 and 2017 Comparison**

Adjusted pre-tax income decreased primarily due to:

- a net unfavorable adjustment from the review and update of actuarial assumptions of \$52 million in 2018, compared to a net favorable adjustment of \$242 million in the prior year;
- a decline in net investment income, primarily from lower gains on fixed maturity securities for which the fair value option was elected when compared to 2017 where returns were higher as a result of significant spread tightening that occurred and lower bond call and tender income;
- a decline in Fixed Annuity base spread income primarily driven by lower reinvestment yields and volumes; and
- higher Variable Annuity DAC amortization and reserves due to lower equity market performance.

Partially offsetting these decreases were:

- higher Index Annuity base portfolio income reflecting growth in assets from increased sales; and
- higher policy fees primarily driven by asset growth in Index and Variable Annuities.

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

Adjusted pre-tax income increased primarily due to:

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

Partially offsetting these increases were:

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



capital resulting from a reinsurance agreement entered into in 2016 involving certain whole life, term life and universal life businesses (life insurance reinsurance transactions); and

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

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

For Individual Retirement, premiums primarily represent amounts received on life-contingent payout annuities. Premiums decreased in 2018 compared to 2017, primarily due to competitive market rates. Premiums decreased in 2017 compared to 2016, primarily due to strong annuity sales in 2016 driven by higher equity market volatility, which made immediate annuities more attractive to customers seeking less volatile returns.

Premiums and deposits is 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. Deposits from FHLB funding agreements were excluded from net flows of Individual Retirement, as net flows from these funding agreements are not considered part of the metric to measure Individual Retirement's core recurring performance.

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

<b>Years Ended December 31,</b> <i>(in millions)</i>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Premiums	\$ 52	\$ 91	\$ 163
Deposits	15,577	11,819	15,898
Other	(8)	(4)	1
<b>Premiums and deposits</b>	<b>\$ 15,621</b>	<b>\$ 11,906</b>	<b>\$ 16,062</b>

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

<b>Years Ended December 31,</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Surrenders as a percentage of average reserves</b>			
Fixed Annuities	8.2%	6.7%	7.6%
Variable and Index Annuities	6.5	6.0	5.2

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

<b>At December 31,</b> <i>(in millions)</i>	<b>2018</b>		<b>2017</b>	
	Fixed Annuities	Variable and Index Annuities	Fixed Annuities	Variable and Index Annuities
No surrender charge	\$ 30,036	\$ 19,036	\$ 32,299	\$ 18,896
Greater than 0% - 2%	1,037	6,229	1,704	6,045

Greater than 2% - 4%	<b>2,429</b>	<b>9,781</b>	1,560	9,470
Greater than 4%	<b>15,217</b>	<b>33,244</b>	13,329	34,677
Non-surrenderable	<b>1,608</b>	<b>474</b>	1,665	429
<b>Total reserves</b>	<b>\$ 50,327</b>	<b>\$ 68,764</b>	<b>\$ 50,557</b>	<b>\$ 69,517</b>

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 December 31, 2018 has increased compared to December 31, 2017 due to improved net flows driven by higher Fixed Annuity sales, combined with fewer policyholders reaching the end of the surrender charge period in 2018 compared to 2017. The increase in reserves with no surrender charge contributed to the increase in the surrender rate for Variable and Index Annuities in 2018 compared to the prior year. Increases in market interest rates in 2018 contributed to the increase in the surrender rate for Fixed Annuities in 2018 compared to the prior year.



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

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

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

*(in millions)*

**2018 and 2017 Comparison**

- **Fixed Annuities** premiums and deposits increased primarily due to higher broker dealer and bank distribution sales driven by favorable market conditions. Net flows continued to be negative but improved primarily due to higher premiums and deposits, partially offset by increased surrenders.
- **Variable and Index Annuities** premiums and deposits increased primarily due to higher index annuity sales driven by expanded distribution and market growth, partially offset by lower variable annuity sales driven by lower bank and broker dealer distribution sales. Sales were also positively impacted by easing industry uncertainty caused by the DOL Fiduciary Rule, which was vacated in June 2018. Index annuity net flows increased primarily due to higher sales but were partially offset by increased surrenders. Variable annuity net flows remained negative and deteriorated primarily due to lower sales and higher surrenders.
- **Funding Agreements** premiums and deposits in 2018 reflected deposits from FHLB funding agreements, which were excluded from reported net flows.
- **Retail Mutual Funds** net flows remained negative and deteriorated reflecting lower deposits and higher withdrawals due to continued negative industry trends in U.S. equity actively managed funds and the impact of underperformance within our largest fund.



ITEM 7 | **Business Segment Operations | Life and Retirement****Individual Retirement Premiums and Deposits and Net Flows***(in millions)***2017 and 2016 Comparison**

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

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

<b>Years Ended December 31,</b> <i>(in millions)</i>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>Percentage Change</b>	
				<b>2018 vs. 2017</b>	<b>2017 vs. 2016</b>
<b>Revenues:</b>					
Premiums	\$ 34	\$ 27	\$ 27	26%	-%
Policy fees	446	427	383	4	11
Net investment income	2,172	2,164	2,146	-	1
Advisory fee and other income	239	230	213	4	8
<b>Benefits and expenses:</b>					
Policyholder benefits and losses incurred	85	74	28	15	164
Interest credited to policyholder account balances	1,122	1,115	1,135	1	(2)
Amortization of deferred policy acquisition costs	95	84	129	13	(35)
Non deferrable insurance commissions	117	108	85	8	27
Advisory fee expenses	91	83	75	10	11
General operating expenses	406	348	360	17	(3)
Interest expense	42	32	26	31	23
<b>Adjusted pre-tax income</b>	<b>\$ 933</b>	<b>\$ 1,004</b>	<b>\$ 931</b>	<b>(7)%</b>	<b>8%</b>
<b>Base net investment spread:</b>					
Base yield	4.50%	4.53%	4.71%	(3)bps	(18)bps
Cost of funds	2.73	2.76	2.89	(3)	(13)
<b>Base net investment spread</b>	<b>1.77%</b>	<b>1.77%</b>	<b>1.82%</b>	<b>-bps</b>	<b>(5)bps</b>

**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 in 2018 compared to 2017 and decreased slightly in 2017 compared to 2016. Premiums and deposits in 2018 included deposits from FHLB funding agreement. Net flows deteriorated in 2018 compared to 2017 and 2016 and continued to be negative primarily due to higher surrenders, partially offset by increased premiums and deposits in 2018 and slightly decreased premiums and deposits in 2017 compared to 2016.

Excluding the impact of the review and update of actuarial assumptions, adjusted pre-tax income decreased in 2018 compared to 2017 due to increases in general operating expenses and higher variable annuity DAC amortization and reserves due to lower equity market performance partially offset by higher policy fees and net investment income. Excluding the impact of the review and update of actuarial assumptions, adjusted pre-tax income increased in 2017 compared to 2016. In 2017, results reflected



higher gains on securities for which the fair value option was elected, higher returns from alternative investments, increased policy and advisory fees, and lower general operating expenses. Partially offsetting these increases were lower base net investment yields partially mitigated by crediting rate management and a reduction in the overall size of the hedge fund portfolio.

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

**Group Retirement Adjusted Pre-Tax Income**

*(in millions)*

**2018 and 2017 Comparison**

Adjusted pre-tax income decreased primarily due to:

- higher general operating expenses, which reflected continued investments in people and technology, and higher legal expenses; and
- higher Variable Annuity DAC amortization and reserves due to lower equity market performance.

Partially offsetting these decreases were:

- higher policy and advisory fees, net of expenses, primarily driven by growth in assets; and
- higher net investment income, primarily from the receipt of non-recurring payments on structured securities and higher commercial mortgage loan prepayments, partially offset by lower gains on fixed maturity securities for which the fair value option was elected when compared to 2017 where returns were higher as a result of significant spread tightening that occurred.

**Group Retirement Adjusted Pre-Tax Income**

*(in millions)*

**2017 and 2016 Comparison**

Adjusted pre-tax income increased primarily due to:

- a net favorable adjustment from the review and update of actuarial assumptions of \$13 million in 2017 compared to a \$47 million net unfavorable adjustment in 2016;

- higher net investment income, which included higher gains on securities for which the fair value option was elected and higher returns on alternative investments, partially offset by a reduction in the overall size of the hedge fund portfolio;
- higher policy and advisory fees, net of expenses, due to growth in account values driven by improved equity market performance; and
- lower general operating expenses primarily due to reduced legal expenses, partially offset by higher spending for implementation of the DOL Fiduciary Rule.

Partially offsetting these increases were:

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

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

For Group Retirement, premiums primarily represent amounts received on life-contingent payout annuities. Premiums in 2018, which primarily represent immediate annuities, increased compared to 2017 and 2016. Overall, premiums is not a significant driver of the Group Retirement results.

Premiums and deposits is a non GAAP financial measure that includes, in addition to direct and assumed premiums, deposits received on investment-type annuity contracts, FHLB funding agreement 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. Deposits from FHLB funding agreement was excluded from net flows of Group Retirement, as net flows from this funding agreement is not considered part of the metric to measure Group Retirement's core recurring performance.

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

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

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Premiums	\$ 34	\$ 27	\$ 27
Deposits	<b>8,605</b>	7,523	7,543
<b>Premiums and deposits</b>	<b>\$ 8,639</b>	\$ 7,550	\$ 7,570

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

**Years Ended December 31,**

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Surrenders as a percentage of average reserves and mutual funds	<b>11.3%</b>	8.6%	8.8%

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

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

	<b>2018<sup>(a)</sup></b>	<b>2017<sup>(a)</sup></b>
No surrender charge <sup>(b)</sup>	\$ 65,500	\$ 69,006
Greater than 0% - 2%	<b>650</b>	1,087
Greater than 2% - 4%	<b>1,115</b>	1,344
Greater than 4%	<b>5,868</b>	5,270
Non-surrenderable	<b>612</b>	439
<b>Total reserves</b>	<b>\$ 73,745</b>	\$ 77,146

(a) Excludes mutual fund assets under administration of \$17.9 billion and \$20.2 billion at December 31, 2018 and 2017, respectively.

(b) Group Retirement amounts in this category include General Account reserves of approximately \$6.3 billion, at December 31, 2018 and 2017, which are subject to 20 percent annual withdrawal limitations at the participant level and General Account reserves of \$4.7 billion and \$4.5 billion at December 31, 2018 and 2017 respectively, which are subject to 20 percent annual withdrawal limitations at the plan level.

Group Retirement annuities are typically subject to a five- to seven-year surrender charge period, depending on the product. At December 31, 2018, Group Retirement annuity reserves decreased compared to December 31, 2017 primarily due to a decrease in separate account assets. The surrender rate in 2018 increased compared to 2017 primarily due to higher surrenders, including approximately \$1.6 billion of large plan surrenders.

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

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

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

*(in millions)*

**2018 and 2017 Comparison**

Net flows deteriorated and continued to be negative primarily due to higher surrenders, including approximately \$1.6 billion of large plan surrenders, partially offset by increased deposits. External factors including consolidation of healthcare providers and other employers in target markets, continue to impact Group Retirement customer retention. Premiums and deposits in 2018 reflected deposits from FHLB funding agreement, which were excluded from reported net flows.

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

*(in millions)*

**2017 and 2016 Comparison**

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



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

Years Ended December 31, (in millions)	2018	2017	2016	Percentage Change	
				2018 vs. 2017	2017 vs. 2016
<b>Revenues:</b>					
Premiums	\$ 1,554	\$ 1,530	\$ 1,407	2%	9%
Policy fees	1,258	1,430	1,319	(12)	8
Net investment income	1,137	1,044	1,035	9	1
Other income	58	52	57	12	(9)
<b>Benefits and expenses:</b>					
Policyholder benefits and losses incurred	2,619	2,444	2,452	7	-
Interest credited to policyholder account balances	374	376	386	(1)	(3)
Amortization of deferred policy acquisition costs	(50)	239	182	NM	31
Non deferrable insurance commissions	89	109	155	(18)	(30)
General operating expenses	620	601	668	3	(10)
Interest expense	25	13	12	92	8
<b>Adjusted pre-tax income</b>	<b>\$ 330</b>	<b>\$ 274</b>	<b>\$ (37)</b>	<b>20%</b>	<b>NM%</b>

**Business and Financial Highlights**

Life Insurance is focused on selling profitable new products through strategic channels to enhance future returns. Results for 2018 reflect growth in universal life deposits, and growth in term and international life and health premiums, offset by lower group benefits premiums. Adjusted pre-tax income increased in 2018 compared to 2017 primarily due to higher net investment income driven by growth in invested assets, favorable mortality, and actuarial reserve and reinsurance refinements, offset by higher general operating expenses. Adjusted pre-tax income increased in 2017 compared to 2016 reflecting the impact of favorable actuarial assumption updates in 2017 compared to net unfavorable adjustments in 2016, improved group benefit results, decreased general operating expenses and favorable individual life mortality.

**Life Insurance Adjusted Pre-Tax Income**

(in millions)



### 2018 and 2017 Comparison

Adjusted pre-tax income increased primarily due to:

- favorable reserve and reinsurance refinements;
- higher net investment income primarily due to increases in base portfolio income driven by growth in invested assets and higher alternative returns; and
- favorable mortality.

Partially offsetting these increases were:

- a net unfavorable adjustment from the annual review and update of actuarial assumptions of \$63 million compared to a net favorable adjustment in the prior year for \$29 million; and
- higher general operating expenses primarily due to growth in international life offset by a reduction in group benefits expenses. In addition, prior-year general operating expenses were reduced by the impact of new business reinsurance.

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

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

- a net favorable adjustment from the review and update of actuarial assumptions of \$29 million in 2017 compared to a \$92 million net unfavorable adjustment in 2016;
- lower commissions and general operating expenses primarily due to the strategic decision to refocus the group benefits business, partially offset by the allocation of reinsurance risk charges from life insurance reinsurance transactions. In addition, lower general operating expenses in 2017 reflected the impact of new business reinsurance;
- favorable loss experience and a reserve reduction in group benefits business;
- favorable mortality experience in individual life business; and
- excluding the impact of the actuarial assumption updates, lower DAC amortization primarily due to lapse assumptions on international life.

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

Premiums for Life Insurance represent amounts received on traditional life insurance policies, primarily term life, international life and health and group benefits. Premiums, excluding the effect of foreign exchange, increased in 2018 compared to 2017 and 2016. Premiums for 2018 included favorable ceded premium reinsurance refinements in domestic life business.

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

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

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

		<b>2018</b>		2017	2016
Premiums	\$	<b>1,554</b>	\$	1,530	\$ 1,407
Deposits		<b>1,649</b>		1,518	1,419
Other		<b>711</b>		707	693
<b>Premiums and deposits</b>	<b>\$</b>	<b>3,914</b>	<b>\$</b>	<b>3,755</b>	<b>\$ 3,519</b>

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

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

**Life Insurance Premiums and Deposits**

*(in millions)*

Premiums and deposits, excluding the effect of foreign exchange, increased in 2018 compared to 2017 and in 2017 compared to 2016, primarily due to growth in universal life, term life and international life and health, including assumed premiums on business distributed by Laya Healthcare. This increase was partially offset by lower group benefits premiums.

**Institutional markets Results**

<b>Years Ended December 31,</b> <i>(in millions)</i>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>Percentage Change</b>	
				<b>2018 vs. 2017</b>	<b>2017 vs. 2016</b>
<b>Revenues:</b>					
Premiums	<b>\$ 952</b>	\$ 2,398	\$ 691	(60)%	247%
Policy fees	<b>161</b>	174	179	(7)	(3)
Net investment income	<b>786</b>	595	563	32	6
Other income	<b>1</b>	1	-	-	NM
<b>Benefits and expenses:</b>					
Policyholder benefits and losses incurred	<b>1,214</b>	2,568	843	(53)	205
Interest credited to policyholder account balances	<b>338</b>	253	244	34	4
Amortization of deferred policy acquisition costs	<b>5</b>	5	4	-	25
Non deferrable insurance commissions	<b>28</b>	28	32	-	(13)
General operating expenses	<b>56</b>	44	41	27	7
Interest expense	<b>13</b>	6	4	117	50
<b>Adjusted pre-tax income</b>	<b>\$ 246</b>	\$ 264	\$ 265	(7)%	-%

**Business and Financial Highlights**

Institutional Markets continued to opportunistically grow its assets under management, which drove the increase in net investment spread over recent years. Product distribution continues to be strong and the business is focused on maintaining pricing discipline to achieve attractive risk adjusted return.

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

**Institutional Markets Adjusted Pre-Tax Income**

*(in millions)*

**2018 and 2017 Comparison**

Decreases in premiums and policyholder benefits were primarily due to pension risk transfer business written in 2017. Growth in reserves and assets under management drove the increase in net investment income with similar impact to policyholder benefits and interest credited.

Adjusted pre-tax income decreased primarily due to:

- a decrease in policy fees due to lower stable value wrap notional amounts; and
- higher general operating expenses due to investment in business growth.

**Institutional Markets Adjusted Pre-Tax Income**

*(in millions)*

**2017 and 2016 Comparison**

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

Adjusted pre-tax income was comparable to 2016.



ITEM 7 | **Business Segment Operations | Life and Retirement****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 in 2018 compared to 2017 and increased in 2017 compared to 2016 primarily driven by the pension risk transfer business written in 2017.

Premiums and deposits for Institutional Markets is a non-GAAP financial measure that includes direct premiums as well as deposits received on investment-type annuity contracts, including GICs and FHLB funding agreements. Deposits increased in 2018 compared to 2017 due to FHLB funding agreements.

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

<b>Years Ended December 31,</b> <i>(in millions)</i>		<b>2018</b>		<b>2017</b>	<b>2016</b>
Premiums	\$	<b>952</b>	\$	2,398	\$ 691
Deposits		<b>2,015</b>		1,821	1,434
Other		<b>65</b>		28	28
<b>Premiums and deposits</b>	<b>\$</b>	<b>3,032</b>	<b>\$</b>	<b>4,247</b>	<b>2,153</b>

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

**Institutional Markets Premiums and Deposits**

*(\$ in millions)*

Premiums and deposits decreased in 2018 compared to 2017 due to lower sales in pension risk transfer and structured settlements, partially offset by \$1.4 billion in FHLB funding agreements. Premiums and deposits increased in 2017 compared to 2016 primarily driven by higher pension risk transfer business, partially offset by lower structured settlement sales.



ITEM 7 | **Business Segment Operations** | **Other Operations****Other Operations**

The following table presents Other Operations results:

Years Ended December 31, (in millions)				Percentage Change	
	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
<b>Adjusted pre-tax income (loss) by activities:</b>					
United Guaranty	\$ -	-\$	522	NM%	NM%
Fuji Life	-	43	14	NM	207
Parent and Other:					
Corporate general operating expenses	(726)	(769)	(666)	6	(15)
Interest expense	(1,066)	(968)	(983)	(10)	2
Other income, net	208	289	102	(28)	183
Total Parent and Other	(1,584)	(1,448)	(1,547)	(9)	6
<b>Adjusted pre-tax loss before eliminations</b>	<b>(1,584)</b>	<b>(1,405)</b>	<b>(1,011)</b>	<b>(13)</b>	<b>(39)</b>
Consolidation, eliminations and other adjustments	59	75	42	(21)	79
<b>Adjusted pre-tax loss</b>	<b>\$(1,525)</b>	<b>\$(1,330)</b>	<b>\$(969)</b>	<b>(15)%</b>	<b>(37)%</b>

Parent and Other adjusted pre-tax loss increased compared to the prior year as a result of higher interest expense due to debt issuances totaling \$2.5 billion at the end of the first quarter of 2018 and decreases in other income as a result of lower income on securities for which we elected the fair value option and available for sale investments. The pre-tax loss increase was partially offset by declines in general operating expenses related to one time payments for executive leadership in 2017.

Fuji Life was sold on April 30, 2017.

**2017 and 2016 Comparison**

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

Parent and Other adjusted pre-tax loss decreased as a result of gains on securities for which we elected the fair value option, partially offset by higher general operating expenses related to one time payments for executive leadership changes in 2017.

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



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

Legacy Portfolio represents exited or discontinued product lines, policy forms or distribution channels. Effective February 2018, our Bermuda-domiciled composite reinsurer, Fortitude Re, formerly known as DSA Reinsurance Company, Ltd. is included in our Legacy Portfolio.

- **Legacy Life and Retirement Run-Off Lines** - Reserves consist of certain structured settlements, pension risk transfer annuities and single premium immediate annuities written prior to April 2012. Also includes exposures to whole life, long-term care and exited accident & health product lines.
- **Legacy General Insurance Run-Off Lines** - Reserves consist of excess workers' compensation, environmental exposures and exposures to other products within General Insurance that are no longer actively marketed. Also includes the remaining reserves in Eaglestone Reinsurance Company (Eaglestone).
- **Legacy Investments** - Includes investment classes that we have placed into run-off including holdings in direct investments as well as investments in global capital markets and global real estate.

**BUSINESS STRATEGY**

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

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

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

**SALE OF NON-CONTROLLING INTEREST IN FORTITUDE**

Fortitude Re was established during the first quarter of 2018 in connection with a series of affiliated reinsurance transactions related to our Legacy Portfolio. Those reinsurance transactions were designed to consolidate most of our Legacy Insurance Run-Off Lines into a single legal entity. As of December 31, 2018, the affiliated transactions included the cession of approximately \$31 billion of reserves from our Legacy Life and Retirement Run-Off Lines and approximately \$4 billion of reserves from our Legacy General Insurance Run-Off Lines related to business written by multiple wholly-owned AIG subsidiaries. In

the second quarter of 2018, we formed Fortitude Holdings, a wholly-owned subsidiary of AIG, to act as a holding company for Fortitude Re.

On November 13, 2018, we completed the sale of a 19.9 percent ownership interest in Fortitude Holdings to TCG, an affiliate of The Carlyle Group L.P. (Carlyle) (the Fortitude Re Closing). Fortitude Holdings owns 100 percent of the outstanding common shares of Fortitude Re and AIG has an 80.1 percent ownership interest in Fortitude Holdings.

Subject to certain adjustments specified in the Purchase Agreement, we will receive total consideration of approximately \$476 million, which is based on Fortitude Re's total shareholder's equity of \$2.9 billion as of March 31, 2018 excluding planned distributions that the parties will seek to cause to be paid to us on a non-pro rata basis prior to the end of the 18th month following the Fortitude Re Closing, subject to regulatory approvals (the Target Distribution). \$381 million of the purchase price was paid at the Fortitude Re Closing and up to \$95 million will be paid following December 31, 2023 (the Deferred Payment), subject to the purchase price adjustment described below. To the extent we do not receive all or a portion of the Target Distribution within 18 months of the Fortitude Re Closing, TCG will pay us up to an additional \$100 million.

As part of the establishment of Fortitude Re, we implemented a capital maintenance agreement (CMA) with Fortitude Re that remains in effect so long as we own at least 50 percent of Fortitude Re. If there are any CMA funding obligations that occur within 18 months of the Fortitude Re Closing, we will fund those obligations on a non-dilutive basis to TCG, but only if, and to the extent, we actually receive the Target Distribution prior to the expiration of such period.

The affiliated reinsurance transactions executed in the first quarter of 2018 with Fortitude Re resulted in prepaid insurance assets on the ceding subsidiaries' balance sheets of approximately \$2.5 billion (after-tax). These assets have been eliminated in AIG's consolidated financial statements since the counterparties were wholly owned. In the event of a sale of a controlling interest in

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

Fortitude Holdings, our Legacy Portfolio may recognize a loss for the portion of the unamortized balance of these assets and related deferred acquisition costs of \$0.5 billion (after-tax) that are not recoverable, if any, in the period in which our interest in Fortitude Holdings becomes non-controlling. This loss would be incremental to any gain or loss recognized on the sale of our controlling interest in Fortitude Holdings.

We have also agreed to a post-closing purchase price adjustment wherein we will reimburse TCG for certain changes in property casualty related reserves, based on an agreed methodology, that occurs on or prior to December 31, 2023, up to the value of TCG's investment in Fortitude Holdings. Any amount due to TCG in respect of this will be offset by the amount of the Deferred Payment otherwise due from TCG to us.

In connection with the sale, we agreed to certain investment commitment targets into various Carlyle strategies and to certain minimum investment management fee payments within thirty-six months following the closing. We also will be required to pay a proportionate amount of an agreed make-whole fee to the extent we fail to satisfy such investment commitment targets.

As contemplated by the Purchase Agreement, we, Fortitude Holdings and TCG entered into an Amended and Restated Limited Liability Company Operating Agreement of Fortitude Holdings, governing the rights of the parties thereto. In addition, Fortitude Re and certain of our U.S. based insurance subsidiaries entered into (1) Investment Management Agreements with an affiliate of TCG (the Investment Manager), pursuant to which the Investment Manager will provide certain investment management and advisory services with respect to certain asset classes and (2) Fortitude Re entered into an Exclusivity Agreement with TCG pursuant to which the Investment Manager will be the exclusive provider of investment management and advisory services with respect to certain new business acquired by Fortitude Re following the Fortitude Re Closing with respect to certain asset classes. *For additional information relating to the sale of a 19.9 percent ownership interest in Fortitude Holdings, see Note 1 to the Consolidated Financial Statements.*

**LEGACY PORTFOLIO RESULTS**

<b>Years Ended December 31,</b> <i>(in millions)</i>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>Percentage Change</b>	
				<b>2018 vs. 2017</b>	<b>2017 vs. 2016</b>
<b>Revenues:</b>					
Premiums	\$ 480	\$ 590	\$ 674	(19)%	(12)%
Policy fees	120	137	142	(12)	(4)
Net investment income	2,325	2,776	2,913	(16)	(5)
Other income (loss)	114	888	1,521	(87)	(42)
<b>Total adjusted revenues</b>	<b>3,039</b>	<b>4,391</b>	<b>5,250</b>	<b>(31)</b>	<b>(16)</b>
<b>Benefits and expenses:</b>					
Policyholder benefits and losses and loss adjustment expenses incurred	2,057	1,998	3,084	3	(35)
Interest credited to policyholder account balances	236	241	267	(2)	(10)
Amortization of deferred policy acquisition costs	105	76	108	38	(30)
General operating and other expenses	398	484	502	(18)	(4)
Interest expense	30	122	282	(75)	(57)

<b>Total benefits and expenses</b>	<b>2,826</b>	2,921	4,243	(3)	(31)
<b>Adjusted pre-tax income</b>	<b>\$ 213</b>	\$1,470	\$1,007	(86)%	46%
<b>Adjusted pre-tax income by type:</b>					
General Insurance Run-Off Lines	<b>\$ 76</b>	\$ 221	\$ (237)	(66)%	NM%
Life and Retirement Run-Off Lines	<b>17</b>	406	(224)	(96)	NM
Legacy Investments	<b>120</b>	843	1,468	(86)	(43)
<b>Adjusted pre-tax income</b>	<b>\$ 213</b>	\$1,470	\$1,007	(86)%	46%

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ITEM 7 | **Business Segment Operations | Legacy Portfolio****Business and Financial Highlights**

In February 2018, we used \$2.6 billion of existing Legacy Portfolio cash and investment assets to capitalize Fortitude Re in order to enable it to assume insurance risk and other economic risk from U.S. and Bermudian insurance companies. These assets included approximately \$1.6 billion of capital released by Eaglestone, an affiliated entity, to AIG Parent as a result of the commutation of certain property and casualty risks from other AIG subsidiaries, which were subsequently ceded to Fortitude Re. Fortitude Re also has additional eligible regulatory capital under the Bermuda Monetary Authority capital framework in the form of \$550 million in letter of credit agreements with guarantees from AIG Parent. In 2018, Fortitude Re disbursed \$444 million of tax sharing payments to AIG Parent.

**Legacy Portfolio Adjusted Pre-Tax Income**

*(in millions)*

**2018 and 2017 Comparison**

Adjusted pre-tax income decreased due to:

- lower Legacy Life and Retirement earnings compared to 2017 due to lower net investment income and loss recognition from the update to actuarial assumptions in 2018 of \$105 million mainly attributable to higher claims costs on the cancer products portfolio;
- lower Legacy General Insurance earnings compared to 2017 due to lower net investment income, Japanese catastrophe losses in 2018 and a change in premium earning patterns on certain environmental business in 2018; and
- Legacy Investment earnings compared to 2017 due to continued dispositions of non- insurance investment assets, primarily driven by the sale of the life settlements portfolio in 2017 and lower gain on fair value option portfolios in 2018

**Legacy Portfolio Adjusted Pre-Tax Income**

*(in millions)*

### 2017 and 2016 Comparison

Adjusted pre-tax income increased due to:

- increased Legacy Life and Retirement adjusted pre-tax income due to the absence of any significant loss recognition on certain payout annuities from the update of actuarial assumptions in 2017 compared to 2016. Loss recognition from the update to actuarial assumptions in 2017 was \$14 million mainly attributable to the Long-Term Care portfolio;
- increased Legacy General Insurance adjusted pre-tax income due to the absence of any significant prior year development in 2017 compared to 2016.

This increase was partially offset by decreased Legacy Investment adjusted pre-tax income in 2017 compared to 2016 driven by the decreased value of the remaining Legacy Investment portfolio post-sales.



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

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

**Investment Highlights in 2018**

- A rise in interest rates and widening credit spreads, as well as the adoption of the Recognition and Measurement of Financial Assets and Financial Liabilities Standard (Financial Instruments Recognition and Measurement Standard) on January 1, 2018, which resulted in the reclassification of unrealized gains in our equity securities to retained earnings, and in a net unrealized loss in our investment portfolio. Net unrealized gains in our available for sale portfolio decreased to approximately \$3.6 billion as of December 31, 2018 from approximately \$13.9 billion as of December 31, 2017.
- We continued to make investments in structured securities and other fixed maturity securities and increased lending activities in mortgage loans with favorable risk compared to return characteristics to improve yields and increase net investment income.
- Lower investment returns in our hedge fund portfolio and a decline in income from fixed maturity securities for which the fair value option was elected when compared to 2017 where returns were higher as a result of significant spread tightening that occurred, as well as negative performance of our fair value option equity securities portfolio.
- During 2018, we reduced our hedge fund portfolio by approximately \$1.8 billion as a result of redemptions consistent with our planned reduction of exposure.
- Blended investment yields on new investments were lower than blended rates on investments that were sold, matured or called.
- In the first quarter of 2018, we sold our remaining interest in Arch, which we received as part of the consideration for selling United Guaranty to Arch in 2016.
- Our acquisition of Validus closed in the third quarter of 2018 and our acquisition of Glatfelter closed during the fourth quarter of 2018, increasing our investment portfolio by approximately \$6.6 billion and \$0.4 billion, respectively.

- We agreed to sell certain private equity funds in our portfolio during the second half of 2018.

### Investment Strategies

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

Some of our key investment strategies are as follows:

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

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

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

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

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

**Asset Liability Measurement**

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

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

In addition, a portion of the surplus of General Insurance is invested in a diversified portfolio of alternative investments which seeks to balance liquidity, volatility and growth. Although these alternative investments are subject to periodic earnings fluctuations, they have historically achieved yields in excess of the fixed maturity portfolio yields and have provided added diversification to the broader portfolio.

Fixed maturity securities of the General Insurance companies' domestic operations, with an average duration of 3.8 years, are currently comprised of corporate bonds, structured securities, taxable municipal bonds and government and agency bonds as well as tax-exempt securities, which provide attractive risk-adjusted after-tax returns. The majority of these high quality investments are rated A or higher based on composite ratings.

Fixed maturity securities held in the General Insurance companies' foreign operations are of high quality, primarily rated A or higher based on composite ratings, with an average duration of 3.3 years.

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

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

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

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

ITEM 7 | **Investments**

yields in excess of the fixed maturity portfolio yields. While a diversified portfolio of alternative investments remains a fundamental component of the investment strategy of the Life and Retirement companies, we have reduced the overall size of the hedge fund portfolio, in light of changing market conditions and perceived market opportunities, and to continue reducing the size of the private equity portfolio.

Fixed maturity securities of the Life and Retirement companies domestic operations, with an average duration of 7.0 years, are comprised primarily of taxable corporate bonds, as well as taxable municipal and government bonds, and agency and non agency structured securities. The majority of these investments are held in the available for sale portfolio and are rated investment grade based on its composite ratings.

Fixed maturity securities held in the Life and Retirement companies foreign operations are of high quality, primarily rated A or higher based on composite ratings, with an average duration of 17.0 years.

*NAIC Designations of Fixed Maturity Securities*

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

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

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

**December 31, 2018**

*(in millions)*

NAIC Designation	Total Investment Grade						
	1	2	3	4	5	6	
Other fixed maturity securities	\$ 83,266	\$68,652	\$ 151,918	\$6,523	\$5,958	\$1,895	\$ 119

Mortgage-backed, asset-backed and collateralized	63,402	3,110	<b>66,512</b>	706	412	38	4,095
<b>Total*</b>	\$146,668	\$71,762	<b>\$ 218,430</b>	\$7,229	\$6,370	\$1,933	\$4,214

\* Excludes \$2.6 billion of fixed maturity securities for which no NAIC Designation is available because they are held in legal entities within U.S. Insurance Companies that do not require a statutory filing.

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

### December 31, 2018

(in millions)

Composite AIG Credit Rating	Total Investment						CCC and Lower
	AAA/AA/A	BBB	Grade	BB	B		
Other fixed maturity securities	\$ 82,798	\$69,609	<b>\$ 152,407</b>	\$ 6,174	\$5,960		1,872
Mortgage-backed, asset-backed and collateralized	49,521	4,210	<b>53,731</b>	1,220	661		16,151
<b>Total*</b>	\$ 132,319	\$73,819	<b>\$ 206,138</b>	\$ 7,394	\$6,621		18,023

\* Excludes \$2.6 billion of fixed maturity securities for which no NAIC Designation is available because they are held in legal entities within U.S. Insurance Companies that do not require a statutory filing.

### Credit Ratings

At December 31, 2018, approximately 88 percent of our fixed maturity securities were held by our domestic entities. Approximately 17 percent of these securities were rated AAA by one or more of the principal rating agencies, and approximately 15 percent were rated below investment grade or not rated. Our investment decision process relies primarily on internally generated fundamental analysis and internal risk ratings. Third-party rating services' ratings and opinions provide one source of independent perspective for consideration in the internal analysis.

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Moody's Investors Service Inc. (Moody's), Standard & Poor's Financial Services LLC, a subsidiary of S&P Global Inc. (S&P), or similar foreign rating services rate a significant portion of our foreign entities' fixed maturity securities portfolio. Rating services are not available for some foreign-issued securities. Our Credit Risk Management department closely reviews the credit quality of the foreign portfolio's non-rated fixed maturity securities. At December 31, 2018, approximately 24 percent of such investments were either rated AAA or, on the basis of our internal analysis, were equivalent from a credit standpoint to securities rated AAA, and approximately 7 percent were below investment grade or not rated. Approximately 28 percent of the foreign entities' fixed maturity securities portfolio is comprised of sovereign fixed maturity securities supporting policy liabilities in the country of issuance.

**Composite AIG Credit Ratings**

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

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

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

	Available for Sale		Other		Total	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
<i>(in millions)</i>						
<b>Rating:</b>						
<b>Other fixed maturity securities</b>						
AAA	\$ 11,170	\$ 11,644	\$ 2,619	\$ 2,656	\$ 13,789	\$ 14,300
AA	27,766	29,560	106	212	27,872	29,772
A	40,142	45,049	1,356	1,745	41,498	46,794
BBB	69,564	70,636	300	138	69,864	70,774
Below investment grade	14,511	13,173	-	17	14,511	13,190
Non-rated	1,333	1,073	-	-	1,333	1,073
<b>Total</b>	<b>\$ 164,486</b>	<b>\$ 171,135</b>	<b>\$ 4,381</b>	<b>\$ 4,768</b>	<b>\$ 168,867</b>	<b>\$ 175,903</b>
<b>Mortgage-backed, asset-backed and collateralized</b>						
AAA	\$ 28,859	\$ 30,306	\$ 481	\$ 818	\$ 29,340	\$ 31,124

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AA	<b>12,019</b>	8,158	<b>911</b>	610	<b>12,930</b>	8,768
A	<b>6,964</b>	7,760	<b>290</b>	382	<b>7,254</b>	8,142
BBB	<b>4,058</b>	4,414	<b>152</b>	163	<b>4,210</b>	4,577
Below investment grade	<b>12,923</b>	17,194	<b>5,096</b>	6,004	<b>18,019</b>	23,198
Non-rated	<b>82</b>	25	<b>104</b>	27	<b>186</b>	52
<b>Total</b>	<b>\$ 64,905</b>	\$ 67,857	<b>\$ 7,034</b>	\$ 8,004	<b>\$ 71,939</b>	\$ 75,861
<b>Total</b>						
AAA	<b>\$ 40,029</b>	\$ 41,950	<b>\$ 3,100</b>	\$ 3,474	<b>\$ 43,129</b>	\$ 45,424
AA	<b>39,785</b>	37,718	<b>1,017</b>	822	<b>40,802</b>	38,540
A	<b>47,106</b>	52,809	<b>1,646</b>	2,127	<b>48,752</b>	54,936
BBB	<b>73,622</b>	75,050	<b>452</b>	301	<b>74,074</b>	75,351
Below investment grade	<b>27,434</b>	30,367	<b>5,096</b>	6,021	<b>32,530</b>	36,388
Non-rated	<b>1,415</b>	1,098	<b>104</b>	27	<b>1,519</b>	1,125
<b>Total</b>	<b>\$ 229,391</b>	\$ 238,992	<b>\$ 11,415</b>	\$ 12,772	<b>\$ 240,806</b>	\$ 251,764

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## ITEM 7 | Investments

## Available for Sale Investments

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

<i>(in millions)</i>	Fair Value at December 31, 2018	Fair Value at December 31, 2017
<b>Bonds available for sale:</b>		
U.S. government and government sponsored entities	\$ 3,260	\$ 2,656
Obligations of states, municipalities and political subdivisions	16,001	18,644
Non-U.S. governments	14,525	15,659
Corporate debt	130,700	134,176
Mortgage-backed, asset-backed and collateralized:		
RMBS	34,377	37,234
CMBS	12,701	13,841
CDO/ABS	17,827	16,782
<b>Total mortgage-backed, asset-backed and collateralized</b>	<b>64,905</b>	<b>67,857</b>
<b>Total bonds available for sale<sup>(a)</sup></b>	<b>229,391</b>	<b>238,992</b>
<b>Equity securities available for sale:</b>		
Common stock	-	1,061
Preferred stock	-	533
Mutual funds	-	114
<b>Total equity securities available for sale<sup>(b)</sup></b>	<b>-</b>	<b>1,708</b>
<b>Total</b>	<b>\$ 229,391</b>	<b>\$ 240,700</b>

(a) At December 31, 2018 and 2017, the fair value of bonds available for sale held by us that were below investment grade or not rated totaled \$28.8 billion and \$31.5 billion, respectively.

(b) As a result of the adoption of the Financial Instruments Recognition and Measurement Standard on January 1, 2018, equity securities are no longer classified and accounted for as available for sale securities.

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

<i>(in millions)</i>	December 31, 2018	December 31, 2017
Japan	\$ 1,645	\$ 1,791
Canada	1,038	1,051
France	905	923

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United Kingdom		<b>794</b>		1,214
Germany		<b>783</b>		1,623
Netherlands		<b>518</b>		608
United Arab Emirates		<b>454</b>		432
Indonesia		<b>453</b>		493
Mexico		<b>409</b>		513
Norway		<b>380</b>		409
Other		<b>7,191</b>		6,659
<b>Total</b>		<b>\$ 14,570</b>		<b>\$ 15,716</b>

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

<i>(in millions)</i>	December 31, 2018					December 31, 2017 Total
	Sovereign	Financial Institution	Non-Financial Corporates	Structured Products	Total	
<b>Euro-Zone countries:</b>						
France	\$ 905	\$ 1,649	\$ 1,888	\$ -	\$ 4,442	\$ 4,169
Germany	783	158	2,305	-	3,246	3,803
Netherlands	518	894	1,056	103	2,571	2,868
Ireland	65	-	478	951	1,494	1,071
Belgium	258	132	785	-	1,175	1,216
Spain	42	216	810	-	1,068	1,009
Italy	1	120	386	-	507	694
Luxembourg	-	35	341	1	377	436
Finland	107	49	72	-	228	163
Austria	142	9	5	-	156	37
Other - EuroZone	621	81	227	-	929	1,013
<b>Total Euro-Zone</b>	<b>\$ 3,442</b>	<b>\$ 3,343</b>	<b>\$ 8,353</b>	<b>\$ 1,055</b>	<b>\$ 16,193</b>	<b>\$ 16,479</b>
<b>Remainder of Europe:</b>						
United Kingdom	\$ 794	\$ 3,497	\$ 8,247	\$ 3,601	\$ 16,139	\$ 16,975
Switzerland	30	1,110	870	-	2,010	2,299
Sweden	132	371	136	-	639	658
Norway	380	41	145	-	566	618
Russian Federation	101	17	122	-	240	284
Other - Remainder of Europe	130	37	104	-	271	287
<b>Total - Remainder of Europe</b>	<b>\$ 1,567</b>	<b>\$ 5,073</b>	<b>\$ 9,624</b>	<b>\$ 3,601</b>	<b>\$ 19,865</b>	<b>\$ 21,121</b>
<b>Total</b>	<b>\$ 5,009</b>	<b>\$ 8,416</b>	<b>\$ 17,977</b>	<b>\$ 4,656</b>	<b>\$ 36,058</b>	<b>\$ 37,600</b>

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## ITEM 7 | Investments

## Investments in Municipal Bonds

At December 31, 2018, the U.S. municipal bond portfolio was composed primarily of essential service revenue bonds and high-quality tax-exempt bonds with 91 percent of the portfolio rated A or higher.

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

<i>(in millions)</i>	December 31, 2018			Total Fair Value	December 31, 2017 Total Fair Value
	State General Obligation	Local General Obligation	Revenue		
<b>State:</b>					
New York	\$ 18	\$ 439	\$ 2,677	\$ 3,134	\$ 3,562
California	610	368	1,835	2,813	3,275
Texas	156	579	957	1,692	1,992
Illinois	79	143	757	979	908
Massachusetts	403	-	408	811	966
Florida	50	-	492	542	666
Virginia	8	2	531	541	639
Ohio	63	5	417	485	575
Washington	205	-	268	473	650
Georgia	102	87	256	445	566
Pennsylvania	126	14	213	353	418
Washington D.C.	20	-	320	340	497
Maryland	156	92	84	332	380
All other states <sup>(a)</sup>	377	282	2,402	3,061	3,550
<b>Total<sup>(b)(c)</sup></b>	<b>\$ 2,373</b>	<b>\$ 2,011</b>	<b>\$ 11,617</b>	<b>\$ 16,001</b>	<b>\$ 18,644</b>

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

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

(c) Includes \$367 million of pre-refunded municipal bonds.

ITEM 7 | **Investments****Investments in Corporate Debt Securities**

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

<b>Industry Category</b> <i>(in millions)</i>	<b>Fair Value at December 31, 2018</b>	<b>Fair Value at December 31, 2017</b>
Financial institutions:		
Money Center/Global Bank Groups	\$ 9,602	\$ 9,295
Regional banks — other	630	562
Life insurance	3,201	3,603
Securities firms and other finance companies	389	386
Insurance non-life	4,648	4,893
Regional banks — North America	6,263	6,320
Other financial institutions	9,966	9,906
Utilities	17,542	18,655
Communications	9,249	9,756
Consumer noncyclical	16,410	15,873
Capital goods	7,237	7,797
Energy	12,350	13,171
Consumer cyclical	9,498	9,166
Basic	5,271	6,123
Other	18,444	18,670
<b>Total*</b>	<b>\$ 130,700</b>	<b>\$ 134,176</b>

\* At December 31, 2018 and December 31, 2017, respectively, approximately 89 and 91 percent of these investments were rated investment grade.

Our investments in the energy category, as a percentage of total investments in available-for-sale fixed maturities, was 5.4 percent and 5.5 percent at December 31, 2018 and December 31, 2017, 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:

<i>(in millions)</i>	<b>Fair Value at December 31, 2018</b>	<b>Fair Value at December 31, 2017</b>
Agency RMBS	\$ 14,695	\$ 15,002

Alt-A RMBS	9,780	11,624
Subprime RMBS	2,982	2,947
Prime non-agency	6,211	6,891
Other housing related	709	770
<b>Total RMBS<sup>(a)(b)</sup></b>	<b>\$ 34,377</b>	<b>\$ 37,234</b>

(a) Includes approximately \$10.3 billion and \$12.3 billion at December 31, 2018, and December 31, 2017, respectively, of certain RMBS that had experienced deterioration in credit quality since their origination. *For additional discussion on Purchased Credit Impaired (PCI) Securities see Note 6 to the Consolidated Financial Statements.*

(b) The weighted average expected life was seven years at December 31, 2018 and six years at December 31, 2017.

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.

ITEM 7 | **Investments****Investments in CMBS**

The following table presents our CMBS available for sale securities:

<i>(in millions)</i>	<b>Fair Value at December 31, 2018</b>	Fair Value at December 31, 2017
CMBS (traditional)	\$ 9,975	\$ 11,092
Agency	2,047	2,093
Other	679	656
<b>Total</b>	<b>\$ 12,701</b>	<b>\$ 13,841</b>

The fair value of CMBS holdings remained stable throughout 2018. The majority of our investments in CMBS are in tranches that contain substantial protection features through collateral subordination. The majority of CMBS holdings are traditional conduit transactions, broadly diversified across property types and geographical areas.

**Investments in CDOs**

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

<i>(in millions)</i>	<b>Fair value at December 31, 2018</b>	Fair value at December 31, 2017
<b>Collateral Type:</b>		
Bank loans (CLO)	\$ 8,164	\$ 8,112
Other	56	94
<b>Total</b>	<b>\$ 8,220</b>	<b>\$ 8,206</b>

**Commercial Mortgage Loans**

At December 31, 2018, we had direct commercial mortgage loan exposure of \$32.9 billion. All commercial mortgage loans were current or performing according to their restructured terms.

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

<i>(dollars in millions)</i>	Number of Loans	Apartment	Offices	Class Retail	Industrial	Hotel	Others	Total	Percent of Total
<b>December 31, 2018</b>									
<b>State:</b>									
New York	98	\$ 2,009	\$ 4,082	\$ 512	\$ 393	\$ 100	-\$	7,096	22%

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California	78	490	1,308	283	535	831	48	3,495	11
Texas	53	344	1,256	185	102	125	5	2,017	6
New Jersey	45	1,049	45	422	41	28	33	1,618	5
Florida	87	358	159	589	224	218	35	1,583	5
Massachusetts	14	635	243	549	26	-	-	1,453	4
Illinois	18	456	444	11	19	-	22	952	3
Pennsylvania	25	80	21	567	47	25	-	740	2
Washington D.C.	12	401	311	-	-	19	-	731	2
Ohio	27	179	10	199	235	-	5	628	2
Other states	228	1,869	790	1,326	773	460	73	5,291	16
<b>Foreign</b>	79	3,320	1,201	1,002	679	717	359	7,278	22
<b>Total*</b>	764	\$11,190	\$ 9,870	\$ 5,645	\$ 3,074	\$ 2,523	\$ 580	\$32,882	100%

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## ITEM 7 | Investments

December 31, 2017

**State:**

New York	97	\$ 1,673	\$ 3,716	\$ 556	\$ 265	\$ 105	\$ 177	\$ 6,492	23%
California	86	438	1,055	301	313	845	360	3,312	12
Texas	55	327	934	160	83	154	38	1,696	6
Massachusetts	21	701	384	410	-	-	27	1,522	5
New Jersey	42	667	46	486	41	28	32	1,300	4
Florida	81	319	84	435	227	19	69	1,153	4
Pennsylvania	25	74	22	577	47	26	-	746	3
Illinois	15	315	304	11	25	-	23	678	2
Ohio	26	163	11	205	240	-	5	624	2
Washington D.C.	11	232	359	-	-	19	-	610	2
Other states	253	1,790	964	1,466	696	564	160	5,640	20
<b>Foreign</b>	71	1,464	821	754	86	629	1,069	4,823	17
<b>Total*</b>	783	\$ 8,163	\$ 8,700	\$ 5,361	\$ 2,023	\$ 2,389	\$ 1,960	\$ 28,596	100%

\* Does not reflect allowance for credit losses.

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

**Impairments**

The following table presents impairments by investment type:

Years Ended December 31,

*(in millions)*

	2018	2017	2016
<b>Other-than-temporary Impairments:</b>			
Fixed maturity securities, available for sale	\$ 251	\$ 216	\$ 480
Equity securities, available for sale <sup>(a)</sup>	-	11	7
Private equity funds and hedge funds	-	33	72
<b>Subtotal</b>	<b>251</b>	260	559
<b>Other impairments:</b>			
Investments in life settlements <sup>(b)</sup>	-	360	397
Other investments	-	20	66
Real estate	79	61	10
<b>Total</b>	<b>\$ 330</b>	\$ 701	\$ 1,032

(a) Upon the adoption of the Financial Instruments Recognition and Measurement Standard on January 1, 2018, equity securities are no longer required to be evaluated for other-than-temporary impairments.

(b) Impairments include \$360 million related to investments in our life settlements portfolio that were sold in 2017.

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

Impairments on life settlements in 2016 were partially attributable to an increase in policy premiums required to keep policies in force which resulted in lower future expected net cash flows that were insufficient to recover our net investment on certain policies. Impairments on life settlements in 2017 were mainly attributable to write-downs of the policies to the purchase price as agreed in the sale of the life settlements portfolio. We sold the remaining portion of our life settlements portfolio in 2017.

## ITEM 7 | Investments

**Other-Than-Temporary Impairments**

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

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

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

<i>(in millions)</i>	Other Fixed Maturity Securities/Other					Equities/Other		Invested Assets*	Total
	RMBS	CDO/ABS	CMBS	Maturity					
<b>Year Ended December 31, 2018</b>									
<b>Impairment Type:</b>									
Severity	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
Change in intent	-	-	-	-	87	-	-	-	87
Foreign currency declines	-	-	-	-	15	-	-	-	15
Issuer-specific credit events	62	9	20	56	-	-	-	-	147
Adverse projected cash flows	2	-	-	-	-	-	-	-	2
<b>Total</b>	<b>\$ 64</b>	<b>\$ 9</b>	<b>\$ 20</b>	<b>\$ 158</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>251</b>
<b>Year Ended December 31, 2017</b>									
<b>Impairment Type:</b>									
Severity	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2	\$ -	\$ -	2
Change in intent	-	-	-	-	9	-	-	-	9
Foreign currency declines	-	-	-	-	11	-	-	-	11
Issuer-specific credit events	24	41	32	95	42	-	-	-	234
Adverse projected cash flows	4	-	-	-	-	-	-	-	4
<b>Total</b>	<b>\$ 28</b>	<b>\$ 41</b>	<b>\$ 32</b>	<b>\$ 115</b>	<b>\$ 44</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>260</b>
<b>Year Ended December 31, 2016</b>									
<b>Impairment Type:</b>									
Severity	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15	\$ -	\$ -	15
Change in intent	-	-	-	-	46	-	-	-	46
Foreign currency declines	-	-	-	-	18	-	-	-	18
Issuer-specific credit events	116	1	38	214	64	-	-	-	433
Adverse projected cash flows	47	-	-	-	-	-	-	-	47
<b>Total</b>	<b>\$ 163</b>	<b>\$ 1</b>	<b>\$ 38</b>	<b>\$ 278</b>	<b>\$ 79</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>559</b>

\* Includes other-than-temporary impairment charges on private equity funds, hedge funds and direct private equity investments. Upon the adoption of the Financial Instruments Recognition and Measurement

Standard on January 1, 2018, equity securities are no longer required to be evaluated for other-than-temporary impairments.

We recorded other-than-temporary impairment charges in the years ended December 31, 2018, 2017 and 2016 related to:

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

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

In periods subsequent to the recognition of an other-than-temporary impairment charge for available for sale fixed maturity securities that is not foreign-exchange related, we generally prospectively accrete into earnings the difference between the new amortized cost and the expected undiscounted recoverable value over the remaining life of the security. The accretion that was recognized for these securities in earnings was \$530 million in 2018, \$669 million in 2017 and \$767 million in 2016.

*For a discussion of our other-than-temporary impairment accounting policy see Note 6 to the Consolidated Financial Statements.*

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## ITEM 7 | Investments

The following table shows the aging of the pre-tax 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:

December 31, 2018 Aging <sup>(a)</sup> (dollars in millions)	Less Than or Equal to 20% of Cost <sup>(b)</sup> Unrealized			Greater Than 20% to 50% of Cost <sup>(b)</sup> Unrealized			Greater Than 50% of Cost <sup>(b)</sup> Unrealized			Total Unrealized	
	Cost <sup>(c)</sup>	Loss	Items <sup>(e)</sup>	Cost <sup>(c)</sup>	Loss	Items <sup>(e)</sup>	Cost <sup>(c)</sup>	Loss	Items <sup>(e)</sup>	Cost <sup>(c)</sup>	Loss <sup>(d)</sup> Items
<b>Investment grade bonds</b>											
0-6 months	\$ 36,559	\$ 839	5,121	\$ 98	\$ 29	4	\$ 3	\$ 4	1	\$ 36,660	\$ 872
7-11 months	27,272	1,210	3,633	168	36	12	-	-	-	27,440	1,246
12 months or more	35,368	1,732	4,381	487	116	37	18	12	5	35,873	1,860
<b>Total</b>	<b>\$ 99,199</b>	<b>\$3,781</b>	<b>13,135</b>	<b>\$ 753</b>	<b>\$ 181</b>	<b>53</b>	<b>\$ 21</b>	<b>\$ 16</b>	<b>6</b>	<b>\$ 99,973</b>	<b>\$ 3,978</b>
<b>Below investment grade bonds</b>											
0-6 months	\$ 7,344	\$ 259	2,322	\$ 465	\$ 157	25	\$ 26	\$ 22	5	\$ 7,835	\$ 438
7-11 months	1,438	93	591	101	26	33	5	4	2	1,544	123
12 months or more	2,097	179	650	225	59	39	44	31	15	2,366	269
<b>Total</b>	<b>\$ 10,879</b>	<b>\$ 531</b>	<b>3,563</b>	<b>\$ 791</b>	<b>\$ 242</b>	<b>97</b>	<b>\$ 75</b>	<b>\$ 57</b>	<b>22</b>	<b>\$ 11,745</b>	<b>\$ 830</b>
<b>Total bonds</b>											
0-6 months	\$ 43,903	\$1,098	7,443	\$ 563	\$ 186	29	\$ 29	\$ 26	6	\$ 44,495	\$ 1,310
7-11 months	28,710	1,303	4,224	269	62	45	5	4	2	28,984	1,369
12 months or more	37,465	1,911	5,031	712	175	76	62	43	20	38,239	2,129
<b>Total<sup>(e)</sup></b>	<b>\$110,078</b>	<b>\$4,312</b>	<b>16,698</b>	<b>\$ 1,544</b>	<b>\$ 423</b>	<b>150</b>	<b>\$ 96</b>	<b>\$ 73</b>	<b>28</b>	<b>\$111,718</b>	<b>\$ 4,808</b>

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

(b) Represents the percentage by which fair value is less than cost at December 31, 2018.

(c) For bonds, represents amortized cost.

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

(e) Item count is by CUSIP by subsidiary.

**Change in Unrealized Gains and Losses on Investments**

The change in net unrealized gains and losses on investments in 2018 was primarily attributable to decreases in the fair value of fixed maturity securities. For 2018, net unrealized losses related to fixed maturity securities decreased by \$9.9 billion due primarily to an increase in rates and a widening of credit

spreads.

The change in net unrealized gains and losses on investments in 2017 was primarily attributable to increases in the fair value of fixed maturity securities. For 2017, net unrealized gains related to fixed maturity and equity securities increased by \$4.3 billion due primarily to a decrease in rates and a narrowing of credit spreads.

*For further discussion of our investment portfolio see also Note 6 to the Consolidated Financial Statements.*

ITEM 7 | **Investments****Net Realized Capital Gains and Losses**

The following table presents the components of Net realized capital losses:

<b>Years Ended December 31,</b> <i>(in millions)</i>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Sales of fixed maturity securities	\$ (145)	\$ 425	\$ 1
Sales of equity securities <sup>(a)</sup>	16	88	1,057
<b>Other-than-temporary impairments:</b>			
Severity	-	(2)	(15)
Change in intent	(87)	(9)	(46)
Foreign currency declines	(15)	(11)	(18)
Issuer-specific credit events	(147)	(234)	(433)
Adverse projected cash flows	(2)	(4)	(47)
Provision for loan losses	(92)	(50)	10
Foreign exchange transactions	(182)	489	(1,226)
Variable annuity embedded derivatives, net of related hedges	304	(1,374)	(1,243)
All other derivatives and hedge accounting	338	(368)	299
Impairments on investments in life settlements	-	(360)	(397)
Loss on sale of private equity funds	(321)	-	-
Other <sup>(b)</sup>	203	30	114
<b>Net realized capital losses</b>	<b>\$ (130)</b>	<b>\$ (1,380)</b>	<b>\$ (1,944)</b>

(a) In 2016, includes realized gains on the sale of a portion of our holdings in People's Insurance Company (Group) of China Limited and PICC Property & Casualty Company Limited (collectively, our PICC Investment).

(b) In 2018, primarily includes \$96 million and \$49 million of realized gains on the sale of shares of OneMain Holdings, Inc. and an investment in Castle Holdings LLC's aircraft assets, respectively. In 2016, primarily includes \$107 million of realized gains due to a purchase price adjustment on the sale of Class B shares of Prudential Financial, Inc. and losses of \$253 million from the sale of a portion of our Life Settlements portfolio.

Net realized capital losses in 2018 decreased compared to 2017 due primarily to derivative gains in 2018 compared to derivative losses in 2017. Net realized capital losses in 2018 were primarily related to a loss on the sale of a portion of our private equity portfolio, foreign exchange losses, and other-than-temporary impairment charges, which more than offset derivative gains.

Net realized capital losses decreased in 2017 compared to 2016 due primarily to foreign exchange gains in 2017 compared to losses in the prior year and lower other-than-temporary impairments. Net realized capital losses in 2017 consisted primarily of losses on variable annuity embedded derivatives, net of related hedges, and impairments, which were partially offset by gains on the sales of securities and foreign

exchange gains.

Variable annuity embedded derivatives, net of related hedges, reflected gains in 2018 compared to losses in 2017 primarily due to changes in 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.

*For additional discussion of market risk management related to these product features see MD&A – Enterprise Risk Management – Insurance Risks – Life and Retirement Companies Key Risks – Variable Annuity Risk Management and Hedging Programs. For more information on the economic hedging target and the impact to pre-tax income of this program see Insurance Reserves – Life and Annuity Reserves and DAC – Variable Annuity Guaranteed Benefits and Hedging Results in this MD&A.*

Net realized capital losses in 2016 were primarily related to foreign exchange losses, derivative losses, and impairments, which were higher than the gain recognized on the sale of a portion of our PICC Investment. Foreign exchange gains (losses) were primarily due to \$910 million of remeasurement losses in 2016 for a short term intercompany balance that was matched with available for sale investments in fixed maturity securities denominated in the same foreign currencies. Unrealized gains and losses on the available for sale investments were recorded in other comprehensive income resulting in an immaterial impact on our overall equity or book value per share from this arrangement.

*For further discussion of our investment portfolio see also Note 6 to the Consolidated Financial Statements.*



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ITEM 7 | **Insurance Reserves**



## Insurance Reserves

## Liability for unpaid losses and loss adjustment expenses (Loss Reserves)

The following table presents the components of our gross and net loss reserves by segment and major lines of business\*:

At December 31,	2018			2017		
	Net liability for unpaid losses and loss adjustment expenses	Net liability for unpaid losses and loss adjustment expenses	Gross liability for unpaid losses and loss adjustment expenses	Net liability for unpaid losses and loss adjustment expenses	Net liability for unpaid losses and loss adjustment expenses	Gross liability for unpaid losses and loss adjustment expenses
<i>(in millions)</i>						
<b>General Insurance:</b>						
U.S. Workers' Compensation (net of discount)	\$ 4,772	\$ 5,318	\$ 10,090	\$ 5,690	\$ 4,974	\$ 10,664
U.S. Excess Casualty	4,715	4,576	9,291	4,802	4,053	8,855
U.S. Other Casualty	4,288	4,661	8,949	5,149	4,793	9,942
U.S. Financial Lines	5,315	1,960	7,275	5,104	1,962	7,066
U.S. Property and Special risks	6,534	2,748	9,282	5,410	968	6,378
U.S. Personal Insurance	1,706	1,001	2,707	1,380	194	1,574
UK/Europe Casualty and Financial Lines	7,022	1,789	8,811	6,986	1,156	8,142
UK/Europe Property and Special risks	2,988	1,251	4,239	2,022	632	2,654
UK/Europe and Japan Personal Insurance	2,264	553	2,817	2,348	349	2,697
Other product lines	6,105	2,522	8,627	5,804	2,307	8,111
Unallocated loss adjustment expenses	1,834	1,307	3,141	1,974	1,258	3,232
<b>Total General Insurance</b>	<b>47,543</b>	<b>27,686</b>	<b>75,229</b>	<b>46,669</b>	<b>22,646</b>	<b>69,315</b>
<b>Legacy Portfolio - Run-off Lines:</b>						
U.S. Run-off Long Tail Insurance lines (net of discount)	3,862	3,689	7,551	4,465	3,675	8,140
Other run-off product lines	104	66	170	153	65	218
Unallocated loss adjusted expenses	397	115	512	370	111	481
<b>Total Legacy Portfolio - Run-off Lines</b>	<b>4,363</b>	<b>3,870</b>	<b>8,233</b>	<b>4,988</b>	<b>3,851</b>	<b>8,839</b>
<b>Other Operations (Blackboard)</b>	<b>43</b>	<b>134</b>	<b>177</b>	<b>28</b>	<b>211</b>	<b>239</b>
<b>Total</b>	<b>\$ 51,949</b>	<b>\$ 31,690</b>	<b>\$ 83,639</b>	<b>\$ 51,685</b>	<b>\$ 26,708</b>	<b>\$ 78,393</b>

\* Includes loss reserve discount of \$2.0 billion and \$1.8 billion for the years ended December 31, 2018, and 2017, respectively. For discussion of loss reserve discount see Note 13 to the Consolidated Financial Statements.



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ITEM 7 | **Insurance Reserves**



**PRIOR YEAR DEVELOPMENT**

The following table summarizes incurred (favorable) unfavorable prior year development net of reinsurance by segment:

Years Ended December 31, (in millions)	2018	2017	2016
<b>General Insurance:</b>			
North America*	\$ 328	\$ 371	\$ 5,286
International	38	628	156
<b>Total General Insurance</b>	<b>\$ 366</b>	<b>\$ 999</b>	<b>\$ 5,442</b>
<b>Legacy Portfolio - Run-off Lines</b>	<b>(4)</b>	<b>(21)</b>	<b>402</b>
<b>Other Operations</b>	<b>-</b>	<b>-</b>	<b>(56)</b>
<b>Total prior year (favorable) unfavorable development</b>	<b>\$ 362</b>	<b>\$ 978</b>	<b>\$ 5,788</b>

\* Includes the amortization attributed to the deferred gain at inception from the NICO adverse development reinsurance agreement of \$233 million and \$288 million in the year ended December 31, 2018 and 2017, respectively. Consistent with our definition of APTI, prior year development excludes the portion of (favorable) unfavorable prior year reserve development for which we have ceded the risk under the NICO reinsurance agreements of \$834 million and \$359 million for the year ended December 31, 2018 and 2017, respectively, and related changes in amortization of the deferred gain of \$162 million and \$56 million over those same periods

**Net Loss Development – 2018**

During 2018, we recognized adverse prior year net loss reserve development of \$362 million net. This unfavorable development was primarily a result of the following:

- Unfavorable development in US Excess Casualty, driven by the combination of construction Defect and construction wrap claims from accident year 2015 and prior where we reacted to significant increases in severity and longer claim reporting patterns, as well as higher than expected loss severity in accident years 2016 and 2017, which led to an increase in estimates for these accident years;
- Unfavorable development in U.S. Financial Lines, primarily from Directors & Officers (D&O) and Employment Practices Liability (EPLI) policies covering Corporate and National Insureds as well as Private and Not-for-Profit insureds. This development was predominantly in accident years 2014-2017 and resulted largely from increases in severity as the frequency of class action lawsuits increased in those years.
- Favorable development in US Commercial Property and Specialty Lines due to reductions in our estimates for 2017 Catastrophes and favorable development from the attritional losses in Commercial Property and Specialty .
- Unfavorable development in US Personal Lines reflecting an increase in estimates in respect of the California Wildfires and Hurricane Irma in 2017.
- Adverse development in Financial Lines in Europe and other areas across the world that have seen increases in the frequency and severity of large losses.

Our analyses and conclusions about prior year reserves also help inform our judgments about the current accident year loss and loss adjustment expense ratios we selected.

*For further details of prior year development by line of business, see Note 13 to the Consolidated Financial Statements. For a discussion of actuarial methods employed for major classes of business, see also Critical Accounting Estimates.*



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ITEM 7 | **Insurance Reserves**



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:

**Years Ended December 31, 2018**

(in millions)

	Total	2017	2016 & Prior
<b>General Insurance North America:</b>			
U.S. Workers' Compensation	\$ 18	\$ 67	\$ (49)
U.S. Excess casualty	336	146	190
U.S. Other casualty	(19)	46	(65)
U.S. Financial lines	209	109	100
U.S. Property and special risks	(483)	(427)	(56)
U.S. Personal insurance	248	258	(10)
Other product lines	19	26	(7)
<b>Total General Insurance North America</b>	<b>\$ 328</b>	<b>\$ 225</b>	<b>103</b>
<b>General Insurance International:</b>			
UK/Europe casualty and financial lines	\$ 63	\$ (17)	\$ 80
UK/Europe property and special risks	(24)	(21)	(3)
UK/Europe and Japan Personal insurance	(116)	(83)	(33)
Other product lines	115	(32)	147
<b>Total General Insurance International</b>	<b>\$ 38</b>	<b>\$ (153)</b>	<b>191</b>
<b>Legacy Portfolio - Run-off Lines</b>	<b>(4)</b>	<b>44</b>	<b>(48)</b>
<b>Total prior year (favorable) unfavorable development</b>	<b>\$ 362</b>	<b>\$ 116</b>	<b>246</b>
<b>Net Loss Development – 2017</b>			

During 2017, we recognized unfavorable prior year loss reserve development of \$978 million. This unfavorable development was primarily a result of the following:

- Unfavorable development in U.S. Excess Casualty and U.S. Other Casualty, driven primarily by increases in underlying severity and greater than expected emerging loss experience in accident year 2016 as well as increased development from claims related to construction defects and construction wrap business (largely from accident years 2006 and prior).
- Unfavorable development in U.S. Financial Lines, primarily from Directors & Officers (D&O) policies covering privately owned and not-for-profit insureds. This development was predominantly in accident year 2016 and resulted largely from increases in bankruptcy-related claims and fiduciary liability claims for large educational institutions.
- Higher than expected losses for Europe Casualty and Financial Lines, including a significant increase in large claims activity in our Europe long-tail business, with a large proportion emanating from accident year 2016. In addition, we increased our loss reserves as a result of the decision made by the UK Ministry of Justice to reduce the discount rate applied to lump-sum bodily injury payouts, known as the Ogden rate.
- In addition, we also observed higher than expected losses in our Europe Property and Special Risks business driven by unexpected development on various large claims across the property, aviation, marine, and trade credit segments.



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ITEM 7 | **Insurance Reserves**



## Net Loss Development – 2016

During 2016, we recognized adverse prior year loss reserve development of \$5.8 billion. This unfavorable development was primarily a result of the following:

- Higher than expected losses emerging across several casualty product lines, especially in recent accident years (generally, 2011 to 2015) driven by increased frequency and severity of claims. This recent accident year loss emergence caused us to increase loss development factors applied across many accident years.
- Loss development factors including workers' compensation tail factors, also increased due to an observed lengthening of loss reporting patterns relative to prior expectations.
- Increases in loss trend assumptions to reflect the latest observed increases in frequency and severity and the impact of these increased loss trends on expected loss ratios.
- Changes in weights we apply to the various actuarial methods to better align with updated trends.

We note that for certain categories of claims (e.g., construction defect claims and environmental claims) and for reinsurance recoverable, losses may sometimes be reclassified to an earlier or later accident year as more information about the date of occurrence becomes available to us. These reclassifications are shown as development in the respective years in the tables above.

## Significant Reinsurance Agreements

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 U.S. 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 2018, see Enterprise Risk Management – Insurance Risks – General Insurance Companies Key Risks – Natural Catastrophe Risk.*

**The table below shows the calculation of the deferred gain on the adverse development reinsurance agreement as of December 31, 2018 and 2017, showing the effect of discounting of loss reserves and amortization of the deferred gain.**

<i>(in millions)</i>	<b>December 31, 2018</b>	December 31, 2017
<b>Gross Covered Losses</b>		
Covered reserves before discount	\$ 23,033	\$ 26,654
Inception to date losses paid	19,331	14,788
Attachment point	(25,000)	(25,000)
<b>Covered losses above attachment point</b>	<b>\$ 17,364</b>	<b>\$ 16,442</b>

**Deferred Gain Development**

Covered losses above attachment ceded to NICO (80%)	\$	<b>13,891</b>	\$	13,153
Consideration paid including interest		<b>(10,188)</b>		(10,188)
<b>Pre-tax deferred gain before discount and amortization</b>		<b>3,703</b>		2,965
Discount on ceded losses <sup>(a)</sup>		<b>(1,719)</b>		(1,539)
<b>Pre-tax deferred gain before amortization</b>		<b>1,984</b>		1,426
Inception to date amortization of deferred gain at inception		<b>(461)</b>		(228)
Inception to date amortization attributed to changes in deferred gain <sup>(b)</sup>		<b>(141)</b>		(31)
<b>Deferred gain liability reflected in AIG's balance sheet</b>	\$	<b>1,382</b>	\$	1,167

(a) For the period from inception to December 31, 2018, 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.



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The following table presents the rollforward of activity in the deferred gain from the adverse development reinsurance agreement:

<i>(in millions)</i>	Years Ended December 31,	
	2018	2017
<b>Balance at beginning of year, net of discount</b>	\$ 1,167	\$ -
Gain at inception	-	1,116
Unfavorable prior year reserve development ceded to NICO <sup>(a)</sup>	738	310
Amortization attributed to deferred gain at inception <sup>(b)</sup>	(233)	(228)
Amortization attributed to changes in deferred gain <sup>(c)</sup>	(110)	(31)
Changes in discount on ceded loss reserves	(180)	-
<b>Balance at end of year, net of discount</b>	\$ 1,382	\$ 1,167

(a) Prior year reserve development ceded to NICO under the retroactive reinsurance agreement is deferred under U.S. GAAP.

(b) Represents amortization of the deferred gain recognized in APTI.

(c) Excluded from APTI and included in U.S. GAAP.

The lines of business subject to this agreement have been the source of the majority of the prior year adverse development charges over the past several years. The agreement is expected to result in lower capital charges for reserve risks at our U.S. insurance subsidiaries. In addition, we would expect future net investment income to decline as a result of lower invested assets.

*For a summary of significant reinsurers see Item 7. MD&A – Enterprise Risk Management – Insurance Operations Risks – General Insurance Companies Key Insurance Risks – Reinsurance Recoverable.*

## **LIFE AND ANNUITY reserves and dac**

The following section provides discussion of life and annuity reserves and deferred policy acquisition costs.

### **Update of Actuarial Assumptions**

The life insurance companies review and update actuarial assumptions at least annually, generally in the third quarter. Assumption setting standards vary between investment-oriented products and traditional long-duration products.

### **Investment-oriented products**

The Life Insurance Companies review and update estimated gross profit projections used to amortize DAC and related items (which may include VOBA, SIA, guaranteed benefit reserves and unearned revenue reserves) for investment-oriented products. Estimated gross profit projections include assumptions for investment-related returns and spreads, product-related fees and expenses, mortality gains and losses, policyholder behavior and other factors. In estimating future gross profits, lapse assumptions require judgment and can have a material impact on DAC amortization. If the assumptions used for estimated gross profits change significantly, DAC and related reserves are recalculated using the new projections,

and any resulting adjustment is included in income. Updating such projections may result in acceleration of amortization in some products and deceleration of amortization in other products.

The Life Insurance Companies also review assumptions related to their respective GMWB living benefits that are accounted for as embedded derivatives and measured at fair value. The fair value of these embedded derivatives is based on actuarial assumptions, including policyholder behavior, as well as capital market assumptions.

Various assumptions were updated, including the following effective September 30, 2018:

- we decreased our reversion to the mean rates (gross of fees) to 2.92 percent from 3.74 percent for the Variable Annuity product line in Individual Retirement and to 1.90 percent from 3.78 percent for the Variable Annuity product line in Group Retirement. Our separate account long-term asset growth rate assumption related to equity market performance remained unchanged at 7.0 percent; and
- we lowered our ultimate projected yields on invested assets by approximately three to six basis points on most annuity deposits and by approximately 12 to 19 basis points on most life insurance deposits. Projected yields are graded from a weighted average net GAAP book yield of existing assets supporting the business based on the value of the assets to a weighted average yield based on the duration of the assets excluding assets that mature during the grading period. The grading period is three years for annuity products and five years for life insurance products.

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The reversion to the mean rate is updated quarterly based on market returns and can change dramatically in periods where market returns move significantly. Effective December 31, 2018, the reversion to the mean rate (gross of fees) was 5.38 percent for the Variable Annuity product line in Individual Retirement and 5.48 percent for the Variable Annuity product line in Group Retirement.

### Traditional long-duration products

For traditional long-duration products, which include whole life insurance, term life insurance, accident and health insurance, long-term care insurance, and life-contingent single premium immediate annuities and structured settlements, a “lock-in” principle applies. The assumptions used to calculate the benefit liabilities and DAC are set when a policy is issued and do not change with changes in actual experience, unless a loss recognition event occurs. Loss recognition occurs if observed changes in actual experience or estimates result in projected future losses under loss recognition testing. Underlying assumptions are reviewed periodically and updated as appropriate.

In addition to the third quarter annual assumption update, the life companies adjusted assumptions and models on the Legacy Life and Retirement Run-Off Lines during the fourth quarter resulting in loss recognition of \$105 million.

**The following table presents the increase (decrease) in Adjusted pre-tax income resulting from the update of actuarial assumptions for the domestic life insurance companies, by segment and product line:**

<b>Years Ended December 31,</b> <i>(in millions)</i>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Life and Retirement:</b>			
Individual Retirement			
Fixed Annuities	\$ 40	\$ 130	\$ 330
Variable and Indexed Annuities	(92)	112	39
<b>Total Individual Retirement</b>	<b>(52)</b>	<b>242</b>	<b>369</b>
Group Retirement	17	13	(47)
Life Insurance	(63)	29	(92)
Institutional Markets	-	-	-
<b>Total Life and Retirement</b>	<b>(98)</b>	<b>284</b>	<b>230</b>
Legacy Life and Retirement Run-off	(110)	(14)	(614)
<b>Total increase (decrease) in adjusted pre-tax income from update of assumptions</b>	<b>\$ (208)</b>	<b>\$ 270</b>	<b>\$ (384)</b>

**The following table presents the increase (decrease) in pre-tax income resulting from the update of actuarial assumptions in the domestic life insurance companies, by line item as reported in Results of Operations:**

<b>Years Ended December 31,</b> <i>(in millions)</i>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Policy fees	\$ (237)	\$ (2)	\$ (54)
Interest credited to policyholder account balances	-	49	65
Amortization of deferred policy acquisition costs	273	184	325
Policyholder benefits and losses incurred	(244)	39	(720)
<b>Increase (decrease) in adjusted pre-tax income</b>	<b>(208)</b>	<b>270</b>	<b>(384)</b>
Change in DAC related to net realized capital gains (losses)	35	44	13
Net realized capital gains (losses)	(55)	(246)	(56)
<b>Increase (decrease) in pre-tax income</b>	<b>\$ (228)</b>	<b>\$ 68</b>	<b>\$ (427)</b>

In 2018, Adjusted pre-tax income included a net unfavorable adjustment of \$208 million, primarily in Variable Annuities driven by reductions to the GMWB full surrender assumption, in Life Insurance primarily due to strengthening reserves for certain riders and interest crediting model refinements, and in Legacy Accident & Health Insurance loss recognition. The unfavorable adjustments were partially offset by favorable adjustments in Life Insurance primarily due to lower lapse and mortality assumptions and a reduction in IBNR reserves and in Individual Retirement due to lower lapse assumptions in Fixed Annuities and refinements to partial withdrawal assumptions in Variable Annuities.

In 2017, adjusted pre-tax income included a net favorable adjustment of \$270 million, primarily driven by lower lapse assumptions in Fixed Annuities, improved mortality assumptions in Life Insurance, and an increase in the reversion to the mean rates in Variable Annuities. The favorable adjustments were partially offset by lower spread assumptions in Fixed Annuities and a loss recognition expense on long-term care business in the Legacy Life and Retirement Run-Off Lines.



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In 2016, adjusted pre-tax income included a net unfavorable adjustment of \$384 million, primarily driven by \$622 million of loss recognition reserves for pre-2010 payout annuities in the Legacy Portfolio, and an increase in Life Insurance reserves for universal life with secondary guarantees. These unfavorable adjustments were partially offset by favorable adjustments, primarily due to lower lapse assumptions in Fixed Annuities.

The adjustments related to the update of actuarial assumptions in each period are discussed by segment below.

## Update of Actuarial Assumptions by Segment

### Individual Retirement

The update of actuarial assumptions resulted in net favorable (unfavorable) adjustments to adjusted pre-tax income of Individual Retirement of \$(52) million, \$242 million and \$369 million in 2018, 2017 and 2016, respectively.

In Fixed Annuities, the update of estimated gross profit assumptions resulted in a net favorable adjustment of \$40 million and \$130 million in 2018 and 2017, respectively, which reflected lower lapse assumptions, partially offset by lower spread assumptions. In 2016, a net favorable adjustment of \$330 million reflected lower lapse assumptions, primarily due to lower long-term interest rates, as well as updates to spread assumptions.

In Variable and Index Annuities, the update of estimated gross profit assumptions resulted in a net unfavorable adjustment of \$92 million in 2018, primarily due to refinements to the GMWB partial withdrawal assumptions in Variable Annuities and the multi-year index strategy crediting parameters in Index Annuities. The unfavorable adjustments were partially offset by lower GMWB lapse assumptions in Variable Annuities. In 2017, a net favorable adjustment of \$112 million was primarily due to an increase in the reversion to the mean rate used for projecting future estimated gross profit for variable annuity products and changes in volatility assumptions. The net favorable adjustment was partially offset by a decrease in the separate account long-term asset growth rate assumption from 7.5 percent to 7.0 percent (before expenses that reduce the asset base from which future fees are projected) and an unfavorable adjustment in connection with the conversion to a new modeling platform for Index Annuities. In 2016, a net favorable adjustment of \$39 million was primarily due to favorable updates to assumptions for volatility, lapses, mortality and policy expenses, partially offset by a decrease in the separate account long-term asset growth rate assumption from 8.5 percent to 7.5 percent (before expenses that reduce the asset base from which future fees are projected). The net favorable adjustment included a net unfavorable adjustment of approximately \$24 million in connection with the conversion to a new modeling platform for variable annuities, primarily due to refinements to assumptions for guaranteed minimum interest rates and investment fees, partially offset by the impact of other refinements identified during the conversion.

### Group Retirement

In Group Retirement, the update of estimated gross profit assumptions resulted in a favorable adjustment of \$17 million in 2018, primarily due to improved premium persistency assumptions. In 2017, a net favorable adjustment of \$13 million was primarily due to an increase in the reversion to the mean rate used for projecting future estimated gross profit for variable annuity products and changes in maintenance expense assumptions. The net favorable adjustment was partially offset by a decrease in the separate account long-term asset growth rate assumption from 7.5 percent to 7.0 percent (before expenses that reduce the asset base from which future fees are projected) and decreases in fixed annuity spread and separate account fee assumptions. In 2016, a net unfavorable adjustment of \$47 million was primarily due

to refinements in lapse and partial withdrawal assumptions and a decrease in the separate account long-term asset growth rate assumption from 8.5 percent to 7.5 percent (before expenses that reduce the asset base from which future fees are projected).

### Life Insurance

In Life Insurance, the update of actuarial assumptions resulted in a net unfavorable adjustment of \$63 million in 2018, primarily due to strengthening reserves for certain riders, decreased lapses and interest crediting model refinements. The unfavorable adjustments were partially offset by favorable adjustments driven by updates to mortality assumptions and a reduction to IBNR reserves. In 2017, a net favorable adjustment of \$29 million was primarily due to improved mortality assumptions, partially offset by lower spread assumptions. In 2016, a net unfavorable adjustment of \$92 million was primarily due to refinement to reserves for universal life insurance with secondary guarantees due to lower assumed lapse rates. The update to Life Insurance assumptions in 2016 also included lower spread assumptions.

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## Legacy Portfolio

In Legacy Portfolio, the update of actuarial assumptions resulted in a net unfavorable adjustment of \$110 million in 2018, primarily due to \$105 million of loss recognition expense on accident and health business (other than long-term care) in the Legacy Life and Retirement Run-Off Lines resulting from assumption and model refinements. In 2017, a net unfavorable adjustment of \$14 million was primarily due to \$13 million of loss recognition expense on long-term care business in the Legacy Life and Retirement Run-Off Lines resulting from model enhancements. In 2016, Legacy Life and Retirement Run-Off Lines recorded \$622 million of loss recognition expense on payout annuities. The loss recognition reflected the establishment of additional reserves primarily as a result of mortality experience studies, which indicated increased longevity, particularly on disabled lives on a block of structured settlements underwritten prior to 2010.

## Variable Annuity Guaranteed Benefits and Hedging Results

Our Individual Retirement and Group Retirement businesses offer variable annuity products with GMWB riders that provide guaranteed living benefit features. The liabilities for GMWB are accounted for as embedded derivatives measured at fair value. The fair value of the embedded derivatives may fluctuate significantly based on market interest rates, equity prices, credit spreads, market volatility, policyholder behavior and other factors.

In addition to risk-mitigating features in our variable annuity product design, we have an economic hedging program designed to manage market risk from GMWB, including exposures to changes in interest rates, equity prices, credit spreads and volatility. The hedging program utilizes derivative instruments, including but not limited to equity options, futures contracts and interest rate swap and swaption contracts, as well as fixed maturity securities with a fair value election.

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

## Differences in Valuation of Embedded Derivatives and Economic Hedge Target

The variable annuity hedging program utilizes an economic hedge target, which represents an estimate of the underlying economic risks in our GMWB riders. The economic hedge target differs from the U.S. GAAP valuation of the GMWB embedded derivatives primarily due to the following:

- The economic hedge target includes 100 percent of rider fees in present value calculations; the U.S. GAAP valuation reflects only those fees attributed to the embedded derivative such that the initial value at contract issue equals zero;
- The economic hedge target uses best estimate actuarial assumptions and excludes explicit risk margins used for U.S. GAAP valuation, such as margins for policyholder behavior, mortality, and volatility; and
- The economic hedge target excludes the non-performance or “own credit” risk adjustment used in the U.S. GAAP valuation, which reflects a market participant’s view of our claims-paying ability by incorporating an additional spread (the NPA spread) to the swap curve used to discount projected benefit cash flows. Because the discount rate includes the NPA spread and other explicit risk margins, the U.S. GAAP valuation is generally less sensitive to movements in interest rates and other market factors, and to changes from actuarial assumption updates, than the economic hedge target. *For more information on our valuation methodology for embedded derivatives within policyholder contract deposits see Note 5 to the Consolidated Financial Statements.*

The market value of the hedge portfolio compared to the economic hedge target at any point in time may be different and is not expected to be fully offsetting. In addition to the derivatives held in conjunction with the variable annuity hedging program, the Life and Retirement companies have cash and invested assets available to cover future claims payable under these guarantees. The primary sources of difference between the change in the fair value of the hedging portfolio and the economic hedge target include:

- Basis risk due to the variance between expected and actual fund returns, which may be either positive or negative;
- Realized volatility versus implied volatility;
- Actual versus expected changes in the hedge target driven by assumptions not subject to hedging, particularly policyholder behavior; and
- Risk exposures that we have elected not to explicitly or fully hedge.



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**The following table presents a reconciliation between the fair value of the U.S. GAAP embedded derivatives and the value of our economic hedge target:**

<i>(in millions)</i>	December 31, 2018	December 31, 2017
<b>Reconciliation of embedded derivatives and economic hedge target:</b>		
Embedded derivative liability	\$ 1,943	\$ 1,994
Exclude non-performance risk adjustment	(2,615)	(1,947)
<b>Embedded derivative liability, excluding NPA</b>	<b>4,558</b>	<b>3,941</b>
Adjustments for risk margins and differences in valuation	(2,377)	(1,557)
<b>Economic hedge target liability</b>	<b>\$ 2,181</b>	<b>\$ 2,384</b>
<b>Impact on Pre-tax Income (Loss)</b>		

The impact on our pre-tax income (loss) of the variable annuity guaranteed living benefits and related hedging results includes changes in the fair value of the GMWB embedded derivatives, and changes in the fair value of related derivative hedging instruments, both of which are recorded in Other realized capital gains (losses). Realized capital gains (losses), as well as net investment income from changes in the fair value of fixed maturity securities used in the hedging program, are excluded from adjusted pre-tax income of Individual Retirement and Group Retirement.

The change in the fair value of the embedded derivatives and the change in the value of the hedging portfolio are not expected to be fully offsetting, primarily due to the differences in valuation between the economic hedge target, the U.S. GAAP embedded derivatives and the fair value of the hedging portfolio, as discussed above. When corporate credit spreads widen, the change in the NPA spread generally reduces the fair value of the embedded derivative liabilities, resulting in a gain, and when corporate credit spreads narrow or tighten, the change in the NPA spread generally increases the fair value of the embedded derivative liabilities, resulting in a loss. In addition to changes driven by credit market-related movements in the NPA spread, the NPA balance also reflects changes in business activity and in the net amount at risk from the underlying guaranteed living benefits.

**The following table presents the net increase (decrease) to consolidated pre-tax income (loss) from changes in the fair value of the GMWB embedded derivatives and related hedges, excluding related DAC amortization:**

<b>Years Ended December 31,</b> <i>(in millions)</i>	2018	2017	2016
<b>Change in fair value of embedded derivatives, excluding update of actuarial assumptions and NPA</b>	<b>\$(244)</b>	<b>\$ 1,423</b>	<b>-</b>
<b>Change in fair value of variable annuity hedging portfolio:</b>			
Fixed maturity securities	(154)	146	120
Interest rate derivative contracts	(470)	(70)	(194)
Equity derivative contracts	312	(1,347)	(919)
<b>Change in fair value of variable annuity hedging portfolio</b>	<b>(312)</b>	<b>(1,271)</b>	<b>(993)</b>
Change in fair value of embedded derivatives excluding update of actuarial assumptions and NPA, net of hedging portfolio	(556)	152	(993)
Change in fair value of embedded derivatives due to NPA spread	388	(840)	(286)
Change in fair value of embedded derivatives due to change in NPA volume	280	(352)	257
Change in fair value of embedded derivatives due to update of actuarial assumptions	38	(188)	(101)
Total change due to update of actuarial assumptions and NPA	706	(1,380)	(130)
<b>Net impact on pre-tax income (loss)</b>	<b>\$ 150</b>	<b>\$(1,228)</b>	<b>\$(1,123)</b>

**By Consolidated Income Statement line**

Net investment income	<b>\$(154)</b>	\$ 146	\$ 120
Net realized capital gains (losses)	<b>304</b>	(1,374)	(1,243)
<b>Net impact on pre-tax income (loss)</b>	<b>\$ 150</b>	\$(1,228)	\$(1,123)

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The net impact on pre-tax income from the GMWB embedded derivatives and related hedges in 2018 (excluding related DAC amortization) was primarily driven by gains from the impact of widening credit spreads on the NPA spread, and higher interest rates, partially offset by losses from the impact of the change in credit spreads and the move from an economic to a GAAP discount basis. In 2017, the net impact on pre-tax income was primarily driven by losses from actuarial assumption updates to lapse and volatility assumptions, tightening credit spreads on the NPA spread and the impact on the NPA volume of lower expected GMWB payments, driven by higher equity markets. In 2016, the net impact on pre-tax income was primarily driven by the impact of rising interest rates and equity markets late in the fourth quarter of 2016, which resulted in fair value losses in the hedging portfolio, which were not offset by decreases in the embedded derivative liabilities as the risk margins and other assumptions used in the U.S. GAAP valuation caused the embedded derivatives to be less sensitive to market changes than the related hedge portfolio. In addition, 2016 included losses from actuarial assumption updates due to lapse and mortality assumptions.

The change in the fair value of the GMWB embedded derivatives, excluding NPA and update of actuarial assumptions, in 2018 reflected losses from lower equity markets and the impact of moving from an economic to a GAAP discount basis, offset by increases in interest rates and widening credit spreads. In 2018, the hedge losses were driven by losses from higher interest rates and widening credit spreads, offset by gains from lower equity markets. In 2017, the change in the fair value of embedded derivatives, excluding update of actuarial assumptions and NPA, was largely offset by the related hedging portfolio. However, in 2016, the change in fair value of embedded derivatives, excluding update of actuarial assumptions and NPA, reflected losses on the hedging portfolio driven by improvements in both interest rates and equity markets late in the fourth quarter of 2016, which were not offset by decreases in embedded derivative liabilities.

Fair value gains or losses in the hedging portfolio are typically not fully offset by increases or decreases in liabilities on a U.S. GAAP basis, due to the NPA and other risk margins used for U.S. GAAP valuation that cause the embedded derivatives to be less sensitive to changes in market rates than the hedge portfolio. On an economic basis, the changes in the fair value of the hedge portfolio were partially offset by the decrease in the economic hedge target, as discussed below.

### **Change in Economic Hedge Target**

The decrease in the economic hedge target liability in 2018 was primarily due to higher interest rates and widening of credit spreads, offset by lower equity markets. The decrease in the economic hedge target liability in 2017 was primarily due to positive equity markets, partially offset by tighter credit spreads and lower equity volatility.

### **Change in Fair Value of the Hedging Portfolio**

The changes in the fair value of the economic hedge target and, to a lesser extent, the embedded derivative valuation under U.S. GAAP, were offset in part by the following changes in the fair value of the variable annuity hedging portfolio:

- Changes in the fair value of fixed maturity securities, primarily corporate bonds for which the fair value option has been elected, are used as a capital-efficient way to economically hedge interest rate and credit spread-related risk. The change in the fair value of the corporate bond hedging program in 2018 reflected losses due to increases in interest rates, and widening of credit spreads. The net gains in 2017 were primarily due to tightening of credit spreads. The net gains in 2016 reflected the impact of credit spreads tightening and decreases in market interest rates in the first nine months of 2016, partially offset by an increase in rates in the fourth quarter of 2016. The change in the fair value of the hedging bonds, which is

excluded from the adjusted pre-tax income of the Individual Retirement and Group Retirement segments, is reported in net investment income on the Consolidated Statements of Income (Loss).

- Changes in the fair value of interest rate derivative contracts, which included swaps, swaptions and futures, resulted in net losses driven by higher interest rates in 2018. The small net loss in 2017 reflected increases in rates in the latter half of 2017, partially offset by the impact of interest rate declines in the first half of 2017. The net losses in 2016 reflected increases in rates in the fourth quarter of 2016, which more than offset the impact of interest rate declines in the first nine months of 2016.
- The change in the fair value of equity derivative contracts, which included futures and options, resulted in gains in 2018, and losses in 2017 and 2016, which varied based on the relative change in equity market returns in the respective periods.







**DAC**

The following table summarizes the major components of the changes in DAC, including VOBA, within the Life and Retirement companies, excluding DAC of the Legacy Portfolio:

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

	<b>2018</b>	2017	2016
<b>Balance, beginning of year</b>	<b>\$ 7,637</b>	\$ 7,571	\$ 7,174
Acquisition costs deferred	<b>1,164</b>	970	1,026
Amortization expense:			
Update of assumptions included in adjusted pre-tax income	<b>307</b>	194	315
Related to realized capital gains and losses	<b>5</b>	293	276
All other operating amortization	<b>(987)</b>	(937)	(928)
Increase (decrease) in DAC due to foreign exchange	<b>(22)</b>	26	(40)
Change related to unrealized depreciation (appreciation) of investments	<b>1,029</b>	(480)	(252)
<b>Balance, end of year*</b>	<b>\$ 9,133</b>	\$ 7,637	\$ 7,571

\* DAC balance excluding the amount related to unrealized depreciation (appreciation) of investments was \$9.4 billion, \$8.9 billion and \$8.4 billion at December 31, 2018, 2017 and 2016, respectively.

The net adjustments to DAC amortization from the update of actuarial assumptions for estimated gross profits, including those reported within change in DAC related to net realized capital gains (losses), represented four percent, two percent and four percent of the DAC balance excluding the amount related to unrealized depreciation (appreciation) of investments as of December 31, 2018, 2017 and 2016, respectively.

**Reversion to the Mean**

The reversion to the mean rate is updated quarterly based on market returns and can change dramatically in periods where market returns move significantly. The five-year reversion to the mean period did not meet the criteria for adjustment in 2018 which would have otherwise required a reset of the start date used in the calculation of the average gross long-term return rate. The long-term growth assumption used in our reversion to the mean methodology remained unchanged at 7.0 percent in 2018.

In 2017, we updated the long-term annual growth assumption applied to subsequent periods used in our reversion to the mean methodology for estimating future estimated gross profits for variable annuity products, from 7.5 percent to 7.0 percent (before expenses that reduce the asset base from which future fees are projected). The five-year reversion to the mean period has met the criteria for adjustment in 2017. As a result, the average gross long-term return measurement start date was reset to December 31, 2011 for Individual Retirement and June 30, 2013 for Group Retirement; the reversion to the mean rates (gross of fees) were increased to 3.74 percent in Individual Retirement and 3.78 percent in Group Retirement. Sustained favorable equity market performance in excess of long-term assumptions could result in additional unlocking in the Individual Retirement or Group Retirement variable annuity product lines in the future, with a positive effect on pre-tax income in the period of the unlocking.

In 2016, the long-term annual asset growth assumption was updated from 8.5 percent to 7.5 percent. The five-year reversion to the mean period did not meet the criteria for adjustment in 2016.

*For additional discussion of assumptions related to our reversion to the mean methodology see Critical Accounting Estimates – Estimated Gross Profits for Investment-Oriented Products.*

**DAC and Reserves Related to Unrealized Appreciation of Investments**

DAC and Reserves for universal life and investment-type products (collectively, investment-oriented products) are adjusted at each balance sheet date to reflect the change in DAC, unearned revenue, and benefit reserves with an offset to Other comprehensive income (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 (shadow Loss Adjustments) 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.

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Market interest rates increased in 2018, which resulted in a \$8.3 billion decrease in the unrealized appreciation of fixed maturity securities held to support businesses in the Life and Retirement companies at December 31, 2018 compared to December 31, 2017. At December 31, 2018, the shadow Investment-Oriented Adjustments reflected increases in DAC and unearned revenues and a decrease in future policy benefit liabilities compared to December 31, 2017, while the shadow Loss Adjustments reflected a decrease in future policy benefit liabilities.

## Reserves

The following table presents a rollforward of insurance reserves by operating segments for Life and Retirement, including future policy benefits, policyholder contract deposits, other policy funds, and separate account liabilities, as well as Retail Mutual Funds and Group Retirement mutual fund assets under administration:

Years Ended December 31, (in millions)	2018	2017	2016
<b>Individual Retirement</b>			
Balance at beginning of year, gross	\$ 138,571	\$ 129,321	\$ 121,474
Premiums and deposits	15,621	11,906	16,062
Surrenders and withdrawals	(14,081)	(10,943)	(10,027)
Death and other contract benefits	(3,316)	(3,089)	(2,991)
<b>Subtotal</b>	<b>(1,776)</b>	<b>(2,126)</b>	<b>3,044</b>
Change in fair value of underlying assets and reserve accretion, net of policy fees	(5,302)	10,098	3,657
Cost of funds*	1,540	1,528	1,614
Other reserve changes	(304)	(250)	(468)
<b>Balance at end of year</b>	<b>132,729</b>	<b>138,571</b>	<b>129,321</b>
Reinsurance ceded	(318)	(322)	(371)
<b>Total Individual Retirement insurance reserves and mutual fund assets</b>	<b>\$ 132,411</b>	<b>\$ 138,249</b>	<b>\$ 128,950</b>
<b>Group Retirement</b>			
Balance at beginning of year, gross	\$ 97,306	\$ 88,622	\$ 84,145
Premiums and deposits	8,639	7,550	7,570
Surrenders and withdrawals	(10,652)	(8,019)	(7,589)
Death and other contract benefits	(606)	(562)	(536)
<b>Subtotal</b>	<b>(2,619)</b>	<b>(1,031)</b>	<b>(555)</b>
Change in fair value of underlying assets and reserve accretion, net of policy fees	(4,106)	8,617	3,923
Cost of funds*	1,106	1,098	1,109
Other reserve changes	(2)	-	-
<b>Balance at end of year</b>	<b>91,685</b>	<b>97,306</b>	<b>88,622</b>
<b>Total Group Retirement insurance reserves and mutual fund assets</b>	<b>\$ 91,685</b>	<b>\$ 97,306</b>	<b>\$ 88,622</b>
<b>Life Insurance</b>			
Balance at beginning of year, gross	\$ 19,424	\$ 18,397	\$ 18,006
Premiums and deposits	3,559	3,484	3,391
Surrenders and withdrawals	(943)	(569)	(650)
Death and other contract benefits	(465)	(575)	(522)
<b>Subtotal</b>	<b>2,151</b>	<b>2,340</b>	<b>2,219</b>
Change in fair value of underlying assets and reserve accretion, net of policy fees	(1,124)	(889)	(1,033)
Cost of funds*	374	376	386
Other reserve changes	(1,106)	(800)	(1,181)

<b>Balance at end of year</b>	<b>19,719</b>	19,424	18,397
Reinsurance ceded	<b>(1,216)</b>	(1,055)	(1,085)
<b>Total Life Insurance reserves</b>	<b>\$ 18,503</b>	\$ 18,369	\$ 17,312

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**Institutional Markets**

Balance at beginning of year, gross	\$ 18,580	\$ 15,385	\$ 14,216
Premiums and deposits	3,032	4,247	2,153
Surrenders and withdrawals	(1,745)	(1,291)	(1,283)
Death and other contract benefits	(655)	(343)	(617)
<b>Subtotal</b>	<b>632</b>	<b>2,613</b>	<b>253</b>
Change in fair value of underlying assets and reserve accretion, net of policy fees	179	245	256
Cost of funds*	338	253	244
Other reserve changes	110	84	416
<b>Balance at end of year</b>	<b>19,839</b>	<b>18,580</b>	<b>15,385</b>
Reinsurance ceded	(43)	(3)	(3)
<b>Total Institutional Markets reserves</b>	<b>\$ 19,796</b>	<b>\$ 18,577</b>	<b>\$ 15,382</b>
<b>Total insurance reserves and mutual fund assets</b>			
Balance at beginning of year, gross	\$ 273,881	\$ 251,725	\$ 237,841
Premiums and deposits	30,851	27,187	29,176
Surrenders and withdrawals	(27,421)	(20,822)	(19,549)
Death and other contract benefits	(5,042)	(4,569)	(4,666)
<b>Subtotal</b>	<b>(1,612)</b>	<b>1,796</b>	<b>4,961</b>
Change in fair value of underlying assets and reserve accretion, net of policy fees	(10,353)	18,071	6,803
Cost of funds*	3,358	3,255	3,353
Other reserve changes	(1,302)	(966)	(1,233)
<b>Balance at end of year</b>	<b>263,972</b>	<b>273,881</b>	<b>251,725</b>
Reinsurance ceded	(1,577)	(1,380)	(1,459)
<b>Total insurance reserves and mutual fund assets</b>	<b>\$ 262,395</b>	<b>\$ 272,501</b>	<b>\$ 250,266</b>

\* Excludes amortization of deferred sales inducements

**Insurance reserves of Life and Retirement, as well as Retail Mutual Funds and Group Retirement mutual fund assets under administration, were comprised of the following balances:**

<i>(in millions)</i>	December 31, 2018	December 31, 2017
Future policy benefits	\$ 14,739	\$ 13,592
Policyholder contract deposits	137,718	130,735
Other policy funds	295	401
Separate account liabilities	79,960	90,819
<b>Total insurance reserves*</b>	<b>232,712</b>	<b>235,547</b>
Mutual fund assets	31,260	38,334
<b>Total insurance reserves and mutual fund assets</b>	<b>\$ 263,972</b>	<b>\$ 273,881</b>

\* Excludes reserves related to the Legacy Portfolio.

## 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 Enterprise Risk Management — Risk Appetite, Limits, Identification, and Measurement and Enterprise Risk Management — Liquidity Risk Management below for additional information.*

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**Capital** refers to the long-term financial resources available to support the operation of our businesses, fund business growth, and cover financial and operational needs that arise from adverse circumstances. Our primary source of ongoing capital generation is derived from the profitability of our insurance subsidiaries. We must comply with numerous constraints on our minimum capital positions. These constraints drive the requirements for capital adequacy at AIG and the individual businesses and are based on internally-defined risk tolerances, regulatory requirements, rating agency and creditor expectations and business needs. Actual capital levels are monitored on a regular basis, and using ERM's stress testing methodology, we evaluate the capital impact of potential macroeconomic, financial and insurance stresses in relation to the relevant capital constraints of both AIG and our insurance subsidiaries.

We believe that we have sufficient liquidity and capital resources to satisfy future requirements and meet our obligations to policyholders, customers, creditors and debt-holders, including those arising from reasonably foreseeable contingencies or events.

Nevertheless, some circumstances may cause our cash or capital needs to exceed projected liquidity or readily deployable capital resources. Additional collateral calls, deterioration in investment portfolios or reserve strengthening affecting statutory surplus, higher surrenders of annuities and other policies, downgrades in credit ratings, or catastrophic losses may result in significant additional cash or capital needs and loss of sources of liquidity and capital. In addition, regulatory and other legal restrictions could limit our ability to transfer funds freely, either to or from our subsidiaries.

Depending on market conditions, regulatory and rating agency considerations and other factors, we may take various liability and capital management actions. Liability management actions may include, but are not limited to, repurchasing or redeeming outstanding debt, issuing new debt or engaging in debt exchange offers. Capital management actions may include, but are not limited to, paying dividends to our shareholders and share and/or warrant repurchases.

**LIQUIDITY AND CAPITAL RESOURCES ACTIVITY FOR 2018**

## Sources

### AIG Parent Funding from Subsidiaries

During 2018, AIG Parent received \$4.2 billion in dividends from subsidiaries. Of this amount, \$1.7 billion consisted of dividends in the form of cash and fixed maturity securities from our General Insurance companies, \$2.5 billion consisted of dividends and loan repayments in the form of cash from our Life and Retirement companies and \$48 million consisted of dividends in the form of cash from our Other category.

AIG Parent also received a net amount of \$938 million in tax sharing payments in the form of cash from our insurance businesses in 2018, reflecting \$120 million that was reimbursed by AIG Parent to our insurance businesses during the fourth quarter of 2018 primarily as a result of adjustments made to prior-year tax sharing payments. The tax sharing payments may be subject to further adjustment in future periods.

### Debt Issuance

In March 2018, we issued \$750 million aggregate principal amount of 4.200% Notes Due 2028; \$1.0 billion aggregate principal amount of 4.750% Notes Due 2048; and \$750 million aggregate principal amount of 5.750% Fixed-To-Floating Rate Series A-9 Junior Subordinated Debentures Due 2048 (Junior Subordinated Debentures). We used the net proceeds from these offerings for general corporate purposes, including funding a portion of the consideration for the acquisition of Validus.

### Sale of Non-controlling Interest in Fortitude

In November 2018, we completed our sale of a non-controlling interest in Fortitude Re for \$476 million. We received \$381 million of the purchase price at closing and will receive up to \$95 million of deferred compensation which is subject to certain purchase price adjustments. To the extent we do not receive all or a portion of the Target Distribution within 18 months of the Fortitude Re Closing, TCG will pay us up to an additional \$100 million.

ITEM 7 | **Liquidity and Capital Resources****Uses****Debt Reduction**

In May 2018, we redeemed all of our outstanding 8.000% Series A-7 Junior Subordinated Debentures and 8.625% Series A-8 Junior Subordinated Debentures in each case for a redemption price of 100 percent of the principal amount, plus accrued and unpaid interest, for approximately \$15 million and \$7 million, respectively.

In October 2018, our subsidiary Validus Reinsurance, Ltd. redeemed its outstanding Floating Rate Deferrable Interest Junior Subordinated Notes due July 30, 2037 at a redemption price of 100 percent of the principal amount, plus accrued and unpaid interest, for a net amount of approximately \$90 million. In December 2018, Validus Reinsurance, Ltd. redeemed its outstanding (i) U.S. dollar-denominated Floating Rate Deferrable Interest Subordinated Notes due September 15, 2036, (ii) euro-denominated Floating Rate Deferrable Interest Subordinated Notes due September 15, 2036 and (iii) Floating Rate Deferrable Interest Subordinated Notes due September 15, 2037, each at a redemption price of 100 percent of the principal amount, plus accrued and unpaid interest, for an aggregate amount of approximately \$162 million. In addition, in December 2018, Validus redeemed its outstanding (i) Junior Subordinated Deferrable Interest Debentures due June 15, 2036 and (ii) Junior Subordinated Deferrable Interest Debentures due June 15, 2037, each at a redemption price of 100 percent of the principal amount, plus accrued and unpaid interest, for an aggregate net amount of approximately \$295 million.

We also made other repurchases of and repayments on debt instruments of approximately \$3.2 billion during 2018. AIG Parent made interest payments on its debt instruments totaling \$914 million during 2018.

**Validus Acquisition and Redemption of Preference Shares**

On July 18, 2018, we completed our acquisition of Validus for approximately \$5.5 billion in cash. Following the consummation of the acquisition, AIG executed a guarantee, dated July 26, 2018, with respect to Validus' outstanding Series A Preference Shares and Series B Preference Shares (together, the Preference Shares), pursuant to which AIG provided a full and unconditional guarantee of Validus' obligations with respect to the Preference Shares. In addition, AIG executed a guarantee, dated July 26, 2018, with respect to Validus' aggregate outstanding 8.875% Senior Notes due 2040 (the Notes), pursuant to which AIG provided a full and unconditional guarantee of Validus' obligations with respect to the Notes. AIG also entered into certain letter of credit agreements in support of the Validus companies.

In October 2018, Validus redeemed all of its outstanding Preference Shares at a redemption price of \$26,000 per Preference Share for approximately \$416 million in the aggregate.

**Dividend**

We paid a cash dividend of \$0.32 per share on AIG Common Stock during each quarter of 2018 totaling \$1.1 billion.

### **Repurchase of Common Stock**

We repurchased approximately 36.5 million shares of AIG Common Stock during 2018, for an aggregate purchase price of approximately \$1.7 billion.



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The following table presents selected data from AIG's Consolidated Statements of Cash Flows:

<b>Years Ended December 31,</b> <i>(in millions)</i>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Sources:</b>			
Net cash provided by (used in) operating activities	\$ 61	\$ -	3,502
Net cash provided by other investing activities	5,494	14,041	3,252
Changes in policyholder contract balances	6,179	2,123	4,059
Issuance of long-term debt	4,734	3,356	5,954
Net cash provided by other financing activities	-	-	377
<b>Total sources</b>	<b>16,468</b>	<b>19,520</b>	<b>17,144</b>
<b>Uses:</b>			
Net cash used in operating activities	-	(7,818)	-
Acquisition of businesses, net of cash and restricted cash acquired	(5,717)	-	-
Repayments of long-term debt	(3,672)	(3,698)	(4,082)
Purchases of AIG Common Stock	(1,739)	(6,275)	(11,460)
Dividends paid	(1,138)	(1,172)	(1,372)
Purchases of warrants	(11)	(3)	(309)
Net cash used in other financing activities	(3,559)	(28)	-
<b>Total uses</b>	<b>(15,836)</b>	<b>(18,994)</b>	<b>(17,223)</b>
Effect of exchange rate changes on cash and restricted cash	(11)	(29)	55
<b>Increase (decrease) in cash and restricted cash</b>	<b>\$ 621</b>	<b>\$ 497</b>	<b>(24)</b>

The following table presents a summary of AIG's Consolidated Statement of Cash Flows:

<b>Years Ended December 31,</b> <i>(in millions)</i>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Summary:</b>			
Net cash provided by (used in) operating activities	\$ 61	(7,818)	3,502
Net cash provided by (used in) investing activities	(223)	14,041	3,252
Net cash provided by (used in) financing activities	794	(5,697)	(6,833)
Effect of exchange rate changes on cash and restricted cash	(11)	(29)	55
<b>Increase (decrease) in cash and restricted cash</b>	<b>621</b>	<b>497</b>	<b>(24)</b>
Cash and restricted cash at beginning of year	2,737	2,107	2,238
Change in cash of businesses held for sale	-	133	(107)
<b>Cash and restricted cash at end of year</b>	<b>\$ 3,358</b>	<b>\$ 2,737</b>	<b>2,107</b>
<b>Operating Cash Flow Activities</b>			

Insurance companies generally receive most premiums in advance of the payment of claims or policy benefits. The ability of insurance companies to generate positive cash flow is affected by the frequency and severity of losses under their insurance policies, policy retention rates and operating expenses.

Interest payments totaled \$1.3 billion in 2018 compared to \$1.2 billion in 2017 and \$1.3 billion in 2016. Excluding interest payments, AIG had operating cash inflows of \$1.4 billion in 2018 compared to operating cash outflows of \$6.6 billion in 2017 and operating cash inflows of \$4.8 billion in 2016. The operating cash outflows in 2017 were primarily due to payment for the adverse development reinsurance agreement entered into with NICO.

### **Investing Cash Flow Activities**

Net cash used in investing activities in 2018 was \$0.2 billion compared to cash provided by investing activities of \$14.0 billion in 2017 and \$3.3 billion in 2016. Net cash used in investing activities in 2018 included our acquisition of Validus for approximately \$5.5 billion in cash. Net cash provided by investing activities in 2017 primarily included sales of certain investments to fund the adverse development reinsurance agreement entered into with NICO. Net cash provided by investing activities in 2016 primarily included \$2.8 billion of net cash proceeds from the sales of United Guaranty, Ascot and AIG Advisor Group.

### **Financing Cash Flow Activities**

Net cash used in financing activities in 2018 reflected:

- approximately \$1.1 billion in the aggregate to pay a dividend of \$0.32 per share on AIG Common Stock in each quarter of 2018;
- approximately \$1.7 billion to repurchase approximately 36.5 million shares of AIG Common Stock; and
- approximately \$1.1 billion in net inflows from the issuance and repayment of long-term debt.

Net cash used in financing activities in 2017 included:

- approximately \$1.2 billion in the aggregate to pay a dividend of \$0.32 per share on AIG Common Stock in each quarter of 2017;
- approximately \$6.3 billion to repurchase approximately 100 million shares of AIG Common Stock; and
- approximately \$342 million in net outflows from the issuance and repayment of long-term debt.

Net cash used in financing activities in 2016 included:

- approximately \$1.4 billion in the aggregate to pay a dividend of \$0.32 per share on AIG Common Stock in each quarter of 2016;
- approximately \$11.5 billion to repurchase approximately 201 million shares of AIG Common Stock;
- approximately \$309 million to repurchase approximately 17 million warrants to purchase shares of AIG Common Stock; and
- approximately \$1.9 billion in net inflows from the issuance and repayment of long-term debt.

### **Liquidity and Capital Resources of AIG Parent and Subsidiaries**

## AIG Parent

As of December 31, 2018, AIG Parent had approximately \$8.3 billion in liquidity sources. AIG Parent's liquidity sources are primarily held in the form of cash, short-term investments and publicly traded, investment grade rated fixed maturity securities. Fixed maturity securities primarily include U.S. government and government sponsored entity securities, U.S. agency mortgage-backed securities, corporate and municipal bonds and certain other highly rated securities. AIG Parent actively manages its assets and liabilities in terms of products, counterparties and duration. Based upon an assessment of funding needs, the liquidity sources can be readily monetized through sales or repurchase agreements or contributed as admitted assets to regulated insurance companies. AIG Parent liquidity is monitored through the use of various internal liquidity risk measures. AIG Parent's primary sources of liquidity are dividends, distributions, loans and other payments from subsidiaries and credit facilities. AIG Parent's primary uses of liquidity are for debt service, capital and liability management, and operating expenses.

We believe that we have sufficient liquidity and capital resources to satisfy our reasonably foreseeable future requirements and meet our obligations to our creditors, debt-holders and insurance company subsidiaries. We expect to access the debt markets from time to time to meet funding requirements as needed.

We utilize our capital resources to support our businesses, with the majority of capital allocated to our insurance operations. Should we have or generate more capital than is needed to support our business strategies (including organic growth or acquisition opportunities) or mitigate risks inherent to our business, we may develop plans to distribute such capital to shareholders via dividends or share repurchase authorizations or deploy such capital towards liability management.

In the normal course, it is expected that a portion of the capital released by our insurance operations, by our other operations or through the utilization of AIG's deferred tax assets may be available to support our business strategies, for distribution to shareholders or for liability management.

In developing plans to distribute capital, AIG considers a number of factors, including, but not limited to: AIG's business and strategic plans, expectations for capital generation and utilization, AIG's funding capacity and capital resources in comparison to internal benchmarks, as well as rating agency expectations, regulatory standards and internal stress tests for capital.

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The following table presents AIG Parent's liquidity sources:

<i>(In millions)</i>	<b>As of December 31, 2018</b>	<b>As of December 31, 2017</b>
Cash and short-term investments <sup>(a)</sup>	\$ 626	\$ 2,114
Unencumbered fixed maturity securities <sup>(b)</sup>	3,168	5,172
<b>Total AIG Parent liquidity</b>	<b>3,794</b>	<b>7,286</b>
Available capacity under syndicated credit facility <sup>(c)</sup>	4,500	4,500
<b>Total AIG Parent liquidity sources</b>	<b>\$ 8,294</b>	<b>\$ 11,786</b>

(a) Cash and short-term investments include reverse repurchase agreements totaling \$22 million and \$1.7 billion as of December 31, 2018 and December 31, 2017, respectively.

(b) Unencumbered securities consist of publicly traded, investment grade rated fixed maturity securities. Fixed maturity securities primarily include U.S. government and government sponsored entity securities, U.S. agency mortgage-backed securities, corporate and municipal bonds and certain other highly rated securities.

(c) For additional information relating to this syndicated credit facility see Credit Facilities below.

### **Insurance Companies**

We expect that our insurance companies will be able to continue to satisfy reasonably foreseeable future liquidity requirements and meet their obligations, including those arising from reasonably foreseeable contingencies or events, through cash from operations and, to the extent necessary, monetization of invested assets. Our insurance companies' liquidity resources are primarily held in the form of cash, short-term investments and publicly traded, investment grade rated fixed maturity securities.

Each of our material insurance companies' liquidity is monitored through various internal liquidity risk measures. The primary sources of liquidity are premiums, fees, reinsurance recoverables and investment income and maturities. The primary uses of liquidity are paid losses, reinsurance payments, benefit claims, surrenders, withdrawals, interest payments, dividends, expenses, investment purchases and collateral requirements.

Our General Insurance companies may require additional funding to meet capital or liquidity needs under certain circumstances. Large catastrophes may require us to provide additional support to our affected operations. Downgrades in our credit ratings could put pressure on the insurer financial strength ratings of our subsidiaries, which could result in non renewals or cancellations by policyholders and adversely affect 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. 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.

Management believes that because of the size and liquidity of our Life and Retirement companies' investment portfolios, normal deviations from projected claim or surrender experience would not create significant liquidity risk. Furthermore, our Life and Retirement companies' products contain certain features that mitigate surrender risk, including surrender charges. However, in times of extreme capital markets disruption, liquidity needs could outpace resources. As part of their risk management framework, our Life and Retirement companies continue to evaluate and, where appropriate, pursue strategies and programs to improve their liquidity position and facilitate their ability to maintain a fully invested asset portfolio.

Certain of our U.S. insurance companies are members of the Federal Home Loan Banks (FHLBs) in their respective districts. Borrowings from FHLBs are used to supplement liquidity or for other uses deemed appropriate by management. Our U.S. General Insurance companies had outstanding borrowings from FHLBs in an aggregate amount of approximately \$115 million and \$190 million at December 31, 2018 and December 31, 2017, respectively. Our U.S. Life and Retirement companies had no outstanding borrowings in the form of cash advances from FHLBs at both December 31, 2018 and 2017, respectively. In addition, \$3.4 billion and \$606 million were due to FHLBs in the respective districts of our U.S. Life and Retirement companies at December 31, 2018 and December 31, 2017, respectively, under funding agreements issued through our Individual Retirement, Group Retirement and Institutional Markets operating segments, which were reported in Policyholder contract deposits.

Certain of our U.S. Life and Retirement companies have programs, which began in 2012, that lend securities from their investment portfolio to supplement liquidity or for other uses as deemed appropriate by management. Under these programs, these U.S. Life and Retirement companies lend securities to financial institutions and receive cash as collateral equal to 102 percent of the fair value of the loaned securities. Cash collateral received is invested in short-term investments. Additionally, the aggregate amount of securities that a Life and Retirement company is able to lend under its program at any time is limited to five percent of its general account statutory-basis admitted assets. Our U.S. Life and Retirement companies had \$884 million and \$2.9 billion of securities subject to these agreements at December 31, 2018 and December 31, 2017, respectively, and \$904 million and \$3.0 billion of liabilities to borrowers for collateral received at December 31, 2018 and December 31, 2017, respectively.

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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.

In February 2018, AIG Parent entered into a CMA with Fortitude Re. Among other things, the CMA provides that AIG Parent will maintain available statutory capital and surplus in each of Fortitude Re's long term business fund and general business account at or above a stress threshold percentage of its projected enhanced capital requirement in respect of the applicable fund, as defined under Bermuda law. As of December 31, 2018, the stress threshold percentage under this CMA was 125 percent.

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. Letters of credit issued in support of the General Insurance companies totaled approximately \$3.9 billion at December 31, 2018. Letters of credit issued in support of the Life and Retirement companies totaled approximately \$907 million at December 31, 2018. Letters of credit issued in support of Fortitude Re totaled \$550 million at December 31, 2018.

During 2016, we created a new Switzerland-domiciled international holding company, AIG International Holdings, GmbH (AIGIH), which is intended to be the ultimate holding company for all of our international entities. This international holding company structure is part of our ongoing efforts to simplify our organizational structure, and is expected to facilitate the optimization of our international capital strategy from both a regulatory and a tax perspective. Through February 12, 2019, substantially all of our international operations have been transferred to AIGIH. We will continue to monitor our international holding company structure in light of regulatory, tax and other developments, to ensure that this strategy continues to be effective.

In 2018, our General Insurance companies collectively paid a total of approximately \$1.7 billion in dividends in the form of cash and fixed maturity securities to AIG Parent. The fixed maturity securities primarily included U.S. government and government-sponsored entity securities, U.S. agency mortgage-backed securities, corporate and municipal bonds and certain other highly rated securities.

In 2018, our Life and Retirement companies collectively paid a total of approximately \$2.5 billion in dividends and loan repayments in the form of cash to AIG Parent.

**Tax Matters**

If the settlement agreements in principle are concluded in our ongoing dispute related to the disallowance of foreign tax credits associated with cross border financing transactions, we will be required to make a payment to the U.S. Treasury. Although we can provide no assurance regarding whether the non-binding settlements will be finalized, the amount we currently expect to pay based on current proposed settlement terms is approximately \$1.7 billion, including obligations of AIG Parent and subsidiaries. This amount is net

of payments previously made with respect to cross border financing transactions involving matters dating back to 1997 and other matters largely related to the same tax years. There remains uncertainty with regard to whether the settlements in principle will ultimately be approved by the relevant authorities as well as the amount and timing of any potential payments, which are not likely to be made before sometime in early 2020.

*For additional information regarding this matter see Note 23 to the 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 December 31, 2018, a total of \$4.5 billion remains available under the Facility. Our ability to utilize the Facility is not contingent on our credit ratings. However, our ability to utilize the Facility is conditioned on the satisfaction of certain legal, operating, administrative and financial covenants and other requirements contained in the Facility. These include covenants relating to our maintenance of a specified total consolidated net worth and total consolidated debt to total consolidated capitalization. Failure to satisfy these and other requirements contained in the Facility would restrict our access to the Facility and could have a material adverse effect on our financial condition, results of operations and liquidity. We expect to utilize the Facility from time to time, and may use the proceeds for general corporate purposes.



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The following table summarizes contractual obligations in total, and by remaining maturity:

December 31, 2018 <i>(in millions)</i>	Total Payments	Payments due by Period			
		2019	2020 - 2021	2022 - 2023	Thereafter
<b>Insurance operations</b>					
Loss reserves <sup>(a)</sup>	\$ 87,394	\$ 22,467	\$ 24,465	\$ 12,790	\$ 27,672
Insurance and investment contract liabilities	254,021	16,783	33,734	28,964	174,540
Borrowings	1,333	-	331	-	1,002
Interest payments on borrowings	852	50	99	99	604
Operating leases	760	203	252	132	173
Other long-term obligations	-	-	-	-	-
<b>Total</b>	<b>\$ 344,360</b>	<b>\$ 39,503</b>	<b>\$ 58,881</b>	<b>\$ 41,985</b>	<b>\$ 203,991</b>
<b>Other</b>					
Borrowings	\$ 24,635	\$ 1,271	\$ 3,029	\$ 3,271	\$ 17,064
Interest payments on borrowings	15,249	1,050	1,949	1,682	10,568
Operating leases	127	46	54	18	9
Other long-term obligations	403	115	175	82	31
<b>Total</b>	<b>\$ 40,414</b>	<b>\$ 2,482</b>	<b>\$ 5,207</b>	<b>\$ 5,053</b>	<b>\$ 27,672</b>
<b>Consolidated</b>					
Loss reserves <sup>(a)</sup>	\$ 87,394	\$ 22,467	\$ 24,465	\$ 12,790	\$ 27,672
Insurance and investment contract liabilities	254,021	16,783	33,734	28,964	174,540
Borrowings	25,968	1,271	3,360	3,271	18,066
Interest payments on borrowings	16,101	1,100	2,048	1,781	11,172
Operating leases	887	249	306	150	182
Other long-term obligations <sup>(b)</sup>	403	115	175	82	31
<b>Total<sup>(c)</sup></b>	<b>\$ 384,774</b>	<b>\$ 41,985</b>	<b>\$ 64,088</b>	<b>\$ 47,038</b>	<b>\$ 231,663</b>

(a) Represents undiscounted loss reserves.

(b) Primarily includes contracts to purchase future services and other capital expenditures.

(c) Does not reflect unrecognized tax benefits of \$4.7 billion. See Note 23 to the Consolidated Financial Statements for additional information.

**Loss Reserves**

Loss reserves relate to our General Insurance companies and represent estimates of future loss and loss adjustment expense payments based on historical loss development payment patterns. Due to the significance of the assumptions used, the payments by period presented above could be materially different from actual required payments. We believe that our General Insurance companies maintain adequate financial resources to meet the actual required payments under these obligations.

## Insurance and Investment Contract Liabilities

Insurance and investment contract liabilities, including GIC liabilities, relate to our Life and Retirement companies. These liabilities include various investment-type products with contractually scheduled maturities, including periodic payments. These liabilities also include benefit and claim liabilities, of which a significant portion represents policies and contracts that do not have stated contractual maturity dates and may not result in any future payment obligations. For these policies and contracts (i) we are not currently making payments until the occurrence of an insurable event, such as death or disability, (ii) payments are conditional on survivorship or (iii) payment may occur due to a surrender or other non-scheduled event beyond our control.

We have made significant assumptions to determine the estimated undiscounted cash flows of these contractual policy benefits. These assumptions include mortality, morbidity, future lapse rates, expenses, investment returns and interest crediting rates, offset by expected future deposits and premiums on in-force policies. Due to the significance of the assumptions, the periodic amounts presented could be materially different from actual required payments. The amounts presented in this table are undiscounted and exceed the future policy benefits and policyholder contract deposits included in the Consolidated Balance Sheets.

We believe that our Life and Retirement companies have adequate financial resources to meet the payments actually required under these obligations. These subsidiaries have substantial liquidity in the form of cash and short-term investments. In addition, our Life and Retirement companies maintain significant levels of investment grade rated fixed maturity securities, including substantial holdings in government and corporate bonds, and could seek to monetize those holdings in the event operating cash flows are

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insufficient. We expect liquidity needs related to GIC liabilities to be funded through cash flows generated from maturities and sales of invested assets.

**Borrowings**

Our borrowings exclude those incurred by consolidated investments and include hybrid financial instrument liabilities recorded at fair value. We expect to repay the long-term debt maturities and interest accrued on borrowings by AIG through maturing investments and dispositions of invested assets, future cash flows from operations, cash flows generated from invested assets, future debt issuance and other financing arrangements. Borrowings supported by assets of AIG include various notes and bonds payable as well as GIAs that are supported by cash and investments held by AIG Parent and certain non-insurance subsidiaries for the repayment of those obligations.

**Off-Balance Sheet Arrangements and Commercial Commitments**

The following table summarizes Off-Balance Sheet Arrangements and Commercial Commitments in total, and by remaining maturity:

<b>December 31, 2018</b>	Amount of Commitment Expiring				
<i>(in millions)</i>	Total Amounts Committed	2019	2020 - 2021	2022 - 2023	Thereafter
<b>Insurance operations</b>					
<b>Guarantees:</b>					
Standby letters of credit	\$ 182	\$ 171	\$ -	\$ -	\$ 11
Guarantees of indebtedness	58	58	-	-	-
All other guarantees <sup>(a)</sup>	72	14	23	21	14
<b>Commitments:</b>					
Investment commitments <sup>(b)</sup>	5,587	2,443	1,675	1,137	332
Commitments to extend credit	2,476	1,556	617	218	85
Letters of credit	5	5	-	-	-
<b>Total<sup>(c)</sup></b>	<b>\$ 8,380</b>	<b>\$ 4,247</b>	<b>\$ 2,315</b>	<b>\$ 1,376</b>	<b>\$ 442</b>
<b>Other</b>					
<b>Guarantees:</b>					
Liquidity facilities <sup>(d)</sup>	\$ 74	\$ -	\$ -	\$ -	\$ 74
Standby letters of credit	85	85	-	-	-
All other guarantees	-	-	-	-	-
<b>Commitments:</b>					
Investment commitments <sup>(b)</sup>	431	35	58	176	162
Commitments to extend credit	-	-	-	-	-
Letters of credit	17	17	-	-	-
<b>Total<sup>(c)(e)</sup></b>	<b>\$ 607</b>	<b>\$ 137</b>	<b>\$ 58</b>	<b>\$ 176</b>	<b>\$ 236</b>
<b>Consolidated Guarantees:</b>					

Liquidity facilities <sup>(d)</sup>	\$	74	\$	-	\$	-	\$	74
Standby letters of credit		267		256		-		11
Guarantees of indebtedness		58		58		-		-
All other guarantees <sup>(a)</sup>		72		14		23		21
<b>Commitments:</b>								
Investment commitments <sup>(b)</sup>		6,018		2,478		1,733		1,313
Commitments to extend credit		2,476		1,556		617		218
Letters of credit		22		22		-		-
<b>Total<sup>(c)(e)</sup></b>	\$	8,987	\$	4,384	\$	2,373	\$	1,552
								\$ 678

(a) Excludes potential amounts for indemnification obligations included in asset sales agreements. For further information on indemnification obligations see Note 16 to the Consolidated Financial Statements.

(b) Includes commitments to invest in private equity funds, hedge funds and other funds and commitments to purchase and develop real estate in the United States and abroad. The commitments to invest in private equity funds, hedge funds and other funds are called at the discretion of each fund, as needed for funding new investments or expenses of the fund. The expiration of these commitments is estimated in the table above based on the expected life cycle of the related fund, consistent with past trends of requirements for funding. Investors under these commitments are primarily insurance and real estate subsidiaries.

(c) Does not include guarantees, CMAs or other support arrangements among AIG consolidated entities.

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(d) Primarily represents liquidity facilities provided in connection with certain municipal swap transactions and collateralized bond obligations.

(e) Excludes commitments with respect to pension plans. The annual pension contribution for 2019 is expected to be approximately \$79 million for U.S. and non-U.S. plans.

**Arrangements with Variable Interest Entities**

We enter into various arrangements with variable interest entities (VIEs) in the normal course of business, and we consolidate a VIE when we are the primary beneficiary of the entity.

*For a further discussion of our involvement with VIEs see Note 10 to the Consolidated Financial Statements.*

**Indemnification Agreements**

We are subject to financial guarantees and indemnity arrangements in connection with our sales of businesses. These arrangements may be triggered by declines in asset values, specified business contingencies, the realization of contingent liabilities, litigation developments, or breaches of representations, warranties or covenants provided by us. These arrangements are typically subject to time limitations, defined by contract or by operation of law, such as by prevailing statutes of limitation. Depending on the specific terms of the arrangements, the maximum potential obligation may or may not be subject to contractual limitations.

*For additional information regarding our indemnification agreements see Note 16 to the Consolidated Financial Statements.*

We have recorded liabilities for certain of these arrangements where it is possible to estimate them. These liabilities are not material in the aggregate. We are unable to develop a reasonable estimate of the maximum potential payout under some of these arrangements. Overall, we believe that it is unlikely we will have to make any material payments under these arrangements.

**Debt**

**The following table provides the rollforward of AIG's total debt outstanding:**

	Balance at	Maturities	Effect of	
<b>Year Ended December 31, 2018</b> <i>(in millions)</i>	December 31,	and	Foreign	Other
	2017	Issuance	Exchange	Changes
<b>Debt issued or guaranteed by AIG:</b>		Repayments		
<b>AIG general borrowings:</b>				
Notes and bonds payable	\$ 20,339	\$ 1,727	\$(1,107)	\$(137)
				\$ 31

Junior subordinated debt	841	742	(22)	(13)	-
AIG Japan Holdings Kabushiki Kaisha	334	-	-	(3)	-
Validus notes and bonds payable	-	-	-	-	359
AIGLH notes and bonds payable	281	-	-	-	1
AIGLH junior subordinated debt	361	-	-	-	-
<b>Total AIG general borrowings</b>	<b>22,156</b>	<b>2,469</b>	<b>(1,129)</b>	<b>(153)</b>	<b>391</b>
<b>AIG borrowings supported by assets:</b> <sup>(a)</sup>					
MIP notes payable	356	-	(364)	8	-
Series AIGFP matched notes and bonds payable	21	-	-	-	-
GIAs, at fair value	2,707	188	(727)	-	(4) <sup>(b)</sup>
Notes and bonds payable, at fair value	181	-	(129)	-	(3) <sup>(b)</sup>
<b>Total AIG borrowings supported by assets</b>	<b>3,265</b>	<b>188</b>	<b>(1,220)</b>	<b>8</b>	<b>(7)</b>
<b>Total debt issued or guaranteed by AIG</b>	<b>25,421</b>	<b>2,657</b>	<b>(2,349)</b>	<b>(145)</b>	<b>384</b>
<b>Debt not guaranteed by AIG:</b>					
Validus junior subordinated debt	-	-	(539)	-	539
Other subsidiaries' notes, bonds, loans and mortgages payable <sup>(c)</sup>	190	-	(284)	-	262
Debt of consolidated investments <sup>(d)</sup>	6,029	2,077	(628)	38	888 <sup>(e)</sup>
<b>Total debt not guaranteed by AIG</b>	<b>6,219</b>	<b>2,077</b>	<b>(1,451)</b>	<b>38</b>	<b>1,689</b>
<b>Total debt</b>	<b>\$ 31,640</b>	<b>\$ 4,734</b>	<b>\$(3,800)</b>	<b>\$(107)</b>	<b>\$ 2,073</b>

(a) AIG Parent guarantees all such debt, except for MIP notes payable and Series AIGFP matched notes and bonds payable, which are direct obligations of AIG Parent. Collateral posted to third parties was \$1.5 billion and \$2.0 billion at December 31, 2018 and 2017, respectively. This collateral primarily consists of securities of the U.S. government and government sponsored entities and generally cannot be repledged or resold by the counterparties.

(b) Primarily represents adjustments to the fair value of debt.

(c) Includes primarily borrowings with Federal Home Loan Banks by our U.S. insurance companies. These borrowings are short term in nature and related activity is presented net of issuances and maturities and repayments.

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(d) At December 31, 2018, includes debt of consolidated investment vehicles related to real estate investments of \$3.7 billion, affordable housing partnership investments of \$1.8 billion and other securitization vehicles of \$2.9 billion. At December 31, 2017, includes debt of consolidated investment vehicles related to real estate investments of \$2.5 billion, affordable housing partnership investments of \$1.8 billion and other securitization vehicles of \$1.7 billion.

(e) Includes the effect of consolidating previously unconsolidated partnerships.

**TOTAL DEBT OUTSTANDING**

*(in millions)*

**Debt Maturities**

The following table summarizes maturing debt at December 31, 2018 of AIG (excluding \$8.4 billion of borrowings of consolidated investments) for the next four quarters:

<i>(in millions)</i>	First Quarter 2019	Second Quarter 2019	Third Quarter 2019	Fourth Quarter 2019	Total
AIG general borrowings	\$ -	\$ -	\$ 999	\$ -	<b>999</b>

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AIG borrowings supported by assets	22	19	136	95	<b>272</b>
Other subsidiaries' notes, bonds, loans and mortgages payable	115	-	-	2	<b>117</b>
<b>Total</b>	<b>\$ 137</b>	<b>\$ 19</b>	<b>\$ 1,135</b>	<b>\$ 97</b>	<b>\$ 1,388</b>

*See Note 15 to the Consolidated Financial Statements for additional details on debt outstanding.*

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**TABLE OF CONTENTS**ITEM 7 | **Liquidity and Capital Resources****Credit Ratings**

**Credit ratings estimate a company's ability to meet its obligations and may directly affect the cost and availability of financing to that company.** The following table presents the credit ratings of AIG and certain of its subsidiaries as of February 8, 2019. Figures in parentheses indicate the relative ranking of the ratings within the agency's rating categories; that ranking refers only to the major rating category and not to the modifiers assigned by the rating agencies.

	Short-Term Debt		Senior Long-Term Debt		
	Moody's	S&P	Moody's <sup>(a)</sup>	S&P <sup>(b)</sup>	Fitch <sup>(c)</sup>
<b>AIG</b>	<b>P-2 (2nd of 3)</b> <i>Stable Outlook</i>	<b>A-2 (2nd of 8)</b>	<b>Baa 1 (4th of 9)</b> <i>Stable Outlook</i>	<b>BBB+ (4th of 9)</b> <i>Negative Outlook</i>	<b>BBB+ (4th of 9)</b> <i>Negative Outlook</i>
<b>AIG Financial Products Corp.<sup>(d)</sup></b>	<b>P-2</b> <i>Stable Outlook</i>	<b>A-2</b>	<b>Baa 1</b> <i>Stable Outlook</i>	<b>BBB+</b> <i>Negative Outlook</i>	-

(a) Moody's appends numerical modifiers 1, 2 and 3 to the generic rating categories to show relative position within the rating categories.

(b) S&P ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

(c) Fitch ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

(d) AIG guarantees all obligations of AIG Financial Products Corp.

These credit ratings are current opinions of the rating agencies. They may be changed, suspended or withdrawn at any time by the rating agencies as a result of changes in, or unavailability of, information or based on other circumstances. Ratings may also be withdrawn at our request.

We are party to some agreements that contain "ratings triggers." Depending on the ratings maintained by one or more rating agencies, these triggers could result in (i) the termination or limitation of credit availability or a requirement for accelerated repayment, (ii) the termination of business contracts or (iii) a requirement to post collateral for the benefit of counterparties.

In the event of a downgrade of AIG's long-term senior debt ratings, 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 11 to the Consolidated Financial Statements herein and Part I, Item 1A. Risk Factors – Liquidity, Capital and Credit.

## FINANCIAL STRENGTH Ratings

**Financial Strength ratings estimate an insurance company's ability to pay its obligations under an insurance policy.** The following table presents the ratings of our significant insurance subsidiaries as of February 8, 2019.

	A.M. Best	S&P	Fitch	Moody's
National Union Fire Insurance Company of Pittsburgh, Pa.	A	A+	A	A2
Lexington Insurance Company	A	A+	A	A2
American Home Assurance Company (US)	A	A+	A	A2
American General Life Insurance Company	A	A+	A+	A2
The Variable Annuity Life Insurance Company	A	A+	A+	A2
United States Life Insurance Company in the City of New York	A	A+	A+	A2
AIG Europe 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	A	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 11 to the Consolidated Financial Statements herein and Part I, Item 1A. Risk Factors – Liquidity, Capital and Credit.

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ITEM 7 | **Liquidity and Capital Resources**

**Regulation and Supervision**

*For a discussion of our regulation and supervision by different regulatory authorities in the United States and abroad, including with respect to our liquidity and capital resources see Item 1. Business — Regulation and Item 1A. Risk Factors — Regulation.*

**Dividends and Repurchases of AIG Common Stock**

On February 8, 2018, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.32 per share, payable on March 29, 2018 to shareholders of record on March 15, 2018. On May 2, 2018, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.32 per share, payable on June 28, 2018 to shareholders of record on June 14, 2018. On August 2, 2018, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.32 per share, payable on September 28, 2018 to shareholders of record on September 17, 2018. On October 31, 2018, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.32 per share, payable on December 26, 2018 to shareholders of record on December 12, 2018.

On February 13, 2019, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.32 per share, payable on March 29, 2019 to shareholders of record on March 15, 2019. The payment of any future dividends will be at the discretion of our Board of Directors and will depend on various factors, as discussed further in Note 17 to the Consolidated Financial Statements.

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

During 2018, we repurchased approximately 36.5 million shares of AIG Common Stock for an aggregate purchase price of approximately \$1.7 billion pursuant to this authorization.

On February 13, 2019, our Board of Directors authorized an additional increase to its previous repurchase authorization of AIG Common Stock of \$1.5 billion, resulting in an aggregate remaining authorization on such date of approximately \$2.0 billion. Shares may be repurchased from time to time in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise (including through the purchase of warrants). Certain of our share repurchases have been and may from time to time be effected through Exchange Act Rule 10b5-1 repurchase plans. The timing of any future share repurchases will depend on market conditions, our business and strategic plans, financial condition, results of operations, liquidity and other factors.

**Dividend Restrictions**

Payments of dividends to AIG by its insurance subsidiaries are subject to certain restrictions imposed by regulatory authorities.

*For a discussion of restrictions on payments of dividends by our subsidiaries see Note 19 to the Consolidated Financial Statements.*

**ITEM 7 | Enterprise Risk Management****Enterprise Risk Management**

Risk management includes the identification and measurement of various forms of risk, the establishment of risk thresholds and the creation of processes intended to maintain risks within these thresholds while optimizing returns. We consider risk management an integral part of managing our core businesses and a key element of our approach to corporate governance.

**Overview**

We have an integrated process for managing risks throughout our organization in accordance with our firm wide risk appetite. Our Board of Directors has oversight responsibility for the management of risk. Our Enterprise Risk Management (ERM) Department supervises and integrates the risk management functions in each of our business units, providing senior management with a consolidated view of AIG's major risk positions. Within each business unit, senior leaders and executives approve risk taking policies and targeted risk tolerance within the framework provided by ERM. ERM supports our businesses and management by embedding risk management in our key day-to-day business processes and in identifying, assessing, quantifying, managing, 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.

**Risk Governance Structure**

Our risk governance structure fosters the development and maintenance of a risk and control management culture that encompasses all significant risk categories impacting our lines of business and functions. Accountability for the implementation and oversight of risk policies is aligned with individual corporate executives, with the risk committees receiving regular reports regarding compliance with each policy to support risk governance at our corporate level as well as in each business unit. We review our governance and committee structure on a regular basis and make changes as appropriate to continue to effectively manage and govern our risks and risk-taking.

Our Board of Directors oversees the management of risk through its Risk and Capital Committee (RCC) and Audit Committee. Those committees regularly interact with other committees of the Board of Directors described below. Our Chief Risk Officer (CRO) reports to both the RCC and our Chief Executive Officer (CEO).

**The Group Risk Committee (GRC):** The GRC is the senior management group responsible for assessing all significant risk issues on a global basis to protect our financial strength, optimize our intrinsic value, and protect our reputation. The GRC is chaired by our CRO. Its membership includes the Executive Leadership Team (ELT) and other senior executives from across our corporate functions and business units. Our CRO reports periodically on behalf of the GRC to both the RCC and the Audit Committee of the

Board of Directors. Our CRO is also a member of the ELT providing ERM the opportunity to contribute to, review, monitor and consider the impact of changes in strategy.

Management committees that support the GRC are described below. These committees are comprised of senior executives and experienced business representatives from a range of functions and business units throughout AIG and its subsidiaries. These committees are charged with identifying, analyzing and reviewing specific risk matters within their respective mandates. In addition, various working groups (e.g. reputational risk, control agenda) are in place in support of the GRC to manage and monitor the various risks across the organization.

**Financial Risk Group (FRG):** The FRG is responsible for the oversight of financial risks taken by AIG and our subsidiaries. Its mandate includes overseeing our aggregate credit, market, interest rate, capital, liquidity and model risks, as well as asset-liability management, derivatives activity, and foreign exchange transactions. It provides the primary corporate-level review function for all proposed transactions and business practices that are significant in size, complex in scope, or that present heightened legal, reputational, accounting or regulatory risks. The FRG is chaired by our CRO. Membership of the FRG also includes our CFO, Chief Investment Officer (CIO) and Treasurer.

**Business Unit Risk Committees:** Each of our major insurance businesses has established a risk committee that serves as the senior management committee responsible for risk oversight at the individual business unit level. The risk committees are responsible for the identification, assessment and monitoring of all sources of risk within their respective portfolios. Specific responsibilities include setting risk tolerances, reviewing the capital allocation framework, insurance portfolio optimization, and providing oversight of risk-adjusted metrics. Together, these committees provide comprehensive risk oversight throughout the organization.

ITEM 7 | **Enterprise Risk Management**

**Risk Appetite, Limits, Identification, and Measurement**

**Risk Appetite Framework**

Our Risk Appetite Framework integrates stakeholder interests, strategic business goals and available financial resources. We balance these by seeking to take measured risks that are expected to generate repeatable, sustainable earnings and create long-term value for our shareholders. The framework includes our risk appetite statement approved by the Board of Directors or a committee thereof and a set of supporting tools, including risk tolerances, risk limits and policies, which we use to manage our risk profile and financial resources.

We articulate our aggregate risk-taking by setting risk tolerances and thresholds on capital and liquidity measures. These measures are set at the AIG Parent level as well as the legal entity level and cover consolidated and insurance company capital and liquidity ratios. We must comply with standards for capital adequacy and maintain sufficient liquidity to meet all our obligations as they come due in accordance with our internal capital management and liquidity policies. Our risk tolerances take into consideration regulatory requirements, rating agency expectations, and business needs. The GRC routinely reviews the level of risk

taken by the consolidated organization in relation to the established risk tolerances. A consolidated risk report is also presented periodically, as required, to the RCC by our CRO.

### Risk Limits

A key component of our Risk Appetite Framework is having a process in place that establishes and maintains appropriate limits on the material risks identified for our core businesses and facilitates monitoring and meeting of both internal and external stakeholder expectations. Our objectives include:

- Establishing risk monitoring, providing early warning indicators, and ensuring timely oversight and enforceability of limits;
- Defining a consistent and transparent approach to limits governance; and
- Aligning our business activities with our risk appetite statement.



**ITEM 7 | Enterprise Risk Management**

To support the monitoring and management of AIG's and its business units' material risks, ERM has an established limits framework that employs a three-tiered hierarchy:

- **Board-level risk tolerances** are AIG's aggregate capital and liquidity limits. They define the minimum level of capital and liquidity that we should maintain. These board-level risk tolerances require RCC approval.
- **AIG management level limits** are risk type specific limits at the AIG consolidated level. These limits are defined and calibrated to constrain our concentration in specific risk types, to protect against taking risks that exceed the amount of overall capital AIG has available, and to protect against excess earnings volatility. These limits are approved by our CRO with consultation from the GRC.
- **BU and legal entity level limits** are set to address key risks identified by ERM for the business unit and legal entities, protect capital and liquidity at legal entities and/or meet legal entity specific requirements of regulators and rating agencies. These limits are defined by the business unit and legal entity Risk Officers.

All limits are reviewed by the GRC or relevant business unit risk committees on a periodic basis and revisions, if applicable, are approved by those committees.

The business units are responsible for measuring and monitoring their risk exposures. ERM is responsible for monitoring compliance with limits and providing regular, timely reporting to our senior management and risk committees. Limit breaches are required to be reported in a timely manner and are documented and escalated in accordance with their level of severity or materiality.

**Risk Identification and Measurement**

One tool we use to inform our Risk Appetite Framework is risk identification. We conduct risk identification through a number of processes at the business unit and corporate level focused on capturing our material risks and key areas of focus for follow-up risk management actions. A key initiative is our integrated bottom-up risk identification and assessment process down to the product-line level. These processes are used as a critical input to enhance and develop our analytics for measuring and assessing risks across the organization.

We employ various approaches to measure, monitor, and manage risk exposures, including the utilization of a variety of metrics and early warning indicators. We use a proprietary internal capital and stress testing framework to measure our quantifiable risks for both insurance and non-insurance operations.

The internal capital framework quantifies our aggregate economic risk at a given confidence interval, after taking into account a level of diversification benefits between risk factors and business lines. We leverage the internal capital framework to help inform our consolidated risk consumption and profile as well as risk

and capital allocation for our businesses.

The stress testing framework assesses our aggregate exposure to our most significant financial and insurance risks, including the risk in each of our key insurance company subsidiaries in relation to its capital needs under stress, risks inherent in our non-insurance company subsidiaries, and risks to AIG consolidated capital. The framework measures risk over multiple time horizons and under different levels of stress, and includes multi-factor stresses as well as single factor sensitivities that are designed to reflect AIG's risk characteristics. We use this information to support the assessment of resources needed at the AIG Parent level to support our subsidiaries and capital resources required to maintain consolidated company target capitalization levels.

**We evaluate and manage risk in material topics as shown below. These topics are discussed in more detail in the following pages:**

- Credit Risk Management
- Liquidity Risk Management
- Insurance Risks
- Market Risk Management
- Operational Risk
- Other Business Risks
- Management

ITEM 7 | **Enterprise Risk Management****Credit Risk Management****Overview**

Credit risk is defined as the risk that our customers or counterparties are unable or unwilling to repay their contractual obligations when they become due. Credit risk may also result from a downgrade of a counterparty's credit ratings or a widening of its credit spreads.

We devote considerable resources to managing our direct and indirect credit exposures. These exposures may arise from, but are not limited to, fixed income investments, equity securities, deposits, commercial paper investments, reverse repurchase agreements and repurchase agreements, corporate and consumer loans, leases, reinsurance recoverables, counterparty risk arising from derivatives activities, collateral extended to counterparties, insurance risk cessions to third parties, financial guarantees, letters of credit, and certain General Insurance businesses.

**Governance**

Our credit risks are managed by teams of credit professionals, subject to ERM oversight and various control processes. Their primary role is to assure appropriate credit risk management in accordance with our credit policies and procedures relative to our credit risk parameters. Our Chief Credit Officer (CCO) and credit executives are primarily responsible for the development, implementation and maintenance of a risk management framework, which includes the following elements related to our credit risks:

- developing and implementing our company-wide credit policies and procedures;
- approving delegated credit authorities to our credit executives and qualified credit professionals;
- developing methodologies for quantification and assessment of credit risks, including the establishment and maintenance of our internal risk rating process;
- managing a system of credit and program limits, as well as the approval process for credit transactions, above limit exposures, and concentrations of risk that may exist or be incurred;
- evaluating, monitoring, reviewing and reporting of credit risks and concentrations regularly with senior management; and
- approving appropriate credit reserves, credit-related other-than-temporary impairments and corresponding methodologies for all credit portfolios.

We monitor and control our company-wide credit risk concentrations and attempt to avoid unwanted or excessive risk accumulations, whether funded or unfunded. To minimize the level of credit risk in some

circumstances, we may require mitigants, such as third party guarantees, reinsurance or collateral, including commercial bank-issued letters of credit and trust collateral accounts. We treat these guarantees, reinsurance recoverables, and letters of credit as credit exposure and include them in our risk concentration exposure data. We also monitor closely the quality of any trust collateral accounts.

*For further information on our credit concentrations and credit exposures see Investments – Available-for-Sale Investments.*

ITEM 7 | **Enterprise Risk Management****Our credit risk management framework incorporates the following elements:**

<b>Risk Identification</b>	including the ongoing capture and monitoring of all existing, contingent, potential and emerging credit risk exposures, whether funded or unfunded
<b>Risk Measurement</b>	comprising risk ratings, default probabilities, loss given default and expected loss parameters, exposure calculations, stress testing and other risk analytics
<b>Risk Limits</b>	including, but not limited to, a system of single obligor or risk group-based AIG-wide house limits and sub-limits for corporates, financial institutions, sovereigns and sub-sovereigns when appropriate and a defined process for identifying, evaluating, documenting and approving, if appropriate, breaches of and exceptions to such limits
<b>Risk Delegations</b>	a comprehensive credit risk delegation framework from the Chief Credit Officer (CCO) to authorized credit professionals throughout the company
<b>Risk Evaluation, Monitoring and Reporting</b>	including the ongoing analysis and assessment of credit risks, trending of those risks and reporting of other key risk metrics and limits to the CCO and senior management, as may be required
<b>Credit Reserving</b>	including but not limited to development of a proper framework, policies and procedures for establishing accurate identification of (i) Allowance for Loan and Lease Losses, and (ii) other-than-temporary impairments for securities portfolios

**Market Risk Management**

Market risk is defined as the risk of adverse impact due to systemic movements in one or more of the following market risk drivers: equity and commodity prices, residential and commercial real estate values, interest rates, credit spreads, foreign exchange, inflation, and their levels of volatility.

We are engaged in a variety of insurance, investment and other financial services businesses that expose us to market risk, directly and indirectly. We are exposed to market risks primarily within our insurance and capital markets activities, on both the asset and liability side of our balance sheet through on- and off-balance sheet exposures. The Risk Officer within each business is responsible for creating a framework to properly identify these risks, then ensuring that they are appropriately measured, monitored and managed in accordance with the risk governance framework established by the Chief Market Risk Officer (CMRO).

The scope and magnitude of our market risk exposures is managed under a robust framework that contains defined risk limits and minimum standards for managing market risk in a manner consistent with our risk appetite statement. Our market risk management framework focuses on quantifying the financial repercussions of changes in these broad market observables, as opposed to the idiosyncratic risks associated with individual assets that are addressed through our credit risk management function.

Many of our market risk exposures, including exposures to interest rates and equity, are associated with the asset and liability exposures of our Life and Retirement companies. These exposures are generally long-term in nature. Examples of liability-related exposures include interest rate sensitive surrenders in our fixed deferred annuity product portfolio. Also, we have equity market risk sensitive surrenders in our variable annuity product portfolio. These interactive asset-liability types of risk exposures are regularly monitored in accordance with the risk governance framework noted above.

ITEM 7 | **Enterprise Risk Management****Risk Identification**

Market risk focuses on quantifying the financial repercussions of changes in broad, external, predominantly market-observable risks. Financial repercussions can include an adverse impact on results of operations, financial condition, liquidity and capital.

**Each of the following systemic risks is considered a market risk:****Equity prices**

We are exposed to changes in equity market prices affecting a variety of instruments. Changes in equity prices can affect the valuation of publicly traded equity shares, investments in private equity, hedge funds, mutual funds, exchange-traded funds, and other equity-linked capital market instruments as well as equity-linked insurance products, including but not limited to index annuities, variable annuities, indexed universal life insurance and variable universal life insurance.

**Residential and commercial real estate values**

Our investment portfolios are exposed to the risk of changing values in a variety of residential and commercial real estate investments. Changes in residential/commercial real estate prices can affect the valuation of residential/commercial mortgages, residential/commercial mortgage backed securities and other structured securities with underlying assets that include residential/commercial mortgages, trusts that include residential/commercial real estate and/or mortgages, residential mortgage insurance and reinsurance contracts and commercial real estate investments.

**Interest rates**

Interest rate risk can arise from a mismatch in the interest rate exposure of assets versus liabilities. Lower interest rates generally result in lower investment income and make some of our product offerings less attractive to investors. Conversely, higher interest rates are typically beneficial for the opposite reasons. However, when rates rise quickly, there can be an asymmetric GAAP accounting effect where the existing securities lose market value, which is largely reported in Other comprehensive income, and the offsetting decrease in the value of certain liabilities may not be recognized. Changes in interest rates can affect the valuation of fixed maturity securities, financial liabilities, insurance contracts including but not limited to universal life, fixed rate annuities, variable annuities and derivative contracts. Additionally, for Variable Annuity, Index Annuity, and Equity Indexed Universal Life products, deviations in actual versus expected policyholder behavior can be driven by fluctuations in various market variables, including interest rates. Policies with guaranteed living benefit options or riders are also subject to the risk of actual benefit utilization being different than expected.

**Credit spreads**

Credit spreads measure an instrument's risk premium or yield relative to that of a comparable duration, default free instrument. Changes in credit spreads can affect the valuation of fixed maturity securities, including but not limited to corporate bonds, ABS, mortgage-backed securities, AIG-issued debt obligations, credit derivatives and derivative credit valuation adjustments. Much like higher interest rates, wider credit

spreads with unchanged default losses mean more investment income in the long term. In the short term, quickly rising spreads will cause a loss in the value of existing fixed maturity securities, which is largely reported in Other comprehensive income. A precipitous widening of credit spreads may also signal a fundamental weakness in the credit worthiness of bond obligors, potentially resulting in default losses.

**Foreign exchange (FX) rates** We are a globally diversified enterprise with income, assets and liabilities denominated in, and capital deployed in, a variety of currencies. Changes in FX rates can affect the valuation of a broad range of balance sheet and income statement items as well as the settlement of cash flows exchanged in specific transactions.

**Commodity prices** Changes in commodity prices (the value of commodities) can affect the valuation of publicly traded commodities, commodity indices and derivatives on commodities and commodity indices. We are exposed to commodity prices primarily through their impact on the prices and credit quality of commodity producers' debt and equity securities in our investment portfolio.

**Inflation** Changes in inflation can affect the valuation of fixed maturity securities, including AIG-issued debt obligations, derivatives and other contracts explicitly linked to inflation indices, and insurance contracts where the claims are linked to inflation either explicitly, via indexing, or implicitly, through medical costs or wage levels.



ITEM 7 | **Enterprise Risk Management****Governance**

Market risk is overseen at the corporate level within ERM through the CMRO, who reports directly to the CRO. The CMRO is supported by a dedicated team of professionals within ERM. Market Risk is managed by our finance, treasury and investment management corporate functions, collectively, and in partnership with ERM. The CMRO is primarily responsible for the development and maintenance of a risk management framework that includes the following key components:

- written policies that define the rules for our market risk-taking activities and provide clear guidance regarding their execution and management;
- a limit framework that aligns with our Board-approved risk appetite statement;
- independent measurement, monitoring and reporting for line of business, business unit and enterprise-wide market risks; and
- clearly defined authorities for all individuals and committee roles and responsibilities related to market risk management.

These components facilitate the CMRO's identification, measurement, monitoring, reporting and management of our market risks.

**Risk Measurement**

Our market risk measurement framework was developed with the main objective of communicating the range and scale of our market risk exposures. At the firm wide level market risk is measured in a manner that is consistent with AIG's risk appetite statement. This is designed to ensure that we remain within our stated risk tolerance levels and can determine how much additional market risk taking capacity is available within our framework. Our risk appetite is currently defined in terms of capital and liquidity levels. At the market risk level, the framework measures our overall exposure to each systemic market risk change on an economic basis.

In addition, we continue to use enhanced economic, GAAP accounting and statutory capital based risk measures at the market risk level, business unit level and firm wide levels. This process aims to ensure that we have a comprehensive view of the impact of our market risk exposures.

**We use a number of approaches to measure our market risk exposure, including:****Sensitivity analysis**

measures the impact from a unit change in a market risk input

**Examples include:**

- a one basis point increase in yield on fixed maturity securities,

Scenario analysis

uses historical, hypothetical, or forward looking macroeconomic scenarios to assess and report exposures

- a one basis point increase in credit spreads of fixed maturity securities, and
- a one percent increase in prices of equity securities.
- a 100 basis point parallel shift in the yield curve, or
- a 20 percent immediate and simultaneous decrease in world wide equity markets.

Stress testing

a special form of scenario analysis in which the scenarios are designed to lead to a material adverse outcome

Scenarios may also utilize a stochastic framework to arrive at a probability distribution of losses.

- the stock market crash of October 1987 or the widening of yields or spreads of RMBS or CMBS during 2008.

## ITEM 7 | Enterprise Risk Management

## Market Risk Sensitivities

The following table provides estimates of sensitivity to changes in yield curves, equity prices and foreign currency exchange rates on our financial instruments and excludes approximately \$168.9 billion and \$163.6 billion as of December 31, 2018 and December 31, 2017, respectively, of insurance liabilities. AIG believes that the interest rate sensitivities of these insurance and other liabilities serve as an offset to the net interest rate risk of the financial assets presented in the table below.

	Balance Sheet Exposure		Economic Effect	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
<i>(dollars in millions)</i>				
<b>Sensitivity factor</b>			<b>100 bps parallel increase in all yield curves</b>	
<b>Interest rate sensitive assets:</b>				
Fixed maturity securities	\$ 237,460	\$ 248,195	\$ (13,831)	\$ (14,998)
Mortgage and other loans receivable <sup>(a)</sup>	39,656	28,799	(1,993)	(1,566)
Derivatives:				
Interest rate contracts	867	(29)	(1,196)	(1,343)
Equity contracts	383	501	21	36
Other contracts	80	(675)	26	42
<b>Total interest rate sensitive assets</b>	<b>\$ 278,446<sup>(b)</sup></b>	<b>\$ 276,791<sup>(b)</sup></b>	<b>\$ (16,973)</b>	<b>\$ (17,829)</b>
<b>Interest rate sensitive liabilities:</b>				
Policyholder contract deposits:				
Investment-type contracts <sup>(a)</sup>	\$ (120,602)	\$ (114,326)	\$ 6,217 <sup>(c)</sup>	\$ 7,363 <sup>(c)</sup>
Variable annuity and other embedded derivatives	(4,116)	(4,148)	1,537	2,175
Long-term debt <sup>(a) (d)</sup>	(24,635)	(24,445)	1,807	1,803
<b>Total interest rate sensitive liabilities</b>	<b>\$ (149,353)</b>	<b>\$ (142,919)</b>	<b>\$ 9,561</b>	<b>\$ 11,341</b>
<b>Sensitivity factor</b>			<b>20% decline in stock prices and alternative investments</b>	
<b>Derivatives:</b>				
Equity contracts <sup>(e)</sup>	383	501	862 <sup>(f)</sup>	1,228 <sup>(f)</sup>
<b>Equity and alternative investments:</b>				
Real estate investments	8,935	8,258	(1,787)	(1,652)
Private equity	4,787	5,540	(957)	(1,108)
Hedge funds	4,179	5,768	(836)	(1,153)
Common equity	792	1,215	(158)	(243)
PICC Investment	448	549	(90)	(110)

Other investments	903	761	(181)	(152)
<b>Total derivatives, equity and alternative investments</b>	<b>\$ 20,427</b>	<b>\$ 22,592</b>	<b>\$ (3,147)</b>	<b>\$ (3,190)</b>

**Policyholder contract deposits:**

Variable annuity and other embedded derivatives <sup>(e)</sup>	\$ (4,116)	\$ (4,148)	\$ (655)	\$ (982)
<b>Total liability</b>	<b>\$ (4,116)</b>	<b>\$ (4,148)</b>	<b>\$ (655)</b>	<b>\$ (982)</b>

**Sensitivity factor**

**10% depreciation of all foreign currency exchange rates against the U.S. dollar**

**Foreign currency-denominated net asset position:**

Great Britain pound	\$ 1,861	\$ 2,026	\$ (186)	\$ (203)
Euro	1,330	1,349	(133)	(135)
Hong Kong dollar	585	562	(58)	(56)
All other foreign currencies	1,587	2,622	(159)	(262)
<b>Total foreign currency-denominated net asset position<sup>(g)</sup></b>	<b>\$ 5,363</b>	<b>\$ 6,559</b>	<b>\$ (536)</b>	<b>\$ (656)</b>

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(a) The economic effect is the difference between the estimated fair value and the effect of a 100 bps parallel increase in all yield curves on the estimated fair value. The estimated fair values for Mortgage and other loans receivable, Policyholder contract deposits (Investment-type contracts) and Long-term debt were \$40,152 million, \$121,374 million and \$23,929 million at December 31, 2018, respectively. The estimated fair values for Mortgage and other loans receivable, Policyholder contract deposits (Investment-type contracts) and Long-term debt were \$29,523 million, \$122,196 million and \$25,970 million at December 31, 2017, respectively.

(b) At December 31, 2018, the analysis covered \$278.4 billion of \$285.8 billion interest-rate sensitive assets. Excluded were \$3.5 billion of loans. In addition, \$3.9 billion of assets across various asset categories were excluded due to modeling limitations. At December 31, 2017, the analysis covered \$276.8 billion of \$289.6 billion interest-rate sensitive assets. Excluded were \$8.2 billion of loans. In addition, \$4.6 billion of assets across various asset categories were excluded due to modeling limitations.

(c) Beginning in the third quarter of 2018, the economic effect presented for Policyholder contract deposits - investment-type contracts has been refined to better reflect the economic effect on the balance sheet and is calculated as the change to the estimated fair value from a 100 bps parallel increase in all yield curves on the estimated fair value. Historically, the calculation was the change between the carrying value and the estimated fair value from a 100 bps parallel increase in all yield curves on the estimated fair value. Prior period presentation has been revised to conform to the current period approach.

(d) At December 31, 2018, the analysis excluded \$8.4 billion of long-term debt related to debt of consolidated investments, \$643 million of AIGLH borrowings, \$359 million of Validus borrowings, \$168 million of borrowings from FHLB and \$331 million of AIG Japan Holdings loans. At December 31, 2017, the analysis excluded \$6.0 billion of long-term debt related to debt of consolidated investments, \$642 million of AIGLH borrowings, \$190 million of borrowings from the FHLB and \$334 million of AIG Japan Holdings loans.

(e) The balance sheet exposures for equity contracts and variable annuity and other embedded derivatives are also reflected under "Interest rate sensitive liabilities" above, and are not additive.

(f) Beginning in the third quarter of 2018, the economic effect calculation presented for Derivatives - equity contracts is calculated using an internal risk calculation model. The prior period presentation of the economic effect was calculated as the effect of a 20 percent decline on the estimated fair value. Prior period presentation has been revised to conform to the current period approach.

(g) The majority of the foreign currency exposure is reported on a one quarter lag.

The sensitivity analysis is an estimate and should not be viewed as predictive of our future financial performance. We cannot ensure that our actual losses in any particular period will not exceed the amounts indicated above.

Interest rate sensitivity is defined as change in its value with respect to plus a 100 basis point change in the interest rate environment, calculated as: scenario value minus base value, where base value is the value of the derivative under the yield curves as of the period end and scenario value is the value reflecting a 100 basis point parallel increase in all yield curves.

We evaluate our interest rate risk without the effect of any correlation among other key market risks or other assumptions used for calculating the fair value of our financial assets and liabilities. This scenario does not measure changes in value resulting from non-parallel shifts in the yield curve, which could produce different results.

We evaluate our equity price risk without the effect of any correlation among other key market risks or other assumptions used for calculating the fair value of our financial assets and liabilities. This scenario considers the direct impact of declines in equity prices and not changes in asset-based fees, changes in the estimated gross profits used for amortizing DAC, or changes in any other assumptions used to calculate the fair value of the embedded derivatives related to the living benefit features within variable annuity products. In addition, this scenario does not reflect the impact of basis risk, such as projections about the future performance of the underlying contract holder funds and actual fund returns, which we use as a basis for developing our hedging strategy.

Foreign currency-denominated net asset position reflects our consolidated non U.S. dollar assets less our consolidated non U.S. dollar liabilities on a GAAP basis, with certain adjustments. We use a bottom-up approach in managing our foreign currency exchange rate exposures with the objective of protecting statutory capital at the regulated insurance entity level. At the AIG consolidated level, we monitor our foreign currency exposures against single currency and aggregate currency portfolio limits.

Our foreign currency-denominated net asset position at December 31, 2018, decreased by \$1.2 billion compared to December 31, 2017. The decrease was primarily due to a \$669 million decrease in our Japanese yen position and a \$264 million decrease in our Canadian dollar position, each due to an increase in loss reserves.

For illustrative purposes, we modeled our sensitivities based on a 100 basis point increase in yield curves, a 20 percent decline in equities and alternative assets, and a 10 percent depreciation of all foreign currency exchange rates against the U.S. dollar. The estimated results presented in the table above should not be taken as a prediction, but only as a demonstration of the potential effects of such events.

The sensitivity factors utilized for 2018 and presented above were selected based on historical data from 1998 to 2018, as follows (*see the table below*):

- a 100 basis point parallel shift in the yield curve is consistent with a one standard deviation movement of the benchmark ten-year treasury yield;
- a 20 percent drop for equity and alternative investments is broadly consistent with a one standard deviation movement in the S&P 500; and
- a 10 percent depreciation of foreign currency exchange rates is consistent with a one standard deviation movement in the U.S. dollar (USD)/Japanese yen (JPY) exchange rate.

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		Standard	Suggested	2018 Scenario as a Multiple of	2018 Change/ Return	2018 as a Multiple of Standard Deviation	Original 2017 Scenario on Standard Dev 1997-201
10-Year	Period	Deviation	2018 Scenario	Standard Deviation			
Treasury	1998-2018	0.01	0.01	1.06	-	0.34	
S&P 500	1998-2018	0.17	0.20	1.17	(0.06)	0.37	
USD/JPY	1998-2018	0.11	0.10	0.92	0.03	0.25	

**Risk Monitoring and Limits**

The risk monitoring responsibilities, owned by the business units, include ensuring compliance with market risk limits and escalation and remediation of limit breaches. Such activities must be reported to the ERM Market Risk team by the relevant business unit. This monitoring approach is aligned with our overall risk limits framework.

To control our exposure to market risk, we rely on a three-tiered hierarchy of limits that the CMRO closely monitors and reports to our CRO, senior management and risk committees.

*For further information on our three-tiered hierarchy of limits see Risk Appetite, Limits, Identification, and Measurement – Risk Limits herein.*

**Liquidity Risk Management**

Liquidity risk is defined as the risk that our financial condition will be adversely affected by the inability or perceived inability to meet our short-term cash, collateral or other financial obligations. Failure to appropriately manage liquidity risk can result in insolvency, reduced operating flexibility, increased costs, reputational harm and regulatory action.

AIG and its legal entities seek to maintain sufficient liquidity both during the normal course of business and under defined liquidity stress scenarios to ensure that sufficient cash will be available to meet the obligations as they come due.

AIG Parent liquidity risk tolerance levels are designed to allow us to meet our financial obligations for a minimum of six months under a liquidity stress scenario. We maintain liquidity limits and minimum coverage ratios designed to ensure that funding needs are met under varying stress conditions. If we project that we will breach these tolerances, we will assess and determine appropriate liquidity management actions. However, the market conditions in effect at that time may not permit us to achieve an increase in liquidity sources or a reduction in liquidity requirements.

**Risk Identification**

**The following sources of liquidity and funding risks could impact our ability to meet short-term financial obligations as they come due.**

<b>Market/Monetization Risk</b>	Assets may not be readily transformed into cash due to unfavorable market conditions. Market liquidity risk may limit our ability to sell assets at reasonable values to meet liquidity needs.
<b>Cash Flow Mismatch Risk</b>	Discrete and cumulative cash flow mismatches or gaps over short-term horizons under both expected and adverse business conditions may create future liquidity shortfalls.
<b>Event Funding Risk</b>	Additional funding may be required as the result of a trigger event. Event funding risk comes in many forms and may result from a downgrade in credit ratings, a market event, or some other event that creates a funding obligation or limits existing funding options.
<b>Financing Risk</b>	We may be unable to raise additional cash on a secured or unsecured basis due to unfavorable market conditions, AIG-specific issues, or any other issue that impedes access to additional funding.

**Governance**

Liquidity risk is overseen at the corporate level within ERM. The CRO has responsibility for the oversight of the Liquidity Risk Management Framework and delegates the day-to-day implementation of this framework to the AIG Treasurer. Our corporate treasury function manages liquidity risk, subject to ERM oversight and various control processes.

The Liquidity Risk Management Framework is guided by the liquidity risk tolerance as set forth in the Board-approved risk appetite statement. The principal objective of this framework is to establish minimum liquidity requirements that protect our long-term viability and ability to fund our ongoing business, and to meet short-term financial obligations in a timely manner in both normal and stressed conditions.



ITEM 7 | **Enterprise Risk Management**

Our Liquidity Risk Management Framework includes a number of liquidity and funding policies and monitoring tools to address AIG-specific, broader industry and market-related liquidity events.

**Risk Measurement**

Comprehensive cash flow projections under normal conditions are the primary component for identifying and measuring liquidity risk. We produce comprehensive liquidity projections over varying time horizons that incorporate all relevant liquidity sources and uses and include known and likely cash inflows and outflows. In addition, we perform stress testing by identifying liquidity stress scenarios and assessing the effects of these scenarios on our cash flow and liquidity.

**We use a number of approaches to measure our liquidity risk exposure, including:**

**Minimum Liquidity Limits** Minimum Liquidity Limits specify the amount of assets required to be maintained in order to meet obligations as they arise over a specified time horizon under stressed liquidity conditions.

**Coverage Ratios** Coverage Ratios measure the adequacy of available liquidity sources, including the ability to monetize assets to meet the forecasted cash flows over a specified time horizon. The portfolio of assets is selected based on our ability to convert those assets into cash under the assumed stressed conditions and within the specified time horizon.

**Cash Flow Forecasts** Cash Flow Forecasts measure the liquidity needed for a specific legal entity over a specified time horizon.

**Stress Testing** Asset liquidity and Coverage Ratios are re-measured under defined liquidity stress scenarios that will impact net cash flows, liquid assets and/or other funding sources.

Relevant liquidity reporting is produced and reported regularly to AIG Parent and business unit risk committees. The frequency, content, and nature of reporting will vary for each business unit and legal entity, based on its complexity, risk profile, activities and size.

**Operational Risk Management****Overview**

Operational risk is defined as the risk of loss, or other adverse consequences, resulting from inadequate or failed internal processes, people, systems, or from external events. Operational risk includes legal, regulatory, technology, compliance, third party and business continuity risks, but excludes business and strategy risks.

Operational risk is inherent in each of our business units and functions and can have many impacts, including but not limited to: unexpected economic losses or gains, reputational harm due to negative publicity, regulatory action from supervisory agencies and operational and business disruptions, and/or damage to customer relationships.

## Governance

Our operational risk governance sets the requirements necessary to embed a risk management culture throughout the organization. AIG and its consolidated subsidiaries establish and maintain operational risk and controls governance forums that include representatives from the relevant business units and functions to appropriately manage significant operational risk exposures. At an enterprise level, the GRC oversees operational risk along with the Risk Officers.

Operational risk is overseen at the corporate level within ERM through the Head of Operational Controls and Governance, who reports directly to our CRO. The Head of Operational Controls and Governance is responsible for the development and maintenance of the operational risk framework that includes policies, standards and deployment of systems.

ITEM 7 | **Enterprise Risk Management****Risk Identification, Measurement and Monitoring**

The ORM function within ERM oversees the operational risk policy and risk and control framework, which includes risk identification, assessment, measurement, management and monitoring of operational risk exposures. ORM supports the Head of Operational Controls and Governance and has responsibility to provide an aggregate view of our operational risk profile. As part of the framework, we employ a Three Lines of Defense model whereby the first line consists of business units and functions that own and manage AIG risks, the second line consists of ERM and other control functions and serves as an independent advisor to the first line and has risk oversight responsibilities, and the third line consists of our Internal Audit Group that provides independent assurance covering aspects of the First and Second Lines of Defense, in each case, to strengthen the governance, capability and delivery of operational risk management tools and methods. As a part of our ongoing transformation efforts, the business leaders assume full ownership and accountability for the risks and controls in their operating units, including support functions, for the operational risks that arise in their own processes and activities and ERM performs an independent review and challenge function. In line with the Three Lines of Defense Model, the ORM programs include, but are not limited to, several key components outlined below:

- Risk Event Capture – enables every employee to identify, document, and escalate operational risk events, with a view to enhancing processes and promoting lessons learned.
- Risk Assessments – allows for the assessment, measurement and management of the key operational risks within our business units and helps inform on the efficacy of our control environment.
- Key Risk Indicators – enhances the ongoing monitoring and mitigation of operational risks and facilitate risk reporting.
- Issues Management – enables a consistent tracking of issues across the firm, including policy and process exceptions, control deficiencies and findings from risk and control assessment activities.
- Scenario Analyses – executed by first- and second-line professionals to identify potential risks that could result in financial losses in order to identify the financial implications of the risk to the firm and support the prioritization of operational risk treatment.

ORM, working together with other control and assurance functions (e.g., Compliance, Financial Controls Unit / Sarbanes Oxley, Global Business Continuity, and Internal Audit) through the risk and control framework, provides an independent view of operational risks for each business, and works with the business unit CRO and business unit Owner of the Control Agenda, whose responsibilities include coordinating identification, assessment, control and mitigation of risks to the operating environment and promoting awareness, to facilitate implementation of the above programs. This includes coverage of operational risks related to core insurance activities, investing, model risk, technology (including cyber security, identify and access management, data privacy and data security), third-party providers, as well as

compliance and regulatory matters. Based on the results of the risk identification and assessment efforts above, business leaders are accountable for tracking and remediating identified issues in line with our risk-monitoring procedures. Governance committees support these efforts and promote transparency enabling improved management decision making.

**The risk and control framework facilitates the identification and mitigation of operational risk issues and is designed to:**

- ensure first line accountability and ownership of risks and controls;
- promote role clarity among the business and risk and control functions;
- enhance transparency, risk management governance and culture;
- foster greater consistency in identifying, measuring and ranking material risks;
- proactively address potential risk issues and assign clear ownership and accountability for risk treatment; and
- manage the development of technology solutions that support the objectives above.

**Cybersecurity Risk**

Cybersecurity risk is an important, constant, and evolving focus for AIG and the insurance and financial services industries in general. The increased sophistication and activities of unauthorized parties attempting to access our systems and fraudulently induce employees, clients, vendors or other third parties or users of our systems to disclose sensitive information is an ever-present risk and frequent attack vector against AIG. The goal of such unauthorized parties is to gain access to AIG's data and systems to learn confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage. Cybersecurity risks may also derive from human error, fraud or malice on the part of AIG employees or third parties who have authorized access to AIG's systems or information.

**ITEM 7 | Enterprise Risk Management**

ERM works closely with and supports the risk management practices of the business units and functions that form the first line of defense against the cybersecurity risks that we face, including the risks that emerge as a result of the execution of our business strategies and our corresponding exposure to new products, clients, industry segments and regions, through initiatives such as investments in technological infrastructure, education and training for employees and vendors, and monitoring of industry developments. As part of our overarching cybersecurity strategy, we employ a variety of tactics to monitor and assess threat levels, remediate our exposures and enhance our systems and applications security. We also seek to build upon our capabilities by recruiting talent in the fields of information technology and data security. In addition to being required to comply with a vast array of privacy, data protection and cybersecurity laws, AIG participates in discussions of cybersecurity risks with law enforcement, government officials, as well as peer and industry groups.

AIG's Board of Directors and its Technology Committee are regularly briefed by management on AIG's cybersecurity matters, including threats, policies, practices and ongoing efforts to improve security. As part of our disclosure controls and procedures, ERM and Internal Audit are charged with ensuring that the members of management responsible for disclosure controls are informed in a timely manner of known cybersecurity risks and incidents that may materially impact our operations so that timely public disclosure can be made as appropriate. There is no guarantee that the measures AIG takes and the resources AIG devotes to protect against cybersecurity risk will provide absolute security or recoverability of AIG's systems given the complexity and frequency of the risk, which AIG may not always be able to anticipate or adequately address. For additional information regarding the data protection and cybersecurity regulations to which we are subject, *see Item 1. Business – Regulation – U.S. Regulation – Privacy, Data Protection and Cybersecurity and – International Regulation – Privacy, Data Protection and Cybersecurity. For additional discussion of cybersecurity risks, see Part I, Item 1A. Risk Factors – Business and Operations.*

**Insurance Risks**

Insurance risk is defined as the risk of actual claims experience and/or policyholder behavior being materially different than expected at the inception of an insurance contract. Uncertainties related to insurance risk include the amount and timing of cash flows from premiums, commissions, expenses, claims and claim settlement expenses paid or received under a contract.

Except as described above, we manage our business risk oversight activities through our insurance operations. A primary goal in managing our insurance operations is to achieve an acceptable risk-adjusted return on equity. To achieve this goal, we must be disciplined in risk selection, premium adequacy, and appropriate terms and conditions to cover the risk accepted.

We operate our insurance businesses on a global basis, and we are exposed to a wide variety of risks with different time horizons. We manage these risks throughout the organization, both centrally and locally, through a number of procedures:

- pre-launch approval of product design, development and distribution;
- underwriting approval processes and authorities;
- exposure limits with ongoing monitoring;
- pricing and risk selection models;
- price approval processes;
- modeling and reporting of aggregations and limit concentrations at multiple levels (policy, line of business, product group, country, individual/group, correlation and catastrophic risk events);
- risk transfer tools such as reinsurance, both internal and third-party;
- review and challenge of reserves to ensure comprehensive analysis with established escalation procedures to provide appropriate transparency in reserving decisions and judgments made in the establishment of reserves;
- business line actuarial briefings and actuarial financial judgment regular reviews with ERM and business management;
- management of relationship between assets and liabilities, including hedging;
- experience monitoring and assumption updates;
- risk reporting and active risk management which includes meetings and collaboration between ERM and the business;
- enhanced pricing models; and
- compliance with financial reporting and capital and solvency targets.

We closely manage insurance risk by monitoring and controlling the nature and geographic location of the risks in each line of business underwritten, the terms and conditions of the underwriting and the premiums we charge for taking on the risk. We analyze concentrations of risk using various modeling techniques, including both probability distributions (stochastic) and/or single-point estimates (deterministic) approaches.

ITEM 7 | **Enterprise Risk Management****Risk Identification**

- **General Insurance companies** — risks covered include property, casualty, fidelity/surety, accident and health, aviation, and management liability. We manage risks in the General Insurance business through aggregations and limitations of concentrations at multiple levels: policy, line of business, geography, industry and legal entity.
- **Life and Retirement companies** — risks include mortality and morbidity in the insurance-oriented products and insufficient cash flows to cover contract liabilities, longevity risk in the retirement savings-oriented products and policyholder behavior. We manage risks through product design, sound medical and non-medical underwriting, and external reinsurance programs.

**We purchase reinsurance for our insurance operations.** Reinsurance facilitates insurance risk management (retention, volatility, concentrations) and capital planning. We may purchase reinsurance on a pooled basis. Pooling of our reinsurance risks enables us to purchase reinsurance more efficiently at a consolidated level, manage global counterparty risk and relationships and manage global catastrophe risks.

**Governance**

Insurance risks are monitored at the business unit level within ERM and overseen by the business unit chief risk officer, who reports directly to our CRO. The framework includes the following key components:

- written policies that define the rules for our insurance risk-taking activities;
- a limit framework focused on key insurance risks that aligns with our Board-approved risk appetite statement; and
- clearly defined authorities for all individuals and committee roles and responsibilities related to insurance risk management.

**Risk Measurement, Monitoring and Limits**

**We use a number of approaches to measure our insurance risk exposure, including: Stochastic methods.** Stochastic methods are used to measure and monitor risks including natural catastrophe, reserve and premium risk. We develop probabilistic estimates of risk based on our exposures, historical observed volatility or industry-recognized models in the case of catastrophe risk.

**Scenario analysis.** Scenario or deterministic analysis is used to measure and monitor risks such as terrorism or to estimate losses due to man-made catastrophic scenarios.

**Experience studies.** Ongoing assessment of mortality, longevity, morbidity and policyholder behavior experience relative to that assumed in pricing and valuation and that experienced in the general market. In addition, there are risk specific assessment tools in place to better manage the variety of insurance risks to which we are exposed.

We monitor concentrations of exposure through insurance limits aggregated along dimensions such as geography, industry, or counterparty.

The risk monitoring responsibilities of the business units include ensuring compliance with insurance risk limits and escalation and remediation of limit breaches. Such activities are reported to management by the relevant business unit for informative decision-making on a regular basis. This monitoring approach is aligned with our overall risk limits framework.

Risk limits have a consistent framework used across AIG, its business units, and legal entities. This includes escalation thresholds in cases where measurement is particularly challenging.

*For further information on our three-tiered hierarchy of limits see Risk Appetite, Limits, Identification, and Measurement – Risk Limits herein.*

### **General Insurance Companies' Key Risks**

We manage our risks through risk review and selection processes, exposure limitations, exclusions, deductibles, self-insured retentions, coverage limits, attachment points, and reinsurance. This management is supported by sound underwriting practices, pricing procedures and the use of actuarial analysis to help determine overall adequacy of provisions for insurance. Underwriting practices and pricing procedures incorporate historical experience, changes in underlying exposure, current regulation and judicial decisions as well as proposed or anticipated regulatory changes.



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For General Insurance companies, risks primarily include the following:

- **Loss Reserves** – The potential inadequacy of the liabilities we establish for unpaid losses and loss adjustment expenses is a key risk faced by the General Insurance companies. There is significant uncertainty in factors that may drive the ultimate development of losses compared to our estimates of losses and loss adjustment expenses. We manage this uncertainty through internal controls and oversight of the loss reserve setting process, as well as reviews by external experts. *For further information see Critical Accounting Estimates – Insurance Liabilities – Loss Reserves herein.*
- **Underwriting** – The potential inadequacy of premiums charged for future risk periods on risks underwritten in our portfolios can impact the General Insurance companies' ability to achieve an underwriting profit. We develop pricing based on our estimates of losses and expenses, but factors such as market pressures and the inherent uncertainty and complexity in estimating losses may result in premiums that are inadequate to generate underwriting profit. This may be driven by adverse economic conditions, unanticipated emergence of risks or increase in frequency of claims, worse than expected prepayment of policies, investment results, or unexpected or increased costs or expenses.
- **Catastrophe Exposure** – Our business is exposed to various catastrophic events in which multiple losses can occur and affect multiple lines of business in any calendar year. Natural disasters, such as hurricanes, earthquakes and other catastrophes, have the potential to adversely affect our operating results. Other risks, such as man-made catastrophes or pandemic disease, could also adversely affect our business and operating results to the extent they are covered by our insurance products. Concentration of exposure in certain industries or geographies may cause us to suffer disproportionate losses.
- **Single Risk Loss Exposure** – Our business is exposed to loss events that have the potential to generate losses from a single insured client. Events such as fires or explosions can result in loss activity for our clients. The net risk to us is managed to acceptable limits established by our GRC through a combination of internal underwriting standards and external reinsurance. Furthermore, single risk loss exposure is managed and monitored on both a segregated and aggregated basis.
- **Reinsurance** – Since we use reinsurance to limit our losses, we are exposed to risks associated with reinsurance including the unrecoverability of expected payments from reinsurers due to either an inability or unwillingness to pay, contracts that do not respond properly to the event or actual reinsurance coverage that is different than anticipated. The inability or unwillingness to pay is considered credit risk and is monitored through our credit risk management framework.

**Natural Catastrophe Risk**

We manage catastrophe exposure with multiple approaches such as setting risk limits based on aggregate Probable Maximum Loss (PML) modeling, monitoring overall exposures and risk accumulations, and purchasing catastrophe reinsurance through both the traditional reinsurance and capital markets in addition

to other reinsurance protections.

We use third-party catastrophe risk models and other tools to evaluate and simulate frequency and severity of catastrophic events and associated losses to our portfolios of exposures. We apply a proprietary multi-model approach to account for relative strengths and weaknesses of vendor models and make adjustments to modeled losses to account for loss adjustment expenses, model biases, data quality and non-modeled risks.

We perform post-catastrophe event studies to identify model weaknesses, underwriting gaps, and improvement opportunities. Lessons learned from post-catastrophe event studies are incorporated into the modeling and underwriting processes of risk pricing and selection. The majority of policies exposed to catastrophic risks are one-year contracts that allow us to adjust our underwriting guidelines, pricing and exposure accumulation in a relatively short period.

We recognize that climate change has implications for insurance industry exposure to natural catastrophe risk. With multiple levels of risk management processes in place, we actively analyze the latest climate science and policy to anticipate potential changes to our risk profile, pricing models and strategic planning. For example, we continually consider changes in climate and weather patterns as an integral part of the underwriting process. In addition, we are committed to providing innovative insurance products and services to help our clients be proactive against the threat of climate change, including expanding natural disaster resilience, promoting adaptation, and reducing greenhouse gas emissions. Our internal product development, underwriting, modeling, and sustainability practices will continue to adapt to and evolve with the developing risk exposures attributed to climate change.

Our natural catastrophe exposure is primarily driven by the U.S. and Japan, though our overall exposure is diversified across multiple countries. For example, we have exposures to additional perils such as European windstorms and floods and seismic events across the Pacific Rim. Within the U.S., we have significant hurricane exposure in Florida, the Gulf of Mexico, the Northeast U.S. and mid-Atlantic regions. Events impacting the Northeast U.S. and the mid-Atlantic may result in a higher share of industry losses than other regions primarily due to our relative share of exposure in those regions. Within the U.S., we have significant earthquake exposure in California, the Pacific Northwest and New Madrid regions. Earthquakes impacting the Pacific Northwest and New Madrid regions may result in a higher share of industry losses than other regions primarily due to our relative share of exposure in these regions.

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The estimates below are the Occurrence Exceedance Probability (OEP) losses, which reflect losses that may occur in any single event due to the defined peril. The 1-in-100 and 1-in-250 PMLs are the probable maximum losses from a single natural catastrophe event with probability of 1 percent and 0.4 percent in a year, respectively.

The following table presents an overview of OEP modeled losses for top perils and countries:

<b>At December 31, 2018</b> <i>(in millions)</i>	Net of Reinsurance	Net of Reinsurance, After Tax <sup>(e)</sup>	Percent of Total Shareholder Equity
<b>Exposures:</b>			
U.S. Hurricane (1-in-100) <sup>(a)</sup>	\$ 1,278	\$ 1,010	1.8%
U.S. Earthquake (1-in-250) <sup>(b)</sup>	1,639	1,295	2.3
Japanese Typhoon (1-in-100) <sup>(c)</sup>	448	354	0.6
Japanese Earthquake (1-in-250) <sup>(d)</sup>	\$ 446	\$ 352	0.6%

(a) The U.S. hurricane loss estimate includes losses to Commercial and Personal Property from hurricane hazards of wind and storm surge.

(b) The U.S. earthquake loss estimates represent exposure to Commercial and Personal Property, Workers' Compensation (U.S.) and A&H business lines.

(c) Japan Typhoon loss estimate represents exposure to Commercial and Personal Property.

(d) Japan Earthquake loss estimate represents exposure to Commercial and Personal Property and A&H business lines.

(e) Taxed at the statutory tax rate of 21 percent for both the U.S. and Japanese modeled losses. The majority of Japan exposures are ceded to our U.S. Pool.

AIG's 1-in-100 worldwide all peril OEP has reduced more than 15 percent from prior year, inclusive of Validus. The OEP estimates provided above reflect our in-force portfolios for exposures at October 1, 2018 for Validus and September 30, 2018 for the remainder of the exposure. The catastrophe reinsurance program is as of January 1, 2019. Other reinsurance covers are as of December 31, 2018.

AIG, along with other property casualty insurance and reinsurance companies, uses industry-recognized catastrophe models and applies proprietary modeling processes and assumptions to arrive at loss estimates. The use of different methodologies and assumptions could materially change the projected losses. Since there is no industry standard for assumptions and preparation of insured data for use in these models, our modeled losses may not be comparable to estimates made by other companies.

Also, the modeled results are based on the assumption that all reinsurers fulfill their obligations to us under the terms of the reinsurance arrangements. However, reinsurance recoverables may not be fully collectible.

Therefore, these estimates are inherently uncertain and may not accurately reflect our exposure to these events.

Our 2019 catastrophe reinsurance program provides protection on both an aggregate and occurrence basis. It is a worldwide program that provides differing per occurrence and aggregate attachment points for North America, Japan, and Rest of World (that also has some regional/country variations). The program includes \$2 billion of limit for either per occurrence or aggregate exposure that is shared across the regional towers.

Our coverage for North America includes:

- Per occurrence protection of up to \$4 billion excess of \$750 million, including \$2 billion of limit in excess of \$2.75 billion that is shared across the regional occurrence and aggregate towers
- Aggregate protection utilizing the \$2 billion of shared limit attaching excess \$750 Million for 40% of the limit and excess \$1 billion for 60% of the limit, with a \$100 million per occurrence deductible
- Up to \$500 million of aggregate or occurrence North America specific limit to supplement the shared limit in the event that this erodes
- A \$275 million occurrence catastrophe cover specific to our U.S. high net worth personal lines business, with varying attachment points tailored towards specific geographies

Our coverage for exposure outside North America includes:

- Japan per occurrence coverage of \$550 million excess of \$200 million and includes both personal and commercial exposure
- Rest of World per occurrence coverage up to \$425 million, with a retention of either \$50 million, \$75 million or \$125 million depending on the zone/country
- Rest of World and Japan dedicated aggregate protection of \$250 million excess \$250 million with a \$20 million per occurrence deductible
- Rest of World and Japan \$2 billion of per occurrence or aggregate shared limit

ITEM 7 | **Enterprise Risk Management**

We have also purchased property per risk covers that provide protection against large losses globally, which include those emanating from non-critical catastrophe events (all events except for named windstorm and earthquake) globally as well as critical catastrophe events (named windstorm and earthquake) outside North America.

For Validus Reinsurance Limited, our catastrophe protection comes from a variety of reinsurance protections but is largely providing \$400 million of limit excess \$300 million of retention from world-wide exposure via an aggregate excess of loss cover with an additional \$450 million of limit excess \$700 million via the Tailwind Re Cat Bond for US, Puerto Rico and Canada named storm losses.

Actual results in any period are likely to vary, perhaps materially, from the modeled scenarios. The occurrence of one or more severe events could have a material adverse effect on our financial condition, results of operations and liquidity.

*For additional information see also Item 1A. Risk Factors — Reserves and Exposures.*

**Terrorism Risk**

We actively monitor terrorism risk and manage exposures to losses from terrorist attacks. We have set risk limits based on modeled losses from certain terrorism attack scenarios. Terrorism risks are modeled using a third-party vendor model for various terrorism attack modes and scenarios. Adjustments are made to account for vendor model gaps and the nature of the General Insurance companies' exposures. Examples of modeled scenarios are conventional bombs of different sizes, anthrax attacks and nuclear attacks.

Our largest terrorism exposures are in New York City, and estimated losses are largely driven by the Property and Workers' Compensation lines of business. At our largest exposure location, modeled losses for a five-ton bomb attack net of the Terrorism Risk Insurance Program (TRIP) and reinsurance recoveries are estimated to be \$2.8 billion based on the exposures as of September 30, 2018.

Our exposure to terrorism risk in the U.S. is mitigated by TRIP in addition to limited private reinsurance protections. TRIP covers terrorist attacks within the United States or U.S. missions and against certain U.S. carriers or vessels and excludes certain lines of business as specified by applicable law. In 2019, TRIP covers 81 percent of insured losses above a deductible, decreasing to 80 percent in 2020. The current estimate of our deductible is approximately \$2.0 billion for 2018.

We offer terrorism coverage in many other countries through various insurance products and participate in country terrorism pools when applicable. International terrorism exposure is estimated using scenario-based modeling and exposure concentration is monitored routinely. Targeted reinsurance purchases are made for some lines of business to cover potential losses due to terrorist attacks. We also rely on the government-sponsored and government-arranged terrorism reinsurance programs, including pools, in force in applicable non-U.S. jurisdictions.

## Life and Retirement Companies' Key Risks

We manage risk through product design, experience monitoring, pricing actions, risk limitations, reinsurance and active monitoring and management of the relationships between assets and liabilities, including hedging.

For Life and Retirement companies, risks include the following:

- **Longevity risk** represents the risk of an increase in value of a policy or benefit as a result of actual mortality rates being lower than the expected mortality rates. This risk could arise from medical advancement and longer-term societal health changes. This risk exists in a number of our product lines but is most significant for our annuity products, structured settlements and pension risk transfer business.
- **Morbidity risk** represents the risk arising from actual morbidity (e.g. illness, disability or disease) incidence rate being higher than expected or the length of the claims extending longer than expected resulting in a higher overall benefit payout. This risk could arise from longer-term medical advances in detection and treatment for various diseases and medical conditions. This risk exists in a number of our product lines such as group benefits and long-term care businesses – which are in run-off or no longer being sold.
- **Mortality risk** – represents the risk of loss arising from actual mortality rates being higher than expected mortality rates. This risk could arise from pandemics or other events, including longer-term societal changes that cause higher-than-expected mortality. This risk exists in a number of our product lines, but is most significant for our life insurance products.

ITEM 7 | **Enterprise Risk Management**

- **Policyholder behavior risk (including full and partial surrender/lapse risk)** – represents the risk that actual policyholder behavior differs from expected behavior in a manner that has an adverse effect on our operating results. There are many related assumptions made when products are sold, including how long the contracts will persist and other assumptions which impact the expected utilization of contract benefits, options and guarantees. Actual experience can vary significantly from these assumptions. This risk is impacted by a number of factors including changes in market conditions, especially changes in the levels of interest rate and equity markets, tax law, regulations, competitive landscape and policyholder preferences. This risk exists in many of our product lines, but most notably within the annuity portfolio of business.

The emergence of significant adverse experience compared to the initial assumptions at policy issuance or updated assumption would require an adjustment to DAC and benefit reserves, which could have a material adverse effect on our consolidated results of operations for a particular period.

*For additional discussion of the impact of actual and expected experience on DAC and benefit reserves see Critical Accounting Estimates – Future Policy Benefits for Life and Accident and Health Insurance Contracts and Critical Accounting Estimates – Guaranteed Benefit Features of Variable Annuity Products. For additional discussion of business risks see Item 1A. Risk Factors — Business and Operations.*

**Variable Annuity Risk Management and Hedging Programs**

Our Individual and Group Retirement businesses offer variable annuity products with guaranteed living benefit (GLB) riders that guarantee a certain level of lifetime benefits. GLBs are accounted for as embedded derivatives measured at fair value, with changes in the fair value recorded in Other realized capital gains (losses). GLB features subject the Life and Retirement companies to market risk, including exposure to changes in interest rates, equity prices, credit spreads and market volatility.

Variable annuity product design is the first step in managing our exposure to these market risks. Risk mitigation features of our variable annuity product design include GLB rider fees indexed to an equity market volatility index, which can provide additional fee assessments in periods of increased market volatility, required minimum allocations to fixed accounts to reduce overall equity exposure, and for some of the variable annuity products, the utilization of volatility control funds, which reduce equity exposure in the funds in response to changes in market volatility, even under sudden or extreme market movements.

After reflecting our product risk-mitigating features, we hedge our remaining economic exposure to market risk within GLB features through our variable annuity hedging program, which is designed to offset certain changes in the economic value of these GLB embedded derivatives, within established thresholds. The hedging program is designed to provide additional protection against large and combined movements in interest rates, equity prices, credit spreads and market volatility under multiple scenarios.

Our hedging program utilizes an economic hedge target, which represents our estimate of the underlying economic risks in our GLB riders, based on the present value of the future expected benefit payments for

the GLB, less the present value of future GLB rider fees, over numerous stochastic scenarios. This stochastic projection method uses best estimate assumptions for policyholder behavior (including mortality, lapses, withdrawals and benefit utilization) in conjunction with market scenarios calibrated to observable equity and interest rate option prices. Policyholder behaviors are regularly evaluated to compare current assumptions to actual experience and, if appropriate, changes are made to the policyholder behavior assumptions. The risk of changes in policyholder behavior is not explicitly hedged and such differences between expected and actual policyholder behaviors will result in hedge ineffectiveness.

Due to differences between the calculation of the economic hedge target and U.S. GAAP valuation of the embedded derivative, which include differences in the treatment of rider fees and exclusion of certain risk margins and other differences in discount rates, we expect relative movements in the economic hedge target and the U.S. GAAP embedded derivative valuation will vary over time with changes in equity markets, interest rates and credit spreads.

*For information on the impact on our consolidated pre-tax income from the change in fair value of the embedded derivatives and the hedging portfolio, as well as additional discussion of differences between the economic hedge target and the valuation of the embedded derivatives see Insurance Reserves – Life and Annuity Reserves and DAC – Variable Annuity Guaranteed Benefits and Hedging Results.*

In designing our hedging portfolio for our variable annuity hedging program, we make assumptions and projections about the future performance of the underlying contract holder funds. To project future account value changes, we make assumptions about how each of the underlying funds will perform. We map the contract holder funds to a set of publicly traded indices that we believe best represent the liability to be hedged. Basis risk exists due to the variance between these assumptions and actual fund returns, which may result in variances between changes in the hedging portfolio and changes in the economic hedge target. Net hedge results and the cost of hedging are also impacted by differences between realized volatility and implied volatility.



**ITEM 7 | Enterprise Risk Management**

For index annuity and universal life products, we have a hedging program designed to manage the index crediting strategies associated with index annuity and index life products. This hedging program is designed to offset the economic risk with respect to the index returns for the current crediting rate reset period, and utilizes derivative instruments, including but not limited to equity index options and futures contracts. Similarly as with the variable annuities, there are differences between the calculation of the economic hedge target and U.S. GAAP valuation of the index annuity and index life embedded derivatives, which can lead to variances in their relative movements.

To manage the capital market exposures embedded within the economic hedge target, we identify and hedge market sensitivities to changes in equity markets, interest rates, volatility and for variable annuities, credit spreads. Each hedge program purchases derivative instruments or securities having sensitivities that offset corresponding sensitivities in the associated economic hedge targets, within internally defined threshold limits. Since the relative movements of the hedging portfolio and the economic hedge target vary over time or with market changes, the net exposure can be outside the threshold limits, and adjustments to the hedging portfolio are made periodically to return the net exposure to within the threshold limits.

Our hedging programs utilize various derivative instruments, including but not limited to equity options, futures contracts, interest rate swaps and swaptions, as well as other hedging instruments. In addition, within the variable annuities hedging program, we purchase certain fixed income securities and elect the fair value option as a capital efficient way to manage interest rate and credit spread exposures. To minimize counterparty credit risk the majority of the derivative instruments utilized within the hedging programs are cleared through global exchanges. Over the counter derivatives utilized within the hedging programs are highly collateralized.

The hedging programs are monitored on a daily basis to ensure that the economic hedge targets and the associated derivative portfolios are within the threshold limits, pursuant to the approved hedging strategy. Daily risk monitoring verifies that the net risk exposures are within the approved net risk exposure threshold limits. In addition, monthly stress tests are performed to determine the program's effectiveness relative to the applicable limits, under an array of combined severe market stresses in equity prices, interest rates, volatility and credit spreads. Finally, hedging strategies are reviewed regularly to gauge their effectiveness in managing our market exposures in the context of our overall risk appetite.

**Reinsurance Activities**

Reinsurance is used primarily to manage overall capital adequacy and mitigate the insurance loss (Life and Non-Life) exposure related to certain events such as natural and man-made catastrophes or death events. Our subsidiaries operate worldwide primarily by underwriting and accepting risks for their direct account on a gross basis and reinsuring a portion of the exposure on either an individual risk or an aggregate basis to the extent those risks exceed the desired retention level. In addition, as a condition of certain direct underwriting transactions, we may be required by clients, agents or regulation to cede all or a portion of risks to specified reinsurance entities, such as captives, other insurers, local reinsurers and compulsory

pools.

**Reinsurance markets include:**

- Traditional local and global reinsurance markets including those in the United States, Bermuda, London and Europe, accessed directly and through reinsurance intermediaries;
- Capital markets through insurance-linked securities and collateralized reinsurance transactions, such as catastrophe bonds, sidecars and similar vehicles; and
- Other insurers that engage in both direct and assumed reinsurance.

**The form of reinsurance we may choose from time to time will generally depend on whether we are seeking:**

- proportional reinsurance, whereby we cede a specified percentage of premiums and losses to reinsurers;
- non-proportional or excess of loss reinsurance, whereby we cede all or a specified portion of losses in excess of a specified amount on a per risk, per occurrence (including catastrophe reinsurance) or aggregate basis; or
- facultative contracts that reinsure individual policies.

We continually evaluate the relative attractiveness of different forms of reinsurance contracts and different markets that may be used to achieve our risk and profitability objectives.

Reinsurance contracts do not relieve our subsidiaries from their direct obligations to insureds. However, an effective reinsurance program substantially mitigates our exposure to potentially significant losses.

In certain markets, we are required to participate on a proportional basis in reinsurance pools based on our relative share of direct writings in those markets. Such mandatory reinsurance generally covers higher-risk consumer exposures such as assigned-risk automobile and earthquake, as well as certain commercial exposures such as workers' compensation.

ITEM 7 | **Enterprise Risk Management****Reinsurance Recoverable**

AIG's reinsurance recoverable assets are comprised of:

- Paid losses recoverable – balances due from reinsurers for losses and loss adjustment expenses paid by our subsidiaries and billed, but not yet collected.
- Ceded loss reserves – ultimate ceded reserves for losses and loss adjustment expenses, including reserves for claims reported but not yet paid and estimates for IBNR.
- Ceded reserves for unearned premiums.
- Life and Annuity reinsurance recoverables (ceded policy and claim reserves).

At December 31, 2018, total reinsurance recoverable assets were \$38.2 billion. These assets include general reinsurance paid losses recoverable of \$1.5 billion, ceded loss reserves of \$32.0 billion including reserves for incurred but not reported (IBNR) claims, and ceded reserves for unearned premiums of \$3.0 billion, as well as life reinsurance recoverable of \$1.7 billion. The methods used to estimate IBNR and to establish the resulting ultimate losses involve projecting the frequency and severity of losses over multiple years. These methods are continually reviewed and updated by management. Any adjustments are reflected in income. We believe that the amount recorded for ceded loss reserves at December 31, 2018 reflects a reasonable estimate of the ultimate losses recoverable. Actual losses may, however, differ from the reserves currently ceded.

The Reinsurance Credit Department (RCD) conducts periodic detailed assessments of the financial strength and condition of current and potential reinsurers, both foreign and domestic. The RCD monitors both the financial condition of reinsurers as well as the total reinsurance recoverable ceded to reinsurers, and sets limits with regard to the amount and type of exposure we are willing to take with reinsurers. As part of these assessments, we attempt to identify whether a reinsurer is appropriately licensed, assess its financial capacity and liquidity, and evaluate the local economic and financial environment in which a foreign reinsurer operates. The RCD reviews the nature of the risks ceded and the need for measures, including collateral to mitigate credit risk. For example, in our treaty reinsurance contracts, we frequently include provisions that require a reinsurer to post collateral or use other measures to reduce exposure when a referenced event occurs. Furthermore, we limit our unsecured exposure to reinsurers through the use of credit triggers such as insurer financial strength rating downgrades, declines in regulatory capital, or relevant risk-based capital (RBC) ratios fall below certain levels. We also set maximum limits for reinsurance recoverable exposure, which in some cases is the recoverable amount plus an estimate of the maximum potential exposure from unexpected events for a reinsurer. In addition, credit executives within ERM review reinsurer exposures and credit limits and approve reinsurer credit limits above specified levels. Finally, even where we conclude that uncollateralized credit risk is acceptable, we require collateral from active reinsurance counterparties where it is necessary for our subsidiaries to recognize the reinsurance

recoverable assets for statutory accounting purposes. At December 31, 2018, we held \$20.2 billion of collateral, in the form of funds withheld, securities in reinsurance trust accounts and/or irrevocable letters of credit, in support of reinsurance recoverable assets from unaffiliated reinsurers.

**The following table presents information for each reinsurer representing in excess of five percent of our total reinsurance recoverable assets:**

**At December 31, 2018**

<i>(in millions)</i>	S&P Rating <sup>(a)</sup>	A.M. Best Rating <sup>(a)</sup>	Gross Reinsurance Assets	Percent of Reinsurance Assets <sup>(b)</sup>	Uncollateralized Collateral Held <sup>(c)</sup>	Reinsurance Assets
<b>Reinsurer:</b>						
Berkshire Hathaway Group of Companies	<b>AA+</b>	<b>A++</b>	<b>\$ 14,375</b> <sup>(d)</sup>	<b>37.7%</b>	<b>\$ 12,913</b>	<b>\$ 1,462</b>
Swiss Reinsurance Group of Companies	<b>AA-</b>	<b>A+</b>	<b>\$ 4,507</b>	<b>11.8%</b>	<b>\$ 2,285</b>	<b>\$ 2,222</b>

(a) The financial strength ratings reflect the ratings of the various reinsurance subsidiaries of the companies listed as of January 29, 2019.

(b) Total reinsurance assets include both Property Casualty and Life and Retirement reinsurance recoverable.

(c) Excludes collateral held in excess of applicable treaty balances.

(d) Includes \$13.8 billion recoverable under the 2011 retroactive asbestos reinsurance transaction and the 2017 Adverse Development Reinsurance agreement.

At December 31, 2018, we had no significant reinsurance recoverable due from any individual reinsurer that was financially troubled. Reinsurer capital levels continued to increase in 2018, thereby increasing the industry's underwriting capacity, which resulted in continued competition and lower rates for 2019 renewals. Reduced profitability associated with lower rates could potentially result in reduced capacity or rating downgrades for some reinsurers. The RCD, in conjunction with the credit executives within ERM, reviews these developments, monitors compliance with credit triggers that may require the reinsurer to post collateral, and seeks to use other appropriate means to mitigate any material risks arising from these developments.

*For further discussion of reinsurance recoverable see Critical Accounting Estimates – Reinsurance Assets*

ITEM 7 | **Enterprise Risk Management****Other BUSINESS Risks****Derivative Transactions**

We utilize derivatives principally to enable us to hedge exposure to interest rates, currencies, credit, commodities, equities and other risks. Credit risk associated with derivative counterparties exists for a derivative contract when that contract has a positive fair value to us. The maximum potential exposure will increase or decrease during the life of the derivative commitments as a function of maturity and market conditions. All derivative transactions must be transacted within counterparty limits that have been approved by ERM.

We evaluate counterparty credit quality by internal analysis consistent with the AIG Credit Policy. We utilize various credit enhancements, including letters of credit, guarantees, collateral, credit triggers, credit derivatives, margin agreements and subordination to reduce the credit risk relating to outstanding financial derivative transactions. We require credit enhancements in connection with specific transactions based on, among other things, the creditworthiness of the counterparties, and transaction size and maturity. Furthermore, we enter into certain agreements that have the benefit of set-off and close-out netting provisions, such as ISDA Master Agreements. These provisions provide that, in the case of an early termination of a transaction, we can set off receivables from a counterparty against payables to the same counterparty arising out of all covered transactions. As a result, where a legally enforceable netting agreement exists, the fair value of the transaction with the counterparty represents the net sum of estimated fair values.

The fair value of our interest rate, currency, credit, commodity and equity swaps, options, swaptions, and forward commitments, futures, and forward contracts reported as a component of Other assets, was approximately \$0.9 billion at both December 31, 2018 and December 31, 2017. Where applicable, these amounts have been determined in accordance with the respective master netting agreements.

**The following table presents the fair value of our derivatives portfolios in asset positions by internal counterparty credit rating:**

**At December 31,**

*(in millions)*

**Rating:**

		<b>2018</b>		<b>2017</b>
AAA	\$	<b>37</b>	\$	12
AA		<b>4</b>		5
A		<b>81</b>		151
BBB		<b>619</b>		526
Below investment grade*		<b>174</b>		228
<b>Total</b>	<b>\$</b>	<b>915</b>	<b>\$</b>	<b>922</b>

\* Below investment grade includes not rated.

*For additional discussion related to derivative transactions see Note 11 to the Consolidated Financial Statements.*

**Glossary**

**Accident year** The annual calendar accounting period in which loss events occurred, regardless of when the losses are actually reported, booked or paid.

**Accident year combined ratio, as adjusted** The combined ratio excluding catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting.

**Accident year loss ratio, as adjusted** The loss ratio excluding catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting.

**Acquisition ratio** Acquisition costs divided by net premiums earned. Acquisition costs are those costs incurred to acquire new and renewal insurance contracts and also include the amortization of VOBA and DAC. Acquisition costs vary with sales and include, but are not limited to, commissions, premium taxes, direct marketing costs and certain costs of personnel engaged in sales support activities such as underwriting.

**Additional premium** represents a premium on an insurance policy over and above the initial premium imposed at the beginning of the policy. An additional premium may be assessed if the insured's risk is found to have increased significantly.

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

**Assets under administration** include assets under management and Retail Mutual Funds and Group Retirement mutual fund assets that we sell or administer.

**Assets under management** include assets in the general and separate accounts of our subsidiaries that support liabilities and surplus related to our life and annuity insurance products and the notional value of stable value wrap contracts.

**Base Spread** Net investment income excluding income from alternative investments and other enhancements, less interest credited excluding amortization of sales inducement assets.

**Base Yield** Net investment income excluding income from alternative investments and other enhancements, as a percentage of average base invested asset portfolio, which excludes alternative investments, other bond securities and certain other investments for which the fair value option has been elected.

**Book value per common share, excluding accumulated other comprehensive income (AOCI) and Book value per common share, excluding AOCI and deferred tax assets (DTA) (Adjusted book value per common share)** are non-GAAP measures and are used to show the amount of our net worth on a per-share basis. Book value per common share excluding AOCI is derived by dividing total AIG shareholders' equity, excluding AOCI, by total common shares outstanding. Adjusted book value per common share is derived by dividing total AIG shareholders' equity, excluding AOCI and DTA (Adjusted Shareholders' Equity), by total common shares outstanding.

**Casualty insurance** Insurance that is primarily associated with the losses caused by injuries to third persons, i.e., not the insured, and the legal liability imposed on the insured as a result.

**Combined ratio** Sum of the loss ratio and the acquisition and general operating expense ratios.

**CSA** *Credit Support Annex* A legal document generally associated with an ISDA Master Agreement that provides for collateral postings which could vary depending on ratings and threshold levels.

**CVA** *Credit Valuation Adjustment* The CVA adjusts the valuation of derivatives to account for nonperformance risk of our counterparty with respect to all net derivative assets positions. Also, the CVA reflects the fair value movement in AIGFP's asset portfolio that is attributable to credit movements only, without the impact of other market factors such as interest rates and foreign exchange rates. Finally, the CVA also accounts for our own credit risk in the fair value measurement of all derivative net liability positions and liabilities where AIG has elected the fair value option, when appropriate.

**DAC** *Deferred Policy Acquisition Costs* Deferred costs that are incremental and directly related to the successful acquisition of new business or renewal of existing business.



**TABLE OF CONTENTS****Glossary**

**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.

**Loss Ratio** Losses and loss adjustment expenses incurred divided by net premiums earned.

**Loss reserve development** The increase or decrease in incurred losses and loss adjustment expenses related to prior years as a result of the re-estimation of loss reserves at successive valuation dates for a given group of claims.

**Loss reserves** Liability for unpaid losses and loss adjustment expenses. The estimated ultimate cost of settling claims relating to insured events that have occurred on or before the balance sheet date, whether or not reported to the insurer at that date.

**Loan-to-Value Ratio** Principal amount of loan amount divided by appraised value of collateral securing the loan.

**Master netting agreement** An agreement between two counterparties who have multiple derivative contracts with each other that provides for the net settlement of all contracts covered by such agreement, as well as pledged collateral, through a single payment, in a single currency, in the event of default on or upon termination of any one such contract.

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

**Glossary**

**Noncontrolling interest** The portion of equity ownership in a consolidated subsidiary not attributable to the controlling parent company.

**Policy fees** An amount added to a policy premium, or deducted from a policy cash value or contract holder account, to reflect the cost of issuing a policy, establishing the required records, sending premium notices and other related expenses.

**Pool** A reinsurance arrangement whereby all of the underwriting results of the pool members are combined and then shared by each member in accordance with its pool participation percentage.

**Premiums and deposits – Life and Retirement** include direct and assumed amounts received on traditional life insurance policies and group benefit policies, and deposits on life-contingent payout annuities, as well as deposits received on universal life, investment-type annuity contracts, 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 treaties.

**Reinsurance** The practice whereby one insurer, the reinsurer, in consideration of a premium paid to that insurer, agrees to indemnify another insurer, the ceding company, for part or all of the liability of the ceding company under one or more policies or contracts of insurance which it has issued.

**Retroactive Reinsurance** See *Deferred Gain on Retroactive Reinsurance*.

**Return on equity – Adjusted after-tax income excluding AOCI and DTA (Adjusted Return on equity)** is a non-GAAP measure and is used to show the rate of return on shareholders' equity. Adjusted Return on equity is derived by dividing actual or annualized adjusted after-tax income attributable to AIG by average Adjusted Shareholders' Equity.

**Return premium** represents amounts given back to the insured in the case of a cancellation, an adjustment to the rate or an overpayment of an advance premium.

**Salvage** The amount that can be recovered by an insurer for the sale of damaged goods for which a policyholder has been indemnified (and to which title was transferred).

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

**SIA Sales Inducement Asset** Represents enhanced crediting rates or bonus payments to contract holders on certain annuity and investment contract products that meet the criteria to be deferred and amortized over the life of the contract.

**Solvency II** Legislation in the European Union which reforms the insurance industry's solvency framework, including minimum capital and solvency requirements, governance requirements, risk management and public reporting standards. The Solvency II Directive (2009/138/EEC) was adopted on November 25, 2009 and became effective on January 1, 2016.

**Subrogation** The amount of recovery for claims we have paid our policyholders, generally from a negligent third party or such party's insurer.

**Surrender charge** A charge levied against an investor for the early withdrawal of funds from a life insurance or annuity contract, or for the cancellation of the agreement.

**Surrender rate** represents annualized surrenders and withdrawals as a percentage of average reserves and Group Retirement mutual fund assets under administration.

**Unearned premium reserve** Liabilities established by insurers and reinsurers to reflect unearned premiums, which are usually refundable to policyholders if an insurance or reinsurance contract is canceled prior to expiration of the contract term.

**VOBA** *Value of Business Acquired* Present value of projected future gross profits from in-force policies of acquired businesses.

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**Acronyms**

**Acronyms**

**A&H** Accident and Health Insurance

**ABS** Asset-Backed Securities

**BCFP** Bureau of Consumer Financial Protection

**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

**GLB** Guaranteed Living Benefit

**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

**NYSE** New York Stock Exchange

**OTC** Over-the-Counter

**OTTI** Other-Than-Temporary Impairment

**PCAOB** Public Company Accounting Oversight Board (United States)

**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

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ITEM 7A | **Quantitative and Qualitative Disclosures about Market Risk**

ITEM 7A | **Quantitative and Qualitative Disclosures about Market Risk**

The information required by this item is set forth in the Enterprise Risk Management section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and is incorporated herein by reference.

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ITEM 8 | Report of Independent Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of American International Group, Inc.:

*Opinions on the Financial Statements and Internal Control over Financial Reporting*

We have audited the accompanying consolidated balance sheets of American International Group, Inc. and its subsidiaries (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2018, including the related notes and financial statement schedules listed in the accompanying index (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

*Basis for Opinions*

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis,

evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As described in Management's Report on Internal Control over Financial Reporting, management has excluded Validus Holdings, Ltd. and Glatfelter Insurance Group (the "Acquired Businesses") from its assessment of internal control over financial reporting as of December 31, 2018 because they were acquired by the Company in purchase business combinations during 2018. We have also excluded the Acquired Businesses from our audit of internal control over financial reporting. The Acquired Businesses are wholly-owned subsidiaries whose total assets and total revenues excluded from management's assessment and our audit of internal control over financial reporting collectively represent approximately 2 percent and 3 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2018.

#### *Definition and Limitations of Internal Control over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*/s/ PricewaterhouseCoopers LLP*

New York, New York

February 15, 2019

We have served as the Company's auditor since 1980.



## American International Group, Inc.

## Consolidated Balance Sheets

*(in millions, except for share data)***Assets:**

## Investments:

## Fixed maturity securities:

Bonds available for sale, at fair value (amortized cost: 2018 - \$225,780; 2017 - \$225,461)

Other bond securities, at fair value *(See Note 6)*

## Equity Securities:

Common and preferred stock available for sale, at fair value (cost: 2017 - \$1,305)

Other common and preferred stock, at fair value *(See Note 6)*

Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2018 - \$0; 2017 - \$5)

Other invested assets (portion measured at fair value: 2018 - \$5,894; 2017 - \$6,248)

Short-term investments, including restricted cash of \$142 in 2018 and \$58 in 2017

(portion measured at fair value: 2018 - \$3,015; 2017 - \$2,615)

Total investments

## Cash

## Accrued investment income

## Premiums and other receivables, net of allowance

## Reinsurance assets, net of allowance

## Deferred income taxes

## Deferred policy acquisition costs

Other assets, including restricted cash of \$343 in 2018 and \$317 in 2017

(portion measured at fair value: 2018 - \$973; 2017 - \$922)

Separate account assets, at fair value

**Total assets****Liabilities:**

Liability for unpaid losses and loss adjustment expenses

Unearned premiums

Future policy benefits for life and accident and health insurance contracts

Policyholder contract deposits (portion measured at fair value: 2018 - \$4,116; 2017 - \$4,150)

Other policyholder funds

Other liabilities (portion measured at fair value: 2018 - \$1,265; 2017 - \$1,124)

Long-term debt (portion measured at fair value: 2018 - \$2,213; 2017 - \$2,888)

Separate account liabilities

**Total liabilities****Contingencies, commitments and guarantees *(See Note 16)*****AIG shareholders' equity:**

Common stock, \$2.50 par value; 5,000,000,000 shares authorized; shares issued: 2018 - 1,906,671,492 and 2017 - 1,906,671,492

Treasury stock, at cost; 2018 - 1,040,062,063 shares; 2017 - 1,007,626,835 shares of common stock

Additional paid-in capital

Retained earnings

Accumulated other comprehensive income (loss)

**Total AIG shareholders' equity**

**Non-redeemable noncontrolling interests**

**Total equity**

**Total liabilities and equity**

\$ 4

*See accompanying Notes to Consolidated Financial Statements.*

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American International Group, Inc.

## Consolidated Statements of Income

<i>(dollars in millions, except per share data)</i>	Years Ended December 31,		
	<b>2018</b>	2017	2016
<b>Revenues:</b>			
Premiums	\$ <b>30,614</b>	\$ 31,374	\$ 34,393
Policy fees	<b>2,791</b>	2,935	2,732
Net investment income	<b>12,476</b>	14,179	14,065
Net realized capital losses:			
Total other-than-temporary impairments on available for sale securities	<b>(190)</b>	(196)	(458)
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income (loss)	<b>(61)</b>	(31)	(29)
Net other-than-temporary impairments on available for sale securities recognized in net income (loss)	<b>(251)</b>	(227)	(487)
Other realized capital gains (losses)	<b>121</b>	(1,153)	(1,457)
Total net realized capital losses	<b>(130)</b>	(1,380)	(1,944)
Other income	<b>1,638</b>	2,412	3,121
<b>Total revenues</b>	<b>47,389</b>	49,520	52,367
<b>Benefits, losses and expenses:</b>			
Policyholder benefits and losses incurred	<b>27,412</b>	29,972	32,437
Interest credited to policyholder account balances	<b>3,754</b>	3,592	3,705
Amortization of deferred policy acquisition costs	<b>5,386</b>	4,288	4,521
General operating and other expenses	<b>9,302</b>	9,107	10,989
Interest expense	<b>1,309</b>	1,168	1,260
(Gain) loss on extinguishment of debt	<b>7</b>	(5)	74
Net gain on sale of divested businesses	<b>(38)</b>	(68)	(545)
<b>Total benefits, losses and expenses</b>	<b>47,132</b>	48,054	52,441
<b>Income (loss) from continuing operations before income tax expense</b>	<b>257</b>	1,466	(74)
<b>Income tax expense:</b>			
Current	<b>336</b>	636	576
Deferred	<b>(182)</b>	6,890	(391)
<b>Income tax expense</b>	<b>154</b>	7,526	185
<b>Income (loss) from continuing operations</b>	<b>103</b>	(6,060)	(259)
<b>Income (loss) from discontinued operations, net of income tax expense</b>	<b>(42)</b>	4	(90)
<b>Net income (loss)</b>	<b>61</b>	(6,056)	(349)
<b>Less:</b>			
<b>Net income from continuing operations attributable to noncontrolling interests</b>	<b>67</b>	28	500
<b>Net loss attributable to AIG</b>	<b>\$ (6)</b>	\$ (6,084)	\$ (849)
<b>Income (loss) per common share attributable to AIG:</b>			
Basic:			
Income (loss) from continuing operations	<b>\$ 0.04</b>	\$ (6.54)	\$ (0.70)

Reference to Financial Statements and Schedules

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Loss from discontinued operations	\$	(0.05)	\$	-\$	(0.08)
Net loss attributable to AIG	\$	(0.01)	\$	(6.54)	(0.78)
Diluted:					
Income (loss) from continuing operations	\$	0.04	\$	(6.54)	(0.70)
Loss from discontinued operations	\$	(0.05)	\$	-\$	(0.08)
Net loss attributable to AIG	\$	(0.01)	\$	(6.54)	(0.78)
<b>Weighted average shares outstanding:</b>					
Basic		<b>898,405,537</b>	930,561,286	1,091,085,131	
Diluted		<b>910,141,242</b>	930,561,286	1,091,085,131	

*See accompanying Notes to Consolidated Financial Statements.*

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American International Group, Inc.

Consolidated Statements of Comprehensive Income (Loss)

	Years Ended	
	2018	2017
<i>(in millions)</i>		
<b>Net income (loss)</b>	\$ 61	\$(6)
<b>Other comprehensive income (loss), net of tax</b>		
Change in unrealized appreciation (depreciation) of fixed maturity securities on which other-than-temporary credit impairments were taken	(1,000)	1
Change in unrealized appreciation (depreciation) of all other investments	(4,975)	2
Change in foreign currency translation adjustments	(349)	(3)
Change in retirement plan liabilities adjustment	28	
Change in fair value of liabilities under fair value option attributable to changes in own credit risk	3	
<b>Other comprehensive income (loss)</b>	<b>(6,293)</b>	<b>2</b>
<b>Comprehensive income (loss)</b>	<b>(6,232)</b>	<b>(3)</b>
Comprehensive income attributable to noncontrolling interests	76	
<b>Comprehensive loss attributable to AIG</b>	<b>\$(6,308)</b>	<b>\$(3)</b>

See accompanying Notes to Consolidated Financial Statements.



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American International Group, Inc.

Consolidated Statements of Equity

<i>(in millions)</i>	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
<b>Balance, January 1, 2016</b>	\$ 4,766	\$ (30,098)	\$ 81,510	\$ 30,943	\$ 2,537
Common stock issued under stock plans	-	86	(175)	-	-
Purchase of common stock	-	(11,460)	-	-	-
Net income (loss) attributable to AIG or other noncontrolling interests	-	-	-	(849)	-
Dividends	-	-	-	(1,372)	-
Other comprehensive income (loss)	-	-	-	-	693
Current and deferred income taxes	-	-	(208)	-	-
Net increase due to acquisitions and consolidations	-	-	-	-	-
Contributions from noncontrolling interests	-	-	-	-	-
Distributions to noncontrolling interests	-	-	-	-	-
Other	-	1	(63)	(11)	-
<b>Balance, December 31, 2016</b>	\$ 4,766	\$ (41,471)	\$ 81,064	\$ 28,711	\$ 3,230
Common stock issued under stock plans	-	147	(325)	-	-
Purchase of common stock	-	(6,275)	-	-	-
Net income (loss) attributable to AIG or other noncontrolling interests	-	-	-	(6,084)	-
Dividends	-	-	-	(1,172)	-
Other comprehensive income (loss)	-	-	-	-	2,235
Current and deferred income taxes	-	-	(4)	-	-
Net increase due to acquisitions and consolidations	-	-	-	-	-
Contributions from noncontrolling interests	-	-	-	-	-
Distributions to noncontrolling interests	-	-	-	-	-
Other	-	4	343	2	-
<b>Balance, December 31, 2017</b>	\$ 4,766	\$ (47,595)	\$ 81,078	\$ 21,457	\$ 5,465
Cumulative effect of change in accounting principle, net of tax	-	-	-	568	(576)
Common stock issued under stock plans	-	189	(344)	-	-
Purchase of common stock	-	(1,739)	-	-	-
Net income (loss) attributable to AIG or noncontrolling interests	-	-	-	(6)	-
Dividends	-	-	-	(1,138)	-
Other comprehensive income (loss)	-	-	-	-	(6,302)
Current and deferred income taxes	-	-	-	-	-
Net increase due to acquisitions and consolidations	-	-	-	-	-
Contributions from noncontrolling interests	-	-	-	-	-
Distributions to noncontrolling interests	-	-	-	-	-
Other	-	1	534	3	-
<b>Balance, December 31, 2018</b>	\$ 4,766	\$ (49,144)	\$ 81,268	\$ 20,884	\$ (1,413)

See accompanying Notes to Consolidated Financial Statements.



American International Group, Inc.

Consolidated Statements of Cash Flows

*(in millions)*

**Cash flows from operating activities:**

Net income (loss)

(Income) loss from discontinued operations

**Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:**

**Noncash revenues, expenses, gains and losses included in income (loss):**

Net (gains) losses on sales of securities available for sale and other assets

Net gain on sale of divested businesses

(Gains) losses on extinguishment of debt

Years

201

\$ 6

4

9

(38