

AMERICAN INTERNATIONAL GROUP INC  
Form 10-Q  
August 03, 2018

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

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**FORM 10-Q**

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

**For the quarterly period ended June 30, 2018**

**Commission File Number 1-8787**

**American International Group, Inc.**

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

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**13-2592361**

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

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

(Address of principal executive offices)

**10038**

(Zip Code)

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

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

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

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

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

As of July 30, 2018, there were 888,446,269 shares outstanding of the registrant’s common stock.

**AMERICAN INTERNATIONAL GROUP, INC.**

**QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED**

**June 30, 2018**

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Investments:

Fixed maturity securities:

Bonds available for sale, at fair value (amortized cost: 2018 - \$223,080; 2017 - \$225,461)

Other bond securities, at fair value (See Note 5)

Equity Securities:

Common and preferred stock available for sale, at fair value (cost: 2017 - \$1,305)

Other common and preferred stock, at fair value (See Note 5)

Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2018 - \$0; 2017 - \$5)

Other invested assets (portion measured at fair value: 2018 - \$5,926; 2017 - \$6,248)

Short-term investments, including restricted cash of 2018 - \$18; 2017 - \$58

(portion measured at fair value: 2018 - \$3,245; 2017 - \$2,615)

**Total investments**

Cash

Accrued investment income

Premiums and other receivables, net of allowance

Reinsurance assets, net of allowance

Deferred income taxes

Deferred policy acquisition costs

Other assets, including restricted cash of \$227 in 2018 and \$317 in 2017

(portion measured at fair value: 2018 - \$719; 2017 - \$922)

Separate account assets, at fair value

**Total assets****Liabilities:**

Liability for unpaid losses and loss adjustment expenses

Unearned premiums

Future policy benefits for life and accident and health insurance contracts

Policyholder contract deposits (portion measured at fair value: 2018 - \$3,534; 2017 - \$4,150)

Other policyholder funds

Other liabilities (portion measured at fair value: 2018 - \$1,423; 2017 - \$1,124)

Long-term debt (portion measured at fair value: 2018 - \$2,615; 2017 - \$2,888)

Separate account liabilities

**Total liabilities**

**Contingencies, commitments and guarantees (See Note 10)**

**AIG shareholders' equity:**

Common stock, \$2.50 par value; 5,000,000,000 shares authorized; shares issued: 2018 - 1,906,671,492 and 2017 - 1,906,671,492

Treasury stock, at cost; 2018 - 1,015,457,459 shares; 2017 - 1,007,626,835 shares of common stock

Additional paid-in capital

Retained earnings

Accumulated other comprehensive income

**Total AIG shareholders' equity**

**Non-redeemable noncontrolling interests**

**Total equity**

**Total liabilities and equity**

*See accompanying Notes to Condensed Consolidated Financial Statements.*

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American International Group, Inc.

Condensed Consolidated Statements of Income *(unaudited)*

|   | Three Months Ended<br>June 30, |                 |
|---|--------------------------------|-----------------|
|   | 2018                           | 2017            |
| <i>(dollars in millions, except per share data)</i>   |                                |                 |
| <b>Revenues:</b>  |                                |                 |
| Premiums  | \$ 7,207                       | \$ 7,614        |
| Policy fees   | 763                            | 725             |
| Net investment income   | 3,065                          | 3,613           |
| Net realized capital gains (losses):  |                                |                 |
| Total other-than-temporary impairments on available for sale securities   | (28)                           | (33)            |
| Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income (loss) | (8)                            | (28)            |
| Net other-than-temporary impairments on available for sale securities recognized in net income  | (36)                           | (61)            |
| Other realized capital gains (losses)   | 201                            | (8)             |
| Total net realized capital gains (losses)   | 165                            | (69)            |
| Other income  | 431                            | 619             |
| <b>Total revenues</b>   | <b>11,631</b>                  | <b>12,502</b>   |
| <b>Benefits, losses and expenses:</b>   |                                |                 |
| Policyholder benefits and losses incurred   | 5,505                          | 6,284           |
| Interest credited to policyholder account balances  | 935                            | 906             |
| Amortization of deferred policy acquisition costs   | 1,337                          | 1,115           |
| General operating and other expenses  | 2,323                          | 2,182           |
| Interest expense  | 299                            | 292             |
| (Gain) loss on extinguishment of debt   | 5                              | (4)             |
| Net (gain) loss on sale of divested businesses  | (25)                           | 60              |
| <b>Total benefits, losses and expenses</b>  | <b>10,379</b>                  | <b>10,835</b>   |
| <b>Income from continuing operations before income tax expense</b>  | <b>1,252</b>                   | <b>1,667</b>    |
| <b>Income tax expense</b>   | <b>321</b>                     | <b>557</b>      |
| <b>Income from continuing operations</b>  | <b>931</b>                     | <b>1,110</b>    |
| <b>Income (loss) from discontinued operations, net of income tax expense</b>  | <b>-</b>                       | <b>8</b>        |
| <b>Net income</b>   | <b>931</b>                     | <b>1,118</b>    |
| <b>Less:</b>  |                                |                 |
| <b>Net income (loss) from continuing operations attributable to noncontrolling interests</b>  | <b>(6)</b>                     | <b>(12)</b>     |
| <b>Net income attributable to AIG</b>   | <b>\$ 937</b>                  | <b>\$ 1,130</b> |

**Income (loss) per common share attributable to AIG:**

Basic:

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|   |    |                    |    |             |                    |
|---|----|--------------------|----|-------------|--------------------|
| Income from continuing operations           | \$ | <b>1.04</b>        | \$ | 1.21        | \$                 |
| Income from discontinued operations         | \$ | -                  | \$ | 0.01        | \$                 |
| Net income attributable to AIG              | \$ | <b>1.04</b>        | \$ | 1.22        | \$                 |
| Diluted:                                    |    |                    |    |             |                    |
| Income from continuing operations           | \$ | <b>1.02</b>        | \$ | 1.18        | \$                 |
| Income from discontinued operations         | \$ | -                  | \$ | 0.01        | \$                 |
| Net income attributable to AIG              | \$ | <b>1.02</b>        | \$ | 1.19        | \$                 |
| <b>Weighted average shares outstanding:</b> |    |                    |    |             |                    |
| Basic                                       |    | <b>903,215,488</b> |    | 925,751,084 | <b>905,000,000</b> |
| Diluted                                     |    | <b>916,572,481</b> |    | 948,248,771 | <b>920,000,000</b> |
| <b>Dividends declared per common share</b>  | \$ | <b>0.32</b>        | \$ | 0.32        | \$                 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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American International Group, Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss) *(unaudited)*

| <i>(in millions)</i>  | Three Months<br>Ended<br>June 30, |         | Six Months<br>Ended<br>June 30, |         |
|---|-----------------------------------|---------|---------------------------------|---------|
|   | <b>2018</b>                       | 2017    | <b>2018</b>                     | 2017    |
| <b>Net income</b>   | <b>\$ 931</b>                     | \$1,118 | <b>\$ 1,880</b>                 | \$2,311 |
| <b>Other comprehensive income (loss), net of tax</b>  |                                   |         |                                 |         |
| Change in unrealized appreciation (depreciation) of fixed maturity securities on which other-than-temporary credit impairments were taken | <b>(1,046)</b>                    | 119     | <b>(1,196)</b>                  | 1,181   |
| Change in unrealized appreciation (depreciation) of all other investments   | <b>(756)</b>                      | 653     | <b>(3,464)</b>                  | 2,299   |
| Change in foreign currency translation adjustments  | <b>(210)</b>                      | 398     | <b>(52)</b>                     | (12)    |
| Change in retirement plan liabilities adjustment  | <b>23</b>                         | 11      | <b>52</b>                       | 5       |
| Change in fair value of liabilities under fair value option attributable to changes in own credit risk                                    | <b>(1)</b>                        | -       | <b>1</b>                        | -       |
| <b>Other comprehensive income (loss)</b>  | <b>(1,990)</b>                    | 1,181   | <b>(4,659)</b>                  | 1,181   |
| <b>Comprehensive income (loss)</b>  | <b>(1,059)</b>                    | 2,299   | <b>(2,779)</b>                  | 2,299   |
| Comprehensive income (loss) attributable to noncontrolling interests  | <b>(6)</b>                        | (12)    | <b>5</b>                        | 5       |
| <b>Comprehensive income (loss) attributable to AIG</b>  | <b>\$(1,053)</b>                  | \$2,311 | <b>\$(2,784)</b>                | \$2,311 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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American International Group, Inc.

Condensed Consolidated Statements of Equity (*unaudited*)

| <i>(in millions)</i>  | Common<br>Stock | Treasury<br>Stock  | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income |
|---|-----------------|--------------------|----------------------------------|----------------------|---|
| <b>Six Months Ended June 30, 2018</b>                           |                 |                    |                                  |                      |   |
| <b>Balance, beginning of year</b>                               | <b>\$ 4,766</b> | <b>\$ (47,595)</b> | <b>\$ 81,078</b>                 | <b>\$ 21,457</b>     | <b>\$ 5,465</b>                                 |
| Cumulative effect of change in accounting principle, net of tax | -               | -                  | -                                | 568                  | (576)   |
| Common stock issued under stock plans                           | -               | 187                | (337)                            | -                    | -   |
| Purchase of common stock  | -               | (646)              | -                                | -                    | -   |
| Net income attributable to AIG or noncontrolling interests      | -               | -                  | -                                | 1,875                | -   |
| Dividends   | -               | -                  | -                                | (575)                | -   |
| Other comprehensive income (loss)                               | -               | -                  | -                                | -                    | (4,659)   |
| Net increase due to acquisitions and consolidations             | -               | -                  | -                                | -                    | -   |
| Contributions from noncontrolling interests                     | -               | -                  | -                                | -                    | -   |
| Distributions to noncontrolling interests                       | -               | -                  | -                                | -                    | -   |
| Other   | -               | 2                  | 183                              | (7)                  | -   |
| <b>Balance, end of period</b>                                   | <b>\$ 4,766</b> | <b>\$ (48,052)</b> | <b>\$ 80,924</b>                 | <b>\$ 23,318</b>     | <b>\$ 230</b>                                   |
| <b>Six Months Ended June 30, 2017</b>                           |                 |                    |                                  |                      |   |
| Balance, beginning of year                                      | \$ 4,766        | \$ (41,471)        | \$ 81,064                        | \$ 28,711            | \$ 3,230  |
| Common stock issued under stock plans                           | -               | 140                | (304)                            | -                    | -   |
| Purchase of common stock  | -               | (6,000)            | -                                | -                    | -   |
| Net income attributable to AIG or noncontrolling interests      | -               | -                  | -                                | 2,315                | -   |
| Dividends   | -               | -                  | -                                | (597)                | -   |
| Other comprehensive income (loss)                               | -               | -                  | -                                | -                    | 1,732   |
| Current and deferred income taxes                               | -               | -                  | (4)                              | -                    | -   |
| Net increase due to acquisitions and consolidations             | -               | -                  | -                                | -                    | -   |
| Contributions from noncontrolling interests                     | -               | -                  | -                                | -                    | -   |
| Distributions to noncontrolling interests                       | -               | -                  | -                                | -                    | -   |
| Other   | -               | 2                  | 157                              | (9)                  | -   |
| Balance, end of period  | \$ 4,766        | \$ (47,329)        | \$ 80,913                        | \$ 30,420            | \$ 4,962  |

*See accompanying Notes to Condensed Consolidated Financial Statements.*



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American International Group, Inc.

Condensed Consolidated Statements of Cash Flows *(unaudited)*

|   | <b>Six Months Ended</b> |                |
|---|-------------------------|----------------|
|   | <b>June 30,</b>         |                |
| <i>(in millions)</i>  | <b>2018</b>             | <b>2017</b>    |
| <b>Cash flows from operating activities:</b>  |                         |                |
| Net income  | \$ 1,880                | \$ 2,329       |
| (Income) loss from discontinued operations  | 1                       | (8)            |
| <b>Adjustments to reconcile net income to net cash used in operating activities:</b>      |                         |                |
| <b>Noncash revenues, expenses, gains and losses included in income:</b>                   |                         |                |
| Net gains on sales of securities available for sale and other assets                      | (103)                   | (400)          |
| Net (gain) loss on sale of divested businesses  | (33)                    | 160            |
| (Gains) losses on extinguishment of debt  | 9                       | (5)            |
| Unrealized (gains) losses in earnings - net   | 43                      | (287)          |
| Equity in (income) loss from equity method investments, net of dividends or distributions | 95                      | (21)           |
| Depreciation and other amortization   | 2,784                   | 2,002          |
| Impairments of assets   | 209                     | 291            |
| <b>Changes in operating assets and liabilities:</b>                                       |                         |                |
| Insurance reserves  | (745)                   | 598            |
| Premiums and other receivables and payables - net   | 13                      | (13)           |
| Reinsurance assets and funds held under reinsurance treaties                              | (1,413)                 | (12,524)       |
| Capitalization of deferred policy acquisition costs                                       | (2,875)                 | (2,425)        |
| Current and deferred income taxes - net   | 563                     | 669            |
| Other, net  | (768)                   | 598            |
| Total adjustments   | (2,221)                 | (11,357)       |
| <b>Net cash used in operating activities</b>  | <b>(340)</b>            | <b>(9,036)</b> |
| <b>Cash flows from investing activities:</b>  |                         |                |
| Proceeds from (payments for)  |                         |                |
| Sales or distributions of:  |                         |                |
| Available for sale securities   | 12,233                  | 23,581         |
| Other securities  | 2,484                   | 1,871          |
| Other invested assets   | 2,306                   | 2,823          |
| Divested businesses, net  | 10                      | 538            |
| Maturities of fixed maturity securities available for sale                                | 12,305                  | 15,128         |
| Principal payments received on and sales of mortgage and other loans receivable           | 1,836                   | 3,005          |
| Purchases of:   |                         |                |
| Available for sale securities   | (21,000)                | (26,025)       |
| Other securities  | (797)                   | (281)          |
| Other invested assets   | (1,542)                 | (1,786)        |
| Mortgage and other loans receivable   | (5,165)                 | (4,259)        |
| Net change in short-term investments  | (3,840)                 | 1,047          |

|  |                 |                 |
|--|-----------------|-----------------|
| Other, net   | (300)           | (917)           |
| <b>Net cash provided by (used in) investing activities</b>         | <b>(1,470)</b>  | <b>14,725</b>   |
| <b>Cash flows from financing activities:</b>                       |                 |                 |
| Proceeds from (payments for)                                       |                 |                 |
| Policyholder contract deposits                                     | 12,625          | 8,916           |
| Policyholder contract withdrawals                                  | (8,770)         | (7,917)         |
| Issuance of long-term debt   | 3,504           | 2,221           |
| Repayments of long-term debt                                       | (1,959)         | (1,606)         |
| Purchase of common stock   | (646)           | (6,000)         |
| Dividends paid   | (575)           | (597)           |
| Other, net   | (2,756)         | (44)            |
| <b>Net cash provided by (used in) financing activities</b>         | <b>1,423</b>    | <b>(5,027)</b>  |
| <b>Effect of exchange rate changes on cash and restricted cash</b> | <b>30</b>       | <b>(25)</b>     |
| Net increase (decrease) in cash and restricted cash                | (357)           | 637             |
| Cash and restricted cash at beginning of year                      | 2,737           | 2,107           |
| Change in cash of businesses held for sale                         | -               | 66              |
| <b>Cash and restricted cash at end of period</b>                   | <b>\$ 2,380</b> | <b>\$ 2,810</b> |

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American International Group, Inc.

Condensed Consolidated Statements of Cash Flows *(unaudited)(continued)***Supplementary Disclosure of Condensed Consolidated Cash Flow Information**

|   | <b>Six Months<br/>Ended June<br/>30,</b> |             |
|---|--|-------------|
|   | <b>2018</b>                              | <b>2017</b> |
| Cash  | <b>\$2,135</b>                           | \$2,517     |
| Restricted cash included in Short-term investments*   | <b>18</b>                                | 59          |
| Restricted cash included in Other assets*   | <b>227</b>                               | 234         |
| Total cash and restricted cash shown in the Condensed Consolidated Statements of Cash Flows | <b>\$2,380</b>                           | \$2,810     |

**Cash paid during the period for:**

|          |               |        |
|----------|---------------|--------|
| Interest | <b>\$ 664</b> | \$ 682 |
| Taxes    | <b>\$ 40</b>  | \$ 402 |

**Non-cash investing/financing activities:**

|  |                 |          |
|--|-----------------|----------|
| Interest credited to policyholder contract deposits included in financing activities | <b>\$ 1,662</b> | \$ 1,654 |
|--|-----------------|----------|

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

*See accompanying Notes to Condensed Consolidated Financial Statements.*



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ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 1. Basis of Presentation**

1. Basis of Presentation

American International Group, Inc. (AIG) is a leading global insurance organization serving customers in more than 80 countries and jurisdictions. AIG companies serve commercial and individual customers through one of the most extensive worldwide property casualty networks of any insurer. In addition, AIG companies are leading providers of life insurance and retirement services in the United States. AIG Common Stock, par value \$2.50 per share (AIG Common Stock), is listed on the New York Stock Exchange (NYSE: AIG) and the Tokyo Stock Exchange. Unless the context indicates otherwise, the terms “AIG,” “we,” “us” or “our” mean American International Group, Inc. and its consolidated subsidiaries and the term “AIG Parent” means American International Group, Inc. and not any of its consolidated subsidiaries.

These unaudited Condensed Consolidated Financial Statements do not include all disclosures that are normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) and should be read in conjunction with the audited Consolidated Financial Statements and the related notes included in our Annual Report on Form 10-K for the year ended December 31, 2017 (the 2017 Annual Report). The condensed consolidated financial information as of December 31, 2017 included herein has been derived from the audited Consolidated Financial Statements in the 2017 Annual Report.

Certain of our foreign subsidiaries included in the Condensed Consolidated Financial Statements report on different fiscal-period bases. The effect on our consolidated financial condition and results of operations of all material events occurring at these subsidiaries through the date of each of the periods presented in these Condensed Consolidated Financial Statements has been considered for adjustment and/or disclosure. In the opinion of management, these Condensed Consolidated Financial Statements contain normal recurring adjustments, including eliminations of material intercompany accounts and transactions, necessary for a fair statement of the results presented herein.

Interim-period operating results may not be indicative of the operating results for a full year. We evaluated the need to recognize or disclose events that occurred subsequent to June 30, 2018 and prior to the issuance of these Condensed Consolidated Financial Statements.

## Use of Estimates

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

- liability for unpaid losses and loss adjustment expenses (loss reserves);
- reinsurance assets;
- valuation of future policy benefit liabilities and timing and extent of loss recognition;
- valuation of liabilities for guaranteed benefit features of variable annuity products;
- estimated gross profits to value deferred policy acquisition costs for investment-oriented products;
- impairment charges, including other-than-temporary impairments on available for sale securities, impairments on other invested assets, including investments in life settlements, and goodwill impairment;
- allowances for loan losses;

- liability for legal contingencies;
- fair value measurements of certain financial assets and liabilities; and
- income tax assets and liabilities, including recoverability of our net deferred tax asset and the predictability of future tax operating profitability of the character necessary to realize the net deferred tax asset and provisional estimates associated with the Tax Act.

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

ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 1. Basis of Presentation****OUT OF PERIOD ADJUSTMENTS**

For the three- and six-month periods ended June 30, 2018, our results included out of period adjustments relating to prior periods that increased Net income attributable to AIG by \$116 million and \$191 million, respectively, and increased Income from continuing operations before income taxes by \$148 million and \$257 million, respectively. The out of period adjustments are primarily related to earned premium on certain multi-year insurance policies related to earlier accident years and adjustments to universal life benefit reserves.

We determined that these adjustments were not material to the current quarter or to any previously reported quarterly or annual financial statements.

**2. Summary of Significant Accounting Policies****Accounting Standards Adopted During 2018****Revenue Recognition**

In May 2014, the FASB issued an accounting standard that supersedes most existing revenue recognition guidance. The standard excludes from its scope the accounting for insurance contracts, leases, financial instruments, and certain other agreements that are governed under other GAAP guidance, but could affect the revenue recognition for certain of our other activities.

We adopted the standard using the modified retrospective approach on its required effective date of January 1, 2018. Our analysis of revenues indicated that substantially all of our revenues were from sources excluded from the scope of the standard. For those revenue sources within the scope of the standard, there were no material changes in the timing or measurement of revenues based upon the guidance. As substantially all of our revenue sources were excluded from the scope of the standard, the adoption of the standard did not have a material effect on our reported consolidated financial condition, results of operations, cash flows or required disclosures.

**Recognition and Measurement of Financial Assets and Financial Liabilities**

In January 2016, the FASB issued an accounting standard that will require equity investments that do not follow the equity method of accounting or are not subject to consolidation to be measured at fair value with changes in fair value recognized in earnings, while financial liabilities for which fair value option accounting has been elected, changes in fair value due to instrument-specific credit risk will be presented separately in other comprehensive income. The standard allows the election to record equity investments without readily determinable fair values at cost, less impairment, adjusted for subsequent observable price changes with changes in the carrying value of the equity investments recorded in earnings. The standard also updates certain fair value disclosure requirements for financial instruments carried at amortized cost.

We adopted the standard on its effective date of January 1, 2018 using the modified retrospective approach. The impact of the adoption is primarily related to the reclassification of unrealized gains of equity securities resulting in a net decrease to beginning Accumulated other comprehensive income and a corresponding net increase to beginning Retained earnings of \$824 million.

### **Classification of Certain Cash Receipts and Cash Payments**

In August 2016, the FASB issued an accounting standard that addresses diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide clarity on the treatment of eight specifically defined types of cash inflows and outflows.

We adopted the standard retrospectively on its effective date of January 1, 2018. The standard addresses presentation in the statement of cash flows only and did not have a material impact on our reported consolidated financial condition, results of operations or required disclosures.

### **Intra-Entity Transfers of Assets Other than Inventory**

In October 2016, the FASB issued an accounting standard that will require an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than when the asset is sold to a third party.

We adopted the standard on its effective date of January 1, 2018 using a modified retrospective approach. The adoption of this standard did not have a material impact on our reported consolidated financial condition, results of operations, cash flows or required disclosures.

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ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 2. Summary of Significant Accounting Policies**

**Restricted Cash**

In November 2016, the FASB issued an accounting standard that provides guidance on the presentation of restricted cash in the Statement of Cash Flows. Entities will be required to explain the changes during a reporting period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents in the statement of cash flows.

We adopted the standard retrospectively on its effective date of January 1, 2018. The standard addresses presentation of restricted cash in the Statement of Cash Flows only and had no effect on our reported consolidated financial condition, results of operations or required disclosures.

**Gains and Losses from the Derecognition of Nonfinancial Assets**

In February 2017, the FASB issued an accounting standard that clarifies the scope of the derecognition guidance for the sale, transfer and derecognition of non-financial assets to noncustomers that aligns with the new revenue recognition principles. The standard also adds new accounting for partial sales of nonfinancial assets (including real estate) that requires an entity to derecognize a nonfinancial asset when it 1) ceases to have a controlling financial interest in the legal entity that holds the asset based on the consolidation model and 2) transfers control of the asset based on the revenue recognition model.

We adopted this standard on its effective date of January 1, 2018 under the modified retrospective approach. Based on our evaluation, the standard did not have a material impact on our reported consolidated financial condition, results of operations, cash flows or required disclosures.

**Improving the Presentation of Net Periodic Pension and Postretirement Benefit Cost**

In March 2017, the FASB issued an accounting standard that requires entities to report the service cost component of net periodic pension and postretirement benefit costs in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic benefit costs are required to be separately presented in the income statement. The amendments also allow only the service cost component to be eligible for capitalization when applicable.

We adopted this standard on its effective date of January 1, 2018. The standard primarily addresses the presentation of the service cost component of net periodic benefit costs in the income statement. AIG's U.S. pension plans are frozen and no longer accrue benefits, which are reflected as service costs. Therefore, the standard did not have a material effect on our reported consolidated financial condition, results of operations, cash flows or required disclosures.

**Modification of Share-Based Payment Awards**

In May 2017, the FASB issued an accounting standard that provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting.

We prospectively adopted this standard on its effective date of January 1, 2018 and the standard did not have a material effect on our reported consolidated financial condition, results of operations, cash flows or required disclosures.

### Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued an accounting standard that allows the optional reclassification of stranded tax effects within accumulated other comprehensive income to retained earnings that arise due to the enactment of the Tax Cuts and Jobs Act of 2017 (Tax Act). The amount of the reclassification would reflect the effect of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances, if any, at the date of enactment of the Tax Act and other income tax effects of the Tax Act on items remaining in accumulated other comprehensive income.

We adopted the standard effective January 1, 2018. The impact of the adoption of the standard resulted in an increase to beginning Accumulated other comprehensive income and a corresponding decrease to beginning Retained earnings of \$248 million. *For more information on the adoption of the Tax Act, see Note 14.*

**TABLE OF CONTENTS**ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 2. Summary of Significant Accounting Policies****Future Application of Accounting Standards****Leases**

In February 2016, the FASB issued an accounting standard that will require lessees with lease terms of more than 12 months to recognize a right of use asset and a corresponding lease liability on their balance sheets. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating leases or finance leases.

We plan to adopt the standard on its effective date of January 1, 2019 using a modified retrospective approach. We are currently quantifying the expected recognition on our balance sheet for a right to use asset and a lease liability as required by the standard. We do not expect the impact of the standard to have a material effect on our reported consolidated financial condition, results of operations, cash flows or required disclosures.

**Financial Instruments - Credit Losses**

In June 2016, the FASB issued an accounting standard that will change how entities account for credit losses for most financial assets, trade receivables and reinsurance receivables. The standard will replace the existing incurred loss impairment model with a new “current expected credit loss model” that generally will result in earlier recognition of credit losses. The standard will apply to financial assets subject to credit losses, including loans measured at amortized cost, reinsurance receivables and certain off-balance sheet credit exposures. Additionally, the impairment of available-for-sale debt securities, including purchased credit deteriorated securities, are subject to the new guidance and will be measured in a similar manner, except that losses will be recognized as allowances rather than reductions in the amortized cost of the securities. The standard will also require additional information to be disclosed in the footnotes.

The standard is effective on January 1, 2020, with early adoption permitted on January 1, 2019. We are continuing to develop our implementation plan to adopt the standard and are assessing the impact of the standard on our reported consolidated financial condition, results of operations, cash flows and required disclosures. While we expect an increase in our allowances for credit losses for the financial instruments within scope of the standard, given the objective of the new standard, the amount of any change will be dependent on our portfolios’ composition and quality at the adoption date as well as economic conditions and forecasts at that time.

**Simplifying the Test for Goodwill Impairment**

In January 2017, the FASB issued an accounting standard that eliminates the requirement to calculate the implied fair value of goodwill, through a hypothetical purchase price allocation, to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value not to exceed the total amount of goodwill allocated to that reporting unit. An entity should also consider income tax effects from tax deductible goodwill on the



carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable.

The standard is effective on January 1, 2020, with early adoption permitted. We are evaluating the timing of our adoption. Any impact of the standard will be dependent on the market conditions of the reporting units at the time of adoption.

### **Premium Amortization on Purchased Callable Debt Securities**

In March 2017, the FASB issued an accounting standard that shortens the amortization period for certain callable debt securities held at a premium by requiring the premium to be amortized to the earliest call date. The standard does not require an accounting change for securities held at a discount, which continue to be amortized to maturity.

We plan to adopt the standard retrospectively on its effective date, January 1, 2019. We do not expect the standard to have a material impact on our reported consolidated financial condition, results of operations, cash flows or required disclosures.

### **Derivatives and Hedging**

In August 2017, the FASB issued an accounting standard that improves and expands hedge accounting for both financial and commodity risks. The provisions of the amendment are intended to better align the accounting with an entity's risk management activities, enhance the transparency on how the economic results are presented in the financial statements and the footnote, and simplify the application of hedge accounting treatment.

The standard is effective on January 1, 2019, with early adoption permitted. We are evaluating the timing of adoption and are assessing the impact of the standard on our reported consolidated financial condition, results of operations, cash flows and required disclosures.

### 3. Segment Information

We report our results of operations consistent with the manner in which our chief operating decision makers review the business to assess performance and allocate resources, as follows.

#### General Insurance

General Insurance business is presented as two operating segments:

- **North America** — consists of insurance businesses in the United States, Canada and Bermuda.
- **International** — consists of insurance businesses in Japan, the United Kingdom, Europe, Asia Pacific, Latin America, Puerto Rico, Australia, the Middle East and Africa.

Results are presented before internal reinsurance transactions. North America and International operating segments consist of the following products:

- Commercial Lines — consists of Liability, Financial Lines, Property and Special Risks.
- Personal Insurance — consists of Personal Lines and Accident and Health.

#### Life and Retirement

Life and Retirement business is presented as four operating segments:

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

#### Other Operations

Other Operations category consists of:

- Income from assets held by AIG Parent and other corporate subsidiaries.

- General operating expenses not attributable to specific reporting segments.
- Interest expense.
- **Blackboard** —a data-enabled, digital subsidiary that provides the commercial insurance industry with alternative solutions using digital technology, data analytics and automation.
- **Fuji Life** — consists of term insurance, life insurance, endowment policies and annuities. The sale of this business was completed on April 30, 2017.

**TABLE OF CONTENTS**ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 3. Segment Information****Legacy Portfolio**

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

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

We evaluate segment performance based on adjusted revenues and adjusted pre-tax income (loss). Adjusted revenues and adjusted pre-tax income (loss) are derived by excluding certain items from total revenues and net income (loss) attributable to AIG, respectively. *For the items excluded from adjusted revenues and adjusted pre-tax income (loss) see the table below.*

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

Three Months Ended June 30,

|  | 2018              |                                |
|--|-------------------|--------------------------------|
|  | Adjusted Revenues | Adjusted Pre-tax Income (Loss) |
| <i>(in millions)</i>                     |                   |                                |
| <b>General Insurance</b>                 |                   |                                |
| North America                            | \$ 3,426          | \$ 407                         |
| International                            | 3,801             | 161                            |
| <b>Total General Insurance</b>           | <b>7,227</b>      | <b>568</b>                     |
| <b>Life and Retirement</b>               |                   |                                |
| Individual Retirement                    | 1,366             | 462                            |
| Group Retirement                         | 730               | 250                            |
| Life Insurance                           | 1,092             | 175                            |
| Institutional Markets                    | 277               | 75                             |
| <b>Total Life and Retirement</b>         | <b>3,465</b>      | <b>962</b>                     |
| <b>Other Operations</b>                  | <b>169</b>        | <b>(374)</b>                   |
| <b>Legacy Portfolio</b>                  | <b>781</b>        | <b>134</b>                     |
| <b>AIG Consolidation and elimination</b> | <b>(110)</b>      | <b>(12)</b>                    |

|  |                  |                 |
|--|------------------|-----------------|
| <b>Total AIG Consolidated adjusted revenues and adjusted pre-tax income</b>  | <b>11,532</b>    | <b>1,278</b>    |
| <b>Reconciling Items to revenues and pre-tax income:</b>   |                  |                 |
| Changes in fair value of securities used to hedge guaranteed living benefits   | (27)             | (36)            |
| Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains  | -                | 1               |
| Other income (expense) - net   | (14)             | -               |
| Gain (Loss) on extinguishment of debt  | -                | (5)             |
| Net realized capital gains (losses)*   | 139              | 155             |
| Income (loss) from divested businesses   | -                | 25              |
| Non-operating litigation reserves and settlements  | 1                | (12)            |
| (Unfavorable) favorable prior year development and related amortization changes ceded under retroactive reinsurance agreements | -                | 32              |
| Net loss reserve discount benefit (charge)   | -                | 14              |
| Pension expense related to a one-time lump sum payment to former employees   | -                | -               |
| Restructuring and other costs  | -                | (200)           |
| <b>Revenues and Pre-tax income</b>   | <b>\$ 11,631</b> | <b>1,252 \$</b> |

**TABLE OF CONTENTS**ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 3. Segment Information****Six Months Ended June 30,**

|  | <b>2018</b>          |                                      |
|--|----------------------|--------------------------------------|
| <i>(in millions)</i>   | Adjusted<br>Revenues | Adjusted<br>Pre-Tax<br>Income (Loss) |
| <b>General Insurance</b>   |                      |                                      |
| North America  | \$ 6,766\$           | 727 \$                               |
| International  | 7,905                | 351                                  |
| <b>Total General Insurance</b>   | <b>14,671</b>        | <b>1,078</b>                         |
| <b>Life and Retirement</b>   |                      |                                      |
| Individual Retirement  | 2,727                | 961                                  |
| Group Retirement   | 1,491                | 532                                  |
| Life Insurance   | 2,153                | 227                                  |
| Institutional Markets  | 554                  | 134                                  |
| <b>Total Life and Retirement</b>   | <b>6,925</b>         | <b>1,854</b>                         |
| <b>Other Operations</b>  | <b>319</b>           | <b>(716)</b>                         |
| <b>Legacy Portfolio</b>  | <b>1,617</b>         | <b>279</b>                           |
| <b>AIG Consolidation and elimination</b>   | <b>(172)</b>         | <b>(1)</b>                           |
| <b>Total AIG Consolidated adjusted revenues and adjusted pre-tax income</b>  | <b>23,360</b>        | <b>2,494</b>                         |
| <b>Reconciling Items to revenues and pre-tax income:</b>   |                      |                                      |
| Changes in fair value of securities used to hedge guaranteed living benefits   | (104)                | (113)                                |
| Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains  | -                    | (30)                                 |
| Other income (expense) - net   | (25)                 | -                                    |
| Gain (Loss) on extinguishment of debt  | -                    | (9)                                  |
| Net realized capital gains (losses)*   | 110                  | 136                                  |
| Income (loss) from divested businesses   | -                    | 33                                   |
| Non-operating litigation reserves and settlements  | 2                    | (25)                                 |
| (Unfavorable) favorable prior year development and related amortization changes ceded under retroactive reinsurance agreements | -                    | (2)                                  |
| Net loss reserve discount benefit (charge)   | -                    | 219                                  |
| Pension expense related to a one-time lump sum payment to former employees   | -                    | -                                    |
| Restructuring and other costs  | -                    | (224)                                |
| <b>Revenues and Pre-tax income</b>   | <b>\$ 23,343\$</b>   | <b>2,479 \$</b>                      |

\* Includes all net realized capital gains and losses except earned income (periodic settlements and changes in settlement accruals) on derivative instruments used for non-qualifying (economic) hedging or for asset replication.



ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 4. Fair Value Measurements****4. Fair Value Measurements****Fair Value Measurements on a Recurring Basis**

Assets and liabilities recorded at fair value in the Condensed Consolidated Balance Sheets are measured and classified in accordance with a fair value hierarchy consisting of three “levels” based on the observability of valuation inputs:

- **Level 1:** Fair value measurements based on quoted prices (unadjusted) in active markets that we have the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets. We do not adjust the quoted price for such instruments.
- **Level 2:** Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3:** Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3. The circumstances for using these measurements include those in which there is little, if any, market activity for the asset or liability. Therefore, we must make certain assumptions about the inputs a hypothetical market participant would use to value that asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.



TABLE OF CONTENTSITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 4. Fair Value Measurements****Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The following table presents information about assets and liabilities measured at fair value on a recurring basis and indicates the level of the fair value measurement based on the observability of the inputs used:

| <b>June 30, 2018</b><br><i>(in millions)</i>                     | Level 1          | Level 2          | Level 3          | Counterparty<br>Netting <sup>(a)</sup> | Cash<br>Collateral |
|--|------------------|------------------|------------------|--|--------------------|
| <b>Assets:</b>   |                  |                  |                  |  |                    |
| <b>Bonds available for sale:</b>                                 |                  |                  |                  |  |                    |
| U.S. government and government sponsored entities                | \$ 147           | \$ 2,497         | \$ -             | \$ -                                   | \$ -               |
| Obligations of states, municipalities and political subdivisions | -                | 15,004           | 2,056            | -                                      | -                  |
| Non-U.S. governments   | 24               | 15,273           | -                | -                                      | -                  |
| Corporate debt   | -                | 127,074          | 884              | -                                      | -                  |
| RMBS   | -                | 20,003           | 15,377           | -                                      | -                  |
| CMBS   | -                | 12,479           | 605              | -                                      | -                  |
| CDO/ABS  | -                | 10,394           | 6,856            | -                                      | -                  |
| <b>Total bonds available for sale</b>                            | <b>171</b>       | <b>202,724</b>   | <b>25,778</b>    | <b>-</b>                               | <b>-</b>           |
| <b>Other bond securities:</b>                                    |                  |                  |                  |  |                    |
| U.S. government and government sponsored entities                | 26               | 2,636            | -                | -                                      | -                  |
| Non-U.S. governments   | -                | 51               | -                | -                                      | -                  |
| Corporate debt   | -                | 1,729            | 18               | -                                      | -                  |
| RMBS   | -                | 382              | 1,338            | -                                      | -                  |
| CMBS   | -                | 340              | 71               | -                                      | -                  |
| CDO/ABS  | -                | 542              | 4,641            | -                                      | -                  |
| <b>Total other bond securities</b>                               | <b>26</b>        | <b>5,680</b>     | <b>6,068</b>     | <b>-</b>                               | <b>-</b>           |
| <b>Other equity securities<sup>(b)</sup></b>                     | <b>1,628</b>     | <b>47</b>        | <b>-</b>         | <b>-</b>                               | <b>-</b>           |
| <b>Mortgage and other loans receivable</b>                       | <b>-</b>         | <b>-</b>         | <b>-</b>         | <b>-</b>                               | <b>-</b>           |
| <b>Other invested assets<sup>(c)</sup></b>                       | <b>-</b>         | <b>-</b>         | <b>399</b>       | <b>-</b>                               | <b>-</b>           |
| <b>Derivative assets:</b>  |                  |                  |                  |  |                    |
| Interest rate contracts  | -                | 2,460            | -                | -                                      | -                  |
| Foreign exchange contracts                                       | -                | 1,038            | -                | -                                      | -                  |
| Equity contracts   | 27               | 174              | 79               | -                                      | -                  |
| Credit contracts   | -                | -                | 1                | -                                      | -                  |
| Other contracts  | -                | 3                | 14               | -                                      | -                  |
| Counterparty netting and cash collateral                         | -                | -                | -                | (1,433)                                | (1,644)            |
| <b>Total derivative assets</b>                                   | <b>27</b>        | <b>3,675</b>     | <b>94</b>        | <b>(1,433)</b>                         | <b>(1,644)</b>     |
| <b>Short-term investments</b>                                    | <b>2,307</b>     | <b>938</b>       | <b>-</b>         | <b>-</b>                               | <b>-</b>           |
| <b>Separate account assets</b>                                   | <b>85,783</b>    | <b>4,963</b>     | <b>-</b>         | <b>-</b>                               | <b>-</b>           |
| <b>Total</b>   | <b>\$ 89,942</b> | <b>\$218,027</b> | <b>\$ 32,339</b> | <b>(1,433)</b>                         | <b>(1,644)</b>     |
| <b>Liabilities:</b>  |                  |                  |                  |  |                    |
| <b>Policyholder contract deposits</b>                            | <b>\$ -</b>      | <b>\$ -</b>      | <b>\$ 3,534</b>  | <b>\$ -</b>                            | <b>\$ -</b>        |

**Derivative liabilities:**

|  |                 |                |                |                  |                |
|--|-----------------|----------------|----------------|------------------|----------------|
| Interest rate contracts                  | -               | 1,925          | 14             | -                | -              |
| Foreign exchange contracts               | -               | 1,082          | 5              | -                | -              |
| Equity contracts                         | 5               | 3              | -              | -                | -              |
| Credit contracts                         | -               | 13             | 247            | -                | -              |
| Other contracts                          | -               | -              | 4              | -                | -              |
| Counterparty netting and cash collateral | -               | -              | -              | (1,433)          | (595)          |
| <b>Total derivative liabilities</b>      | <b>5</b>        | <b>3,023</b>   | <b>270</b>     | <b>(1,433)</b>   | <b>(595)</b>   |
| <b>Long-term debt</b>                    | <b>-</b>        | <b>2,615</b>   | <b>-</b>       | <b>-</b>         | <b>-</b>       |
| <b>Other liabilities</b>                 | <b>153</b>      | <b>-</b>       | <b>-</b>       | <b>-</b>         | <b>-</b>       |
| <b>Total</b>                             | <b>\$ 158\$</b> | <b>5,638\$</b> | <b>3,804\$</b> | <b>(1,433)\$</b> | <b>(595)\$</b> |

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(in millions)**Assets:****Bonds available for sale:**

|  | Level 1    | Level 2        | Level 3       | Counterparty Netting <sup>(a)</sup> | Cash Collateral |
|--|------------|----------------|---------------|-------------------------------------|-----------------|
| U.S. government and government sponsored entities                | \$ 201     | \$ 2,455       | \$ -          | \$ -                                | \$ -            |
| Obligations of states, municipalities and political subdivisions | -          | 16,240         | 2,404         | -                                   | -               |
| Non-U.S. governments   | 20         | 15,631         | 8             | -                                   | -               |
| Corporate debt   | -          | 133,003        | 1,173         | -                                   | -               |
| RMBS   | -          | 21,098         | 16,136        | -                                   | -               |
| CMBS   | -          | 13,217         | 624           | -                                   | -               |
| CDO/ABS  | -          | 8,131          | 8,651         | -                                   | -               |
| <b>Total bonds available for sale</b>                            | <b>221</b> | <b>209,775</b> | <b>28,996</b> | <b>-</b>                            | <b>-</b>        |

**Other bond securities:**

|   |            |              |              |          |          |
|---|------------|--------------|--------------|----------|----------|
| U.S. government and government sponsored entities | 238        | 2,564        | -            | -        | -        |
| Non-U.S. governments                              | -          | 57           | -            | -        | -        |
| Corporate debt                                    | -          | 1,891        | 18           | -        | -        |
| RMBS  | -          | 421          | 1,464        | -        | -        |
| CMBS  | -          | 485          | 74           | -        | -        |
| CDO/ABS   | -          | 604          | 4,956        | -        | -        |
| <b>Total other bond securities</b>                | <b>238</b> | <b>6,022</b> | <b>6,512</b> | <b>-</b> | <b>-</b> |

**Equity securities available for sale:**

|   |              |            |          |          |          |
|---|--------------|------------|----------|----------|----------|
| Common stock                                      | 1,061        | -          | -        | -        | -        |
| Preferred stock                                   | 18           | 515        | -        | -        | -        |
| Mutual funds                                      | 110          | 4          | -        | -        | -        |
| <b>Total equity securities available for sale</b> | <b>1,189</b> | <b>519</b> | <b>-</b> | <b>-</b> | <b>-</b> |
| Other equity securities                           | 589          | -          | -        | -        | -        |
| Mortgage and other loans receivable               | -            | -          | 5        | -        | -        |
| Other invested assets <sup>(c)</sup>              | -            | 1          | 250      | -        | -        |

**Derivative assets:**

|  |            |              |            |                |                |
|--|------------|--------------|------------|----------------|----------------|
| Interest rate contracts                  | 1          | 2,170        | -          | -              | -              |
| Foreign exchange contracts               | -          | 827          | 4          | -              | -              |
| Equity contracts                         | 188        | 252          | 82         | -              | -              |
| Credit contracts                         | -          | -            | 1          | -              | -              |
| Other contracts                          | -          | -            | 20         | -              | -              |
| Counterparty netting and cash collateral | -          | -            | -          | (1,464)        | (1,159)        |
| <b>Total derivative assets</b>           | <b>189</b> | <b>3,249</b> | <b>107</b> | <b>(1,464)</b> | <b>(1,159)</b> |

|                         |        |       |   |   |   |
|-------------------------|--------|-------|---|---|---|
| Short-term investments  | 2,078  | 537   | - | - | - |
| Separate account assets | 87,141 | 5,657 | - | - | - |

**Total****Liabilities:**

|                                |      |       |          |      |      |
|--------------------------------|------|-------|----------|------|------|
| Policyholder contract deposits | \$ - | \$ 14 | \$ 4,136 | \$ - | \$ - |
|--------------------------------|------|-------|----------|------|------|

**Derivative liabilities:**

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|  |    |         |         |         |                     |
|--|----|---------|---------|---------|---------------------|
| Interest rate contracts                  | 2  | 2,176   | 22      | -       | -                   |
| Foreign exchange contracts               | -  | 1,241   | 4       | -       | -                   |
| Equity contracts                         | 2  | 19      | -       | -       | -                   |
| Credit contracts                         | -  | 14      | 263     | -       | -                   |
| Other contracts                          | -  | -       | 5       | -       | -                   |
| Counterparty netting and cash collateral | -  | -       | -       | (1,464) | (1,249)             |
| <b>Total derivative liabilities</b>      | 4  | 3,450   | 294     | (1,464) | (1,249)             |
| Long-term debt                           | -  | 2,888   | -       | -       | -                   |
| Other liabilities                        | 46 | 43      | -       | -       | -                   |
| <b>Total</b>                             |    | \$ 50\$ | 6,395\$ | 4,430\$ | (1,464)\$ (1,249)\$ |

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

(b) As a result of the adoption of the Recognition and Measurement of Financial Assets and Financial Liabilities standard on January 1, 2018 (Financial Instruments Recognition and Measurement Standard), equity securities are no longer classified and accounted for as available for sale securities.

(c) Excludes investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent), which totaled \$5.5 billion and \$6.0 billion as of June 30, 2018 and December 31, 2017, respectively.

ITEM 1 | [Notes to Condensed Consolidated Financial Statements \(unaudited\)](#) | [4. Fair Value Measurements](#)**Transfers of Level 1 and Level 2 Assets and Liabilities**

Our policy is to record transfers of assets and liabilities between Level 1 and Level 2 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market.

There were no transfers of securities issued by non-U.S. government entities from Level 1 to Level 2 in the three-month period ended June 30, 2018. During the six-month period ended June 30, 2018, we transferred \$16 million of securities issued by non-U.S. government entities from Level 1 to Level 2, because they are no longer considered actively traded. For similar reasons, during the three- and six-month periods ended June 30, 2018, we transferred \$490 million and \$681 million, respectively, of securities issued by the U.S. government and government sponsored entities from Level 1 to Level 2. We had no material transfers from Level 2 to Level 1 during the three- and six-month periods ended June 30, 2018.

There were no transfers of securities issued by non-U.S. government entities from Level 1 to Level 2 in the three-month period ended June 30, 2017. During the six-month period ended June 30, 2017, we transferred \$53 million of securities issued by non-U.S. government entities from Level 1 to Level 2, because they are no longer considered actively traded. For similar reasons, during the three- and six-month periods ended June 30, 2017, we transferred \$50 million and \$113 million, respectively, of securities issued by the U.S. government and government sponsored entities from Level 1 to Level 2. Additionally, we transferred \$126 million of preferred stock from Level 1 to Level 2 during the three- and six-month periods ended June 30, 2017. We had no material transfers from Level 2 to Level 1 during the three- and six-month periods ended June 30, 2017.

TABLE OF CONTENTSITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 4. Fair Value Measurements****Changes in Level 3 Recurring Fair Value Measurements**

The following tables present changes during the three- and six-month periods ended June 30, 2018 and 2017 in Level 3 assets and liabilities measured at fair value on a recurring basis, and the realized and unrealized gains (losses) related to the Level 3 assets and liabilities in the Condensed Consolidated Balance Sheets at June 30, 2018 and 2017:

| <i>(in millions)</i>   | Fair Value<br>Beginning<br>of Period | Net<br>Realized and<br>Unrealized<br>Gains<br>(Losses)<br>Included<br>in Income | Other<br>Comprehensive<br>Income (Loss) | Purchases,<br>Sales,<br>Issuances and<br>Settlements,<br>Net | Gross<br>Transfers<br>In | Tra |
|--|--------------------------------------|---|---|--|--------------------------|-----|
| <b>Three Months Ended June 30, 2018</b>                          |                                      |   |   |  |                          |     |
| <b>Assets:</b>   |                                      |   |   |  |                          |     |
| <b>Bonds available for sale:</b>                                 |                                      |   |   |  |                          |     |
| Obligations of states, municipalities and political subdivisions | \$ 2,261                             | -\$   | (40)                                    | (29)   | -\$                      |     |
| Non-U.S. governments   | 9                                    | (1)   | 2                                       | (5)  | -                        |     |
| Corporate debt   | 1,871                                | (8)   | (7)                                     | (394)  | 3                        |     |
| RMBS   | 15,839                               | 153   | (5)                                     | (616)  | 8                        |     |
| CMBS   | 584                                  | (2)   | (4)                                     | (7)  | 47                       |     |
| CDO/ABS  | 7,846                                | 8   | 3                                       | 56   | -                        |     |
| <b>Total bonds available for sale</b>                            | <b>28,410</b>                        | <b>150</b>  | <b>(51)</b>                             | <b>(995)</b>   | <b>58</b>                |     |
| <b>Other bond securities:</b>                                    |                                      |   |   |  |                          |     |
| Corporate debt   | 19                                   | (1)   | -                                       | -  | -                        |     |
| RMBS   | 1,427                                | 16  | -                                       | (105)  | -                        |     |
| CMBS   | 73                                   | (2)   | -                                       | -  | -                        |     |
| CDO/ABS  | 4,776                                | 118   | -                                       | (253)  | -                        |     |
| <b>Total other bond securities</b>                               | <b>6,295</b>                         | <b>131</b>  | <b>-</b>                                | <b>(358)</b>   | <b>-</b>                 |     |
| Other equity securities <sup>(a)</sup>                           | 3                                    | (3)   | -                                       | -  | -                        |     |
| Mortgage and other loans receivable                              | -                                    | -   | -                                       | -  | -                        |     |
| Other invested assets  | 292                                  | 29  | -                                       | 78   | -                        |     |
| <b>Total</b>   | <b>\$ 35,000</b>                     | <b>307</b>  | <b>(51)</b>                             | <b>(1,275)</b>   | <b>58</b>                |     |

| <i>(in millions)</i>                                   | of Period         | in Income      | Income (Loss) | Settlements,<br>Net | In         |
|--|-------------------|----------------|---------------|---------------------|------------|
| <b>Liabilities:</b>                                    |                   |                |               |                     |            |
| Policyholder contract deposits                         | \$ 3,696\$        | (238)\$        | -\$           | 76\$                | -\$        |
| <b>Derivative liabilities, net:</b>                    |                   |                |               |                     |            |
| Interest rate contracts                                | 17                | (1)            | -             | (2)                 | -          |
| Foreign exchange contracts                             | 1                 | 6              | -             | (2)                 | -          |
| Equity contracts                                       | (78)              | 5              | -             | (8)                 | -          |
| Credit contracts                                       | 250               | (4)            | -             | -                   | -          |
| Other contracts  | (12)              | (15)           | -             | 17                  | -          |
| <b>Total derivative liabilities, net<sup>(b)</sup></b> | <b>178</b>        | <b>(9)</b>     | <b>-</b>      | <b>5</b>            | <b>-</b>   |
| Long-term debt <sup>(c)</sup>                          | -                 | -              | -             | -                   | -          |
| <b>Total</b>   | <b>\$ 3,874\$</b> | <b>(247)\$</b> | <b>-\$</b>    | <b>81\$</b>         | <b>-\$</b> |





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|  |                   |                |            |              |            |
|--|-------------------|----------------|------------|--------------|------------|
| Equity contracts                                       | (82)              | 9              | -          | (8)          | -          |
| Credit contracts                                       | 262               | (14)           | -          | (2)          | -          |
| Other contracts  | (15)              | (32)           | -          | 37           | -          |
| <b>Total derivative liabilities, net<sup>(b)</sup></b> | <b>187</b>        | <b>(45)</b>    | <b>-</b>   | <b>32</b>    | <b>-</b>   |
| Long-term debt <sup>(c)</sup>                          | -                 | -              | -          | -            | -          |
| <b>Total</b>   | <b>\$ 4,323\$</b> | <b>(789)\$</b> | <b>-\$</b> | <b>174\$</b> | <b>-\$</b> |

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| <i>(in millions)</i>   | Fair Value<br>Beginning<br>of Period | Net<br>Realized and<br>Unrealized<br>Gains (Losses)<br>Included<br>in Income | Other<br>Comprehensive<br>Income (Loss) | Purchases,<br>Sales,<br>Issuances and<br>Settlements,<br>Net | Gr<br>Transf |
|--|--------------------------------------|--|---|--|--------------|
| <i>Three Months Ended June 30, 2017</i>                          |                                      |  |   |  |              |
| <b>Assets:</b>   |                                      |  |   |  |              |
| <b>Bonds available for sale:</b>                                 |                                      |  |   |  |              |
| Obligations of states, municipalities and political subdivisions | \$ 2,041                             | \$ (1)   | \$ 89                                   | \$ 148   |              |
| Non-U.S. governments   | 16                                   | -  | 1                                       | (5)  |              |
| Corporate debt   | 1,079                                | 5  | 3                                       | (153)  |              |
| RMBS   | 16,487                               | 264  | 346                                     | (681)  |              |
| CMBS   | 1,003                                | 18   | 2                                       | (274)  |              |
| CDO/ABS  | 7,755                                | (28)   | 132                                     | 746  |              |
| <b>Total bonds available for sale</b>                            | <b>28,381</b>                        | <b>258</b>   | <b>573</b>                              | <b>(219)</b>   |              |
| <b>Other bond securities:</b>                                    |                                      |  |   |  |              |
| Corporate debt   | 18                                   | -  | -                                       | 10   |              |
| RMBS   | 1,502                                | 66   | -                                       | (58)   |              |
| CMBS   | 65                                   | 2  | -                                       | (1)  |              |
| CDO/ABS  | 5,508                                | 175  | -                                       | (449)  |              |
| <b>Total other bond securities</b>                               | <b>7,093</b>                         | <b>243</b>   | <b>-</b>                                | <b>(498)</b>   |              |
| <b>Equity securities available for sale:</b>                     |                                      |  |   |  |              |
| Common stock   | 8                                    | -  | -                                       | -  |              |
| <b>Total equity securities available for sale</b>                | <b>8</b>                             | <b>-</b>   | <b>-</b>                                | <b>-</b>   |              |
| Mortgage and other loans receivable                              | 11                                   | -  | -                                       | (6)  |              |
| Other invested assets  | 180                                  | 4  | 2                                       | 39   |              |
| <b>Total</b>   | <b>\$ 35,673</b>                     | <b>\$ 505</b>  | <b>\$ 575</b>                           | <b>\$(684)</b>   |              |
| <i>(in millions)</i>   |                                      |  |   |  |              |
| <b>Liabilities:</b>  |                                      |  |   |  |              |
| Policyholder contract deposits                                   | \$ 3,072                             | \$ 340   | \$ -                                    | \$ 106   |              |
| <b>Derivative liabilities, net:</b>                              |                                      |  |   |  |              |
| Interest rate contracts  | 32                                   | 2  | -                                       | (4)  |              |
| Foreign exchange contracts                                       | 6                                    | 1  | -                                       | -  |              |

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|  |            |       |     |       |
|--|------------|-------|-----|-------|
| Equity contracts                                       | (62)       | (4)   | -   | 3     |
| Credit contracts                                       | 315        | (21)  | -   | (1)   |
| Other contracts  | (11)       | (20)  | -   | 18    |
| <b>Total derivative liabilities, net<sup>(b)</sup></b> | 280        | (42)  | -   | 16    |
| Long-term debt <sup>(c)</sup>                          | 58         | 2     | -   | 1     |
| <b>Total</b>   | \$ 3,410\$ | 300\$ | -\$ | 123\$ |

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|   | Fair Value<br>Beginning<br>of Period | Net<br>Realized and<br>Unrealized<br>Gains (Losses)<br>Included<br>in Income | Other<br>Comprehensive<br>Income (Loss) | Purchases,<br>Sales,<br>Issuances and<br>Settlements,<br>Net | Gr<br>Transf |
|---|--------------------------------------|--|---|--|--------------|
| <i>(in millions)</i>  |                                      |  |   |  |              |
| Six Months Ended June 30, 2017                                      |                                      |  |   |  |              |
| <b>Assets:</b>  |                                      |  |   |  |              |
| <b>Bonds available for sale:</b>                                    |                                      |  |   |  |              |
| Obligations of states, municipalities<br>and political subdivisions | \$ 2,040                             | \$ 1   | \$ 85                                   | \$ 169   |              |
| Non-U.S. governments  | 17                                   | -  | 1                                       | (6)  |              |
| Corporate debt  | 1,133                                | 1  | -                                       | (166)  |              |
| RMBS  | 16,906                               | 553  | 497                                     | (1,539)  |              |
| CMBS  | 2,040                                | 23   | 7                                       | (622)  |              |
| CDO/ABS   | 7,835                                | (22)   | 180                                     | 644  |              |
| <b>Total bonds available for sale</b>                               | <b>29,971</b>                        | <b>556</b>   | <b>770</b>                              | <b>(1,520)</b>   |              |
| <b>Other bond securities:</b>                                       |                                      |  |   |  |              |
| Corporate debt  | 17                                   | 1  | -                                       | 10   |              |
| RMBS  | 1,605                                | 121  | -                                       | (183)  |              |
| CMBS  | 155                                  | 2  | -                                       | (18)   |              |
| CDO/ABS   | 5,703                                | 348  | -                                       | (817)  |              |
| <b>Total other bond securities</b>                                  | <b>7,480</b>                         | <b>472</b>   | <b>-</b>                                | <b>(1,008)</b>   |              |
| <b>Equity securities available for sale:</b>                        |                                      |  |   |  |              |
| Common stock  | -                                    | -  | -                                       | 8  |              |
| <b>Total equity securities available for sale</b>                   | <b>-</b>                             | <b>-</b>   | <b>-</b>                                | <b>8</b>   |              |
| Mortgage and other loans receivable                                 | 11                                   | -  | -                                       | (6)  |              |
| Other invested assets   | 204                                  | 3  | (3)                                     | 22   |              |
| <b>Total</b>  | <b>\$ 37,666</b>                     | <b>\$ 1,031</b>  | <b>\$ 767</b>                           | <b>\$(2,504)</b>   |              |
|   |                                      | Net  |   |  |              |
|   | Fair Value                           | Realized and   | Other                                   | Purchases,   | Gr           |
|   | Beginning                            | Unrealized   | Comprehensive                           | Sales,   | Transf       |
|   | of Period                            | Gains) Losses  | Income (Loss)                           | Issuances and  |              |
|   |                                      | Included   |   | Settlements,   |              |
|   |                                      | in Income  |   | Net  |              |
| <i>(in millions)</i>  |                                      |  |   |  |              |
| <b>Liabilities:</b>   |                                      |  |   |  |              |
| Policyholder contract deposits                                      | \$ 3,033                             | \$ 295   | \$ -                                    | \$ 190   |              |
| <b>Derivative liabilities, net:</b>                                 |                                      |  |   |  |              |
| Interest rate contracts   | 38                                   | (1)  | -                                       | (7)  |              |
| Foreign exchange contracts  | 11                                   | 1  | -                                       | (5)  |              |

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|  |            |       |     |       |
|--|------------|-------|-----|-------|
| Equity contracts                                       | (58)       | (15)  | -   | 10    |
| Credit contracts                                       | 329        | (36)  | -   | -     |
| Other contracts  | (11)       | (39)  | -   | 37    |
| <b>Total derivative liabilities, net<sup>(b)</sup></b> | 309        | (90)  | -   | 35    |
| Long-term debt <sup>(c)</sup>                          | 71         | 14    | -   | (24)  |
| <b>Total</b>   | \$ 3,413\$ | 219\$ | -\$ | 201\$ |

(a) As a result of the adoption of the Financial Instruments Recognition and Measurement Standard on January 1, 2018, equity securities are no longer classified and accounted for as available for sale securities.

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

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

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

| <i>(in millions)</i>                    | Net Investment Income | Net Realized Capital Gains (Losses) | Other Income | Total |
|---|-----------------------|-------------------------------------|--------------|-------|
| <b>Three Months Ended June 30, 2018</b> |                       |                                     |              |       |
| Bonds available for sale                | \$ 200                | \$ (50)                             | \$ -         | 150   |
| Other bond securities                   | 34                    | -                                   | 97           | 131   |
| Other equity securities                 | (3)                   | -                                   | -            | (3)   |
| Other invested assets                   | 32                    | -                                   | (3)          | 29    |
| <b>Six Months Ended June 30, 2018</b>   |                       |                                     |              |       |
| Bonds available for sale                | \$ 482                | \$ (112)                            | \$ -         | 370   |
| Other bond securities                   | 57                    | (4)                                 | 206          | 259   |
| Other equity securities                 | (3)                   | -                                   | -            | (3)   |
| Other invested assets                   | 57                    | -                                   | (5)          | 52    |
| <b>Three Months Ended June 30, 2017</b> |                       |                                     |              |       |
| Bonds available for sale                | \$ 294                | \$ (36)                             | \$ -         | 258   |
| Other bond securities                   | 97                    | (4)                                 | 150          | 243   |
| Other invested assets                   | 3                     | 1                                   | -            | 4     |
| <b>Six Months Ended June 30, 2017</b>   |                       |                                     |              |       |
| Bonds available for sale                | \$ 592                | \$ (36)                             | \$ -         | 556   |
| Other bond securities                   | 172                   | 2                                   | 298          | 472   |
| Other invested assets                   | 3                     | (2)                                 | 2            | 3     |

| <i>(in millions)</i>                    | Net Investment Income | Net Realized Capital (Gains) Losses | Other Income | Total |
|---|-----------------------|-------------------------------------|--------------|-------|
| <b>Three Months Ended June 30, 2018</b> |                       |                                     |              |       |
| Policyholder contract deposits          | \$ -                  | \$ (238)                            | \$ -         | (238) |
| Derivative liabilities, net             | -                     | (3)                                 | (6)          | (9)   |
| Long-term debt                          | -                     | -                                   | -            | -     |
| <b>Six Months Ended June 30, 2018</b>   |                       |                                     |              |       |
| Policyholder contract deposits          | \$ -                  | \$ (744)                            | \$ -         | (744) |
| Derivative liabilities, net             | -                     | (2)                                 | (43)         | (45)  |
| Long-term debt                          | -                     | -                                   | -            | -     |
| <b>Three Months Ended June 30, 2017</b> |                       |                                     |              |       |
| Policyholder contract deposits          | \$ -                  | \$ 340                              | \$ -         | 340   |
| Derivative liabilities, net             | -                     | (1)                                 | (41)         | (42)  |
| Long-term debt                          | -                     | -                                   | 2            | 2     |

Six Months Ended June 30, 2017

|                                |    |   |    |     |    |      |    |      |
|--------------------------------|----|---|----|-----|----|------|----|------|
| Policyholder contract deposits | \$ | - | \$ | 295 | \$ | -    | \$ | 295  |
| Derivative liabilities, net    |    | - |    | (8) |    | (82) |    | (90) |
| Long-term debt                 |    | - |    | -   |    | 14   |    | 14   |

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The following table presents the gross components of purchases, sales, issuances and settlements, net, shown above, for the three- and six-month periods ended June 30, 2018 and 2017 related to Level 3 assets and liabilities in the Condensed Consolidated Balance Sheets:

| <i>(in millions)</i>   | Purchases     | Sales          | Issuances and Settlements <sup>(a)</sup> | Purchases, Sales and Issuances Settlements, Net |
|--|---------------|----------------|--|---|
| <b>Three Months Ended June 30, 2018</b>                          |               |                |  |   |
| <b>Assets:</b>   |               |                |  |   |
| <b>Bonds available for sale:</b>                                 |               |                |  |   |
| Obligations of states, municipalities and political subdivisions | \$ 9          | -\$            | (38)                                     | \$ (29)   |
| Non-U.S. governments   | -             | -              | (5)                                      | (5)   |
| Corporate debt   | 1             | (213)          | (182)                                    | (394)   |
| RMBS   | 274           | (5)            | (885)                                    | (616)   |
| CMBS   | -             | -              | (7)                                      | (7)   |
| CDO/ABS  | 475           | (62)           | (357)                                    | 56  |
| <b>Total bonds available for sale</b>                            | <b>759</b>    | <b>(280)</b>   | <b>(1,474)</b>                           | <b>(995)</b>                                    |
| <b>Other bond securities:</b>                                    |               |                |  |   |
| Corporate debt   | -             | -              | -  | -   |
| RMBS   | -             | (29)           | (76)                                     | (105)   |
| CMBS   | -             | -              | -  | -   |
| CDO/ABS  | -             | -              | (253)                                    | (253)   |
| <b>Total other bond securities</b>                               | <b>-</b>      | <b>(29)</b>    | <b>(329)</b>                             | <b>(358)</b>                                    |
| Other equity securities  | -             | -              | -  | -   |
| Other invested assets  | 131           | (29)           | (24)                                     | 82  |
| <b>Total assets</b>  | <b>\$ 890</b> | <b>\$(338)</b> | <b>\$(1,827)</b>                         | <b>\$(1,275)</b>                                |
| <b>Liabilities:</b>  |               |                |  |   |
| Policyholder contract deposits                                   | \$ -          | \$ 131         | (55)                                     | \$ 76   |
| Derivative liabilities, net                                      | (12)          | -              | 17                                       | 5   |
| Long-term debt <sup>(b)</sup>                                    | -             | -              | -  | -   |
| <b>Total liabilities</b>   | <b>\$(12)</b> | <b>\$ 131</b>  | <b>\$(38)</b>                            | <b>\$ 81</b>                                    |
| <b>Three Months Ended June 30, 2017</b>                          |               |                |  |   |
| <b>Assets:</b>   |               |                |  |   |
| <b>Bonds available for sale:</b>                                 |               |                |  |   |
| Obligations of states, municipalities and political subdivisions | \$ 186        | (11)           | (27)                                     | \$ 148  |
| Non-U.S. governments   | -             | -              | (5)                                      | (5)   |
| Corporate debt   | 30            | (54)           | (129)                                    | (153)   |
| RMBS   | 301           | -              | (982)                                    | (681)   |
| CMBS   | -             | (44)           | (230)                                    | (274)   |
| CDO/ABS  | 1,194         | -              | (448)                                    | 746   |
| <b>Total bonds available for sale</b>                            | <b>1,711</b>  | <b>(109)</b>   | <b>(1,821)</b>                           | <b>(219)</b>                                    |
| <b>Other bond securities:</b>                                    |               |                |  |   |



|                                     |          |         |           |
|-------------------------------------|----------|---------|-----------|
| Corporate debt                      | 11       | -       | (1)       |
| RMBS                                | 14       | -       | (72)      |
| CMBS                                | -        | -       | (1)       |
| CDO/ABS                             | -        | (8)     | (441)     |
| <b>Total other bond securities</b>  | 25       | (8)     | (515)     |
| Other equity securities             | -        | -       | -         |
| Mortgage and other loans receivable | -        | (6)     | -         |
| Other invested assets               | 42       | (2)     | (1)       |
| <b>Total assets</b>                 | \$ 1,778 | \$(125) | \$(2,337) |
| <b>Liabilities:</b>                 |          |         |           |
| Policyholder contract deposits      | \$       | -\$ 82  | \$ 24     |
| Derivative liabilities, net         | -        | -       | 16        |
| Long-term debt <sup>(b)</sup>       | -        | -       | 1         |
| <b>Total liabilities</b>            | \$       | -\$ 82  | \$ 41     |

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| <i>(in millions)</i>   | Purchases       | Sales            | Issuances and Settlements <sup>(a)</sup> | Purchases, Issuances and Settlements, |
|--|-----------------|------------------|--|---------------------------------------|
| <b>Six Months Ended June 30, 2018</b>                            |                 |                  |  |                                       |
| <b>Assets:</b>   |                 |                  |  |                                       |
| <b>Bonds available for sale:</b>                                 |                 |                  |  |                                       |
| Obligations of states, municipalities and political subdivisions | \$ 24           | -\$              | (122)                                    | \$                                    |
| Non-U.S. governments   | 2               | -                | (6)                                      |                                       |
| Corporate debt   | 255             | (216)            | (185)                                    |                                       |
| RMBS   | 507             | (10)             | (1,649)                                  |                                       |
| CMBS   | 12              | -                | (42)                                     |                                       |
| CDO/ABS  | 970             | (913)            | (711)                                    |                                       |
| <b>Total bonds available for sale</b>                            | <b>1,770</b>    | <b>(1,139)</b>   | <b>(2,715)</b>                           | <b>(2,715)</b>                        |
| <b>Other bond securities:</b>                                    |                 |                  |  |                                       |
| Corporate debt   | -               | -                | -  |                                       |
| RMBS   | 1               | (34)             | (148)                                    |                                       |
| CMBS   | -               | -                | (1)                                      |                                       |
| CDO/ABS  | -               | (4)              | (509)                                    |                                       |
| <b>Total other bond securities</b>                               | <b>1</b>        | <b>(38)</b>      | <b>(658)</b>                             | <b>(658)</b>                          |
| Other equity securities  | 3               | -                | -  |                                       |
| Mortgage and other loans receivable                              | -               | (5)              | -  |                                       |
| Other invested assets  | 153             | (29)             | (28)                                     |                                       |
| <b>Total assets</b>  | <b>\$ 1,927</b> | <b>\$(1,211)</b> | <b>(3,401)</b>                           | <b>(3,401)</b>                        |
| <b>Liabilities:</b>  |                 |                  |  |                                       |
| Policyholder contract deposits                                   | \$ -            | 243              | (101)                                    | \$                                    |
| Derivative liabilities, net                                      | (19)            | -                | 51                                       |                                       |
| Long-term debt <sup>(b)</sup>                                    | -               | -                | -  |                                       |
| <b>Total liabilities</b>   | <b>\$ (19)</b>  | <b>243</b>       | <b>(50)</b>                              | <b>(50)</b>                           |
| <b>Six Months Ended June 30, 2017</b>                            |                 |                  |  |                                       |
| <b>Assets:</b>   |                 |                  |  |                                       |
| <b>Bonds available for sale:</b>                                 |                 |                  |  |                                       |
| Obligations of states, municipalities and political subdivisions | \$ 223          | (16)             | (38)                                     | \$                                    |
| Non-U.S. governments   | -               | (1)              | (5)                                      |                                       |
| Corporate debt   | 30              | (54)             | (142)                                    |                                       |
| RMBS   | 640             | (244)            | (1,935)                                  |                                       |
| CMBS   | 39              | (111)            | (550)                                    |                                       |
| CDO/ABS  | 1,207           | -                | (563)                                    |                                       |
| <b>Total bonds available for sale</b>                            | <b>2,139</b>    | <b>(426)</b>     | <b>(3,233)</b>                           | <b>(3,233)</b>                        |
| <b>Other bond securities:</b>                                    |                 |                  |  |                                       |
| Corporate debt   | 11              | -                | (1)                                      |                                       |
| RMBS   | 112             | (167)            | (128)                                    |                                       |
| CMBS   | -               | (11)             | (7)                                      |                                       |

|                                      |          |         |           |
|--------------------------------------|----------|---------|-----------|
| CDO/ABS                              | -        | (8)     | (809)     |
| <b>Total other bond securities</b>   | 123      | (186)   | (945)     |
| Equity securities available for sale | 8        | -       | -         |
| Other equity securities              | -        | -       | -         |
| Mortgage and other loans receivable  | -        | (6)     | -         |
| Other invested assets                | 43       | (2)     | (19)      |
| <b>Total assets</b>                  | \$ 2,313 | \$(620) | \$(4,197) |
| <b>Liabilities:</b>                  |          |         |           |
| Policyholder contract deposits       | \$ -     | \$ 152  | \$ 38     |
| Derivative liabilities, net          | -        | -       | 35        |
| Long-term debt <sup>(b)</sup>        | -        | -       | (24)      |
| <b>Total liabilities</b>             | \$ -     | \$ 152  | \$ 49     |

(a) There were no issuances during the three- and six-month periods ended June 30, 2018 and 2017, respectively.

(b) Includes GIAs, notes, bonds, loans and mortgages payable.

ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 4. Fair Value Measurements**

Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3 in the tables above. As a result, the unrealized gains (losses) on instruments held at June 30, 2018 and 2017 may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable inputs (e.g., changes in unobservable long-dated volatilities).

**Transfers of Level 3 Assets and Liabilities**

We record transfers of assets and liabilities into or out of Level 3 classification at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. The Net realized and unrealized gains (losses) included in income or Other comprehensive income (loss) as shown in the table above excludes \$24 million of net gains related to assets and liabilities transferred into Level 3 during the six-month period ended June 30, 2018 and includes \$22 million of net losses related to assets and liabilities transferred out of Level 3 in both the three- and six-month periods ended June 30, 2018.

The Net realized and unrealized gains (losses) included in income or Other comprehensive income (loss) as shown in the table above excludes \$1 million of net gains and \$8 million of net losses related to assets and liabilities transferred into Level 3 during the three- and six-month periods ended June 30, 2017, respectively, and includes \$7 million of net losses related to assets and liabilities transferred out of Level 3 in both the three- and six-month periods ended June 30, 2017.

**Transfers of Level 3 Assets**

During the three- and six-month periods ended June 30, 2018 and 2017, transfers into Level 3 assets primarily included certain investments in private placement corporate debt, RMBS, CMBS and CDO/ABS. Transfers of private placement corporate debt and certain ABS into Level 3 assets were primarily the result of limited market pricing information that required us to determine fair value for these securities based on inputs that are adjusted to better reflect our own assumptions regarding the characteristics of a specific security or associated market liquidity. The transfers of investments in RMBS, CMBS and CDO and certain ABS into Level 3 assets were due to decreases in market transparency and liquidity for individual security types.

During the three- and six-month periods ended June 30, 2018 and 2017, transfers out of Level 3 assets primarily included private placement and other corporate debt, CMBS, RMBS, CDO/ABS and certain investments in municipal securities. Transfers of certain investments in municipal securities, corporate debt, RMBS, CMBS and CDO/ABS out of Level 3 assets were based on consideration of market liquidity as well as related transparency of pricing and associated observable inputs for these investments. Transfers of certain investments in private placement corporate debt and certain ABS out of Level 3 assets were primarily the result of using observable pricing information that reflects the fair value of those securities without the need for adjustment based on our own assumptions regarding the characteristics of a specific security or the current liquidity in the market.

**Transfers of Level 3 Liabilities**

There were no significant transfers of derivative or other liabilities into or out of Level 3 for the three- and six-month periods ended June 30, 2018 and 2017.

## ITEM 1 | Notes to Condensed Consolidated Financial Statements (unaudited) | 4. Fair Value Measurements

## QUANTITATIVE INFORMATION ABOUT LEVEL 3 FAIR VALUE MEASUREMENTS

The table below presents information about the significant unobservable inputs used for recurring fair value measurements for certain Level 3 instruments, and includes only those instruments for which information about the inputs is reasonably available to us, such as data from independent third-party valuation service providers and from internal valuation models. Because input information from third-parties with respect to certain Level 3 instruments (primarily CDO/ABS) may not be reasonably available to us, balances shown below may not equal total amounts reported for such Level 3 assets and liabilities:

| <i>(in millions)</i>  | Fair Value at<br>June 30,<br>2018 | Valuation<br>Technique | Unobservable Input <sup>(b)</sup> | Range<br>(Weighted<br>Average) |
|---|-----------------------------------|------------------------|-----------------------------------|--------------------------------|
| <b>Assets:</b>  |                                   |                        |                                   |                                |
| Obligations of states,<br>municipalities<br>and political<br>subdivisions | \$ 1,521                          | Discounted cash flow   | Yield                             | 3.93% - 4.54%<br>(4.24%)       |
| Corporate debt  | 721                               | Discounted cash flow   | Yield                             | 3.52% -<br>14.75%<br>(9.14%)   |
| RMBS <sup>(a)</sup>   | 14,915                            | Discounted cash flow   | Constant prepayment rate          | 4.29% -<br>12.86%<br>(8.57%)   |
|   |                                   |                        | Loss severity                     | 39.93% -<br>75.33%<br>(57.63%) |
|   |                                   |                        | Constant default rate             | 2.80% - 7.70%<br>(5.25%)       |
|   |                                   |                        | Yield                             | 3.14% - 5.42%<br>(4.28%)       |
| CDO/ABS <sup>(a)</sup>  | 4,261                             | Discounted cash flow   | Yield                             | 3.93% - 5.25%<br>(4.59%)       |
| CMBS  | 442                               | Discounted cash flow   | Yield                             | 2.86% - 6.36%<br>(4.61%)       |
| <b>Liabilities:</b>   |                                   |                        |                                   |                                |

Embedded derivatives within Policyholder contract deposits:

Guaranteed minimum withdrawal benefits (GMWB)

**1,332** Discounted cash flow

Equity volatility

6.35% -

50.05%

0.35% -

Base lapse rate

14.00%

30.00% -

Dynamic lapse multiplier

170.00%

40.00% -

Mortality multiplier<sup>(c)</sup>

153.00%

90.00% -

Utilization

100.00%

20.00% -

Equity / interest-rate correlation

40.00%

Index Annuities

**1,614** Discounted cash flow

Lapse rate

0.50% -

40.00%

42.00% -

Mortality multiplier<sup>(c)</sup>

162.00%

Option Budget 1.00% - 4.00%

Indexed Life

**563** Discounted cash flow

Base lapse rate

2.00% -

19.00%

0.00% -

Mortality rate

40.00%

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| <i>(in millions)</i>   | Fair Value<br>at<br>December<br>31,<br>2017 | Valuation<br>Technique | Unobservable Input <sup>(b)</sup>                                   | Range<br>(Weighted<br>Average)                       |
|--|---|------------------------|---|--|
| <b>Assets:</b>   |   |                        |   |  |
| Obligations of states,<br>municipalities<br>and political subdivisions | \$ 1,620                                    | Discounted cash flow   | Yield   | 3.55% - 4.32%<br>(3.94%)                             |
| Corporate debt   | 1,086                                       | Discounted cash flow   | Yield   | 3.26% - 12.22%<br>(7.74%)                            |
| RMBS <sup>(a)</sup>  | 16,156                                      | Discounted cash flow   | Constant prepayment<br>rate   | 3.97% - 13.42%<br>(8.69%)                            |
|  |   |                        | Loss severity   | 43.15% - 77.15%<br>(60.15%)                          |
|  |   |                        | Constant default rate   | 3.31% - 8.30%<br>(5.80%)                             |
|  |   |                        | Yield   | 2.73% - 5.19%<br>(3.96%)                             |
| CDO/ABS <sup>(a)</sup>   | 5,254                                       | Discounted cash flow   | Yield   | 3.38% - 4.78%<br>(4.08%)                             |
| CMBS   | 487   | Discounted cash flow   | Yield   | 2.22% - 7.77%<br>(4.99%)                             |
| <b>Liabilities:</b>  |   |                        |   |  |
| Embedded derivatives<br>within<br>Policyholder contract<br>deposits:   |   |                        |   |  |
| GMWB   | 1,994                                       | Discounted cash flow   | Equity volatility<br>Base lapse rate<br>Dynamic lapse<br>multiplier | 6.45% - 51.25%<br>0.35% - 14.00%<br>30.00% - 170.00% |



|                 |                            |                                     |                  |
|-----------------|----------------------------|-------------------------------------|------------------|
|                 |                            | Mortality multiplier <sup>(c)</sup> | 40.00% - 153.00% |
|                 |                            | Utilization                         | 90.00% - 100.00% |
|                 |                            | Equity / interest-rate correlation  | 20.00% - 40.00%  |
| Index Annuities | 1,603 Discounted cash flow | Lapse rate                          | 0.50% - 40.00%   |
|                 |                            | Mortality multiplier <sup>(c)</sup> | 42.00% - 162.00% |
|                 |                            | Option Budget                       | 1.00% - 4.00%    |
| Indexed Life    | 515 Discounted cash flow   | Base lapse rate                     | 2.00% - 19.00%   |
|                 |                            | Mortality rate                      | 0.00% - 40.00%   |

(a) Information received from third-party valuation service providers. The ranges of the unobservable inputs for constant prepayment rate, loss severity and constant default rate relate to each of the individual underlying mortgage loans that comprise the entire portfolio of securities in the RMBS and CDO securitization vehicles and not necessarily to the securitization vehicle bonds (tranches) purchased by us. The ranges of these inputs do not directly correlate to changes in the fair values of the tranches purchased by us, because there are other factors relevant to the fair values of specific tranches owned by us including, but not limited to, purchase price, position in the waterfall, senior versus subordinated position and attachment points.

(b) Represents discount rates, estimates and assumptions that we believe would be used by market participants when valuing these assets and liabilities.

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

The ranges of reported inputs for Obligations of states, municipalities and political subdivisions, Corporate debt, RMBS, CDO/ABS, and CMBS valued using a discounted cash flow technique consist of one standard deviation in either direction from the value weighted average. The preceding table does not give effect to our risk management practices that might offset risks inherent in these Level 3 assets and liabilities.

### Sensitivity to Changes in Unobservable Inputs

We consider unobservable inputs to be those for which market data is not available and that are developed using the best information available to us about the assumptions that market participants would use when pricing the asset or liability. Relevant inputs vary depending on the nature of the instrument being measured at fair value. The following paragraphs provide a general description of sensitivities of significant unobservable inputs along with interrelationships between and among the significant unobservable inputs and their impact on the fair value measurements. The effect of a change in a particular assumption in the sensitivity analysis below is considered independently of changes in any other assumptions. In practice, simultaneous changes in assumptions may not always have a linear effect on the inputs discussed below. Interrelationships may also exist between observable and unobservable inputs. Such relationships have not been included in the discussion below. For each of the individual relationships described below, the inverse relationship would also generally apply.

ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 4. Fair Value Measurements****Obligations of States, Municipalities and Political Subdivisions**

The significant unobservable input used in the fair value measurement of certain investments in obligations of states, municipalities and political subdivisions is yield. In general, increases in the yield would decrease the fair value of investments in obligations of states, municipalities and political subdivisions.

**Corporate Debt**

Corporate debt securities included in Level 3 are primarily private placement issuances that are not traded in active markets or that are subject to transfer restrictions. Fair value measurements consider illiquidity and non-transferability. When observable price quotations are not available, fair value is determined based on discounted cash flow models using discount rates based on credit spreads, yields or price levels of publicly traded debt of the issuer or other comparable securities, considering illiquidity and structure. The significant unobservable input used in the fair value measurement of corporate debt is the yield. The yield is affected by the market movements in credit spreads and U.S. Treasury yields. In addition, the migration in credit quality of a given security generally has a corresponding effect on the fair value measurement of the security. For example, a downward migration of credit quality would increase spreads. Holding U.S. Treasury rates constant, an increase in corporate credit spreads would decrease the fair value of corporate debt.

**RMBS and CDO/ABS**

The significant unobservable inputs used in fair value measurements of RMBS and certain CDO/ABS valued by third party valuation service providers are constant prepayment rates (CPR), loss severity, constant default rates (CDR) and yield. A change in the assumptions used for the probability of default will generally be accompanied by a corresponding change in the assumption used for the loss severity and an inverse change in the assumption used for prepayment rates. In general, increases in CPR, loss severity, CDR and yield, in isolation, would result in a decrease in the fair value measurement. Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship between the directional change of each input is not usually linear.

**CMBS**

The significant unobservable input used in fair value measurements for CMBS is the yield. Prepayment assumptions for each mortgage pool are factored into the yield. CMBS generally feature a lower degree of prepayment risk than RMBS because commercial mortgages generally contain a penalty for prepayment. In general, increases in the yield would decrease the fair value of CMBS.

**Embedded derivatives within Policyholder contract deposits**

Embedded derivatives reported within Policyholder contract deposits include GMWB within variable annuity products and interest crediting rates based on market indices within index annuities, indexed life and GICs.

For any given contract, assumptions for unobservable inputs vary throughout the period over which cash flows are projected for purposes of valuing the embedded derivative. The following unobservable inputs are used for valuing embedded derivatives measured at fair value:

- Long-term equity volatilities represent equity volatility beyond the period for which observable equity volatilities are available. Increases in assumed volatility will generally increase the fair value of both the projected cash flows from rider fees as well as the projected cash flows related to benefit payments. Therefore, the net change in the fair value of the liability may be either a decrease or an increase, depending on the relative changes in projected rider fees and projected benefit payments.
- Equity / interest rate correlation estimates the relationship between changes in equity returns and interest rates in the economic scenario generator used to value our GMWB embedded derivatives. In general, a higher positive correlation assumes that equity markets and interest rates move in a more correlated fashion, which generally increases the fair value of the liability.
- Base lapse rate assumptions are determined by company experience and are adjusted at the contract level using a dynamic lapse function, which reduces the base lapse rate when the contract is in-the-money (when the contract holder's guaranteed value, as estimated by the company, is worth more than their underlying account value). Lapse rates are also generally assumed to be lower in periods when a surrender charge applies. Increases in assumed lapse rates will generally decrease the fair value of the liability, as fewer policyholders would persist to collect guaranteed withdrawal amounts.
- Mortality rate assumptions, which vary by age and gender, are based on company experience and include a mortality improvement assumption. Increases in assumed mortality rates will decrease the fair value of the liability, while lower mortality rate assumptions will generally increase the fair value of the liability, because guaranteed payments will be made for a longer period of time.

ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 4. Fair Value Measurements**

- Utilization assumptions estimate the timing when policyholders with a GMWB will elect to utilize their benefit and begin taking withdrawals. The assumptions may vary by the type of guarantee, tax-qualified status, the contract's withdrawal history and the age of the policyholder. Utilization assumptions are based on company experience, which includes partial withdrawal behavior. Increases in assumed utilization rates will generally increase the fair value of the liability.
- Option budget estimates the expected long-term cost of options used to hedge exposures associated with equity price changes. The level of option budgets determines future costs of the options, which impacts the growth in account value and the valuation of embedded derivatives.

**Investments in Certain Entities Carried at Fair Value Using Net Asset Value Per Share**

The following table includes information related to our investments in certain other invested assets, including private equity funds, hedge funds and other alternative investments that calculate net asset value per share (or its equivalent). For these investments, which are measured at fair value on a recurring basis, we use the net asset value per share to measure fair value.

|                              |   | June 30, 2018 |             | December 31, 2017 |             |
|------------------------------|---|---------------|-------------|-------------------|-------------|
|                              |   | Fair Value    | Unfunded    | Fair Value        | Unfunded    |
|                              | Investment Category Includes  | Using NAV     | Commitments | Using NAV         | Commitments |
|                              |   | Per Share     | (or its     | Per Share         | (or its     |
|                              |   | equivalent)   | equivalent) | equivalent)       | equivalent) |
|                              |   | Commitments   | Commitments | Commitments       | Commitments |
| <i>(in millions)</i>         |   |               |             |                   |             |
| <b>Investment Category</b>   |   |               |             |                   |             |
| <b>Private equity funds:</b> |   |               |             |                   |             |
| Leveraged buyout             | Debt and/or equity investments made as part of a transaction in which assets of mature companies are acquired from the current shareholders, typically with the use of financial leverage | \$ 1,244      | \$ 787      | \$ 1,243          | \$ 706      |
| Real Estate / Infrastructure | Investments in real estate properties and infrastructure positions, including power plants and other energy generating facilities   | 209           | 140         | 210               | 187         |

|                                   |  |                 |                 |          |          |
|-----------------------------------|--|-----------------|-----------------|----------|----------|
| Venture capital                   | Early-stage, high-potential, growth companies expected to generate a return through an eventual realization event, such as an initial public offering or sale of the company | 146             | 122             | 134      | 73       |
| Distressed                        | Securities of companies that are in default, under bankruptcy protection, or troubled  | 106             | 91              | 113      | 42       |
| Other                             | Includes multi-strategy, mezzanine and other strategies  | 546             | 167             | 428      | 219      |
| <b>Total private equity funds</b> |  | <b>2,251</b>    | <b>1,307</b>    | 2,128    | 1,227    |
| <b>Hedge funds:</b>               |  |                 |                 |          |          |
| Event-driven                      | Securities of companies undergoing material structural changes, including mergers, acquisitions and other reorganizations  | 893             | -               | 1,128    | -        |
| Long-short                        | Securities that the manager believes are undervalued, with corresponding short positions to hedge market risk  | 1,084           | -               | 1,233    | -        |
| Macro                             | Investments that take long and short positions in financial instruments based on a top-down view of certain economic and capital market conditions                           | 966             | -               | 1,011    | -        |
| Distressed                        | Securities of companies that are in default, under bankruptcy protection or troubled   | 136             | 8               | 266      | 8        |
| Other                             | Includes investments held in funds that are less liquid, as well as other strategies which allow for broader allocation between public and private investments               | 197             | 2               | 231      | 4        |
| <b>Total hedge funds</b>          |  | <b>3,276</b>    | <b>10</b>       | 3,869    | 12       |
| <b>Total</b>                      |  | <b>\$ 5,527</b> | <b>\$ 1,317</b> | \$ 5,997 | \$ 1,239 |



ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 4. Fair Value Measurements**

Private equity fund investments included above are not redeemable, because distributions from the funds will be received when underlying investments of the funds are liquidated. Private equity funds are generally expected to have 10-year lives at their inception, but these lives may be extended at the fund manager's discretion, typically in one or two-year increments. At June 30, 2018, assuming average original expected lives of 10 years for the funds, 50 percent of the total fair value using net asset value per share (or its equivalent) presented above would have expected remaining lives of three years or less, 24 percent between four and six years and 26 percent between seven and 10 years.

The hedge fund investments included above, which are carried at fair value, are generally redeemable monthly (30 percent), quarterly (38 percent), semi-annually (9 percent) and annually (23 percent), with redemption notices ranging from one day to 180 days. At June 30, 2018, investments representing approximately 54 percent of the total fair value of these hedge fund investments had partial contractual redemption restrictions. These partial redemption restrictions are generally related to one or more investments held in the hedge funds that the fund manager deemed to be illiquid. The majority of these contractual restrictions, which may have been put in place at the fund's inception or thereafter, have pre-defined end dates. The majority of these restrictions are generally expected to be lifted by the end of 2018.

**Fair Value Option**

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

| <i>(in millions)</i>                   | Gain (Loss) Three Months<br>Ended June 30, |               | Gain (Loss) Six Months<br>Ended June 30, |                 |
|--|--|---------------|--|-----------------|
|  | 2018                                       | 2017          | 2018                                     | 2017            |
| <b>Assets:</b>                         |  |               |  |                 |
| Bond and equity securities             | \$ 129                                     | \$ 450        | \$ 152                                   | \$ 799          |
| Alternative investments <sup>(a)</sup> | 96   | 96            | 224                                      | 277             |
| <b>Liabilities:</b>                    |  |               |  |                 |
| Long-term debt <sup>(b)</sup>          | 16   | (33)          | 68                                       | (48)            |
| Other liabilities                      | -  | (1)           | -  | (1)             |
| <b>Total gain</b>                      | <b>\$ 241</b>                              | <b>\$ 512</b> | <b>\$ 444</b>                            | <b>\$ 1,027</b> |

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

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

We recognized a loss of \$3 million and an immaterial gain during the three- and six-month periods ended June 30, 2017, respectively, attributable to the observable effect of changes in credit spreads on our own liabilities for which the fair value option was elected. We calculate the effect of these credit spread changes using discounted cash flow techniques that incorporate current market interest rates, our observable credit spreads on these liabilities and other factors that mitigate the risk of nonperformance such as cash

collateral posted.

As a result of the adoption of the Financial Instruments Recognition and Measurement Standard on January 1, 2018, we are required to record unrealized gains and losses attributable to the observable effect of changes in credit spreads on our liabilities for which the fair value option was elected in Other Comprehensive Income. An unrealized loss of \$1 million and an unrealized gain of \$1 million were recognized in Other Comprehensive Income for the three- and six-month periods ended June 30, 2018, respectively.

**The following table presents the difference between fair values and the aggregate contractual principal amounts of mortgage and other loans receivable and long-term debt for which the fair value option was elected:**

| <i>(in millions)</i>                | June 30, 2018 |                                    |            | December 31, 2017 |                                    |            |
|-------------------------------------|---------------|------------------------------------|------------|-------------------|------------------------------------|------------|
|                                     | Fair Value    | Outstanding<br>Principal<br>Amount | Difference | Fair Value        | Outstanding<br>Principal<br>Amount | Difference |
| <b>Assets:</b>                      |               |                                    |            |                   |                                    |            |
| Mortgage and other loans receivable | \$ -          | \$ -                               | \$ -       | \$ 5              | \$ 5                               | \$ -       |
| <b>Liabilities:</b>                 |               |                                    |            |                   |                                    |            |
| Long-term debt*                     | \$ 2,615      | \$ 2,114                           | \$ 501     | \$ 2,888          | \$ 2,280                           | \$ 608     |

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



## ITEM 1 | Notes to Condensed Consolidated Financial Statements (unaudited) | 4. Fair Value Measurements

## FAIR VALUE MEASUREMENTS ON A NON-RECURRING BASIS

The following table presents assets measured at fair value on a non-recurring basis at the time of impairment and the related impairment charges recorded during the periods presented:

| (in millions)                   | Assets at Fair Value |             |               |               | Impairment Charges*         |              |                           |               |
|---------------------------------|----------------------|-------------|---------------|---------------|-----------------------------|--------------|---------------------------|---------------|
|                                 | Non-Recurring Basis  |             |               |               | Three Months Ended June 30, |              | Six Months Ended June 30, |               |
|                                 | Level 1              | Level 2     | Level 3       | Total         | 2018                        | 2017         | 2018                      | 2017          |
| <b>June 30, 2018</b>            |                      |             |               |               |                             |              |                           |               |
| Other investments               | \$ -                 | \$ -        | \$ 344        | \$ 344        | \$ 61                       | \$ 33        | \$ 89                     | \$ 50         |
| Investments in life settlements | -                    | -           | -             | -             | -                           | 46           | -                         | 87            |
| Other assets                    | -                    | -           | -             | -             | 1                           | -            | 1                         | 35            |
| <b>Total</b>                    | <b>\$ -</b>          | <b>\$ -</b> | <b>\$ 344</b> | <b>\$ 344</b> | <b>\$ 62</b>                | <b>\$ 79</b> | <b>\$ 90</b>              | <b>\$ 172</b> |
| <b>December 31, 2017</b>        |                      |             |               |               |                             |              |                           |               |
| Other investments               | \$ -                 | \$ -        | \$ 55         | \$ 55         |                             |              |                           |               |
| Investments in life settlements | -                    | -           | -             | -             |                             |              |                           |               |
| Other assets                    | -                    | -           | -             | -             |                             |              |                           |               |
| <b>Total</b>                    | <b>\$ -</b>          | <b>\$ -</b> | <b>\$ 55</b>  | <b>\$ 55</b>  |                             |              |                           |               |

\* Impairments in the six-month period ended June 30, 2017 included \$35 million related to Other assets of \$179 million that were sold during the three-month period ended June 30, 2017.

## FAIR VALUE INFORMATION ABOUT FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

The following table presents the carrying amounts and estimated fair values of our financial instruments not measured at fair value and indicates the level in the fair value hierarchy of the estimated fair value measurement based on the observability of the inputs used:

| (in millions)  | Estimated Fair Value |         |           | Total     | Carrying Value |
|--|----------------------|---------|-----------|-----------|----------------|
|  | Level 1              | Level 2 | Level 3   |           |                |
| <b>June 30, 2018</b>   |                      |         |           |           |                |
| <b>Assets:</b>   |                      |         |           |           |                |
| Mortgage and other loans receivable                                      | \$ -                 | \$ 111  | \$ 39,520 | \$ 39,631 | \$ 39,978      |
| Other invested assets  | -                    | 781     | 6         | 787       | 782            |
| Short-term investments   | -                    | 13,765  | -         | 13,765    | 13,765         |
| Cash   | 2,135                | -       | -         | 2,135     | 2,135          |
| <b>Liabilities:</b>  |                      |         |           |           |                |
| Policyholder contract deposits associated with investment-type contracts | -                    | 363     | 121,923   | 122,286   | 118,309        |
| Other liabilities  | -                    | 1,982   | -         | 1,982     | 1,982          |
| Long-term debt   | -                    | 23,394  | 4,823     | 28,217    | 31,169         |

December 31, 2017

**Assets:**

|                                     |    |       |    |       |    |        |    |        |    |        |
|-------------------------------------|----|-------|----|-------|----|--------|----|--------|----|--------|
| Mortgage and other loans receivable | \$ | -     | \$ | 117   | \$ | 37,644 | \$ | 37,761 | \$ | 37,018 |
| Other invested assets               |    | -     |    | 590   |    | 6      |    | 596    |    | 593    |
| Short-term investments              |    | -     |    | 7,771 |    | -      |    | 7,771  |    | 7,771  |
| Cash                                |    | 2,362 |    | -     |    | -      |    | 2,362  |    | 2,362  |

**Liabilities:**

|  |  |   |  |        |  |         |  |         |  |         |
|--|--|---|--|--------|--|---------|--|---------|--|---------|
| Policyholder contract deposits associated with investment-type contracts |  | - |  | 387    |  | 121,809 |  | 122,196 |  | 114,326 |
| Other liabilities  |  | - |  | 4,494  |  | -       |  | 4,494   |  | 4,494   |
| Long-term debt   |  | - |  | 23,930 |  | 4,313   |  | 28,243  |  | 28,752  |

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**TABLE OF CONTENTS**ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 5. Investments****5. Investments****Securities Available for Sale**

The following table presents the amortized cost or cost and fair value of our available for sale securities<sup>(a)</sup>:

| <i>(in millions)</i>   | Amortized<br>Cost or<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value    | Other<br>Ter<br>Impa<br>in |
|--|------------------------------|------------------------------|-------------------------------|------------------|----------------------------|
| <b>June 30, 2018</b>   |                              |                              |                               |                  |                            |
| <b>Bonds available for sale:</b>                                 |                              |                              |                               |                  |                            |
| U.S. government and government sponsored entities                | \$ 2,580                     | \$ 109                       | \$ (45)                       | \$ 2,644         |                            |
| Obligations of states, municipalities and political subdivisions | 16,339                       | 812                          | (91)                          | 17,060           |                            |
| Non-U.S. governments   | 15,106                       | 489                          | (298)                         | 15,297           |                            |
| Corporate debt   | 126,059                      | 4,716                        | (2,817)                       | 127,958          |                            |
| <b>Mortgage-backed, asset-backed and collateralized:</b>         |                              |                              |                               |                  |                            |
| RMBS   | 32,746                       | 3,071                        | (437)                         | 35,380           |                            |
| CMBS   | 13,146                       | 215                          | (277)                         | 13,084           |                            |
| CDO/ABS  | 17,104                       | 234                          | (88)                          | 17,250           |                            |
| <b>Total mortgage-backed, asset-backed and collateralized</b>    | <b>62,996</b>                | <b>3,520</b>                 | <b>(802)</b>                  | <b>65,714</b>    |                            |
| <b>Total bonds available for sale<sup>(c)</sup></b>              | <b>223,080</b>               | <b>9,646</b>                 | <b>(4,053)</b>                | <b>228,673</b>   |                            |
| <b>December 31, 2017</b>   |                              |                              |                               |                  |                            |
| <b>Bonds available for sale:</b>                                 |                              |                              |                               |                  |                            |
| U.S. government and government sponsored entities                | \$ 2,532                     | \$ 160                       | \$ (36)                       | \$ 2,656         |                            |
| Obligations of states, municipalities and political subdivisions | 17,377                       | 1,297                        | (30)                          | 18,644           |                            |
| Non-U.S. governments   | 15,059                       | 717                          | (117)                         | 15,659           |                            |
| Corporate debt   | 126,310                      | 8,666                        | (800)                         | 134,176          |                            |
| <b>Mortgage-backed, asset-backed and collateralized:</b>         |                              |                              |                               |                  |                            |
| RMBS   | 34,181                       | 3,273                        | (220)                         | 37,234           |                            |
| CMBS   | 13,538                       | 408                          | (105)                         | 13,841           |                            |
| CDO/ABS  | 16,464                       | 370                          | (52)                          | 16,782           |                            |
| <b>Total mortgage-backed, asset-backed and collateralized</b>    | <b>64,183</b>                | <b>4,051</b>                 | <b>(377)</b>                  | <b>67,857</b>    |                            |
| <b>Total bonds available for sale<sup>(c)</sup></b>              | <b>225,461</b>               | <b>14,891</b>                | <b>(1,360)</b>                | <b>238,992</b>   |                            |
| <b>Equity securities available for sale:</b>                     |                              |                              |                               |                  |                            |
| Common stock   | 703                          | 379                          | (21)                          | 1,061            |                            |
| Preferred stock  | 504                          | 29                           | -                             | 533              |                            |
| Mutual funds   | 98                           | 16                           | -                             | 114              |                            |
| <b>Total equity securities available for sale</b>                | <b>1,305</b>                 | <b>424</b>                   | <b>(21)</b>                   | <b>1,708</b>     |                            |
| <b>Total</b>   | <b>\$ 226,766</b>            | <b>\$ 15,315</b>             | <b>\$ (1,381)</b>             | <b>\$240,700</b> |                            |

(a) As a result of the adoption of the Financial Instruments Recognition and Measurement Standard on January 1, 2018, equity securities are no longer classified and accounted for as available for sale

securities.

(b) Represents the amount of other-than-temporary impairments recognized in Accumulated other comprehensive income. Amount includes unrealized gains and losses on impaired securities relating to changes in the fair value of such securities subsequent to the impairment measurement date.

(c) At June 30, 2018 and December 31, 2017, bonds available for sale held by us that were below investment grade or not rated totaled \$30.2 billion and \$31.5 billion, respectively.

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The following table summarizes the fair value and gross unrealized losses on our available for sale securities, aggregated by major investment category and length of time that individual securities have been in a continuous unrealized loss position<sup>(a)</sup>:

| <i>(in millions)</i>   | Less than 12 Months |                         | 12 Months or More |                         | Total           |                         |
|--|---------------------|-------------------------|-------------------|-------------------------|-----------------|-------------------------|
|  | Fair Value          | Gross Unrealized Losses | Fair Value        | Gross Unrealized Losses | Fair Value      | Gross Unrealized Losses |
| <b>June 30, 2018</b>   |                     |                         |                   |                         |                 |                         |
| <b>Bonds available for sale:</b>                                 |                     |                         |                   |                         |                 |                         |
| U.S. government and government sponsored entities                | \$ 1,090            | \$ 30                   | \$ 293            | \$ 15                   | \$ 1,383        |                         |
| Obligations of states, municipalities and political subdivisions | 2,438               | 54                      | 548               | 37                      | 2,986           |                         |
| Non-U.S. governments   | 5,982               | 210                     | 1,058             | 88                      | 7,040           |                         |
| Corporate debt   | 51,762              | 2,256                   | 6,610             | 561                     | 58,372          | 2,000                   |
| RMBS   | 8,848               | 250                     | 2,984             | 187                     | 11,832          |                         |
| CMBS   | 6,485               | 179                     | 1,334             | 98                      | 7,819           |                         |
| CDO/ABS  | 6,513               | 60                      | 790               | 28                      | 7,303           |                         |
| <b>Total bonds available for sale</b>                            | <b>\$83,118</b>     | <b>3,039</b>            | <b>\$13,617</b>   | <b>1,014</b>            | <b>\$96,735</b> | <b>4,000</b>            |
| <b>December 31, 2017</b>   |                     |                         |                   |                         |                 |                         |
| <b>Bonds available for sale:</b>                                 |                     |                         |                   |                         |                 |                         |
| U.S. government and government sponsored entities                | \$ 770              | \$ 23                   | \$ 332            | \$ 13                   | \$ 1,102        |                         |
| Obligations of states, municipalities and political subdivisions | 586                 | 6                       | 646               | 24                      | 1,232           |                         |
| Non-U.S. governments   | 3,511               | 54                      | 857               | 63                      | 4,368           |                         |
| Corporate debt   | 15,578              | 453                     | 7,291             | 347                     | 22,869          |                         |
| RMBS   | 6,212               | 99                      | 3,790             | 121                     | 10,002          |                         |
| CMBS   | 3,408               | 46                      | 1,389             | 59                      | 4,797           |                         |
| CDO/ABS  | 1,455               | 24                      | 822               | 28                      | 2,277           |                         |
| <b>Total bonds available for sale</b>                            | <b>31,520</b>       | <b>705</b>              | <b>15,127</b>     | <b>655</b>              | <b>46,647</b>   | <b>1,000</b>            |
| <b>Equity securities available for sale:</b>                     |                     |                         |                   |                         |                 |                         |
| Common stock   | 136                 | 21                      | -                 | -                       | 136             |                         |
| Mutual funds   | 1                   | -                       | -                 | -                       | 1               |                         |
| <b>Total equity securities available for sale</b>                | <b>137</b>          | <b>21</b>               | <b>-</b>          | <b>-</b>                | <b>137</b>      | <b>1,000</b>            |
| <b>Total</b>   | <b>\$31,657</b>     | <b>726</b>              | <b>\$15,127</b>   | <b>655</b>              | <b>\$46,784</b> | <b>1,000</b>            |

(a) As a result of the adoption of the Financial Instruments Recognition and Measurement Standard on January 1, 2018, equity securities are no longer classified and accounted for as available for sale securities.

At June 30, 2018, we held 14,992 individual fixed maturity securities, that were in an unrealized loss position, of which 1,961 individual fixed maturity securities were in a continuous unrealized loss position for 12 months or more. We did not recognize the unrealized losses in earnings on these fixed maturity securities at June 30, 2018 because we neither intend to sell the securities nor do we believe that it is more likely than not that we will be required to sell these securities before recovery of their amortized cost basis. For fixed maturity securities with significant declines, we performed fundamental credit analyses on a security-by-security basis, which included consideration of credit enhancements, expected defaults on underlying collateral, review of relevant industry analyst reports and forecasts and other available market data.

**TABLE OF CONTENTS**ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 5. Investments****Contractual Maturities of Fixed Maturity Securities Available for Sale**

The following table presents the amortized cost and fair value of fixed maturity securities available for sale by contractual maturity:

| <i>(in millions)</i>                             | Total Fixed Maturity Securities Available for Sale |                   | Fixed Maturity Securities in a Loss Position Available for Sale |                  |
|--|--|-------------------|---|------------------|
|  | Amortized Cost                                     | Fair Value        | Amortized Cost  | Fair Value       |
| <b>June 30, 2018</b>                             |  |                   |   |                  |
| Due in one year or less                          | \$ 7,562   | \$ 7,718          | \$ 1,913  | \$ 1,903         |
| Due after one year through five years            | 45,336   | 46,295            | 13,526  | 13,181           |
| Due after five years through ten years           | 42,634   | 42,293            | 27,391  | 26,097           |
| Due after ten years                              | 64,552   | 66,653            | 30,202  | 28,600           |
| Mortgage-backed, asset-backed and collateralized | 62,996   | 65,714            | 27,756  | 26,954           |
| <b>Total</b>                                     | <b>\$ 223,080</b>                                  | <b>\$ 228,673</b> | <b>\$ 100,788</b>   | <b>\$ 96,735</b> |
| <b>December 31, 2017</b>                         |  |                   |   |                  |
| Due in one year or less                          | \$ 7,932   | \$ 8,071          | \$ 1,526  | \$ 1,515         |
| Due after one year through five years            | 47,179   | 49,093            | 7,764   | 7,571            |
| Due after five years through ten years           | 42,617   | 43,944            | 11,559  | 11,143           |
| Due after ten years                              | 63,550   | 70,027            | 9,705   | 9,342            |
| Mortgage-backed, asset-backed and collateralized | 64,183   | 67,857            | 17,453  | 17,076           |
| <b>Total</b>                                     | <b>\$ 225,461</b>                                  | <b>\$ 238,992</b> | <b>\$ 48,007</b>  | <b>\$ 46,647</b> |

Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

The following table presents the gross realized gains and gross realized losses from sales or maturities of our available for sale securities:

| <i>(in millions)</i>      | Three Months Ended June 30, |                       |                      |                       | Six Months Ended June 30, |                       |                      |                       |
|---------------------------|-----------------------------|-----------------------|----------------------|-----------------------|---------------------------|-----------------------|----------------------|-----------------------|
|                           | 2018                        |                       | 2017                 |                       | 2018                      |                       | 2017                 |                       |
|                           | Gross Realized Gains        | Gross Realized Losses | Gross Realized Gains | Gross Realized Losses | Gross Realized Gains      | Gross Realized Losses | Gross Realized Gains | Gross Realized Losses |
| Fixed maturity securities | \$ 100                      | \$ 113                | \$ 211               | \$ 46                 | \$ 170                    | \$ 173                | \$ 544               | \$ 224                |
| Equity securities         | -                           | -                     | 83                   | 2                     | 16                        | -                     | 100                  | 18                    |
| <b>Total</b>              | <b>\$ 100</b>               | <b>\$ 113</b>         | <b>\$ 294</b>        | <b>\$ 48</b>          | <b>\$ 186</b>             | <b>\$ 173</b>         | <b>\$ 644</b>        | <b>\$ 242</b>         |

For the three- and six-month periods ended June 30, 2018, the aggregate fair value of available for sale securities sold was \$6.6 billion and \$12.1 billion, respectively, which resulted in net realized capital gains (losses) of \$(13) million and \$13 million, respectively.

For the three- and six-month periods ended June 30, 2017, the aggregate fair value of available for sale securities sold was \$7.6 billion and \$23.4 billion, respectively, which resulted in net realized capital gains of

\$246 million and \$402 million, respectively.



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The following table presents the fair value of other securities measured at fair value based on our election of the fair value option:

| <i>(in millions)</i>  | <b>June 30, 2018</b> |                  | <b>December 31, 2017</b> |                  |
|---|----------------------|------------------|--------------------------|------------------|
|   | Fair Value           | Percent of Total | Fair Value               | Percent of Total |
| <b>Fixed maturity securities:</b>                             |                      |                  |                          |                  |
| U.S. government and government sponsored entities             | \$ 2,662             | 20 %             | \$ 2,802                 | 21%              |
| Non-U.S. governments  | 51                   | -                | 57                       | 1                |
| Corporate debt  | 1,747                | 13               | 1,909                    | 14               |
| <b>Mortgage-backed, asset-backed and collateralized:</b>      |                      |                  |                          |                  |
| RMBS  | 1,720                | 13               | 1,885                    | 14               |
| CMBS  | 411                  | 3                | 559                      | 4                |
| CDO/ABS and other collateralized*                             | 5,183                | 39               | 5,560                    | 42               |
| <b>Total mortgage-backed, asset-backed and collateralized</b> | <b>7,314</b>         | <b>55</b>        | <b>8,004</b>             | <b>60</b>        |
| <b>Total fixed maturity securities</b>                        | <b>11,774</b>        | <b>88</b>        | <b>12,772</b>            | <b>96</b>        |
| <b>Equity securities</b>                                      | <b>1,675</b>         | <b>12</b>        | <b>589</b>               | <b>4</b>         |
| <b>Total</b>  | <b>\$ 13,449</b>     | <b>100 %</b>     | <b>\$ 13,361</b>         | <b>100%</b>      |

\* Includes \$205 million and \$251 million of U.S. government agency-backed ABS at June 30, 2018 and December 31, 2017, respectively.

**Other Invested Assets**

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

| <i>(in millions)</i>                       | <b>June 30, 2018</b> | <b>December 31, 2017</b> |
|--|----------------------|--------------------------|
| Alternative investments <sup>(a) (b)</sup> | \$ 10,492            | \$ 11,308                |
| Investment real estate <sup>(c)</sup>      | 8,879                | 8,258                    |
| All other investments                      | 1,277                | 1,256                    |
| <b>Total</b>                               | <b>\$ 20,648</b>     | <b>\$ 20,822</b>         |

(a) At June 30, 2018, included hedge funds of \$5.0 billion, private equity funds of \$5.0 billion, and affordable housing partnerships of \$463 million. At December 31, 2017, included hedge funds of \$5.8 billion, private equity funds of \$5.0 billion, and affordable housing partnerships of \$543 million.

(b) At June 30, 2018, approximately 60 percent and 23 percent of our hedge fund portfolio is available for redemption in 2018 and 2019, respectively, the remaining 17 percent will be available for redemption between 2020 and 2027.

(c) Net of accumulated depreciation of \$594 million and \$515 million at June 30, 2018 and December 31, 2017, respectively.

## Net Investment Income

The following table presents the components of Net investment income:

|  | Three Months<br>Ended<br>June 30, |         | Six Months<br>Ended<br>June 30, |         |
|--|-----------------------------------|---------|---------------------------------|---------|
| <i>(in millions)</i>   | <b>2018</b>                       | 2017    | <b>2018</b>                     | 2017    |
| Available for sale fixed maturity securities, including short-term investments | <b>\$2,536</b>                    | \$2,607 | <b>\$5,146</b>                  | \$5,274 |
| Other fixed maturity securities  | <b>(10)</b>                       | 221     | <b>(31)</b>                     | 355     |
| Equity securities <sup>(a)</sup>   | <b>3</b>                          | 12      | <b>(29)</b>                     | 17      |
| Interest on mortgage and other loans   | <b>447</b>                        | 399     | <b>897</b>                      | 792     |
| Alternative investments <sup>(b)</sup>   | <b>171</b>                        | 371     | <b>508</b>                      | 819     |
| Real estate  | <b>30</b>                         | 31      | <b>61</b>                       | 80      |
| Other investments  | <b>14</b>                         | 100     | <b>24</b>                       | 216     |
| <b>Total investment income</b>   | <b>3,191</b>                      | 3,741   | <b>6,576</b>                    | 7,553   |
| <b>Investment expenses</b>   | <b>126</b>                        | 128     | <b>250</b>                      | 254     |
| <b>Net investment income</b>   | <b>\$3,065</b>                    | \$3,613 | <b>\$6,326</b>                  | \$7,299 |

(a) Upon the adoption of the Financial Instruments Recognition and Measurement Standard on January 1, 2018, the change in fair value of all equity securities is included in Net investment income.

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(b) Includes income from hedge funds, private equity funds and affordable housing partnerships. Hedge funds for which we elected the fair value option are recorded as of the balance sheet date. Other hedge funds are generally reported on a one-month lag, while private equity funds are generally reported on a one-quarter lag.

**Net Realized Capital Gains and Losses**

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

| <i>(in millions)</i>   | Three Months Ended<br>June 30, |                | Six Months Ended<br>June 30, |                 |
|--|--------------------------------|----------------|------------------------------|-----------------|
|  | 2018                           | 2017           | 2018                         | 2017            |
| Sales of fixed maturity securities                                     | \$ (13)                        | \$ 165         | \$ (3)                       | \$ 320          |
| Sales of equity securities   | -                              | 81             | 16                           | 82              |
| <b>Other-than-temporary impairments:</b>                               |                                |                |                              |                 |
| Severity   | -                              | (2)            | -                            | (2)             |
| Change in intent   | -                              | (7)            | (49)                         | (8)             |
| Foreign currency declines  | (6)                            | -              | (12)                         | (10)            |
| Issuer-specific credit events  | (30)                           | (55)           | (62)                         | (112)           |
| Adverse projected cash flows   | -                              | (3)            | -                            | (3)             |
| Provision for loan losses  | (26)                           | (24)           | (50)                         | (18)            |
| Foreign exchange transactions  | (187)                          | 74             | (134)                        | 233             |
| Variable annuity embedded derivatives, net of related hedges           | 36                             | (204)          | 183                          | (593)           |
| All other derivatives and hedge accounting                             | 375                            | (94)           | 150                          | (81)            |
| Impairments on investments in life settlements                         | -                              | (46)           | -                            | (87)            |
| Other  | 16                             | 46             | 107                          | 95              |
| <b>Net realized capital gains (losses)</b>                             | <b>\$ 165</b>                  | <b>\$ (69)</b> | <b>\$ 146</b>                | <b>\$ (184)</b> |
| <b>Change in Unrealized Appreciation (Depreciation) of Investments</b> |                                |                |                              |                 |

The following table presents the increase (decrease) in unrealized appreciation (depreciation) of our available for sale securities and other investments:

| <i>(in millions)</i>  | Three Months Ended<br>June 30, |                | Six Months Ended<br>June 30, |
|---|--------------------------------|----------------|------------------------------|
|   | 2018                           | 2017           | 2018                         |
| <b>Increase (decrease) in unrealized appreciation (depreciation) of investments:</b>                    |                                |                |                              |
| Fixed maturity securities   | \$ (2,969)                     | \$2,500        | \$ (7,995)                   |
| Equity securities <sup>(a)</sup>  | -                              | (71)           | (20)                         |
| Other investments   | (3)                            | (83)           | (2)                          |
| <b>Total increase (decrease) in unrealized appreciation (depreciation) of investments<sup>(b)</sup></b> | <b>\$ (2,972)</b>              | <b>\$2,346</b> | <b>\$ (7,997)</b>            |

(a) As a result of the adoption of the Financial Instruments Recognition and Measurement Standard on January 1, 2018, equity securities are no longer classified and accounted for as available for sale securities.

(b) Excludes net unrealized losses attributable to businesses held for sale.

**The following table summarizes the unrealized gains and losses recognized during the reporting period on equity securities still held at the reporting date:**

| <i>(in millions)</i>  | <b>Three Months Ended<br/>June 30, 2018</b> |                             |               | <b>Six Months Ended<br/>June 30, 2018</b> |                             |               |
|---|---|-----------------------------|---------------|---|-----------------------------|---------------|
|   | Equities                                    | Other<br>Invested<br>Assets | Total         | Equities                                  | Other<br>Invested<br>Assets | Total         |
| Net gains and losses recognized during the period on equity securities  | \$ 3  | \$ 122                      | <b>\$ 125</b> | \$ (28)                                   | \$ 314                      | <b>\$ 286</b> |
| Less: Net gains and losses recognized during the period on equity securities sold during the period                             | 14  | 28                          | <b>42</b>     | 6   | 27                          | <b>33</b>     |
| <b>Unrealized gains and losses recognized during the reporting period on equity securities still held at the reporting date</b> | <b>\$ (11)</b>                              | <b>\$ 94</b>                | <b>\$ 83</b>  | <b>\$ (34)</b>                            | <b>\$ 287</b>               | <b>\$ 253</b> |

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For a discussion of our policy for evaluating investments for other-than-temporary impairments see Note 6 to the Consolidated Financial Statements in the 2017 Annual Report.

**Credit Impairments**

The following table presents a rollforward of the cumulative credit losses in other-than-temporary impairments recognized in earnings for available for sale fixed maturity securities:

| <i>(in millions)</i>   | <b>Three Months Ended</b> |               | <b>Six Months Ended</b> |                 |
|--|---------------------------|---------------|-------------------------|-----------------|
|  | <b>June 30, 2018</b>      | <b>2017</b>   | <b>June 30, 2018</b>    | <b>2017</b>     |
| <b>Balance, beginning of period</b>  | <b>\$ 358</b>             | <b>\$ 946</b> | <b>\$ 526</b>           | <b>\$ 1,098</b> |
| <b>Increases due to:</b>   |                           |               |                         |                 |
| Credit impairments on new securities subject to impairment losses                                    | <b>3</b>                  | 41            | <b>17</b>               | 58              |
| Additional credit impairments on previously impaired securities                                      | <b>28</b>                 | 7             | <b>45</b>               | 37              |
| <b>Reductions due to:</b>  |                           |               |                         |                 |
| Credit impaired securities fully disposed for which there was no prior intent or requirement to sell | <b>(80)</b>               | (44)          | <b>(131)</b>            | (55)            |
| Accretion on securities previously impaired due to credit*   | <b>(121)</b>              | (188)         | <b>(269)</b>            | (376)           |
| <b>Balance, end of period</b>  | <b>\$ 188</b>             | <b>\$ 762</b> | <b>\$ 188</b>           | <b>\$ 762</b>   |

\* Represents both accretion recognized due to changes in cash flows expected to be collected over the remaining expected term of the credit impaired securities and the accretion due to the passage of time.

**Purchased Credit Impaired (PCI) Securities**

We purchase certain RMBS securities that have experienced deterioration in credit quality since their issuance. We determine whether it is probable at acquisition that we will not collect all contractually required payments for these PCI securities, including both principal and interest. At acquisition, the timing and amount of the undiscounted future cash flows expected to be received on each PCI security is determined based on our best estimate using key assumptions, such as interest rates, default rates and prepayment speeds. At acquisition, the difference between the undiscounted expected future cash flows of the PCI securities and the recorded investment in the securities represents the initial accretable yield, which is accreted into Net investment income over their remaining lives on an effective yield basis. Additionally, the difference between the contractually required payments on the PCI securities and the undiscounted expected future cash flows represents the non-accretable difference at acquisition. The accretable yield and the non-accretable difference will change over time, based on actual payments received and changes in estimates of undiscounted expected future cash flows, which are discussed further below.

On a quarterly basis, the undiscounted expected future cash flows associated with PCI securities are re-evaluated based on updates to key assumptions. Declines in undiscounted expected future cash flows due to further credit deterioration as well as changes in the expected timing of the cash flows can result in the recognition of an other-than-temporary impairment charge, as PCI securities are subject to our policy for evaluating investments for other-than-temporary impairment. Changes to undiscounted expected future cash flows due solely to the changes in the contractual benchmark interest rates on variable rate PCI securities will change the accretable yield prospectively. Significant increases in undiscounted expected future cash flows for reasons other than interest rate changes are recognized prospectively as adjustments to the accretable yield.

**The following tables present information on our PCI securities, which are included in bonds available for sale:**

| <i>(in millions)</i>                                     | <b>At Date of Acquisition</b> |
|--|-------------------------------|
| Contractually required payments (principal and interest) | <b>\$ 36,659</b>              |
| Cash flows expected to be collected*                     | <b>30,085</b>                 |
| Recorded investment in acquired securities               | <b>20,304</b>                 |

\* Represents undiscounted expected cash flows, including both principal and interest.

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|                               |                      |                   |
|-------------------------------|----------------------|-------------------|
| <i>(in millions)</i>          | <b>June 30, 2018</b> | December 31, 2017 |
| Outstanding principal balance | \$ <b>13,653</b>     | \$ 14,718         |
| Amortized cost                | <b>9,628</b>         | 10,492            |
| Fair value                    | <b>11,446</b>        | 12,293            |

The following table presents activity for the accretable yield on PCI securities:

| <i>(in millions)</i>   | <b>Three Months Ended</b> |          | <b>Six Months Ended</b> |          |
|--|---------------------------|----------|-------------------------|----------|
|  | <b>June 30,</b>           |          | <b>June 30,</b>         |          |
|  | <b>2018</b>               | 2017     | <b>2018</b>             | 2017     |
| <b>Balance, beginning of period</b>  | \$ <b>7,601</b>           | \$ 7,593 | \$ <b>7,501</b>         | \$ 7,498 |
| Newly purchased PCI securities   | <b>4</b>                  | 13       | <b>27</b>               | 101      |
| Disposals  | -                         | -        | -                       | (18)     |
| Accretion  | <b>(190)</b>              | (206)    | <b>(377)</b>            | (416)    |
| Effect of changes in interest rate indices   | <b>(32)</b>               | (135)    | <b>174</b>              | (114)    |
| Net reclassification from (to) non-accretable difference, including effects of prepayments | <b>78</b>                 | 200      | <b>136</b>              | 414      |
| <b>Balance, end of period</b>  | \$ <b>7,461</b>           | \$ 7,465 | \$ <b>7,461</b>         | \$ 7,465 |

**Pledged Investments****Secured Financing and Similar Arrangements**

We enter into secured financing transactions whereby certain securities are sold under agreements to repurchase (repurchase agreements), in which we transfer securities in exchange for cash, with an agreement by us to repurchase the same or substantially similar securities. Our secured financing transactions also include those that involve the transfer of securities to financial institutions in exchange for cash (securities lending agreements). In all of these secured financing transactions, the securities transferred by us (pledged collateral) may be sold or repledged by the counterparties. These agreements are recorded at their contracted amounts plus accrued interest, other than those that are accounted for at fair value.

Pledged collateral levels are monitored daily and are generally maintained at an agreed-upon percentage of the fair value of the amounts borrowed during the life of the transactions. In the event of a decline in the fair value of the pledged collateral under these secured financing transactions, we may be required to transfer cash or additional securities as pledged collateral under these agreements. At the termination of the transactions, we and our counterparties are obligated to return the amounts borrowed and the securities transferred, respectively.

The following table presents the fair value of securities pledged to counterparties under secured financing transactions, including repurchase and securities lending agreements:

|  |                      |                   |
|--|----------------------|-------------------|
| <i>(in millions)</i>                         | <b>June 30, 2018</b> | December 31, 2017 |
| Fixed maturity securities available for sale | \$ <b>1,804</b>      | \$ 2,911          |
| Other bond securities, at fair value         | \$ <b>132</b>        | \$ 1,585          |

At June 30, 2018 and December 31, 2017, amounts borrowed under repurchase and securities lending agreements totaled \$2.0 billion and \$4.5 billion, respectively.



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

| <i>(in millions)</i>                              | Remaining Contractual Maturity of the Agreements |                     |                    |                     |                           | Total         |
|---|--|---------------------|--------------------|---------------------|---------------------------|---------------|
|   | Overnight<br>and<br>Continuous                   | up to<br>30<br>days | 31 -<br>90<br>days | 91 -<br>364<br>days | 365<br>days or<br>greater |               |
| <b>June 30, 2018</b>                              |  |                     |                    |                     |                           |               |
| <b>Bonds available for sale:</b>                  |  |                     |                    |                     |                           |               |
| Non-U.S. governments                              | \$ -   | \$ 53               | \$ -               | \$ -                | \$ -                      | \$ 53         |
| Corporate debt                                    | -  | 91                  | -                  | -                   | -                         | 91            |
| <b>Other bond securities:</b>                     |  |                     |                    |                     |                           |               |
| U.S. government and government sponsored entities | 26   | -                   | -                  | -                   | -                         | 26            |
| Non-U.S. governments                              | -  | 3                   | -                  | -                   | -                         | 3             |
| Corporate debt                                    | -  | 34                  | 69                 | -                   | -                         | 103           |
| <b>Total</b>                                      | <b>\$ 26</b>                                     | <b>\$ 181</b>       | <b>\$ 69</b>       | <b>\$ -</b>         | <b>\$ -</b>               | <b>\$ 276</b> |

December 31, 2017

**Bonds available for sale:**

|   |              |               |                 |             |             |                 |
|---|--------------|---------------|-----------------|-------------|-------------|-----------------|
| Non-U.S. governments                              | \$ -         | \$ 7          | \$ 19           | \$ -        | \$ -        | \$ 26           |
| Corporate debt                                    | -            | 13            | 35              | -           | -           | 48              |
| <b>Other bond securities:</b>                     |              |               |                 |             |             |                 |
| U.S. government and government sponsored entities | 44           | -             | -               | -           | -           | 44              |
| Non-U.S. governments                              | -            | -             | 11              | -           | -           | 11              |
| Corporate debt                                    | -            | 387           | 1,065           | -           | -           | 1,452           |
| <b>Total</b>                                      | <b>\$ 44</b> | <b>\$ 407</b> | <b>\$ 1,130</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 1,581</b> |

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

| <i>(in millions)</i>             | Remaining Contractual Maturity of the Agreements |                     |                    |                     |                           | Total           |
|----------------------------------|--|---------------------|--------------------|---------------------|---------------------------|-----------------|
|                                  | Overnight<br>and<br>Continuous                   | up to<br>30<br>days | 31 -<br>90<br>days | 91 -<br>364<br>days | 365<br>days or<br>greater |                 |
| <b>June 30, 2018</b>             |  |                     |                    |                     |                           |                 |
| <b>Bonds available for sale:</b> |  |                     |                    |                     |                           |                 |
| Non-U.S. governments             | \$ -   | \$ 58               | \$ 17              | \$ -                | \$ -                      | \$ 75           |
| Corporate debt                   | -  | 663                 | 922                | -                   | -                         | 1,585           |
| <b>Other bond securities:</b>    |  |                     |                    |                     |                           |                 |
| Non-U.S. governments             | -  | -                   | -                  | -                   | -                         | -               |
| Corporate debt                   | -  | -                   | -                  | -                   | -                         | -               |
| <b>Total</b>                     | <b>\$ -</b>                                      | <b>\$ 721</b>       | <b>\$ 939</b>      | <b>\$ -</b>         | <b>\$ -</b>               | <b>\$ 1,660</b> |

December 31, 2017

**Bonds available for sale:**

|                      |    |   |    |     |    |       |    |   |    |   |    |       |
|----------------------|----|---|----|-----|----|-------|----|---|----|---|----|-------|
| Non-U.S. governments | \$ | - | \$ | -   | \$ | 18    | \$ | - | \$ | - | \$ | 18    |
| Corporate debt       |    | - |    | 588 |    | 2,231 |    | - |    | - |    | 2,819 |

**Other bond securities:**

|                      |  |   |  |   |  |    |  |   |  |   |  |    |
|----------------------|--|---|--|---|--|----|--|---|--|---|--|----|
| Non-U.S. governments |  | - |  | - |  | 22 |  | - |  | - |  | 22 |
| Corporate debt       |  | - |  | - |  | 56 |  | - |  | - |  | 56 |

|              |    |   |    |     |    |       |    |   |    |   |    |       |
|--------------|----|---|----|-----|----|-------|----|---|----|---|----|-------|
| <b>Total</b> | \$ | - | \$ | 588 | \$ | 2,327 | \$ | - | \$ | - | \$ | 2,915 |
|--------------|----|---|----|-----|----|-------|----|---|----|---|----|-------|

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We also enter into agreements in which securities are purchased by us under agreements to resell (reverse repurchase agreements), which are accounted for as secured financing transactions and reported as short-term investments or other assets, depending on their terms. These agreements are recorded at their contracted resale amounts plus accrued interest, other than those that are accounted for at fair value. In all reverse repurchase transactions, we take possession of or obtain a security interest in the related securities, and we have the right to sell or repledge this collateral received.

**The following table presents information on the fair value of securities pledged to us under reverse repurchase agreements:**

| <i>(in millions)</i>                |    | <b>June 30, 2018</b> | December 31, 2017 |
|-------------------------------------|----|----------------------|-------------------|
| Securities collateral pledged to us | \$ | <b>5,667</b>         | \$ 2,227          |
| Amount sold or repledged by us      | \$ | <b>113</b>           | \$ 46             |

At June 30, 2018 and December 31, 2017, amounts loaned under reverse repurchase agreements totaled \$5.8 billion and \$2.2 billion, respectively.

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

### **Insurance – Statutory and Other Deposits**

The total carrying value of cash and securities deposited by our insurance subsidiaries under requirements of regulatory authorities or other insurance-related arrangements, including certain annuity-related obligations and certain reinsurance treaties, was \$4.1 billion and \$4.9 billion at June 30, 2018 and December 31, 2017, respectively.

### **Other Pledges and Restrictions**

Certain of our subsidiaries are members of Federal Home Loan Banks (FHLBs) and such membership requires the members to own stock in these FHLBs. We owned an aggregate of \$189 million and \$93 million of stock in FHLBs at June 30, 2018 and December 31, 2017, respectively. In addition, our subsidiaries have pledged securities available for sale and residential loans associated with borrowings and funding agreements from FHLBs, with a fair value of \$4.1 billion and \$2.0 billion, respectively, at June 30, 2018 and \$2.7 billion and \$471 million, respectively, at December 31, 2017.

Certain GIAs have provisions that require collateral to be posted or payments to be made by us upon a downgrade of our long-term debt ratings. The actual amount of collateral required to be posted to the counterparties in the event of such downgrades, and the aggregate amount of payments that we could be required to make, depend on market conditions, the fair value of outstanding affected transactions and other factors prevailing at and after the time of the downgrade. The fair value of securities pledged as collateral with respect to these obligations was approximately \$1.9 billion and \$2.0 billion at June 30, 2018 and December 31, 2017, respectively. This collateral primarily consists of securities of the U.S. government

and government sponsored entities and generally cannot be repledged or resold by the counterparties.

Investments held in escrow accounts or otherwise subject to restriction as to their use were \$236 million and \$255 million, comprised of bonds available for sale and short term investments at June 30, 2018 and December 31, 2017, respectively.

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

| <i>(in millions)</i>                               | June 30,<br>2018 | December 31,<br>2017 |
|--|------------------|----------------------|
| Commercial mortgages*                              | \$ 30,888        | \$ 28,596            |
| Residential mortgages                              | 6,200            | 5,398                |
| Life insurance policy loans                        | 2,192            | 2,295                |
| Commercial loans, other loans and notes receivable | 1,054            | 1,056                |
| <b>Total mortgage and other loans receivable</b>   | <b>40,334</b>    | <b>37,345</b>        |
| Allowance for credit losses                        | (356)            | (322)                |
| <b>Mortgage and other loans receivable, net</b>    | <b>\$ 39,978</b> | <b>\$ 37,023</b>     |

\* Commercial mortgages primarily represent loans for apartments, offices and retail properties, with exposures in New York and California representing the largest geographic concentrations (aggregating approximately 22 percent and 11 percent, respectively, at June 30, 2018, and 23 percent and 12 percent, respectively, at December 31, 2017).

**Credit Quality of Commercial Mortgages**

The following table presents debt service coverage ratios and loan-to-value ratios for commercial mortgages:

| <i>(in millions)</i>                      | Debt Service Coverage Ratios <sup>(a)</sup> |                 |               | Total            |
|---|---|-----------------|---------------|------------------|
|   | >1.20X                                      | 1.00X - 1.20X   | <1.00X        |                  |
| <b>June 30, 2018</b>                      |   |                 |               |                  |
| <b>Loan-to-Value Ratios<sup>(b)</sup></b> |   |                 |               |                  |
| Less than 65%                             | \$ 18,043                                   | \$ 2,554        | \$ 305        | \$ 20,902        |
| 65% to 75%                                | 7,515                                       | 202             | 220           | 7,937            |
| 76% to 80%                                | 1,154                                       | 23              | -             | 1,177            |
| Greater than 80%                          | 614   | 203             | 55            | 872              |
| <b>Total commercial mortgages</b>         | <b>\$ 27,326</b>                            | <b>\$ 2,982</b> | <b>\$ 580</b> | <b>\$ 30,888</b> |
| <b>December 31, 2017</b>                  |   |                 |               |                  |
| <b>Loan-to-Value Ratios<sup>(b)</sup></b> |   |                 |               |                  |
| Less than 65%                             | \$ 18,000                                   | \$ 1,525        | \$ 351        | \$ 19,876        |
| 65% to 75%                                | 6,038                                       | 193             | 184           | 6,415            |
| 76% to 80%                                | 569   | 40              | -             | 609              |
| Greater than 80%                          | 1,416                                       | 206             | 74            | 1,696            |
| <b>Total commercial mortgages</b>         | <b>\$ 26,023</b>                            | <b>\$ 1,964</b> | <b>\$ 609</b> | <b>\$ 28,596</b> |

(a) The debt service coverage ratio compares a property's net operating income to its debt service payments, including principal and interest. Our weighted average debt service coverage ratio was 2.0X and

2.1X at June 30, 2018 and December 31, 2017, respectively.

(b) The loan-to-value ratio compares the current unpaid principal balance of the loan to the estimated fair value of the underlying property collateralizing the loan. Our weighted average loan-to-value ratio was 58 percent and 57 percent at June 30, 2018, and December 31, 2017, respectively.

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

| (dollars in millions)                            | Number of  |                |                |                |                |                | Total <sup>(c)</sup> | Percent of Total \$ |             |
|--|------------|----------------|----------------|----------------|----------------|----------------|----------------------|---------------------|-------------|
|  | Loans      | Apartments     | Offices        | Retail         | Industrial     | Hotel          |                      |                     | Others      |
| <b>June 30, 2018</b>                             |            |                |                |                |                |                |                      |                     |             |
| <b>Credit Quality Performance Indicator:</b>     |            |                |                |                |                |                |                      |                     |             |
| In good standing                                 | 765        | \$9,449        | \$9,276        | \$5,048        | \$2,625        | \$2,424        | \$1,932              | \$30,754            | 100%        |
| Restructured <sup>(a)</sup>                      | 4          | -              | 114            | 4              | -              | 16             | -                    | 134                 | -           |
| 90 days or less delinquent                       | -          | -              | -              | -              | -              | -              | -                    | -                   | -           |
| >90 days delinquent or in process of foreclosure | -          | -              | -              | -              | -              | -              | -                    | -                   | -           |
| <b>Total<sup>(b)</sup></b>                       | <b>769</b> | <b>\$9,449</b> | <b>\$9,390</b> | <b>\$5,052</b> | <b>\$2,625</b> | <b>\$2,440</b> | <b>\$1,932</b>       | <b>\$30,888</b>     | <b>100%</b> |
| <b>Allowance for credit losses:</b>              |            |                |                |                |                |                |                      |                     |             |
| Specific   | \$         | -\$            | 2\$            | 1\$            | -\$            | 1\$            | -\$                  | 4                   | -%          |
| General  |            | 90             | 107            | 36             | 10             | 16             | 19                   | 278                 | 1           |
| <b>Total allowance for credit losses</b>         | <b>\$</b>  | <b>90\$</b>    | <b>109\$</b>   | <b>37\$</b>    | <b>10\$</b>    | <b>17\$</b>    | <b>19\$</b>          | <b>282</b>          | <b>1%</b>   |
| <b>December 31, 2017</b>                         |            |                |                |                |                |                |                      |                     |             |
| <b>Credit Quality Performance Indicator:</b>     |            |                |                |                |                |                |                      |                     |             |
| In good standing                                 | 778        | \$8,163        | \$8,585        | \$5,338        | \$2,023        | \$2,373        | \$1,960              | \$28,442            | 99%         |
| Restructured <sup>(a)</sup>                      | 5          | -              | 115            | 23             | -              | 16             | -                    | 154                 | 1           |
| 90 days or less delinquent                       | -          | -              | -              | -              | -              | -              | -                    | -                   | -           |
| >90 days delinquent or in process of foreclosure | -          | -              | -              | -              | -              | -              | -                    | -                   | -           |
| <b>Total<sup>(b)</sup></b>                       | <b>783</b> | <b>\$8,163</b> | <b>\$8,700</b> | <b>\$5,361</b> | <b>\$2,023</b> | <b>\$2,389</b> | <b>\$1,960</b>       | <b>\$28,596</b>     | <b>100%</b> |
| <b>Allowance for credit losses:</b>              |            |                |                |                |                |                |                      |                     |             |
| Specific   | \$         | -\$            | 3\$            | 1\$            | -\$            | 1\$            | -\$                  | 5                   | -%          |
| General  |            | 72             | 94             | 37             | 6              | 15             | 18                   | 242                 | 1           |
| <b>Total allowance for credit losses</b>         | <b>\$</b>  | <b>72\$</b>    | <b>97\$</b>    | <b>38\$</b>    | <b>6\$</b>     | <b>16\$</b>    | <b>18\$</b>          | <b>247</b>          | <b>1%</b>   |

(a) Loans that have been modified in troubled debt restructurings and are performing according to their restructured terms. For additional discussion of troubled debt restructurings see Note 7 to the Consolidated Financial Statements in the 2017 Annual Report.

(b) Does not reflect allowance for credit losses.

(c) Our commercial mortgage loan portfolio is current as to payments of principal and interest, for both periods presented. There were no significant amounts of nonperforming commercial mortgages (defined as those loans where payment of contractual principal or interest is more than 90 days past due) during any of the periods presented.

**Allowance for Credit Losses**

For a discussion of our accounting policy for evaluating Mortgage and other loans receivable for impairment see Note 7 to the Consolidated Financial Statements in the 2017 Annual Report

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

| Six Months Ended June 30,<br>(in millions)    | 2018                    |                |        | 2017                    |                |        |
|---|-------------------------|----------------|--------|-------------------------|----------------|--------|
|   | Commercial<br>Mortgages | Other<br>Loans | Total  | Commercial<br>Mortgages | Other<br>Loans | Total  |
| <b>Allowance, beginning of year</b>           | \$ 247                  | \$ 75          | \$ 322 | \$ 194                  | \$ 103         | \$ 297 |
| Loans charged off                             | (16)                    | -              | (16)   | (5)                     | (2)            | (7)    |
| Recoveries of loans previously<br>charged off | -                       | -              | -      | -                       | -              | -      |
| <b>Net charge-offs</b>                        | (16)                    | -              | (16)   | (5)                     | (2)            | (7)    |
| Provision for loan losses                     | 51                      | (1)            | 50     | 37                      | (20)           | 17     |
| Other   | -                       | -              | -      | -                       | -              | -      |
| <b>Allowance, end of period</b>               | \$ 282 *                | \$ 74          | \$ 356 | \$ 226 *                | \$ 81          | \$ 307 |

\* Of the total allowance, \$5 million and \$35 million relate to individually assessed credit losses on \$60 million and \$289 million of commercial mortgages at June 30, 2018 and 2017, respectively.



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There were no loans modified in troubled debt restructurings during the six-month period ended June 30, 2018. During the six-month period ended June 30, 2017, loans with a carrying value of \$21 million were modified in troubled debt restructurings.

**7. Variable Interest Entities**

We enter into various arrangements with variable interest entities (VIEs) in the normal course of business and consolidate the VIEs when we determine we are the primary beneficiary. This analysis includes a review of the VIE's capital structure, related contractual relationships and terms, nature of the VIE's operations and purpose, nature of the VIE's interests issued and our involvement with the entity. When assessing the need to consolidate a VIE, we evaluate the design of the VIE as well as the related risks the entity was designed to expose the variable interest holders to.

The primary beneficiary is the entity that has both (1) the power to direct the activities of the VIE that most significantly affect the entity's economic performance and (2) the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. While also considering these factors, the consolidation conclusion depends on the breadth of our decision-making ability and our ability to influence activities that significantly affect the economic performance of the VIE.

**Balance Sheet Classification and Exposure to Loss**

**The following table presents the total assets and total liabilities associated with our variable interests in consolidated VIEs, as classified in the Condensed Consolidated Balance Sheets:**

| <i>(in millions)</i>                | Real Estate<br>and<br>Investment<br>Entities <sup>(d)</sup> | Securitization<br>Vehicles <sup>(e)</sup> | Affordable<br>Housing<br>Partnerships | Other         | Total            |
|-------------------------------------|---|---|---------------------------------------|---------------|------------------|
| <b>June 30, 2018</b>                |   |   |                                       |               |                  |
| <b>Assets:</b>                      |   |   |                                       |               |                  |
| Bonds available for sale            | \$ -  | \$ 8,472                                  | \$ -                                  | \$ -          | \$ 8,472         |
| Other bond securities               | -   | 4,199                                     | -                                     | 3             | 4,202            |
| Mortgage and other loans receivable | -   | 3,126                                     | -                                     | -             | 3,126            |
| Other invested assets               | 1,524   | -   | 3,264                                 | 27            | 4,815            |
| Other <sup>(a)</sup>                | 285   | 1,507                                     | 405                                   | 84            | 2,281            |
| <b>Total assets<sup>(b)</sup></b>   | <b>\$ 1,809</b>   | <b>\$ 17,304</b>                          | <b>\$ 3,669</b>                       | <b>\$ 114</b> | <b>\$ 22,896</b> |
| <b>Liabilities:</b>                 |   |   |                                       |               |                  |
| Long-term debt                      | \$ 805  | \$ 2,687                                  | \$ 1,941                              | \$ 5          | \$ 5,438         |
| Other <sup>(c)</sup>                | 129   | 77  | 170                                   | 25            | 401              |
| <b>Total liabilities</b>            | <b>\$ 934</b>   | <b>\$ 2,764</b>                           | <b>\$ 2,111</b>                       | <b>\$ 30</b>  | <b>\$ 5,839</b>  |

December 31, 2017

**Assets:**

|                                     |           |              |                  |           |              |                  |
|-------------------------------------|-----------|--------------|------------------|-----------|--------------|------------------|
| Bonds available for sale            | \$        | -            | \$ 9,632         | \$        | -            | \$ 9,632         |
| Other bond securities               |           | -            | 4,518            |           | 3            | 4,521            |
| Mortgage and other loans receivable |           | -            | 2,290            |           | -            | 2,290            |
| Other invested assets               |           | 1,365        | 206              |           | 3,087        | 4,683            |
| Other <sup>(a)</sup>                |           | 302          | 1,481            |           | 85           | 2,218            |
| <b>Total assets<sup>(b)</sup></b>   | <b>\$</b> | <b>1,667</b> | <b>\$ 18,127</b> | <b>\$</b> | <b>3,437</b> | <b>\$ 23,344</b> |

**Liabilities:**

|                          |           |            |                 |                 |           |                 |
|--------------------------|-----------|------------|-----------------|-----------------|-----------|-----------------|
| Long-term debt           | \$        | 680        | \$ 1,624        | \$ 1,825        | 5         | \$ 4,134        |
| Other <sup>(c)</sup>     |           | 144        | 244             | 181             | 26        | 595             |
| <b>Total liabilities</b> | <b>\$</b> | <b>824</b> | <b>\$ 1,868</b> | <b>\$ 2,006</b> | <b>31</b> | <b>\$ 4,729</b> |

(a) Comprised primarily of Short-term investments and Other assets at June 30, 2018 and December 31, 2017.

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

(c) Comprised primarily of Other liabilities at June 30, 2018 and December 31, 2017.

(d) At June 30, 2018 and December 31, 2017, off-balance sheet exposure primarily consisting of commitments to real estate and investment entities was \$237 million and \$86 million, respectively.

(e) At June 30, 2018 and December 31, 2017, \$16.4 billion and \$17.6 billion, respectively, of the total assets of consolidated securitization vehicles were owed to AIG Parent or its subsidiaries.

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We calculate our maximum exposure to loss to be (i) the amount invested in the debt or equity of the VIE, (ii) the notional amount of VIE assets or liabilities where we have also provided credit protection to the VIE with the VIE as the referenced obligation, and (iii) other commitments and guarantees to the VIE. Interest holders in VIEs sponsored by us generally have recourse only to the assets and cash flows of the VIEs and do not have recourse to us, except in limited circumstances when we have provided a guarantee to the VIE's interest holders.

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

| <i>(in millions)</i>                               | Total VIE Assets  | Maximum Exposure to Loss        |                   | Total            |
|--|-------------------|---------------------------------|-------------------|------------------|
|  |                   | On-Balance Sheet <sup>(b)</sup> | Off-Balance Sheet |                  |
| <b>June 30, 2018</b>                               |                   |                                 |                   |                  |
| Real estate and investment entities <sup>(a)</sup> | \$ 348,774        | \$ 8,426                        | \$ 1,946          | \$ 10,372        |
| Affordable housing partnerships                    | 4,094             | 641                             | -                 | 641              |
| Other  | 2,800             | 293                             | 1,219             | 1,512            |
| <b>Total</b>                                       | <b>\$ 355,668</b> | <b>\$ 9,360</b>                 | <b>\$ 3,165</b>   | <b>\$ 12,525</b> |
| <b>December 31, 2017</b>                           |                   |                                 |                   |                  |
| Real estate and investment entities <sup>(a)</sup> | \$ 380,030        | \$ 9,253                        | \$ 2,043          | \$ 11,296        |
| Affordable housing partnerships                    | 4,468             | 725                             | -                 | 725              |
| Other  | 2,703             | 254                             | 1,205             | 1,459            |
| <b>Total</b>                                       | <b>\$ 387,201</b> | <b>\$ 10,232</b>                | <b>\$ 3,248</b>   | <b>\$ 13,480</b> |

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

(b) At June 30, 2018 and December 31, 2017, \$9.0 billion and \$9.8 billion, respectively, of our total unconsolidated VIE assets were recorded as Other invested assets.

(c) These amounts represent our estimate of the maximum exposure to loss under certain insurance policies issued to VIEs if a hypothetical loss occurred to the extent of the full amount of the insured value. Our insurance policies cover defined risks and our estimate of liability is included in our insurance reserves on the balance sheet.

*For additional information on VIEs see Note 10 to the Consolidated Financial Statements in the 2017 Annual Report.*

## 8. Derivatives and Hedge Accounting

We use derivatives and other financial instruments as part of our financial risk management programs and as part of our investment operations.

*For a discussion of our accounting policies and procedures regarding derivatives and hedge accounting see Note 11 to the Consolidated Financial Statements in the 2017 Annual Report.*

Our businesses use derivatives and other instruments as part of their financial risk management. Interest rate derivatives (such as interest rate swaps) are used to manage interest rate risk associated with embedded derivatives contained in insurance contract liabilities, fixed maturity securities, outstanding medium and long term notes as well as other interest rate sensitive assets and liabilities. Foreign exchange derivatives (principally foreign exchange forwards and options) are used to economically mitigate risk associated with non U.S. dollar denominated debt, net capital exposures, and foreign currency transactions. Equity derivatives are used to mitigate financial risk embedded in certain insurance liabilities. We use credit derivatives to manage our credit exposures. The derivatives are effective economic hedges of the exposures that they are meant to offset.

In addition to hedging activities, we also enter into derivative instruments with respect to investment operations, which may include, among other things, CDSs and purchases of investments with embedded derivatives, such as equity linked notes and convertible bonds.

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

|   | June 30, 2018           |                 |                              |                 | December 31, 2017       |                 |                              |                 |
|---|-------------------------|-----------------|------------------------------|-----------------|-------------------------|-----------------|------------------------------|-----------------|
|   | Gross Derivative Assets |                 | Gross Derivative Liabilities |                 | Gross Derivative Assets |                 | Gross Derivative Liabilities |                 |
|   | Notional Amount         | Fair Value      | Notional Amount              | Fair Value      | Notional Amount         | Fair Value      | Notional Amount              | Fair Value      |
| <i>(in millions)</i>  |                         |                 |                              |                 |                         |                 |                              |                 |
| <b>Derivatives designated as hedging instruments:<sup>(a)</sup></b>             |                         |                 |                              |                 |                         |                 |                              |                 |
| Interest rate contracts   | \$ 50                   | \$ 1            | \$ 926                       | \$ 25           | \$ -                    | \$ -            | \$ 838                       | \$ 15           |
| Foreign exchange contracts  | 4,590                   | 235             | 3,540                        | 257             | 2,823                   | 173             | 4,783                        | 350             |
| Equity contracts  | -                       | -               | -                            | -               | -                       | -               | 159                          | 19              |
| <b>Derivatives not designated as hedging instruments:<sup>(a)</sup></b>         |                         |                 |                              |                 |                         |                 |                              |                 |
| Interest rate contracts   | 44,599                  | 2,459           | 32,708                       | 1,914           | 37,751                  | 2,171           | 26,461                       | 2,185           |
| Foreign exchange contracts  | 11,768                  | 803             | 4,778                        | 830             | 6,305                   | 658             | 11,093                       | 895             |
| Equity contracts  | 18,562                  | 280             | 3,610                        | 8               | 19,975                  | 522             | 1,130                        | 2               |
| Credit contracts <sup>(b)</sup>   | 9                       | 1               | 1,399                        | 260             | 4                       | 1               | 1,365                        | 277             |
| Other contracts <sup>(c)</sup>  | 38,342                  | 17              | 59                           | 4               | 39,829                  | 20              | 59                           | 5               |
| <b>Total derivatives, gross</b>   | <b>\$ 117,920</b>       | <b>\$ 3,796</b> | <b>\$ 47,020</b>             | <b>\$ 3,298</b> | <b>\$ 106,687</b>       | <b>\$ 3,545</b> | <b>\$ 45,888</b>             | <b>\$ 3,748</b> |
| <b>Counterparty netting<sup>(d)</sup></b>                                       |                         | <b>(1,433)</b>  |                              | <b>(1,433)</b>  |                         | <b>(1,464)</b>  |                              | <b>(1,464)</b>  |
| <b>Cash collateral<sup>(e)</sup></b>  |                         | <b>(1,644)</b>  |                              | <b>(595)</b>    |                         | <b>(1,159)</b>  |                              | <b>(1,249)</b>  |
| <b>Total derivatives on condensed consolidated balance sheets<sup>(f)</sup></b> |                         | <b>\$ 719</b>   |                              | <b>\$ 1,270</b> |                         | <b>\$ 922</b>   |                              | <b>\$ 1,035</b> |

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

(b) As of June 30, 2018 and December 31, 2017, included CDSs on super senior multi-sector CDOs with a net notional amount of \$640 million and \$685 million (fair value liability of \$241 million and \$254 million), respectively. The net notional amount represents the maximum exposure to loss on the portfolio. As of June 30, 2018 and December 31, 2017, there were no super senior corporate debt/CLOs remaining.

(c) Consists primarily of stable value wraps and contracts with multiple underlying exposures.

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

(e) Represents cash collateral posted and received that is eligible for netting.

(f) Freestanding derivatives only, excludes embedded derivatives. Derivative instrument assets and liabilities are recorded in Other Assets and Liabilities, respectively. Fair value of assets related to bifurcated embedded derivatives was zero at both June 30, 2018 and December 31, 2017. Fair value of

liabilities related to bifurcated embedded derivatives was \$3.5 billion and \$4.1 billion, respectively, at June 30, 2018 and December 31, 2017. A bifurcated embedded derivative is generally presented with the host contract in the Condensed Consolidated Balance Sheets. Embedded derivatives are primarily related to guarantee features in variable annuity products, which include equity and interest rate components.

**TABLE OF CONTENTS**ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 8. Derivatives and Hedge Accounting****Collateral**

We engage in derivative transactions that are not subject to a clearing requirement directly with unaffiliated third parties, in most cases, under International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements. Many of the ISDA Master Agreements also include Credit Support Annex (CSA) provisions, which provide for collateral postings that may vary at various ratings and threshold levels. We attempt to reduce our risk with certain counterparties by entering into agreements that enable collateral to be obtained from a counterparty on an upfront or contingent basis. We minimize the risk that counterparties might be unable to fulfill their contractual obligations by monitoring counterparty credit exposure and collateral value and generally requiring additional collateral to be posted upon the occurrence of certain events or circumstances. In addition, certain derivative transactions have provisions that require collateral to be posted upon a downgrade of our long term debt ratings or give the counterparty the right to terminate the transaction. In the case of some of the derivative transactions, upon a downgrade of our long term debt ratings, as an alternative to posting collateral and subject to certain conditions, we may assign the transaction to an obligor with higher debt ratings or arrange for a substitute guarantee of our obligations by an obligor with higher debt ratings or take other similar action. The actual amount of collateral required to be posted to counterparties in the event of such downgrades, or the aggregate amount of payments that we could be required to make, depends on market conditions, the fair value of outstanding affected transactions and other factors prevailing at and after the time of the downgrade.

Collateral posted by us to third parties for derivative transactions was \$2.2 billion and \$2.9 billion at June 30, 2018 and December 31, 2017, respectively. In the case of collateral posted under derivative transactions that are not subject to clearing, this collateral can generally be repledged or resold by the counterparties. Collateral provided to us from third parties for derivative transactions was \$1.7 billion and \$1.3 billion at June 30, 2018 and December 31, 2017, respectively. In the case of collateral provided to us under derivative transactions that are not subject to clearing, we generally can repledge or resell collateral.

**Offsetting**

We have elected to present all derivative receivables and derivative payables, and the related cash collateral received and paid, on a net basis on our Condensed Consolidated Balance Sheets when a legally enforceable ISDA Master Agreement exists between us and our derivative counterparty. An ISDA Master Agreement is an agreement governing multiple derivative transactions between two counterparties. The ISDA Master Agreement generally provides for the net settlement of all, or a specified group, of these derivative transactions, as well as transferred collateral, through a single payment, and in a single currency, as applicable. The net settlement provisions apply in the event of a default on, or affecting any, one derivative transaction or a termination event affecting all, or a specified group of, derivative transactions governed by the ISDA Master Agreement.

**Hedge Accounting**

We designated certain derivatives entered into with third parties as fair value hedges of available for sale investment securities held by our insurance subsidiaries. The fair value hedges include foreign currency forwards and cross currency swaps designated as hedges of the change in fair value of foreign currency denominated available for sale securities attributable to changes in foreign exchange rates. We also designated certain interest rate swaps entered into with third parties as fair value hedges of fixed rate GICs attributable to changes in benchmark interest rates.

We use foreign currency denominated debt and cross-currency swaps as hedging instruments in net investment hedge relationships to mitigate the foreign exchange risk associated with our non-U.S. dollar functional currency foreign subsidiaries. For net investment hedge relationships where issued debt is used as a hedging instrument, we assess the hedge effectiveness and measure the amount of ineffectiveness based on changes in spot rates. For net investment hedge relationships that use derivatives as hedging instruments, we assess hedge effectiveness and measure hedge ineffectiveness using changes in forward rates. For the three- and six-month periods ended June 30, 2018, we recognized a gain of \$119 million and a loss of \$1 million, respectively, and for the three- and six-month periods ended June 30, 2017, we recognized losses of \$6 million and \$48 million, respectively, included in Change in foreign currency translation adjustment in Other comprehensive income related to the net investment hedge relationships.

A qualitative methodology is utilized to assess hedge effectiveness for net investment hedges, while regression analysis is employed for all other hedges.



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The following table presents the gain (loss) recognized in earnings on our derivative instruments in fair value hedging relationships in the Condensed Consolidated Statements of Income:

| <i>(in millions)</i>                    | Gains/(Losses) Recognized in Earnings for: |              | Including Gains/(Losses) Attributable to: |                     |                      |
|---|--|--------------|---|---------------------|----------------------|
|   | Hedging Derivatives <sup>(a)</sup>         | Hedged Items | Hedge Ineffectiveness                     | Excluded Components | Other <sup>(b)</sup> |
| <b>Three Months Ended June 30, 2018</b> |  |              |   |                     |                      |
| <b>Interest rate contracts:</b>         |  |              |   |                     |                      |
| Realized capital gains/(losses)         | \$ -                                       | \$ -         | \$ -                                      | \$ -                | \$ -                 |
| <b>Foreign exchange contracts:</b>      |  |              |   |                     |                      |
| Realized capital gains/(losses)         | 236  | (199)        | -   | 37                  | -                    |
| Other income                            | -  | -            | -   | -                   | -                    |
| <b>Equity contracts:</b>                |  |              |   |                     |                      |
| Realized capital gains/(losses)         | -  | -            | -   | -                   | -                    |
| <b>Three Months Ended June 30, 2017</b> |  |              |   |                     |                      |
| <b>Interest rate contracts:</b>         |  |              |   |                     |                      |
| Realized capital gains/(losses)         | \$ 3                                       | \$ (3)       | \$ -                                      | \$ -                | \$ -                 |
| <b>Foreign exchange contracts:</b>      |  |              |   |                     |                      |
| Realized capital gains/(losses)         | (213)                                      | 232          | -   | 19                  | -                    |
| Other income                            | -  | 3            | -   | -                   | 3                    |
| <b>Equity contracts:</b>                |  |              |   |                     |                      |
| Realized capital gains/(losses)         | (24)                                       | 24           | -   | -                   | -                    |
| <b>Six Months Ended June 30, 2018</b>   |  |              |   |                     |                      |
| <b>Interest rate contracts:</b>         |  |              |   |                     |                      |
| Realized capital gains/(losses)         | \$ (8)                                     | \$ 9         | \$ 1                                      | \$ -                | \$ -                 |
| <b>Foreign exchange contracts:</b>      |  |              |   |                     |                      |
| Realized capital gains/(losses)         | 195  | (191)        | -   | 4                   | -                    |
| Other income                            | -  | -            | -   | -                   | -                    |
| <b>Equity contracts:</b>                |  |              |   |                     |                      |
| Realized capital gains/(losses)         | -  | -            | -   | -                   | -                    |
| <b>Six Months Ended June 30, 2017</b>   |  |              |   |                     |                      |
| <b>Interest rate contracts:</b>         |  |              |   |                     |                      |
| Realized capital gains/(losses)         | \$ 2                                       | \$ (2)       | \$ -                                      | \$ -                | \$ -                 |
| <b>Foreign exchange contracts:</b>      |  |              |   |                     |                      |
| Realized capital gains/(losses)         | (161)                                      | 190          | -   | 29                  | -                    |
| Other income                            | -  | 4            | -   | -                   | 4                    |
| <b>Equity contracts:</b>                |  |              |   |                     |                      |
| Realized capital gains/(losses)         | (26)                                       | 24           | -   | (2)                 | -                    |

(a) The amounts presented do not include the periodic net coupon settlements of the derivative contract or the coupon income (expense) related to the hedged item.

(b) Represents accretion/amortization of opening fair value of the hedged item at inception of hedge relationship, amortization of basis adjustment on hedged item following the discontinuation of hedge accounting, and the release of debt basis adjustment following the repurchase of issued debt that was part of previously-discontinued fair value hedge relationship.

**TABLE OF CONTENTS**ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 8. Derivatives and Hedge Accounting****Derivatives Not Designated as Hedging Instruments**

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

| <i>(in millions)</i>                      | Gains (Losses) Recognized in Earnings |          |                              |          |
|---|---------------------------------------|----------|------------------------------|----------|
|   | Three Months Ended<br>June 30,        |          | Six Months Ended<br>June 30, |          |
|   | 2018                                  | 2017     | 2018                         | 2017     |
| <b>By Derivative Type:</b>                |                                       |          |                              |          |
| Interest rate contracts                   | \$ (224)                              | \$ 251   | \$ (622)                     | \$ 99    |
| Foreign exchange contracts                | 391                                   | (76)     | 252                          | (122)    |
| Equity contracts                          | (114)                                 | (176)    | (187)                        | (490)    |
| Credit contracts                          | 1                                     | 21       | 12                           | 36       |
| Other contracts                           | 17                                    | 18       | 34                           | 36       |
| Embedded derivatives                      | 344                                   | (259)    | 935                          | (113)    |
| <b>Total</b>                              | \$ 415                                | \$ (221) | \$ 424                       | \$ (554) |
| <b>By Classification:</b>                 |                                       |          |                              |          |
| Policy fees                               | \$ 17                                 | \$ 19    | \$ 34                        | \$ 39    |
| Net investment income                     | 1                                     | (5)      | (3)                          | (7)      |
| Net realized capital gains (losses)       | 369                                   | (316)    | 356                          | (700)    |
| Other income                              | 29                                    | 80       | 41                           | 113      |
| Policyholder benefits and claims incurred | (1)                                   | 1        | (4)                          | 1        |
| <b>Total</b>                              | \$ 415                                | \$ (221) | \$ 424                       | \$ (554) |

**Credit Risk-Related Contingent Features**

We estimate that at June 30, 2018, based on our outstanding financial derivative transactions, a downgrade of our long-term senior debt ratings to BBB or BBB– by Standard & Poor’s Financial Services LLC, a subsidiary of S&P Global Inc., and/or a downgrade to Baa2 or Baa3 by Moody’s Investors’ Service, Inc. would permit counterparties to make additional collateral calls and permit certain counterparties to elect early termination of contracts, resulting in corresponding collateral postings and termination payments in the total amount of up to approximately \$58 million. The aggregate fair value of our derivatives that were in a net liability position and that contain such credit risk-related contingencies which can be triggered below our long-term senior debt ratings of BBB+ or Baa1 was approximately \$461 million and \$572 million at June 30, 2018 and December 31, 2017, respectively. The aggregate fair value of assets posted as collateral under these contracts at June 30, 2018 and December 31, 2017, was approximately \$505 million and \$676 million, respectively.

**Hybrid Securities with Embedded Credit Derivatives**

We invest in hybrid securities (such as credit linked notes) with the intent of generating income, and not specifically to acquire exposure to embedded derivative risk. As is the case with our other investments in

RMBS, CMBS, CDOs and ABS, our investments in these hybrid securities are exposed to losses only up to the amount of our initial investment in the hybrid security. Other than our initial investment in the hybrid securities, we have no further obligation to make payments on the embedded credit derivatives in the related hybrid securities.

We elect to account for our investments in these hybrid securities with embedded written credit derivatives at fair value, with changes in fair value recognized in Net investment income and Other income. Our investments in these hybrid securities are reported as Other bond securities in the Condensed Consolidated Balance Sheets. The fair values of these hybrid securities were \$4.1 billion and \$4.4 billion at June 30, 2018 and December 31, 2017, respectively. These securities have par amounts of \$8.8 billion and \$9.1 billion at June 30, 2018 and December 31, 2017, respectively, and have remaining stated maturity dates that extend to 2052.

## ITEM 1 | Notes to Condensed Consolidated Financial Statements (unaudited) | 9. Insurance Liabilities

## 9. Insurance Liabilities

## Liability for Unpaid Losses and Loss Adjustment Expenses (Loss Reserves)

Loss reserves represent the accumulation of estimates of unpaid claims, including estimates for claims incurred but not reported (IBNR) and loss adjustment expenses (LAE), less applicable discount. We regularly review and update the methods used to determine loss reserve estimates. Any adjustments resulting from this review are reflected currently in pre-tax income, except to the extent it impacts a deferred gain under a retroactive reinsurance agreement in which case the ceded portion would be amortized into pre-tax income in subsequent periods. Because these estimates are subject to the outcome of future events, changes in estimates are common given that loss trends vary and time is often required for changes in trends to be recognized and confirmed. Reserve changes that increase previous estimates of ultimate cost are referred to as unfavorable or adverse development or reserve strengthening. Reserve changes that decrease previous estimates of ultimate cost are referred to as favorable development.

Our gross loss reserves before reinsurance and discount are net of contractual deductible recoverable amounts due from policyholders of approximately \$12.9 billion and \$12.6 billion at June 30, 2018 and December 31, 2017, respectively. These recoverable amounts are related to certain policies with high deductibles (in excess of high dollar amounts retained by the insured through self-insured retentions, deductibles, retrospective programs, or captive arrangements, each referred to generically as “deductibles”), primarily for U.S. commercial casualty business. With respect to the deductible portion of the claim, we manage and pay the entire claim on behalf of the insured and are reimbursed by the insured for the deductible portion of the claim. Thus, these recoverable amounts represent a credit exposure to us. At June 30, 2018 and December 31, 2017, we held collateral of approximately \$9.4 billion and \$9.5 billion, respectively, for these deductible recoverable amounts, consisting primarily of letters of credit and funded trust agreements.

The following table presents the roll-forward of activity in Loss Reserves:

|  | Three Months Ended |               | Six Months    |
|--|--------------------|---------------|---------------|
|  | June 30,           |               | ended         |
|  | 2018               | 2017          | ended         |
| <i>(in millions)</i>   |                    |               |               |
| Liability for unpaid loss and loss adjustment expenses, beginning of period            | \$ 78,098          | \$ 76,050     | \$ 78,098     |
| Reinsurance recoverable  | (27,211)           | (26,920)      | (26,920)      |
| <b>Net Liability for unpaid loss and loss adjustment expenses, beginning of period</b> | <b>50,887</b>      | <b>49,130</b> | <b>51,178</b> |
| <b>Losses and loss adjustment expenses incurred:</b>                                   |                    |               |               |
| Current year   | 4,452              | 4,209         | 9,661         |
| Prior years, excluding discount and amortization of deferred gain                      | (26)               | 391           | (26)          |
| Prior years, discount charge (benefit)   | 9                  | 260           | (9)           |
| Prior years, amortization of deferred gain on retroactive reinsurance <sup>(a)</sup>   | (69)               | (82)          | (69)          |
| <b>Total losses and loss adjustment expenses incurred</b>                              | <b>4,366</b>       | <b>4,778</b>  | <b>8,853</b>  |

**Losses and loss adjustment expenses paid:**

|   |                  |                  |               |
|---|------------------|------------------|---------------|
| Current year  | (910)            | (1,137)          | (1,5          |
| Prior years   | (4,635)          | (4,252)          | (9,           |
| <b>Total losses and loss adjustment expenses paid</b>                         | <b>(5,545)</b>   | <b>(5,389)</b>   | <b>(10,9</b>  |
| <b>Other changes:</b>   |                  |                  |               |
| Foreign exchange effect   | (431)            | 463              | (             |
| Retroactive reinsurance adjustment (net of discount) <sup>(b)</sup>           | 30               | (299)            |               |
| Reclassified to liabilities held for sale <sup>(c)</sup>                      | -                | 79               |               |
| <b>Total other changes</b>  | <b>(401)</b>     | <b>243</b>       | <b>(</b>      |
| <b>Liability for unpaid loss and loss adjustment expenses, end of period:</b> |                  |                  |               |
| Net liability for unpaid losses and loss adjustment expenses                  | 49,307           | 48,762           | 49,           |
| Reinsurance recoverable   | 27,406           | 27,660           | 27,           |
| <b>Total</b>  | <b>\$ 76,713</b> | <b>\$ 76,422</b> | <b>\$ 76,</b> |

(a) Includes \$8 million and \$10 million for the retroactive reinsurance agreement with NICO covering U.S. asbestos exposures for the three-month periods ended June 30, 2018 and 2017, respectively, and \$13 million for both six-month periods ended June 30, 2018 and 2017.

(b) Includes discount on retroactive reinsurance of \$(20) million and \$(108) million for the three-month periods ended June 30, 2018 and 2017, respectively, and \$108 million and \$1.5 billion for the six-month periods ended June 30, 2018 and 2017, respectively.

(c) Represents change in loss reserves included in our sale of certain of our insurance operations to Fairfax Financial Holdings Limited (Fairfax) for the three- and six-month periods ended June 30, 2017. Upon consummation of the sale, we retained a portion of these reserves through reinsurance arrangements.

ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 9. Insurance Liabilities**

On January 20, 2017, we entered into an adverse development reinsurance agreement with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc. (Berkshire), under which we transferred to NICO 80 percent of the reserve risk on substantially all of our U.S. Commercial long-tail exposures for accident years 2015 and prior. Under this agreement, we ceded to NICO 80 percent of the paid losses on subject business paid on or after January 1, 2016 in excess of \$25 billion of net paid losses, up to an aggregate limit of \$25 billion. At NICO's 80 percent share, NICO's limit of liability under the contract is \$20 billion. We account for this transaction as retroactive reinsurance. We paid total consideration, including interest, of \$10.2 billion. The consideration was placed into a collateral trust account as security for NICO's claim payment obligations, and Berkshire has provided a parental guarantee to secure the obligations of NICO under the agreement. The total paid claims subject to the agreement as of June 30, 2018 were below the attachment point.

**Discounting of Loss Reserves**

At June 30, 2018, the loss reserves reflect a net loss reserve discount of \$2.0 billion, including tabular and non-tabular calculations based upon the following assumptions:

Certain asbestos claims are discounted when allowed by the regulator and when payments are fixed and determinable, based on the investment yields of the companies and the payout pattern for the claims. At December 31, 2016, the discount for asbestos reserves was fully amortized.

The tabular workers' compensation discount is calculated based on a 3.5 percent interest rate and the mortality rate used in the 2007 U.S. Life Table.

The non-tabular workers' compensation discount is calculated separately for companies domiciled in New York and Pennsylvania, and follows the statutory regulations (prescribed or permitted) for each state. For New York companies, the discount is based on a 5 percent interest rate and the companies' own payout patterns. For the Pennsylvania companies, the statute specifies discount factors for accident years 2001 and prior, which are based on a 6 percent interest rate and an industry payout pattern. For accident years 2002 and subsequent, the discount is based on the payout patterns and investment yields of the companies.

In 2013, our Pennsylvania regulator approved use of a consistent discount rate (U.S. Treasury rate plus a liquidity premium) to all of our workers' compensation reserves in our Pennsylvania-domiciled companies, as well as our use of updated payout patterns specific to our primary and excess workers compensation portfolios.

The discount consists of \$622 million of tabular discount and \$1.3 billion of non-tabular discount for workers' compensation. During the six-month periods ended June 30, 2018 and 2017, the benefit/(charge) from changes in discount of \$219 million and \$(235) million, respectively, were recorded as part of the policyholder benefits and losses incurred in the Consolidated Statement of Income.

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

| <i>(in millions)</i>           | June 30, 2018                               |                     |                 | December 31, 2017                           |                     |                 |
|--------------------------------|---|---------------------|-----------------|---|---------------------|-----------------|
|                                | North<br>America<br>Commercial<br>Insurance | Legacy<br>Portfolio | Total           | North<br>America<br>Commercial<br>Insurance | Legacy<br>Portfolio | Total           |
| U.S. workers' compensation     | \$ 2,638                                    | \$ 964              | \$ 3,602        | \$ 2,465                                    | \$ 918              | \$ 3,383        |
| Retroactive reinsurance        | (1,647)                                     | -                   | (1,647)         | (1,539)                                     | -                   | (1,539)         |
| <b>Total reserve discount*</b> | <b>\$ 991</b>                               | <b>\$ 964</b>       | <b>\$ 1,955</b> | <b>\$ 926</b>                               | <b>\$ 918</b>       | <b>\$ 1,844</b> |

\* Excludes \$170 million and \$173 million of discount related to certain long tail liabilities in the United Kingdom at June 30, 2018 and December 31, 2017, respectively.



## ITEM 1 | Notes to Condensed Consolidated Financial Statements (unaudited) | 9. Insurance Liabilities

The following tables present the net loss reserve discount benefit (charge):

| Three Months Ended June 30,   | 2018                               |                  |              | 2017                               |                  |                 |
|---|------------------------------------|------------------|--------------|------------------------------------|------------------|-----------------|
|   | North America Commercial Insurance | Legacy Portfolio | Total        | North America Commercial Insurance | Legacy Portfolio | Total           |
| <i>(in millions)</i>  |                                    |                  |              |                                    |                  |                 |
| Current accident year   | \$ 23                              | \$ -             | \$ 23        | \$ 29                              | \$ -             | \$ 29           |
| Accretion and other adjustments to prior year discount                  | (133)                              | (12)             | (145)        | (57)                               | (43)             | (100)           |
| Effect of interest rate changes   | 96                                 | 40               | 136          | (128)                              | (61)             | (189)           |
| <b>Net reserve discount benefit (charge)</b>                            | <b>(14)</b>                        | <b>28</b>        | <b>14</b>    | <b>(156)</b>                       | <b>(104)</b>     | <b>(260)</b>    |
| Change in discount on loss reserves ceded under retroactive reinsurance | 20                                 | -                | 20           | 108                                | -                | 108             |
| <b>Net change in total reserve discount<sup>(a)</sup></b>               | <b>\$ 6</b>                        | <b>\$ 28</b>     | <b>\$ 34</b> | <b>\$ (48)</b>                     | <b>\$ (104)</b>  | <b>\$ (152)</b> |

| Six Months Ended June 30,   | 2018                               |                  |               | 2017                               |                  |                   |
|---|------------------------------------|------------------|---------------|------------------------------------|------------------|-------------------|
|   | North America Commercial Insurance | Legacy Portfolio | Total         | North America Commercial Insurance | Legacy Portfolio | Total             |
| <i>(in millions)</i>  |                                    |                  |               |                                    |                  |                   |
| Current accident year   | \$ 42                              | \$ -             | \$ 42         | \$ 61                              | \$ -             | \$ 61             |
| Accretion and other adjustments to prior year discount                  | (88)                               | (30)             | (118)         | (105)                              | (59)             | (164)             |
| Effect of interest rate changes   | 219                                | 76               | 295           | (89)                               | (43)             | (132)             |
| <b>Net reserve discount benefit (charge)</b>                            | <b>173</b>                         | <b>46</b>        | <b>219</b>    | <b>(133)</b>                       | <b>(102)</b>     | <b>(235)</b>      |
| Change in discount on loss reserves ceded under retroactive reinsurance | (108)                              | -                | (108)         | (1,547)                            | -                | (1,547)           |
| <b>Net change in total reserve discount<sup>(b)</sup></b>               | <b>\$ 65</b>                       | <b>\$ 46</b>     | <b>\$ 111</b> | <b>\$ (1,680)</b>                  | <b>\$ (102)</b>  | <b>\$ (1,782)</b> |

(a) Excludes \$7 million and \$4 million of discount related to certain long tail liabilities in the United Kingdom for the three-month periods ended June 30, 2018 and 2017, respectively.

(b) Excludes \$3 million and \$(4) million of discount related to certain long tail liabilities in the United Kingdom for the six-month periods ended June 30, 2018 and 2017, respectively.

During the six-month period ended June 30, 2018 effective interest rates increased due to an increase in the forward yield curve component of the discount rates reflecting an increase in U.S. Treasury rates along with changes in payout pattern assumptions. This resulted in an increase in the loss reserve discount by

\$295 million in the six-month period ended June 30, 2018.

During the six-month period ended June 30, 2017 effective interest rates decreased due to a decrease in the forward yield curve component of the discount rates reflecting a decrease in U.S. Treasury rates along with changes in payout pattern assumptions. This resulted in a decrease in the loss reserve discount by \$132 million in the six-month period ended June 30, 2017.

**TABLE OF CONTENTS**ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 10. Contingencies, Commitments and Guarantees****10. Contingencies, Commitments and Guarantees**

In the normal course of business, various contingent liabilities and commitments are entered into by AIG and our subsidiaries. In addition, AIG Parent guarantees various obligations of certain subsidiaries.

Although AIG cannot currently quantify its ultimate liability for unresolved litigation and investigation matters, including those referred to below, it is possible that such liability could have a material adverse effect on AIG's consolidated financial condition or its consolidated results of operations or consolidated cash flows for an individual reporting period.

**Legal Contingencies**

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

Additionally, from time to time, various regulatory and governmental agencies review the transactions and practices of AIG and our subsidiaries in connection with industry-wide and other inquiries into, among other matters, the business practices of current and former operating insurance subsidiaries. We have cooperated, and will continue to cooperate, in producing documents and other information in response to such requests.

## Tax Litigation

We are party to pending tax litigation before the Southern District of New York. *For additional information see Note 14 to the Condensed Consolidated Financial Statements.*

**TABLE OF CONTENTS**ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 10. Contingencies, Commitments and Guarantees****Other Commitments**

In the normal course of business, we enter into commitments to invest in limited partnerships, private equity funds and hedge funds and to purchase and develop real estate in the U.S. and abroad. These commitments totaled \$3.3 billion at June 30, 2018.

**Guarantees****Subsidiaries**

We have issued unconditional guarantees with respect to the prompt payment, when due, of all present and future payment obligations and liabilities of AIG Financial Products Corp. and related subsidiaries (collectively AIGFP) and of AIG Markets arising from transactions entered into by AIG Markets.

In connection with AIGFP's business activities, AIGFP has issued, in a limited number of transactions, standby letters of credit or similar facilities to equity investors of structured leasing transactions in an amount equal to the termination value owing to the equity investor by the lessee in the event of a lessee default (the equity termination value). The total amount outstanding at June 30, 2018 was \$85 million. In those transactions, AIGFP has agreed to pay such amount if the lessee fails to pay. The amount payable by AIGFP is, in certain cases, partially offset by amounts payable under other instruments typically equal to the present value of scheduled payments to be made by AIGFP. In the event that AIGFP is required to make a payment to the equity investor, the lessee is unconditionally obligated to reimburse AIGFP. To the extent that the equity investor is paid the equity termination value from the standby letter of credit and/or other sources, including payments by the lessee, AIGFP takes an assignment of the equity investor's rights under the lease of the underlying property. Because the obligations of the lessee under the lease transactions are generally economically defeased, lessee bankruptcy is the most likely circumstance in which AIGFP would be required to pay without reimbursement.

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

**Asset Dispositions**

We are subject to financial guarantees and indemnity arrangements in connection with the completed sales of businesses pursuant to our asset disposition plan. The various arrangements may be triggered by, among other things, declines in asset values, the occurrence of specified business contingencies, the

realization of contingent liabilities, developments in litigation or breaches of representations, warranties or covenants provided by us. These arrangements are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential obligation is subject to contractual limitations, while in other cases such limitations are not specified or are not applicable.

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

#### Other

- *For additional discussion on commitments and guarantees associated with VIEs see Note 7 to the Condensed Consolidated Financial Statements.*
- *For additional disclosures about derivatives see Note 8 to the Condensed Consolidated Financial Statements.*
- *For additional disclosures about guarantees of outstanding debt see Note 15 to the Condensed Consolidated Financial Statements.*

**TABLE OF CONTENTS**ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 11. Equity**

## 11. Equity

**Shares Outstanding**

The following table presents a rollforward of outstanding shares:

| <b>Six Months Ended June 30, 2018</b> | Common<br>Stock Issued | Treasury<br>Stock      | Common Stock<br>Outstanding |
|---------------------------------------|------------------------|------------------------|-----------------------------|
| <b>Shares, beginning of year</b>      | <b>1,906,671,492</b>   | <b>(1,007,626,835)</b> | <b>899,044,657</b>          |
| Shares issued                         | -                      | 4,047,626              | 4,047,626                   |
| Shares repurchased                    | -                      | (11,878,250)           | (11,878,250)                |
| <b>Shares, end of period</b>          | <b>1,906,671,492</b>   | <b>(1,015,457,459)</b> | <b>891,214,033</b>          |
| <b>Dividends</b>                      |                        |                        |                             |

Dividends are payable on AIG Common Stock only when, as and if declared by our Board of Directors in its discretion, from funds legally available for this purpose. In considering whether to pay a dividend on or purchase shares of AIG Common Stock, our Board of Directors considers a number of factors, including, but not limited to: the capital resources available to support our insurance operations and business strategies, AIG's funding capacity and capital resources in comparison to internal benchmarks, expectations for capital generation, rating agency expectations for capital, regulatory standards for capital and capital distributions, and such other factors as our Board of Directors may deem relevant.

The following table presents record date, payment date and dividends paid per share on AIG Common Stock:

| Record Date    | Payment Date   | Dividends Paid<br>Per Share |
|----------------|----------------|-----------------------------|
| June 14, 2018  | June 28, 2018  | 0.32                        |
| March 15, 2018 | March 29, 2018 | 0.32                        |
| June 14, 2017  | June 28, 2017  | 0.32                        |
| March 15, 2017 | March 29, 2017 | 0.32                        |

*For a discussion of restrictions on payments of dividends to AIG Parent by its subsidiaries see Note 19 to the Consolidated Financial Statements in the 2017 Annual Report.*

**Repurchase of AIG Common Stock**

The following table presents repurchases of AIG Common Stock and warrants to purchase shares of AIG Common Stock:

| <b>Six Months Ended June 30,</b><br><i>(in millions)</i> |    | <b>2018</b> | 2017     |
|--|----|-------------|----------|
| Aggregate repurchases of common stock                    | \$ | <b>646</b>  | \$ 6,000 |
| Total number of common shares repurchased                |    | <b>12</b>   | 95       |

|                                       |    |   |    |   |
|---------------------------------------|----|---|----|---|
| Aggregate repurchases of warrants     | \$ | 4 | \$ | - |
| Total number of warrants repurchased* |    | - |    | - |

\* For the six-month period ended June 30, 2018, we repurchased 266,453 warrants to purchase shares of AIG Common Stock.

Our Board of Directors has authorized the repurchase of shares of AIG Common Stock and warrants to purchase shares of AIG Common Stock through a series of actions. On May 3, 2017, our Board of Directors authorized an additional increase of \$2.5 billion to its previous share repurchase authorization. As of June 30, 2018, approximately \$1.6 billion remained under our share repurchase authorization. Shares may be repurchased from time to time in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise (including through the purchase of warrants). Certain of our share repurchases have been and may from time to time be effected through Exchange Act Rule 10b5-1 repurchase plans.

The timing of any future repurchases will depend on market conditions, our business and strategic plans, financial condition, results of operations, liquidity and other factors.



**TABLE OF CONTENTS**ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 11. Equity****Accumulated Other Comprehensive Income**

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

| <i>(in millions)</i>   | Unrealized Appreciation<br>(Depreciation) of Fixed<br>Maturity Securities on<br>Which Other-Than-<br>Temporary Credit<br>Impairments Were Taken | Unrealized<br>Appreciation<br>(Depreciation)<br>of All Other<br>Investments | Foreign<br>Currency<br>Translation<br>Adjustments | Retained<br>Earnings<br>Adjustments |
|--|---|---|---|-------------------------------------|
| <b>Balance, December 31, 2017, net of tax</b>  | \$ 793\$  | 7,693\$   | (2,090)\$   |                                     |
| <b>Cumulative effect of change in accounting principles</b>  | 169   | (285)   | (284)   |                                     |
| Change in unrealized depreciation of investments   | (1,608)   | (6,358)   | -   |                                     |
| Change in deferred policy acquisition costs adjustment and other                                       | 114   | 905   | -   |                                     |
| Change in future policy benefits   | -   | 1,124   | -   |                                     |
| Change in foreign currency translation adjustments   | -   | -   | (23)  |                                     |
| Change in net actuarial loss   | -   | -   | -   |                                     |
| Change in prior service credit   | -   | -   | -   |                                     |
| Change in deferred tax asset (liability)   | 298   | 865   | (29)  |                                     |
| Change in fair value of liabilities under fair value option attributable to changes in own credit risk | -   | -   | -   |                                     |
| <b>Total other comprehensive income (loss)</b>   | (1,196)   | (3,464)   | (52)  |                                     |
| <b>Noncontrolling interests</b>  | -   | -   | -   |                                     |
| <b>Balance, June 30, 2018, net of tax</b>  | \$ (234)\$  | 3,944\$   | (2,426)\$   |                                     |
| <b>Balance, December 31, 2016, net of tax</b>  | \$ 426\$  | 6,405\$   | (2,629)\$   |                                     |
| Change in unrealized appreciation of investments   | 341   | 2,838   | -   |                                     |
| Change in deferred policy acquisition costs adjustment and other*                                      | 17  | (998)   | -   |                                     |
| Change in future policy benefits   | -   | (539)   | -   |                                     |
| Change in foreign currency translation adjustments   | -   | -   | 146   |                                     |
| Change in net actuarial loss   | -   | -   | -   |                                     |
| Change in prior service cost   | -   | -   | -   |                                     |
| Change in deferred tax asset (liability)   | (125)   | 47  | (24)  |                                     |
| <b>Total other comprehensive income</b>  | 233   | 1,348   | 122   |                                     |
| <b>Noncontrolling interests</b>  | -   | -   | -   |                                     |
| <b>Balance, June 30, 2017, net of tax</b>  | \$ 659\$  | 7,753\$   | (2,507)\$   |                                     |

\* Includes net unrealized gains attributable to businesses held for sale.



**TABLE OF CONTENTS**ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 11. Equity**

The following table presents the other comprehensive income reclassification adjustments for the three- and six-month periods ended June 30, 2018 and 2017, respectively:

| <i>(in millions)</i>  | Unrealized Appreciation<br>(Depreciation) of Fixed<br>Maturity Investments<br>on Which Other-Than-<br>Temporary Credit<br>Impairments Were<br>Recognized | Unrealized<br>Appreciation<br>(Depreciation)<br>of All Other<br>Investments | Foreign<br>Currency<br>Translation<br>Adjustments | Retirement<br>Plan<br>Liabilities<br>Adjustment |
|---|--|---|---|---|
| <b>Three Months Ended June 30, 2018</b>   |  |   |   |   |
| Unrealized change arising during period   | \$ (1,282)\$   | (964)\$   | (195)\$   | 16  |
| Less: Reclassification adjustments<br>included in net income                            | 2  | (14)  | -   | (8)   |
| <b>Total other comprehensive income (loss),<br/>before income tax expense (benefit)</b> | <b>(1,284)</b>   | <b>(950)</b>  | <b>(195)</b>                                      | <b>24</b>                                       |
| Less: Income tax expense (benefit)  | (238)  | (194)   | 15  | 1   |
| <b>Total other comprehensive income (loss),<br/>net of income tax expense (benefit)</b> | <b>\$ (1,046)\$</b>  | <b>(756)\$</b>  | <b>(210)\$</b>                                    | <b>23</b>                                       |
| <b>Three Months Ended June 30, 2017</b>   |  |   |   |   |
| Unrealized change arising during period   | \$ 203\$   | 944\$   | 450\$   | 6   |
| Less: Reclassification adjustments<br>included in net income                            | 20   | 285   | -   | (10)  |
| Total other comprehensive income,<br>before income tax expense                          | 183  | 659   | 450   | 16  |
| Less: Income tax expense  | 64   | 6   | 52  | 5   |
| Total other comprehensive income,<br>net of income tax expense                          | \$ 119\$   | 653\$   | 398\$   | 11  |
| <b>Six Months Ended June 30, 2018</b>   |  |   |   |   |
| Unrealized change arising during period   | \$ (1,490)\$   | (4,350)\$   | (23)\$  | 19  |
| Less: Reclassification adjustments<br>included in net income                            | 4  | (21)  | -   | (17)  |
| <b>Total other comprehensive income (loss),<br/>before income tax expense (benefit)</b> | <b>(1,494)</b>   | <b>(4,329)</b>  | <b>(23)</b>                                       | <b>36</b>                                       |
| Less: Income tax expense (benefit)  | (298)  | (865)   | 29  | (16)  |
| <b>Total other comprehensive income (loss),<br/>net of income tax expense (benefit)</b> | <b>\$ (1,196)\$</b>  | <b>(3,464)\$</b>  | <b>(52)\$</b>                                     | <b>52</b>                                       |
| <b>Six Months Ended June 30, 2017</b>   |  |   |   |   |
| Unrealized change arising during period   | \$ 393\$   | 1,779\$   | 146\$   | 24  |
| Less: Reclassification adjustments<br>included in net income                            | 35   | 478   | -   | (20)  |
| Total other comprehensive income,<br>before income tax expense                          | 358  | 1,301   | 146   | 44  |

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|  |    |       |         |       |    |
|--|----|-------|---------|-------|----|
| Less: Income tax expense (benefit)                                       |    | 125   | (47)    | 24    | 15 |
| Total other comprehensive income,<br>net of income tax expense (benefit) | \$ | 233\$ | 1,348\$ | 122\$ | 29 |

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**TABLE OF CONTENTS**ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 11. Equity**

The following table presents the effect of the reclassification of significant items out of Accumulated other comprehensive income on the respective line items in the Condensed Consolidated Statements of Income:

| <i>(in millions)</i>   | Amount Reclassified<br>from Accumulated<br>Other Comprehensive<br>Income |               | Affected Line Item in the<br>Condensed Consolidated<br>Statements of Income |
|--|--|---------------|---|
|  | Three Months Ended<br>June 30,   |               |   |
|  | 2018   | 2017          |   |
| <b>Unrealized appreciation (depreciation) of fixed maturity securities on which other-than-temporary credit impairments were taken</b> |  |               |   |
| Investments  | \$ 2   | \$ 20         | Other realized capital gains  |
| <b>Total</b>   | <b>2</b>   | <b>20</b>     |   |
| <b>Unrealized appreciation (depreciation) of all other investments</b>   |  |               |   |
| Investments  | (15)   | 227           | Other realized capital gains  |
| Deferred acquisition costs adjustment  | 1  | 58            | Amortization of deferred policy acquisition costs                           |
| Future policy benefits   | -  | -             | Policyholder benefits and losses incurred                                   |
| <b>Total</b>   | <b>(14)</b>  | <b>285</b>    |   |
| <b>Change in retirement plan liabilities adjustment</b>  |  |               |   |
| Prior-service credit   | 1  | 1             | *   |
| Actuarial losses   | (9)  | (11)          | *   |
| <b>Total</b>   | <b>(8)</b>   | <b>(10)</b>   |   |
| <b>Total reclassifications for the period</b>  | <b>\$ (20)</b>   | <b>\$ 295</b> |   |
|  | Amount Reclassified<br>from Accumulated<br>Other Comprehensive<br>Income |               |   |
|  | Six Months Ended<br>June 30,   |               |   |
|  | 2018   | 2017          | Affected Line Item in the<br>Condensed Consolidated<br>Statements of Income |
| <i>(in millions)</i>   |  |               |   |
| <b>Unrealized appreciation (depreciation) of fixed maturity securities on which other-than-temporary credit impairments were taken</b> |  |               |   |
| Investments  | \$ 4   | \$ 35         | Other realized capital gains  |
| <b>Total</b>   | <b>4</b>   | <b>35</b>     |   |

**Unrealized appreciation (depreciation) of all other investments**

|   |                |               |   |
|---|----------------|---------------|---|
| Investments   | <b>9</b>       | 367           | Other realized capital gains                      |
| Deferred acquisition costs adjustment                   | <b>(30)</b>    | 111           | Amortization of deferred policy acquisition costs |
| Future policy benefits                                  | <b>-</b>       | -             | Policyholder benefits and losses incurred         |
| <b>Total</b>  | <b>(21)</b>    | 478           |   |
| <b>Change in retirement plan liabilities adjustment</b> |                |               |   |
| Prior-service credit                                    | <b>1</b>       | 1             | *   |
| Actuarial losses  | <b>(18)</b>    | (21)          | *   |
| <b>Total</b>  | <b>(17)</b>    | (20)          |   |
| <b>Total reclassifications for the period</b>           | <b>\$ (34)</b> | <b>\$ 493</b> |   |

\* These Accumulated other comprehensive income components are included in the computation of net periodic pension cost. See Note 13 to the Condensed Consolidated Financial Statements.

## ITEM 1 | Notes to Condensed Consolidated Financial Statements (unaudited) | 12. Earnings Per Share (EPS)

## 12. Earnings Per Share (EPS)

The basic EPS computation is based on the weighted average number of common shares outstanding, adjusted to reflect all stock dividends and stock splits. The diluted EPS computation is based on those shares used in the basic EPS computation plus shares that would have been outstanding assuming issuance of common shares for all dilutive potential common shares outstanding and adjusted to reflect all stock dividends and stock splits.

The following table presents the computation of basic and diluted EPS:

| <i>(dollars in millions, except per share data)</i>   | Three Months Ended |                 | Six Months Ended |                 |
|---|--------------------|-----------------|------------------|-----------------|
|   | June 30,<br>2018   | 2017            | June 30,<br>2018 | 2017            |
| <b>Numerator for EPS:</b>   |                    |                 |                  |                 |
| Income from continuing operations   | \$ 931             | \$ 1,110        | \$ 1,881         | \$ 2,321        |
| Less: Net income (loss) from continuing operations attributable to noncontrolling interests | (6)                | (12)            | 5                | 14              |
| <b>Income attributable to AIG common shareholders from continuing operations</b>            | <b>937</b>         | <b>1,122</b>    | <b>1,876</b>     | <b>2,307</b>    |
| Income (loss) from discontinued operations, net of income tax expense                       | -                  | 8               | (1)              | 8               |
| <b>Net income attributable to AIG common shareholders</b>                                   | <b>\$ 937</b>      | <b>\$ 1,130</b> | <b>\$ 1,875</b>  | <b>\$ 2,315</b> |
| <b>Denominator for EPS:</b>   |                    |                 |                  |                 |
| Weighted average shares outstanding — basic   | 903,215,488        | 925,751,084     | 905,566,733      | 953,109,915     |
| Dilutive shares   | 13,356,993         | 22,497,687      | 15,335,987       | 23,517,737      |
| Weighted average shares outstanding — diluted <sup>(a)</sup>                                | 916,572,481        | 948,248,771     | 920,902,720      | 976,627,652     |
| <b>Income per common share attributable to AIG:</b>   |                    |                 |                  |                 |
| <b>Basic:</b>   |                    |                 |                  |                 |
| Income from continuing operations   | \$ 1.04            | \$ 1.21         | \$ 2.07          | \$ 2.42         |
| Income from discontinued operations   | \$ -               | \$ 0.01         | \$ -             | \$ 0.01         |
| Net income attributable to AIG  | \$ 1.04            | \$ 1.22         | \$ 2.07          | \$ 2.43         |
| <b>Diluted:</b>   |                    |                 |                  |                 |
| Income from continuing operations   | \$ 1.02            | \$ 1.18         | \$ 2.04          | \$ 2.36         |
| Income from discontinued operations   | \$ -               | \$ 0.01         | \$ -             | \$ 0.01         |
| Net income attributable to AIG  | \$ 1.02            | \$ 1.19         | \$ 2.04          | \$ 2.37         |

(a) Dilutive shares included our share based employee compensation plans and a weighted average portion of the warrants issued to AIG shareholders as part of AIG's recapitalization in January 2011. The

number of shares excluded from diluted shares outstanding was 5.2 million and 4.2 million for the three- and six-month periods ended June 30, 2018, respectively, and 1.9 million and 1.8 million for the three- and six-month periods ended June 30, 2017, respectively, because the effect of including those shares in the calculation would have been anti-dilutive.



**TABLE OF CONTENTS**ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 13. Employee Benefits****13. Employee Benefits**

We sponsor various defined benefit pension plans, post-retirement medical and life insurance plans for eligible employees and retirees in the U.S. and certain non-U.S. countries.

The following table presents the components of net periodic benefit cost with respect to pensions and other postretirement benefits:

| <i>(in millions)</i>                            | Pension        |                   |                | Postretirement |                   |             |
|---|----------------|-------------------|----------------|----------------|-------------------|-------------|
|   | U.S.<br>Plans  | Non-U.S.<br>Plans | Total          | U.S.<br>Plans  | Non-U.S.<br>Plans | Total       |
| <b>Three Months Ended June 30, 2018</b>         |                |                   |                |                |                   |             |
| <b>Components of net periodic benefit cost:</b> |                |                   |                |                |                   |             |
| Service cost                                    | \$ 2           | \$ 5              | \$ 7           | \$ 1           | \$ 1              | \$ 2        |
| Interest cost                                   | 40             | 4                 | 44             | 1              | 1                 | 2           |
| Expected return on assets                       | (70)           | (6)               | (76)           | -              | -                 | -           |
| Amortization of prior service credit            | -              | -                 | -              | (1)            | (1)               | (2)         |
| Amortization of net loss                        | 7              | 2                 | 9              | -              | -                 | -           |
| <b>Net periodic benefit cost (credit)</b>       | <b>\$ (21)</b> | <b>\$ 5</b>       | <b>\$ (16)</b> | <b>\$ 1</b>    | <b>\$ 1</b>       | <b>\$ 2</b> |
| <b>Three Months Ended June 30, 2017</b>         |                |                   |                |                |                   |             |
| <b>Components of net periodic benefit cost:</b> |                |                   |                |                |                   |             |
| Service cost                                    | \$ 7           | \$ 8              | \$ 15          | \$ 1           | \$ -              | \$ 1        |
| Interest cost                                   | 42             | 4                 | 46             | 1              | 1                 | 2           |
| Expected return on assets                       | (64)           | (6)               | (70)           | -              | -                 | -           |
| Amortization of prior service credit            | -              | -                 | -              | (1)            | -                 | (1)         |
| Amortization of net loss                        | 7              | 3                 | 10             | -              | -                 | -           |
| <b>Net periodic benefit cost (credit)</b>       | <b>\$ (8)</b>  | <b>\$ 9</b>       | <b>\$ 1</b>    | <b>\$ 1</b>    | <b>\$ 1</b>       | <b>\$ 2</b> |
| <b>Six Months Ended June 30, 2018</b>           |                |                   |                |                |                   |             |
| <b>Components of net periodic benefit cost:</b> |                |                   |                |                |                   |             |
| Service cost                                    | \$ 4           | \$ 11             | \$ 15          | \$ 1           | \$ 1              | \$ 2        |
| Interest cost                                   | 81             | 8                 | 89             | 3              | 1                 | 4           |
| Expected return on assets                       | (141)          | (13)              | (154)          | -              | -                 | -           |
| Amortization of prior service cost (credit)     | -              | 1                 | 1              | (1)            | (1)               | (2)         |
| Amortization of net loss                        | 14             | 4                 | 18             | -              | -                 | -           |
| <b>Net periodic benefit cost (credit)</b>       | <b>\$ (42)</b> | <b>\$ 11</b>      | <b>\$ (31)</b> | <b>\$ 3</b>    | <b>\$ 1</b>       | <b>\$ 4</b> |
| <b>Six Months Ended June 30, 2017</b>           |                |                   |                |                |                   |             |
| <b>Components of net periodic benefit cost:</b> |                |                   |                |                |                   |             |
| Service cost                                    | \$ 13          | \$ 16             | \$ 29          | \$ 1           | \$ 1              | \$ 2        |
| Interest cost                                   | 85             | 8                 | 93             | 3              | 2                 | 5           |
| Expected return on assets                       | (128)          | (12)              | (140)          | -              | -                 | -           |
| Amortization of prior service credit            | -              | -                 | -              | (1)            | -                 | (1)         |
| Amortization of net loss                        | 14             | 6                 | 20             | -              | -                 | -           |

**Net periodic benefit cost (credit)**                      \$ (16) \$        18 \$        2 \$        3 \$        3 \$        6

For the six-month period ended June 30, 2018, we did not make any contributions to the U.S. AIG Retirement Plan.

ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 14. Income Taxes****14. Income Taxes****U.S. Tax Reform Overview**

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

During December 2017, the SEC staff issued Staff Accounting Bulletin 118 (SAB 118), which provided guidance on accounting for the tax effects of the Tax Act. SAB 118 addressed situations where accounting for certain income tax effects of the Tax Act under ASC 740 may be incomplete upon issuance of an entity's financial statements and provides a one-year measurement period from the enactment date to complete the accounting under ASC 740. In accordance with SAB 118, a company was required to reflect the following:

- Income tax effects of those aspects of the Tax Act for which accounting under ASC 740 is complete
- Provisional estimate of income tax effects of the Tax Act to the extent accounting is incomplete but a reasonable estimate is determinable
- If a provisional estimate cannot be determined, ASC 740 should still be applied on the basis of tax law provisions that were in effect immediately before the enactment of the Tax Act.

At December 31, 2017, we originally recorded a provisional estimate of income tax effects of the Tax Act of \$6.7 billion, including a tax charge of \$6.7 billion attributable to the reduction in the U.S. corporate income tax rate and tax benefit of \$38 million related to the deemed repatriation tax. During the period ended June 30, 2018, we have not recorded any material adjustments to these provisional amounts. We continue to refine our analysis and calculations, which could impact the provisional estimates previously recorded. Accordingly, as of June 30, 2018, we have not fully completed our accounting for the tax effects of the Tax Act.

The Tax Act includes provisions for Global Intangible Low-Taxed Income (GILTI) under which taxes on foreign income are imposed on the excess of a deemed return on tangible assets of certain foreign subsidiaries and for Base Erosion and Anti-Abuse Tax (BEAT) under which taxes are imposed on certain base eroding payments to affiliated foreign companies. There are substantial uncertainties in the interpretation of BEAT and GILTI and formal guidance from the U.S. tax authority is still pending. Depending on the content of such guidance, changes to the interpretations and assumptions made by us, and/or actions we may take, it is possible that the impact from BEAT or GILTI could change amounts recorded, possibly materially. Consistent with accounting guidance, we treat BEAT as a period tax charge in the period the tax is incurred and have made an accounting policy election to treat GILTI taxes in a similar manner.

**Tax effects for which a reasonable estimate can be determined**

## Deemed Repatriation Tax

The Tax Act requires companies to pay a one-time transition tax, net of tax credits related to applicable foreign taxes paid, on previously untaxed current and accumulated earnings and profits (E&P) of certain of our foreign subsidiaries. In the determination of the deemed repatriation tax, we reviewed estimated post-1986 E&P of certain material relevant foreign subsidiaries, and any related non-U.S. income tax paid on such earnings. We originally recorded a provisional estimated tax benefit of \$38 million at December 31, 2017. While the IRS has issued some guidance on the calculation of the deemed repatriation tax, there are still certain aspects of the calculation that require further clarification. We are continuing to gather additional information to more precisely compute the amount of deemed repatriation tax. As we continue to refine our analysis, we will refine our calculations of the one-time transition tax, which could impact the provisional estimate previously recorded.

## Other Provisions

The Tax Act modified computations of insurance reserves for both life and general insurance companies. For life insurance companies, tax reserves are now computed with reference to NAIC reserves. For general insurance companies, the Tax Act extends the discount period for certain long-tail lines of business from 10 years to 24 years and increases the discount rate, replacing the applicable federal rate for a higher-yield corporate bond rate, and eliminates the election allowing companies to use their historical loss payment patterns for loss reserve discounting. Adjustments related to the differences in insurance reserves balances computed under the old tax law versus the Tax Act have to be taken into income over eight years by both life and general insurance companies. At December 31, 2017, we recorded provisional estimates with respect to such items. As of June 30, 2018, these estimates remain provisional.

**TABLE OF CONTENTS**ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 14. Income Taxes****Provisions Impacting Projections of Taxable Income and Valuation Allowance Considerations**

Certain provisions of the Tax Act impact our projections of future taxable income used in analyzing realizability of our U.S. tax attribute deferred tax asset. As discussed above, there are specific insurance industry provisions, including changes in computations of insurance reserves, amortization of specified policy acquisition expenses, and treatment of separate account dividends received deduction. Provisional estimates have been included in our future taxable income projections for these insurance industry specific provisions to reflect application of the new tax law.

Because we have made provisional estimates related to the impact of certain aspects of the Tax Act on our future taxable income, corresponding determination of the need for a valuation allowance is also provisional. Generally, the Tax Act provisions result in an increase in our taxable income and, thus, accelerate utilization of our tax attribute deferred tax asset. Accordingly, we do not currently anticipate that our reliance on provisional estimates would have a material impact on our determination of the realizability of our deferred tax assets.

In all cases, we will continue to refine our calculations as additional analysis is completed. Our estimates may also be impacted as additional guidance from taxing authorities is issued.

**Tax effects for which no estimate can be determined**

Our accounting for the following elements of the Tax Act is incomplete and we continued accounting for them in accordance with ASC 740 on the basis of the tax laws in effect before enactment of the Tax Act.

The Tax Act may affect the results in certain investments and partnerships in which we are a non-controlling interest owner. The information needed to determine a provisional estimate is not currently available (such as for interest deduction limitations in those entities and the changed definition of a U.S. Shareholder). Accordingly, no provisional estimates were recorded.

At December 31, 2017, due to minimal formal guidance issued from state and local jurisdictions, provisional estimates were not recorded for the impact of any state and local corporate income tax implications of the Tax Act. Guidance from state and local jurisdictions has varied and most have not formally passed law specific to the treatment of the Tax Act. While we have not identified any material impact at this point in time, we continue to review any guidance issued by those states that have passed tax legislation related to the Tax Act and continue to work through the state and local corporate income tax implications of the Tax Act. We expect further guidance throughout 2018 and the impact, if any, will be recorded when the related guidance is issued.

**Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income**

In February 2018, the FASB issued an accounting standard that allows the optional reclassification of stranded tax effects within accumulated other comprehensive income (AOCI) that arise due to the enactment of the Tax Act to retained earnings. We elected to early adopt the standard for the three-month

period ended March 31, 2018. As a result of adopting this standard, we reclassified \$248 million from AOCI to retained earnings. The amount reclassified includes stranded effects related to the change in the U.S. federal corporate income tax rate on the gross temporary differences and related valuation allowances. The effect of the Tax Act on gross temporary differences related to AOCI is provisional. As we finalize the accounting for tax effects of the Tax Act on these items, additional reclassification adjustments may be recorded in future periods.

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

### **Interim Tax Calculation Method**

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

### **Interim Tax Expense (Benefit)**

For the three-month period ended June 30, 2018, the effective tax rate on income from continuing operations was 25.6 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 21 percent primarily due to tax charges related to income in our foreign operations taxed at statutory tax rates higher than 21 percent, additional U.S. taxes imposed on

**TABLE OF CONTENTS**ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 14. Income Taxes**

income of our foreign subsidiaries under international provisions of the Tax Act, valuation allowance activity related to certain foreign subsidiaries and state jurisdictions and non-deductible transfer pricing charges, partially offset by tax benefits associated with tax exempt income, and reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities.

For the six-month period ended June 30, 2018, the effective tax rate on income from continuing operations was 24.1 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 21 percent primarily due to tax charges related to income in our foreign operations taxed at statutory tax rates higher than 21 percent, additional U.S. taxes imposed on income of our foreign subsidiaries under international provisions of the Tax Act, valuation allowance activity related to certain foreign subsidiaries and state jurisdictions and non-deductible transfer pricing charges, partially offset by tax benefits associated with tax exempt income, reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities and excess tax deductions related to share based compensation payments recorded through the income statement.

For the three-month period ended June 30, 2017, the effective tax rate on income from continuing operations was 33.4 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 35 percent primarily due to tax benefits associated with tax exempt income and reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities, partially offset by tax charges related to increases in uncertain tax positions associated with the impact of settlement discussions with the IRS related to certain open tax issues.

For the six-month period ended June 30, 2017, the effective tax rate on income from continuing operations was 31.6 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 35 percent primarily due to tax benefits associated with tax exempt income, reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities and excess tax deductions related to share based compensation payments recorded through the income statement, partially offset by tax charges related to increases in uncertain tax positions associated with the impact of settlement discussions with the IRS related to certain open tax issues.

As a result of the Tax Act, the majority of accumulated foreign earnings that were previously untaxed are subject to a one-time deemed repatriation tax. Going forward, certain foreign earnings of our foreign affiliates will be exempt from U.S. tax upon repatriation. Notwithstanding the changes, U.S. tax on foreign exchange gain or loss and certain non-U.S. withholding taxes will continue to be applicable upon future repatriations of foreign earnings. For the six-month period ended June 30, 2018, we still consider our foreign earnings with respect to certain operations in Canada, South Africa, the Far East, Latin America, Bermuda as well as the European, Asia Pacific and Middle East regions to be indefinitely reinvested. These earnings relate to ongoing operations and have been reinvested in active business operations. Deferred taxes, if necessary, have been provided on earnings of non-U.S. affiliates whose earnings are not indefinitely reinvested.

## Assessment of Deferred Tax Asset Valuation Allowance

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

Our framework for assessing the recoverability of the deferred tax asset requires us to consider all available evidence, including:

- the nature, frequency, and amount of cumulative financial reporting income and losses in recent years;
- the sustainability of recent operating profitability of our subsidiaries;
- the predictability of future operating profitability of the character necessary to realize the net deferred tax asset;
- the carryforward period for the net operating loss, capital loss and foreign tax credit carryforwards, including the effect of reversing taxable temporary differences; and
- prudent and feasible actions and tax planning strategies that would be implemented, if necessary, to protect against the loss of the deferred tax asset.

In performing our assessment of the recoverability of the deferred tax asset under this framework, we consider tax laws governing the utilization of the net operating loss, capital loss and foreign tax credit carryforwards in each applicable jurisdiction. Under U.S. tax law, a company generally must use its net operating loss carryforwards before it can use its foreign tax credit carryforwards, even though the carryforward period for the foreign tax credit is shorter than for the net operating loss. Our U.S. federal consolidated income tax group includes both life companies and non-life companies. While the U.S. taxable income of our non-life companies can be offset by our net operating loss carryforwards, only a portion (no more than 35 percent) of the U.S. taxable income of our life



**TABLE OF CONTENTS**ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 14. Income Taxes**

companies can be offset by those net operating loss carryforwards. The remaining tax liability of our life companies can be offset by the foreign tax credit carryforwards. Accordingly, we utilize both the net operating loss and foreign tax credit carryforwards concurrently which enables us to realize our tax attributes prior to expiration. As of June 30, 2018, based on all available evidence, it is more likely than not that the U.S. net operating loss and foreign tax credit carryforwards will be utilized prior to expiration and, thus, no valuation allowance has been established.

Estimates of future taxable income, including income generated from prudent and feasible actions and tax planning strategies could change in the near term, perhaps materially, which may require us to consider any potential impact to our assessment of the recoverability of the deferred tax asset. Such potential impact could be material to our consolidated financial condition or results of operations for an individual reporting period.

For the three- and six-month periods ended June 30, 2018, recent changes in market conditions, including rising interest rates, impacted the unrealized tax gains and losses in the U.S. Life Insurance Companies' available for sale securities portfolio, resulting in a deferred tax asset related to net unrealized tax capital losses. The deferred tax asset relates to the unrealized losses for which the carryforward period has not yet begun, and as such, when assessing its recoverability, we consider our ability and intent to hold the underlying securities to recovery, as well as carryback capacity of such losses, to the extent they were to become realized. As of June 30, 2018, based on all available evidence, we concluded no valuation allowance is necessary in the U.S. Life Insurance Companies' available for sale securities portfolio.

For the three- and six-month periods ended June 30, 2018, recent changes in market conditions, including rising interest rates, impacted the unrealized tax gains and losses in the U.S. Non-Life Companies' available for sale securities portfolio, resulting in a decrease to the deferred tax liability related to net unrealized tax capital gains. As of June 30, 2018, we continue to be in an overall unrealized tax gain position with respect to the U.S. Non-Life Companies' available for sale securities portfolio and thus concluded no valuation allowance is necessary in the U.S. Non-Life Companies' available for sale securities portfolio.

For the three- and six-month periods ended June 30, 2018, we recognized net increases of \$7 million and \$37 million, respectively, in our deferred tax asset valuation allowance associated with certain foreign subsidiaries and state jurisdictions, primarily attributable to current year activity.

**Tax Examinations and Litigation**

On August 1, 2012, we filed a motion for partial summary judgment related to the disallowance of foreign tax credits associated with cross border financing transactions in the Southern District of New York. The Southern District of New York denied our summary judgment motion and upon AIG's appeal, the U.S. Court of Appeals for the Second Circuit (the Second Circuit) affirmed the denial. AIG's petition for certiorari to the U.S. Supreme Court from the decision of the Second Circuit was denied on March 7, 2016. As a result, the case has been remanded back to the Southern District of New York for a jury trial.

In January 2018, the parties reached non-binding agreements in principle on issues presented in the dispute and are currently reviewing the computations reflecting the settlement terms. The resolution is not final and is subject to various reviews. The litigation has been stayed pending the outcome of the review process. We can provide no assurance regarding the outcome of any such litigation or whether binding compromised settlements with the parties will ultimately be reached. We currently believe that we have adequate reserves for the potential liabilities that may result from these matters.

### Accounting for Uncertainty in Income Taxes

At both June 30, 2018 and December 31, 2017, our unrecognized tax benefits, excluding interest and penalties were \$4.7 billion. At June 30, 2018 and December 31, 2017, our unrecognized tax benefits related to tax positions that, if recognized, would not affect the effective tax rate because they relate to such factors as the timing, rather than the permissibility, of the deduction were \$45 million and \$28 million, respectively. Accordingly, at both June 30, 2018 and December 31, 2017, the amounts of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate were \$4.7 billion.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense. At June 30, 2018 and December 31, 2017, we had accrued liabilities of \$2.1 billion and \$2.0 billion, respectively, for the payment of interest (net of the federal benefit) and penalties. For the six-month periods ended June 30, 2018 and 2017, we accrued expense (benefit) of \$100 million and \$75 million, respectively, for the payment of interest and penalties.

We believe it is reasonably possible that our unrecognized tax benefits could decrease within the next 12 months by as much as \$3.9 billion, principally as a result of potential resolutions or settlements of prior years' tax items. The prior years' tax items include unrecognized tax benefits related to the deductibility of certain expenses and matters related to cross border financing transactions.

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## 15. Information Provided in Connection with Outstanding Debt

The following Condensed Consolidating Financial Statements reflect the results of AIG Life Holdings, Inc. (AIGLH), a holding company and a wholly owned subsidiary of AIG. AIG provides a full and unconditional guarantee of all outstanding debt of AIGLH.

**Condensed Consolidating Balance Sheets**

| <i>(in millions)</i>  | American<br>International<br>Group, Inc.<br>(As Guarantor) | AIGLH            | Other<br>Subsidiaries | Reclassifications<br>and<br>Eliminations |
|---|--|------------------|-----------------------|--|
| <b>June 30, 2018</b>  |  |                  |                       |  |
| <b>Assets:</b>  |  |                  |                       |  |
| Short-term investments <sup>(a)</sup>                             | \$ 9,212   | \$ -             | \$ 10,673             | \$ (2,875)                               |
| Other investments <sup>(b)</sup>                                  | 3,852  | -                | 298,896               |  |
| <b>Total investments</b>  | <b>13,064</b>  | <b>-</b>         | <b>309,569</b>        | <b>(2,875)</b>                           |
| Cash  | 3  | 3                | 2,129                 |  |
| Loans to subsidiaries <sup>(c)</sup>                              | 34,954   | -                | 545                   | (35,499)                                 |
| Investment in consolidated subsidiaries <sup>(c)</sup>            | 34,689   | 26,840           | -                     | (61,529)                                 |
| Other assets, including deferred income taxes <sup>(d)</sup>      | 15,899   | 168              | 160,720               | (1,851)                                  |
| <b>Total assets</b>   | <b>\$ 98,609</b>   | <b>\$ 27,011</b> | <b>\$ 472,963</b>     | <b>(101,754)</b>                         |
| <b>Liabilities:</b>   |  |                  |                       |  |
| Insurance liabilities   | \$ -   | \$ -             | \$ 283,443            |  |
| Long-term debt  | 22,653   | 642              | 10,489                |  |
| Other liabilities, including intercompany balances <sup>(b)</sup> | 14,224   | 144              | 108,209               | (4,772)                                  |
| Loans from subsidiaries <sup>(c)</sup>                            | 546  | -                | 34,953                | (35,499)                                 |
| <b>Total liabilities</b>  | <b>37,423</b>  | <b>786</b>       | <b>437,094</b>        | <b>(40,271)</b>                          |
| <b>Total AIG shareholders' equity</b>                             | <b>61,186</b>  | <b>26,225</b>    | <b>35,258</b>         | <b>(61,483)</b>                          |
| <b>Non-redeemable noncontrolling interests</b>                    | <b>-</b>   | <b>-</b>         | <b>611</b>            |  |
| <b>Total equity</b>   | <b>61,186</b>  | <b>26,225</b>    | <b>35,869</b>         | <b>(61,483)</b>                          |
| <b>Total liabilities and equity</b>                               | <b>\$ 98,609</b>   | <b>\$ 27,011</b> | <b>\$ 472,963</b>     | <b>(101,754)</b>                         |
| <b>December 31, 2017</b>  |  |                  |                       |  |
| <b>Assets:</b>  |  |                  |                       |  |
| Short-term investments <sup>(a)</sup>                             | \$ 2,541   | \$ -             | \$ 11,559             | \$ (3,714)                               |
| Other investments <sup>(b)</sup>                                  | 6,004  | -                | 305,902               |  |
| <b>Total investments</b>  | <b>8,545</b>   | <b>-</b>         | <b>317,461</b>        | <b>(3,714)</b>                           |
| Cash  | 3  | 20               | 2,339                 |  |
| Loans to subsidiaries <sup>(c)</sup>                              | 35,004   | -                | 517                   | (35,521)                                 |
| Investment in consolidated subsidiaries <sup>(c)</sup>            | 40,135   | 30,359           | -                     | (70,494)                                 |
| Other assets, including deferred income taxes <sup>(d)</sup>      | 16,016   | 170              | 159,594               | (2,133)                                  |

|   |    |        |          |    |         |    |           |
|---|----|--------|----------|----|---------|----|-----------|
| <b>Total assets</b>   | \$ | 99,703 | \$30,549 | \$ | 479,911 | \$ | (111,862) |
| <b>Liabilities:</b>   |    |        |          |    |         |    |           |
| Insurance liabilities   | \$ | -      | \$ -     | \$ | 282,105 | \$ |           |
| Long-term debt  |    | 21,557 | 642      |    | 9,441   |    |           |
| Other liabilities, including intercompany balances <sup>(b)</sup> |    | 12,458 | 143      |    | 112,275 |    | (6,028)   |
| Loans from subsidiaries <sup>(c)</sup>                            |    | 517    | -        |    | 35,004  |    | (35,521)  |
| <b>Total liabilities</b>  |    | 34,532 | 785      |    | 438,825 |    | (41,549)  |
| <b>Total AIG shareholders' equity</b>                             |    | 65,171 | 29,764   |    | 40,549  |    | (70,313)  |
| <b>Non-redeemable noncontrolling interests</b>                    |    | -      | -        |    | 537     |    |           |
| <b>Total equity</b>   |    | 65,171 | 29,764   |    | 41,086  |    | (70,313)  |
| <b>Total liabilities and equity</b>                               | \$ | 99,703 | \$30,549 | \$ | 479,911 | \$ | (111,862) |

(a) At June 30, 2018, includes restricted cash of \$1 million and \$17 million for American International Group, Inc. (As Guarantor) and Other Subsidiaries, respectively. At December 31, 2017, includes restricted cash of \$4 million and \$54 million for American International Group, Inc. (As Guarantor) and Other Subsidiaries, respectively.

(b) Includes intercompany derivative positions, which are reported at fair value before credit valuation adjustment.

(c) Eliminated in consolidation.

(d) At June 30, 2018, includes restricted cash of \$1 million and \$226 million for American International Group, Inc. (As Guarantor) and Other Subsidiaries, respectively. At December 31, 2017, includes restricted cash of \$1 million and \$316 million for American International Group, Inc. (As Guarantor) and Other Subsidiaries, respectively.

**TABLE OF CONTENTS**ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 15. Information Provided in Connection with Outstanding Debt****Condensed Consolidating Statements of Income**

| <i>(in millions)</i>  | American<br>International<br>Group, Inc.<br>(As Guarantor) | AIGLH         | Other<br>Subsidiaries | Reclassificati<br>Eliminati |
|---|--|---------------|-----------------------|-----------------------------|
| <b>Three Months Ended June 30, 2018</b>   |  |               |                       |                             |
| <b>Revenues:</b>  |  |               |                       |                             |
| Equity in earnings of consolidated subsidiaries*                                    | \$ 845   | \$ 459        | -\$                   | (1,3                        |
| Other income  | 309  | -             | 11,179                |                             |
| <b>Total revenues</b>   | <b>1,154</b>   | <b>459</b>    | <b>11,179</b>         | <b>(1,1</b>                 |
| <b>Expenses:</b>  |  |               |                       |                             |
| Interest expense  | 246  | 13            | 43                    |                             |
| Loss on extinguishment of debt  | -  | -             | 5                     |                             |
| Other expenses  | 359  | -             | 9,738                 |                             |
| <b>Total expenses</b>   | <b>605</b>   | <b>13</b>     | <b>9,786</b>          |                             |
| Income (loss) from continuing operations before income tax expense (benefit)        | 549  | 446           | 1,393                 | (1,1                        |
| Income tax expense (benefit)  | (389)  | (1)           | 711                   |                             |
| <b>Income (loss) from continuing operations</b>                                     | <b>938</b>   | <b>447</b>    | <b>682</b>            | <b>(1,1</b>                 |
| <b>Income (loss) from discontinued operations, net of income taxes</b>              | <b>(1)</b>   | <b>-</b>      | <b>1</b>              |                             |
| <b>Net income (loss)</b>  | <b>937</b>   | <b>447</b>    | <b>683</b>            | <b>(1,1</b>                 |
| <b>Less:</b>  |  |               |                       |                             |
| <b>Net loss from continuing operations attributable to noncontrolling interests</b> | <b>-</b>   | <b>-</b>      | <b>(6)</b>            |                             |
| <b>Net income (loss) attributable to AIG</b>  | <b>\$ 937</b>  | <b>\$ 447</b> | <b>\$ 689</b>         | <b>(1,1</b>                 |
| <b>Three Months Ended June 30, 2017</b>   |  |               |                       |                             |
| <b>Revenues:</b>  |  |               |                       |                             |
| Equity in earnings of consolidated subsidiaries*                                    | \$ 1,430   | \$ 815        | -\$                   | (2,2                        |
| Other income  | 232  | -             | 12,248                |                             |
| <b>Total revenues</b>   | <b>1,662</b>   | <b>815</b>    | <b>12,248</b>         | <b>(2,2</b>                 |
| <b>Expenses:</b>  |  |               |                       |                             |
| Interest expense  | 241  | 13            | 39                    |                             |
| Gain on extinguishment of debt  | -  | -             | (4)                   |                             |
| Other expenses  | 181  | -             | 10,386                |                             |
| <b>Total expenses</b>   | <b>422</b>   | <b>13</b>     | <b>10,421</b>         |                             |
| Income (loss) from continuing operations before income tax expense (benefit)        | 1,240  | 802           | 1,827                 | (2,2                        |
| Income tax expense (benefit)  | 109  | (4)           | 452                   |                             |
| <b>Income (loss) from continuing operations</b>                                     | <b>1,131</b>   | <b>806</b>    | <b>1,375</b>          | <b>(2,2</b>                 |
| <b>Income (loss) from discontinued operations, net</b>                              |  |               |                       |                             |

|   |    |         |       |         |      |
|---|----|---------|-------|---------|------|
| <b>of income taxes</b>  |    | (1)     | -     | 9       |      |
| <b>Net income (loss)</b>  |    | 1,130   | 806   | 1,384   | (2,2 |
| <b>Less:</b>  |    |         |       |         |      |
| <b>Net loss from continuing operations attributable to noncontrolling interests</b> |    | -       | -     | (12)    |      |
| <b>Net income (loss) attributable to AIG</b>  | \$ | 1,130\$ | 806\$ | 1,396\$ | (2,2 |

**TABLE OF CONTENTS**ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 15. Information Provided in Connection with Outstanding Debt**

| <i>(in millions)</i>  | American<br>International<br>Group, Inc.<br>(As Guarantor) | AIGLH           | Other<br>Subsidiaries | Reclassificati<br>Eliminati |
|---|--|-----------------|-----------------------|-----------------------------|
| <b>Six Months Ended June 30, 2018</b>   |  |                 |                       |                             |
| <b>Revenues:</b>  |  |                 |                       |                             |
| Equity in earnings of consolidated subsidiaries*                                      | \$ 1,878   | \$ 1,181        | -\$                   | (3,0                        |
| Other income  | 567  | -               | 22,691                |                             |
| <b>Total revenues</b>   | <b>2,445</b>   | <b>1,181</b>    | <b>22,691</b>         | <b>(2,9</b>                 |
| <b>Expenses:</b>  |  |                 |                       |                             |
| Interest expense  | 466  | 25              | 91                    |                             |
| Loss on extinguishment of debt  | -  | -               | 9                     |                             |
| Other expenses  | 511  | 1               | 19,844                |                             |
| <b>Total expenses</b>   | <b>977</b>   | <b>26</b>       | <b>19,944</b>         |                             |
| Income (loss) from continuing operations before income tax expense (benefit)          | 1,468  | 1,155           | 2,747                 | (2,8                        |
| Income tax expense (benefit)  | (408)  | 2               | 1,004                 |                             |
| <b>Income (loss) from continuing operations</b>                                       | <b>1,876</b>   | <b>1,153</b>    | <b>1,743</b>          | <b>(2,8</b>                 |
| <b>Loss from discontinued operations, net of income taxes</b>                         | <b>(1)</b>   | <b>-</b>        | <b>-</b>              |                             |
| <b>Net income (loss)</b>  | <b>1,875</b>   | <b>1,153</b>    | <b>1,743</b>          | <b>(2,8</b>                 |
| <b>Less:</b>  |  |                 |                       |                             |
| <b>Net income from continuing operations attributable to noncontrolling interests</b> | <b>-</b>   | <b>-</b>        | <b>5</b>              |                             |
| <b>Net income (loss) attributable to AIG</b>  | <b>\$ 1,875</b>  | <b>\$ 1,153</b> | <b>\$ 1,738</b>       | <b>(2,8</b>                 |
| <b>Six Months Ended June 30, 2017</b>   |  |                 |                       |                             |
| <b>Revenues:</b>  |  |                 |                       |                             |
| Equity in earnings of consolidated subsidiaries*                                      | \$ 2,892   | \$ 1,415        | -\$                   | (4,3                        |
| Other income  | 428  | -               | 24,630                |                             |
| <b>Total revenues</b>   | <b>3,320</b>   | <b>1,415</b>    | <b>24,630</b>         | <b>(4,2</b>                 |
| <b>Expenses:</b>  |  |                 |                       |                             |
| Interest expense  | 483  | 25              | 85                    |                             |
| Gain on extinguishment of debt  | -  | -               | (5)                   |                             |
| Other expenses  | 516  | 1               | 20,711                |                             |
| <b>Total expenses</b>   | <b>999</b>   | <b>26</b>       | <b>20,791</b>         |                             |
| Income (loss) from continuing operations before income tax expense (benefit)          | 2,321  | 1,389           | 3,839                 | (4,1                        |
| Income tax expense (benefit)  | 5  | (8)             | 1,076                 |                             |
| <b>Income (loss) from continuing operations</b>                                       | <b>2,316</b>   | <b>1,397</b>    | <b>2,763</b>          | <b>(4,1</b>                 |
| <b>Income (loss) from discontinued operations, net of income taxes</b>                | <b>(1)</b>   | <b>-</b>        | <b>9</b>              |                             |
| <b>Net income (loss)</b>  | <b>2,315</b>   | <b>1,397</b>    | <b>2,772</b>          | <b>(4,1</b>                 |

**Less:**

**Net income from continuing operations  
attributable to noncontrolling interests**

**Net income (loss) attributable to AIG**

|    |       |          |          |      |
|----|-------|----------|----------|------|
|    | -     | -        | 14       |      |
| \$ | 2,315 | \$ 1,397 | \$ 2,758 | (4,1 |

\* Eliminated in consolidation.



**TABLE OF CONTENTS**ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 15. Information Provided in Connection with Outstanding Debt****Condensed Consolidating Statements of Comprehensive Income**

| <i>(in millions)</i>  | American<br>International<br>Group, Inc.<br>(As Guarantor) | AIGLH             | Other<br>Subsidiaries | Reclassifications<br>and<br>Eliminations |
|---|--|-------------------|-----------------------|--|
| <b>Three Months Ended June 30, 2018</b>                             |  |                   |                       |  |
| Net income (loss)   | \$ 937   | \$ 447            | \$ 683                | \$ (1,136)                               |
| Other comprehensive income (loss)                                   | (1,990)  | (1,510)           | (651)                 | 2,161                                    |
| <b>Comprehensive income (loss)</b>                                  | <b>(1,053)</b>   | <b>(1,063)</b>    | <b>32</b>             | <b>1,025</b>                             |
| Total comprehensive loss attributable to noncontrolling interests   | -  | -                 | (6)                   | -  |
| <b>Comprehensive income (loss) attributable to AIG</b>              | <b>\$ (1,053)</b>  | <b>\$ (1,063)</b> | <b>\$ 38</b>          | <b>\$ 1,025</b>                          |
| <b>Three Months Ended June 30, 2017</b>                             |  |                   |                       |  |
| Net income (loss)   | \$ 1,130   | \$ 806            | \$ 1,384              | \$ (2,202)                               |
| Other comprehensive income (loss)                                   | 1,181  | 1,122             | (1,541)               | 419                                      |
| <b>Comprehensive income (loss)</b>                                  | <b>2,311</b>   | <b>1,928</b>      | <b>(157)</b>          | <b>(1,783)</b>                           |
| Total comprehensive loss attributable to noncontrolling interests   | -  | -                 | (12)                  | -  |
| <b>Comprehensive income (loss) attributable to AIG</b>              | <b>\$ 2,311</b>  | <b>\$ 1,928</b>   | <b>\$ (145)</b>       | <b>\$ (1,783)</b>                        |
| <b>Six Months Ended June 30, 2018</b>                               |  |                   |                       |  |
| Net income (loss)   | \$ 1,875   | \$ 1,153          | \$ 1,743              | \$ (2,891)                               |
| Other comprehensive income (loss)                                   | (4,659)  | 3,440             | 14,004                | (17,444)                                 |
| <b>Comprehensive income (loss)</b>                                  | <b>(2,784)</b>   | <b>4,593</b>      | <b>15,747</b>         | <b>(20,335)</b>                          |
| Total comprehensive income attributable to noncontrolling interests | -  | -                 | 5                     | -  |
| <b>Comprehensive income (loss) attributable to AIG</b>              | <b>\$ (2,784)</b>  | <b>\$ 4,593</b>   | <b>\$ 15,742</b>      | <b>\$ (20,335)</b>                       |
| <b>Six Months Ended June 30, 2017</b>                               |  |                   |                       |  |
| Net income (loss)   | \$ 2,315   | \$ 1,397          | \$ 2,772              | \$ (4,155)                               |
| Other comprehensive income (loss)                                   | 1,732  | 5,782             | 49,489                | (55,271)                                 |
| <b>Comprehensive income (loss)</b>                                  | <b>4,047</b>   | <b>7,179</b>      | <b>52,261</b>         | <b>(59,426)</b>                          |
| Total comprehensive income attributable to noncontrolling interests | -  | -                 | 14                    | -  |
| <b>Comprehensive income (loss) attributable to AIG</b>              | <b>\$ 4,047</b>  | <b>\$ 7,179</b>   | <b>\$ 52,247</b>      | <b>\$ (59,426)</b>                       |

**TABLE OF CONTENTS**ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 15. Information Provided in Connection with Outstanding Debt****Condensed Consolidating Statements of Cash Flows**

| <i>(in millions)</i>  | American<br>International<br>Group, Inc.<br>(As<br>Guarantor) | AIGLH           | Subsidiaries | Reclassifications<br>Other<br>and<br>Eliminations | Conso             |
|---|---|-----------------|--------------|---|-------------------|
| <b>Six Months Ended June 30, 2018</b>                       |   |                 |              |   |                   |
| <b>Net cash (used in) provided by operating activities</b>  | <b>\$ 1,312</b>   | <b>\$ 1,211</b> |              | <b>(\$ 849)</b>                                   | <b>(\$ 2,014)</b> |
| <b>Cash flows from investing activities:</b>                |   |                 |              |   |                   |
| Sales of investments  | 3,800   | -               | 29,992       | (2,628)   | -                 |
| Sales of divested businesses, net                           | -   | -               | 10           | -   | -                 |
| Purchase of investments                                     | (1,327)   | -               | (29,805)     | 2,628   | (2,628)           |
| Loans to subsidiaries - net                                 | 422   | -               | (25)         | (397)   | -                 |
| Contributions from (to) subsidiaries - net                  | 57  | -               | -            | (57)  | -                 |
| Net change in short-term investments                        | (4,017)   | -               | 177          | -   | -                 |
| Other, net  | (51)  | -               | (249)        | -   | -                 |
| <b>Net cash (used in) provided by investing activities</b>  | <b>(1,116)</b>  | <b>-</b>        | <b>100</b>   | <b>(454)</b>                                      | <b>-</b>          |
| <b>Cash flows from financing activities:</b>                |   |                 |              |   |                   |
| Issuance of long-term debt                                  | 2,472   | -               | 1,032        | -   | -                 |
| Repayments of long-term debt                                | (1,313)   | -               | (646)        | -   | -                 |
| Purchase of common stock                                    | (646)   | -               | -            | -   | -                 |
| Intercompany loans - net                                    | 25  | -               | (422)        | 397   | -                 |
| Cash dividends paid   | (575)   | (1,228)         | (786)        | 2,014   | -                 |
| Other, net  | (162)   | -               | 1,204        | 57  | -                 |
| <b>Net cash (used in) provided by financing activities</b>  | <b>(199)</b>  | <b>(1,228)</b>  | <b>382</b>   | <b>2,468</b>                                      | <b>-</b>          |
| Effect of exchange rate changes on cash and restricted cash | -   | -               | 30           | -   | -                 |
| <b>Change in cash and restricted cash</b>                   | <b>(3)</b>  | <b>(17)</b>     | <b>(337)</b> | <b>-</b>  | <b>-</b>          |
| <b>Cash and restricted cash at beginning of year</b>        | <b>8</b>  | <b>20</b>       | <b>2,709</b> | <b>-</b>  | <b>-</b>          |
| <b>Cash and restricted cash at end of period</b>            | <b>\$ 5</b>   | <b>\$ 3</b>     | <b>2,372</b> | <b>-\$</b>  | <b>-</b>          |
| <b>Six Months Ended June 30, 2017</b>                       |   |                 |              |   |                   |
| <b>Net cash (used in) provided by operating activities</b>  | <b>\$ 665</b>   | <b>\$ 629</b>   |              | <b>(\$ 8,973)</b>                                 | <b>(\$ 1,357)</b> |
| <b>Cash flows from investing activities:</b>                |   |                 |              |   |                   |
| Sales of investments  | 5,030   | -               | 44,776       | (3,398)   | -                 |
| Sales of divested businesses, net                           | -   | -               | 538          | -   | -                 |
| Purchase of investments                                     | (1,158)   | -               | (34,591)     | 3,398   | (3,398)           |
| Loans to subsidiaries - net                                 | 350   | -               | 73           | (423)   | -                 |
| Contributions from (to) subsidiaries - net                  | 931   | -               | -            | (931)   | -                 |
| Net change in short-term investments                        | 405   | -               | 642          | -   | -                 |
| Other, net  | (46)  | -               | (871)        | -   | -                 |

|   |         |       |         |         |
|---|---------|-------|---------|---------|
| <b>Net cash (used in) provided by investing activities</b>  | 5,512   | -     | 10,567  | (1,354) |
| <b>Cash flows from financing activities:</b>                |         |       |         |         |
| Issuance of long-term debt                                  | 1,108   | -     | 1,113   | -       |
| Repayments of long-term debt                                | (606)   | -     | (1,000) | -       |
| Purchase of common stock                                    | (6,000) | -     | -       | -       |
| Intercompany loans - net                                    | (73)    | -     | (350)   | 423     |
| Cash dividends paid   | (597)   | (652) | (705)   | 1,357   |
| Other, net  | (3)     | -     | 27      | 931     |
| <b>Net cash (used in) provided by financing activities</b>  | (6,171) | (652) | (915)   | 2,711   |
| Effect of exchange rate changes on cash and restricted cash | -       | -     | (25)    | -       |
| <b>Change in cash and restricted cash</b>                   | 6       | (23)  | 654     | -       |
| <b>Cash and restricted cash at beginning of year</b>        | 3       | 34    | 2,070   | -       |
| <b>Change in cash of businesses held for sale</b>           | -       | -     | 66      | -       |
| <b>Cash and restricted cash at end of period</b>            | \$ 9    | \$ 11 | 2,790\$ | -\$     |

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**TABLE OF CONTENTS**ITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 15. Information Provided in Connection with Outstanding Debt****Supplementary Disclosure of Condensed Consolidating Cash Flow Information**

| <i>(in millions)</i>   | American<br>International<br>Group, Inc.<br>(As<br>Guarantor) | AIGLH | Subsidiaries | Reclassifications<br>Other<br>and<br>Eliminations | Consolidated |
|--|---|-------|--------------|---|--------------|
| <b>June 30, 2018</b>   |   |       |              |   |              |
| Cash   | \$ 3\$  | 3\$   | 2,129\$      |   | -\$          |
| Restricted cash included in Short-term investments   | 1   | -     | 17           |   | -            |
| Restricted cash included in Other assets   | 1   | -     | 226          |   | -            |
| Total cash and restricted cash shown in the Condensed Consolidating Statements of Cash Flows | \$ 5\$  | 3\$   | 2,372\$      |   | -\$          |

**Cash (paid) received during the 2018 period for:****Interest:**

|              |            |        |         |  |     |
|--------------|------------|--------|---------|--|-----|
| Third party  | \$ (478)\$ | (23)\$ | (163)\$ |  | -\$ |
| Intercompany | (1)        | (1)    | 2       |  | -   |

**Taxes:**

|                        |           |     |        |  |     |
|------------------------|-----------|-----|--------|--|-----|
| Income tax authorities | \$ (17)\$ | -\$ | (23)\$ |  | -\$ |
| Intercompany           | 846       | -   | (846)  |  | -   |

**June 30, 2017**

|  |        |      |         |  |     |
|--|--------|------|---------|--|-----|
| Cash   | \$ 5\$ | 11\$ | 2,501\$ |  | -\$ |
| Restricted cash included in Short-term investments   | 3      | -    | 56      |  | -   |
| Restricted cash included in Other assets   | 1      | -    | 233     |  | -   |
| Total cash and restricted cash shown in the Condensed Consolidating Statements of Cash Flows | \$ 9\$ | 11\$ | 2,790\$ |  | -\$ |

**Cash (paid) received during the 2017 period for:****Interest:**

|              |            |     |         |  |     |
|--------------|------------|-----|---------|--|-----|
| Third party  | \$ (513)\$ | -\$ | (169)\$ |  | -\$ |
| Intercompany | -          | -   | -       |  | -   |

**Taxes:**

|                        |            |     |         |  |     |
|------------------------|------------|-----|---------|--|-----|
| Income tax authorities | \$ (280)\$ | -\$ | (122)\$ |  | -\$ |
| Intercompany           | 1,495      | -   | (1,495) |  | -   |

**American International Group, Inc. (As Guarantor) Supplementary Disclosure of Non-Cash Activities:****Six Months Ended June 30,***(in millions)***Intercompany non-cash financing and investing activities:****2018****2017**

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|  |    |              |    |     |
|--|----|--------------|----|-----|
| Capital contributions                        | \$ | <b>2,339</b> | \$ | 198 |
| Dividends received in the form of securities |    | <b>60</b>    |    | 735 |
| Return of capital                            |    | <b>2,706</b> |    | 26  |

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**16. Subsequent Events****ACQUISITION OF BUSINESS**

On July 18, 2018, we completed our acquisition of Validus Holdings, Ltd. (Validus), a leading provider of reinsurance, primary insurance, and asset management services, for approximately \$5.5 billion in cash. We are completing our valuation of the assets acquired and liabilities assumed as well as the related goodwill and other intangible assets. The results of Validus following the date of the acquisition will be included in our General Insurance segment starting in the third quarter of 2018.

**SALE OF NON-CONTROLLING INTEREST IN DSA RE**

DSA Re was formed during the first quarter of 2018 in connection with a series of affiliated reinsurance transactions related to our Legacy Portfolio. Those reinsurance transactions were designed to consolidate most of our Legacy Insurance Run-Off Lines into a single legal entity. As of June 30, 2018, the affiliated transactions included the cession of approximately \$31 billion of reserves from our Legacy Life and Retirement Run-Off Lines and approximately \$5 billion of reserves from our Legacy General Insurance Run-Off Lines related to business written by multiple wholly-owned AIG subsidiaries.

On July 31, 2018, we entered into a membership interest purchase agreement with Fortitude Group Holdings, LLC (Fortitude), a wholly-owned subsidiary of AIG, and TC Group Cayman Investment Holdings, L.P. (TCG), an affiliate of The Carlyle Group L.P. We formed Fortitude to act as a holding company for DSA Re. Subject to the satisfaction or waiver of certain conditions in the purchase agreement, TCG will purchase a 19.9 percent ownership interest in Fortitude. Following the closing of the transaction, Fortitude will own 100 percent of the outstanding common shares of DSA Re and AIG will have an 80.1 percent ownership interest in Fortitude.

**Dividends Declared**

On August 2, 2018, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.32 per share, payable on September 28, 2018 to shareholders of record on September 17, 2018.

**TABLE OF CONTENTS**ITEM 2 | [Management’s Discussion and Analysis of Financial Condition and Results of Operations](#)[Glossary and Acronyms of Selected Insurance Terms and References](#)

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

American International Group, Inc. (AIG) has incorporated into this discussion a number of cross-references to additional information included throughout this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2017 (the 2017 Annual Report) to assist readers seeking additional information related to a particular subject.

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

[Cautionary Statement Regarding Forward-Looking Information](#)

This Quarterly Report on Form 10-Q and other publicly available documents may include, and officers and representatives of AIG may from time to time make and discuss, projections, goals, assumptions and statements that may constitute “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These projections, goals, assumptions and statements are not historical facts but instead represent only a belief regarding future events, many of which, by their nature, are inherently uncertain and outside our control. These projections, goals, assumptions and statements include statements preceded by, followed by or including words such as “will,” “believe,” “anticipate,” “expect,” “intend,” “plan,” “focused on achieving,” “view,” “target,” “goal” or “estimate.” These projections, goals, assumptions and statements may relate to future actions, prospective services or products, future performance or results of current and anticipated services or products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, anticipated organizational, business or regulatory changes, anticipated sales, monetization and/or acquisitions of businesses or assets or successful integration of acquired businesses, management succession and retention plans, exposure to risk, trends in operations and financial results.

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

- changes in market and industry conditions;
- negative impacts on customers, business partners and other stakeholders;
- the occurrence of catastrophic events, both natural and man-made;
- disruptions in the availability of our electronic data systems or those of third parties;
- our ability to successfully manage Legacy portfolios;
- concentrations in our investment portfolios;
- actions by credit rating agencies;

- our ability to successfully reorganize our businesses, as well as improve profitability, without negatively impacting client relationships or our competitive position;
  - our ability to successfully dispose of, monetize and/or acquire businesses or assets or successfully integrate acquired businesses;
  - changes in judgments concerning insurance underwriting and insurance liabilities;
  - changes in judgments concerning potential cost saving opportunities;
  - the impact of potential information technology, cybersecurity or data security breaches, including as a result of cyber-attacks or security vulnerabilities;
  - the requirements, which may change from time to time, of the global regulatory framework to which we are subject, including as a global systemically important insurer (G-SII);
  - significant legal, regulatory or governmental proceedings;
  - changes in judgments concerning the recognition of deferred tax assets; and
  - such other factors discussed in:
    - Part I, Item 2. MD&A and Part II, Item 1A. Risk Factors of this Quarterly Report on Form 10-Q;
    - Part I, Item 2. MD&A of the Quarterly Report on Form 10-Q
- for the quarterly period ended March 31, 2018; and
- Part I, Item 1A. Risk Factors and Part II, Item 7. MD&A of the 2017 Annual Report.

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



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**TABLE OF CONTENTS**ITEM 2 | **Use of Non-GAAP Measures****Use of Non-GAAP Measures**

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

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

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

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

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

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

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

**TABLE OF CONTENTS**ITEM 2 | **Use of Non-GAAP Measures**

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

- changes in fair value of securities used to hedge guaranteed living benefits;
  - changes in benefit reserves and deferred policy acquisition costs (DAC), value of business acquired (VOBA), and sales inducement assets (SIA) related to net realized capital gains and losses;
  - loss (gain) on extinguishment of debt;
  - all net realized capital gains and losses except earned income (periodic settlements and changes in settlement accruals) on derivative instruments used for non-qualifying (economic) hedging or for asset replication. Earned income on such economic hedges is reclassified from net realized capital gains and losses to specific APTI line items based on the economic risk being hedged (e.g. net investment income and interest credited to policyholder account balances);
  - **General Insurance**
- income or loss from discontinued operations;
  - net loss reserve discount benefit (charge);
  - pension expense related to a one-time lump sum payment to former employees;
  - income and loss from divested businesses;
  - non-operating litigation reserves and settlements;
  - restructuring and other costs related to initiatives designed to reduce operating expenses, improve efficiency and simplify our organization; and
  - the portion of favorable or unfavorable prior year reserve development for which we have ceded the risk under retroactive reinsurance agreements and related changes in amortization of the deferred gain.

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

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

- ***Life and Retirement***

– **Premiums and deposits:** includes direct and assumed amounts received and earned on traditional life insurance policies, group benefit policies and life contingent payout annuities, as well as deposits received on universal life, investment type annuity contracts, Federal Home Loan Bank (FHLB) funding agreements and mutual funds.

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

ITEM 2 | **Critical Accounting Estimates****Critical Accounting Estimates**

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

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

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

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

*For a complete discussion of our critical accounting estimates, see Part II, Item 7. MD&A — Critical Accounting Estimates in the 2017 Annual Report.*

ITEM 2 | **Executive Summary****Executive Summary****Overview**

This overview of the MD&A highlights selected information and may not contain all of the information that is important to current or potential investors in our securities. You should read this Quarterly Report on Form 10-Q, together with the 2017 Annual Report, in their entirety for a more detailed description of events, trends, uncertainties, risks and critical accounting estimates affecting us.

On July 18, 2018, we completed our acquisition of Validus Holdings, Ltd. (Validus), a leading provider of reinsurance, primary insurance, and asset management services, for approximately \$5.5 billion in cash. This transaction strengthens our global General Insurance business by expanding our current product portfolio through additional distribution channels and advancing the tools available to enhance underwriting. The results of Validus following the date of the acquisition will be included in our General Insurance segment starting in the third quarter of 2018. North America will include the results of Validus Reinsurance, Ltd., AlphaCat Reinsurance Ltd., Western World Insurance Group, Inc. and Crop Risk Services, Inc. International will include the results of Talbot Holdings Ltd.

In February 2018, we closed a series of affiliated reinsurance transactions impacting the Legacy Portfolio. These transactions were designed to consolidate most of our Legacy Insurance Run-Off Lines into a single legal entity, DSA Reinsurance Company, Ltd. (DSA Re), a Bermuda domiciled composite reinsurer, 100 percent owned by AIG. The transactions include the cession of approximately \$31 billion of reserves from our Legacy Life and Retirement Run-Off Lines and approximately \$5 billion of reserves from our Legacy General Insurance Run-Off Lines relating to business written by multiple AIG legal entities. This represented over 75 percent of the insurance reserves in the Legacy Portfolio as of December 31, 2017. DSA Re has approximately \$42 billion of total assets, managed by AIG Investments, and is AIG's main run-off reinsurer with its own dedicated management team.

On July 31, 2018, we entered into a membership interest purchase agreement with Fortitude Group Holdings, LLC (Fortitude), a wholly-owned subsidiary of AIG, and TC Group Cayman Investment Holdings, L.P. (TCG), an affiliate of The Carlyle Group L.P. We formed Fortitude to act as a holding company for DSA Re. Subject to the satisfaction or waiver of certain conditions in the purchase agreement, TCG will purchase a 19.9 percent ownership interest in Fortitude. As of the closing of the transaction, Fortitude will own 100 percent of the outstanding common shares of DSA Re and AIG will have an 80.1 percent ownership interest in Fortitude.

*See Business Segment Operations – Legacy Portfolio.*



ITEM 2 | **Executive Summary****AIG'S OPERATING STRUCTURE**

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

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

**Business Segments****General Insurance**

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

**Life and Retirement**

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

General Insurance includes the following major operating companies: National Union Fire Insurance Company of Pittsburgh, Pa. (National Union); American Home Assurance Company (American Home); Lexington Insurance Company (Lexington); AIG General Insurance Company, Ltd. (AIG Sonpo); AIG Asia Pacific Insurance, Pte, Ltd. and AIG Europe Limited.

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

#### Other Operations

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

#### Legacy Portfolio

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

ITEM 2 | **Executive Summary**

**Financial Performance Summary**

**Net Income Attributable To AIG**

**Three Months Ended June 30,**

*(in millions)*

**Quarterly 2018 and 2017 Comparison**

Decreased due to:

- lower investment returns on alternative investments, primarily driven by less robust private equity and hedge fund performance compared to the same period in 2017, and a decline in income from securities for which the fair value option was elected as a result of credit spread widening and rising interest rates;
- lower premiums due to the sale of Fuji Life in the second quarter of 2017; and
- higher general and other operating expenses.

This decrease was partially offset by:

- lower policyholder benefits and losses incurred driven by pre-tax favorable prior year loss reserve development in the three-month period ended June 30, 2018 compared to pre-tax unfavorable prior year loss reserve development in the three-month period ended June 30, 2017;
- net realized capital gains in the three-month period ended June 30, 2018 compared to net realized capital losses in the three-month period ended June 30, 2017; and
- gains on sale of divested businesses in the three-month period ended June 30, 2018 compared to losses on sale of divested businesses in the

three-month period ended June 30, 2017.

*For further discussion see Consolidated Results of Operations.*

ITEM 2 | **Executive Summary**

**Net Income Attributable To AIG**

**Six Months Ended June 30,**

*(in millions)*

**Year-to-Date 2018 and 2017 Comparison**

Decreased due to:

- lower investment returns on alternative investments, primarily driven by less robust private equity and hedge fund performance compared to the same period in 2017, a decline in income from securities for which the fair value option was elected as a result of credit spread widening and rising interest rates, and lower invested assets resulting from the funding of the adverse development reinsurance agreement with NICO late in the first quarter of 2017; and
- lower premiums due to the sale of Fuji Life in the second quarter of 2017.

This decrease was partially offset by:

- lower policyholder benefits and losses incurred driven by pre-tax favorable prior-year loss reserve development in the six-month period ended June 30, 2018 compared to pre-tax unfavorable prior year loss reserve development in the six-month period ended June 30, 2017 mainly resulting from the reduction in the Ogden discount rate during the first quarter of 2017;
- net realized capital gains in the six-month period ended June 30, 2018 compared to net realized capital losses in the three-month period ended June 30, 2017; and
- gains on sale of divested businesses in the six-month period ended June 30, 2018 compared to losses on sale of divested businesses in the six-month period ended June 30, 2017.

*For further discussion see Consolidated Results of Operations.*

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

**Three Months Ended June 30,**

*(in millions)*

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

Decreased due to:

- lower investment returns on alternative investments, primarily driven by less robust private equity and hedge fund performance compared to the same period in 2017, and a decline in income from securities for which the fair value option was elected as a result of credit spread widening and rising interest rates;
- higher losses and loss adjustment expenses incurred from General Insurance operations, reflecting higher accident year losses, partially offset by pre-tax favorable prior year loss reserve development in the three-month period ended June 30, 2018 compared to pre-tax unfavorable prior year loss reserve development in the three-month period ended June 30, 2017; and
- lower premiums due to the sale of Fuji Life in the second quarter of 2017.

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

ITEM 2 | **Executive Summary**

**Adjusted Pre-Tax Income\***

**Six Months Ended June 30,**

*(in millions)*

**Year-to-Date 2018 and 2017 Comparison**

Decreased due to:

- lower investment returns on alternative investments, primarily driven by less robust private equity and hedge fund performance compared to the same period in 2017, a decline in income from securities for which the fair value option was elected as a result of credit spread widening and rising interest rates, and lower invested assets resulting from the funding of the adverse development reinsurance agreement with NICO late in the first quarter of 2017; and
- higher losses and loss adjustment expenses incurred from General Insurance operations, reflecting higher catastrophe losses and higher accident year losses, partially offset by pre-tax favorable prior year loss reserve development in the six-month period ended June 30, 2018 compared to pre-tax unfavorable prior year loss reserve development in the six-month period ended June 30, 2017 mainly resulting from the reduction in the Ogden discount rate during the first quarter of 2017; and
- lower premiums due to the sale of Fuji Life in the second quarter of 2017.

*For further discussion see Consolidated Results of Operations.*

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

## General Operating and Other Expenses

Three Months Ended June 30,

*(in millions)*

### Quarterly 2018 and 2017 Comparison

Increased due to higher restructuring and other costs, partially offset by the divestiture of Fuji Life.

In keeping with our broad and ongoing efforts to transform for long-term competitiveness, general operating and other expenses for the second quarters of 2018 and 2017 included approximately \$200 million and \$47 million of pre-tax restructuring and other costs, respectively, which were primarily comprised of employee severance charges related to efficiency initiatives.



ITEM 2 | **Executive Summary**

**General Operating and Other Expenses**

**Six Months Ended June 30,**

*(in millions)*

**Year-to-Date 2018 and 2017 Comparison**

Declined due to lower employee-related expenses and professional fee reductions related to our ongoing efficiency program, and the divestiture of Fuji Life.

In keeping with our broad and ongoing efforts to transform for long-term competitiveness, general operating and other expenses for the six-month periods ended June 30, 2018 and 2017 included approximately \$224 million and \$228 million of pre-tax restructuring and other costs, respectively, which were primarily comprised of employee severance charges related to efficiency initiatives.

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

**Return on Equity**

**Adjusted Return on Equity\***

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

ITEM 2 | **Executive Summary****Book Value Per Share****Book Value Per Share, excluding AOCI\***

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

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

Our business is affected by industry and economic factors such as interest rates, currency exchange rates, credit and equity market conditions, catastrophic claims events, regulation, tax policy, competition, and general economic, market and political conditions. We continued to operate under difficult market conditions in the first six months of 2018, characterized by factors such as historically low interest rates, uncertainties in the annuity marketplace resulting from legislative and regulatory initiatives aimed at re-evaluating the standard of care for sales of investment products and services, historically high levels of catastrophic events, slowing growth in China and Euro-Zone economies, and the UK's pending withdrawal from its membership in the European Union (the EU) (commonly referred to as Brexit). Brexit has also affected the U.S. dollar/British pound exchange rate and increased the volatility of exchange rates among the euro, British pound and the Japanese yen (the Major Currencies), which may continue for some time.

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

Interest rates continued to increase in the first six months of 2018 but remained low relative to historical levels. A sustained low interest rate environment negatively affects sales of interest rate sensitive products in our industry and may negatively impact the profitability of our existing business as we reinvest cash flows from investments, including increased calls and prepayments of fixed maturity securities and mortgage loans, at rates below the average yield of our existing portfolios. We actively manage our exposure to the interest rate environment through portfolio selection and asset-liability management, including spread management strategies for our investment-oriented products and economic hedging of interest rate risk from guarantee features in our variable and fixed index annuities.

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

**Annuity Sales and Surrenders**

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

ITEM 2 | **Executive Summary****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 puts margin pressure on pricing of new business and on existing products, due to the challenge of investing new money or recurring premiums and deposits, and reinvesting investment portfolio cash flows, in the low interest rate environment. In addition, there is investment risk associated with future premium receipts from certain in force business. Specifically, the investment of these future premium receipts may be at a yield below that required to meet future policy liabilities.

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

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

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

Of the aggregate fixed account values of our Individual Retirement and Group Retirement annuity products, 70 percent were crediting at the contractual minimum guaranteed interest rate at June 30, 2018. The percentage of fixed account values of our annuity products that are currently crediting at rates above one percent was 70 percent and 69 percent at June 30, 2018 and December 31, 2017, respectively. These businesses continue to focus on pricing discipline and strategies to reduce the minimum guaranteed interest crediting rates offered on new sales. In the core universal life business in our Life Insurance business, 71 percent of the account values were crediting at the contractual minimum guaranteed interest rate at June 30, 2018.

ITEM 2 | **Executive Summary**

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

| June 30, 2018<br>Contractual Minimum Guaranteed<br>Interest Rate<br>(in millions) | At Contractual<br>Minimum<br>Guarantee | Current Crediting Rates                            |  | Total             |
|---|--|--|--|-------------------|
|   |  | 1-50 Basis<br>Points Above<br>Minimum<br>Guarantee | More than 50<br>Basis Points<br>Above Minimum<br>Guarantee |                   |
| <b>Individual Retirement*</b>   |  |  |  |                   |
| 1%  | \$ 3,875                               | \$ 4,885   | \$ 12,559  | \$ 21,319         |
| > 1% - 2%   | 6,824                                  | 86   | 3,580  | 10,490            |
| > 2% - 3%   | 13,153                                 | 298  | 99   | 13,550            |
| > 3% - 4%   | 9,886                                  | 43   | 8  | 9,937             |
| > 4% - 5%   | 622                                    | -  | 4  | 626               |
| > 5% - 5.5%   | 34                                     | -  | 5  | 39                |
| <b>Total Individual Retirement</b>  | <b>\$ 34,394</b>                       | <b>\$ 5,312</b>                                    | <b>\$ 16,255</b>   | <b>\$ 55,961</b>  |
| <b>Group Retirement*</b>  |  |  |  |                   |
| 1%  | \$ 1,470                               | \$ 3,296   | \$ 2,160   | \$ 6,926          |
| > 1% - 2%   | 6,206                                  | 607  | 137  | 6,950             |
| > 2% - 3%   | 15,375                                 | -  | -  | 15,375            |
| > 3% - 4%   | 865                                    | -  | -  | 865               |
| > 4% - 5%   | 7,115                                  | -  | -  | 7,115             |
| > 5% - 5.5%   | 179                                    | -  | -  | 179               |
| <b>Total Group Retirement</b>   | <b>\$ 31,210</b>                       | <b>\$ 3,903</b>                                    | <b>\$ 2,297</b>  | <b>\$ 37,410</b>  |
| <b>Universal life insurance</b>   |  |  |  |                   |
| 1%  | \$ -                                   | \$ -   | \$ 10  | \$ 10             |
| > 1% - 2%   | 120                                    | 95   | 224  | 439               |
| > 2% - 3%   | 607                                    | 471  | 996  | 2,074             |
| > 3% - 4%   | 1,673                                  | 218  | 141  | 2,032             |
| > 4% - 5%   | 3,182                                  | 220  | -  | 3,402             |
| > 5% - 5.5%   | 304                                    | -  | -  | 304               |
| <b>Total universal life insurance</b>   | <b>\$ 5,886</b>                        | <b>\$ 1,004</b>                                    | <b>\$ 1,371</b>  | <b>\$ 8,261</b>   |
| <b>Total</b>  | <b>\$ 71,490</b>                       | <b>\$ 10,219</b>                                   | <b>\$ 19,923</b>   | <b>\$ 101,632</b> |
| <b>Percentage of total</b>  | <b>70%</b>                             | <b>10%</b>   | <b>20%</b>   | <b>100%</b>       |

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

**General Insurance**

The impact of low interest rates on our General Insurance segment is primarily on our long-tail Casualty line of business. We expect limited impacts on our existing long-tail Casualty business as the duration of our assets is slightly longer than that of our liabilities. Sustained low interest rates would potentially impact

new and renewal business for the long-tail Casualty line as we may not be able to adjust our future pricing consistent with our profitability objectives to fully offset the impact of investing at lower rates. However, we will continue to maintain pricing discipline and risk selection.

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

ITEM 2 | **Executive Summary****Standard of Care Developments**

Our Individual Retirement and Group Retirement operating segments provide products and services that are subject to restrictions imposed by the Employee Retirement Income Security Act of 1974, as amended (ERISA), and the Internal Revenue Code, including the requirements set forth in the final fiduciary duty rule issued by the Department of Labor (the DOL) in April 2016 (the DOL Fiduciary Rule). On March 15, 2018, the U.S. Court of Appeals for the Fifth Circuit (the Fifth Circuit) ruled that the DOL exceeded its authority in promulgating the DOL Fiduciary Rule, specifically in its broadening the scope of “investment advice” fiduciary and in the terms of the best interest contract exemption. Following the Fifth Circuit’s decision, the DOL announced on March 16, 2018, that it was suspending enforcement of the DOL Fiduciary Rule pending further review. The Fifth Circuit subsequently denied, on May 22, 2018, a motion to reconsider the panel’s decision and a further motion for rehearing by the full Fifth Circuit. If the Fifth Circuit’s final judgment is not further appealed, the ruling has the effect of invalidating the DOL Fiduciary Rule in its entirety.

In addition to recent developments surrounding the DOL Fiduciary Rule, the Securities and Exchange Commission (SEC), lawmakers and state insurance regulators are also engaged in re-evaluating what is an appropriate regulatory framework around a standard of care for the sale of investment products and services. On April 18, 2018, the SEC proposed a package of rulemakings and interpretations designed to address the standard of care issues and the transparency of retail investors’ relationships with investment advisors and broker-dealers. The comment period for these proposed rules expires on August 7, 2018. We are evaluating the scope and potential impact of the SEC’s proposals and are closely following other similar federal and state-level regulatory developments. While we cannot predict the long-term impact of these developments on our Retirement businesses, we believe our diverse annuity product offerings position Individual Retirement and Group Retirement to compete effectively in this evolving marketplace.

**Impact of Currency Volatility**

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

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

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

Three Months  
Ended

Six Months Ended



| Rate for 1 USD   | June 30,<br>2018 | 2017   | Percentage<br>Change | June 30,<br>2018 | 2017   | Percentage<br>Change |
|------------------|------------------|--------|----------------------|------------------|--------|----------------------|
| <b>Currency:</b> |                  |        |                      |                  |        |                      |
| GBP              | <b>0.72</b>      | 0.79   | (9)%                 | <b>0.73</b>      | 0.80   | (9)%                 |
| EUR              | <b>0.82</b>      | 0.92   | (11)%                | <b>0.82</b>      | 0.93   | (12)%                |
| JPY              | <b>107.76</b>    | 111.86 | (4)%                 | <b>109.19</b>    | 113.27 | (4)%                 |

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

### Other Industry Developments

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

## ITEM 2 | Consolidated Results of Operations

## Consolidated Results of Operations

The following section provides a comparative discussion of our Consolidated Results of Operations on a reported basis for the three- and six-month periods ended June 30, 2018 and 2017. Factors that relate primarily to a specific business are discussed in more detail within the business segment operations section.

For a discussion of the Critical Accounting Estimates that affect our results of operations see the Critical Accounting Estimates section of this MD&A and Part II, Item 7. MD&A — Critical Accounting Estimates in the 2017 Annual Report.

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

| (in millions)  | Three Months Ended |                 |                   | Six Months Ended |                 |                   |
|--|--------------------|-----------------|-------------------|------------------|-----------------|-------------------|
|  | June 30, 2018      | 2017            | Percentage Change | June 30, 2018    | 2017            | Percentage Change |
| <b>Revenues:</b>   |                    |                 |                   |                  |                 |                   |
| Premiums   | \$ 7,207           | \$ 7,614        | (5)%              | \$ 14,482        | \$ 15,396       | (6)               |
| Policy fees  | 763                | 725             | 5                 | 1,527            | 1,449           | 5                 |
| Net investment income  | 3,065              | 3,613           | (15)              | 6,326            | 7,299           | (13)              |
| Net realized capital gains (losses)  | 165                | (69)            | NM                | 146              | (184)           | NM                |
| Other income   | 431                | 619             | (30)              | 862              | 1,174           | (27)              |
| <b>Total revenues</b>  | <b>11,631</b>      | <b>12,502</b>   | <b>(7)</b>        | <b>23,343</b>    | <b>25,134</b>   | <b>(8)</b>        |
| <b>Benefits, losses and expenses:</b>  |                    |                 |                   |                  |                 |                   |
| Policyholder benefits and losses incurred                                    | 5,505              | 6,284           | (12)              | 11,172           | 12,331          | (9)               |
| Interest credited to policyholder account balances                           | 935                | 906             | 3                 | 1,851            | 1,816           | 2                 |
| Amortization of deferred policy acquisition costs                            | 1,337              | 1,115           | 20                | 2,695            | 2,223           | 21                |
| General operating and other expenses   | 2,323              | 2,182           | 6                 | 4,594            | 4,625           | (1)               |
| Interest expense   | 299                | 292             | 2                 | 576              | 590             | (2)               |
| (Gain) loss on extinguishment of debt  | 5                  | (4)             | NM                | 9                | (5)             | NM                |
| Net (gain) loss on sale of divested businesses                               | (25)               | 60              | NM                | (33)             | 160             | NM                |
| <b>Total benefits, losses and expenses</b>                                   | <b>10,379</b>      | <b>10,835</b>   | <b>(4)</b>        | <b>20,864</b>    | <b>21,740</b>   | <b>(4)</b>        |
| <b>Income from continuing operations before income tax expense</b>           | <b>1,252</b>       | <b>1,667</b>    | <b>(25)</b>       | <b>2,479</b>     | <b>3,394</b>    | <b>(27)</b>       |
| <b>Income tax expense</b>  | <b>321</b>         | <b>557</b>      | <b>(42)</b>       | <b>598</b>       | <b>1,073</b>    | <b>(41)</b>       |
| <b>Income from continuing operations</b>                                     | <b>931</b>         | <b>1,110</b>    | <b>(16)</b>       | <b>1,881</b>     | <b>2,321</b>    | <b>(19)</b>       |
| <b>Income (loss) from discontinued operations, net of income tax expense</b> | <b>-</b>           | <b>8</b>        | <b>NM</b>         | <b>(1)</b>       | <b>8</b>        | <b>NM</b>         |
| <b>Net income</b>  | <b>931</b>         | <b>1,118</b>    | <b>(17)</b>       | <b>1,880</b>     | <b>2,329</b>    | <b>(19)</b>       |
| <b>Less: Net income (loss) attributable to noncontrolling interests</b>      | <b>(6)</b>         | <b>(12)</b>     | <b>50</b>         | <b>5</b>         | <b>14</b>       | <b>(68)</b>       |
| <b>Net income attributable to AIG</b>  | <b>\$ 937</b>      | <b>\$ 1,130</b> | <b>(17)%</b>      | <b>\$ 1,875</b>  | <b>\$ 2,315</b> | <b>(19)</b>       |

| <i>(in millions, except per share data)</i> | <b>June 30,<br/>2018</b>            | December 31,<br>2017 |
|---|-------------------------------------|----------------------|
| <b>Balance sheet data:</b>                  |                                     |                      |
| Total assets                                | <b>\$ 496,829</b>                   | \$ 498,301           |
| Long-term debt                              | <b>33,784</b>                       | 31,640               |
| Total AIG shareholders' equity              | <b>61,186</b>                       | 65,171               |
| Book value per common share                 | <b>68.65</b>                        | 72.49                |
| Book value per common share, excluding AOCI | <b>68.40</b>                        | 66.41                |
| Adjusted book value per common share        | <b>57.34</b>                        | 54.74                |
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## ITEM 2 | Consolidated Results of Operations

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

| <i>(in millions, except per share data)</i>           | June 30,<br>2018 | December 31,<br>2017 |
|---|------------------|----------------------|
| Total AIG shareholders' equity                        | \$ 61,186        | \$ 65,171            |
| Accumulated other comprehensive income                | 230              | 5,465                |
| <b>Total AIG shareholders' equity, excluding AOCI</b> | <b>60,956</b>    | 59,706               |
| Deferred tax assets                                   | 9,853            | 10,492               |
| <b>Adjusted shareholders' equity</b>                  | <b>\$ 51,103</b> | <b>\$ 49,214</b>     |
| <br>  |                  |                      |
| Total common shares outstanding                       | 891,214,033      | 899,044,657          |
| <b>Book value per common share</b>                    | <b>\$ 68.65</b>  | <b>\$ 72.49</b>      |
| <b>Book value per common share, excluding AOCI</b>    | <b>68.40</b>     | 66.41                |
| <b>Adjusted book value per common share</b>           | <b>57.34</b>     | 54.74                |

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

| <i>(dollars in millions)</i>                                       | Three Months<br>Ended |           | Six Months Ended |           | Y<br>En<br>Dec<br>3 |
|--|-----------------------|-----------|------------------|-----------|---------------------|
|  | June 30,<br>2018      | 2017      | June 30,<br>2018 | 2017      |                     |
| Actual or annualized net income (loss) attributable to AIG         | \$ 3,748              | \$ 4,520  | \$ 3,750         | \$ 4,630  | \$ (6               |
| Actual or annualized adjusted after-tax income attributable to AIG | 3,844                 | 5,796     | 3,848            | 5,632     | 2                   |
| <br>   |                       |           |                  |           |                     |
| Average AIG Shareholders' equity                                   | \$61,989              | \$ 73,901 | \$63,050         | \$ 74,700 | \$ 72               |
| Average AOCI   | 1,225                 | 4,372     | 2,639            | 3,991     | 4                   |
| Average AIG Shareholders' equity, excluding average AOCI           | 60,764                | 69,529    | 60,411           | 70,709    | 67                  |
| Average DTA  | 10,034                | 14,436    | 10,186           | 14,547    | 13                  |
| Average adjusted AIG Shareholders' equity                          | \$ 50,730             | \$ 55,093 | \$ 50,225        | \$ 56,162 | \$ 53               |
| <b>ROE</b>   | <b>6.0%</b>           | 6.1%      | <b>5.9%</b>      | 6.2%      |                     |
| <b>Adjusted Return on Equity</b>                                   | <b>7.6%</b>           | 10.5%     | <b>7.7%</b>      | 10.0%     |                     |

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## ITEM 2 | Consolidated Results of Operations

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

## Three Months Ended June 30,

|  | 2018     |                                  |              | 2017     |                                  |
|--|----------|----------------------------------|--------------|----------|----------------------------------|
|  | Pre-tax  | Total Tax<br>(Benefit)<br>Charge | After<br>Tax | Pre-tax  | Total Tax<br>(Benefit)<br>Charge |
| <i>(in millions, except per share data)</i>  |          |                                  |              |          |                                  |
| <b>Pre-tax income/net income (loss), including noncontrolling interests</b>  | \$ 1,252 | \$ 321                           | \$ 933       | \$ 1,667 | \$ 557                           |
| Noncontrolling interest  |          |                                  | 4            |          |                                  |
| <b>Pre-tax income/net income (loss) attributable to AIG</b>  | \$ 1,252 | \$ 321                           | \$ 937       | \$ 1,667 | \$ 557                           |
| Changes in uncertain tax positions and other tax adjustments   |          | (3)                              | 3            |          | (66)                             |
| Deferred income tax valuation allowance charges  |          | (7)                              | 7            |          | 8                                |
| Changes in fair value of securities used to hedge guaranteed living benefits   | 36       | 8                                | 28           | (80)     | (28)                             |
| Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses)                               | (1)      | -                                | (1)          | (58)     | (20)                             |
| Unfavorable (favorable) prior year development and related amortization changes ceded under retroactive reinsurance agreements | (32)     | (7)                              | (25)         | 251      | 89                               |
| (Gain) loss on extinguishment of debt  | 5        | 1                                | 4            | (4)      | (2)                              |
| Net realized capital (gains) losses*   | (155)    | (29)                             | (126)        | 69       | 38                               |
| Noncontrolling interest on net realized capital (gains) losses   |          |                                  | (2)          |          |                                  |
| Income from discontinued operations  |          |                                  | -            |          |                                  |
| (Income) loss from divested businesses   | (25)     | (5)                              | (20)         | 60       | 40                               |
| Non-operating litigation reserves and settlements  | 12       | 2                                | 10           | (80)     | (28)                             |
| Net loss reserve discount (benefit) charge   | (14)     | (3)                              | (11)         | 260      | 90                               |
| Pension expense related to a one-time lump sum payment to former employees   | -        | -                                | -            | 1        | 1                                |
| Restructuring and other costs  | 200      | 43                               | 157          | 47       | 17                               |
| <b>Adjusted pre-tax income/Adjusted after-tax income</b>   | \$ 1,278 | \$ 321                           | \$ 961       | \$ 2,133 | \$ 696                           |
| <b>Weighted average diluted shares outstanding</b>   |          |                                  | 916.6        |          | 916.6                            |
| <b>Income (loss) per common share attributable to AIG (diluted)</b>  |          |                                  | \$ 1.02      |          | \$ 1.02                          |
| <b>Adjusted after-tax income (loss) per common share attributable to AIG (diluted)</b>   |          |                                  | \$ 1.05      |          | \$ 1.05                          |

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## ITEM 2 | Consolidated Results of Operations

**Six Months Ended June 30,***(in millions, except per share data)***Pre-tax income/net income (loss), including noncontrolling interests**

Noncontrolling interest

**Pre-tax income/net income (loss) attributable to AIG**

Changes in uncertain tax positions and other tax adjustments

Deferred income tax valuation allowance charges

Changes in fair value of securities used to hedge guaranteed living benefits

Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses)

Unfavorable (favorable) prior year development and related amortization changes ceded

under retroactive reinsurance agreements

(Gain) loss on extinguishment of debt

Net realized capital (gains) losses\*

Noncontrolling interest on

net realized capital (gains) losses

(Income) loss from discontinued operations

(Income) loss from divested businesses

Non-operating litigation reserves and settlements

Net loss reserve discount (benefit) charge

Pension expense related to a one-time lump sum payment to former employees

Restructuring and other costs

**Adjusted pre-tax income/Adjusted after-tax income****Weighted average diluted shares outstanding****Income (loss) per common share attributable to AIG (diluted)****Adjusted after-tax income (loss) per common share attributable to AIG (diluted)**

\* Includes all net realized capital gains and losses except earned income (periodic settlements and changes in settlement accruals) on derivative instruments used for non-qualifying (economic) hedging or for asset replication.

ITEM 2 | **Consolidated Results of Operations****QUARTERLY pre-tax income Comparison for 2018 and 2017**

Pre-tax income decreased in the three-month period ended June 30, 2018 compared to the same period in 2017 primarily due to:

- lower investment returns on alternative investments, primarily driven by less robust private equity and hedge fund performance compared to the same period in 2017, and a decline in income from securities for which the fair value option was elected as a result of credit spread widening and rising interest rates;
- lower premiums due to the sale of Fuji Life in the second quarter of 2017; and
- higher general operating and other expenses.

Partially offset by:

- lower policyholder benefits and losses incurred driven by pre-tax favorable prior year loss reserve development in the three-month period ending June 30, 2018 compared to pre-tax unfavorable prior year loss reserve development in the three-month period ended June 30, 2017;

- net realized capital gains due to:

– Life and Retirement guaranteed living benefits, net of hedges, which reflected net realized capital gains in the three-month period ended June 30, 2018 compared to net realized capital losses in the three-month period ended June 30, 2017, primarily due to changes in movement in the non-performance or “own credit” risk adjustment (NPA), which are not hedged as part of our economic hedging program (*see Insurance Reserves – Life and Annuity Reserves and DAC – Variable Annuity Guaranteed Benefits and Hedging Results*);

– a gain on the sale of our investment in Castle Holdings’ aircraft assets in the three-month period ended June 30, 2018; and

- gains on sale of divested businesses in the three-month period ended June 30, 2018 compared to losses on sale of divested businesses in the three-month period ended June 30, 2017. The three-month period ended June 30, 2017 included losses on the agreements to sell Fuji Life to FWD Group and certain insurance operations and assets to Fairfax.

**YEAR-TO-DATE pre-tax income Comparison for 2018 and 2017**

Pre-tax income decreased in the six-month period ended June 30, 2018 compared to the same period in 2017 primarily due to:

- lower investment returns on alternative investments, primarily driven by less robust private equity and hedge fund performance compared to the same period in 2017, a decline in income from securities for



which the fair value option was elected as a result of credit spread widening and rising interest rates, and lower invested assets resulting from the funding of the adverse development reinsurance agreement with NICO late in the first quarter of 2017; and

- lower premiums due to the sale of Fuji Life in the second quarter of 2017.

Partially offset by:

- lower policyholder benefits and losses incurred driven by pre-tax favorable prior year loss reserve development in the six-month period ended June 30, 2018 compared to pre-tax unfavorable prior year loss reserve development in the six-month period ended June 30, 2017 mainly resulting from the reduction in the Ogden discount rate during the first quarter of 2017;

- net realized capital gains due to:

– Life and Retirement guaranteed living benefits, net of hedges, which reflected net realized capital gains in the six-month period ended June 30, 2018 compared to net realized capital losses in the six-month period ended June 30, 2017, primarily due to changes in movement in the NPA, which are not hedged as part of our economic hedging program (*see Insurance Reserves – Life and Annuity Reserves and DAC – Variable Annuity Guaranteed Benefits and Hedging Results*);

– a gain on the sale of our investment in Castle Holdings' aircraft assets in the six-month period ended June 30, 2018; and

- gains on sale of divested businesses in the six-month period ended June 30, 2018 compared to losses on sale of divested businesses in the six-month period ended June 30, 2017. The six-month period ended June 30, 2017 included losses on the agreements to sell Fuji Life to FWD Group and certain insurance operations and assets to Fairfax.

ITEM 2 | **Consolidated Results of Operations****U.S. Tax Reform Overview**

On December 22, 2017, the U.S. enacted Public Law 115-97, known informally as the Tax Cuts and Jobs Act (the Tax Act). The Tax Act reduced the statutory rate of U.S. federal corporate income tax to 21 percent and enacted numerous other changes impacting AIG and the insurance industry. At December 31, 2017, we originally recorded a provisional estimate of income tax effects of the Tax Act of \$6.7 billion, including a tax charge of \$6.7 billion attributable to the reduction in the U.S. corporate income tax rate and tax benefit of \$38 million related to the deemed repatriation tax. During the six-month period ended June 30, 2018, we have not recorded any material adjustments to these provisional amounts. We continue to refine our analysis and calculations, which could impact the provisional estimates previously recorded. Accordingly, as of June 30, 2018, we have not fully completed our accounting for the tax effects of the Tax Act.

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

The Tax Act includes provisions for Global Intangible Low-Taxed Income (GILTI) under which taxes on foreign income are imposed on the excess of a deemed return on tangible assets of certain foreign subsidiaries and for Base Erosion and Anti-Abuse Tax (BEAT) under which taxes are imposed on certain base eroding payments to affiliated foreign companies. There are substantial uncertainties in the interpretation of BEAT and GILTI and formal guidance from the U.S. tax authority is still pending. Depending on the content of such guidance, changes to the interpretations and assumptions made by us, and/or actions we may take, it is possible that the impact from BEAT or GILTI could change amounts recorded, possibly materially. Consistent with accounting guidance, we treat BEAT as a period tax charge in the period the tax is incurred and have made an accounting policy election to treat GILTI taxes in a similar manner.

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

**Repatriation Assumptions**

As a result of the Tax Act, the majority of accumulated foreign earnings that were previously untaxed are subject to a one-time deemed repatriation tax. Going forward, foreign earnings not taxed as part of the one-time deemed repatriation (or otherwise taxed currently under the GILTI or subpart F regimes) will

generally be exempt from U.S. tax upon repatriation. Notwithstanding the changes, U.S. tax on foreign exchange gain or loss and certain non-U.S. withholding taxes will continue to be applicable upon future repatriations of foreign earnings. For the six-month period ended June 30, 2018, we still consider our foreign earnings with respect to certain operations in Canada, South Africa, the Far East, Latin America, Bermuda as well as the European, Asia Pacific and Middle East regions to be indefinitely reinvested. These earnings relate to ongoing operations and have been reinvested in active business operations. Deferred taxes, if necessary, have been provided on earnings of non-U.S. affiliates whose earnings are not indefinitely reinvested.

### **Deemed Repatriation Tax & Impact on Liquidity**

The Tax Act required companies to pay a one-time transition tax, net of tax credits related to applicable foreign taxes paid, on previously untaxed current and accumulated earnings and profits (E&P) of certain of our foreign subsidiaries. In the determination of the deemed repatriation tax, we reviewed estimated post-1986 E&P of the relevant foreign subsidiaries, and any related non-U.S. income tax paid on such earnings. We originally recorded a provisional estimated tax benefit of \$38 million at December 31, 2017. This amount is not considered to be material to our liquidity and capital resources. As we continue to refine our E&P analysis, we will refine our calculations of the one-time transition tax, which could impact the provisional estimate previously recorded.

ITEM 2 | **Consolidated Results of Operations****Interim Tax Calculation Method**

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

**Income Tax expense analysis**

For the three-month period ended June 30, 2018, the effective tax rate on income from continuing operations was 25.6 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 21 percent primarily due to tax charges related to income in our foreign operations taxed at statutory tax rates higher than 21 percent, additional U.S. taxes imposed on income of our foreign subsidiaries under international provisions of the Tax Act, valuation allowance activity related to certain foreign subsidiaries and state jurisdictions and non-deductible transfer pricing charges, partially offset by tax benefits associated with tax exempt income, and reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities.

For the six-month period ended June 30, 2018, the effective tax rate on income from continuing operations was 24.1 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 21 percent primarily due to tax charges related to income in our foreign operations taxed at statutory tax rates higher than 21 percent, additional U.S. taxes imposed on income of our foreign subsidiaries under international provisions of the Tax Act, valuation allowance activity related to certain foreign subsidiaries and state jurisdictions and non-deductible transfer pricing charges, partially offset by tax benefits associated with tax exempt income, reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities and excess tax deductions related to share based compensation payments recorded through the income statement.

For the three-month period ended June 30, 2017, the effective tax rate on income from continuing operations was 33.4 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 35 percent primarily due to tax benefits associated with tax exempt income and reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities, partially offset by tax charges related to increases in uncertain tax positions associated with the impact of settlement discussions with the IRS related to certain open tax issues.

For the six-month period ended June 30, 2017, the effective tax rate on income from continuing operations was 31.6 percent. The effective tax rate on income from continuing operations differs from the statutory tax

rate of 35 percent primarily due to tax benefits associated with tax exempt income, reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities and excess tax deductions related to share based compensation payments recorded through the income statement, partially offset by tax charges related to increases in uncertain tax positions associated with the impact of settlement discussions with the IRS related to certain open tax issues.

ITEM 2 | **Consolidated Results of Operations****Business Segment Operations**

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

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

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

| <i>(in millions)</i>                               | <b>Three Months Ended</b> |                 | <b>Six Months Ended</b> |                 |
|--|---------------------------|-----------------|-------------------------|-----------------|
|  | <b>June 30,</b>           |                 | <b>June 30,</b>         |                 |
|  | <b>2018</b>               | <b>2017</b>     | <b>2018</b>             | <b>2017</b>     |
| <b>Core business:</b>                              |                           |                 |                         |                 |
| <b>General Insurance</b>                           |                           |                 |                         |                 |
| North America                                      | \$ 407                    | \$ 721          | \$ 727                  | \$ 1,549        |
| International                                      | 161                       | 325             | 351                     | 558             |
| <b>General Insurance</b>                           | <b>568</b>                | <b>1,046</b>    | <b>1,078</b>            | <b>2,107</b>    |
| <b>Life and Retirement</b>                         |                           |                 |                         |                 |
| Individual Retirement                              | 462                       | 558             | 961                     | 1,097           |
| Group Retirement                                   | 250                       | 266             | 532                     | 509             |
| Life Insurance                                     | 175                       | 106             | 227                     | 160             |
| Institutional Markets                              | 75                        | 63              | 134                     | 125             |
| <b>Life and Retirement</b>                         | <b>962</b>                | <b>993</b>      | <b>1,854</b>            | <b>1,891</b>    |
| Other Operations                                   | (374)                     | (365)           | (716)                   | (673)           |
| Consolidations, eliminations and other adjustments | (12)                      | 28              | (1)                     | 76              |
| <b>Total Core</b>                                  | <b>1,144</b>              | <b>1,702</b>    | <b>2,215</b>            | <b>3,401</b>    |
| Legacy Portfolio                                   | 134                       | 431             | 279                     | 773             |
| <b>Adjusted pre-tax income (loss)</b>              | <b>\$ 1,278</b>           | <b>\$ 2,133</b> | <b>\$ 2,494</b>         | <b>\$ 4,174</b> |

ITEM 2 | **Business Segment Operations** | **General Insurance****General Insurance**

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

**PRODUCTS AND DISTRIBUTION**

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

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

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

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

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

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

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

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

## **BUSINESS STRATEGY**

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

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

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



ITEM 2 | **Business Segment Operations** | **General Insurance****COMPETITION and challenges**

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

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

Our challenges include:

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

**OUTLOOK—INDUSTRY AND ECONOMIC FACTORS**

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

**General Insurance – North America**

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

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

clients.

### **General Insurance – International**

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

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

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

## ITEM 2 | Business Segment Operations | General Insurance

## General INSURANCE RESULTS

| <i>(in millions)</i>  | Three Months Ended June |              |        | Six Months Ended June 30, |              |        |       |
|---|-------------------------|--------------|--------|---------------------------|--------------|--------|-------|
|   | 2018                    | 30,<br>2017  | Change | 2018                      | 2017         | Change |       |
| <b>Underwriting results:</b>  |                         |              |        |                           |              |        |       |
| Net premiums written  | <b>\$6,977</b>          | \$6,672      | 5%     | <b>\$13,148</b>           | \$12,969     | 1%     |       |
| (Increase) decrease in unearned premiums <sup>(a)</sup>   | <b>(407)</b>            | (148)        | (175)  | <b>105</b>                | 44           | 139    |       |
| <b>Net premiums earned</b>  | <b>6,570</b>            | 6,524        | 1      | <b>13,253</b>             | 13,013       | 2      |       |
| Losses and loss adjustment expenses incurred <sup>(b)</sup>   | <b>4,317</b>            | 4,175        | 3      | <b>8,805</b>              | 8,412        | 5      |       |
| Acquisition expenses:   |                         |              |        |                           |              |        |       |
| Amortization of deferred policy acquisition costs   | <b>1,092</b>            | 960          | 14     | <b>2,158</b>              | 1,869        | 15     |       |
| Other acquisition expenses  | <b>297</b>              | 350          | (15)   | <b>682</b>                | 738          | (8)    |       |
| <b>Total acquisition expenses</b>   | <b>1,389</b>            | 1,310        | 6      | <b>2,840</b>              | 2,607        | 9      |       |
| General operating expenses  | <b>953</b>              | 890          | 7      | <b>1,948</b>              | 1,833        | 6      |       |
| <b>Underwriting income (loss)<sup>(a)</sup></b>   | <b>(89)</b>             | 149          | NM     | <b>(340)</b>              | 161          | NM     |       |
| Net investment income   | <b>657</b>              | 897          | (27)   | <b>1,418</b>              | 1,946        | (27)   |       |
| <b>Adjusted pre-tax income</b>  | <b>\$ 568</b>           | \$1,046      | (46)%  | <b>\$ 1,078</b>           | \$ 2,107     | (49)%  |       |
| <b>Loss ratio<sup>(b)</sup></b>   |                         | <b>65.7</b>  | 64.0   | 1.7                       | <b>66.4</b>  | 64.6   | 1.8   |
| Acquisition ratio   |                         | <b>21.1</b>  | 20.1   | 1.0                       | <b>21.4</b>  | 20.0   | 1.4   |
| General operating expense ratio   |                         | <b>14.5</b>  | 13.6   | 0.9                       | <b>14.7</b>  | 14.1   | 0.6   |
| <b>Expense ratio</b>  |                         | <b>35.6</b>  | 33.7   | 1.9                       | <b>36.1</b>  | 34.1   | 2.0   |
| <b>Combined ratio<sup>(b)</sup></b>   |                         | <b>101.3</b> | 97.7   | 3.6                       | <b>102.5</b> | 98.7   | 3.8   |
| <b>Adjustments for accident year loss ratio, as adjusted and accident year combined ratio, as adjusted:</b> |                         |              |        |                           |              |        |       |
| Catastrophe losses and reinstatement premiums   |                         | <b>(2.3)</b> | (2.8)  | 0.5                       | <b>(3.9)</b> | (3.1)  | (0.8) |
| Prior year development, net of (additional) return premium on loss sensitive business                       |                         | <b>0.8</b>   | (1.1)  | 1.9                       | <b>1.2</b>   | (0.8)  | 2.0   |
| Adjustment for ceded premiums under reinsurance contracts related to prior accident years and other         |                         | <b>1.2</b>   | (0.4)  | 1.6                       | <b>0.5</b>   | (0.3)  | 0.8   |
| <b>Accident year loss ratio, as adjusted</b>  |                         | <b>65.4</b>  | 59.7   | 5.7                       | <b>64.2</b>  | 60.4   | 3.8   |
| <b>Accident year combined ratio, as adjusted</b>  |                         | <b>101.0</b> | 93.4   | 7.6                       | <b>100.3</b> | 94.5   | 5.8   |

(a) In the three- and six-month periods ended June 30, 2018, the Underwriting loss included an additional \$115 million of net premiums earned for multi-year policies related to earlier accident years.

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

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

Three Months

Six Months

| <i>(in millions)</i>              | Ended June 30, |                | Percentage Change in |                   | Ended June 30,  |                 | Percentage Change in |                   |
|-----------------------------------|----------------|----------------|----------------------|-------------------|-----------------|-----------------|----------------------|-------------------|
|                                   | 2018           | 2017           | U.S. dollars         | Original Currency | 2018            | 2017            | U.S. dollars         | Original Currency |
| North America                     | \$3,236        | \$3,125        | 4%                   | 5%                | \$ 5,275        | \$ 5,448        | (3)%                 | (2)%              |
| International <sup>(a)</sup>      | 3,741          | 3,547          | 5                    | -                 | 7,873           | 7,521           | 5                    | (2)               |
| <b>Total net premiums written</b> | <b>\$6,977</b> | <b>\$6,672</b> | <b>5%</b>            | <b>2%</b>         | <b>\$13,148</b> | <b>\$12,969</b> | <b>1%</b>            | <b>(2)%</b>       |

(a) As result of the merger of AIUI Japan and Fuji Fire and Marine Insurance Company (Fuji), Fuji's fiscal reporting period was conformed to that of AIU Japan (Japan Merger Impact). Therefore, the six-month period ended June 30, 2018 includes approximately \$300 million for two additional months of Net premiums written.

ITEM 2 | **Business Segment Operations** | **General Insurance**

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

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

| <i>(in millions)</i>                     | # of Events | North America | International | Total         |
|--|-------------|---------------|---------------|---------------|
| <b>Three Months Ended June 30, 2018</b>  |             |               |               |               |
| Windstorms and hailstorms                | 4           | \$ 99         | \$ 16         | \$ 115        |
| Wildfire                                 | 1           | 10            | -             | 10            |
| Earthquakes                              | 1           | (12)          | 27            | 15            |
| Volcanic eruptions                       | 1           | 10            | -             | 10            |
| <b>Total catastrophe-related charges</b> | <b>7</b>    | <b>\$ 107</b> | <b>\$ 43</b>  | <b>\$ 150</b> |
| <b>Three Months Ended June 30, 2017</b>  |             |               |               |               |
| Windstorms and hailstorms                | 4           | \$ 176        | \$ 4          | \$ 180        |
| <b>Total catastrophe-related charges</b> | <b>4</b>    | <b>\$ 176</b> | <b>\$ 4</b>   | <b>\$ 180</b> |
| <b>Six Months Ended June 30, 2018</b>    |             |               |               |               |
| Windstorms and hailstorms                | 8           | \$ 372        | \$ 36         | \$ 408        |
| Wildfire                                 | 1           | 11            | -             | 11            |
| Earthquakes                              | 2           | 13            | 84            | 97            |
| Volcanic eruptions                       | 1           | 10            | -             | 10            |
| <b>Total catastrophe-related charges</b> | <b>12</b>   | <b>\$ 406</b> | <b>\$ 120</b> | <b>\$ 526</b> |
| <b>Six Months Ended June 30, 2017</b>    |             |               |               |               |
| Windstorms and hailstorms                | 10          | \$ 338        | \$ 4          | \$ 342        |
| Tropical cyclone                         | 1           | -             | 66            | 66            |
| <b>Total catastrophe-related charges</b> | <b>11</b>   | <b>\$ 338</b> | <b>\$ 70</b>  | <b>\$ 408</b> |

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

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

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

| <i>(in millions)</i>                    | # of Events | North America | International | Total         |
|---|-------------|---------------|---------------|---------------|
| <b>Three Months Ended June 30, 2018</b> | <b>15</b>   | <b>\$ 160</b> | <b>\$ 133</b> | <b>\$ 293</b> |
| <b>2017</b>                             | <b>5</b>    | <b>\$ 61</b>  | <b>\$ 64</b>  | <b>\$ 125</b> |
| <b>Six Months Ended June 30,</b>        |             |               |               |               |

|             |              |               |               |            |
|-------------|--------------|---------------|---------------|------------|
| <b>2018</b> | <b>25 \$</b> | <b>196 \$</b> | <b>232 \$</b> | <b>428</b> |
| 2017        | 9 \$         | 105 \$        | 77 \$         | 182        |

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

## ITEM 2 | Business Segment Operations | General Insurance

## North America Results

| <i>(in millions)</i>  | Three Months Ended<br>June 30, |              |            | Six Months Ended June<br>30, |          |        |
|---|--------------------------------|--------------|------------|------------------------------|----------|--------|
|   | 2018                           | 2017         | Change     | 2018                         | 2017     | Change |
| <b>Underwriting results:</b>  |                                |              |            |                              |          |        |
| Net premiums written  | \$ 3,236                       | \$ 3,125     | 4%         | \$ 5,275                     | \$ 5,448 | (3)%   |
| (Increase) decrease in unearned premiums <sup>(a)</sup>   | (344)                          | (233)        | (48)       | 309                          | 393      | (21)   |
| <b>Net premiums earned</b>  | <b>2,892</b>                   | 2,892        | -          | <b>5,584</b>                 | 5,841    | (4)    |
| Losses and loss adjustment expenses incurred <sup>(b)</sup>   | <b>2,115</b>                   | 2,166        | (2)        | <b>4,268</b>                 | 4,329    | (1)    |
| Acquisition expenses:   |                                |              |            |                              |          |        |
| Amortization of deferred policy acquisition costs   | 430                            | 340          | 26         | 788                          | 663      | 19     |
| Other acquisition expenses  | 102                            | 113          | (10)       | 256                          | 275      | (7)    |
| <b>Total acquisition expenses</b>   | <b>532</b>                     | 453          | 17         | <b>1,044</b>                 | 938      | 11     |
| General operating expenses  | 372                            | 331          | 12         | 727                          | 695      | 5      |
| <b>Underwriting loss<sup>(a)</sup></b>  | <b>(127)</b>                   | (58)         | (119)      | <b>(455)</b>                 | (121)    | (276)  |
| Net investment income   | 534                            | 779          | (31)       | 1,182                        | 1,670    | (29)   |
| <b>Adjusted pre-tax income</b>  | <b>\$ 407</b>                  | \$ 721       | (44)%      | <b>\$ 727</b>                | \$ 1,549 | (53)%  |
| <b>Loss ratio<sup>(b)</sup></b>   |                                | <b>73.1</b>  | 74.9 (1.8) | <b>76.4</b>                  | 74.1     | 2.3    |
| Acquisition ratio   |                                | <b>18.4</b>  | 15.7 2.7   | <b>18.7</b>                  | 16.1     | 2.6    |
| General operating expense ratio   |                                | <b>12.9</b>  | 11.4 1.5   | <b>13.0</b>                  | 11.9     | 1.1    |
| <b>Expense ratio</b>  |                                | <b>31.3</b>  | 27.1 4.2   | <b>31.7</b>                  | 28.0     | 3.7    |
| <b>Combined ratio<sup>(b)</sup></b>   |                                | <b>104.4</b> | 102.0 2.4  | <b>108.1</b>                 | 102.1    | 6.0    |
| <b>Adjustments for accident year loss ratio, as adjusted and accident year combined ratio, as adjusted:</b> |                                |              |            |                              |          |        |
| Catastrophe losses and reinstatement premiums   |                                | (3.7)        | (6.1) 2.4  | (7.2)                        | (5.8)    | (1.4)  |
| Prior year development, net of (additional) return premium on loss sensitive business                       |                                | 1.6          | (0.7) 2.3  | 2.1                          | 0.8      | 1.3    |
| Adjustment for ceded premiums under reinsurance contracts related to prior accident years and other         |                                | 3.0          | (1.1) 4.1  | 1.5                          | (0.6)    | 2.1    |
| <b>Accident year loss ratio, as adjusted</b>  |                                | <b>74.0</b>  | 67.0 7.0   | <b>72.8</b>                  | 68.5     | 4.3    |
| <b>Accident year combined ratio, as adjusted</b>  |                                | <b>105.3</b> | 94.1 11.2  | <b>104.5</b>                 | 96.5     | 8.0    |

(a) In the three- and six-month periods ended June 30, 2018, the Underwriting loss included an additional \$115 million of net premiums earned for multi-year policies related to earlier accident years.

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

ITEM 2 | **Business Segment Operations** | **General Insurance****Business and Financial Highlights**

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

Adjusted pre-tax income decreased in the three- and six-month periods ended June 30, 2018 compared to the same periods in the prior year, primarily due to lower net investment income reflecting lower investment returns on alternative investments, decline in income from securities for which the fair value option was elected and lower interest and dividends due to lower invested assets resulting from the first quarter 2017 funding of the adverse development reinsurance agreement with NICO.

In the three-month period ended June 30, 2018, compared to the same period in the prior year, the loss ratio decreased primarily due to lower catastrophe losses and favorable prior year loss reserve development partially offset by higher current accident year loss ratio, as adjusted. In the six-month period ended June 30, 2018, compared to the same period in the prior year, the loss ratio increased primarily due to the higher catastrophe losses and higher current accident year loss ratio, as adjusted.

The increase in the current accident year loss ratio, as adjusted, was mainly driven by higher severe losses, an increase in Excess casualty and Financial Lines loss estimates which occurred in the second half of 2017, and higher ceded earned premiums related to the 2018 North American catastrophe reinsurance program, which were partially offset by a favorable change in the portfolio mix.

Net premiums written increased in the three-month period ended June 30, 2018 compared to the same period in the prior year primarily due to lower ceded premiums driven by changes in the 2018 reinsurance programs and portfolio mix. Net premiums written decreased in the six-month period ended June 30, 2018 compared to the same period in the prior year mainly due to lower production primarily in Property and remediation in programs business partially offset by growth in the Travel business within Personal Insurance.

**North America Adjusted Pre-Tax Income****Three Months Ended June 30,**

*(in millions)*



### Quarterly 2018 and 2017 Comparison

Adjusted pre-tax income decreased primarily due to:

- lower investment returns on alternative investments, primarily driven by less robust private equity and hedge fund performance compared to the same period in 2017, and a decline in income from securities for which the fair value option was elected, as a result of credit spread widening and rising interest rates;
- higher current accident year loss ratio, as adjusted, due to higher severe losses, higher ceded premiums related to the 2018 North American catastrophe reinsurance program, and an increase in Excess casualty and Financial Lines loss estimates which occurred in the second half of 2017, partially offset by a favorable change in the portfolio mix;
- higher acquisition expenses primarily driven by changes in Personal Insurance's portfolio mix and higher insurance taxes, licenses and fees; and
- higher general operating expenses primarily driven by targeted investment in strategic program initiatives.

This decrease was partially offset by lower catastrophe losses and favorable prior year loss reserve development.

ITEM 2 | **Business Segment Operations** | **General Insurance**

**North America Adjusted Pre-Tax Income**

**Six Months Ended June 30,**

*(in millions)*

**Year-to-Date 2018 and 2017 Comparison**

Adjusted pre-tax income decreased primarily due to:

- lower investment returns on alternative investments, primarily driven by less robust private equity and hedge fund performance compared to the same period in 2017, and a decline in income from securities for which the fair value option was elected, as a result of credit spread widening and rising interest rates, as well as lower interest and dividends due to lower invested assets resulting from the first quarter 2017 funding of the adverse development reinsurance agreement with NICO;
- higher current accident year loss ratio, as adjusted, due to higher severe losses, higher ceded premiums related to the 2018 North American catastrophe reinsurance program, and an increase in Excess casualty and Financial Lines loss estimates which occurred in the second half of 2017, partially offset by a favorable change in the portfolio mix;
- higher acquisition expenses primarily driven by changes in Personal Insurance's portfolio mix and higher insurance taxes, licenses and fees; and
- higher catastrophe losses.

This decrease was partially offset by higher favorable prior year loss reserve development compared to unfavorable loss reserve development in the prior-year period.

**North America Net Premiums Written**

**Three Months Ended June 30,**

*(in millions)*

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

Net premiums written increased primarily due to:

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

This increase was partially offset by lower production primarily in Property and remediation in programs business mainly due to underwriting actions taken to strengthen our portfolio and to maintain pricing discipline.

ITEM 2 | **Business Segment Operations** | **General Insurance**

**North America Net Premiums Written**

**Six Months Ended June 30,**

*(in millions)*

**Year-to-Date 2018 and 2017 Comparison**

Net premiums written decreased primarily due to lower production primarily in Property, D&O products within Financial Lines and remediation in programs business mainly due to underwriting actions taken to strengthen our portfolio and to maintain pricing discipline.

This decrease was partially offset by growth in the Travel business within Personal Insurance.

**North America Combined Ratios**

**Three Months Ended June 30,**

### Quarterly 2018 and 2017 Comparison

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

The increase in the expense ratio reflected:

- a higher acquisition ratio driven primarily by changes in Personal Insurance's portfolio mix and higher insurance taxes, licenses and fees; and
- a higher general operating expense ratio primarily driven by targeted investment in strategic program initiatives.

The decrease in the loss ratio reflected lower catastrophe losses and favorable prior year loss reserve development.

This decrease was partially offset by higher current accident year loss ratio, as adjusted, due to:

- higher severe losses;
- higher ceded earned premiums related to the 2018 North American catastrophe reinsurance program; and
- an increase in Excess casualty and Financial Lines loss estimates which occurred in the second half of 2017.

ITEM 2 | **Business Segment Operations** | **General Insurance**

**North America Combined Ratios**

**Six Months Ended June 30,**



### Year-to-Date 2018 and 2017 Comparison

The increase in the combined ratio reflected an increase in both the loss ratio and the expense ratio.

The increase in the loss ratio was primarily due to higher catastrophe losses and higher current accident year loss ratio, as adjusted, partially offset by higher favorable prior year loss reserve development.

The increase in the current accident year loss ratio, as adjusted, was primarily due to:

- higher severe losses;
- higher ceded earned premiums related to the 2018 North American catastrophe reinsurance program; and
- an increase in Excess casualty and Financial Lines loss estimates in the second half of 2017, which was partially offset by a favorable change in the portfolio mix.

The increase in the expense ratio reflected:

- a higher acquisition ratio primarily due to changes in Personal Insurance's portfolio mix and higher insurance taxes, licenses and fees; and
- a higher general operating expense ratio primarily driven by targeted investment in strategic program initiatives.

## ITEM 2 | Business Segment Operations | General Insurance

## International Results

| <i>(in millions)</i>  | Three Months Ended June |              |        | Six Months Ended June |              |        |       |
|---|-------------------------|--------------|--------|-----------------------|--------------|--------|-------|
|   | 2018                    | 30,<br>2017  | Change | 2018                  | 30,<br>2017  | Change |       |
| <b>Underwriting results:</b>  |                         |              |        |                       |              |        |       |
| Net premiums written  | \$ 3,741                | \$ 3,547     | 5%     | \$ 7,873              | \$ 7,521     | 5%     |       |
| (Increase) decrease in unearned premiums  | (63)                    | 85           | NM     | (204)                 | (349)        | 42     |       |
| <b>Net premiums earned</b>  | <b>3,678</b>            | 3,632        | 1      | <b>7,669</b>          | 7,172        | 7      |       |
| Losses and loss adjustment expenses incurred  | <b>2,202</b>            | 2,009        | 10     | <b>4,537</b>          | 4,083        | 11     |       |
| Acquisition expenses:   |                         |              |        |                       |              |        |       |
| Amortization of deferred policy acquisition costs   | <b>662</b>              | 620          | 7      | <b>1,370</b>          | 1,206        | 14     |       |
| Other acquisition expenses  | <b>195</b>              | 237          | (18)   | <b>426</b>            | 463          | (8)    |       |
| <b>Total acquisition expenses</b>   | <b>857</b>              | 857          | -      | <b>1,796</b>          | 1,669        | 8      |       |
| General operating expenses  | <b>581</b>              | 559          | 4      | <b>1,221</b>          | 1,138        | 7      |       |
| <b>Underwriting income<sup>(a)</sup></b>  | <b>38</b>               | 207          | (82)   | <b>115</b>            | 282          | (59)   |       |
| Net investment income   | <b>123</b>              | 118          | 4      | <b>236</b>            | 276          | (14)   |       |
| <b>Adjusted pre-tax income</b>  | <b>\$ 161</b>           | \$ 325       | (50)%  | <b>\$ 351</b>         | \$ 558       | (37)%  |       |
| <b>Loss ratio</b>   |                         | <b>59.9</b>  | 55.3   | 4.6                   | <b>59.2</b>  | 56.9   | 2.3   |
| Acquisition ratio   |                         | <b>23.3</b>  | 23.6   | (0.3)                 | <b>23.4</b>  | 23.3   | 0.1   |
| General operating expense ratio   |                         | <b>15.8</b>  | 15.4   | 0.4                   | <b>15.9</b>  | 15.9   | -     |
| <b>Expense ratio</b>  |                         | <b>39.1</b>  | 39.0   | 0.1                   | <b>39.3</b>  | 39.2   | 0.1   |
| <b>Combined ratio</b>   |                         | <b>99.0</b>  | 94.3   | 4.7                   | <b>98.5</b>  | 96.1   | 2.4   |
| <b>Adjustments for accident year loss ratio, as adjusted and accident year combined ratio, as adjusted:</b> |                         |              |        |                       |              |        |       |
| Catastrophe losses and reinstatement premiums   |                         | <b>(1.2)</b> | (0.1)  | (1.1)                 | <b>(1.6)</b> | (0.9)  | (0.7) |
| Prior year development, net of (additional) return premium on loss sensitive business                       |                         | <b>0.2</b>   | (1.5)  | 1.7                   | <b>0.5</b>   | (2.2)  | 2.7   |
| Adjustment for ceded premiums under reinsurance contracts related to prior accident years                   |                         | -            | -      | NM                    | -            | -      | NM    |
| <b>Accident year loss ratio, as adjusted</b>  |                         | <b>58.9</b>  | 53.7   | 5.2                   | <b>58.1</b>  | 53.8   | 4.3   |
| <b>Accident year combined ratio, as adjusted</b>  |                         | <b>98.0</b>  | 92.7   | 5.3                   | <b>97.4</b>  | 93.0   | 4.4   |

(a) As result of the Japan Merger Impact, the six-month period ended June 30, 2018 includes two additional months of operating earnings increasing Net premiums written, Net premiums earned, Losses and loss adjustment expenses incurred, and Adjusted pre-tax income by approximately \$300 million, \$300 million, \$200 million and \$15 million, respectively.

## Business and Financial Highlights

The International General Insurance business is focused on delivering an underwriting profit and improved efficiency, further improving underwriting margins, and growing profitably in segments and geographies that support our growth strategy. This includes the execution of efficiency gains and a return to a focus on new business sales in Japan, preparation for Brexit, and a strategic review of the use of reinsurance.

Adjusted pre-tax income decreased in the three- and six-month periods ended June 30, 2018 compared to the same periods in the prior year, primarily due to higher severe, attritional and catastrophe losses, partially offset by favorable prior year loss reserve development.

Net premiums written, excluding the impact of foreign exchange, increased in the three-month period ended June 30, 2018 primarily due to higher premiums in the Accident & Health business and the inclusion of the seasonally large Fuji annual policy renewal period, which in previous years was reported in the third quarter, partially offset by the sale of certain insurance operations and assets to Fairfax. Net premiums written, excluding the impact of foreign exchange, in the six-month period ended June 30, 2018 also reflected the Japan Merger Impact and higher ceded premiums related to the changes in 2018 reinsurance programs resulting in a decrease compared to the same period in the prior year.

ITEM 2 | **Business Segment Operations** | **General Insurance**

**International Adjusted Pre-Tax Income**

**Three Months Ended June 30,**

*(in millions)*

**Quarterly 2018 and 2017 Comparison**

Adjusted pre-tax income decreased due to higher severe, attritional and catastrophe losses. This decrease was partially offset by favorable prior year loss reserve development in the second quarter of 2018 compared to unfavorable development in the prior year period.

**International Adjusted Pre-Tax Income**

**Six Months Ended June 30,**

*(in millions)*

**Year-to-Date 2018 and 2017 Comparison**

Adjusted pre-tax income decreased due to:

- higher current accident year loss ratio, as adjusted, driven primarily by higher severe and attritional losses, and higher ceded earned premiums related to the additional reinsurance protection against severe losses added for international locations on a global basis and the 2018 catastrophe reinsurance program;
- lower investment returns on alternative investments, primarily driven by less robust private equity and hedge fund performance compared to the same period in

2017, and a decline in income from securities for which the fair value option was elected, as a result of credit spread widening and rising interest rates; and

- higher catastrophe losses.

This decrease was partially offset by favorable prior year loss reserve development in the first half of 2018 compared to unfavorable development in the prior year mainly resulting from the reduction in the Ogden discount rate.

ITEM 2 | **Business Segment Operations** | **General Insurance**

**International Net Premiums Written**

**Three Months Ended June 30,**

*(in millions)*

**Quarterly 2018 and 2017 Comparison**

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

- higher premiums driven by Accident & Health business;
- growth in the Financial Lines business in Europe; and
- higher premiums in Japan driven in part by the annual policy renewal period being reported in the second quarter of 2018 compared to the third quarter of the prior year as a result of conforming Fuji's fiscal reporting period following its merger into AIG Sonpo.

These increases were partially offset by:

- the sale of certain insurance operations and assets to Fairfax; and
- lower new business production in Japan resulting from a focus on servicing existing renewals, remediation of certain distribution channels and reduction in the direct-to-policyholder business, for which new business was discontinued in 2016.

**International Net Premiums Written**

**Six Months Ended June 30,**

*(in millions)*

### Year-to-Date 2018 and 2017 Comparison

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

- the sale of certain insurance operations and assets to Fairfax;
- higher ceded premiums due to changes in 2018 reinsurance programs;
- lower new business production in Japan resulting from a focus on servicing existing renewals, remediation of certain distribution channels and reduction in the direct-to-policyholder business, for which new business was discontinued in 2016; and
- lower production in Property and Casualty primarily driven by execution of our portfolio optimization strategy in Europe.

This decrease was partially offset by:

- higher premiums driven by the Accident & Health business;
- growth of the Financial Lines business in Europe; and
- the Japan Merger Impact.

ITEM 2 | **Business Segment Operations** | **General Insurance**

**International Combined Ratios**

**Three Months Ended June 30,**

**Quarterly 2018 and 2017 Comparison**

The increase in combined ratio primarily reflected a higher loss ratio while the expense ratio remained relatively flat.

The increase in the loss ratio was primarily due to:

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

This increase in the loss ratio was partially offset by favorable prior year loss reserve development in the second quarter of 2018 compared to unfavorable development in the prior year period.

**International Combined Ratios**

**Six Months Ended June 30,**

**Year-to-Date 2018 and 2017 Comparison**

The increase in combined ratio primarily reflected a higher loss ratio while the expense ratio remained relatively flat.

The increase in the loss ratio was primarily due to:

- higher current accident year loss ratio, as adjusted, driven by higher severe and attritional losses, and higher ceded earned premiums; and
- higher catastrophe losses.

This increase in the loss ratio was partially offset by favorable prior year loss reserve development in the first half of 2018 compared to unfavorable development in the prior year period mainly resulting from the reduction



in the Ogden discount rate.

ITEM 2 | **Business Segment Operations | Life and Retirement**

Life and Retirement

**PRODUCTS AND DISTRIBUTION**

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

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

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

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

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

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

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

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

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

ITEM 2 | **Business Segment Operations | Life and Retirement****BUSINESS STRATEGY**

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

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

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

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

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

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

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

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

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

that simplifying our operating models will enhance productivity and support further profitable growth.

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

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

ITEM 2 | **Business Segment Operations | Life and Retirement****COMPETITION and challenges**

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

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

Our primary challenges include:

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

**OUTLOOK—INDUSTRY AND ECONOMIC FACTORS**

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

**Individual Retirement**

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

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

**Group Retirement**

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

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



ITEM 2 | **Business Segment Operations | Life and Retirement****Life Insurance**

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

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

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

**Institutional Markets**

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

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

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

**life and retirement RESULTS**

| <i>(in millions)</i>  | <b>Three Months Ended</b> |             | Percentage Change | <b>Six Months Ended</b> |             | Percentage Change |
|-----------------------|---------------------------|-------------|-------------------|-------------------------|-------------|-------------------|
|                       | <b>June 30, 2018</b>      | <b>2017</b> |                   | <b>June 30, 2018</b>    | <b>2017</b> |                   |
| <b>Revenues:</b>      |                           |             |                   |                         |             |                   |
| Premiums              | \$ 490                    | \$ 502      | (2)%              | \$ 936                  | \$1,338     | (30)%             |
| Policy fees           | 731                       | 694         | 5                 | 1,465                   | 1,382       | 6                 |
| Net investment income | 1,995                     | 1,944       | 3                 | 4,041                   | 3,906       | 3                 |

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|  |               |        |      |                |         |      |
|--|---------------|--------|------|----------------|---------|------|
| Other income                                       | <b>249</b>    | 225    | 11   | <b>483</b>     | 442     | 9    |
| Total adjusted revenues                            | <b>3,465</b>  | 3,365  | 3    | <b>6,925</b>   | 7,068   | (2)  |
| <b>Benefits and expenses:</b>                      |               |        |      |                |         |      |
| Policyholder benefits and losses incurred          | <b>770</b>    | 767    | -    | <b>1,600</b>   | 1,877   | (15) |
| Interest credited to policyholder account balances | <b>869</b>    | 851    | 2    | <b>1,723</b>   | 1,697   | 2    |
| Amortization of deferred policy acquisition costs  | <b>225</b>    | 199    | 13   | <b>471</b>     | 427     | 10   |
| General operating and other expenses*              | <b>599</b>    | 536    | 12   | <b>1,199</b>   | 1,133   | 6    |
| Interest expense                                   | <b>40</b>     | 19     | 111  | <b>78</b>      | 43      | 81   |
| Total operating expenses                           | <b>2,503</b>  | 2,372  | 6    | <b>5,071</b>   | 5,177   | (2)  |
| <b>Adjusted pre-tax income</b>                     | <b>\$ 962</b> | \$ 993 | (3)% | <b>\$1,854</b> | \$1,891 | (2)% |

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

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

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

ITEM 2 | **Business Segment Operations | Life and Retirement****Individual Retirement Results**

| <i>(in millions)</i>                               | <b>Three Months Ended</b> |             |                   | <b>Six Months Ended</b> |             |                   |
|--|---------------------------|-------------|-------------------|-------------------------|-------------|-------------------|
|  | <b>June 30,</b>           |             | <b>Percentage</b> | <b>June 30,</b>         |             | <b>Percentage</b> |
|  | <b>2018</b>               | <b>2017</b> | <b>Change</b>     | <b>2018</b>             | <b>2017</b> | <b>Change</b>     |
| <b>Revenues:</b>                                   |                           |             |                   |                         |             |                   |
| Premiums   | \$ 16                     | \$ 31       | (48)%             | \$ 28                   | \$ 59       | (53)%             |
| Policy fees  | 202                       | 192         | 5                 | 406                     | 377         | 8                 |
| Net investment income                              | 975                       | 1,003       | (3)               | 1,959                   | 2,010       | (3)               |
| Advisory fee and other income                      | 173                       | 157         | 10                | 334                     | 310         | 8                 |
| <b>Benefits and expenses:</b>                      |                           |             |                   |                         |             |                   |
| Policyholder benefits and losses incurred          | 85                        | 36          | 136               | 132                     | 73          | 81                |
| Interest credited to policyholder account balances | 415                       | 412         | 1                 | 827                     | 827         | -                 |
| Amortization of deferred policy acquisition costs  | 130                       | 126         | 3                 | 264                     | 255         | 4                 |
| Non deferrable insurance commissions               | 80                        | 73          | 10                | 161                     | 145         | 11                |
| Advisory fee expenses                              | 67                        | 60          | 12                | 121                     | 118         | 3                 |
| General operating expenses                         | 107                       | 108         | (1)               | 222                     | 218         | 2                 |
| Interest expense                                   | 20                        | 10          | 100               | 39                      | 23          | 70                |
| <b>Adjusted pre-tax income</b>                     | \$ 462                    | \$ 558      | (17)%             | \$ 961                  | \$ 1,097    | (12)%             |
| <b>Fixed Annuities base net investment spread:</b> |                           |             |                   |                         |             |                   |
| Base yield   | 4.72%                     | 4.87%       | (15)bps           | 4.66%                   | 4.89%       | (23)bps           |
| Cost of funds                                      | 2.64                      | 2.64        | -                 | 2.65                    | 2.66        | (1)               |
| <b>Fixed Annuities base net investment spread</b>  | <b>2.08%</b>              | 2.23%       | (15)bps           | <b>2.01%</b>            | 2.23%       | (22)bps           |

**Business and Financial Highlights**

The market environment continues to reflect uncertainties in the annuity business resulting from a sustained low interest rate environment. While interest rates continue to increase, rates remain low relative to historical levels. Premiums and deposits improved in the three- and six-month periods ended June 30, 2018 compared to the same periods in the prior year. Premiums and deposits in the six-month period ended June 30, 2018 included deposits from the FHLB funding agreement. Net flows in the three- and six-month periods ended June 30, 2018 deteriorated compared to the same periods in the prior year and continued to be negative primarily due to higher surrenders and withdrawals, primarily in Retail Mutual Funds.

Adjusted pre-tax income decreased in the three- and six-month periods ended June 30, 2018 compared to the same periods in the prior year, reflecting higher policyholder benefits, and decreases in equity market performance, Fixed Annuity base net investment spread and gains on securities for which the fair value option was elected. Partially offsetting these decreases were higher policy fees and advisory fees, increased base portfolio income for Index Annuities and, in the six-month period ended June 30, 2018, the receipt of non-recurring payments on structured securities.

Fixed Annuities base net investment spread in the three- and six-month periods ended June 30, 2018, excluding accretion and other investment income, declined compared to the same periods in the prior year primarily due to lower reinvestment yields.

ITEM 2 | **Business Segment Operations | Life and Retirement**

**Individual Retirement Adjusted Pre-Tax Income**

**Three Months Ended June 30,**

*(in millions)*

**Quarterly 2018 and 2017 Comparison**

Adjusted pre-tax income decreased primarily due to:

- higher policyholder benefits, which reflected unfavorable actuarial adjustments to Variable Annuities in the three-month period ended June 30, 2018 compared to favorable adjustments to immediate annuities in the prior year period;
- a decline in net investment income, primarily due to lower gains on securities for which the fair value option was elected;
- a decline in Fixed Annuity base net investment spread driven by lower reinvestment yields, partially offset by increases from accretion and other investment income. In addition, income from base portfolio reflected declines due to lower invested assets in Fixed Annuities; and
- lower equity market performance in the three-month period ended June 30, 2018, which contributed to an increase in DAC amortization.

Partially offsetting these decreases were:

- higher Index Annuity base portfolio income reflecting growth in assets; and
- higher policy fees and advisory fees, net of expenses, primarily driven by asset growth in Index and Variable Annuities.

**Individual Retirement Adjusted Pre-Tax Income**

**Six Months Ended June 30,**

(in millions)

### Year-to-Date 2018 and 2017 Comparison

Adjusted pre-tax income decreased primarily due to:

- higher policyholder benefits, which reflected unfavorable actuarial adjustments to Variable Annuities in the six-month period ended June 30, 2018 compared to favorable adjustments to immediate annuities in the prior year period;
- a decline in net investment income, primarily from lower gains on securities for which the fair value option was elected and income from bond call and tender, partially offset by the receipt of non-recurring payments on structured securities;
- lower equity market performance in the six-month period ended June 30, 2018, which contributed to increases in policyholder benefits and DAC amortization; and
- a decline in Fixed Annuity base net investment spread driven by lower reinvestment yields, partially offset by increases from accretion and other investment income. In addition, income from base portfolio reflected declines due to lower invested assets in Fixed Annuities.

Partially offsetting these decreases were:

- higher Index Annuity base portfolio income reflecting growth in assets; and
- higher policy fees and advisory fees, net of expenses, primarily driven by asset growth in Index and Variable Annuities.

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ITEM 2 | **Business Segment Operations | Life and Retirement****Individual Retirement GAAP Premiums, Premiums and Deposits, Surrenders and Net Flows**

For Individual Retirement, premiums primarily represent amounts received on life-contingent payout annuities. Premiums decreased in the three- and six-month periods ended June 30, 2018 compared to the same periods in the prior year, primarily due to competitive market rates.

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

Net flows for annuity products in Individual Retirement represent premiums and deposits less death, surrender and other withdrawal benefits. Net flows for mutual funds represent deposits less withdrawals. Deposits from FHLB funding agreements were excluded from net flows of Individual Retirement, as net flows from these funding agreements are not considered part of the metric to measure Individual Retirement's core recurring performance.

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

| <i>(in millions)</i>         | <b>Three Months Ended</b> |                 | <b>Six Months Ended</b> |                 |
|------------------------------|---------------------------|-----------------|-------------------------|-----------------|
|                              | <b>June 30,</b>           |                 | <b>June 30,</b>         |                 |
|                              | <b>2018</b>               | <b>2017</b>     | <b>2018</b>             | <b>2017</b>     |
| Premiums                     | \$ 16                     | \$ 31           | \$ 28                   | \$ 59           |
| Deposits                     | 3,408                     | 2,862           | 7,755                   | 6,219           |
| Other                        | (2)                       | (1)             | (3)                     | (4)             |
| <b>Premiums and deposits</b> | <b>\$ 3,422</b>           | <b>\$ 2,892</b> | <b>\$ 7,780</b>         | <b>\$ 6,274</b> |

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

|   | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             |
|---|---------------------------|-------------|-------------------------|-------------|
|   | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|   | <b>2018</b>               | <b>2017</b> | <b>2018</b>             | <b>2017</b> |
| <b>Surrenders as a percentage of average reserves</b> |                           |             |                         |             |
| Fixed Annuities                                       | 8.1%                      | 7.0%        | 7.7%                    | 7.0%        |
| Variable and Index Annuities                          | 6.3                       | 6.2         | 6.3                     | 6.1         |

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

| <i>(in millions)</i> | <b>June 30, 2018</b>   |                                     | <b>December 31, 2017</b> |                                     |
|----------------------|------------------------|-------------------------------------|--------------------------|-------------------------------------|
|                      | <b>Fixed Annuities</b> | <b>Variable and Index Annuities</b> | <b>Fixed Annuities</b>   | <b>Variable and Index Annuities</b> |
| No surrender charge  | \$ 31,199              | \$ 19,800                           | \$ 32,299                | \$ 18,896                           |
| Greater than 0% - 2% | 1,637                  | 6,371                               | 1,704                    | 6,045                               |

|                       |                  |                  |                  |                  |
|-----------------------|------------------|------------------|------------------|------------------|
| Greater than 2% - 4%  | 1,456            | 10,229           | 1,560            | 9,470            |
| Greater than 4%       | 14,091           | 33,377           | 13,329           | 34,677           |
| Non-surrenderable     | 1,629            | 452              | 1,665            | 429              |
| <b>Total reserves</b> | <b>\$ 50,012</b> | <b>\$ 70,229</b> | <b>\$ 50,557</b> | <b>\$ 69,517</b> |

Individual Retirement annuities are typically subject to a four- to seven-year surrender charge period, depending on the product. For Variable and Index Annuities, the proportion of reserves subject to surrender charges at June 30, 2018 has decreased compared to December 31, 2017 due to normal aging of the business and continued decline in sales. The increase in reserves with no surrender charge contributed to the increase in the surrender rate for Variable and Index Annuities in the three- and six-month periods ended June 30, 2018 compared to the same periods in the prior year. Increases in market interest rates in the six-month period ended June 30, 2018 contributed to the increase in the surrender rate for Fixed Annuities in the six-month period ended June 30, 2018 compared to the same period in the prior year.





ITEM 2 | **Business Segment Operations | Life and Retirement**

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

**Individual Retirement Premiums and Deposits (P&D) and Net Flows****Three Months Ended June 30,***(in millions)***Quarterly 2018 and 2017 Comparison**

- **Fixed Annuities** premiums and deposits increased primarily due to higher broker dealer and bank distribution sales driven by favorable market conditions. Net flows continued to be negative but improved primarily due to higher premiums and deposits, partially offset by increased surrenders.
- **Variable and Index Annuities** premiums and deposits increased primarily due to higher index annuity sales driven by expanded distribution and market growth, partially offset by lower variable annuity sales driven by lower bank and broker dealer distribution sales. Index annuity net flows increased primarily due to higher sales. Variable annuity net flows remained negative and deteriorated primarily due to lower sales and higher surrenders.
- **Retail Mutual Funds** net flows remained negative and deteriorated reflecting lower deposits and higher withdrawals due to continued negative industry trends in U.S. equity actively managed funds and the impact of underperformance within our largest fund in early 2018.

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

### Year-to-Date 2018 and 2017 Comparison

- **Fixed Annuities** premiums and deposits increased primarily due to higher broker dealer and bank distribution sales driven by favorable market conditions. Net flows continued to be negative but improved primarily due to higher premiums and deposits, partially offset by increased surrenders.
- **Variable and Index Annuities** premiums and deposits increased primarily due to higher index annuity sales driven by expanded distribution and market growth, partially offset by lower variable annuity sales driven by lower bank and broker dealer distribution sales. Index annuity net flows increased primarily due to higher sales. Variable annuity net flows remained negative and deteriorated primarily due to lower sales and higher surrenders.
- **Funding Agreements** premiums and deposits in the six-month period ended June 30, 2018 reflected deposits from the FHLB funding agreement, which were excluded from reported net flows.
- **Retail Mutual Funds** net flows remained negative and deteriorated reflecting lower deposits and higher withdrawals due to continued negative industry trends in U.S. equity actively managed funds and the impact of underperformance within our largest fund in early 2018.

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ITEM 2 | **Business Segment Operations | Life and Retirement****Group Retirement Results**

| <i>(in millions)</i>                               | <b>Three Months Ended</b> |               |                   | <b>Six Months Ended</b> |               |                   |
|--|---------------------------|---------------|-------------------|-------------------------|---------------|-------------------|
|  | <b>June 30,</b>           |               | <b>Percentage</b> | <b>June 30,</b>         |               | <b>Percentage</b> |
|  | <b>2018</b>               | <b>2017</b>   | <b>Change</b>     | <b>2018</b>             | <b>2017</b>   | <b>Change</b>     |
| <b>Revenues:</b>                                   |                           |               |                   |                         |               |                   |
| Premiums   | \$ 15                     | \$ 4          | 275%              | \$ 21                   | \$ 13         | 62%               |
| Policy fees  | 112                       | 101           | 11                | 224                     | 200           | 12                |
| Net investment income                              | 542                       | 535           | 1                 | 1,124                   | 1,090         | 3                 |
| Advisory fee and other income                      | 61                        | 56            | 9                 | 122                     | 111           | 10                |
| <b>Benefits and expenses:</b>                      |                           |               |                   |                         |               |                   |
| Policyholder benefits and losses incurred          | 22                        | 5             | 340               | 38                      | 26            | 46                |
| Interest credited to policyholder account balances | 276                       | 284           | (3)               | 551                     | 562           | (2)               |
| Amortization of deferred policy acquisition costs  | 26                        | 25            | 4                 | 51                      | 47            | 9                 |
| Non deferrable insurance commissions               | 28                        | 25            | 12                | 57                      | 52            | 10                |
| Advisory fee expenses                              | 19                        | 19            | -                 | 41                      | 37            | 11                |
| General operating expenses                         | 98                        | 66            | 48                | 200                     | 168           | 19                |
| Interest expense                                   | 11                        | 6             | 83                | 21                      | 13            | 62                |
| <b>Adjusted pre-tax income</b>                     | <b>\$ 250</b>             | <b>\$ 266</b> | <b>(6)%</b>       | <b>\$ 532</b>           | <b>\$ 509</b> | <b>5%</b>         |
| <b>Base net investment spread:</b>                 |                           |               |                   |                         |               |                   |
| Base yield   | 4.56%                     | 4.47%         | 9bps              | 4.54%                   | 4.58%         | (4)bps            |
| Cost of funds                                      | 2.69                      | 2.82          | (13)              | 2.70                    | 2.82          | (12)              |
| <b>Base net investment spread</b>                  | <b>1.87%</b>              | <b>1.65%</b>  | <b>22bps</b>      | <b>1.84%</b>            | <b>1.76%</b>  | <b>8bps</b>       |

**Business and Financial Highlights**

Group Retirement is focused on implementing initiatives to grow its business. However, external factors, including the consolidation of healthcare providers and other employers in target markets, continue to impact Group Retirement's customer retention. Premiums and deposits increased in the three- and six-month periods ended June 30, 2018 compared to the same periods in the prior year. Premiums and deposits in the six-month period ended June 30, 2018 included deposits from the FHLB funding agreement. Net flows deteriorated in the three- and six-month periods ended June 30, 2018 compared to the same periods in the prior year and continued to be negative primarily due to higher surrenders, partially offset by increased deposits.

Adjusted pre-tax income decreased in the three-month period ended June 30, 2018 as improvements in base net investment spread and higher policy fees were more than offset by higher general operating expenses. Adjusted pre-tax income increased in the six-month period ended June 30, 2018 reflecting improved base net investment spread, higher policy fees and the receipt of non-recurring payments on structured securities, partially offset by higher general operating expenses and decreases in gains on securities for which the fair value option was elected and income from bond call and tender.

Group Retirement base net investment spread improved in the three- and six-month periods ended June 30, 2018 compared to the same periods in the prior year primarily due to effective crediting rate management, higher accretion and other investment income, partially offset by lower reinvestment yields. Excluding accretion and other investment income, base spreads were in line with the prior year periods.

ITEM 2 | **Business Segment Operations | Life and Retirement**

**Group Retirement Adjusted Pre-Tax Income**

**Three Months Ended June 30,**

*(in millions)*

**Quarterly 2018 and 2017 Comparison**

Adjusted pre-tax income decreased primarily due to:

- higher general operating expenses, which reflected lower legal expenses in the three-month period ended June 30, 2017 and continued investments in people and technology in the three-month period ended June 30, 2018; and
- an increase in policyholder benefits primarily due an increase in reserves for guaranteed minimum death benefits.

Partially offsetting these decreases were:

- an increase in net investment spread primarily due to effective crediting rate management, higher accretion and other investment income, partially offset by lower reinvestment yields; and
- higher policy fees primarily driven by growth in separate account assets.

**Group Retirement Adjusted Pre-Tax Income**

**Six Months Ended June 30,**

*(in millions)*

**Year-to-Date 2018 and 2017 Comparison**

Adjusted pre-tax income increased primarily due to:

- higher net investment income, primarily from the receipt of non-recurring payments on structured securities, partially offset by lower gains on securities for which the fair value option was elected and income

from bond call and tender activity;

- an increase in net investment spread primarily due to effective crediting rate management, higher accretion and other investment income, partially offset by lower reinvestment yields; and
- higher policy fees primarily driven by growth in assets.

Partially offsetting these increases were higher general operating expenses, which reflected lower legal expenses in the six-month period ended June 30, 2017 and continued investments in people and technology in the six-month period ended June 30, 2018.

ITEM 2 | **Business Segment Operations | Life and Retirement****Group Retirement GAAP Premiums, Premiums and Deposits, Surrenders and Net Flows**

For Group Retirement, premiums primarily represent amounts received on life-contingent payout annuities. Premiums in the three- and six-month periods ended June 30, 2018, which primarily represent immediate annuities, increased compared to the same periods in the prior year reflecting the typical volumes expected for this product.

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

Net flows for annuity products included in Group Retirement represent premiums and deposits less death, surrender and other withdrawal benefits. Net flows for mutual funds represent deposits less withdrawals. Deposits from FHLB funding agreements were excluded from net flows of Group Retirement, as net flows from these funding agreements are not considered part of the metric to measure Group Retirement's core recurring performance.

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

| <i>(in millions)</i>         | <b>Three Months Ended</b> |          | <b>Six Months Ended</b> |          |
|------------------------------|---------------------------|----------|-------------------------|----------|
|                              | <b>June 30,</b>           |          | <b>June 30,</b>         |          |
|                              | <b>2018</b>               | 2017     | <b>2018</b>             | 2017     |
| Premiums                     | \$ 15                     | \$ 4     | \$ 21                   | \$ 13    |
| Deposits                     | <b>2,330</b>              | 1,798    | <b>4,396</b>            | 3,829    |
| <b>Premiums and deposits</b> | <b>\$ 2,345</b>           | \$ 1,802 | <b>\$ 4,417</b>         | \$ 3,842 |

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

|   | <b>Three Months</b> |      | <b>Six Months</b> |      |
|---|---------------------|------|-------------------|------|
|   | <b>Ended</b>        |      | <b>Ended</b>      |      |
|   | <b>June 30,</b>     |      | <b>June 30,</b>   |      |
|   | <b>2018</b>         | 2017 | <b>2018</b>       | 2017 |
| Surrenders as a percentage of average reserves and mutual funds | <b>10.9%</b>        | 8.0% | <b>10.5%</b>      | 9.1% |

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

| <i>(in millions)</i>               | <b>June 30,</b>           | <b>December 31,</b>       |
|------------------------------------|---------------------------|---------------------------|
|                                    | <b>2018<sup>(a)</sup></b> | <b>2017<sup>(a)</sup></b> |
| No surrender charge <sup>(b)</sup> | \$ <b>69,085</b>          | \$ 69,006                 |
| Greater than 0% - 2%               | <b>750</b>                | 1,087                     |
| Greater than 2% - 4%               | <b>1,291</b>              | 1,344                     |
| Greater than 4%                    | <b>5,744</b>              | 5,270                     |



|                       |  |                  |  |                  |
|-----------------------|--|------------------|--|------------------|
| Non-surrenderable     |  | 612              |  | 439              |
| <b>Total reserves</b> |  | <b>\$ 77,482</b> |  | <b>\$ 77,146</b> |

(a) Excludes mutual fund assets under administration of \$20.1 billion and \$20.2 billion at June 30, 2018 and December 31, 2017, respectively.

(b) Group Retirement amounts in this category include reserves of approximately \$6.3 billion, at both June 30, 2018 and December 31, 2017, which are subject to 20 percent annual withdrawal limitations.

Group Retirement annuities are typically subject to a five- to seven-year surrender charge period, depending on the product. At June 30, 2018, Group Retirement annuity reserves increased compared to December 31, 2017 primarily due to increased deposits. The surrender rate in the three- and six-month periods ended June 30, 2018 increased compared to the same periods in the prior year primarily due to higher surrenders, including approximately \$870 million of large group plan surrenders.

ITEM 2 | **Business Segment Operations | Life and Retirement**

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

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

**Three Months Ended June 30,**

*(in millions)*

**Quarterly 2018 and 2017 Comparison**

Net flows deteriorated and continued to be negative primarily due to higher surrenders driven mainly by the consolidation of healthcare providers, partially offset by higher group acquisition deposits.

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

**Six Months Ended June 30,**

*(in millions)*

**Year-to-Date 2018 and 2017 Comparison**

Net flows deteriorated and continued to be negative primarily due to higher surrenders driven mainly by the consolidation of healthcare providers, including approximately \$870 million of large group plan surrenders, partially offset by higher group acquisition and individual annuity deposits. Premiums and deposits in the six-month period ended June 30, 2018 reflected deposits from the FHLB funding agreement, which were excluded from reported net flows.



ITEM 2 | **Business Segment Operations | Life and Retirement****Life Insurance Results**

| <i>(in millions)</i>                               | <b>Three Months Ended</b> |               |                   | <b>Six Months Ended</b> |               |                   |
|--|---------------------------|---------------|-------------------|-------------------------|---------------|-------------------|
|  | <b>June 30,</b>           |               | <b>Percentage</b> | <b>June 30,</b>         |               | <b>Percentage</b> |
|  | <b>2018</b>               | <b>2017</b>   | <b>Change</b>     | <b>2018</b>             | <b>2017</b>   | <b>Change</b>     |
| <b>Revenues:</b>                                   |                           |               |                   |                         |               |                   |
| Premiums   | \$ 418                    | \$ 400        | 5%                | \$ 797                  | \$ 784        | 2%                |
| Policy fees  | 377                       | 357           | 6                 | 754                     | 717           | 5                 |
| Net investment income                              | 282                       | 261           | 8                 | 575                     | 521           | 10                |
| Other income                                       | 15                        | 12            | 25                | 27                      | 21            | 29                |
| <b>Benefits and expenses:</b>                      |                           |               |                   |                         |               |                   |
| Policyholder benefits and losses incurred          | 571                       | 615           | (7)               | 1,217                   | 1,208         | 1                 |
| Interest credited to policyholder account balances | 94                        | 93            | 1                 | 189                     | 188           | 1                 |
| Amortization of deferred policy acquisition costs  | 68                        | 48            | 42                | 154                     | 124           | 24                |
| Non deferrable insurance commissions               | 20                        | 25            | (20)              | 42                      | 56            | (25)              |
| General operating expenses                         | 158                       | 141           | 12                | 312                     | 302           | 3                 |
| Interest expense                                   | 6                         | 2             | 200               | 12                      | 5             | 140               |
| <b>Adjusted pre-tax income</b>                     | <b>\$ 175</b>             | <b>\$ 106</b> | <b>65%</b>        | <b>\$ 227</b>           | <b>\$ 160</b> | <b>42%</b>        |

**Business and Financial Highlights**

Life Insurance is focused on selling profitable new products through strategic channels to enhance future returns. Premiums and deposits in the three- and six-month periods ended June 30, 2018 reflected growth in universal life deposits, term life premiums and international life and health premiums, partially offset by lower group benefits premiums. Adjusted pre-tax income in the three- and six-month periods ended June 30, 2018 increased compared to the same periods in the prior year, which reflected favorable actuarial adjustments to universal life, favorable ceded premium reinsurance adjustments and higher base portfolio net investment income, partially offset by the impact of the aging of the policyholder population base. Adjusted pre-tax income in the six-month period ended June 30, 2018 included higher income from alternative investments.

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

### Quarterly 2018 and 2017 Comparison

Adjusted pre-tax income increased primarily due to:

- favorable actuarial adjustments to universal life, partially offset by the impact of the aging of the policyholder population base in domestic individual life business;
- favorable ceded premium reinsurance adjustments in domestic life business; and
- higher net investment income primarily due to higher base portfolio income driven by growth in invested assets.

ITEM 2 | **Business Segment Operations | Life and Retirement****Life Insurance Adjusted Pre-Tax Income****Six Months Ended June 30,***(in millions)***Year-to-Date 2018 and 2017 Comparison**

Adjusted pre-tax income increased primarily due to:

- favorable actuarial adjustments to universal life, partially offset by the impact of the aging of the policyholder population base in domestic individual life business;
- favorable ceded premium reinsurance adjustments in domestic life business; and
- higher net investment income primarily due to higher base portfolio income driven by growth in invested assets and higher income from alternative investments.

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

Premiums for Life Insurance represent amounts received on traditional life insurance policies, primarily term life, international life and health and group benefits. Premiums, excluding the effect of foreign exchange, increased in the three-month period ended June 30, 2018 compared to the same period in the prior year, primarily due to growth in international life and health, including assumed premiums on business distributed by Laya Healthcare, and an increase in domestic term life premiums, partially offset by lower premiums on group benefits policies. Premiums, excluding the effect of foreign exchange, decreased slightly in the six-month period ended June 30, 2018 compared to the same period in the prior year as lower group benefits premiums more than offset the growth in international life and health and domestic term life businesses. Premiums for the three- and six-month period ended June 30, 2018 included favorable ceded premium reinsurance adjustments in domestic life business.

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

ITEM 2 | **Business Segment Operations | Life and Retirement**

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

| <i>(in millions)</i>         | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             |
|------------------------------|---------------------------|-------------|-------------------------|-------------|
|                              | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|                              | <b>2018</b>               | <b>2017</b> | <b>2018</b>             | <b>2017</b> |
| Premiums                     | \$ <b>418</b>             | \$ 400      | \$ <b>797</b>           | \$ 784      |
| Deposits                     | <b>410</b>                | 381         | <b>822</b>              | 749         |
| Other                        | <b>152</b>                | 166         | <b>330</b>              | 324         |
| <b>Premiums and deposits</b> | <b>\$ 980</b>             | \$ 947      | <b>\$ 1,949</b>         | \$ 1,857    |

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

### Life Insurance Premiums and Deposits

#### Three Months Ended June 30,

*(in millions)*

#### Quarterly 2018 and 2017 Comparison

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

### Life Insurance Premiums and Deposits

#### Six Months Ended June 30,

*(in millions)*

**Year-to-Date 2018 and 2017 Comparison**

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



ITEM 2 | **Business Segment Operations | Life and Retirement****Institutional markets Results**

| <i>(in millions)</i>                               | <b>Three Months Ended</b> |       |       | Percentage<br>Change | <b>Six Months Ended</b>  |       |                      |
|--|---------------------------|-------|-------|----------------------|--------------------------|-------|----------------------|
|  | <b>June 30,<br/>2018</b>  | 2017  |       |                      | <b>June 30,<br/>2018</b> | 2017  | Percentage<br>Change |
| <b>Revenues:</b>                                   |                           |       |       |                      |                          |       |                      |
| Premiums   | \$ 41                     | \$ 67 | (39)% | \$ 90                | \$ 482                   | (81)% |                      |
| Policy fees  | 40                        | 44    | (9)   | 81                   | 88                       | (8)   |                      |
| Net investment income                              | 196                       | 145   | 35    | 383                  | 285                      | 34    |                      |
| <b>Benefits and expenses:</b>                      |                           |       |       |                      |                          |       |                      |
| Policyholder benefits and losses incurred          | 92                        | 111   | (17)  | 213                  | 570                      | (63)  |                      |
| Interest credited to policyholder account balances | 84                        | 62    | 35    | 156                  | 120                      | 30    |                      |
| Amortization of deferred policy acquisition costs  | 1                         | -     | NM    | 2                    | 1                        | 100   |                      |
| Non deferrable insurance commissions               | 7                         | 7     | -     | 14                   | 15                       | (7)   |                      |
| General operating expenses                         | 15                        | 12    | 25    | 29                   | 22                       | 32    |                      |
| Interest expense                                   | 3                         | 1     | 200   | 6                    | 2                        | 200   |                      |
| <b>Adjusted pre-tax income</b>                     | \$ 75                     | \$ 63 | 19%   | \$ 134               | \$ 125                   | 7%    |                      |

**Business and Financial Highlights**

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

**Institutional Markets Adjusted Pre-Tax Income****Three Months Ended June 30,***(in millions)***Quarterly 2018 and 2017 Comparison**

Adjusted pre-tax income increased as continued growth in reserves and assets under management drove the increase in net investment income with similar impact to interest credited to policyholder account balances. Decreases in premiums and policyholder benefits were primarily due to lower structured settlement annuity business written in the three-month period ended June

30, 2018.

ITEM 2 | **Business Segment Operations | Life and Retirement****Institutional Markets Adjusted Pre-Tax Income****Six Months Ended June 30,***(in millions)***Year-to-Date 2018 and 2017 Comparison**

Adjusted pre-tax income increased as continued growth in reserves and assets under management drove the increase in net investment income with similar impact to interest credited to policyholder account balances. Decreases in premiums and policyholder benefits were primarily due to higher pension risk transfer business written in the six-month period ended June 30, 2017.

**Institutional markets GAAP Premiums and Premiums and Deposits**

Premiums for Institutional Markets primarily represent amounts received on pension risk transfer or structured settlement annuities with life contingencies. Premiums decreased in the three-month period ended June 30, 2018 compared to the same period in the prior year primarily due to lower structured settlement annuity premiums. Premiums decreased in the six-month period ended June 30, 2018 compared to the same period in the prior year primarily driven by the pension risk transfer business written in the six-month period ended June 30, 2017 and lower structured settlement annuity premiums in the six-month period ended June 30, 2018.

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

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

| <i>(in millions)</i>         | <b>Three Months Ended</b> |        | <b>Six Months Ended</b> |        |
|------------------------------|---------------------------|--------|-------------------------|--------|
|                              | <b>June 30,</b>           |        | <b>June 30,</b>         |        |
|                              | <b>2018</b>               | 2017   | <b>2018</b>             | 2017   |
| Premiums                     | \$ 41                     | \$ 67  | \$ 90                   | \$ 482 |
| Deposits                     | 565                       | 76     | 1,973                   | 226    |
| Other                        | 46                        | 7      | 52                      | 15     |
| <b>Premiums and deposits</b> | \$ 652                    | \$ 150 | \$ 2,115                | \$ 723 |

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ITEM 2 | **Business Segment Operations | Life and Retirement**

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

**Institutional Markets Premiums and Deposits**

**Three Months Ended June 30,**

*(in millions)*

**Quarterly 2018 and 2017 Comparison**

Premiums and deposits increased primarily due to higher GIC deposits.

**Institutional Markets Premiums and Deposits**

**Six Months Ended June 30,**

*(in millions)*

**Year-to-Date 2018 and 2017 Comparison**

Premiums and deposits increased primarily driven by \$1.4 billion in FHLB funding agreements and higher GIC deposits, partially offset by lower sales in pension risk transfer and structured settlements.



ITEM 2 | **Business Segment Operations** | **Other Operations****Other Operations**

The following table presents Other Operations results:

| <i>(in millions)</i>                                 | Three Months Ended |                | Percentage Change | Six Months Ended |                | Percentage Change |
|--|--------------------|----------------|-------------------|------------------|----------------|-------------------|
|  | June 30, 2018      | 2017           |                   | June 30, 2018    | 2017           |                   |
| <b>Adjusted pre-tax income (loss) by activities:</b> |                    |                |                   |                  |                |                   |
| Fuji Life  | \$ -               | \$ 27          | NM%               | \$ -             | \$ 43          | NM%               |
| Parent and Other:                                    |                    |                |                   |                  |                |                   |
| Corporate general operating expenses                 | (184)              | (235)          | 22                | (337)            | (391)          | 14                |
| Interest expense                                     | (258)              | (242)          | (7)               | (496)            | (486)          | (2)               |
| Other income, net                                    | 68                 | 85             | (20)              | 117              | 161            | (27)              |
| Total Parent and Other                               | (374)              | (392)          | 5                 | (716)            | (716)          | -                 |
| <b>Adjusted pre-tax loss before eliminations</b>     | <b>(374)</b>       | <b>(365)</b>   | <b>(2)</b>        | <b>(716)</b>     | <b>(673)</b>   | <b>(6)</b>        |
| Consolidation, eliminations and other adjustments    | (12)               | 28             | NM                | (1)              | 76             | NM                |
| <b>Adjusted pre-tax loss</b>                         | <b>\$(386)</b>     | <b>\$(337)</b> | <b>(15)%</b>      | <b>\$(717)</b>   | <b>\$(597)</b> | <b>(20)%</b>      |

Parent and Other adjusted pre-tax loss decreased compared to the same period in the prior year primarily as a result of lower General operating expenses due to one-time payments in the second quarter of 2017 related to executive leadership changes. This decrease was partially offset by higher interest expense driven by debt issuances totaling \$2.5 billion at the end of the first quarter of 2018. Other income decreased due to lower income from investments accounted for under the fair value option partially offset by income on securities purchased under reverse repurchase agreements.

Fuji Life was sold on April 30, 2017.

**Year-to-date 2018 and 2017 Comparison**

Parent and Other adjusted pre-tax loss remained flat compared to the same period in the prior year. General operating expenses decreased primarily due to one-time payments in the second quarter of 2017 related to executive leadership changes. Interest expense increased as a result of debt issuances totaling \$2.5 billion at the end of the first quarter of 2018. Other income decreased as a result of lower income from investments accounted for under the fair value option offset by investment income for equity securities and income on securities purchased under reverse repurchase agreements.

Fuji Life was sold on April 30, 2017.





ITEM 2 | **Business Segment Operations | Legacy Portfolio****Legacy Portfolio**

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

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

**BUSINESS STRATEGY**

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

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

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

**SALE OF NON-CONTROLLING INTEREST IN DSA RE**

DSA Re was formed during the first quarter of 2018 in connection with a series of affiliated reinsurance transactions related to our Legacy Portfolio. Those reinsurance transactions were designed to consolidate most of our Legacy Insurance Run-Off Lines into a single legal entity. As of June 30, 2018, the affiliated transactions included the cession of approximately \$31 billion of reserves from our Legacy Life and Retirement Run-Off Lines and approximately \$5 billion of reserves from our Legacy General Insurance Run-Off Lines related to business written by multiple wholly-owned AIG subsidiaries. In the second quarter

of 2018, we formed Fortitude, a wholly-owned subsidiary of AIG, to act as a holding company for DSA Re.

On July 31, 2018, we entered into a membership interest purchase agreement (the Purchase Agreement) with Fortitude and TCG, an affiliate of The Carlyle Group L.P. (Carlyle). Subject to the satisfaction or waiver of certain conditions set forth therein, the Purchase Agreement provides that TCG will purchase a 19.9 percent ownership interest in Fortitude (the DSA Re Transaction). Following the closing of the DSA Re Transaction (the DSA Re Closing), Fortitude will own 100 percent of the outstanding common shares of DSA Re and AIG will have an 80.1 percent ownership interest in Fortitude.

Subject to certain adjustments specified in the Purchase Agreement, TCG will pay us approximately \$476 million, which is based on DSA Re's total shareholder's equity of \$2.9 billion as of March 31, 2018 excluding planned distributions that the parties will seek to cause to be paid to us on a non-pro rata basis prior to the end of the 18th month following the DSA Re Closing, subject to regulatory approvals (the Target Distribution). \$381 million of the purchase price will be paid at the DSA Re Closing and up to \$95 million will be paid following December 31, 2023 (the Deferred Payment), subject to the purchase price adjustment described below. To the extent we do not receive all or a portion of the Target Distribution within 18 months of the DSA Re Closing, TCG will pay us up to an additional \$100 million.

ITEM 2 | **Business Segment Operations | Legacy Portfolio**

As part of the establishment of DSA Re, we implemented a capital maintenance agreement (CMA) with DSA Re that remains in effect so long as we own at least 50 percent of DSA Re. If there are any CMA funding obligations that occur within 18 months of the DSA Re Closing, we will fund those obligations on a non-dilutive basis to TCG, but only if, and to the extent, we actually receive the Target Distribution prior to the expiration of such period.

The affiliated reinsurance transactions executed in the first quarter of 2018 with DSA Re resulted in prepaid insurance assets on the ceding subsidiaries' balance sheets of approximately \$2.5 billion (after-tax). These assets have been eliminated in AIG's consolidated financial statements since the counterparties were wholly-owned. In the event of a sale of a controlling interest in Fortitude, our Legacy Portfolio may recognize a loss for the portion of the unamortized balance of these assets and related deferred acquisition costs of \$0.5 billion (after-tax) that are not recoverable, if any, in the period in which our interest in Fortitude becomes non-controlling. This loss would be incremental to any gain or loss recognized on the sale of our controlling interest in Fortitude.

We have also agreed to a post-closing purchase price adjustment wherein we will reimburse TCG for adverse development in property casualty related reserves, based on an agreed methodology, that occurs on or prior to December 31, 2023, up to the value of TCG's investment in Fortitude. Any amount due to TCG in respect of this will be offset by the amount of the Deferred Payment otherwise due from TCG to us.

We have agreed to commit to invest \$6 billion of investment assets into various Carlyle strategies within the 30 months following the DSA Re Closing, and will be required to pay a proportionate amount of an agreed make-whole fee to the extent we fail to satisfy such commitment.

Our Board of Directors and the governing bodies of TCG and Fortitude have each approved the DSA Re Transaction. Each of the parties has made customary representations and warranties in the Purchase Agreement and agreed to certain covenants and agreements. We have agreed, subject to certain exceptions, to cause DSA Re to conduct its business in all material respects in the ordinary course of business consistent with past practice between the date of the Purchase Agreement and the DSA Re Closing and that DSA Re will not engage in certain kinds of transactions during such period.

As contemplated by the Purchase Agreement, at the DSA Re Closing, we, Fortitude and TCG will enter into an Amended and Restated Limited Liability Company Operating Agreement of Fortitude, governing the rights of the parties thereto. In addition, at the DSA Re Closing, DSA Re will enter into (1) a Transition Services Agreement with us, pursuant to which we and certain of our affiliates will provide certain transition services to DSA Re, (2) an Investment Management Agreement with an affiliate of TCG (the Investment Manager), pursuant to which the Investment Manager will provide certain alternative asset management and advisory services to DSA Re with respect to certain asset classes and (3) an Exclusivity Agreement with the Investment Manager pursuant to which the Investment Manager will be the exclusive provider of alternative asset management and advisory services with respect to certain new business acquired by DSA Re following the DSA Re Closing with respect to certain asset classes.

Consummation of the DSA Re Transaction is subject to customary closing conditions, including, among others, (1) the receipt of regulatory approval of the Bermuda Monetary Authority, (2) the absence of any injunction, judgment or ruling of a governmental authority enjoining, restraining or otherwise prohibiting the DSA Re Transaction and (3) subject to specified materiality standards, the accuracy of the representations and warranties of, and performance of all covenants by, the parties as set forth in the Purchase Agreement. In addition, our obligations and the obligations of Fortitude to consummate the DSA Re Transaction are conditioned on DSA Re's receipt of approvals from its board of directors regarding entry into the Investment Management Agreement and the Exclusivity Agreement. The Purchase Agreement also provides for certain termination rights for both us and TCG.

## ITEM 2 | Business Segment Operations | Legacy Portfolio

## LEGACY PORTFOLIO RESULTS

| <i>(in millions)</i>   | Three Months Ended |               | Percentage Change | Six Months Ended |               | Percentage Change |
|--|--------------------|---------------|-------------------|------------------|---------------|-------------------|
|  | June 30, 2018      | 2017          |                   | June 30, 2018    | 2017          |                   |
| <b>Revenues:</b>   |                    |               |                   |                  |               |                   |
| Premiums   | \$ 134             | \$ 146        | (8)%              | \$ 275           | \$ 313        | (12)%             |
| Policy fees  | 32                 | 32            | -                 | 62               | 67            | (7)               |
| Net investment income  | 623                | 722           | (14)              | 1,188            | 1,452         | (18)              |
| Other income (loss)  | (8)                | 238           | NM                | 92               | 390           | (76)              |
| <b>Total adjusted revenues</b>   | <b>781</b>         | <b>1,138</b>  | <b>(31)</b>       | <b>1,617</b>     | <b>2,222</b>  | <b>(27)</b>       |
| <b>Benefits and expenses:</b>  |                    |               |                   |                  |               |                   |
| Policyholder benefits and losses and loss adjustment expenses incurred | 453                | 488           | (7)               | 959              | 970           | (1)               |
| Interest credited to policyholder account balances                     | 63                 | 57            | 11                | 122              | 120           | 2                 |
| Amortization of deferred policy acquisition costs                      | 19                 | 14            | 36                | 37               | 42            | (12)              |
| General operating and other expenses                                   | 104                | 120           | (13)              | 204              | 247           | (17)              |
| Interest expense   | 8                  | 28            | (71)              | 16               | 70            | (77)              |
| <b>Total benefits and expenses</b>                                     | <b>647</b>         | <b>707</b>    | <b>(8)</b>        | <b>1,338</b>     | <b>1,449</b>  | <b>(8)</b>        |
| <b>Adjusted pre-tax income</b>   | <b>\$ 134</b>      | <b>\$ 431</b> | <b>(69)%</b>      | <b>\$ 279</b>    | <b>\$ 773</b> | <b>(64)%</b>      |
| <b>Adjusted pre-tax income by type:</b>                                |                    |               |                   |                  |               |                   |
| General Insurance Run-Off Lines  | \$ 44              | \$ 57         | (23)%             | \$ 106           | \$ 144        | (26)%             |
| Life and Retirement Run-Off Lines                                      | 58                 | 139           | (58)              | 86               | 229           | (62)              |
| Legacy Investments   | 32                 | 235           | (86)              | 87               | 400           | (78)              |
| <b>Adjusted pre-tax income</b>   | <b>\$ 134</b>      | <b>\$ 431</b> | <b>(69)%</b>      | <b>\$ 279</b>    | <b>\$ 773</b> | <b>(64)%</b>      |
| <b>Business and Financial Highlights</b>                               |                    |               |                   |                  |               |                   |

In February 2018, we used \$2.6 billion of existing Legacy Portfolio cash and investment assets to capitalize DSA Re in order to enable it to assume insurance risk and other economic risk from U.S. and Bermudian insurance companies. These assets included approximately \$1.6 billion of capital released by Eaglestone, an affiliated entity, to AIG Parent as a result of the commutation of certain property and casualty risks from other AIG subsidiaries, which were subsequently ceded to DSA Re. DSA Re also has additional eligible regulatory capital under the Bermuda Monetary Authority capital framework in the form of \$550 million in letter of credit agreements with guarantees from AIG Parent. In the six-month period ended June 30, 2018, DSA Re disbursed tax sharing payments of \$369 million to AIG Parent.

ITEM 2 | **Business Segment Operations | Legacy Portfolio**

**Legacy Portfolio Adjusted Pre-Tax Income**

**Three Months Ended June 30,**

*(in millions)*

**Quarterly 2018 and 2017 Comparison**

Adjusted pre-tax income decreased due to:

- lower Legacy Life and Retirement earnings compared to the second quarter of 2017 due to lower net investment income, partially offset by modest mortality gains;
- lower Legacy General Insurance earnings compared to the second quarter of 2017 due to lower net investment income; and
- lower Legacy Investment earnings compared to the second quarter of 2017 due to continued dispositions of non- insurance investment assets, primarily driven by the sale of the life settlements portfolio in 2017 and lower gain on fair value option portfolios in the second quarter of 2018.

**Legacy Portfolio Adjusted Pre-Tax Income**

**Six Months Ended June 30,**

*(in millions)*

**Year-to-Date 2018 and 2017 Comparison**

Adjusted pre-tax income decreased due to:

- lower Legacy Life and Retirement earnings compared to the first half of 2017 due to lower net investment income and a refinement in reserves related to pay-out annuities, which was partially offset by modest mortality gains;
- lower Legacy General Insurance earnings compared to the first half of 2017 due to lower net

investment income; and

- lower Legacy Investment earnings compared to the first half of 2017 due to continued dispositions of non-insurance investment assets, primarily driven by the sale of the life settlements portfolio in 2017 and lower gain on fair value option portfolios in the first half of 2018.

ITEM 2 | **Investments****Investments****Overview**

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

**Investment Highlights in the Six Months Ended June 30, 2018**

- A rise in interest rates and widening credit spreads, as well as the adoption of the Recognition and Measurement of Financial Assets and Financial Liabilities Standard (Financial Instruments Recognition and Measurement Standard) on January 1, 2018, which resulted in the reclassification of unrealized gains in our equity securities to retained earnings, resulted in a net unrealized loss in our investment portfolio. Net unrealized gains in our available for sale portfolio decreased to approximately \$5.6 billion as of June 30, 2018 from approximately \$13.9 billion as of December 31, 2017.
- We continued to make investments in structured securities and other fixed maturity securities and increased lending activities in mortgage loans with favorable risk compared to return characteristics to improve yields and increase net investment income.
- Lower investment returns on alternative investments, primarily driven by less robust private equity and hedge fund performance compared to the same period in 2017, a decline in income from securities for which the fair value option was elected as a result of credit spread widening and rising interest rates, and lower invested assets resulting from the funding of the adverse development reinsurance agreement with NICO late in the first quarter 2017.
- During the six-months ended June 30, 2018, we reduced our hedge fund portfolio by approximately \$1.3 billion as a result of redemptions consistent with our planned reduction of exposure.
- Blended investment yields on new investments were lower than blended rates on investments that were sold, matured or called.
- In the first quarter of 2018, we sold our remaining interest in Arch Capital, which we received as part of the consideration for selling United Guaranty to Arch in 2016.

**Investment Strategies**

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

Some of our key investment strategies are as follows:



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

### **Attribution of Net Investment Income to Operating Segments**

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

**ITEM 2 | Investments**

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

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

**Asset Liability Measurement**

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

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

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

Fixed maturity securities of the General Insurance companies' domestic operations, with an average duration of 4.1 years, are currently comprised of corporate bonds, structured securities, taxable municipal bonds and government and agency bonds as well as tax-exempt securities, which provide attractive risk-adjusted after-tax returns. The majority of these high quality investments are rated A or higher based on composite ratings.

Fixed maturity securities held in the General Insurance companies' foreign operations are of high quality, primarily rated A or higher based on composite ratings, with an average duration of 3.5 years.

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

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

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

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

Fixed maturity securities of the Life and Retirement companies domestic operations, with an average duration of 7.2 years, are comprised primarily of taxable corporate bonds, as well as taxable municipal and government bonds, and agency and non agency

ITEM 2 | **Investments**

structured securities. The majority of these investments are held in the available for sale portfolio and are rated investment grade based on its composite ratings.

Fixed maturity securities held in the Life and Retirement companies foreign operations are of high quality, primarily rated A or higher based on composite ratings, with an average duration of 21.7 years.

*NAIC Designations of Fixed Maturity Securities*

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

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

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

**June 30, 2018**

*(in millions)*

| NAIC Designation                                 | Total Investment Grade |                 |                   |                |                |                |                |
|--|------------------------|-----------------|-------------------|----------------|----------------|----------------|----------------|
|  | 1                      | 2               | 3                 | 4              | 5              | 6              |                |
| Other fixed maturity securities                  | \$ 83,706              | \$67,861        | \$ 151,567        | \$6,019        | \$4,756        | \$1,196        | \$ 181         |
| Mortgage-backed, asset-backed and collateralized | 64,505                 | 2,851           | 67,356            | 595            | 370            | 151            | 4,428          |
| <b>Total*</b>                                    | <b>\$148,211</b>       | <b>\$70,712</b> | <b>\$ 218,923</b> | <b>\$6,614</b> | <b>\$5,126</b> | <b>\$1,347</b> | <b>\$4,609</b> |

\* Excludes \$3.8 billion of fixed maturity securities for which no NAIC Designation is available because they are held in legal entities within U.S. Insurance Companies that do not require a statutory filing.

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

**June 30, 2018**

*(in millions)*

| Composite AIG Credit Rating                      | AAA/AA/A                        |         | BBB    |        | Total Investment Grade |         | BB      |       | B     |       | CCC and Lower |        |
|--|---------------------------------|---------|--------|--------|------------------------|---------|---------|-------|-------|-------|---------------|--------|
|  | Other fixed maturity securities | \$      | 84,421 | \$     | 67,666                 | \$      | 152,087 | \$    | 5,815 | \$    | 4,775         | \$     |
| Mortgage-backed, asset-backed and collateralized |                                 | 47,690  |        | 4,165  |                        | 51,855  |         | 1,176 |       | 614   |               | 19,255 |
| <b>Total*</b>                                    | \$                              | 132,111 | \$     | 71,831 | \$                     | 203,942 | \$      | 6,991 | \$    | 5,389 | \$            | 20,297 |

\* Excludes \$3.8 billion of fixed maturity securities for which no NAIC Designation is available because they are held in legal entities within U.S. Insurance Companies that do not require a statutory filing.

### Credit Ratings

At June 30, 2018, approximately 89 percent of our fixed maturity securities were held by our domestic entities. Approximately 17 percent of these securities were rated AAA by one or more of the principal rating agencies, and approximately 16 percent were rated below investment grade or not rated. Our investment decision process relies primarily on internally generated fundamental analysis and internal risk ratings. Third-party rating services' ratings and opinions provide one source of independent perspective for consideration in the internal analysis.

Moody's Investors Service Inc. (Moody's), Standard & Poor's Financial Services LLC, a subsidiary of S&P Global Inc. (S&P), or similar foreign rating services rate a significant portion of our foreign entities' fixed maturity securities portfolio. Rating services are not available for some foreign-issued securities. Our Credit Risk Management department closely reviews the credit quality of the foreign portfolio's non-rated fixed maturity securities. At June 30, 2018, approximately 22 percent of such investments were either rated AAA or, on the basis of our internal analysis, were equivalent from a credit standpoint to securities rated AAA, and approximately 8 percent

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were below investment grade or not rated. Approximately 34 percent of the foreign entities' fixed maturity securities portfolio is comprised of sovereign fixed maturity securities supporting policy liabilities in the country of issuance.

**Composite AIG Credit Ratings**

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

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

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

|   | Available for Sale |                         | Other            |                         | Total             |                         |
|---|--------------------|-------------------------|------------------|-------------------------|-------------------|-------------------------|
|   | June 30,<br>2018   | December<br>31,<br>2017 | June 30,<br>2018 | December<br>31,<br>2017 | June 30,<br>2018  | December<br>31,<br>2017 |
| <i>(in millions)</i>                                    |                    |                         |                  |                         |                   |                         |
| <b>Rating:</b>  |                    |                         |                  |                         |                   |                         |
| <b>Other fixed maturity securities</b>                  |                    |                         |                  |                         |                   |                         |
| AAA   | \$ 10,843          | \$ 11,644               | \$ 2,589         | \$ 2,656                | \$ 13,432         | \$ 14,300               |
| AA  | 28,226             | 29,560                  | 133              | 212                     | 28,359            | 29,772                  |
| A   | 41,485             | 45,049                  | 1,581            | 1,745                   | 43,066            | 46,794                  |
| BBB   | 67,848             | 70,636                  | 139              | 138                     | 67,987            | 70,774                  |
| Below investment grade                                  | 12,916             | 13,173                  | 18               | 17                      | 12,934            | 13,190                  |
| Non-rated   | 1,641              | 1,073                   | -                | -                       | 1,641             | 1,073                   |
| <b>Total</b>  | <b>\$ 162,959</b>  | <b>\$ 171,135</b>       | <b>\$ 4,460</b>  | <b>\$ 4,768</b>         | <b>\$ 167,419</b> | <b>\$ 175,903</b>       |
| <b>Mortgage-backed, asset-backed and collateralized</b> |                    |                         |                  |                         |                   |                         |
| AAA   | \$ 28,763          | \$ 30,306               | \$ 478           | \$ 818                  | \$ 29,241         | \$ 31,124               |
| AA  | 10,114             | 8,158                   | 928              | 610                     | 11,042            | 8,768                   |
| A   | 7,189              | 7,760                   | 224              | 382                     | 7,413             | 8,142                   |
| BBB   | 3,997              | 4,414                   | 168              | 163                     | 4,165             | 4,577                   |
| Below investment grade                                  | 15,627             | 17,194                  | 5,392            | 6,004                   | 21,019            | 23,198                  |
| Non-rated   | 24                 | 25                      | 124              | 27                      | 148               | 52                      |
| <b>Total</b>  | <b>\$ 65,714</b>   | <b>\$ 67,857</b>        | <b>\$ 7,314</b>  | <b>\$ 8,004</b>         | <b>\$ 73,028</b>  | <b>\$ 75,861</b>        |
| <b>Total</b>  |                    |                         |                  |                         |                   |                         |
| AAA   | \$ 39,606          | \$ 41,950               | \$ 3,067         | \$ 3,474                | \$ 42,673         | \$ 45,424               |

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|                        |                   |            |                  |           |                   |            |
|------------------------|-------------------|------------|------------------|-----------|-------------------|------------|
| AA                     | <b>38,340</b>     | 37,718     | <b>1,061</b>     | 822       | <b>39,401</b>     | 38,540     |
| A                      | <b>48,674</b>     | 52,809     | <b>1,805</b>     | 2,127     | <b>50,479</b>     | 54,936     |
| BBB                    | <b>71,845</b>     | 75,050     | <b>307</b>       | 301       | <b>72,152</b>     | 75,351     |
| Below investment grade | <b>28,543</b>     | 30,367     | <b>5,410</b>     | 6,021     | <b>33,953</b>     | 36,388     |
| Non-rated              | <b>1,665</b>      | 1,098      | <b>124</b>       | 27        | <b>1,789</b>      | 1,125      |
| <b>Total</b>           | <b>\$ 228,673</b> | \$ 238,992 | <b>\$ 11,774</b> | \$ 12,772 | <b>\$ 240,447</b> | \$ 251,764 |

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## Available for Sale Investments

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

| <i>(in millions)</i>   | Fair Value at<br>June 30,<br>2018 | Fair Value at<br>December 31,<br>2017 |
|--|-----------------------------------|---------------------------------------|
| <b>Bonds available for sale:</b>                                 |                                   |                                       |
| U.S. government and government sponsored entities                | \$ 2,644                          | \$ 2,656                              |
| Obligations of states, municipalities and political subdivisions | 17,060                            | 18,644                                |
| Non-U.S. governments   | 15,297                            | 15,659                                |
| Corporate debt   | 127,958                           | 134,176                               |
| Mortgage-backed, asset-backed and collateralized:                |                                   |                                       |
| RMBS   | 35,380                            | 37,234                                |
| CMBS   | 13,084                            | 13,841                                |
| CDO/ABS  | 17,250                            | 16,782                                |
| <b>Total mortgage-backed, asset-backed and collateralized</b>    | <b>65,714</b>                     | <b>67,857</b>                         |
| <b>Total bonds available for sale<sup>(a)</sup></b>              | <b>228,673</b>                    | <b>238,992</b>                        |
| <b>Equity securities available for sale:</b>                     |                                   |                                       |
| Common stock   | -                                 | 1,061                                 |
| Preferred stock  | -                                 | 533                                   |
| Mutual funds   | -                                 | 114                                   |
| <b>Total equity securities available for sale<sup>(b)</sup></b>  | <b>-</b>                          | <b>1,708</b>                          |
| <b>Total</b>   | <b>\$ 228,673</b>                 | <b>\$ 240,700</b>                     |

(a) At June 30, 2018 and December 31, 2017, the fair value of bonds available for sale held by us that were below investment grade or not rated totaled \$30.2 billion and \$31.5 billion, respectively.

(b) As a result of the adoption of the Financial Instruments Recognition and Measurement Standard on January 1, 2018, equity securities are no longer classified and accounted for as available for sale securities.

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

| <i>(in millions)</i> | June 30,<br>2018 | December 31,<br>2017 |
|----------------------|------------------|----------------------|
| Japan                | \$ 1,834         | \$ 1,791             |
| Germany              | 1,259            | 1,623                |
| United Kingdom       | 1,106            | 1,214                |
| France               | 953              | 923                  |
| Canada               | 946              | 1,051                |



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|                      |                  |                  |
|----------------------|------------------|------------------|
| Netherlands          | <b>633</b>       | 608              |
| United Arab Emirates | <b>463</b>       | 432              |
| Mexico               | <b>457</b>       | 513              |
| Indonesia            | <b>456</b>       | 493              |
| Norway               | <b>361</b>       | 409              |
| Other                | <b>6,880</b>     | 6,659            |
| <b>Total</b>         | <b>\$ 15,348</b> | <b>\$ 15,716</b> |

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

| <i>(in millions)</i>                  | June 30, 2018   |                       |                          |                     |                  | December         |
|---------------------------------------|-----------------|-----------------------|--------------------------|---------------------|------------------|------------------|
|                                       | Sovereign       | Financial Institution | Non-Financial Corporates | Structured Products | Total            | 31, 2017 Total   |
| <b>Euro-Zone countries:</b>           |                 |                       |                          |                     |                  |                  |
| France                                | \$ 953          | \$ 1,442              | \$ 1,878                 | \$ -                | \$ 4,273         | \$ 4,169         |
| Germany                               | 1,258           | 230                   | 2,060                    | 1                   | 3,549            | 3,803            |
| Netherlands                           | 634             | 886                   | 1,086                    | 47                  | 2,653            | 2,868            |
| Ireland                               | 37              | 16                    | 474                      | 640                 | 1,167            | 1,071            |
| Belgium                               | 250             | 71                    | 780                      | -                   | 1,101            | 1,216            |
| Spain                                 | 32              | 214                   | 785                      | -                   | 1,031            | 1,009            |
| Italy                                 | -               | 231                   | 424                      | -                   | 655              | 694              |
| Luxembourg                            | -               | 39                    | 479                      | -                   | 518              | 436              |
| Finland                               | 49              | 46                    | 70                       | -                   | 165              | 163              |
| Austria                               | 117             | 9                     | -                        | -                   | 126              | 37               |
| Other - EuroZone                      | 683             | 95                    | 233                      | -                   | 1,011            | 1,013            |
| <b>Total Euro-Zone</b>                | <b>\$ 4,013</b> | <b>\$ 3,279</b>       | <b>\$ 8,269</b>          | <b>\$ 688</b>       | <b>\$ 16,249</b> | <b>\$ 16,479</b> |
| <b>Remainder of Europe:</b>           |                 |                       |                          |                     |                  |                  |
| United Kingdom                        | \$ 1,106        | \$ 3,426              | \$ 7,798                 | \$ 3,531            | \$ 15,861        | \$ 16,975        |
| Switzerland                           | 33              | 974                   | 931                      | -                   | 1,938            | 2,299            |
| Sweden                                | 110             | 353                   | 136                      | -                   | 599              | 658              |
| Norway                                | 361             | 43                    | 155                      | -                   | 559              | 618              |
| Russian Federation                    | 111             | 23                    | 137                      | -                   | 271              | 284              |
| Other - Remainder of Europe           | 153             | 66                    | 106                      | -                   | 325              | 287              |
| <b>Total - Remainder of Europe</b>    | <b>\$ 1,874</b> | <b>\$ 4,885</b>       | <b>\$ 9,263</b>          | <b>\$ 3,531</b>     | <b>\$ 19,553</b> | <b>\$ 21,121</b> |
| <b>Total</b>                          | <b>\$ 5,887</b> | <b>\$ 8,164</b>       | <b>\$ 17,532</b>         | <b>\$ 4,219</b>     | <b>\$ 35,802</b> | <b>\$ 37,600</b> |
| <b>Investments in Municipal Bonds</b> |                 |                       |                          |                     |                  |                  |

At June 30, 2018, the U.S. municipal bond portfolio was composed primarily of essential service revenue bonds and high-quality tax-exempt bonds with 93 percent of the portfolio rated A or higher.

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

| <i>(in millions)</i>            | June 30, 2018                  |                                |                  | Total<br>Fair<br>Value | December 31,<br>2017<br>Total Fair Value |
|---------------------------------|--------------------------------|--------------------------------|------------------|------------------------|--|
|                                 | State<br>General<br>Obligation | Local<br>General<br>Obligation | Revenue          |                        |  |
| <b>State:</b>                   |                                |                                |                  |                        |  |
| New York                        | \$ 20                          | \$ 445                         | \$ 2,705         | \$ 3,170               | \$ 3,562                                 |
| California                      | 640                            | 402                            | 1,930            | 2,972                  | 3,275                                    |
| Texas                           | 190                            | 640                            | 1,009            | 1,839                  | 1,992                                    |
| Illinois                        | 107                            | 124                            | 735              | 966                    | 908                                      |
| Massachusetts                   | 423                            | -                              | 468              | 891                    | 966                                      |
| Florida                         | 64                             | -                              | 574              | 638                    | 666                                      |
| Virginia                        | 8                              | -                              | 587              | 595                    | 639                                      |
| Washington                      | 249                            | -                              | 336              | 585                    | 650                                      |
| Ohio                            | 79                             | -                              | 418              | 497                    | 575                                      |
| Georgia                         | 115                            | 87                             | 284              | 486                    | 566                                      |
| Washington D.C.                 | 36                             | -                              | 439              | 475                    | 497                                      |
| Pennsylvania                    | 127                            | 22                             | 272              | 421                    | 418                                      |
| Maryland                        | 157                            | 89                             | 101              | 347                    | 380                                      |
| All other states <sup>(a)</sup> | 366                            | 304                            | 2,508            | 3,178                  | 3,550                                    |
| <b>Total<sup>(b)(c)</sup></b>   | <b>\$ 2,581</b>                | <b>\$ 2,113</b>                | <b>\$ 12,366</b> | <b>\$ 17,060</b>       | <b>\$ 18,644</b>                         |

(a) We did not have material credit exposure to the government of Puerto Rico.

(b) Excludes certain university and not-for-profit entities that issue their bonds in the corporate debt market. Includes industrial revenue bonds.

(c) Includes \$0.6 billion of pre-refunded municipal bonds.

**Investments in Corporate Debt Securities**

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

| <b>Industry Category</b><br><i>(in millions)</i> | <b>Fair Value at<br/>June 30,<br/>2018</b> | <b>Fair Value at<br/>December 31,<br/>2017</b> |
|--|--|--|
| Financial institutions:                          |  |  |
| Money Center/Global Bank Groups                  | \$ 9,073                                   | \$ 9,295                                       |
| Regional banks — other                           | 641  | 562  |
| Life insurance                                   | 3,382                                      | 3,603  |
| Securities firms and other finance companies     | 372  | 386  |

|                                |                   |            |
|--------------------------------|-------------------|------------|
| Insurance non-life             | <b>4,588</b>      | 4,893      |
| Regional banks — North America | <b>5,829</b>      | 6,320      |
| Other financial institutions   | <b>10,111</b>     | 9,906      |
| Utilities                      | <b>17,617</b>     | 18,655     |
| Communications                 | <b>8,915</b>      | 9,756      |
| Consumer noncyclical           | <b>15,728</b>     | 15,873     |
| Capital goods                  | <b>7,230</b>      | 7,797      |
| Energy                         | <b>12,426</b>     | 13,171     |
| Consumer cyclical              | <b>8,090</b>      | 9,166      |
| Basic                          | <b>5,588</b>      | 6,123      |
| Other                          | <b>18,368</b>     | 18,670     |
| <b>Total*</b>                  | <b>\$ 127,958</b> | \$ 134,176 |

\* At June 30, 2018 and December 31, 2017, respectively, approximately 90 and 91 percent of these investments were rated investment grade.

Our investments in the energy category, as a percentage of total investments in available-for-sale fixed maturities, was 5.4 and 5.5 percent at June 30, 2018 and December 31, 2017, respectively. While the energy investments are primarily investment grade and are actively managed, the category continues to experience volatility that could adversely affect credit quality and fair value.

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

| <i>(in millions)</i>               | <b>Fair Value at<br/>June 30,<br/>2018</b> | <b>Fair Value at<br/>December 31,<br/>2017</b> |
|------------------------------------|--|--|
| Agency RMBS                        | \$ 14,361                                  | \$ 15,002                                      |
| Alt-A RMBS                         | 10,849                                     | 11,624   |
| Subprime RMBS                      | 2,930                                      | 2,947  |
| Prime non-agency                   | 6,495                                      | 6,891  |
| Other housing related              | 745  | 770  |
| <b>Total RMBS<sup>(a)(b)</sup></b> | <b>\$ 35,380</b>                           | <b>\$ 37,234</b>                               |

(a) Includes approximately \$11.4 billion and \$12.3 billion at June 30, 2018, and December 31, 2017, respectively, of certain RMBS that had experienced deterioration in credit quality since their origination. *For additional discussion on Purchased Credit Impaired (PCI) Securities see Note 5 to the Condensed Consolidated Financial Statements.*

(b) The weighted average expected life was six years at both June 30, 2018 and December 31, 2017.

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

**Investments in CMBS**

The following table presents our CMBS available for sale securities:

| <i>(in millions)</i> | <b>Fair Value at<br/>June 30,<br/>2018</b> | <b>Fair Value at<br/>December 31,<br/>2017</b> |
|----------------------|--|--|
| CMBS (traditional)   | \$ 10,396                                  | \$ 11,092                                      |
| Agency               | 2,107                                      | 2,093  |
| Other                | 581  | 656  |
| <b>Total</b>         | <b>\$ 13,084</b>                           | <b>\$ 13,841</b>                               |

The fair value of CMBS holdings remained stable during the second quarter of 2018. The majority of our investments in CMBS are in tranches that contain substantial protection features through collateral subordination. The majority of CMBS holdings are traditional conduit transactions, broadly diversified across property types and geographical areas.

**Investments in CDOs**

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

| <i>(in millions)</i>             | <b>Fair value at<br/>June 30,<br/>2018</b> | Fair value at<br>December 31,<br>2017 |
|----------------------------------|--|---------------------------------------|
| <b>Collateral Type:</b>          |  |                                       |
| Bank loans (CLO)                 | \$ 8,146                                   | \$ 8,112                              |
| Other                            | 64   | 94                                    |
| <b>Total</b>                     | <b>\$ 8,210</b>                            | <b>\$ 8,206</b>                       |
| <b>Commercial Mortgage Loans</b> |  |                                       |

At June 30, 2018, we had direct commercial mortgage loan exposure of \$30.9 billion. All commercial mortgage loans were current or performing according to their restructured terms.

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

| (dollars in millions)    | Number of Loans | Apartment       | Offices         | Class           |                 | Hotel           | Others          | Total            | Percent of Total |
|--------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|
|                          |                 |                 |                 | Retail          | Industrial      |                 |                 |                  |                  |
| <b>June 30, 2018</b>     |                 |                 |                 |                 |                 |                 |                 |                  |                  |
| <b>State:</b>            |                 |                 |                 |                 |                 |                 |                 |                  |                  |
| New York                 | 96              | \$ 1,751        | \$ 3,980        | \$ 532          | \$ 297          | \$ 103          | \$ 177          | \$ 6,840         | 22%              |
| California               | 80              | 467             | 1,024           | 296             | 357             | 837             | 357             | 3,338            | 11               |
| Texas                    | 53              | 317             | 1,091           | 192             | 82              | 125             | 37              | 1,844            | 6                |
| Massachusetts            | 19              | 729             | 431             | 404             | -               | -               | 26              | 1,590            | 5                |
| Florida                  | 83              | 472             | 81              | 431             | 226             | 219             | 67              | 1,496            | 5                |
| New Jersey               | 42              | 771             | 46              | 426             | 41              | 28              | 33              | 1,345            | 4                |
| Illinois                 | 17              | 456             | 303             | 11              | 25              | -               | 23              | 818              | 3                |
| Pennsylvania             | 25              | 80              | 21              | 573             | 47              | 25              | -               | 746              | 2                |
| Washington D.C.          | 12              | 326             | 357             | -               | -               | 19              | -               | 702              | 2                |
| Ohio                     | 26              | 161             | 11              | 202             | 237             | -               | 5               | 616              | 2                |
| Other states             | 241             | 1,766           | 948             | 1,341           | 754             | 477             | 126             | 5,412            | 18               |
| <b>Foreign</b>           | <b>75</b>       | <b>2,153</b>    | <b>1,097</b>    | <b>644</b>      | <b>559</b>      | <b>607</b>      | <b>1,081</b>    | <b>6,141</b>     | <b>20</b>        |
| <b>Total*</b>            | <b>769</b>      | <b>\$ 9,449</b> | <b>\$ 9,390</b> | <b>\$ 5,052</b> | <b>\$ 2,625</b> | <b>\$ 2,440</b> | <b>\$ 1,932</b> | <b>\$ 30,888</b> | <b>100%</b>      |
| <b>December 31, 2017</b> |                 |                 |                 |                 |                 |                 |                 |                  |                  |
| <b>State:</b>            |                 |                 |                 |                 |                 |                 |                 |                  |                  |
| New York                 | 97              | \$ 1,673        | \$ 3,716        | \$ 556          | \$ 265          | \$ 105          | \$ 177          | \$ 6,492         | 23%              |
| California               | 86              | 438             | 1,055           | 301             | 313             | 845             | 360             | 3,312            | 12               |
| Texas                    | 55              | 327             | 934             | 160             | 83              | 154             | 38              | 1,696            | 6                |
| Massachusetts            | 21              | 701             | 384             | 410             | -               | -               | 27              | 1,522            | 5                |
| New Jersey               | 42              | 667             | 46              | 486             | 41              | 28              | 32              | 1,300            | 4                |
| Florida                  | 81              | 319             | 84              | 435             | 227             | 19              | 69              | 1,153            | 4                |
| Pennsylvania             | 25              | 74              | 22              | 577             | 47              | 26              | -               | 746              | 3                |
| Illinois                 | 15              | 315             | 304             | 11              | 25              | -               | 23              | 678              | 2                |
| Ohio                     | 26              | 163             | 11              | 205             | 240             | -               | 5               | 624              | 2                |
| Washington D.C.          | 11              | 232             | 359             | -               | -               | 19              | -               | 610              | 2                |
| Other states             | 253             | 1,790           | 964             | 1,466           | 696             | 564             | 160             | 5,640            | 20               |
| <b>Foreign</b>           | <b>71</b>       | <b>1,464</b>    | <b>821</b>      | <b>754</b>      | <b>86</b>       | <b>629</b>      | <b>1,069</b>    | <b>4,823</b>     | <b>17</b>        |
| <b>Total*</b>            | <b>783</b>      | <b>\$ 8,163</b> | <b>\$ 8,700</b> | <b>\$ 5,361</b> | <b>\$ 2,023</b> | <b>\$ 2,389</b> | <b>\$ 1,960</b> | <b>\$ 28,596</b> | <b>100%</b>      |

\* Does not reflect allowance for credit losses.

For additional discussion on commercial mortgage loans see Note 7 to the Consolidated Financial Statements in the 2017 Annual Report.

**Impairments**

The following table presents impairments by investment type:

| <i>(in millions)</i>                                 | Three Months Ended<br>June 30, |               | Six Months Ended<br>June 30,        |               |
|--|--------------------------------|---------------|-------------------------------------|---------------|
|  | 2018                           | 2017          | 2018                                | 2017          |
| <b>Other-than-temporary Impairments:</b>             |                                |               |                                     |               |
| Fixed maturity securities, available for sale        | \$ 36                          | \$ 55         | \$ 123                              | \$ 113        |
| Equity securities, available for sale <sup>(a)</sup> | -                              | 6             | -                                   | 8             |
| Private equity funds and hedge funds                 | -                              | 6             | -                                   | 14            |
| <b>Subtotal</b>                                      | <b>36</b>                      | <b>67</b>     | <b>123</b>                          | <b>135</b>    |
| <b>Other impairments:</b>                            |                                |               |                                     |               |
| Investments in life settlements                      | -                              | 46            | -                                   | 87            |
| Other investments                                    | -                              | 4             | -                                   | 4             |
| Real estate <sup>(b)</sup>                           | <b>61</b>                      | -             | <b>71</b>                           | 52            |
| <b>Total</b>   | <b>\$ 97</b>                   | <b>\$ 117</b> | <b>\$ 194</b>                       | <b>\$ 278</b> |
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(a) Upon the adoption of the Financial Instruments Recognition and Measurement Standard on January 1, 2018, equity securities are no longer required to be evaluated for other-than-temporary impairments.

(b) Impairments in 2017 include \$35 million related to other assets that were sold.

**Other-Than-Temporary Impairments**

To determine other-than-temporary impairments, we use fundamental credit analyses of individual securities without regard to rating agency ratings. Based on this analysis, we expect to receive cash flows sufficient to cover the amortized cost of all below investment grade securities for which credit impairments were not recognized.

The following tables present other-than-temporary impairment charges recorded in earnings on fixed maturity securities, equity securities, private equity funds and hedge funds.

**Other-than-temporary impairment charges by investment type and impairment type:**

| <i>(in millions)</i>                    | RMBS CDO/ABS |              | CMBS        |              | Maturity     |             | Other Fixed Equities/Other Invested Assets* |             | Total        |
|---|--------------|--------------|-------------|--------------|--------------|-------------|---|-------------|--------------|
| <b>Three Months Ended June 30, 2018</b> |              |              |             |              |              |             |   |             |              |
| Severity                                | \$ -         | \$ -         | \$ -        | \$ -         | \$ -         | \$ -        | \$ -  | \$ -        | \$ -         |
| Change in intent                        | -            | -            | -           | -            | -            | -           | -   | -           | -            |
| Foreign currency declines               | -            | -            | -           | -            | 6            | -           | -   | -           | 6            |
| Issuer-specific credit events           | 9            | -            | 7           | 14           | -            | -           | -   | -           | 30           |
| Adverse projected cash flows            | -            | -            | -           | -            | -            | -           | -   | -           | -            |
| <b>Total</b>                            | <b>\$ 9</b>  | <b>\$ -</b>  | <b>\$ 7</b> | <b>\$ 20</b> | <b>\$ -</b>  | <b>\$ -</b> | <b>\$ -</b>                                 | <b>\$ -</b> | <b>\$ 36</b> |
| <b>Three Months Ended June 30, 2017</b> |              |              |             |              |              |             |   |             |              |
| <b>Impairment Type:</b>                 |              |              |             |              |              |             |   |             |              |
| Severity                                | \$ -         | \$ -         | \$ -        | \$ -         | \$ -         | \$ -        | \$ 2  | \$ -        | \$ 2         |
| Change in intent                        | -            | -            | -           | -            | 7            | -           | -   | -           | 7            |
| Foreign currency declines               | -            | -            | -           | -            | -            | -           | -   | -           | -            |
| Issuer-specific credit events           | 4            | 33           | 6           | 2            | 10           | -           | -   | -           | 55           |
| Adverse projected cash flows            | 3            | -            | -           | -            | -            | -           | -   | -           | 3            |
| <b>Total</b>                            | <b>\$ 7</b>  | <b>\$ 33</b> | <b>\$ 6</b> | <b>\$ 9</b>  | <b>\$ 12</b> | <b>\$ -</b> | <b>\$ -</b>                                 | <b>\$ -</b> | <b>\$ 67</b> |
| <b>Six Months Ended June 30, 2018</b>   |              |              |             |              |              |             |   |             |              |
| <b>Impairment Type:</b>                 |              |              |             |              |              |             |   |             |              |
| Severity                                | \$ -         | \$ -         | \$ -        | \$ -         | \$ -         | \$ -        | \$ -  | \$ -        | \$ -         |
| Change in intent                        | -            | -            | -           | -            | 49           | -           | -   | -           | 49           |
| Foreign currency declines               | -            | -            | -           | -            | 12           | -           | -   | -           | 12           |
| Issuer-specific credit events           | 24           | 2            | 13          | 23           | -            | -           | -   | -           | 62           |
| Adverse projected cash flows            | -            | -            | -           | -            | -            | -           | -   | -           | -            |

|                                |              |              |              |              |              |               |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|---------------|
| <b>Total</b>                   | <b>\$ 24</b> | <b>\$ 2</b>  | <b>\$ 13</b> | <b>\$ 84</b> | <b>\$ -</b>  | <b>\$ 123</b> |
| Six Months Ended June 30, 2017 |              |              |              |              |              |               |
| <b>Impairment Type:</b>        |              |              |              |              |              |               |
| Severity                       | \$ -         | \$ -         | \$ -         | \$ -         | \$ 2         | \$ 2          |
| Change in intent               | -            | -            | -            | 8            | -            | 8             |
| Foreign currency declines      | -            | -            | -            | 10           | -            | 10            |
| Issuer-specific credit events  | 16           | 33           | 21           | 22           | 20           | 112           |
| Adverse projected cash flows   | 3            | -            | -            | -            | -            | 3             |
| <b>Total</b>                   | <b>\$ 19</b> | <b>\$ 33</b> | <b>\$ 21</b> | <b>\$ 40</b> | <b>\$ 22</b> | <b>\$ 135</b> |

\* Includes other-than-temporary impairment charges on private equity funds, hedge funds and direct private equity investments. Upon the adoption of the Financial Instruments Recognition and Measurement Standard on January 1, 2018, equity securities are no longer required to be evaluated for other-than-temporary impairments.

## ITEM 2 | Investments

We recorded other-than-temporary impairment charges in the six-months ended June 30, 2018 and 2017 related to:

- issuer-specific credit events;
- securities that we intend to sell or for which it is more likely than not that we will be required to sell;
- declines due to foreign exchange rates;
- adverse changes in estimated cash flows on certain structured securities; and
- securities that experienced severe market valuation declines.

In addition, impairments are recorded on real estate and investments in life settlements.

In periods subsequent to the recognition of an other-than-temporary impairment charge for available for sale fixed maturity securities that is not foreign-exchange related, we generally prospectively accrete into earnings the difference between the new amortized cost and the expected undiscounted recoverable value over the remaining life of the security. The accretion that was recognized for these securities in earnings was \$121 million and \$188 million in the three-month periods ended June 30, 2018 and 2017, respectively, and \$269 million and \$376 million in the six-month periods ended June 30, 2018 and 2017, respectively.

For a discussion of our other-than-temporary impairment accounting policy see Note 6 to the Consolidated Financial Statements in the 2017 Annual Report.

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

| June 30, 2018<br>Aging <sup>(a)</sup><br>(dollars in millions) | Less Than or Equal<br>to 20% of Cost <sup>(b)</sup><br>Unrealized |                |                      | Greater Than 20%<br>to 50% of Cost <sup>(b)</sup><br>Unrealized |                           | Greater Than 50%<br>of Cost <sup>(b)</sup><br>Unrealized |              |                      | Total<br>Unrealized |                              |
|--|---|----------------|----------------------|---|---------------------------|--|--------------|----------------------|---------------------|------------------------------|
|  | Cost <sup>(c)</sup>   | Loss           | Items <sup>(e)</sup> | Cost <sup>(c)</sup>   | Loss Items <sup>(e)</sup> | Cost <sup>(c)</sup>                                      | Loss         | Items <sup>(e)</sup> | Cost <sup>(c)</sup> | Loss <sup>(d)</sup> Items    |
| <b>Investment grade bonds</b>                                  |   |                |                      |   |                           |  |              |                      |                     |                              |
| 0-6 months   | \$60,327  | \$1,653        | 7,430                | \$ 76   | 18                        | 3  | \$ 10        | 8                    | 4                   | \$ 60,413 \$ 1,679 7         |
| 7-11 months  | 17,798  | 777            | 2,082                | -   | -                         | -  | -            | -                    | -                   | 17,798 777 2                 |
| 12 months or more  | 12,726  | 813            | 1,544                | 27  | 9                         | 13   | 29           | 18                   | 11                  | 12,782 840 1                 |
| <b>Total</b>   | <b>\$90,851</b>   | <b>\$3,243</b> | <b>11,056</b>        | <b>\$ 103</b>   | <b>27</b>                 | <b>16</b>  | <b>\$ 39</b> | <b>26</b>            | <b>15</b>           | <b>\$ 90,993 \$ 3,296 11</b> |
| <b>Below investment grade bonds</b>                            |   |                |                      |   |                           |  |              |                      |                     |                              |
| 0-6 months   | \$ 6,277  | \$ 194         | 3,013                | \$ 104  | 29                        | 39   | \$ 172       | 170                  | 15                  | \$ 6,553 \$ 393 3            |
| 7-11 months  | 1,015   | 59             | 436                  | 378   | 131                       | 8  | -            | -                    | 1                   | 1,393 190                    |

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|                            |          |         |        |        |        |    |        |        |    |           |          |
|----------------------------|----------|---------|--------|--------|--------|----|--------|--------|----|-----------|----------|
| 12 months or more          | 1,702    | 125     | 359    | 122    | 34     | 25 | 25     | 15     | 9  | 1,849     | 174      |
| <b>Total</b>               | \$ 8,994 | \$ 378  | 3,808  | \$ 604 | \$ 194 | 72 | \$ 197 | \$ 185 | 25 | \$ 9,795  | \$ 757   |
| <b>Total bonds</b>         |          |         |        |        |        |    |        |        |    |           |          |
| 0-6 months                 | \$66,604 | \$1,847 | 10,443 | \$ 180 | \$ 47  | 42 | \$ 182 | \$ 178 | 19 | \$ 66,966 | \$ 2,072 |
| 7-11 months                | 18,813   | 836     | 2,518  | 378    | 131    | 8  | -      | -      | 1  | 19,191    | 967      |
| 12 months or more          | 14,428   | 938     | 1,903  | 149    | 43     | 38 | 54     | 33     | 20 | 14,631    | 1,014    |
| <b>Total<sup>(e)</sup></b> | \$99,845 | \$3,621 | 14,864 | \$ 707 | \$ 221 | 88 | \$ 236 | \$ 211 | 40 | \$100,788 | \$ 4,053 |

(a) Represents the number of consecutive months that fair value has been less than cost by any amount.

(b) Represents the percentage by which fair value is less than cost at June 30, 2018.

(c) For bonds, represents amortized cost.

(d) The effect on Net income of unrealized losses after taxes will be mitigated upon realization because certain realized losses will result in current decreases in the amortization of certain DAC.

(e) Item count is by CUSIP by subsidiary.

ITEM 2 | **Investments****Change in Unrealized Gains and Losses on Investments**

The change in net unrealized gains and losses on investments in the three- and six-month periods ended June 30, 2018 was primarily attributable to decreases in the fair value of fixed maturity securities. For the six-month period ended June 30, 2018, net unrealized losses related to fixed maturity securities decreased by \$8.0 billion due primarily to an increase in rates and a widening of credit spreads.

The change in net unrealized gains and losses on investments in the three- and six-month periods ended June 30, 2017 was primarily attributable to increases in the fair value of fixed maturity securities. For the six-month period ended June 30, 2017, net unrealized gains related to fixed maturity and equity securities increased by \$3.3 billion due primarily to a decrease in rates and a narrowing of credit spreads.

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

**Net Realized Capital Gains and Losses**

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

| <i>(in millions)</i>   | Three Months Ended |                | Six Months Ended |                 |
|--|--------------------|----------------|------------------|-----------------|
|  | June 30,           |                | June 30,         |                 |
|  | 2018               | 2017           | 2018             | 2017            |
| Sales of fixed maturity securities                           | \$ (13)            | \$ 165         | \$ (3)           | \$ 320          |
| Sales of equity securities                                   | -                  | 81             | 16               | 82              |
| <b>Other-than-temporary impairments:</b>                     |                    |                |                  |                 |
| Severity   | -                  | (2)            | -                | (2)             |
| Change in intent   | -                  | (7)            | (49)             | (8)             |
| Foreign currency declines                                    | (6)                | -              | (12)             | (10)            |
| Issuer-specific credit events                                | (30)               | (55)           | (62)             | (112)           |
| Adverse projected cash flows                                 | -                  | (3)            | -                | (3)             |
| Provision for loan losses                                    | (26)               | (24)           | (50)             | (18)            |
| Foreign exchange transactions                                | (187)              | 74             | (134)            | 233             |
| Variable annuity embedded derivatives, net of related hedges | 36                 | (204)          | 183              | (593)           |
| All other derivatives and hedge accounting                   | 375                | (94)           | 150              | (81)            |
| Impairments on investments in life settlements               | -                  | (46)           | -                | (87)            |
| Other  | 16                 | 46             | 107              | 95              |
| <b>Net realized capital gains (losses)</b>                   | <b>\$ 165</b>      | <b>\$ (69)</b> | <b>\$ 146</b>    | <b>\$ (184)</b> |

We experienced net realized capital gains in the three- and six-month periods ended June 30, 2018 compared to losses in the same periods in the prior year due primarily to derivative gains compared to derivatives losses, which more than offset lower gains on the sales of securities and foreign exchange losses compared to gains in the prior year periods. Net realized capital gains in the three- and six-month periods ended June 30, 2018 were primarily related to derivative gains, which more than offset

other-than-temporary impairment charges and foreign exchange losses.

Net realized capital losses in the three- and six-month periods ended June 30, 2017 were primarily related to derivative and hedge accounting losses, and impairments, which were higher than the foreign exchange gains and the gains recognized on the sales of securities.

Variable annuity embedded derivatives, net of related hedges, reflected gains in the three- and six-month periods ended June 30, 2018 compared to losses in the same periods in the prior year primarily due to changes in the non-performance or “own credit” risk adjustment used in the valuation of the variable annuities with guaranteed minimum withdrawal benefits (GMWB) embedded derivative, which are not hedged as part of our economic hedging program.

*For additional discussion of market risk management related to these product features see MD&A – Enterprise Risk Management – Insurance Risks – Life and Retirement Companies’ Key Risks – Variable Annuity Risk Management and Hedging Programs in the 2017 Annual Report. For more information on the economic hedging target and the impact to pre-tax income of this program see Insurance Reserves – Life and Annuity Reser*