AMERICAN INTERNATIONAL GROUP INC
Form 10-K
February 23, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

American International Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**13-2592361**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
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

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

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

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
		(Do not check if a smaller reporting company)	

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

Document of the Registrant	**Form 10-K Reference Locations**
Form 10-K/A to be filed no later than 120 days after the end of the fiscal year	Part II, Item 5 and Part III, Items 10, 11, 12, 13 and 14

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

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ITEM 1 | Business

American International Group, Inc. (AIG)

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

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

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

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

AIG's Industry Leadership

World Class Insurance Franchises

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

Balance Sheet Quality and Strength

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

Effective Capital Management

of the largest shareholders' equity of any insurance company in the world[(a)], supported by enhanced risk management.

Breadth of Customers

We serve over 87 percent of companies included in the Fortune Global 500[(b)] and 83 percent of the Forbes 2000[(b)].

A Diverse Mix of Businesses

with a presence in most international markets.

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

(b) At November 1, 2016.

AIG's Value Creation

AIG Priorities for 2017

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

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

AIG's Execution: Accomplishments for 2015 and 2016

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

OUR MODULAR MANAGEMENT FRAMEWORK

AIG's new operating model

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

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

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

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

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

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

Business Modules

Commercial Insurance

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

Consumer Insurance

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

Other Operations

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

Legacy Portfolio

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

Geography Modules

United States

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

Europe

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

Japan

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

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

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

Geographic Concentration

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

Diversified Mix of Businesses

(dollars in millions)

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

How We Generate Revenues and Profitability

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

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

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

Investment Activities of Our Insurance Operations

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

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

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

Loss Reserve Development Process

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

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

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

Our Employees

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

Regulation

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

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

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

U.S. FEDERAL REGULATION

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

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

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

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

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

• enhanced prudential standards for nonbank SIFIs (including minimum leverage and risk-based capital requirements, capital planning, stress tests, liquidity requirements, corporate governance requirements, contingent capital requirements, counterparty credit limits, an early remediation regime process and resolution planning);

• limitations on proprietary trading or covered fund activities, if the FRB decides to impose certain elements of Section 619 of Dodd-Frank (referred to as the "Volcker Rule") on nonbank SIFIs;

• financial sector concentration limits; and

• increased regulation and restrictions on derivatives markets and transactions.

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

U.S. STATE REGULATION

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

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

FOREIGN REGULATION

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

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

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

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

Federal Reserve REGULATION AND Supervision

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

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

- stress tests to determine whether, on a consolidated basis, we have the capital necessary to absorb losses due to adverse economic conditions;

- enhanced prudential standards, including new group-wide requirements relating to risk-based capital, leverage, liquidity and credit exposure, as well as overall risk management requirements; and

- an early remediation regime process to be administered by the FRB.

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

On June 3, 2016, the FRB released for public comment an advance notice of proposed rulemaking (ANPR) outlining two conceptual insurance group capital frameworks that could apply to insurance groups supervised by the FRB - a building block approach, proposed for insurance institutions that are savings and loan holding companies or bank holding companies by virtue of owning depository institutions, and a consolidated approach for insurer nonbank SIFIs. In general, the consolidated approach would consolidate an insurance company's assets and insurance liabilities into risk segments tailored to account for the liability structure and unique features of the insurance company, apply risk factors to each segment and then set minimum capital requirements. The ANPR does not provide details on specific risk segments, risk factors, capital adequacy ratios and other important elements that could be applied to us under the consolidated approach, and we cannot predict how such an approach would affect our business, results of operations, financial condition or capital requirements. The comment period has closed and we anticipate that the FRB will issue a NPR after evaluating all comments received.

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

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

Other Effects of Dodd-Frank

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

- As a nonbank SIFI, we are currently required to provide on an annual basis to the FRB and Federal Deposit Insurance Corporation (FDIC) a plan for our rapid and orderly resolution in the event of material financial distress or failure, which must provide a detailed resolution strategy and analyses of our material entities, organizational structure, interconnections and interdependencies, and management information systems. In accordance with an extension of the annual deadline provided by the FRB and FDIC to 38 firms including AIG in 2016, we plan to submit our next resolution plan to regulators on December 31, 2017. If the FRB and FDIC jointly were to determine, based on their review of the plan, that it is not credible or would not facilitate our orderly resolution under Title 11 of the United States Code (the Bankruptcy Code), the FRB and FDIC may require us to re-submit an amended plan. If the re-submitted plan also were to fail to meet regulatory expectations, the FRB and FDIC may exercise their authority under Dodd-Frank to impose more stringent capital, leverage, or liquidity requirements, restrict our growth, activities, or operations, require us to divest assets and operations, or otherwise increase their level of supervision of us.

- The Council may recommend that state insurance regulators or other regulators apply new or heightened standards and safeguards for activities or practices that we and other insurers or other financial services companies engage in.

- Title II of Dodd-Frank (Orderly Liquidation Authority) provides that a financial company whose largest United States subsidiary is an insurer may be subject to a special orderly liquidation process outside the Bankruptcy Code. That process is to be administered by the FDIC upon a determination that the company is in default or in danger of default, is not likely to attract private sector alternatives to default and is not suitable for resolution under the Bankruptcy Code. Our U.S. insurance subsidiaries, however, would be subject to rehabilitation and liquidation proceedings under state insurance law.

- Title VII of Dodd-Frank provides for significantly increased regulation of and restrictions on derivatives markets and transactions that have affected and, as additional regulations come into effect, could affect various activities of AIG and its insurance and financial services subsidiaries, including (i) regulatory reporting for swaps and security-based swaps, (ii) mandated clearing through central counterparties and execution through regulated swap execution facilities for certain swaps and security-based swaps and (iii) margin and collateral requirements. Although the CFTC has finalized many of its requirements, the SEC has yet to finalize the majority of rules comprising its security-based swap regulatory regime.

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

- Dodd-Frank mandated a study to determine whether stable value contracts should be included in the definition of "swap." If that study concludes that stable value contracts are swaps, Dodd-Frank authorizes certain federal regulators to determine whether an exemption from the definition of a swap for stable value contracts is appropriate and in the public interest. Certain of our affiliates participate in the stable value contract business. We cannot predict what regulations might emanate from the aforementioned study or be promulgated applicable to this business in the future.

- Dodd-Frank established the Federal Insurance Office (FIO) within the United States Department of the Treasury (Department of the Treasury) headed by a director appointed by the Secretary of the Treasury. The director of the FIO performs various public policy functions with respect to insurance, including serving as a non-voting member of the Council.

- On November 20, 2015, the Department of the Treasury, assisted by the FIO, and the United States Trade Representative announced their intention to negotiate an agreement between the U.S. and the EU regarding prudential measures with respect to insurance and reinsurance. On January 13, 2017, the U.S. and EU announced that they had successfully negotiated terms of such an agreement. For additional information, see Regulation – Other Regulatory Developments.

- Dodd-Frank established the Consumer Financial Protection Bureau (CFPB) within the FRB to regulate consumer financial products and services offered primarily for personal, family or household purposes. Insurance products and services are not within the CFPB's general jurisdiction. Broker-dealers and investment advisers are not subject to the CFPB's jurisdiction when acting in their registered capacity.

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

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

Other Regulatory Developments

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

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

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

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

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

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

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

ERISA Considerations

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

On April 8, 2016, the DOL published its final fiduciary duty rule (the DOL Fiduciary Rule), substantially expanding the definition of fiduciary investment advice. As a result, the circumstances under which financial services providers and financial advisors could be deemed a fiduciary under ERISA or the Internal Revenue Code when providing investment advice with respect to ERISA plans or Individual Retirement Accounts (IRAs) are greatly expanded. The DOL Fiduciary Rule contains revisions to and adoptions of new prohibited transaction exemptions under ERISA, including revisions to a prohibited transaction exemption historically available in conjunction with the sale of fixed and variable annuity contracts to ERISA covered plans, commonly referred to as “84-24”, and the adoption of the “best interest contract exemption”. The initial compliance date of the DOL Fiduciary Rule is April 10, 2017, with full compliance required by January 1, 2018. On February 3, 2017, the new U.S. administration issued a memo requiring the DOL to review the DOL Fiduciary Rule and determine whether it will adversely impact the ability of retirement savers to access information and financial advice. Accordingly, the DOL announced that it would consider legal options for postponing the applicability date of the DOL Fiduciary Rule while the DOL considers the issues raised in the referenced memo. We are closely following the DOL’s pronouncements about further delays to the DOL Fiduciary Rule’s applicability date.*For additional information, see Item 7. MD&A — Executive Summary – AIG’s Outlook – Industry and Economic Factors- Department of Labor Fiduciary Rule and Part I, Item 1A. Risk Factors.*

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

Regulation of Insurance Subsidiaries

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

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

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

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

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

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

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

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

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

Available Information about AIG

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

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

Also available on our corporate website:

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

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

ITEM 1A | Risk Factors

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

MARKET CONDITIONS

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

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

- declines in the valuation and performance of our investment portfolio, including declines attributable to rapid increases in interest rates;

- increased credit losses;

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

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

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

Investment Portfolio, Concentration of Investments, Insurance and other Exposures

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

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

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

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

Reserves and Exposures

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

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

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

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

- widespread claim costs associated with property, workers' compensation, A&H, business interruption and mortality and morbidity claims;

- loss resulting from a decline in the value of our invested assets;

- limitations on our ability to recover deferred tax assets;

- loss resulting from actual policy experience that is adverse compared to the assumptions made in product pricing;

- declines in value and/or losses with respect to companies and other entities whose securities we hold and counterparties we transact business with and have credit exposure to, including reinsurers, and declines in the value of investments; and

- significant interruptions to our systems and operations.

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

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

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

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

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

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

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

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

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

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

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

LIQUIDITY, CAPITAL AND CREDIT

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

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

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

Our subsidiaries may not be able to generate cash to meet their needs due to the illiquidity of some of their investments. Our subsidiaries have investments in certain securities that may be illiquid, including certain fixed income securities and certain structured securities, private company securities, investments in private equity funds and hedge funds, mortgage loans, finance receivables and real estate. Collectively, investments in these assets had a fair value of $58 billion at December 31, 2016. Adverse real estate and capital markets, and wider credit spreads, have in the past, and may in the future, materially adversely affect the liquidity of our other securities portfolios, including our residential and commercial mortgage related securities portfolios. In the event additional liquidity is required by one or more of our subsidiaries and AIG Parent is unable to provide it, it may be difficult for these subsidiaries to generate additional liquidity by selling, pledging or otherwise monetizing these less liquid investments.

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

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

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

Business and operations

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

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

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

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

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

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

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

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

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

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

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

In addition, we routinely transmit, receive and store personal, confidential and proprietary information by email and other electronic means. Although we attempt to keep such information confidential, we may be unable to do so in all events, especially with clients, vendors, service providers, counterparties and other third parties who may not have or use appropriate controls to protect personal, confidential or proprietary information. Furthermore, certain of our businesses are subject to compliance with laws and regulations enacted by U.S. federal and state governments, the European Union or other jurisdictions or enacted by various regulatory organizations or exchanges relating to the privacy and security of the information of clients, employees or others. The compromise of personal, confidential or proprietary information could result in remediation costs, legal liability, regulatory action and reputational harm.

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

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

REGULATION

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

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

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

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

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

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

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

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

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

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

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

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

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

Our domestic Life Insurance Companies manage the capital impact of statutory reserve requirements under Regulation XXX and Guideline AXXX through reinsurance transactions, to maintain their ability to offer competitive pricing and successfully market such products. If regulations change with respect to our ability to manage the capital impact of certain statutory reserve requirements, our statutory reserve requirements could increase, or our ability to take reserve credit for reinsurance transactions could be reduced or eliminated. As a result, we could be required to increase prices on our products, raise capital to replace the reserve credit provided by the reinsurance transactions or incur higher expenses to obtain reinsurance, each of which could adversely affect our competitive position, financial condition or results of operations. If our actions to efficiently manage the impact of Regulation XXX or Guideline AXXX on future sales of term and universal life insurance products are not successful, we may incur higher operating costs or our sales of these products may be affected. *See Note 19 to the Consolidated Financial Statements for additional information on statutory reserving requirements under Regulation XXX and Guideline AXXX and our use of reinsurance.*

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

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

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

Incorporation (Protective Amendment), which is designed to prevent certain transfers of AIG Common Stock that could result in an “ownership change” and currently expires on May 12, 2017. The Board intends to submit to our shareholders for approval at our 2017 Annual Meeting of Shareholders an amendment to our Amended and Restated Certificate of Incorporation to adopt a successor to the Protective Amendment that contains substantially the same terms as the Protective Amendment but would expire on the third anniversary of the date of our 2017 Annual Meeting of Shareholders.

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

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

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

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

COMPETITION and employees

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

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

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

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

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

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

ESTIMATES AND ASSUMPTIONS

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

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

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

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

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

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

ITEM 1B | Unresolved Staff Comments

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

ITEM 2 | Properties

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

Property Casualty Insurance Companies: • Stevens Point, Wisconsin	**Life Insurance Companies:** • Amarillo and Houston, Texas
Other Operations: • 175 Water Street in New York, New York • Livingston, New Jersey • Stowe, Vermont • Ft. Worth, Texas	

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

LOCATIONS OF CERTAIN ASSETS

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

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

ITEM 3 | Legal Proceedings

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

ITEM 4 | Mine Safety Disclosures

Not applicable.

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

Part II

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

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

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

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

Dividends

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

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

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

Equity Compensation Plans

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

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

Purchases of Equity Securities

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

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

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

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

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

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

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, 2011 to December 31, 2016) with the cumulative total return of the S&P's 500 stock index (which includes AIG), the S&P Property and Casualty Insurance Index (S&P P&C Index) and the S&P Life and Health Insurance Index (S&P L&H Index).

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

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

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

Value of $100 Invested on December 31, 2011

(All $ as of December 31st)

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

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

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.

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

Income (loss) per common share attributable to AIG common shareholders					
Basic					
Income (loss) from continuing operations	**(0.70)**	1.69	5.31	6.11	2.04
Income (loss) from discontinued operations	**(0.08)**	-	(0.04)	0.05	-
Net income (loss) attributable to AIG	**(0.78)**	1.69	5.27	6.16	2.04
Diluted					
Income (loss) from continuing operations	**(0.70)**	1.65	5.24	6.08	2.04
Income (loss) from discontinued operations	**(0.08)**	-	(0.04)	0.05	-
Net income (loss) attributable to AIG	**(0.78)**	1.65	5.20	6.13	2.04
Dividends declared per common share	**1.28**	0.81	0.50	0.20	-

ITEM 6 | **Selected Financial Data**

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

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

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

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

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

Items Affecting Comparability Between Periods

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

Asset Dispositions in 2014, 2015 and 2016

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

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

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

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

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

Years Ended December 31,					
(dollars in millions)	**2016**	2015	2014	2013	201
Net income (loss) attributable to AIG	**$ (849)**	$ 2,196	$ 7,529	$ 9,085	$ 3,43
After-tax operating income attributable to AIG	**406**	2,872	6,941	6,449	6,50
Average AIG Shareholders' equity	**86,617**	101,558	105,589	98,850	101,87
Average AOCI	**5,722**	7,598	9,781	8,865	9,71
Average AIG Shareholders' equity, excluding average AOCI	**80,895**	93,960	95,808	89,985	92,15
Average DTA	**15,905**	15,803	16,611	18,150	19,25
Average adjusted Shareholders' equity	**$ 64,990**	$ 78,157	$ 79,197	$ 71,835	$ 72,90
ROE	**(1.0)%**	2.2%	7.1%	9.2%	3

Adjusted Return on Equity	**0.6**	3.7	8.8	9.0	8

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

Cautionary Statement Regarding Forward-Looking Information

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

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

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

- changes in market conditions;
- negative impacts on customers, business partners and other stakeholders;
- the occurrence of catastrophic events, both natural and man-made;
- significant legal proceedings;
- our ability to successfully reduce costs and expenses and make business and organizational changes without negatively impacting client relationships or our competitive position;
- our ability to successfully dispose of, or monetize, businesses or assets;

- the timing and applicable requirements of any new regulatory framework to which we are subject as a nonbank systemically important financial institution (SIFI) and as a global systemically important insurer (G SII);
- concentrations in our investment portfolios;
- actions by credit rating agencies;
- judgments concerning casualty insurance underwriting and insurance liabilities;
- our ability to successfully manage Legacy portfolios;
- judgments concerning the recognition of deferred tax assets;
- judgments concerning estimated restructuring charges and estimated cost savings; and
- such other factors discussed in:

– Part I, Item 1A. Risk Factors of this Annual Report; and

– this Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) of this Annual Report.

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

ITEM 7 | **Index to Item 7**

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

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

Use of Non-GAAP Measures

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

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

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

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

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

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

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

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

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

- changes in fair value of securities used to hedge guaranteed living benefits;
- changes in benefit reserves and deferred policy acquisition costs (DAC), value of business acquired (VOBA), and sales inducement assets (SIA) related to net realized capital gains and losses;
- other income and expense — net, related to Legacy Portfolio run-off insurance lines;
- loss (gain) on extinguishment of debt;
- net realized capital gains and losses;
- non qualifying derivative hedging activities, excluding net realized capital gains and losses;
- income or loss from discontinued operations;
- net loss reserve discount benefit (charge)
- pension expense related to a one-time lump sum payment to former employees;
- income and loss from divested businesses;
- non-operating litigation reserves and settlements;
- reserve development related to non-operating run-off insurance business; and
- restructuring and other costs related to initiatives designed to reduce operating expenses, improve efficiency and simplify our organization.

- ***Commercial Insurance: Liability and Financial Lines, Property and Special Risks; Consumer Insurance: Personal Insurance***

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

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

• ***Consumer Insurance: Individual Retirement, Group Retirement, and Life Insurance; Other Operations: Institutional Markets***

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

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

Critical Accounting Estimates

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

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

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

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

Insurance Liabilities

Loss Reserves

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

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

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

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

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

Overview of Loss Reserving Process and Methods

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

Short-Tail Reserves

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

Long-Tail Reserves

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

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

- **Loss cost trend factors** are used to establish expected loss ratios for subsequent accident years based on the projected loss ratios for prior accident years.

- **Expected loss ratios** are used for the latest accident year (i.e., accident year 2016 for the year-end 2016 loss reserve analysis) and, in some cases for accident years prior to the latest accident year. The expected loss ratio generally reflects the projected loss ratio from prior accident years, adjusted for the loss cost trend and the effect of rate changes and other quantifiable factors on the loss ratio. For low-frequency, high-severity lines of business such as excess casualty, expected loss ratios generally are used for at least the three most recent accident years.

- **Loss development factors** are used to project the reported losses for each accident year to an ultimate basis. Generally, the actual loss development factors observed from prior accident years would be used as a basis to determine the loss development factors for the subsequent accident years.

- **Tail Factors are development factors** used for certain longer tailed lines of business (for example, excess casualty, workers' compensation and general liability),to project future loss development for periods that extend beyond the available development data. The development of losses to the ultimate loss for a given accident year for these lines may take decades and the projection of ultimate losses for an accident year is very sensitive to the tail factors selected beyond a certain age.

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

Details of the Loss Reserving Process

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

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

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

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

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

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

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

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

Actuarial and Other Methods for Major Lines of Business

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

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

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

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

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

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

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

- Claim by claim reviews, often facilitated by third party specialists, to determine the stability and likelihood of settling an injured worker's indemnity and medical benefits;

- Analysis of the potential for future deterioration in medical condition unlikely to be picked up by a claim file review and associated with potentially costly medical procedures (i.e., increases in both utilization and intensity of medical care) over the course of the injured worker's lifetime;

- Analysis of the cost of medical price inflation for each category of medical spend (services and devices) and for cost of living adjustments in line with statutory requirements;

- Portfolio specific mortality level and mortality improvement assumptions based on a mortality study conducted for our primary and excess workers' compensation portfolios and our opinion of future longevity trends for the open reported cases;

- Ground-up consideration of the reinsurance recoveries expected for the product line of business for reported claims with extrapolation for unreported claims; and

- The effects of various run-off loss management strategies that have been developed by our run-off unit.

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

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

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

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

Discussion of Key Assumptions of our Actuarial Methods

Line of Business or Category	Key Assumptions
U.S. Workers' Compensation	We generally use a combination of loss development methods and expected loss ratio methods for U.S. Workers' Compensation. U.S. Workers' Compensation is a long-tail class of business, and our business reflects a very significant volume of losses, particularly in more recent accident years. The loss cost trend assumption is not believed to be material with respect to our loss reserves. This is primarily because our actuaries are generally able to use loss development projections for all but the most recent accident year's reserves, so there

is limited need to rely on loss cost trend assumptions for primary workers' compensation business.

The tail factor is typically the most critical assumption, and small changes in the selected tail factor can have a material effect on our carried reserves. For example, the tail factors beyond twenty years for guaranteed cost business could vary by one percent above or below those actually indicated in the 2016 loss reserve review. For excess of deductible business, in our judgment, it is reasonably likely that tail factors beyond twenty years could vary by five percent above or below those actually indicated in the 2016 loss reserve review.

Line of Business or Category	Key Assumptions
U.S. Excess Casualty	We utilize various loss cost trend assumptions for different segments of the portfolio. After evaluating the historical loss cost trends from prior accident years since the early 1990s, in our judgment, it is reasonably likely that actual loss cost trends applicable to the year-end 2016 loss reserve review for U.S. Excess Casualty may range five percent lower or higher than this estimated loss trend. The loss cost trend assumption is critical for the U.S. Excess Casualty class of business due to the long-tail nature of the losses, and is applied across many accident years. Thus, there is the potential for the loss reserves with respect to a number of accident years (the expected loss ratio years) to be significantly affected by changes in loss cost trends that were initially relied upon in setting the loss reserves. These changes in loss trends could be attributable to changes in inflation or in the judicial environment, or in other social or economic conditions affecting losses. 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. After evaluating the historical loss development factors from prior accident years since the early 1990s, in our judgment, it is reasonably likely that the actual loss development factors could vary by an amount equivalent to a six month shift from those actually utilized in the year-end 2016 reserve review. This would impact projections both for accident years where the selections were directly based on loss development methods as well as the a priori loss ratio assumptions for accident years with selections based on Bornhuetter-Ferguson or Cape Cod methods. Similar to loss cost trends, these changes in loss development factors could be attributable to changes in inflation or in the judicial environment, or in other social or economic conditions affecting losses.
U.S. Other Casualty	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.
U.S. Financial Lines	The loss cost trends for U.S. D&O business vary by year and subset, but for the most recent accident years, it is assumed to have been generally close to zero. After evaluating the historical loss cost levels from prior accident years since the early 1990s, including the potential effect of losses relating to the credit crisis, in our

judgment, it is reasonably likely that the actual variation in loss cost levels for these subsets could vary by approximately 15 percent lower or higher on a year-over-year basis than the assumptions actually utilized in the year-end 2016 reserve review. Because U.S. D&O business has exhibited highly volatile loss trends from one accident year to the next, there is the possibility of an exceptionally high deviation. In our analysis, the effects of loss cost trend assumptions affect the results through the a priori loss ratio assumptions used for the Bornhuetter-Ferguson and Cape Cod methods, which impact the projections for the two most recent two accident years.

The assumed loss development factors are also an important assumption, but are less critical than for U.S. Excess Casualty. Because these classes are written on a claims made basis, the loss reporting and development tail is much shorter than for U.S. Excess Casualty. However, the high severity nature of the losses does create the potential for significant deviations in loss development patterns from one year to the next. Similar to Excess Casualty, after evaluating the historical loss development factors from prior accident years since the early 1990s, in our judgment, it is reasonably likely that actual loss development factors could change by an amount equivalent to a shift by six months from those actually utilized in the year-end 2016 reserve review.

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. 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., 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.

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 2016 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 loss adjustment expenses reserves for legal expenses for each class of business by one or more actuarial or structural driver methods. For the majority of segments, legal costs are analyzed in conjunction with losses. For segments where they are separately analyzed the methods used generally include development methods comparable to those described for loss development methods. The development could be based on either the paid loss adjustment expenses or the ratio of paid loss adjustment expenses to paid losses, or both. Other methods include the utilization of expected ultimate ratios of paid loss expense to paid losses, based on actual experience from prior accident years or from similar product lines of business. The bulk of adjuster expenses are allocated and charged to individual claim files. For these expenses, we generally determine reserves based on calendar year ratios of adjuster expenses paid to losses paid for the particular product line of business. For other internal claim costs, which generally relate to specific claim department expenses that are not specifically allocated to claim files such as technology costs and other broad initiatives, we look at historic and expected expenditures for these items and project these into the future. The incidence of LAE are directly related to the frequency, complexity and level of underlying claims. As a result, key drivers of variability in LAE is the variability in the

overall claims, particularly for long tail lines.

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

December 31, 2016 *(in millions)*	Increase (Decrease) to Loss Reserves		Increase (Decrease) to Loss Reserves
Loss cost trends:		**Loss development factors:**	
U.S. Excess Casualty:		**U.S. Excess Casualty:**	
5 percent increase	**$ 1,300**	6-months slower	**$ 1,650**
5 percent decrease	**(950)**	6-months faster	**(1,100)**
U.S. Financial Lines (D&O)		**U.S. Financial Lines (D&O)**	
15 percent increase	**475**	6-months slower	**700**
15 percent decrease	**(400)**	6-months faster	**(450)**
		U.S. Run-off P&C Lines (Excess Workers' Compensation):	
		10% tail factor increase	**400**
		10% tail factor decrease	**(400)**
		U.S. Workers' Compensation:	
		Tail factor increase[a]	**675**
		Tail factor decrease[a]	**(675)**

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

Future Policy Benefits for Life and Accident and Health Insurance Contracts

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

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

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

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

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

- For mortality assumptions, key judgments include the extent of industry versus own experience to base future assumptions as well as the extent of expected mortality improvements in the future. The latter judgment is based on a combination of historical mortality trends and advice from industry, public health and demography specialists that were consulted by AIG's actuaries and published industry information.

- For surrender rates, a key judgment involves the correlation between expected increases/decreases in interest rates and increases/decreases in surrender rates. To support this judgment, we compare crediting rates on our products relative to expected rates on competing products under different interest rate scenarios.

- For in-force long-term care insurance, rate increases are allowed but must be approved by state insurance regulators. Consequently, the extent of rate increases that may be assumed requires judgment. In establishing our assumption for rate increases for long-term care insurance, we consider historical experience as to the frequency and level of rate increases approved by state regulators.

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

Guaranteed Benefit Features of Variable Annuity Products

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

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

Our exposure to the guaranteed amounts is equal to the amount by which the contract holder's account balance is below the amount provided by the guaranteed feature. A variable annuity contract may include more than one type of guaranteed benefit feature; for example, it may have both a GMDB and a GMWB.

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

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

Guaranteed Benefit Feature	Reserving Methodology & Assumptions and Accounting Judgments
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. See Note 14 to the Consolidated Financial Statements for additional information on how we reserve for variable annuity products with guaranteed benefit features.
	Key assumptions include: • Interest rates, which vary by year of issuance and products • Mortality rates, which are based upon actual experience modified to allow for variations in policy form • Lapse rates, which are based upon actual experience modified to allow for variations in policy form • Investment returns, using assumptions from a randomly generated model In applying asset growth assumptions for the valuation of the GMDB liability, we use a reversion to the mean methodology, similar to that applied for DAC. For a description of this methodology, see Estimated Gross Profits for Investment-Oriented Products (Life Insurance Companies) below.
GMWB	GMWB living benefits are embedded derivatives that are required to be bifurcated from the host contract and carried at fair value. See Note 14 to the Consolidated Financial Statements for additional information on how we reserve for variable annuity products with guaranteed benefit features, and Note 5 to the Consolidated Financial Statements for information on fair value measurement of these embedded derivatives, including how we incorporate our own non-performance risk.
	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 • Benefits and related fees assessed, when applicable • 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 consistent with fair value measurement, which are calibrated to observable interest rate and equity option prices • Allocation of fees between the embedded derivative and host contract.

Estimated Gross Profits for Investment–Oriented Products

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

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

In estimating future gross profits for variable annuity products as of December 31, 2016, a long-term annual asset growth assumption of 7.5 percent (before expenses that reduce the asset base from which future fees are projected) was applied to estimate the future growth in assets and related asset-based fees. In determining the asset growth rate, the effect of short-term fluctuations in the equity markets is partially mitigated through the use of a reversion to the mean methodology, whereby short-term asset growth above or below the long-term annual rate assumption impacts the growth assumption applied to the five-year period subsequent to the current balance sheet date. The reversion to the mean methodology allows us to maintain our long-term growth assumptions, while also giving consideration to the effect of actual investment performance. When actual performance significantly deviates from the annual long-term growth assumption, as evidenced by growth assumptions for the five-year reversion to the mean period falling below a certain rate (floor) or above a certain rate (cap) for a sustained period, judgment may be applied to revise or "unlock" the growth rate assumptions to be used for both the five-year reversion to the mean period as well as the long-term annual growth assumption applied to subsequent periods. The use of a reversion to the mean assumption is common within the industry; however, the parameters used in the methodology are subject to judgment and vary within the industry. See Insurance Reserves – Life and Annuity Reserves and DAC – Reversion to the Mean for additional discussion.

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

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

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

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

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

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

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

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

Reinsurance Assets

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

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

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

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

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

Impairment Charges

Impairments of Investments

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

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

Impairments on Investments in Life Settlements

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

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

Goodwill Impairment

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

Liability for Legal Contingencies

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

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

Fair Value Measurements of Certain Financial Assets and Financial Liabilities

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

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

December 31, 2016 *(in billions)*		Fair Value	Percent of Total
Fair value based on external sources[(a)]	$	**240**	**93%**
Fair value based on internal sources		**18**	**7**
Total fixed maturity and equity securities[(b)]	**$**	**258**	**100%**

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

(b) Includes available for sale and other securities.

Level 3 Assets and Liabilities

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

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

(in billions)		**December 31, 2016**	**Percentage of Total**		December 31, 2015	Percentage of Total
Assets	**$**	**37.7**	**7.6%**	$	38.1	7.7%
Liabilities		**3.5**	**0.8**		3.1	0.8

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

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

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

Income Taxes

Recoverability of Net Deferred Tax Asset

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

We consider a number of factors to reliably estimate future taxable income so we can determine the extent of our ability to realize net operating losses (NOLs), foreign tax credits (FTCs), realized capital loss and other carryforwards. These factors include forecasts of future income for each of our businesses and actual and planned business and operational changes, both of which include assumptions about future macroeconomic and AIG specific conditions and events. We subject the forecasts to stresses of key assumptions and evaluate the effect on tax attribute utilization. We also apply stresses to our assumptions about the effectiveness of relevant prudent and feasible tax planning strategies. Our income forecasts, coupled with our tax planning strategies, all resulted in sufficient taxable income to achieve realization of the U.S. tax attributes prior to their expiration. We assess the recoverability of our net deferred tax asset related to unrealized tax capital losses in the non-life Companies' available for sale portfolio. The deferred tax asset relates to the unrealized losses for which the carryforward period has not yet begun. As of December 31, 2016, based on all available evidence, we concluded that a valuation allowance should be established on a portion of the deferred tax asset related to unrealized losses that are not more-likely-than-not to be realized.

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

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

Uncertain Tax Positions

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

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

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

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

Executive Summary

Overview

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

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

Divestitures, ASset sales and Reinsurance Transaction Highlights

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

Completed Divestitures and Asset Sales

- In May 2016, we completed the sale of AIG Advisor Group to investment funds affiliated with Lightyear Capital LLC and PSP Investments.

- In August 2016, we entered into an agreement to sell our 100 percent interest in United Guaranty Corporation (UGC) and certain related companies to Arch Capital Group Ltd. (Arch). The sale of UGC and its subsidiaries closed on December 31, 2016, and we received proceeds of approximately $3.3 billion. Concurrent with the closing, we entered into reinsurance agreements with Arch, including an amended and restated 50 percent quota share reinsurance agreement and an aggregate excess of loss reinsurance agreement, pursuant to which we will continue to be exposed to certain UGC policies written between 2009 and 2016. We expect the results of these reinsurance arrangements to continue to be reported in Commercial Insurance.

- In August 2016, we sold our controlling interest in NSM, a managing general agent, to ABRY Partners for consideration of $201 million. We retained an equity interest in a newly formed joint venture and we continue to provide underwriting capacity to NSM.

- In September 2016, we entered into an agreement to sell our 20 percent interest in Ascot Underwriting Holdings Ltd. and our 100 percent interest in the related syndicate-funding subsidiary Ascot Corporate Name Ltd. to Canada Pension Plan Investment Board (CPPIB). Total consideration for the transaction was $1.1 billion, inclusive of CPPIB's recapitalization of Syndicate 1414's Funds at Lloyd's (FAL) capital requirements. The transaction closed on November 18, 2016, and we received approximately $244 million in net cash proceeds.

- On November 17, 2016, an AIG sponsored Fund (the Korea Fund), completed the sale of a mixed-use commercial complex in Seoul, South Korea commonly known as the Seoul International Finance Center to Brookfield Properties for a total consideration of $2.5 billion, of which $1.2 billion was used to repay the fund’s debt. The remaining cash proceeds were allocated between AIG and the noncontrolling interests in accordance with the Korea Fund’s partnership agreement.

- On December 30, 2016, we sold a portion of our life settlements portfolio with face value (death benefits) of approximately $4.5 billion, which was 30 percent of the face value of the life settlements portfolio. As of December 31, 2016, our life settlements portfolio carrying value was $2.5 billion, with a face value (death benefits) of $9.8 billion.

Pending Divestitures

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

- On November 14, 2016, we entered into an agreement to sell our Japan life insurance business AIG Fuji Life Insurance Company, Ltd. (AFLI) to FWD Group, the insurance arm of Pacific Century Group.

Reinsurance Transactions

- Effective January 1, 2016, we entered into a two-year reinsurance arrangement with the Swiss Reinsurance Company Ltd., under which we ceded a proportional share of our new and renewal U.S. Casualty portfolio.

- Effective July 1, 2016, we entered into a reinsurance agreement with Hannover Life Reassurance Company of America, involving certain whole life and universal life businesses of one of our domestic life insurance subsidiaries. This transaction uses deposit accounting for purposes of U.S. GAAP, reduced certain statutory reserves that were above economic requirements, which released excess statutory capital of approximately $1.0 billion that was included in 2016 dividend payments to AIG Parent.

- Effective December 31, 2016, our domestic life insurance subsidiary amended the July 1, 2016 reinsurance agreement discussed above to also cede certain statutory reserves for term and universal life products that are above economic requirements, which were previously managed through affiliated reinsurance. This transaction is expected to result in a tax sharing payment by the Life Insurance Companies to AIG Parent in 2017.

- Our catastrophe reinsurance program includes coverage for natural catastrophes and some coverage for terrorism events. It consists of a large North American occurrence cover (without reinstatement) to protect against large North America losses, and Japan covers to protect against losses in Japan. Effective January 1, 2017, the attachment point for this reinsurance program is at $1.5 billion for the North American cover ($3 billion in 2016) and varies for the Japan covers. The North American cover has reduced the U.S. Hurricane (1-in-100) OEP net of reinsurance from $3.1 billion under the 2016 reinsurance program to $2.0 billion under the 2017 program.

- In January 2017, we announced that we have entered into an adverse development reinsurance agreement with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc., under which we transferred to NICO 80 percent of reserve risk on substantially all of our U.S. Commercial long-tail exposures for accident years 2015 and prior. Under this agreement, we ceded to NICO 80 percent of net paid losses on subject business on or after January 1, 2016 in excess of $25 billion of net paid losses, up to an aggregate limit of $25 billion. At NICO's 80 percent share, NICO's limit of liability under the contract is $20 billion. We will account for this transaction as retroactive reinsurance. The consideration for this agreement is $9.8 billion plus interest at four percent per annum from January 1, 2016 to the date of payment, which was paid in full as of February 17, 2017. The consideration paid to NICO will be placed into a collateral trust account as security for NICO's claim payment obligations, and Berkshire Hathaway, Inc. has provided a parental guarantee to secure NICO's obligations under the agreement.

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

Financial Performance Summary

Net Income (Loss) Attributable To AIG

($ in millions)

2016 and 2015 Comparison

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

2015 and 2014 Comparison

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

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

Pre-Tax Operating Income (Loss)*

($ in millions)

2016 and 2015 Comparison

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

This decrease was partially offset by:

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

- improved underwriting results in Personal Insurance; and

- lower general operating expenses.

2015 and 2014 Comparison

Decreased primarily due to:

- adverse prior year loss reserve development in Commercial Insurance of $3.3 billion in 2015 compared to $503 million in 2014;

- lower net investment income due to lower income on alternative investments, lower reinvestment yields, and assets for which the fair value option was elected;

- less favorable adjustments to reserves and DAC in Consumer Insurance, including a lower net positive adjustment to reflect the update of actuarial assumptions in Individual Retirement and additional reserves for Life Insurance as well as higher catastrophe losses and lower net favorable prior year loss reserve development in Personal Insurance; and

- lower Other income primarily due to lower appreciation on assets for which the fair value option was elected and lower fair value income on derivative positions.

This decrease was partially offset by lower general operating expenses.

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

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

General Operating and Other Expenses

($ in millions)

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

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

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

General Operating Expenses, Operating Basis*

($ in millions)

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

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

Capital Returned to Shareholders

($ in billions)

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

Return on Equity

Book Value Per Share

AIG's Outlook – Industry and economic factors

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

Impact of Changes in the Interest Rate Environment

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

Annuity Sales and Surrenders

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

Reinvestment and Spread Management

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

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

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

Years Ended December 31, *(in millions)*	**2016**	2015	2014
Base net investment spread			
Fixed Annuities	**2.19%**	2.20%	2.31%

Group Retirement	**1.87**	2.01	1.99

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

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

As shown in the table below, 73 percent of the fixed account values of our Individual Retirement and Group Retirement annuity products in the aggregate were crediting at the contractual minimum guaranteed interest rate at December 31, 2016. As a result of disciplined pricing on new business and the run-off of older business with higher crediting rates, the percentage of fixed account values of our annuity products that are currently crediting at rates above one percent decreased to 70 percent at December 31, 2016, compared to 74 percent at December 31, 2015 and 79 percent at December 31, 2014. These businesses continue to focus on pricing discipline and strategies to reduce the minimum guaranteed interest crediting rates offered on new sales. In the Core universal life business in our Life Insurance segment, 70 percent of the account values were crediting at the contractual minimum guaranteed interest rate at December 31, 2016.

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

	Current Crediting Rates			
December 31, 2016 Contractual Minimum Guaranteed Interest Rate *(in millions)*	At Contractual Minimum Guarantee	1-50 Basis Points Above Minimum Guarantee	More than 50 Basis Points Above Minimum Guarantee	Total
Individual Retirement*				
1%	$ 5,531	$ 4,404	$ 12,350	$ 22,285
> 1% - 2%	6,866	279	1,881	9,026
> 2% - 3%	14,767	41	495	15,303
> 3% - 4%	10,753	45	7	10,805
> 4% - 5%	567	-	4	571
> 5% - 5.5%	32	-	5	37
Total Individual Retirement	$ 38,516	$ 4,769	$ 14,742	$ 58,027
Group Retirement*				
1%	$ 1,273	$ 1,642	$ 3,072	$ 5,987
> 1% - 2%	6,428	736	399	7,563
> 2% - 3%	15,024	-	382	15,406
> 3% - 4%	926	-	-	926
> 4% - 5%	7,116	-	-	7,116
> 5% - 5.5%	163	-	-	163
Total Group Retirement	$ 30,930	$ 2,378	$ 3,853	$ 37,161
Universal life insurance				
1%	$ -	$ -	$ 7	$ 7
> 1% - 2%	11	186	199	396
> 2% - 3%	503	319	1,160	1,982
> 3% - 4%	1,688	459	4	2,151
> 4% - 5%	3,440	208	-	3,648
> 5% - 5.5%	307	-	-	307
Total universal life insurance	$ 5,949	$ 1,172	$ 1,370	$ 8,491
Total	$ 75,395	$ 8,319	$ 19,965	$ 103,679
Percentage of total	73%	8%	19%	100%

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

Assumption Updates and Loss Recognition

Spreads and surrender rates are important components of the future profit assumptions that drive the rate we use to amortize DAC and related reserves for investment-oriented products. If future profit assumptions change significantly, we may be required to recalculate DAC and related reserves, and reflect any resulting adjustments in current period income. In addition to investment-oriented products, certain traditional long-duration products for which we do not have the ability to adjust interest rates, such as structured settlements and payout annuities, are exposed to reduced earnings and potential loss recognition reserve increases in a sustained low interest rate environment. See Insurance Reserves – Life and Annuity Reserves and DAC – Update of Actuarial Assumptions for discussion of such adjustments recorded in 2016, 2015 and 2014 in our Consumer Insurance and Legacy Life Insurance Run-Off Lines.

Commercial Insurance

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

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

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

Department of Labor Fiduciary Rule

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

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

Impact of Currency Volatility

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

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

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

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

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

Consolidated Results of Operations

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

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

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

Years Ended December 31,	**2016**	2015	2014

Return on equity	**(1.0)%**	2.2%	7.1%
Adjusted Return on equity	**0.6**	3.7	8.8

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

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

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

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

Years Ended December 31,	**2016**			2015			20	
		Total Tax (Benefit)	After		Total Tax (Benefit)	After		Tota (Be
(in millions)	Pre-tax	Charge	Tax	Pre-tax	Charge	Tax	Pre-tax	C
Pre-tax income/net income (loss), including noncontrolling interests	**$ (74)**	**$ 185**	**$ (288)**	$3,281	$ 1,059	$2,193	$ 10,501	$
Noncontrolling interest			**(561)**			3		
Pre-tax income/net income (loss) attributable to AIG	**$ (74)**	**$ 185**	**$ (849)**	$3,281	$ 1,059	$2,196	$ 10,501	$
Uncertain tax positions and other tax adjustments		**63**	**(63)**		(112)	112		
Deferred income tax valuation allowance (releases) charges		**(83)**	**83**		(110)	110		
Changes in fair value of securities used to hedge guaranteed living benefits	**(120)**	**(42)**	**(78)**	43	15	28	(260)	
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses)	**(195)**	**(68)**	**(127)**	15	5	10	217	
Other (income) expense - net	**(42)**	**(15)**	**(27)**	233	82	151	-	
Loss on extinguishment of debt	**74**	**26**	**48**	756	265	491	2,282	

Net realized capital (gains) losses	**1,944**	**561**	**1,383**	(776)	(271)	(505)	(739)
Noncontrolling interest on net realized capital (gains) losses			**(61)**			29	
Loss from discontinued operations			**90**			-	
(Income) loss from divested businesses	**(545)**	**(309)**	**(236)**	59	43	16	(2,169)
Non-operating litigation reserves and settlements	**(41)**	**(14)**	**(27)**	(82)	(29)	(53)	(258)
Reserve development related to certain non-operating run-off insurance business	**-**	**-**	**-**	30	10	20	-
Net loss reserve discount benefit (charge)	**(427)**	**(150)**	**(277)**	(71)	(16)	(55)	478
Pension expense related to a one-time lump sum payment to former employees	**147**	**51**	**96**	-	-	-	-
Restructuring and other costs	**694**	**243**	**451**	496	174	322	-

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

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

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

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

- adverse prior year loss reserve development in Commercial Insurance of $5.6 billion in 2016 compared to $3.3 billion in 2015; and

- net realized losses compared to net realized gains in the prior-year period due to:

– foreign exchange losses in 2016 compared to foreign exchange gains in 2015 primarily due to $910 million of remeasurement losses for a short-term intercompany balance;

– the sale of Class B shares of Prudential Financial Inc. and common shares of Springleaf Holdings, Inc. (Springleaf, now known as OneMain Holdings, Inc.) in 2015; and

– a net decrease of $1.4 billion related to guaranteed living benefits, net of hedges, primarily due to movement in the non-performance or “own credit” risk adjustment (NPA) component of the embedded derivative fair value measurement and 2016 actuarial assumption updates to surrender and mortality assumptions (see Insurance Reserves – Life and Annuity Reserves and DAC – Variable Annuity Guaranteed Benefits and Hedging Results).

These decreases were partially offset by:

- favorable adjustments to reserves and DAC in Consumer Insurance, including higher net positive adjustments in 2016 to reflect the update of actuarial assumptions in Individual Retirement and Life

Insurance;

- improved underwriting results in Personal Insurance;

- lower general operating expenses reflecting strategic actions to reduce expenses;

- lower loss on extinguishment of debt from ongoing liability management activities; and

- higher income from divested businesses due to gains on the sales of UGC, AIG Advisor Group and NSM, partially offset by losses on the agreements to sell Fuji Life and certain assets to Fairfax.

pre-tax income Comparison for 2015 and 2014

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

- adverse prior year loss reserve development in Commercial Insurance of $3.3 billion in 2015 compared to $503 million in 2014;

- lower net investment income due to lower income from alternative investments, reinvestment yields, and assets for which the fair value option was elected;

- less favorable adjustments to reserves and DAC in Consumer Insurance, including a lower net positive adjustment to reflect the update of actuarial assumptions in Individual Retirement and additional reserves for Life Insurance, as well as higher catastrophe losses and lower net favorable prior year loss reserve development in Personal Insurance;

- lower Other income primarily due to lower appreciation on assets for which the fair value option was elected and lower fair value income on derivative positions; and

- lower income from divested businesses as a result of the sale of ILFC in the second quarter of 2014.

These decreases were partially offset by:

- a lower loss on extinguishment of debt from ongoing liability management activities;

- lower general operating expenses reflecting strategic actions to reduce expenses; and

- higher net realized gains compared to prior period due to:

– a $264 million increase from the change in the fair value of GMWB embedded derivatives related to variable annuity guaranteed living benefits, net of all related economic hedges (See Insurance Reserves –Life and Annuity Reserves and DAC – Variable Annuity Guaranteed Benefits and Hedging Results for additional discussion); and

– higher net realized capital gains from sales of investments, which included realized gains on the sales of Class B shares of Prudential Financial, Inc., a portion of our holdings in People's Insurance Company (Group) of China Limited and PICC Property & Casualty Company Limited (collectively, our PICC Investment), and common shares of OneMain Holdings, Inc., mostly offset by a realized loss on the sale of ordinary shares of AerCap and an increase in other-than-temporary impairment charges.

Income Tax expense analysis

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

- tax charges of:

– $234 million associated with effect of foreign operations,

– $216 million of tax and related interest associated with increases in uncertain tax positions related to cross border financing transactions,

– $118 million related to disposition of subsidiaries,

– $102 million related to non-deductible transfer pricing charges, and

– $83 million related to increases in the deferred tax asset valuation allowances associated with U.S. federal and certain foreign jurisdictions;

- partially offset by tax benefits of:

– $253 million related to tax exempt income,

– $164 million associated with a portion of the U.S. Life Insurance Companies capital loss carryforwards previously treated as expired that was restored and utilized,

– $116 million related to the impact of an agreement reached with the Internal Revenue Service (IRS) related to certain tax issues under audit, and

– $132 million of reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities.

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

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

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

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

Business Segment Operations

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

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

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

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

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

Years Ended December 31, *(in millions)*	**2016**	2015	2014
Core business:			
Commercial Insurance			
Liability and Financial Lines	**$ (2,649)**	$ (661)	$ 3,044
Property and Special Risks	**(86)**	1,226	1,203
Commercial Insurance	**(2,735)**	565	4,247
Consumer Insurance			
Individual Retirement	**2,269**	1,812	2,306
Group Retirement	**931**	1,100	1,229
Life Insurance	**(37)**	(51)	290
Personal Insurance	**686**	68	381
Consumer Insurance	**3,849**	2,929	4,206
Other Operations	**(748)**	(567)	(958)
Total Core	**366**	2,927	7,495
Legacy Portfolio	**1,007**	1,133	2,576

Consolidations, eliminations and other adjustments	**42**	(76)	(19)
Pre-tax operating income	**$ 1,415**	$ 3,984	$ 10,052

Commercial Insurance	

PRODUCTS AND DISTRIBUTION

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

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

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

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

Distribution

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

BUSINESS STRATEGY

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

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

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

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

COMPETITION and challenges

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

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

Our challenges include:

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

OUTLOOK—INDUSTRY AND ECONOMIC FACTORS

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

Liability and Financial Lines

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

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

Property and Special Risks

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

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

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

COMMERCIAL INSURANCE RESULTS

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

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

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

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

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

The following tables present Commercial accident year catastrophes and severe losses by geography[(a)] and number of events:

Catastrophes[(b)]

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

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

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

Severe Losses[(c)]

Years Ended December 31, *(in millions)*	# of Events		U.S.		Japan		Europe		Other		Total
2016	**22**	**$**	**183**	**$**	**-**	**$**	**191**	**$**	**31**	**$**	**405**

2015	29	$	260	$	-	$	317	$	122	$	699
2014	30	$	169	$	-	$	-	$	423	$	592

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

Liability and Financial Lines Results

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

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

Business and Financial Highlights

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

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

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

Liability and Financial Lines Pre-Tax Operating (Loss) *(in millions)*	
	2016 and 2015 Comparison Pre-tax operating loss increased primarily due to: • higher adverse prior year reserve development (increase by $1.8 billion); • lower net premiums earned primarily driven by reinsurance and portfolio optimization; and • lower net investment income due to lower income on alternative investments and lower interest and dividends. These increases were partially offset by: • lower general operating expenses primarily due to lower employee-related expenses and other expense reduction initiatives; and • lower acquisition expenses primarily due to the ceding commissions related to the reinsurance arrangement with Swiss Re Group which became effective in the first quarter of 2016.

Liability and Financial Lines Pre-Tax Operating Income (Loss) *(in millions)*	
	2015 and 2014 Comparison Pre-tax operating income decreased primarily due to: • higher net adverse prior year loss reserve development (increase by $2.9 billion); and • lower net investment income driven by lower income on alternative investments as well as lower return on

	assets due to decreases in interest rates. These decreases were partially offset by: • lower general operating expenses primarily due to lower employee-related expenses resulting from actions to streamline our management structure and general cost containment measures commenced in 2015; and • lower total acquisition expense driven primarily by lower commission rates.

Liability and Financial Lines Net Premiums Written *(in millions)*	
	2016 and 2015 Comparison Net premiums written decreased primarily due to: • the effect of the reinsurance arrangement with the Swiss Re Group; • continued execution of our strategy to enhance risk selection and optimize our product portfolio, including non-renewals, and revising rates, terms and conditions in certain underperforming products, particularly U.S. casualty; • lower new and renewal business reflecting efforts to adhere to underwriting discipline in the current competitive environment; and • the renewal of a multi-year E&O policy in the U.S. in 2015. These decreases were partially offset by growth in certain targeted lines of business.

Liability and Financial Lines Net Premiums Written *(in millions)*	
	2015 and 2014 Comparison Net premiums written decreased primarily due to: • declines in Liability reflecting: – continued execution of our strategy to enhance our portfolio mix, including reduced production in certain underperforming products such as excess casualty; and – a decrease in loss sensitive business.

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

Liability and Financial Lines Combined Ratios	
	2016 and 2015 Comparison The increase in combined ratio reflects: • an increase in the loss ratio partially offset by a decrease in the expense ratio. The increase in the loss ratio reflects: • reserve strengthening mainly in U.S. Workers' compensation U.S. Other casualty and Financial lines; and • higher accident year loss ratio, as adjusted, in Liability. The decrease in the expense ratio reflects: • a decrease in general operating expense ratio due to our ongoing focus on cost efficiency; and • lower acquisition expense ratio driven by higher commission income through new reinsurance transactions.

Liability and Financial Lines Combined Ratios	
	2015 and 2014 Comparison The increase in combined ratio reflects: • an increase in the loss ratio partially offset by a decrease in the expense ratio. The increase in loss ratio reflects:

	• reserve strengthening primarily in U.S. Excess casualty as well as Financial lines; and • higher accident year loss ratio, as adjusted, driven by Casualty. The decrease in the expense ratio reflects: • decreases in the general operating expense ratio due to our ongoing focus on cost efficiency; and • lower acquisition ratio driven by change in business mix.

Property and Special Risks Results

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

Business and Financial Highlights

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

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

Property and Special Risks Pre-Tax Operating Income (Loss) *(in millions)*	
	2016 and 2015 Comparison Pre-tax operating income decreased primarily due to: • higher adverse prior year development primarily due to an increase in the U.S. Programs business; • increased catastrophe losses by approximately $600 million; and • lower net investment income due to lower income on alternative investments. These declines were partially offset by: • lower severe losses; • the effect of the 50 percent quota share reinsurance agreement with UGC; and • slightly lower general operating expenses primarily due to lower employee-related expenses and other expense reduction initiatives.

Property and Special Risks Pre-Tax Operating Income *(in millions)*	
	2015 and 2014 Comparison Pre-tax operating income increased slightly primarily due to: • favorable impact of $87 million from the 50 percent quota share reinsurance agreement with UGC which became effective in the first quarter of 2015; and

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

Property and Special Risks Net Premiums Written *(in millions)*	
	2016 and 2015 Comparison Net premiums written decreased primarily due to: • continued execution of our strategy to optimize our portfolio mix; • increases in rate pressure, significant competition and challenging market conditions; • lower new and renewal business reflecting the continued adherence to our underwriting discipline in the current competitive environment; and • lower premiums related to the 50 percent quota share reinsurance agreement with UGC. These decreases were partially offset by: • increases in target growth business in Special Risks.

Property and Special Risks Net Premiums Written *(in millions)*	
	2015 and 2014 Comparison Net premiums written decreased slightly primarily due to: • portfolio optimization and continued challenging market conditions; and • reduced production in certain products due to enhanced risk selection. These decreases were partially offset by: • the favorable impact of $392 million from the 50 percent quota share reinsurance agreement with UGC

	which became effective in the first quarter of 2015

Property and Special Risks Combined Ratios	
	2016 and 2015 Comparison The increase in combined ratio reflected: • an increase in the loss ratio and expense ratio. The increase in the loss ratio reflected: • higher accident year loss ratio, as adjusted, driven by higher attritional loss ratio in the U.S. Programs business; • higher catastrophe losses; • higher net adverse prior year development; and • partially offset by lower severe losses, as well as the effect of the 50 percent quota share reinsurance agreement with UGC. The increase in expense ratio reflected: • higher general operating expense ratio due to timing of premium reduction, which more than offset expense reduction; and • higher acquisition ratios driven by change in business mix.

Property and Special Risks Combined Ratios	
	2015 and 2014 Comparison The decrease in combined ratio reflected: • decrease in the loss ratio partially offset by an increase in the acquisition ratio.