AMERICAN INTERNATIONAL GROUP INC
Form 10-K
February 19, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934	
For the fiscal year ended December 31, 2015	Commission file number 1-8787

American International Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**13-2592361**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
175 Water Street, New York, New York	**10038**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the voting and nonvoting common equity held by nonaffiliates of the registrant (based on the closing price of the registrant's most recently completed second fiscal quarter) was approximately $80,826,000,000.

As of February 11, 2016, there were outstanding 1,149,448,256 shares of Common Stock, $2.50 par value per share, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Document of the Registrant	Form 10-K Reference Locations
Portions of the registrant's definitive proxy statement for the 2016 Annual Meeting of Shareholders	Part II, Item 5 and Part III, Items 10, 11, 12, 13 and 14

AMERICAN INTERNATIONAL GROUP, INC.
ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2015

TABLE OF CONTENTS

Form 10-K

Part I

Item 1 / Business

AIG's key strengths include:

- **World class insurance franchises** that are among the leaders in their categories and are focused on improving their operating performance;
- **A diverse mix of businesses** with a presence in most international markets;
- **Effective capital management** of the largest shareholders' equity of any insurance company in the world*, supported by enhanced risk management;
- **Breadth of customers,** serving over 89 percent of companies included in the Fortune Global 500; and
- **Balance sheet quality and strength,** as demonstrated by over $89 billion in shareholders' equity and AIG Parent liquidity of $13.7 billion.

* At June 30, 2015, the latest date for which information was available for certain foreign insurance companies.

In this Annual Report on Form 10-K, 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.

TABLE OF CONTENTS

Item 1 / BUSINESS / AIG

We report our results of operations through two reportable segments: Commercial Insurance and Consumer Insurance, as well as a Corporate and Other category. Commercial Insurance has three operating segments: Property Casualty, Mortgage Guaranty and Institutional Markets. Consumer Insurance also has three operating segments: Retirement, Life and Personal Insurance. The Corporate and Other category consists of businesses and items not allocated to our reportable segments.

Certain of our management activities, such as investment management, enterprise risk management, liquidity management and capital management, and our balance sheet reporting, are conducted on a legal entity basis. We group our insurance-related legal entities into two categories: Non-Life Insurance Companies, and Life Insurance Companies.

Non-Life Insurance Companies include the following major property casualty and mortgage guaranty companies: National Union Fire Insurance Company of Pittsburgh, Pa. (National Union); American Home Assurance Company (American Home); Lexington Insurance Company (Lexington); Fuji Fire and Marine Insurance Company Limited (Fuji Fire); American Home Assurance Company, Ltd. (American Home Japan); AIG Asia Pacific Insurance, Pte, Ltd.; AIG Europe Limited; United Guaranty Residential Insurance Company (UGRIC)

Life Insurance Companies include 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); AIG Fuji Life Insurance Company Limited (Fuji Life).

On January 26, 2016, we announced several actions designed to create a leaner, more profitable and focused insurer. These actions included a plan to reorganize our operating model into “modular”, more self-contained business units to enhance transparency and accountability. Additionally, we are introducing a new Legacy Portfolio that aims to maximize value and release capital of certain run-off non-strategic assets and highlight progress on improving the return on equity (ROE) of our Operating Portfolio. When the new operating structure is finalized, the presentation of our segment results may be modified and prior periods’ presentation may be revised to conform to the new structure. Based on this strategy, we have updated our priorities for 2016.

AIG is focused on the following priorities for 2016:

- Improving our ROE

- Creating a leaner, more profitable and focused insurer by reorganizing our operating model into “modular”, more self-contained business units to enhance transparency and accountability, including the introduction of a new Legacy Portfolio that aims to maximize value and release capital from run-off of non-strategic assets

- Reducing general operating expenses
- Improving the Commercial Insurance Property Casualty accident year loss ratio
- Returning excess capital to shareholders
- Growing book value per common share

TABLE OF CONTENTS

Item 1 / BUSINESS / AIG

(a) Total consideration of approximately $7.6 billion, includes net cash proceeds of $2.4 billion and 97.6 million newly issued AerCap common shares. Based in part on AerCap's closing price per share of $47.01 on May 13, 2014, the date the sale of ILFC to AerCap was completed.

(b) Book value per common share excluding AOCI is a non-GAAP measure. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) —Use of Non-GAAP Measures for additional information.

TABLE OF CONTENTS

Item 1 / BUSINESS / AIG

How we Generate Revenues and Profitability

We earn revenues primarily from insurance premiums, policy fees from universal life insurance and investment products, and income from investments and advisory fees.

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

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

INVESTMENT ACTIVITIES OF Our Insurance OPERATIONS

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

We generate significant revenues in our insurance operations from investment activities.

Our worldwide insurance investment policy places primary emphasis on investments in corporate bonds, municipal bonds and government bonds in all of our portfolios, and, to a lesser extent, investments in high yield bonds, common stock, real estate, hedge funds and other alternative investments.

The majority of assets backing our insurance liabilities consist of intermediate and long duration fixed maturity securities.

Non-Life Insurance Companies — Fixed maturity securities held by the insurance companies included in the Non-Life Insurance Companies' domestic operations have historically consisted primarily of corporate bonds, municipal bonds and government bonds. These investments provided attractive returns and limited credit risk. To meet our domestic operations' current risk return and business objectives, our domestic Non-Life Insurance Companies have been shifting investment allocations to a broader array of investments, including structured securities, mortgage loans, equity related opportunities and other investments that offer attractive risk-adjusted returns. Our fixed maturity securities must meet our liquidity, duration and quality objectives as well as current capital, risk return and business objectives. Fixed maturity securities held by the Non-Life Insurance Companies' international operations consist primarily of intermediate duration high-grade securities, primarily in the markets being served. In addition, the Non-Life Insurance Companies have redeployed cash in excess of operating needs into investments consistent with the asset classes described above.

Life Insurance Companies — The investment strategy for the portfolios of the Life Insurance Companies is largely to match our liabilities with assets of comparable duration, to the extent practicable. The Life Insurance Companies primarily invest in a diversified portfolio of fixed maturity securities, which include corporate bonds and structured securities. To further diversify the portfolio, investments are selectively made in alternative investments, including private equity funds, hedge funds and affordable housing partnerships. See Item 7. MD&A — Investments for additional discussion of investment strategies.

TABLE OF CONTENTS

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

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

Corporate and Other includes AIG Parent as well as certain legacy assets and run-off insurance businesses.

TABLE OF CONTENTS

Item 1 / BUSINESS / AIG

We have a significant international presence in both developed markets and growth economy nations, specifically in Asia Pacific, Central Europe, the Middle East, Africa and South America. We distribute our products through three major geographic regions:

- **Americas:** Includes the United States, Canada, Mexico, South America, the Caribbean and Bermuda.
- **Asia Pacific:** Includes Japan, China, Korea, Singapore, Malaysia, Thailand, Australia, Indonesia and other Asia Pacific nations.

- **EMEA (Europe, Middle East and Africa):** Includes the United Kingdom, Continental Europe, the Russian Federation, India, the Middle East and Africa.

In 2015, 6.3 percent and 5.1 percent of our property casualty direct premiums were written in the states of California and New York, respectively, and 14.3 percent and 7.2 percent were written in Japan and the United Kingdom, respectively. No other state or foreign jurisdiction accounted for more than five percent of such premiums.

TABLE OF CONTENTS

Item 1 / BUSINESS / AIG

* Represents revenues from insurance operations. Revenues for Property Casualty, Mortgage Guaranty, and Personal Insurance include net premiums earned and net investment income. Revenues for Institutional Markets, Retirement and Life include premiums, policy fees, net investment income and advisory fees.

TABLE OF CONTENTS

Item 1 / BUSINESS / commercial insurance

Customer: Strive to be our clients' most valued insurer by offering innovative products, superior service and access to an extensive global network.

Sharpen Commercial Focus: Achieve ROE in excess of target across our businesses primarily through improvements in our loss ratio. Improve our business portfolio through risk selection by using enhanced data, analytics and the application of science to deliver superior risk-adjusted returns. Exit or remediate targeted sub-segments of underperforming portfolios that do not meet our risk acceptance or profitability objectives.

Drive Efficiency: Reorganize our operating model into "modular", more self-contained business units to enhance decision making, transparency and accountability, driving performance improvement and strategic flexibility over time; increase capital fungibility and diversification, streamline our legal entity structure, optimize reinsurance, improve tax efficiency and reduce expenses.

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

TABLE OF CONTENTS

Item 1 / BUSINESS / commercial insurance

Commercial Insurance is a global franchise committed to delivering value to our clients through innovative solutions, market-leading expertise and superior service.

Our competitive strengths include:

Global franchise – long global history, extensive multinational network and leading positions and infrastructures in North America, Europe and Asia

Underwriting and claims expertise – industry-leading professionals with deep expertise handling large, complex and emerging risks

Innovation – a culture of innovation driven by risk management expertise and a focus on customer needs

Information and science capabilities – decades of unique proprietary data on wide range of client risks, underwriting results and analytical capabilities to generate valuable client insights

Service – extensive client risk service teams to partner with clients to mitigate their most critical risks

Financial strength and market leadership – a well-capitalized, strong balance sheet highly valued by customers that allows us to be a market leader in many lines of business

Scale – size and scope of business facilitates risk diversification to optimize returns on capital

Diversification – breadth of customers served, products underwritten and distribution channels

Our challenges include:

Information technology infrastructure requires modernization, which puts pressure on our efforts to reduce operating expenses

Long-tail exposures create an added challenge to pricing and risk management

Over capacity in certain lines of business creates downward pressure on market pricing

Tort environment volatility in certain jurisdictions and lines of business

Volatility from natural and man-made catastrophes from a property casualty perspective

TABLE OF CONTENTS

Item 1 / BUSINESS / commercial insurance

Property Casualty conducts its business primarily through our Non-Life Insurance Companies.

Mortgage Guaranty conducts its business primarily through United Guaranty Residential Insurance Company.

Institutional Markets conducts its business primarily through our Life Insurance Companies.

Commercial Insurance’s current operating segments consist of *Property Casualty, Mortgage Guaranty and Institutional Markets.*

Casualty: Products include general liability, 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.

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

Specialty: Products include aerospace, environmental, political risk, trade credit, surety and marine insurance, and various small and medium sized enterprises insurance lines.

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

Property Casualty products are primarily distributed through a network of independent retail and wholesale brokers, and through a newly acquired leading U.S. managing general agent and insurance program administrator.

Mortgage insurance (MI) protects mortgage lenders and investors against the increased risk of borrower default related to high loan-to-value (LTV) mortgages.

Mortgage Guaranty products and services are directly distributed to a comprehensive range of mortgage originators including national mortgage, community and money center banks, as well as through builder-owned, regional mortgage and internet-sourced lender and credit unions.

Products primarily include stable value wrap products, structured settlement and terminal funding annuities, high net worth products, 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.

TABLE OF CONTENTS

Operating in a highly competitive industry, Property Casualty competes against several hundred stock companies, specialty insurance organizations, mutual companies and other underwriting organizations in the U.S. In international markets, Property Casualty competes for business with the foreign insurance operations of large global insurance groups and local companies in specific market areas and product types. Mortgage Guaranty competes with several private providers of mortgage insurance, both well-established and new entrants to the industry, and the Federal Housing Administration, which is the largest provider of mortgage insurance in the United States. Institutional Markets competes with large domestic (both stock and mutual) life companies, as well as international life companies.

Insurance companies compete through a combination of risk acceptance criteria, product pricing, service and terms and conditions. Commercial Insurance distinguishes itself in the insurance industry primarily based on its well-established brand, global franchise, financial and capital strength, innovative products, 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 and long-term commitment to the markets we serve.

TABLE OF CONTENTS

Item 1 / BUSINESS / consumer insurance

Consumer Insurance is focused on achieving improved returns by investing in markets where we can grow profitably and sustainably. Our strategic plan is aligned with our vision to be our clients' most valued insurer. We intend to enhance our operational effectiveness and use of analytics to reduce expenses, increase profitability, and facilitate delivery of our target customer experience.

Customer: Through our unique franchise, which brings together a broad portfolio of retirement, life insurance and personal insurance products offered through multiple distribution networks, Consumer Insurance aims to provide customers with the products and services they desire, delivered through the channels they prefer.
Information-Driven Strategy: Utilize customer insight, analytics and the application of science to optimize customer acquisition, product profitability, product mix, channel performance and risk management capabilities.
Sharpen Consumer Focus: Invest in areas where Consumer Insurance can grow profitably and sustainably. Target growth in select markets according to market size, growth potential, market maturity and customer demographics, and narrow our footprint in less profitable markets with insufficient scale.
Operational Effectiveness: Simplify processes and enhance operating environments to increase competitiveness, improve service and product capabilities and facilitate delivery of our target customer experience.
Investment Strategy: Maintain a diversified, high quality portfolio of fixed maturity securities that largely matches the duration characteristics of related insurance liabilities with assets of comparable duration, and pursue selective yield-enhancement opportunities that meet liquidity, risk and return objectives.
Profitability and Capital Management: Deliver solid earnings through disciplined pricing, sustainable underwriting improvements, expense reductions and diversification of risk, and increase capital efficiency within insurance entities to enhance ROE.

TABLE OF CONTENTS

Our competitive strengths include:

Unique franchise – broad portfolio of retirement, life insurance and personal insurance products offered through multiple distribution networks

Market leader – long-standing, leading positions in many of our product lines and key distribution channels

Global business – ability to leverage multinational servicing capabilities

Strong distribution relationships across multiple channels – opportunity to expand on distribution relationships to effectively market diverse product offerings

Information and science capabilities – used to build decision tools, transform processes and optimize performance

Customer-focused service – investments in technology and operating platforms provide the foundation to deliver our target customer experience

Risk diversification and scale – breadth of product offerings and scale advantage in key product lines

Capital strength – capacity to drive growth in attractive markets and product lines

Our challenges include:

Highly competitive environment where products are differentiated by pricing, terms, customer service and ease of doing business

Regulatory requirements in recent years have created an increasingly complex environment that is affecting industry growth and profitability

Low interest rate environment makes it more difficult to profitably price many of our products and puts margin pressure on existing products due to the challenge of investing in a low rate environment

The Retirement and Life operating segments conduct their business primarily through our Life Insurance Companies.

The Personal Insurance operating segment conducts its business primarily through our Non-Life Insurance Companies.

15

TABLE OF CONTENTS

Item 1 / BUSINESS / consumer insurance

Consumer Insurance's current operating segments consist of *Retirement, Life,* and *Personal Insurance*.

Fixed Annuities: Products include single and flexible premium fixed annuities and single premium immediate 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.

Retirement Income Solutions: Primary products include variable and fixed index annuities that provide both asset accumulation and lifetime income benefits, as well as investment-focused variable annuities. Variable annuities are distributed primarily through banks, wirehouses, and regional and independent broker dealers. Fixed index annuities are distributed primarily through banks, broker dealers, independent marketing organizations and independent insurance agents.

Group Retirement: Products are marketed under the VALIC brand and include fixed and variable annuities, mutual funds, 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.

Retail Mutual Funds: Includes our mutual fund sales and related administration and servicing operations.

Life products in the U.S. primarily include term life and universal life insurance. International products include term and whole life insurance, supplemental health, cancer and critical illness insurance. Life products are primarily distributed through independent marketing organizations, independent insurance agents, financial advisors and direct marketing. The Life operating segment also offers group products distributed through employers (both employer-paid and voluntary) and sponsored organizations, with the key products being basic and supplemental term life, universal life and disability insurance.

Accident and Health: Products include voluntary and sponsor-paid personal accident and supplemental health products for individuals, employees, associations and other organizations as well as a broad range of travel insurance products and services for leisure and business travelers. Accident and Health (A&H) products are distributed through various channels, including agents, brokers, affinity partners, airlines and travel agents.

Personal Lines: Products include automobile and homeowners insurance, extended warranty, and consumer specialty products, such as identity theft and credit card protection. Products are distributed through various channels, including agents, brokers and direct marketing. Personal Insurance also provides insurance for high net worth individuals offered through AIG Private Client Group, including auto, homeowners, umbrella, yacht, fine art and collections insurance.

TABLE OF CONTENTS

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

Consumer Insurance competes based on its long standing market leading positions, innovative products, distribution relationships across multiple channels, customer-focused service and strong financial ratings.

Corporate and Other consists of assets and income from assets held by AIG Parent and other corporate subsidiaries, general operating expenses not attributable to specific reportable segments and interest expense. It also includes run-off lines of insurance business, including excess workers' compensation, asbestos and environmental (1986 and prior), certain environmental liability businesses, certain healthcare coverage, certain casualty and specialty coverages reported in Eaglestone Reinsurance Company, and certain long-duration business, primarily in Japan and the U.S.

TABLE OF CONTENTS

Item 1 / BUSINESS

OUR EMPLOYEES

At Decem 2015, we had appro 66,400 emplo We believ that our relatio with our emplo are satisfa

* Includes employees in Finance; Enterprise Risk Management; Legal, Regulatory and Compliance; Human Resources and Administration; and Internal Audit.

TABLE OF CONTENTS

A Review of Liability for Unpaid LOSSES and loss Adjustment Expenses

The liability for unpaid losses and loss adjustment expenses (also referred to as loss reserves) represents the accumulation of estimates for unpaid reported losses (case reserves) and losses that have been incurred but not reported (IBNR) for the Non-Life Insurance Companies and Eaglestone Reinsurance Company, including the related expenses of settling those losses.

We recognize as assets the portion of this liability that is expected to be recovered from reinsurers. Loss reserves are discounted, where permitted, in accordance with U.S. GAAP.

The process of establishing the liability for unpaid losses and loss adjustment expenses is complex and imprecise because it must take into consideration many variables that are subject to the outcome of future events. As a result, informed subjective estimates and judgments about our ultimate exposure to losses are an integral component of our loss reserving process.

We use a number of techniques to analyze the adequacy of the established net liability for unpaid losses and loss adjustment expenses (net loss reserves). Using these analytical techniques, we monitor the adequacy of our established reserves and determine appropriate assumptions for inflation and other factors influencing loss costs. Our analyses also take into account emerging specific development patterns, such as case reserve redundancies or deficiencies and IBNR emergence. We also consider specific factors that may impact losses, such as changing trends in medical costs, unemployment levels and other economic indicators, as well as changes in legislation and social attitudes that may affect decisions to file claims or the magnitude of court awards. See Item 7. MD&A — Critical Accounting Estimates for a description of our loss reserving process.

Because reserve estimates are subject to the outcome of future events, changes in prior year estimates are unavoidable in the insurance industry. These changes in estimates are sometimes referred to as “prior year loss development” or “reserve development.”

A significant portion of the Non-Life Insurance Companies’ reserves are for the U.S. commercial casualty class, including excess casualty, asbestos and environmental, which tends to involve longer periods of time for the reporting and settlement of claims than other types of insurance and therefore may increase the inherent risk and uncertainty with respect to our loss reserve development.

The “Analysis of Consolidated Loss Reserve Development” table presents the development of prior year net loss reserves for calendar years 2005 through 2015 for each balance sheet in that period. The information in the table is presented in accordance with reporting requirements of the Securities and Exchange Commission (SEC). This table should be interpreted with care by those not familiar with its format or those who are familiar with other loss development analyses arranged in an accident year or underwriting year basis rather than the balance sheet, as shown below. See Note 12 to the Consolidated Financial Statements.

The top row of the table shows ***Net Reserves Held*** *(the net liability for unpaid losses and loss adjustment expenses) at each balance sheet date, net of discount.* This liability represents the estimated amount of losses and loss adjustment expenses for claims arising in all years prior to the balance sheet date that were unpaid as of that balance sheet date, including estimates for IBNR claims, net of estimated reinsurance recoverable and loss reserve discount. The estimated reinsurance recoverable is shown near the bottom of the table. The amount of loss reserve discount included in the net reserves at each date is shown immediately below the net reserves held. The undiscounted reserve at each date is equal to the sum of the discount and the net reserves held. For example, **Net Reserves Held (Undiscounted)** was $59.6 billion at December 31, 2005.

TABLE OF CONTENTS

Item 1 / BUSINESS

*The next section of the table shows the original **Net Undiscounted Reserves re-estimated** over 10 years. This re-estimation takes into consideration a number of factors, including changes in the estimated frequency of reported claims, effects of significant judgments, the emergence of latent exposures, and changes in medical cost trends.* For example, the original undiscounted reserve of $59.6 billion at December 31, 2005, was re-estimated to $71.7 billion at December 31, 2015. The amount of the development related to losses settled or re-estimated in 2015, but incurred in 2012, is included in the cumulative development amount for years 2012, 2013 and 2014. Any increase or decrease in the estimate is reflected in operating results in the period in which the estimate is changed.

*The middle of the table shows **Net Deficiency.** This is the aggregate change in estimates over the period of years covered by the table.* For example, the net loss reserve deficiency of $12.1 billion for 2005 is the difference between the original undiscounted reserve of $59.6 billion at December 31, 2005 and the $71.7 billion of re-estimated reserves at December 31, 2015. The net deficiency amounts are cumulative; in other words, the amount shown in the 2014 column includes the amount shown in the 2013 column, and so on. Conditions and trends that have affected development of the liability in the past may not necessarily occur in the future. Accordingly, it generally is not appropriate to extrapolate future development based on this table.

*The bottom portion of the table shows the **Paid (Cumulative)** amounts during successive years related to the undiscounted loss reserves.* For example, as of December 31, 2015, AIG had paid a total of $58.7 billion of the $71.7 billion in re-estimated reserves for 2005, resulting in Remaining Reserves (Undiscounted) of $13.0 billion for 2005. Also included in this section are the **Remaining Reserves (Undiscounted)** and the **Remaining Discount** for each year.

As discussed in footnotes (a) and (b) below, the calendar year distribution of these Paid (Cumulative) amounts are estimates that are affected by certain transactions, such as deconsolidations resulting from dispositions. These payment amounts may differ from the actual losses paid for a given accident year.

The following table presents loss reserves and the related loss development for 2005 through 2015 and consolidated gross liability (before discount), reinsurance recoverable and net liability recorded for each calendar year, and the re estimation of these amounts as of December 31, 2015.(a)

(in millions)	2005	2006	2007	2008	2009	2010	2011	2
Net Reserves Held(b)	$ 57,476	$ 62,630	$ 69,288	$ 72,455	$ 67,899	$ 71,507	$ 70,825	$ 68,7
Discount (in Reserves Held)	2,110	2,264	2,429	2,574	2,655	3,217	3,183	3,24
Net Reserves Held (Undiscounted)	59,586	64,894	71,717	75,029	70,554	74,724	74,008	72,0
Net undiscounted Reserve re-estimated as of:								
One year later	59,533	64,238	71,836	77,800	74,736	74,919	74,429	72,5

Two years later	60,126	64,764	74,318	82,043	74,529	75,502	75,167	73,5
Three years later	61,242	67,303	78,275	81,719	75,187	76,023	76,212	76,8
Four years later	63,872	70,733	78,245	82,422	76,058	77,031	79,050	
Five years later	67,102	70,876	79,098	83,135	77,054	79,573		
Six years later	67,518	71,572	79,813	84,100	79,319			
Seven years later	68,233	72,286	80,770	86,177				
Eight years later	69,023	73,356	82,616					
Nine years later	70,029	75,154						
Ten years later	71,724							
Net Deficiency on net reserves held	(12,138)	(10,260)	(10,899)	(11,148)	(8,765)	(4,849)	(5,042)	(4,8
Net Deficiency related to asbestos and environmental (A&E)	(2,798)	(2,296)	(2,278)	(2,229)	(2,076)	(575)	(545)	(4
Net Deficiency excluding A&E	(9,340)	(7,964)	(8,621)	(8,919)	(6,689)	(4,274)	(4,497)	(4,4
Paid (Cumulative) as of:								
One year later	15,326	14,862	16,531	24,267	15,919	17,661	19,235	18,7
Two years later	25,152	24,388	31,791	36,164	28,428	30,620	31,766	31,2
Three years later	32,295	34,647	40,401	46,856	38,183	40,091	41,464	41,3
Four years later	40,380	40,447	48,520	53,616	45,382	47,379	49,197	
Five years later	44,473	46,474	53,593	58,513	51,104	53,449		
Six years later	49,552	50,391	57,686	62,734	56,030			
Seven years later	52,243	53,545	61,221	66,558				

20

Item 1 / BUSINESS

Eight years later	54,332	56,424	64,517					
Nine years later	56,516	59,208						
Ten years later	58,703							
Remaining Reserves (Undiscounted)	13,021	15,946	18,099	19,619	23,289	26,124	29,853	35,52
Remaining Discount	1,454	1,610	1,776	1,942	2,091	2,257	2,429	2,59
Remaining Reserves	$ 11,567	$ 14,336	$ 16,323	$ 17,677	$ 21,198	$ 23,867	$ 27,424	$ 32,93
Net Liability, End of Year	$ 59,586	$ 64,894	$ 71,717	$ 75,029	$ 70,554	$ 74,724	$ 74,008	$ 72,02
Reinsurance Recoverable, End of Year	19,693	17,369	16,212	16,803	17,487	19,644	20,320	19,20
Gross Liability, End of Year	79,279	82,263	87,929	91,832	88,041	94,368	94,328	91,23
Re-estimated Net Liability	71,724	75,154	82,616	86,177	79,319	79,573	79,050	76,89
Re-estimated Reinsurance Recoverable	24,800	20,981	19,392	18,850	18,633	16,758	18,403	18,89
Re-estimated Gross Liability	96,524	96,135	102,008	105,027	97,952	96,331	97,453	95,79
Cumulative Gross Redundancy (Deficiency)	$ (17,245)	$ (13,872)	$ (14,079)	$ (13,195)	$ (9,911)	$ (1,963)	$ (3,125)	$ (4,55

(a) During 2009, we deconsolidated Transatlantic Holdings, Inc. and sold 21st Century Insurance Group and HSB Group, Inc. The sales and deconsolidation are reflected in the table above as a reduction in December 31, 2009 net reserves of $9.7 billion and as an $8.6 billion increase in paid losses for the years 2000 through 2008 to remove the reserves for these divested entities from the ending balance.

(b) The increase in Net Reserves Held from 2009 to 2010 is partially due to the $1.7 billion in Net Reserves Held by Fuji Fire, which was acquired in 2010. The decrease in 2011 is due to the cession of asbestos reserves described in Item 7. MD&A — Insurance Reserves – Non-Life Insurance Companies— Asbestos and Environmental (1986 and prior).

The Liability for unpaid losses and loss adjustment expenses as reported in our Consolidated Balance Sheet at December 31, 2015 differs from the total reserves reported in the annual statements filed with state insurance departments and, when applicable, with foreign regulatory authorities primarily for the following reasons:

- Reserves for certain foreign operations are not required or permitted to be reported in the United States for statutory reporting purposes, including contingency reserves for catastrophic events;

- Statutory practices in the United States require reserves to be shown net of applicable reinsurance recoverable; and

- Unlike statutory financial statements, our consolidated liability for unpaid losses and loss adjustment expenses excludes the effect of intercompany transactions.

Gross loss reserves are calculated without reduction for reinsurance recoverable and represent the accumulation of estimates for reported losses and IBNR, net of estimated salvage and subrogation. We review the adequacy of established gross loss reserves in the manner previously described for net loss reserves. A reconciliation of activity in the Liability for unpaid losses and loss adjustment expenses is included in Note 12 to the Consolidated Financial Statements.

For further discussion of asbestos and environmental reserves, see Item 7. MD&A — Insurance Reserves – Non-Life Insurance Companies— Asbestos and Environmental (1986 and prior).

Reinsurance Activities

Reinsurance is used primarily to manage overall capital adequacy and mitigate the insurance loss exposure related to certain events such as natural and man-made catastrophes.

Our subsidiaries operate worldwide primarily by underwriting and accepting risks for their direct account on a gross basis and reinsuring a portion of the exposure on either an individual risk or an aggregate basis to the extent those risks exceed the desired retention level. In addition, as a condition of certain direct underwriting transactions, we are required by clients, agents or regulation to cede all or a portion of risks to specified reinsurance entities, such as captives, other insurers, local reinsurers and compulsory pools.

TABLE OF CONTENTS

Over the last several years, the Non-Life Insurance Companies revised the ceded reinsurance framework and strategy to improve capital management and support our global product line risk and profitability objectives. As a result of adopting the revised framework and strategy, many individual reinsurance contracts were consolidated into more efficient global programs and therefore, reinsurance ceded to third parties in support of risk and capital management objectives has remained stable in 2015 compared to 2014. We continually evaluate the relative attractiveness of different forms of reinsurance contracts and different markets that may be used to achieve our risk and profitability objectives.

Reinsurance markets include:

- Traditional local and global reinsurance markets including those in the United States, Bermuda, London and Europe, accessed directly and through reinsurance intermediaries;

- Capital markets through insurance-linked securities and collateralized reinsurance transactions, such as catastrophe bonds, sidecars and similar vehicles; and

- Other insurers that engage in both direct and assumed reinsurance.

The form of reinsurance that we may choose from time to time will generally depend on whether we are seeking:

- proportional reinsurance, whereby we cede a specified percentage of premiums and losses to reinsurers;

- non-proportional or excess of loss reinsurance, whereby we cede all or a specified portion of losses in excess of a specified amount on a per risk, per occurrence (including catastrophe reinsurance) or aggregate basis; or

- facultative contracts that reinsure individual policies.

Reinsurance contracts do not relieve our subsidiaries from their direct obligations to insureds. However, an effective reinsurance program substantially mitigates our exposure to potentially significant losses.

In certain markets, we are required to participate on a proportional basis in reinsurance pools based on our relative share of direct writings in those markets. Such mandatory reinsurance generally covers higher-risk consumer exposures such as assigned-risk automobile and earthquake, as well as certain commercial exposures such as workers' compensation.

See Item 7. MD&A – Enterprise Risk Management – Insurance Operations Risks – Non-Life Insurance Companies Key Insurance Risks – Reinsurance Recoverable for a summary of significant reinsurers.

REGULATion

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

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

TABLE OF CONTENTS

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

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

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

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

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

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

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

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

- financial sector concentration limits; and
- increased regulation and restrictions on derivatives markets and transactions.

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

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

TABLE OF CONTENTS

Item 1 / BUSINESS

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

International Association of Insurance Supervisors (IAIS): Represents insurance regulators and supervisors of more than 200 jurisdictions in nearly 140 countries and seeks to promote globally consistent insurance industry supervision. The IAIS itself is not a regulator, but one of its activities is to develop insurance regulatory standards for use by local authorities across the globe, such as the IAIS' Insurance Core Principles (ICPs). The FSB has directed the IAIS to develop additional standards in areas such as financial group supervision, capital and solvency standards, systemic financial risk and corporate governance in order to reinforce international financial stability. The FSB also charged the IAIS with developing a framework for measuring systemic risks posed by insurance groups. Based on the IAIS' assessment methodology for identifying global systemically important insurers (G-SIIs), the FSB has identified nine G-SIIs, including AIG, which may subject us to a policy framework for G-SIIs that includes recovery and resolution planning, enhanced group-wide supervision, enhanced liquidity and systemic risk management planning, and group-wide capital standards, including higher loss absorbency (HLA) capital. The IAIS is also developing ComFrame, a Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs). ComFrame sets out qualitative and quantitative standards in order to assist supervisors in collectively addressing an IAIG's activities and risks, identifying and avoiding regulatory gaps and coordinating supervisory activities. In connection with ComFrame, the IAIS is in the process of developing a risk-based global insurance capital standard (ICS) applicable to IAIGs. AIG currently meets the parameters set forth to define an IAIG. Standards issued by the FSB and/or IAIS are not binding on the United States or other jurisdictions around the world unless and until the appropriate local governmental bodies or regulators adopt appropriate laws and regulations.

European Union (EU): Financial companies that operate in the EU are subject to regulation by the national regulator of each member state in which that firm operates. Groups that are categorized as financial conglomerates are also subject to supplementary supervision. This seeks to enable supervisors to perform consolidated insurance group supervision at the level of the ultimate parent entity. The objective of supplementary supervision is to detect, monitor, manage and control group risks and ensure that capital is not accounted for twice or more within the conglomerate. The Prudential Regulatory Authority (PRA), the United Kingdom's prudential regulator, is AIG's EU lead supervisor. The Financial Conduct Authority has oversight of AIG's European operations for consumer protection and competition matters within the UK. The EU has also established a set of regulatory requirements under the European Market Infrastructure Regulation (EMIR) that include, among other things, risk mitigation, risk management, regulatory reporting and clearing requirements.

TABLE OF CONTENTS

Item 1 / BUSINESS

The European Parliament issues Directives which member states have to implement into legislation. Once implemented into country legislation, financial companies operating in Europe must adhere to these. Examples include:

1. The Insurance Distribution Directive (IDD), which updates the Insurance Mediation Directive, extending its scope to all sellers of insurance products, including direct selling to customers, any person involved in administrating policies and ancillary insurance intermediaries. The main provisions include remuneration disclosure, cross-selling limitations and professional training requirements. The IDD is expected to be finalized in February 2016 and require implementation by 2018.

2. The Solvency II Directive (2009/138/EEC) (Solvency II), which became effective on January 1, 2016, includes minimum capital and solvency requirements, governance requirements, risk management and public reporting standards.

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

Federal Reserve Supervision

Due to the determination of the Financial Stability Oversight Council (Council) that we should be regulated by the FRB as a nonbank SIFI pursuant to Section 113 of Dodd-Frank, we have been since July 2013 subject to the FRB's examination, supervision and enforcement authority, and certain reporting requirements as a nonbank SIFI. Dodd-Frank requires that the Council reevaluate its determination annually; however, the Council's 2014 and 2015 annual reevaluations did not result in a change to our nonbank SIFI status, and we remain regulated by the FRB.

Dodd-Frank has effected comprehensive changes to the regulation of financial services in the United States and subjects us to substantial additional federal regulation. Dodd-Frank directs existing and newly created government agencies and oversight bodies to promulgate regulations implementing the law, an ongoing process that is under way and is anticipated to continue over the next few years.

As required by Dodd-Frank, the FRB has adopted enhanced prudential standards (including minimum leverage and risk-based capital requirements, requirements to submit annual capital plans to the FRB demonstrating the ability to satisfy the required capital ratios under baseline and stressed conditions, and stress-testing requirements) for bank holding companies with $50 billion (and in some cases, $10 billion) or more in total consolidated assets and certain foreign banking organizations. The FRB has also adopted liquidity coverage ratio and supplemental leverage ratio requirements for a subset of large banking organizations. These requirements do not apply to nonbank SIFIs that are predominantly insurers, such as AIG. Dodd-Frank authorizes the FRB to tailor its application of enhanced prudential standards to different companies on an individual basis or by category, and the FRB has indicated that it intends to assess the business model, capital structure and risk profile of nonbank SIFIs to determine how enhanced prudential standards should apply to them, and, if appropriate, to tailor the application of these standards for nonbank SIFIs by order or regulation. We cannot predict what enhanced prudential standards the FRB will promulgate for nonbank SIFIs, either generally or as applicable to insurance businesses. The FRB has exercised general examination, supervision and enforcement authority over us as a nonbank SIFI since July 2013. We cannot predict how the FRB's continuing exercise of its general supervisory authority over us as a nonbank SIFI will develop, although the FRB could, as a prudential matter, for example, limit our ability to pay dividends, repurchase shares of AIG Common Stock or acquire or enter into other businesses. We cannot predict with certainty the requirements of the regulations ultimately adopted or how or whether Dodd-Frank and such regulations will affect the financial markets generally, impact our businesses, results of operations, cash flows or financial condition, or require us to raise additional capital or result in a downgrade of our credit ratings. Congress also clarified that the FRB has the flexibility to tailor capital rules specifically for certain insurance activities

TABLE OF CONTENTS

Item 1 / BUSINESS

and is not bound to impose capital standards and quantitative requirements generally applicable to insured depository institutions and bank holding companies. We cannot predict with certainty, however, what capital rules the FRB may impose on insurers designated as nonbank SIFIs.

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

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

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

- management interlock prohibitions and a requirement to maintain a plan for rapid and orderly resolution in the event of severe financial distress (requirements that we are already subject to); and

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

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

As part of its general prudential supervisory powers, the FRB has the authority to limit our ability to conduct activities that would otherwise be permissible for us to engage in if we do not satisfy certain requirements. In addition, if we were to seek to acquire a stake in certain financial companies, Dodd-Frank would require us to obtain the prior authorization of the FRB.

Other Effects of Dodd-Frank

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

- As a nonbank SIFI, we are currently required to provide on an annual basis (or more frequently, if required) to the FRB and FDIC a plan for our rapid and orderly resolution in the event of material financial distress or failure, which must, among other things, provide a detailed resolution strategy and analyses of our material entities, organizational structure, interconnections and interdependencies, and management information systems. Our original resolution plan was submitted to regulators on July 1, 2014, and our second resolution plan on December 31, 2015. We continue to refine and update our resolution plan, which is next required to be submitted to regulators on December 31, 2016. If the FRB and FDIC jointly determine, based on their review of the plan, that it is not credible or would not facilitate our orderly resolution under Title 11 of the United States Code (the Bankruptcy Code), they may require us to re-submit an amended plan. If the re-submitted plan also fails to meet regulatory expectations, the FRB and FDIC may exercise their authority under Dodd-Frank to impose more stringent capital, leverage, or liquidity requirements, restrict our growth, activities, or operations, require us to divest assets and operations, or otherwise increase their level of supervision of us.

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

- Title II of Dodd-Frank provides that a financial company whose largest United States subsidiary is an insurer (such as us) may be subject to a special resolution process outside the Bankruptcy Code. That process is to be administered by the FDIC upon a determination of the Secretary of the Treasury (the Secretary), in consultation with the President, and upon the written recommendation of the director of the Federal Insurance Office and the FRB, that, among other things, it is in default or in danger of default, that the insurer is not likely to attract private sector alternatives to default, and is not suitable for resolution under the Bankruptcy Code.

- Title VII of Dodd-Frank provides for significantly increased regulation of and restrictions on derivatives markets and transactions that could affect various activities of AIG and its insurance and financial services subsidiaries, including (i) regulatory reporting for swaps (which are regulated by the CFTC) and security-based swaps (which are regulated by the SEC), (ii) mandated clearing through central counterparties and execution through regulated swap execution facilities for certain swaps and security-based swaps and (iii) margin and collateral requirements. The CFTC has finalized many of its

TABLE OF CONTENTS

requirements, including swap reporting, the mandatory clearing of certain interest rate swaps and credit default swaps, margin requirements for uncleared swaps, and the mandatory trading of certain swaps on swap execution facilities. The SEC has proposed certain rules with respect to certain of the regulations and restrictions noted above governing security-based swaps but has yet to finalize the majority of rules comprising its security-based swap regulatory regime. These regulations have affected and may further affect various activities of AIG and its insurance and financial services subsidiaries as further rules are finalized to implement additional elements of the regulatory regime.

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

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

• Dodd-Frank established a Federal Insurance Office (FIO) within the United States Department of the Treasury (Department of the Treasury) headed by a director appointed by the Secretary of the Treasury. While not having a general supervisory or regulatory authority over the business of insurance, the director of this office performs various functions with respect to insurance (other than health insurance), including serving as a non-voting member of the Council. On December 12, 2013, the FIO released a Dodd-Frank mandated study on how to modernize and improve the system of insurance regulation in the United States. The report listed several actions that states could take to improve the uniformity and efficiency of the current state based regulatory system and highlighted certain areas in which Federal involvement is recommended. The FIO recommended that the states undertake reforms regarding capital adequacy, reform of insurer resolution practices, and marketplace regulation. On November 20, 2015, the Department of Treasury and the United States Trade Representative announced their intention to negotiate an agreement between the U.S. and the EU regarding prudential measures with respect to insurance and reinsurance.

• Dodd-Frank established the Consumer Financial Protection Bureau (CFPB) as an independent bureau within the FRB to regulate consumer financial products and services offered primarily for personal, family or household purposes. Insurance products and services are not within the CFPB's general jurisdiction, although the U.S. Department of Housing and Urban Development has since transferred authority to the CFPB to investigate mortgage insurance practices. Broker-dealers and investment advisers are not subject to the CFPB's jurisdiction when acting in their registered capacity.

- Title XIV of Dodd-Frank also restricts certain terms for mortgage loans, such as loan fees, prepayment fees and other charges, and imposes certain duties on a lender to ensure that a borrower can afford to repay the loan.

Dodd-Frank imposes various assessments on financial companies, including, as applicable to us, fees for our supervision by the FRB and assessments to cover the costs of any special resolution of a financial company conducted under Title II (although the regulatory authority would have to take account of the amounts paid by us into state guaranty funds).

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

Other Regulatory Developments

As described below, AIG has been designated as a Global Systemically Important Insurer (G-SII).

TABLE OF CONTENTS

Item 1 / BUSINESS

In addition to the adoption of Dodd-Frank in the United States, regulators and lawmakers around the world are continuing to review the causes of the financial crisis and taking steps to avoid similar problems in the future. The FSB, consisting of representatives of national financial authorities of the G20 nations, has issued a series of frameworks and recommendations intended to produce significant changes in how financial companies, particularly global systemically important financial institutions, should be regulated. These frameworks and recommendations address such issues as financial group supervision, capital and solvency standards, systemic financial risk, corporate governance including compensation, and a number of related issues associated with responses to the financial crisis. The FSB has directed the IAIS to create standards relative to many of these areas. These new measures go beyond IAIS' existing set of insurance core principles (ICPs). The ICPs form the baseline threshold against which countries' financial services regulatory regimes specific to the insurance sector are measured. That measurement is made by periodic Financial Sector Assessment Program (FSAP) reviews conducted by the International Monetary Fund and the World Bank and the reports thereon spur the development of country-specific additional or amended regulatory changes. Lawmakers and regulatory authorities in a number of jurisdictions in which our subsidiaries conduct business have, in the past few years, implemented legislative and regulatory changes consistent with these recommendations, including, for example, updated Insurance Company Ordinances in Hong Kong and consolidated regulation of insurance holding companies by the Financial Services Agency in Japan.

The FSB has charged the IAIS with developing a framework for measuring systemic risks posed by insurer groups. The IAIS has requested data from selected insurers around the world to determine which elements of the insurance sector, if any, could materially and adversely impact other parts of the global financial services sector (e.g., commercial and investment banking, securities trading, etc.). Based on the IAIS's assessment methodology for identifying G-SIIs, on July 18, 2013, the FSB, in consultation with the IAIS and national authorities, identified an initial list of nine G-SIIs, which included AIG. G-SIIs are designated on an annual basis, and AIG was re-designated as a G-SII by the FSB on November 6, 2014, and again on November 3, 2015. The IAIS released a public consultation document in November 2015, outlining proposed revisions to the 2013 methodology for identifying G-SIIs. The IAIS intends G-SIIs to be subject to a policy framework that includes recovery and resolution planning, enhanced group-wide supervision, enhanced liquidity and systemic risk management planning; and group-wide capital standards, including HLA capital. The IAIS' basic capital requirement (BCR), which it finalized in October 2014, was endorsed by the FSB in October 2014 and by the G20 nations in November 2014. The BCR covers all group activities, with AIG reporting its BCR ratios to national authorities on a confidential basis beginning in 2015. The BCR serves as the initial foundation for the application of HLA. In October 2015, the IAIS announced that it had concluded initial development of the HLA requirements for G-SIIs, which will be reported on a confidential basis to group-wide supervisors beginning in 2016. HLA was endorsed by the FSB in September 2015 and by the G20 nations in November 2015. Both the BCR and HLA are calculated for insurance and non-insurance activities. In particular, the IAIS released another public consultation in November 2015 on "Non-traditional Non-insurance Activities and Products." The notion of non-traditional non-insurance activities and products plays a significant role in the assessment methodology for designating G-SIIs and in the determination of the BCR and the HLA. Ultimately, the G-SII policy framework is expected to be fully implemented by the IAIS by 2019.

The IAIS is also developing ComFrame, a Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs), which sets out qualitative and quantitative standards designed to assist supervisors in collectively addressing an IAIG’s activities and risks, identifying and avoiding regulatory gaps and coordinating supervisory activities. In connection with ComFrame, the IAIS is in the process of developing a risk-based global ICS applicable to IAIGs. As currently defined under ComFrame, AIG meets the parameters set forth to define an IAIG. ComFrame standards are expected to be finalized in 2019, and the IAIS is conducting field testing of ComFrame, including the ICS, ahead of that deadline. It is expected that implementation of ComFrame and the ICS would begin in 2020.

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

Legislation in the European Union could also affect our international insurance operations. Solvency II, which became effective on January 1, 2016, reforms the insurance industry’s solvency framework, including minimum capital and solvency requirements, governance requirements, risk management and public reporting standards. In accordance with Solvency II, in the absence of decision by the European Commission on whether a supervisory regime outside of the EU is equivalent, Member States may decide either to apply relevant Solvency II requirements to a worldwide insurance group operating in the EU as if it were based in the European Economic Area, or to use “other methods”. Firms have to apply for a waiver to the appropriate EU regulator in order for the regulator to use “other methods.” AIG’s UK subsidiary, AIG Europe Limited, has applied to the PRA and been granted a waiver to allow the PRA to use “other methods.” Over the long-term, the impact on us will depend on whether the U.S. insurance regulatory regime is deemed “equivalent” to Solvency II; if the U.S. insurance regulatory regime is not equivalent and no other agreement addressing these differences is reached with the EU, we, along with other U.S.-based insurance companies, could be required to be supervised under Solvency II standards. On November 20, 2015, the Department of the Treasury and the United States Trade Representative announced their intention to negotiate an agreement between the U.S. and the EU, and that in these negotiations they would seek to obtain, among other things, treatment of the U.S. insurance regulatory system as “equivalent” for purposes of Solvency II. The European Commission has granted “provisional equivalence” with respect to the “solvency calculation” area of Solvency II to the insurance regulation regime of several countries, including the United States. The provisional equivalence, granted for a period of 10 years, will allow EU insurers with subsidiaries operating in these countries to use local rules, rather than Solvency II rules, to carry out their EU prudential reporting for these subsidiaries, and as such is not applicable to U.S. insurers such as AIG. This decision will take effect following the review by the European Parliament and the European Council. Whether the U.S. insurance regulatory regime will be deemed “equivalent” as relating to U.S. insurers such as AIG is still under consideration by European authorities and remains uncertain, so we are not currently able to predict the impact of Solvency II.

ERISA Considerations

We provide products and services to certain employee benefit plans that are subject to the Employee Retirement Income Security Act of 1974, as amended (ERISA) or the Internal Revenue Code of 1986, as amended (the Internal Revenue Code). Plans subject to ERISA include pension and profit sharing plans and welfare plans, including health, life and disability plans. As a result, our activities are subject to the restrictions imposed by ERISA and the Internal Revenue Code, including the requirement under ERISA that fiduciaries must perform their duties solely in the interests of ERISA plan participants and beneficiaries, and that fiduciaries may not cause a covered plan to engage in certain prohibited transactions. The prohibited transaction rules of ERISA and the Internal Revenue Code generally restrict the provision of investment advice to ERISA plans and participants and Individual Retirement Account (IRA) holders if the investment recommendation results in fees paid to the individual advisor, his or her firm or their affiliates that vary according to the investment recommendation chosen. ERISA also provides for civil and criminal penalties and enforcement.

The U.S. Department of Labor (DOL) proposed a new regulation in April 2015 that would, if enacted, substantially expand the definition of "investment advice," which would substantially expand the range of activities considered to be fiduciary investment advice under ERISA and the Internal Revenue Code. In connection with the proposed regulation, the DOL also proposed amendments to its prohibited transaction exemption under ERISA that would, among other things, apply more extensive disclosure and contract requirements, and increased fiduciary requirements, for transactions involving ERISA plans, plan participants and IRA holders. On January 28, 2016, the DOL submitted its final version of the proposed regulation to the Office of Management and Budget for review. The proposed regulation is subject to potential modification before the final rule, if any, is issued. It is unknown at this time whether or how any final regulation may be different from that proposed, and what the timing for implementation of compliance requirements would be, if adopted. For additional information, see Item 7. MD&A — Executive Overview - Consumer Insurance Strategic Initiatives and Outlook.

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

Regulation of Insurance Subsidiaries

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

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

In the U.S., the Risk-Based Capital (RBC) formula is designed to measure the adequacy of an insurer's statutory surplus in relation to the risks inherent in its business. Virtually every state has adopted, in substantial part, the RBC Model Law promulgated by the NAIC, which allows states to act upon the results of RBC calculations, and provides for four incremental levels of regulatory action regarding insurers whose RBC calculations fall below specific thresholds. Those levels of action range from the requirement to submit a plan describing how an insurer would regain a specified RBC ratio to a mandatory regulatory takeover of the company. The RBC formula computes a risk-adjusted surplus level by applying discrete factors to various asset, premium and reserve items. These factors are developed to be risk-sensitive so that higher factors are applied to items exposed to greater risk. The statutory surplus of each of our U.S. based insurance companies exceeded RBC minimum required levels as of December 31, 2015.

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

The NAIC's Model Regulation "Valuation of Life Insurance Policies" (Regulation XXX) requires insurers to establish additional statutory reserves for term life insurance policies with long-term premium guarantees and universal life policies with secondary guarantees (ULSGs). NAIC Actuarial Guideline 38 (Guideline AXXX) clarifies the application of Regulation XXX as to these guarantees, including certain ULSGs. See Item 1A – Risk Factors and Note 18 to the Consolidated Financial Statements for risks and additional information related to these statutory reserving requirements. Additionally, the NAIC has adopted a Principle-Based Reserving (PBR) approach for life insurance products, which will become operational once adopted in 42 U.S. jurisdictions accounting for at least 75 percent of U.S. insurance premiums combined.

Once it becomes operational, PBR would replace Regulation XXX and Guidelines AXXX with respect to new life insurance business issued. Two of our domiciliary states (Missouri and Texas) have adopted regulations necessary to implement PBR once the required number of jurisdictions and insurance premiums threshold have been satisfied.

The NAIC has undertaken the Solvency Modernization Initiative (SMI) which focuses on a review of insurance solvency regulations throughout the U.S. financial regulatory system and is expected to lead to a set of long-term solvency modernization goals. SMI is broad in scope, but the NAIC has stated that its focus will include the U.S. solvency framework, group solvency issues, capital requirements, international accounting and regulatory standards, reinsurance and corporate governance.

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

TABLE OF CONTENTS

Item 1 / BUSINESS

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

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

See Item 7. MD&A — Liquidity and Capital Resources — Regulation and Supervision and Note 18 to the Consolidated Financial Statements.

AVAILABLE INFORMATION ABOUT AIG

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

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

Also available on our corporate website:

- *Charters for Board Committees:* Audit, Nominating and Corporate Governance, Compensation and Management Resources, Risk and Capital, Regulatory, Compliance and Public Policy, and Technology Committees

- *Corporate Governance Guidelines* (*which include Director Independence Standards*)

- *Director, Executive Officer and Senior Financial Officer Code of Business Conduct and Ethics (we will post on our website any amendment or waiver to this Code within the time period required by the SEC)*

- *Employee Code of Conduct*

- *Related Party Transactions Approval Policy*

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

TABLE OF CONTENTS

Item 1A / risk factors

ITEM 1A / RISK FACTORs

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

MARKET CONDITIONS

Difficult conditions in the global capital markets and the economy may materially and adversely affect our businesses, results of operations, financial condition and liquidity. Our businesses are highly dependent on the economic environment, both in the U.S. and around the world. Extreme market events, such as the global financial crisis during 2008 and 2009, have at times led, and could in the future lead, to a lack of liquidity, highly volatile markets, a steep depreciation in asset values across all classes, an erosion of investor and public confidence, and a widening of credit spreads. Concerns and events beyond our control, such as U.S. fiscal and monetary policy, the U.S. housing market, oil prices, slowing growth in China and the Euro-Zone economies, concerns about European sovereign debt risk and the European banking industry and declines in prices in the high yield market and the resultant impact on certain funds have in the past, and may in the future, adversely affect liquidity, increase volatility, decrease asset prices, erode confidence and lead to wider credit spreads. Difficult economic conditions could also result in increased unemployment and a severe decline in business across a wide range of industries and regions. These market and economic factors could have a material adverse effect on our businesses, results of operations, financial condition and liquidity.

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

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

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

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

Investment Portfolio, Concentration of Investments, Insurance and other Exposures

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

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

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

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

TABLE OF CONTENTS

Item 1A / risk factors

change very rapidly as market conditions change and valuation assumptions are modified. Decreases in value and/or an inability to realize that value in a market transaction or secured lending transaction may have a material adverse effect on our results of operations, financial condition and liquidity.

Reserves and Exposures

Insurance liabilities are difficult to predict and may exceed the related reserves for losses and loss expenses. We regularly review the adequacy of the established liability for unpaid losses and loss adjustment expenses and conduct extensive analyses of our reserves during the year. Our loss reserves, however, may develop adversely. Estimation of ultimate net losses, loss expenses and loss reserves is a complex process, particularly for long-tail casualty lines of business. These lines include, but are not limited to, general liability, commercial automobile liability, environmental, workers' compensation, excess casualty and crisis management coverages, insurance and risk management programs for large corporate customers and other customized structured insurance products, as well as excess and umbrella liability, Directors and Officers and products liability.

While we use a number of analytical reserve development techniques to project future loss development, reserves may be significantly affected by changes in loss cost trends or loss development factors that were relied upon in setting the reserves. For example, in the fourth quarter of 2015, we recorded a net charge of $3.6 billion to strengthen our Non-Life Insurance Companies' loss reserves, reflecting adverse development in classes of business with long reporting tails, primarily in U.S. & Canada casualty, U.S. & Canada financial lines and run-off lines. These changes in loss cost trends or loss development factors could be due to difficulties in predicting changes, such as changes in inflation, unemployment duration, or other social or economic factors affecting claims, including the judicial environment. Any deviation in loss cost trends or in loss development factors might not be identified for an extended period of time after we record the initial loss reserve estimates for any accident year or number of years. For a further discussion of our loss reserves, see Item 7. MD&A — Insurance Reserves —Non-Life Insurance Companies and Critical Accounting Estimates — Insurance Liabilities — Liability for Unpaid Losses and Loss Adjustment Expenses (Non-Life Insurance Companies).

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

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

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

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

- limitations on our ability to recover deferred tax assets;

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

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

- significant interruptions to our systems and operations.

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

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

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

Reinsurance may not be available or affordable and may not be adequate to protect us against losses. Our subsidiaries are major purchasers of reinsurance and we use reinsurance as part of our overall risk management strategy. While reinsurance does not discharge our subsidiaries from their obligation to pay claims for losses insured under our policies, it does make the reinsurer liable to them for the reinsured portion of the risk. For this reason, reinsurance is an important tool to manage transaction and insurance line risk retention and to mitigate losses from catastrophes. Market conditions beyond our control determine the availability and cost of reinsurance. For example, reinsurance may be more difficult or costly to obtain after a year with a large number of major catastrophes. As a result, we may, at certain times, be forced to incur additional expenses for reinsurance or may be unable to obtain sufficient reinsurance on acceptable terms. In that case, we would have to accept an increase in exposure risk, reduce the amount of business written by our subsidiaries or seek alternatives in line with our risk limits. Additionally, we are exposed to credit risk with respect to our subsidiaries' reinsurers to the extent the reinsurance receivable is not secured by collateral or does not benefit from other credit enhancements. We also bear the risk that a reinsurer may be unwilling to pay amounts we have recorded as reinsurance recoverable for any reason, including that (i) the terms of the reinsurance contract do not reflect the intent of the parties of the contract or there is a disagreement between the parties as to their intent, (ii) the terms of the contract cannot be legally enforced, (iii) the terms of the contract are interpreted by a court or arbitration panel differently than intended, (iv) the reinsurance transaction performs differently than we anticipated due to a flawed design of the reinsurance structure, terms or conditions, or (v) a change in laws and regulations, or in the interpretation of the laws and regulations, materially impacts a reinsurance transaction. The insolvency of one or more of our reinsurers, or inability or unwillingness to make timely payments under the terms of our contracts, could have a material adverse effect on our results of operations and liquidity. Additionally, the use of reinsurance placed in the capital markets, such as through catastrophe bonds, may not provide the same levels of protection as traditional reinsurance transactions and any disruption, volatility and uncertainty in the catastrophe bond market, such as following a major catastrophe event, may limit our ability to access such market on terms favorable to us or at all. Also, to the extent that we intend to utilize catastrophe bond transactions based on an industry loss index or other non-indemnity trigger rather than on actual losses incurred by us, we could be subject to residual risk. Our inability to obtain adequate reinsurance or other protection could have a material adverse effect on our business, results of operations and financial condition.

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

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

LIQUIDITY, CAPITAL AND CREDIT

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

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

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

Our subsidiaries may not be able to generate cash to meet their needs due to the illiquidity of some of their investments. Our subsidiaries have investments in certain securities that may be illiquid, including certain fixed income securities and certain structured securities, private company securities, investments in private equity funds and hedge funds, mortgage loans, finance receivables and real estate. Collectively, investments in these assets had a fair value of $59 billion at December 31, 2015. Adverse real estate and capital markets, and wider credit spreads, have in the past, and may in the future, materially adversely affect the liquidity of our other securities portfolios, including our residential and commercial mortgage related securities portfolios. In the event additional liquidity is required by one or more of our subsidiaries and AIG Parent is unable to provide it, it may be difficult for these subsidiaries to generate additional liquidity by selling, pledging or otherwise monetizing these less liquid investments.

A downgrade in the Insurer Financial Strength ratings of our insurance companies could limit their ability to write or prevent them from writing new business and retaining customers and business. Insurer Financial Strength (IFS) ratings are an important factor in establishing the competitive position of insurance companies. IFS ratings measure an insurance company's ability to meet its obligations to contract holders and policyholders. High ratings help maintain public confidence in a company's products, facilitate marketing of products and enhance its competitive position. Downgrades of the IFS ratings of our insurance companies could prevent these companies from selling, or make it more difficult for them to succeed in selling, products and services, or result in increased policy cancellations, lapses and surrenders, termination of assumed reinsurance contracts, or return of premiums. Under credit rating agency policies concerning the relationship between parent and subsidiary ratings, a downgrade in AIG Parent's credit ratings could result in a downgrade of the IFS ratings of our insurance subsidiaries. Certain rating agencies recently revised our IFS ratings and ratings outlooks, primarily as a result of our reserve strengthening in the fourth quarter of 2015 and related concerns regarding our profitability outlook. We cannot predict what actions rating agencies may take, or what actions we may take in response to the actions of rating agencies, which could adversely affect our business.

TABLE OF CONTENTS

Item 1A / risk factors

A downgrade in our credit ratings could require us to post additional collateral and result in the termination of derivative transactions. Credit ratings estimate a company's ability to meet its obligations and may directly affect the cost and availability of financing. A downgrade of our long-term debt ratings by the major rating agencies would require us to post additional collateral payments related to derivative transactions to which we are a party, and could permit the termination of these derivative transactions. This could adversely affect our business, our consolidated results of operations in a reporting period or our liquidity. In the event of further downgrades of two notches to our long-term senior debt ratings, AIG would be required to post additional collateral of $95 million, and certain of our counterparties would be permitted to elect early termination of contracts. Certain rating agencies recently revised the outlook for our credit ratings, primarily as a result of our reserve strengthening in the fourth quarter of 2015 and related concerns regarding our profitability outlook. We cannot predict what actions rating agencies may take, or what actions we may take in response to the actions of rating agencies, which could adversely affect our business.

Business and operations

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

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

We also periodically review products for potential loss recognition events, principally insurance-oriented products. This review involves estimating the future profitability of in-force business and requires significant management judgment about assumptions including mortality, morbidity, persistency, maintenance expenses, and investment returns, including net realized capital gains (losses). If actual experience or estimates result in projected future losses, we may be required to amortize any remaining DAC and record additional liabilities through a charge to policyholder benefit expense, which could negatively affect our results of operations. For further discussion of DAC and future policy benefits, see Item 7. MD&A — Critical Accounting Estimates and Notes 8 and 12 to the Consolidated Financial Statements.

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

TABLE OF CONTENTS

Item 1A / risk factors

Certain of our products have guarantees that may increase the volatility of our results. We offer variable annuity and life insurance products with features that guarantee a certain level of benefits, including guaranteed minimum death benefits (GMDB), guaranteed minimum income benefits (GMIB), guaranteed minimum withdrawal benefits (GMWB), guaranteed minimum accumulation benefits (GMAB), and products with guaranteed interest crediting rates tied to an index. In addition to risk-mitigating features in our variable annuity product design, we have an economic hedging program designed to manage market risk from GMWB and GMAB, including exposures to changes in equity prices, interest rates, credit spreads and volatilities. The hedging program utilizes derivative instruments, including but not limited to equity options, futures contracts, interest rate swap and swaption contracts, as well as fixed maturity securities with a fair value election. See Enterprise Risk Management – Life Insurance Companies Key Insurance Risks – Variable Annuity Risk Management and Hedging Program for additional discussion of market risk management related to these product features. Nevertheless, differences between the change in fair value of GMWB and GMAB embedded derivatives and the related hedging portfolio can be caused by extreme and unanticipated movements in the equity markets, interest rates and market volatility, policyholder behavior and our inability to purchase hedging instruments at prices consistent with the desired risk and return trade-off. While we believe that our actions have reduced the risks related to guaranteed benefits and guaranteed interest crediting, our exposure may not be fully hedged, and we may be liable if counterparties are unable or unwilling to pay, although the majority of our hedging derivative instruments are exchange-traded, exchange-cleared and/or highly collateralized. We also remain exposed to the risk that policyholder behavior and mortality may differ from our assumptions. Finally, while we believe the impact of downturns in equity markets, increased equity volatility or reduced interest rates would be mitigated by our economic hedging program, the occurrence of one or more of these events could result in an increase in the liabilities associated with the guaranteed benefits that is not fully offset by the hedging program, reducing our net income and shareholders' equity. See Notes 4 and 13 to the Consolidated Financial Statements, Item 1 – Business – Regulation, and Item 7. MD&A – Critical Accounting Estimates for more information regarding these products.

Indemnity claims could be made against us in connection with divested businesses. We have provided financial guarantees and indemnities in connection with the businesses we have sold, as described in greater detail in Note 15 to the Consolidated Financial Statements. While we do not currently believe the claims under these indemnities will be material, it is possible that significant indemnity claims could be made against us. If such a claim or claims were successful, it could have a material adverse effect on our results of operations, cash flows and liquidity. See Note 15 to the Consolidated Financial Statements for more information on these financial guarantees and indemnities.

Our foreign operations expose us to risks that may affect our operations. We provide insurance, investment and other financial products and services to both businesses and individuals in more than 100 countries and jurisdictions. A substantial portion of our business is conducted outside the United States, and we intend to continue to grow this business. Operations outside the United States may be affected by regional economic downturns, changes in foreign currency exchange rates, political upheaval, nationalization and other restrictive government actions, which could also affect our other operations.

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

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

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

Significant legal proceedings may adversely affect our results of operations or financial condition. We are party to numerous legal proceedings, including class actions and regulatory and governmental investigations. Due to the nature of these proceedings, the lack of precise damage claims and the type of claims we are subject to, we cannot currently quantify our ultimate or maximum liability for these actions. Developments in these unresolved matters could have a material adverse effect on our consolidated financial condition or consolidated results of operations for an individual reporting period. Starr International Company, Inc. (SICO) has brought suit against the United States challenging the government's assistance of AIG, pursuant to which (i) AIG entered into a credit facility with the Federal Reserve Bank of New York and (ii) the United States received an approximately 80 percent ownership interest in AIG. The United States has alleged that AIG is obligated to indemnify the United States for any recoveries in these lawsuits. A determination that the United States is liable for damages in such suits, together with a determination that AIG is obligated to indemnify the United States for any such damages, could have a material adverse effect on our business, consolidated financial condition and results of operations. For a discussion of the SICO litigation and other unresolved matters, see Note 15 to the Consolidated Financial Statements.

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

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

The integration of companies we acquire from time to time may not be as successful as we anticipate. Acquisitions involve a number of risks, including operational, strategic, financial, accounting, legal and tax risks. Difficulties in integrating an acquired company may result in the acquired company performing differently than we expected or in our failure to realize anticipated expense-related efficiencies. Our existing businesses could also be negatively impacted by acquisitions. Risks resulting from future acquisitions may have a material adverse effect on our results of operations and financial condition.

TABLE OF CONTENTS

REGULATION

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

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

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

We provide products and services to certain employee benefit plans that are subject to restrictions imposed by ERISA and the Internal Revenue Code, including the requirement under ERISA that fiduciaries must perform their duties solely in the interests of ERISA plan participants and beneficiaries, and that fiduciaries may not cause a covered plan to engage in certain prohibited transactions. The DOL has proposed a new regulation that could, if enacted as originally proposed, materially affect our ability to sell and service certain types of annuities and other investment products. If the new DOL proposals are finalized as originally proposed, the investment-related information and support that our advisors and employees could provide to ERISA-covered plan sponsors, participants and IRA holders on a non-fiduciary basis could be substantially limited compared to what is allowed under current law, and these changes could have a material impact on the types and levels of and compensation structures associated with the investment products and services we provide. For additional information, see Item 1 – Business – Regulation and Item 7 – MD&A – Executive Overview – Consumer Insurance Strategic Initiatives and Outlook.

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

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

TABLE OF CONTENTS

Item 1A / risk factors

Our status as a nonbank systemically important financial institution, as well as the enactment of Dodd-Frank, will subject us to substantial additional federal regulation, which may materially and adversely affect our businesses, results of operations and cash flows. On July 21, 2010, Dodd-Frank, which effects comprehensive changes to the regulation of financial services in the United States, was signed into law. Dodd-Frank directs existing and newly created government agencies and bodies to promulgate regulations implementing the law, an ongoing process anticipated to continue over the next few years.

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

See Item 1. Business – Regulation for further discussion of the details of the aforementioned regulations to which AIG and its businesses are subject.

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

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

The USA PATRIOT Act, the Office of Foreign Assets Control and similar laws that apply to us may expose us to significant penalties. The operations of our subsidiaries are subject to laws and regulations, including, in some cases, the USA PATRIOT Act of 2001, which require companies to know certain information about their clients and to monitor their transactions for suspicious activities. Also, the Department of the Treasury's Office of Foreign Assets Control administers regulations requiring U.S. persons to refrain from doing business, or allowing their clients to do business through them, with certain organizations or individuals on a prohibited list maintained by the U.S. government or with certain countries.

The United Kingdom, the European Union and other jurisdictions maintain similar laws and regulations. Although we have instituted compliance programs to address these requirements, there are inherent risks in global transactions.

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

Our domestic Life Insurance Companies manage the capital impact of statutory reserve requirements under Regulation XXX and Guideline AXXX through affiliated reinsurance transactions, to maintain their ability to offer competitive pricing and successfully market such products. See Note 18 to the Consolidated Financial Statements for additional information on statutory reserving requirements under Regulation XXX and Guideline AXXX and our use of affiliated reinsurance. The NAIC and other state and federal regulators continue to focus on life insurers’ affiliated reinsurance transactions used to satisfy certain reserve requirements or to manage the capital impact of certain statutory reserve requirements, particularly transactions using captive insurance companies or special purpose vehicles. While our domestic Life Insurance Companies do

41

not use captive or special purpose vehicle structures for this purpose, we cannot predict whether any applicable insurance laws or regulations will be changed in a way that prohibits or adversely impacts the use of affiliated reinsurance. If regulations change, our statutory reserve requirements could increase, and we could be required to increase prices on our products or incur higher expenses to obtain reinsurance, which could adversely affect our competitive position, financial condition or results of operations. If our actions to efficiently manage the impact of Regulation XXX or Guideline AXXX on future sales of term and universal life insurance products are not successful, we may incur higher operating costs or our sales of these products may be affected.

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

An “ownership change” could limit our ability to utilize tax loss and credit carryforwards to offset future taxable income. As of December 31, 2015, we had a U.S. federal net operating loss carryforward of approximately $34.9 billion and $6.9 billion in foreign tax credits (tax loss and credit carryforwards). Our ability to use such tax attributes to offset future taxable income may be significantly limited if we experience an “ownership change” as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the Code). In general, an ownership change will occur when the percentage of AIG Parent's ownership (by value) of one or more “5-percent shareholders” (as defined in the Code) has increased by more than 50 percent over the lowest percentage owned by such shareholders at any time during the prior three years (calculated on a rolling basis). An entity that experiences an ownership change generally will be subject to an annual limitation on its pre-ownership change tax loss and credit carryforwards equal to the equity value of the corporation immediately before the ownership change, multiplied by the long-term, tax-exempt rate posted monthly by the IRS (subject to certain adjustments). The annual limitation would be increased each year to the extent that there is an unused limitation in a prior year. The limitation on our ability to utilize tax loss and credit carryforwards arising from an ownership change under Section 382 would depend on the value of our equity at the time of any ownership change. If we were to experience an “ownership change”, it is possible that a significant portion of our tax loss and credit carryforwards could expire before we would be able to use them to offset future taxable income.

On March 9, 2011, our Board adopted our Tax Asset Protection Plan (the Plan) to help protect these tax loss and credit carryforwards, and on January 8, 2014, the Board adopted an amendment to the Plan, extending its expiration date to January 8, 2017. The amendment of the Plan was ratified by our shareholders at our 2014 Annual Meeting of Shareholders. At our 2011 Annual Meeting of Shareholders,

shareholders adopted a protective amendment to our Restated Certificate of Incorporation (Protective Amendment), which is designed to prevent certain transfers of AIG Common Stock that could result in an “ownership change.” At our 2014 Annual Meeting of Shareholders, our shareholders approved an amendment to our Restated Certificate of Incorporation to adopt a successor to the Protective Amendment that contains substantially the same terms as the Protective Amendment and that expires on May 12, 2017, the third anniversary of the date of our 2014 Annual Meeting of Shareholders.

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

TABLE OF CONTENTS

Item 1A / risk factors

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

In addition to proposing to change the taxation of corporations in general and insurance companies in particular, the Executive Branch of the U.S. Government and Congress have considered proposals that could increase taxes on owners of insurance products. For example, there have been proposals that would have limited the deferral of tax on income from life and annuity contracts relative to other investment products. These changes could reduce demand in the U.S. for life insurance and annuity contracts, or cause consumers to shift from these contracts to other investments, which would reduce our income due to lower sales of these products or potential increased surrenders of in-force business.

The need for governments to seek additional revenue makes it likely that there will be continued proposals to change tax rules in ways that would reduce our earnings. However, it remains difficult to predict whether or when there will be any tax law changes having a material adverse effect on our financial condition or results of operations.

COMPETITION and employees

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

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

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

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

TABLE OF CONTENTS

Item 1A / risk factors

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

ESTIMATES AND ASSUMPTIONS

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

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

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

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

Changes in our assumptions regarding the discount rate, expected rate of return, and expected compensation for our pension and other postretirement benefit plans may result in increased expenses and reduce our profitability. We determine our pension and other postretirement benefit plan costs based on assumed discount rates, expected rates of return on plan assets, expected increases in compensation levels and trends in health care costs. Changes in these assumptions, including from the impact of a sustained low interest rate environment, may result in increased expenses and reduce our profitability. See Note 20 to the Consolidated Financial Statements for further details on our pension and postretirement benefit plans.

TABLE OF CONTENTS

ITEM 1B / UNRESOLVED STAFF COMMENTS

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

ITEM 2 / PROPERTIES

We operate from approximately 350 offices in the United States and approximately 500 offices in over 75 foreign countries. The following offices are located in buildings in the United States owned by us:

Non-Life Insurance Companies:	Life Insurance Companies:
• Wilmington, Delaware • Stevens Point, Wisconsin • Greensboro and Winston-Salem, North Carolina	• Amarillo and Houston, Texas
Corporate and Other: • 175 Water Street in New York, New York • Livingston, New Jersey • Stowe, Vermont • Ft. Worth, Texas	

In addition, Non-Life Insurance Companies own offices in approximately 20 foreign countries and jurisdictions including Argentina, Bermuda, Colombia, Ecuador, Japan, Mexico, the U.K., Taiwan, and Venezuela. The remainder of the office space we utilize is leased. We believe that our leases and properties are sufficient for our current purposes.

LOCATIONS OF CERTAIN ASSETS

As of December 31, 2015, approximately 10 percent of our consolidated assets were located outside the U.S. and Canada, including $659 million of cash and securities on deposit with regulatory authorities in those locations. See Note 3 to the Consolidated Financial Statements for additional geographic information. See Note 5 to the Consolidated Financial Statements for total carrying amounts of cash and securities deposited by our insurance subsidiaries under requirements of regulatory authorities.

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

TABLE OF CONTENTS

ITEM 3 / LEGAL PROCEEDINGS

For a discussion of legal proceedings, see Note 15 — Contingencies, Commitments and Guarantees to the Consolidated Financial Statements, which is incorporated herein by reference.

ITEM 4 / MINE SAFETY DISCLOSURES

Not applicable.

TABLE OF CONTENTS

Item 5 / market for registrant's common equity, related stockholder matters and issuer purchases of equity securities

Part II

ITEM 5 / MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

AIG's common stock, par value $2.50 per share (AIG Common Stock), is listed on the New York Stock Exchange (NYSE: AIG), as well as on the Tokyo Stock Exchange. There were approximately 29,245 stockholders of record of AIG Common Stock as of February 11, 2016.

The following table presents high and low closing sale prices of AIG Common Stock on the New York Stock Exchange Composite Tape for each quarter of 2015 and 2014, and the dividends declared per share during those periods:

	2015			2014		
	High	Low	Dividends	High	Low	Dividends
First quarter	$ 56.42	$ 48.87	$ 0.125	$ 52.22	$ 46.88	$ 0.125
Second quarter	63.32	54.81	0.125	55.72	49.40	0.125
Third quarter	64.54	55.66	0.280	56.33	51.98	0.125
Fourth quarter	64.12	56.92	0.280	56.51	49.40	0.125

Dividends

On February 11, 2016, our Board of Directors declared a cash dividend on AIG Common Stock of $0.32 per share, payable on March 28, 2016 to shareholders of record on March 14, 2016.

Any payment of dividends must be approved by AIG's Board of Directors. In determining whether to pay any dividend, our Board of Directors may consider AIG's financial position, the performance of our businesses, our consolidated financial condition, results of operations and liquidity, available capital, the existence of investment opportunities, and other factors. AIG may become subject to restrictions on the payment of dividends and purchases of AIG Common Stock as a nonbank SIFI and a G-SII. See Item 1. Business — Regulation and Item 1A. Risk Factors — Regulation for further discussion.

For a discussion of certain restrictions on the payment of dividends to AIG by some of its insurance subsidiaries, see Item 1A. Risk Factors — Liquidity, Capital and Credit — AIG Parent's ability to access funds from our subsidiaries is limited, and Note 18 to the Consolidated Financial Statements.

EQUITY COMPENSATION PLANS

Our table of equity compensation plans will be included in the definitive proxy statement for AIG’s 2016 Annual Meeting of Shareholders. The definitive proxy statement will be filed with the SEC no later than 120 days after the end of AIG’s fiscal year pursuant to Regulation 14A.

TABLE OF CONTENTS

Item 5 / market for registrant's common equity, related stockholder matters and issuer purchases of equity securities

PURCHASES OF EQUITY SECURITIES

The following table provides the information with respect to purchases made by or on behalf of AIG or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934 (the Exchange Act)) of AIG Common Stock during the three months ended December 31, 2015:

Period	Total Number of Shares Repurchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs		Approximate Dollar Value of Share that May Yet Be Purchased Under th Plans or Programs (in millions
October 1 - 31	10,363,200	$	58.06	10,363,200	$	2,92
November 1 - 30	10,964,737		61.45	10,964,737		2,25
December 1 - 31	31,566,100		61.53	31,566,100		3,31
Total	52,894,037	$	60.83	52,894,037	$	3,31

Our Board of Directors has authorized the repurchase of shares of AIG Common Stock through a series of actions. On December 16, 2015, our Board of Directors authorized an additional increase to its previous repurchase authorization of AIG Common Stock of $3.0 billion.

During the three-month period ended December 31, 2015, we repurchased approximately 53 million shares of AIG Common Stock under this authorization for an aggregate purchase price of approximately $3.2 billion. Pursuant to an Exchange Act Rule 10b5-1 plan, from January 1 to February 11, 2016, we have repurchased approximately 44 million shares of AIG Common Stock for an approximate purchase price of $2.5 billion.

On February 11, 2016, our Board of Directors authorized an additional increase to the repurchase authorization of AIG Common Stock of $5.0 billion, resulting in a remaining authorization on such date of approximately $5.8 billion. Shares may be repurchased from time to time in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise (including through the purchase of warrants). Certain of our share repurchases have been and may from time to time be effected through Exchange Act Rule 10b5-1 repurchase plans. The timing of any future share repurchases will depend on market conditions, our financial condition, results of operations, liquidity and other factors.

See Note 16 to the Consolidated Financial Statements for additional information on our share purchases.

Item 5 / market for registrant's common equity, related stockholder matters and issuer purchases of equity securities

common Stock PERFORMANCE GRAPH

The following Performance Graph compares the cumulative total shareholder return on AIG Common Stock for a five-year period (December 31, 2010 to December 31, 2015) with the cumulative total return of the S&P's 500 stock index (which includes AIG) and a peer group of companies consisting of 15 insurance companies to which we compare our business and operations:

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

* In January 2016, ACE Limited acquired The Chubb Corporation. The combined organization now operates as Chubb Limited.

TABLE OF CONTENTS

Item 5 / market for registrant’s common equity, related stockholder matters and issuer purchases of equity securities

Value of $100 Invested on December 31, 2010

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

	As of December 31,					
	2010	2011	2012	2013	2014	**2015**
AIG	$ 100.00	$ 49.05	$ 74.64	$ 108.38	$ 120.02	**$** 134.63
S&P 500	100.00	102.11	118.45	156.82	178.29	180.75
Peer Group	100.00	86.72	111.36	165.52	167.48	175.50

50

TABLE OF CONTENTS

Item 6 / Selected financial data

ITEM 6 / SELECTED FINANCIAL DATA

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

	Years Ended December 31,				
(in millions, except per share data)	**2015**	2014	2013	2012	2011
Revenues:					
Premiums	**$ 36,655**	$ 37,254	$ 37,499	$ 38,189	$ 39,026
Policy fees	**2,755**	2,615	2,340	2,192	2,197
Net investment income	**14,053**	16,079	15,810	20,343	14,755
Net realized capital gains	**776**	739	1,939	1,087	803
Aircraft leasing revenue	**-**	1,602	4,420	4,504	4,508
Other income	**4,088**	6,117	6,866	4,899	3,861
Total revenues	**58,327**	64,406	68,874	71,214	65,150
Benefits, losses and expenses:					
Policyholder benefits and losses incurred	**31,345**	28,281	29,503	32,036	33,523
Interest credited to policyholder account balances	**3,731**	3,768	3,892	4,340	4,432
Amortization of deferred policy acquisition costs	**5,236**	5,330	5,157	5,709	5,486
General operating and other expenses	**12,686**	13,138	13,564	13,013	11,783
Interest expense	**1,281**	1,718	2,142	2,319	2,444
Net loss on extinguishment of debt	**756**	2,282	651	32	2,908
Aircraft leasing expenses	**-**	1,585	4,549	4,138	5,401
Net (gain) loss on sale of properties and divested businesses	**11**	(2,197)	48	6,736	74
Total benefits, losses and expenses	**55,046**	53,905	59,506	68,323	66,051
Income (loss) from continuing operations before income taxes	**3,281**	10,501	9,368	2,891	(901)
Income tax expense (benefit)	**1,059**	2,927	360	(808)	(19,764)
Income from continuing operations	**2,222**	7,574	9,008	3,699	18,863
Income (loss) from discontinued operations, net of taxes	**-**	(50)	84	1	2,467
Net income	**2,222**	7,524	9,092	3,700	21,330
Net income (loss) from continuing operations attributable					

to noncontrolling interests:	**26**	(5)	7	262	708
Net income attributable to AIG	**2,196**	7,529	9,085	3,438	20,622
Income per common share attributable to AIG common shareholders					
Basic					
Income from continuing operations	**1.69**	5.31	6.11	2.04	9.65
Income (loss) from discontinued operations	**-**	(0.04)	0.05	-	1.36
Net income attributable to AIG	**1.69**	5.27	6.16	2.04	11.01
Diluted					
Income from continuing operations	**1.65**	5.24	6.08	2.04	9.65
Income (loss) from discontinued operations	**-**	(0.04)	0.05	-	1.36
Net income attributable to AIG	**1.65**	5.20	6.13	2.04	11.01
Dividends declared per common share	**0.81**	0.50	0.20	-	-
Year-end balance sheet data:					
Total investments	**338,354**	355,766	356,428	375,824	410,438
Total assets	**496,943**	515,581	541,329	548,633	553,054
Long-term debt	**29,350**	31,217	41,693	48,500	75,253
Total liabilities	**406,733**	408,309	440,218	449,630	442,138
Total AIG shareholders' equity	**89,658**	106,898	100,470	98,002	101,538
Total equity	**90,210**	107,272	101,081	98,669	102,393

TABLE OF CONTENTS

Item 6 / Selected financial data

Book value per common share	**75.10**	77.69	68.62	66.38	53.53
Book value per common share, excluding Accumulated other comprehensive income (loss)[(a)]	**72.97**	69.98	64.28	57.87	50.11
Book value per common share, excluding Accumulated other comprehensive income (loss) and Deferred tax assets[(a)]	**$ 58.94**	$ 58.23	$ 52.12	$ 45.30	$ 39.57
ROE	**2.2**%	7.1%	9.2%	3.4%	24.1%
ROE - after-tax operating income, excluding AOCI[(a)]	**3.1**	6.9	7.4	7.1	2.6
ROE - after-tax operating income, excluding AOCI and DTA[(a)]	**3.7**	8.4	9.3	9.0	2.7

	Years Ended December 31,				
(in millions, except per share data)	**2015**	2014	2013	2012	2011
Other data (from continuing operations):					
Other-than-temporary impairments	**$ 671**	$ 247	$ 232	$ 1,050	$ 1,142
Adjustment to federal deferred tax valuation allowance	**110**	(181)	(3,165)	(1,907)	(18,307)
Catastrophe-related losses[(b)]	**$ 731**	$ 728	$ 787	$ 2,652	$ 3,307

(a) Book value per common share excluding Accumulated other comprehensive income (loss)**,** Book value per common share excluding AOCI and Deferred Tax Assets (DTA), return on equity – after-tax operating income excluding AOCI and return on equity – after-tax operating income excluding AOCI and DTA are non-GAAP measures and the reconciliations are below. See Item 7. MD&A — Use of Non GAAP Measures for additional information.

(b) Catastrophe-related losses are generally weather or seismic events having a net impact on our property casualty businesses in excess of $10 million each.

The following are significant developments that affected multiple periods and financial statement captions. Other items that affected comparability are included in the footnotes to the table presented immediately above.

Adjustments to Federal Deferred Tax Valuation Allowance

We concluded that $18.4 billion of the deferred tax asset valuation allowance for the U.S. consolidated income tax group should be released through the Consolidated Statements of Income in 2011. The valuation allowance resulted primarily from losses subject to U.S. income taxes recorded from 2008 through 2010. See Note 22 to the Consolidated Financial Statements for further discussion.

Capitalization and Book Value Per Common Share

On January 14, 2011, we completed a series of integrated transactions to recapitalize AIG (the Recapitalization) with the Department of the Treasury, the Federal Reserve Bank of New York (FRBNY) and AIG Credit Facility Trust, including the repayment of all amounts owed under the Credit Facility with the FRBNY (the FRBNY Credit Facility). As a result of the closing of the Recapitalization on January 14, 2011, the remaining preferred interests (the SPV Preferred Interests) in the special purpose vehicles that held remaining AIA Group Limited (AIA) shares and the proceeds of the AIA initial public offering and the American Life Insurance Company (ALICO) sale (the AIA SPV and ALICO SPV, respectively) held by the FRBNY of approximately $26.4 billion were purchased by AIG and transferred to the Department of the Treasury. The SPV Preferred Interests were no longer considered permanent equity on AIG's Consolidated Balance Sheets, and were classified as redeemable noncontrolling interests.

TABLE OF CONTENTS

Item 6 / Selected financial data

Asset Dispositions in 2011, 2014 and 2015

We completed the sale of ILFC on May 14, 2014, and in 2015 we sold all of our ordinary shares of AerCap Holdings N.V. (AerCap) received as part of the consideration for the sale of ILFC, as further discussed in Note 1 to the Consolidated Financial Statements. We also executed multiple asset dispositions in 2011.

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, which are non-GAAP measures. See Item 7. MD&A — Use of Non GAAP Measures for additional information.

	At December 31,				
(in millions, except per share data)	**2015**	2014	2013	2012	201
Total AIG shareholders' equity	**$ 89,658**	$ 106,898	$ 100,470	$ 98,002	$ 101,53
Accumulated other comprehensive income	**2,537**	10,617	6,360	12,574	6,48
Total AIG shareholders' equity, excluding AOCI	**87,121**	96,281	94,110	85,428	95,05
Deferred tax assets	**16,751**	16,158	17,797	18,549	20,00
Total AIG shareholders' equity, excluding AOCI and DTA	**$ 70,370**	$ 80,123	$ 76,313	$ 66,879	$ 75,05
Total common shares outstanding	**1,193,916,617**	1,375,926,971	1,464,063,323	1,476,321,935	1,896,821,48
Book value per common share	**$ 75.10**	$ 77.69	$ 68.62	$ 66.38	$ 53.5
Book value per common share, excluding AOCI	**72.97**	69.98	64.28	57.87	50.1
Book value per common share, excluding AOCI and DTA	**$ 58.94**	$ 58.23	$ 52.12	$ 45.30	$ 39.5

The following table presents a reconciliation of Return on equity to Return on equity, after-tax operating income, excluding AOCI, and Return on equity, after-tax operating income, excluding AOCI and DTA, which are non-GAAP measures. See Item 7. MD&A — Use of Non GAAP Measures for additional information.

Years Ended December 31,				
(dollars in millions)	**2015**	2014	2013	201
Net income (loss) attributable to AIG	**$ 2,196**	$ 7,529	$ 9,085	$ 3,43
After-tax operating income attributable to AIG	**2,927**	6,630	6,650	6,54

Average AIG Shareholders' equity	**101,558**	105,589	98,850	101,87
Average AOCI	**7,598**	9,781	8,865	9,71
Average AIG Shareholders' equity, excluding average AOCI	**93,960**	95,808	89,985	92,15
Average DTA	**15,803**	16,611	18,150	19,25
Average AIG Shareholders' equity, excluding average AOCI and DTA	**$ 78,157**	$ 79,197	$ 71,835	$ 72,90
ROE	**2.2%**	7.1%	9.2%	3.
ROE - after-tax operating income, excluding AOCI	**3.1**	6.9	7.4	7.
ROE - after-tax operating income, excluding AOCI and DTA	**3.7**	8.4	9.3	9.

TABLE OF CONTENTS

ITEM 7 / MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

TABLE OF CONTENTS

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

- changes in market conditions;
- negative impacts on customers, business partners and other stakeholders;
- the occurrence of catastrophic events, both natural and man-made;
- significant legal proceedings;
- the timing and applicable requirements of any new regulatory framework to which we are subject as a nonbank systemically important financial institution (SIFI) and as a global systemically important insurer (G SII);
- concentrations in our investment portfolios;
- actions by credit rating agencies;
- judgments concerning casualty insurance underwriting and insurance liabilities;
- our ability to successfully manage run-off insurance portfolios;
- our ability to successfully reduce costs and expenses and make business and organizational changes without negatively impacting client relationships or our competitive position;
- our ability to successfully dispose of, or monetize, businesses or assets;
- judgments concerning the recognition of deferred tax assets;
- judgments concerning estimated restructuring charges and estimated cost savings; and
- such other factors discussed in:
- Part I, Item 1A. Risk Factors of this Annual Report on Form 10 K; and
- this Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) of this Annual Report on Form 10-K.

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.

TABLE OF CONTENTS

The MD&A is organized as follows:

INDEX TO ITEM 7

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

We have incorporated into this discussion a number of cross-references to additional information included throughout this Annual Report on Form 10-K to assist readers seeking additional information related to a particular subject.

Item 7 / use of non-gaap measures

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

Book Value Per Common Share Excluding Accumulated Other Comprehensive Income (AOCI) and Book Value Per Common Share Excluding AOCI and Deferred Tax Assets (DTA) 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 the effect of non-cash 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. Deferred tax assets represent U.S. tax attributes related to net operating loss carryforwards and foreign tax credits. Amounts for interim periods are estimates based on projections of full-year attribute utilization. Book Value Per Common Share Excluding AOCI is derived by dividing Total AIG shareholders’ equity, excluding AOCI, by Total common shares outstanding. Book Value Per Common Share Excluding AOCI and DTA is derived by dividing Total AIG shareholders’ equity, excluding AOCI and DTA, by Total common shares outstanding. The reconciliation to book value per common share, the most comparable GAAP measure, is presented in Item 6. Selected Financial Data.

Return on Equity – After-tax Operating Income Excluding AOCI and Return on Equity – After-tax Operating Income Excluding AOCI and DTA are used to show the rate of return on shareholders’ equity. We believe these measures are useful to investors because they eliminate the effect of non-cash 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. Deferred tax assets represent U.S. tax attributes related to net operating loss carryforwards and foreign tax credits. Amounts for interim periods are estimates based on projections of full-year attribute utilization. Return on Equity – After-tax Operating Income Excluding AOCI is derived by dividing actual or annualized after-tax operating income attributable to AIG by average AIG shareholders’ equity, excluding average AOCI. Return on Equity – After-tax Operating Income Excluding AOCI and DTA is derived by dividing actual or annualized after-tax operating income attributable to AIG by average AIG shareholders’ equity, excluding average AOCI and DTA. The reconciliation to return on equity, the most comparable GAAP measure, is presented in Item 6. Selected Financial Data.

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 in the Results of Operations section of this MD&A on a consolidated basis.

57

Item 7 / use of non-gaap measures

After-tax operating income attributable to AIG is derived by excluding the following items from net income attributable to AIG:

• deferred income tax valuation allowance releases and charges; • changes in fair value of securities used to hedge guaranteed living benefits; • changes in benefit reserves and deferred policy acquisition costs (DAC), value of business acquired (VOBA), and sales inducement assets (SIA) related to net realized capital gains and losses; • other income and expense — net, related to Corporate and Other run-off insurance lines; • loss on extinguishment of debt; • net realized capital gains and losses; • non qualifying derivative hedging activities, excluding net realized capital gains and losses;	• income or loss from discontinued operations; • income and loss from divested businesses, including: • gain on the sale of International Lease Finance Corporation (ILFC); and • certain post-acquisition transaction expenses incurred by AerCap Holdings N.V. (AerCap) in connection with its acquisition of ILFC and the difference between expensing AerCap's maintenance rights assets over the remaining lease term as compared to the remaining economic life of the related aircraft and related tax effects; • legacy tax adjustments primarily related to certain changes in uncertain tax positions and other tax adjustments; • non-operating litigation reserves and settlements; • reserve development related to non-operating run-off insurance business; and • restructuring and other costs related to initiatives designed to reduce operating expenses, improve efficiency and simplify our organization.

We use the following operating performance measures within our Commercial Insurance and Consumer Insurance reportable segments as well as Corporate and Other.

• ***Commercial Insurance: Property Casualty and Mortgage Guaranty; Consumer Insurance: Personal Insurance***

• **Pre tax operating income** includes both underwriting income and loss and net investment income, but excludes net realized capital gains and losses, other income and expense — net, and non-operating litigation reserves and settlements. Underwriting income and loss is derived by reducing net premiums earned by losses and loss adjustment expenses incurred, acquisition expenses and general operating expenses.

- **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, 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. 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. Catastrophe losses are generally weather or seismic events having a net impact in excess of $10 million each.

TABLE OF CONTENTS

Item 7 / use of non-gaap measures

- ***Commercial Insurance: Institutional Markets; Consumer Insurance: Retirement and Life***

- **Pre tax operating income** is derived by excluding the following items from pre tax income:

• 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 and losses; and
• net realized capital gains and losses;	• non-operating litigation reserves and settlements.

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

- ***Corporate and Other — Pre tax operating income and loss*** is derived by excluding the following items from pre tax income and loss:

• loss on extinguishment of debt; • net realized capital gains and losses; • changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains and losses; • income and loss from divested businesses, including Aircraft Leasing;	• net gain or loss on sale of divested businesses, including: • gain on the sale of ILFC; and • certain post-acquisition transaction expenses incurred by AerCap in connection with its acquisition of ILFC and the difference between expensing AerCap's maintenance rights assets over the remaining lease term as compared to the remaining economic life of the related aircraft and our share of AerCap's income taxes; • non-operating litigation reserves and settlements; • reserve development related to non-operating run-off insurance business; and • restructuring and other costs related to initiatives designed to reduce operating expenses, improve efficiency and simplify our organization.

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

TABLE OF CONTENTS

Item 7 / EXECUTIVE 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 AIG's securities. You should read this Annual Report on Form 10 K in its entirety for a complete description of events, trends, uncertainties, risks and critical accounting estimates affecting us.

As a result of the progress of the wind down and de-risking activities of the Direct Investment book (DIB) and the derivative portfolio of AIG Financial Products Corp. and related subsidiaries (collectively, AIGFP) included within Global Capital Markets (GCM), AIG has discontinued separate reporting of the DIB and GCM. Their results are reported within Income from other assets, net, beginning in 2015. This reporting aligns with the manner in which AIG manages its financial resources. Prior periods are presented in the historical format for informational purposes. AIG borrowings supported by assets continue to be managed as such with assets allocated to support the timely repayment of those liabilities. Assets previously held in the DIB and GCM that are otherwise not required to meet the obligations and capital requirements of the DIB and GCM have been made available to AIG Parent.

As part of our broad and on-going efforts to transform AIG for long-term competitiveness, in the third quarter of 2015 we finalized a series of initiatives focused on organizational simplification, operational efficiency, and business rationalization, which are expected to result in pre-tax restructuring and other costs of approximately $0.7 billion, as well as generate pre-tax annualized savings of approximately $0.7 billion to $0.8 billion when fully implemented. Results for 2015 include approximately $0.5 billion of pre-tax restructuring and other costs, composed of $0.3 billion of employee severance and one-time termination benefits, approximately $0.1 billion associated with the modernization of information technology platforms, and the balance relating to costs associated with consolidation of legal entities and exiting lower return lines of business. We expect the remaining $0.2 billion to be recognized through 2017, as well as approximately $0.3 billion of the aggregate pre-tax costs to result in cash expenditures.

On January 26, 2016, we announced several actions designed to create a leaner, more profitable and focused insurer. These actions include a plan to reorganize our operating model into "modular", more self-contained business units to enhance transparency and accountability. Additionally, we are introducing a new Legacy Portfolio that aims to maximize value and release capital of certain run-off non-strategic assets and highlight progress on improving the ROE of our Operating Portfolio. When the new operating structure is finalized, the presentation of our segment results may be modified and prior periods' presentation may be revised to conform to the new structure.

TABLE OF CONTENTS

Item 7 / EXECUTIVE OVERVIEW

Financial Performance

Commercial Insurance pre tax operating income decreased in 2015, compared to 2014 primarily due to a higher underwriting loss in Property Casualty due to an increase in net adverse prior year loss reserve development. In addition net investment income in Property Casualty and Institutional Markets decreased in 2015 compared to 2014.

Consumer Insurance pre-tax operating income decreased in 2015, compared to 2014, reflecting lower net investment income, less favorable adjustments related to the update of actuarial assumptions, less favorable mortality experience in Life, and an underwriting loss in Personal Insurance in 2015. These decreases were partially offset by higher policy and advisory fees in 2015 compared to 2014, driven by growth in separate account assets under management in Retirement.

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

Net realized capital gains increased slightly in 2015, compared to 2014, due to higher net realized capital gains from sales of equity securities and fair value gains on embedded derivatives related to variable annuity guarantee features, net of hedges, compared to fair value losses in the prior year, mostly offset by an increase in other-than-temporary impairment charges and impairments on investments in life settlements.

TABLE OF CONTENTS

Item 7 / EXECUTIVE OVERVIEW

Our Performance – Selected Indicators

Years Ended December 31, *(in millions, except per share data and ratios)*	2015	2014	2013
Results of operations data:			
Total revenues	$ 58,327	$ 64,406	$ 68,874
Income from continuing operations	2,222	7,574	9,008
Net income attributable to AIG	2,196	7,529	9,085
Net income per common share attributable to AIG (diluted)	1.65	5.20	6.13
After-tax operating income attributable to AIG	$ 2,927	$ 6,630	$ 6,650
After-tax operating income per common share attributable to AIG (diluted)	2.19	4.58	4.49
Key metrics:			
Commercial Insurance			
Pre-tax operating income	$ 1,652	$ 5,510	$ 4,980
Property Casualty combined ratio	115.0	100.2	101.6
Property Casualty accident year combined ratio, as adjusted	95.0	94.2	95.1
Property Casualty net premiums written	$ 20,436	$ 21,020	$ 20,880
Mortgage Guaranty domestic first-lien new insurance written	50,842	42,038	49,356
Institutional Markets premiums and deposits	1,782	3,797	991
Consumer Insurance			
Pre-tax operating income	$ 3,378	$ 4,474	$ 4,564
Personal Insurance combined ratio	101.3	99.9	101.5
Personal Insurance accident year combined ratio, as adjusted	100.2	99.5	102.1
Personal Insurance net premiums written	$ 11,580	$ 12,412	$ 12,700
Retirement premiums and deposits	25,241	24,023	23,729
Life premiums and deposits	4,974	4,806	4,862
Life Insurance Companies assets under management	338,032	332,847	317,977

(in millions, except per share data)	December 31, 2015	December 31, 2014
Balance sheet data:		
Total assets	$ 496,943	$ 515,581

Long-term debt	**29,350**	31,217
Total AIG shareholders’ equity	**89,658**	106,898
Book value per common share	**75.10**	77.69
Book value per common share, excluding AOCI	**72.97**	69.98
Book value per common share, excluding AOCI and DTA	**58.94**	58.23

Years Ended December 31,	**2015**	2014	2013
Return on equity	**2.2%**	7.1%	9.2%
Return on equity - after-tax operating income, excluding AOCI	**3.1**	6.9	7.4
Return on equity - after-tax operating income, excluding AOCI and DTA	**3.7**	8.4	9.3

Total revenues *(in millions)*	**Income from continuing operations** *(in millions)*
Net income ATTRIBUTABLE TO AIG *(in millions)*	**Net INCOME PER COMMON SHARE ATTRIBUTABLE TO AIG (DILUTED)**

After-tax operating income attributable to aig (excludes net realized capital gains and certain other items) *(in millions)*		**Pre-tax operating income (loss) by segment** *(in millions)*

* Includes a gain of $1.4 billion associated with the completion of the sale of ILFC.

TABLE OF CONTENTS

Item 7 / EXECUTIVE OVERVIEW

TOTAL ASSETS *(in millions)*	**Long-term debt** *(in millions)*
Total AIG shareholders' equity *(in millions)*	**Book value per common share and book value per common share excluding aoci**

* Includes operating borrowings of other subsidiaries and consolidated investments and hybrid debt securities.

TABLE OF CONTENTS

Item 7 / EXECUTIVE OVERVIEW

Investment Highlights

Net investment income decreased to $14.1 billion in 2015 compared to $16.1 billion in 2014 due to lower income on alternative investments, primarily related to hedge fund performance, lower income on assets for which the fair value option was elected, and lower reinvestment yields. While corporate debt securities represented the core of new investment allocations, we continued to make investments in structured securities, mortgage loans and other fixed income investments with favorable risk versus return characteristics to improve yields and increase net investment income.

Net unrealized gains in our available for sale portfolio decreased to approximately $8.8 billion as of December 31, 2015, from approximately $19.0 billion as of December 31, 2014, primarily due to a rise in rates, widening of credit spreads and sale of equity securities.

The overall credit rating of our fixed maturity securities portfolio remains largely unchanged from December 31, 2014.

Liquidity and Capital Resources Highlights

We reduced our debt by $1.9 billion in 2015, primarily as a result of maturities, repayments and repurchases of $10.0 billion, offset in part by new debt issuances of $6.9 billion. We reduced the average cost of our financial debt from 5.34 percent per annum in 2014 to 4.92 percent per annum in 2015 and extended the maturity profile of our debt in 2015.

We maintained financial flexibility at AIG Parent in 2015 through $3.2 billion in dividends in the form of cash and fixed maturity securities from our Non-Life Insurance Companies and $4.6 billion in dividends and loan repayments in the form of cash and fixed maturity securities from our Life Insurance Companies. The dividends that AIG Parent received in 2015 included $2.8 billion of dividends that were declared during the fourth quarter of 2014.

Our Board of Directors increased our previous share repurchase authorization of AIG Common Stock, par value $2.50 per share (AIG Common Stock), by an additional $5.0 billion on February 11, 2016, resulting in a remaining authorization on such date of approximately $5.8 billion. During 2015, we repurchased approximately 182 million shares of AIG Common Stock for an aggregate purchase price of approximately $10.7 billion. The total number of shares of AIG Common Stock repurchased in 2015 includes (but the aggregate purchase price does not include) approximately 3.5 million shares of AIG Common Stock received in January 2015 upon the settlement of an ASR agreement executed in the fourth quarter of 2014. Pursuant to a Securities and Exchange Act of 1934 (Exchange Act) Rule 10b5-1 plan, from January 1 to February 11, 2016, we have repurchased approximately $2.5 billion of additional shares of AIG Common Stock.

We paid a cash dividend on AIG Common Stock of $0.125 per share on each of March 26, 2015 and June 25, 2015, and $0.28 per share on each of September 28, 2015 and December 21, 2015.

Our Board of Directors declared a cash dividend on AIG Common Stock on February 11, 2016 of $0.32 per share, payable on March 28, 2016 to shareholders of record on March 14, 2016.

We received net cash proceeds of approximately $4.2 billion in the aggregate from the sale of approximately 97.6 million ordinary shares of AerCap in June and September 2015.

We received gross cash proceeds of approximately $1.3 billion from our sale of 617 million ordinary H shares of PICC P&C by means of a placement to certain institutional investors.

Additional discussion and other liquidity and capital resources developments are included in Note 16 to the Consolidated Financial Statements and Liquidity and Capital Resources herein.

TABLE OF CONTENTS

Item 7 / EXECUTIVE OVERVIEW

Industry Trends

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 2015, characterized by factors such as historically low interest rates, instability in the global equity markets, volatile energy markets and slowing growth in emerging markets, China and Euro-Zone economies.

Interest rates remain low relative to historical levels, which has affected our industry by reducing investment returns and unfavorably affecting loss reserve discounting, primarily related to our workers' compensation reserves. In addition, current market conditions may not necessarily permit insurance companies to increase pricing across all our product lines.

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

These currencies may continue to fluctuate, in either direction, and such fluctuations will affect net premiums written growth trends reported in U.S. dollars, as well as financial statement line item comparability.

See Results of Operations – Foreign Currency Impact; Results of Operations – Segment Results – Pre-Tax Income Comparison for 2015 and 2014; Results of Operations – Commercial Insurance – Property Casualty Net Premiums Written by Region; and Results of Operations – Consumer Insurance – Personal Insurance Net Premiums Written by Region.

AIG is focused on the following priorities for 2016:

- Improving our Return on Equity (ROE)

- Creating a leaner, more profitable and focused insurer by reorganizing our operating model into "modular", more self-contained business units to enhance transparency and accountability, including through the introduction of a new Legacy Portfolio that aims to maximize value and release capital from run-off of non-strategic assets

- Reducing general operating expenses
- Improving the Commercial Insurance Property Casualty accident year loss ratio
- Returning excess capital to shareholders
- Growing book value per common share

The outlook for each of our businesses and management initiatives to improve growth and performance in 2016 and over the longer term is summarized below.

TABLE OF CONTENTS

Item 7 / EXECUTIVE OVERVIEW

Commercial insurance Outlook AND Strategic initiatives

Market Conditions and Industry Trends

Commercial Insurance expects the current low interest rate environment relative to historical levels, currency volatility, and ongoing uncertainty in global economic conditions will continue to limit growth and profitability in some markets and challenge growth of net investment income. Due to these conditions and overcapacity in the property casualty insurance industry, Commercial Insurance has continued to diversify its business focusing on growing profitable segments and geographies, exiting unprofitable lines and developing advanced data and analytics to improve profitability.

Property Casualty

Property Casualty has observed improving trends in certain key indicators that may partially offset the effect of current economic challenges. In 2015, the property casualty insurance industry experienced modest growth and an increase in overall exposures in certain markets, although this growth may be leveling off. Property Casualty also expects that expansion in certain growth economies will continue at a faster pace than in developed countries, but at levels lower than those previously expected due to revised economic assumptions. As a result of its ongoing strategy to optimize its portfolio and maintain underwriting discipline, Property Casualty expects that net premiums written for the U.S. Casualty line will continue to decline through 2016.

Overall, Property Casualty experienced a modest increase in rate pressure in 2015 compared to 2014. Property Casualty expects that trend to continue in the near term, particularly in certain lines including in the U.S. Property Excess and Surplus market. Property Casualty continues to differentiate its underwriting capacity from its peers by leveraging its global footprint, diverse product offering, risk engineering expertise and significant underwriting experience.

In the U.S., Property Casualty's exposure to terrorism risk is mitigated by TRIPRA in addition to limited private reinsurance protections. For additional information on TRIPRA, see Item 1A. Risk Factors — Reserves and Exposures and Item 7. MD&A — Enterprise Risk Management — Insurance Operations Risks — Non-Life Insurance Companies Key Insurance Risks — Terrorism Risk.

Mortgage Guaranty

During 2015, the U.S. market experienced an increase in mortgage loan originations driven by a decrease in residential mortgage interest rates in the latter part of 2014 that persisted throughout most of 2015, and experienced increased purchase volume that was favorably impacted by a drop in unemployment, improving housing prices, and lower down payment requirements. In addition, the current economic environment has favorably impacted incurred losses through fewer delinquencies and higher cure rates. If the current economic environment persists, Mortgage Guaranty expects to benefit through increased purchase volume and, for policies originated in the higher interest rate environment prior to 2012, increased refinancing activity. Mortgage Guaranty also expects current interest rates to have a favorable impact on the persistency of business written during 2012 and the first half of 2013, since refinancing would be unattractive to homeowners who originated mortgages at the lower residential mortgage interest rates prevalent in that time period.

Mortgage Guaranty also expects that the delinquency rate and cure rate will remain close to 2015 levels during 2016. Mortgage Guaranty believes the combination of the factors described above will result in favorable operating results for 2016.

On December 31, 2015, the Private Mortgage Insurer Eligibility Requirements (PMIERs) issued by Fannie Mae and Freddie Mac (collectively, the GSEs) became effective. Mortgage Guaranty met the PMIERs requirements as of December 31, 2015. Subject to interpretation and the prospective amendment of the new requirements by the GSEs, Mortgage Guaranty's minimum required assets under PMIERs was $3.0 billion as of December 31, 2015, and its estimated available assets were $3.6 billion, exceeding the required assets by $600 million.

TABLE OF CONTENTS

Institutional Markets

Institutional Markets is expected to continue growing its assets under management from the structured settlement business and the stable value wrap business, as well as from disciplined growth through the pursuit of select opportunities related to pension buyouts. Volatility in the earnings of our alternative investment portfolio will continue to affect Institutional Markets' results.

Strategic Initiatives

Customer — Strive to be our clients' most valued insurer by offering innovative products, superior service and access to an extensive global network.

Sharpen Commercial Focus — Achieve ROE in excess of target across our businesses primarily through improvements in our loss ratio. Improve our business portfolio through risk selection by using enhanced data, analytics and the application of science to deliver superior risk-adjusted returns. Exit or remediate targeted sub-segments of underperforming portfolios that do not meet our risk acceptance or profitability objectives.

Drive Efficiency — Reorganize our operating model into "modular", more self-contained business units to enhance decision making, transparency and accountability, driving performance improvement and strategic flexibility over time; increase capital fungibility and diversification, streamline our legal entity structure, optimize reinsurance, improve tax efficiency and reduce expenses.

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

Customer

Our vision is to be our clients' most valued insurer. We expect that investments in underwriting, claims services, client risk services, science and data will continue to differentiate us from our peers and drive a superior client experience. For example, during the fourth quarter, AIG increased global commercial property limits to $2.5 billion per occurrence from $1.5 billion, in response to increased demand for capacity and services from clients managing complex global risks and increasing property values. This increase was the result of recent investments in engineering and analytical capabilities, which in turn allowed us to secure meaningful support from a panel of long-standing reinsurers.

Sharpen Commercial Focus

Exit or remediate targeted underperforming portfolios

Commercial Insurance is focused on the products where we have the most potential to deliver value. Experience and emerging data indicate that there are consistently under-performing sub-segments of our business. We will grow where we see opportunity and we will exit or remediate underperforming portfolios. We will continue to further enhance our risk selection process and refine technical pricing through enhanced tools and analytics to achieve this goal.

Item 7 / EXECUTIVE OVERVIEW

Drive Efficiency

Narrow geographic footprint while continuing to maintain and improve multinational capabilities

Commercial Insurance, along with our other businesses, continues to evaluate the markets and geographies that provide the greatest opportunities, while maintaining the global footprint that our multinational clients greatly value. Additionally, we will continue to leverage our various off-shore centers, taking advantage of opportunities to centralize and standardize processes and platforms. We believe there is great opportunity to further streamline our operating model.

Expand and optimize the use of reinsurance and other risk mitigating strategies

Commercial Insurance continues to execute capital management initiatives by enhancing broad based risk tolerance guidelines for its operating units, implementing underwriting strategies to increase ROE by line of business and reducing exposure to businesses with inadequate pricing and increased loss trends. Commercial Insurance remains focused on enhancing its global reinsurance strategy to improve overall capital efficiency, although this strategy may lead to periodic income statement volatility.

Accelerate micro-segmentation of risks using internal and external data

Property Casualty continues to improve decision-making, risk acceptance and pricing based on its ongoing efforts to refine segmentation by customer, industry and geography. For example, after enhancing the segmentation of workers' compensation, Property Casualty has observed different experience and trends, which helps inform its risk appetite, pricing and loss mitigation decisions.

Invest to Grow

Grow most profitable lines

As part of our strategic goal of diversifying product offerings and providing customers with greater access to unique insurance programs, on March 31, 2015, we paid approximately $239 million to acquire a controlling stake in NSM Insurance Group (NSM), a leading U.S. managing general agent and insurance program administrator. NSM is known for its unique development and implementation of programs for a broad range of niche customer segments. We expect the acquisition of NSM to facilitate closer strategic coordination and provide us with access to new, attractive markets including programs, specialty small commercial insurance solutions, and complementary distribution networks.

Mortgage Guaranty expects to continue as a leading provider of mortgage insurance and seeks to differentiate itself from its competitors by utilizing its proprietary risk-based pricing strategy. This pricing strategy provides Mortgage Guaranty's customers with mortgage insurance products that are priced commensurate with the underwriting risk, which we believe will result in an appropriately priced, high-quality book of business. As announced on January 26, 2016, we plan to conduct an initial public offering of up to 19.9 percent of Mortgage Guaranty, subject to regulatory and GSE approval, as a first step towards a full separation.

Institutional Markets is expected to continue growing the structured settlement business and continue contributing to growth in assets under management with stable value wraps and utilizing a disciplined approach to growth and diversification of our business by pursuing select opportunities in areas such as the pension buyout business.

TABLE OF CONTENTS

Item 7 / EXECUTIVE OVERVIEW

consumer insurance Outlook AND STRATEGIC INITIATIVES

Market Conditions and Industry Trends

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 addition, higher tax rates and a desire for better investment returns have prompted less risk-averse investors to seek products without guaranteed living benefits, providing the opportunity to further diversify our product portfolio by offering investment-focused variable annuities.

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. In addition, more highly leveraged competitors have entered the market offering higher crediting rates. 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 surrenders. Customers are, however, currently buying fixed annuities with longer surrender periods in pursuit of higher returns, which may help mitigate the rate of increase in surrenders in a rapidly rising rate environment. Low interest rates have also driven strong sales growth of our fixed index annuity products, which provide additional interest crediting tied to favorable performance in certain equity market indices.

Consumer Insurance provides products and services to certain employee benefit plans that are subject to restrictions imposed by ERISA and the Internal Revenue Code, including rules that generally restrict the provision of investment advice to ERISA plans and participants and IRA holders if the investment recommendation results in fees paid to the individual advisor, his or her firm or their affiliates that vary according to the investment recommendation chosen. In April 2015, the DOL issued a proposed regulation that would, if enacted, expand the definition of "investment advice," which would substantially expand the range of activities considered to be fiduciary investment advice under ERISA and the Internal Revenue Code. For additional information on the DOL proposed regulation, see Item 1 – Business – Regulation – Other Regulatory Developments - ERISA Considerations. The DOL proposed regulation has generated substantial attention in our industry. If the final DOL regulation and related guidance were to be finalized as originally proposed, it may be necessary for us, and our competitors, to materially modify product design, marketing, and compensation arrangements with distribution partners and financial advisors for certain products and services. It could also impose additional requirements and/or limitations on certain services that our advisors and employees could provide to ERISA plan sponsors, ERISA plan participants, and IRA holders. These changes could materially affect our ability to sell or service certain types of annuities and other investment products. Once we have fully evaluated the impact of the final rule, we intend to strategically invest in the most attractive post-DOL opportunities across the market.

Life

Populations are living longer and have increased needs for financial protection for beneficiaries, estate planning and wealth creation. The Life operating segment addresses these needs with a broad spectrum of products, ranging from the pure protection focus of term life to indexed universal life and investment-oriented products such as variable universal life. Market factors, primarily low interest rates and regulatory changes, have caused the universal life market to shift its focus from guaranteed universal life to indexed universal life products that offer cash accumulation and living benefit options.

TABLE OF CONTENTS

Item 7 / EXECUTIVE OVERVIEW

Personal Insurance

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

In Japan, the competition for auto insurance has intensified, in part driven by a decline in new car sales and the existence of fewer major insurers. Growth in property insurance generally reflects increases in new housing starts and heightened demand before the duration restriction on long-term fire insurance became effective in October 2015. In the U.S., we compete in the high net worth market and will continue to take advantage of market consolidation and expand our innovative products and services to distribution partners and clients. Outside of Japan and the U.S., our Personal Insurance operating segment continues to invest selectively in markets where we believe higher potential for sustainable profitability exists.

Strategic Initiatives

Customer — Strive to be our clients' most valued insurer. Through our unique franchise, which brings together a broad portfolio of retirement, life insurance and personal insurance products offered through multiple distribution networks, Consumer Insurance aims to provide customers with the products and services they desire, delivered through the channels they prefer.

Information-driven Strategy — Utilize customer insight, analytics and the application of science to optimize customer acquisition, product profitability, product mix, channel performance and risk management capabilities.

Sharpen Consumer Focus — Invest in areas where Consumer Insurance can grow profitably and sustainably. Target growth in select markets according to market size, growth potential, market maturity and customer demographics and narrow our footprint in less profitable markets with insufficient scale.

Operational Effectiveness — Simplify processes and enhance operating environments to increase competitiveness, improve service and product capabilities and facilitate delivery of our target customer experience.

Investment Strategy — Maintain a diversified, high quality portfolio of fixed maturity securities that largely matches the duration characteristics of the related insurance liabilities, and pursue selective yield-enhancement opportunities that meet liquidity, risk and return objectives.

Profitability and Capital Management — Deliver solid earnings through disciplined pricing, sustainable underwriting improvements, expense reductions and diversification of risk, and increase capital efficiency within insurance entities to enhance return on equity.

Customer

In striving to be our clients' most valued insurer, we have implemented initiatives to better serve our target segments. Our focus on ease of doing business for consumers and producers includes enhancements to our platforms and services. We are working to expand relationships with key distribution partners to offer our products across multiple distribution channels.

TABLE OF CONTENTS

Item 7 / EXECUTIVE OVERVIEW

Information-driven Strategy

We believe that strengthening our information-driven decision making and marketing capabilities through the use of enhanced analytics, stronger platforms and tools, a well-designed product portfolio and expanded relationships may allow us to bring more effective product solutions to our chosen markets.

We focus on rate adequacy through our global underwriting practices and tools and analytics, and seek to optimize the value of our business lines through product and portfolio management and refined technical pricing. We strive to deliver leading customer experience and efficiency through claims best practices, deployment of enhanced operating structures and standardized processes and systems, while managing claims-handling efficiency.

Sharpen Consumer Focus

Retirement Income Solutions intends to continue capitalizing on the opportunity to meet consumer demand for guaranteed income by maintaining competitive variable annuity product offerings, while managing risk from guarantee features through risk-mitigating product design and well-developed economic hedging capabilities. Retirement Income Solutions continues to invest in hedging and market risk management capabilities. Retirement Income Solutions is also focused on diversifying its product portfolio by growing sales of fixed index annuities with guarantee features, which provide additional income solutions for consumers approaching retirement, and introducing new investment-focused variable annuities, which offer various investment options, including alternative asset classes, to investors seeking higher returns.

Fixed Annuities sales will continue to be challenged by the low interest rate environment. Sales of fixed annuities could improve if interest rates rise and the yield curve steepens, as these market conditions make fixed annuity products more attractive compared to alternatives such as bank deposits. The growing market for immediate and deferred income products, driven by customers seeking guaranteed income products, provides an opportunity for Fixed Annuities to increase the diversification of its product portfolio.

Life will continue to invest to position itself for growth, serve its customers more effectively, and maintain pricing discipline in its overall strategy. Life’s organization has been aligned to serve its customers in the Americas, Asia Pacific and EMEA regions with a focus on the demographic, governmental and socioeconomic trends unique to each region. As part of this initiative, our Group Benefits business recently merged with our U.S. Life, Health and Disability business to focus on strong existing relationships with multi-line and specialty producers. In 2016, we announced a plan to improve capital efficiency by using reinsurance to reduce certain statutory reserves that are above economic requirements in our domestic Life business.

Personal Insurance aims to provide clients with the products and services they desire, delivered through the channels they prefer. We continue to focus and invest in the most profitable markets and segments, while narrowing our footprint where appropriate. We are also leveraging our multinational capabilities to meet the increasing demand for cross-border coverage and services. Personal Insurance will continue to utilize its strong risk management and market expertise to foster growth by providing innovative and competitive solutions to its customers and distributors.

Operational Effectiveness

We are continuing to invest in initiatives that we believe will make our operating platforms simpler and more agile, enabling us to provide superior service and accommodate future growth. In Japan, 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.

Investment Strategy

TABLE OF CONTENTS

Our investment objective is to maintain a diversified, high quality portfolio of fixed maturity securities having weighted average durations that are matched to the duration and cash flow profile of our liabilities, to the extent practicable. Our investment strategy is to maximize net investment income and portfolio value, subject to liquidity requirements, capital constraints, diversification requirements, asset-liability matching and available investment opportunities. While a portfolio of alternative investments remains a fundamental component of the investment strategy of the Life Insurance Companies, we intend to reduce the overall size of the hedge fund portfolio, in light of changing market conditions and perceived market opportunities, and to continue reducing the size of the private equity portfolio. See Investments for additional discussion of investment strategies. If these reductions were to include the sale of alternative investments that support certain payout annuities, we could incur additional loss recognition expense on such products, due to updating assumptions to reflect reinvestment at lower future yields. See Critical Accounting Estimates – Insurance Liabilities - Future Policy Benefits for Life and Accident and Health Insurance Contracts (Life Insurance Companies) for discussion of assumptions related to loss recognition testing.

Profitability and Capital Management

We are focused on enhancing profitability and capital efficiency within our insurance entities through disciplined pricing, in-force profitability management, effective management of risk and expense reductions. For product lines where we have significant equity market risk and exposure to changes in interest rates, we use risk management tools, such as the risk mitigation product features and hedging program in our Retirement Income Solutions and Group Retirement annuity businesses. Additionally, our scale and the breadth of our product offerings provide diversification of risk. Within our Non-Life Insurance Companies, we continue to increase capital efficiency.

In conjunction with our strategic active divestiture program, we announced on January 26, 2016 that we have agreed to sell AIG Advisor Group, our network of independent broker-dealers, to investment funds affiliated with Lightyear Capital LLC and PSP Investments. The transaction is expected to close in the second quarter of 2016, subject to regulatory approvals.

See Results of Operations — Consumer Insurance and Insurance Reserves for additional information about our Consumer Insurance businesses.

TABLE OF CONTENTS

Item 7 / Results of Operations

The following section provides a comparative discussion of our Results of Operations on a reported basis for the three-year period ended December 31, 2015. Factors that relate primarily to a specific business segment are discussed in more detail within that business segment discussion. For a discussion of the Critical Accounting Estimates that affect the Results of Operations, see the Critical Accounting Estimates section of this MD&A.

The following table presents our consolidated results of operations:

Years Ended December 31,				Percentage C	
(in millions)	**2015**	2014	2013	2015 vs. 2014	20
Revenues:					
Premiums	**$36,655**	$ 37,254	$ 37,499	(2)%	
Policy fees	**2,755**	2,615	2,340	5	
Net investment income	**14,053**	16,079	15,810	(13)	
Net realized capital gains	**776**	739	1,939	5	
Aircraft leasing revenue	**-**	1,602	4,420	NM	
Other income	**4,088**	6,117	6,866	(33)	
Total revenues	**58,327**	64,406	68,874	(9)	
Benefits, losses and expenses:					
Policyholder benefits and losses incurred	**31,345**	28,281	29,503	11	
Interest credited to policyholder account balances	**3,731**	3,768	3,892	(1)	
Amortization of deferred policy acquisition costs	**5,236**	5,330	5,157	(2)	
General operating and other expenses	**12,686**	13,138	13,564	(3)	
Interest expense	**1,281**	1,718	2,142	(25)	
Loss on extinguishment of debt	**756**	2,282	651	(67)	
Aircraft leasing expenses	**-**	1,585	4,549	NM	
Net (gain) loss on sale of divested businesses	**11**	(2,197)	48	NM	
Total benefits, losses and expenses	**55,046**	53,905	59,506	2	
Income from continuing operations before income tax expense	**3,281**	10,501	9,368	(69)	
Income tax expense	**1,059**	2,927	360	(64)	
Income from continuing operations	**2,222**	7,574	9,008	(71)	
Income (loss) from discontinued operations, net of income tax expense	**-**	(50)	84	NM	
Net income	**2,222**	7,524	9,092	(70)	
Less: Net income (loss) attributable to noncontrolling interests	**26**	(5)	7	NM	
Net income attributable to AIG	**$ 2,196**	$ 7,529	$ 9,085	(71)%	

For the year ended December 31, 2015, the effective tax rate on income from continuing operations was 32.3 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 35 percent primarily due to tax benefits of $195 million associated with tax exempt interest income, $127 million related to reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities, $58 million associated with the effect of foreign operations, and $109 million related to the partial completion of the Internal Revenue Service examination covering tax year 2006, partially offset by $324 million of tax charges and related interest associated with increases in uncertain tax positions related to cross border financing transactions, and $110 million related to increases in the deferred tax asset valuation allowances associated with certain foreign jurisdictions. See Note 22 to the Consolidated Financial Statements for additional information.

For the year ended December 31, 2015, our repatriation assumptions related to certain European operations changed, and related foreign earnings are now considered to be indefinitely reinvested. These earnings relate to ongoing operations and have been reinvested in active non-U.S. business operations. Further, we do not intend to repatriate these earnings to fund U.S. operations. As a result, U.S. deferred taxes have not been provided on $1.8 billion of accumulated earnings, including accumulated other comprehensive income, of these non-U.S. affiliates. Potential U.S. income tax liabilities related to such earnings would be offset, in whole or in part, by allowable foreign tax credits resulting from foreign taxes paid to foreign jurisdictions in which such operations are located. As a result, we currently believe that any incremental U.S. income tax

TABLE OF CONTENTS

Item 7 / Results of Operations

liabilities relating to indefinitely reinvested foreign earnings would not be significant. Deferred taxes have been provided on earnings of non-U.S. affiliates whose earnings are not indefinitely reinvested.

For the year ended December 31, 2014, the effective tax rate on income from continuing operations was 27.9 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 35 percent primarily due to tax benefits of $236 million associated with tax exempt interest income, $209 million related to a decrease in the U.S. Life Insurance Companies' capital loss carryforward valuation allowance, $182 million of income excludible from gross income related to the global resolution of certain residential mortgage-related disputes and $68 million associated with the effect of foreign operations. See Note 22 to the Consolidated Financial Statements for additional information.

For the year ended December 31, 2013, the effective tax rate on income from continuing operations was 3.8 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 35 percent primarily due to tax benefits of $2.8 billion related to a decrease in the U.S. Life Insurance Companies' capital loss carryforward valuation allowance, $396 million related to a decrease in certain other valuation allowances associated with foreign jurisdictions and $298 million associated with tax exempt interest income. These items were partially offset by charges of $632 million related to uncertain tax positions.

The following table presents a reconciliation of net income attributable to AIG to after-tax operating income attributable to AIG:

Years Ended December 31, *(in millions)*		**2015**		2014		201
Net income attributable to AIG	**$**	**2,196**	$	7,529	$	9,085
Uncertain tax positions and other tax adjustments		**112**		59		791
Deferred income tax valuation allowance (releases) charges		**110**		(181)		(3,237
Changes in fair value of securities used to hedge guaranteed living benefits		**28**		(169)		105
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses)		**10**		141		1,148
Other (income) expense - net		**151**		-		47
Loss on extinguishment of debt		**491**		1,483		423
Net realized capital gains		**(476)**		(470)		(1,285
(Income) loss from discontinued operations		**-**		50		(84
(Income) loss from divested businesses		**16**		(1,462)		117
Non-operating litigation reserves and settlements		**(53)**		(350)		(460
Reserve development related to non-operating run-off insurance business		**20**		-		
Restructuring and other costs		**322**		-		
After-tax operating income attributable to AIG	**$**	**2,927**	$	6,630	$	6,650

Weighted average diluted shares outstanding	**1,334,464,883**	1,447,553,652	1,481,206,797
Income per common share attributable to AIG (diluted)	**$ 1.65**	$ 5.20	$ 6.13
After-tax operating income per common share attributable to AIG (diluted)	**$ 2.19**	$ 4.58	$ 4.49

After-tax operating income attributable to AIG for 2015 decreased compared to 2014 primarily due to a decrease in income from insurance operations, reflecting adverse prior year loss reserve development in Commercial Property Casualty, decreased net investment income, and lower income on assets held by AIG Parent.

After-tax operating income attributable to AIG for 2014 was essentially flat compared to 2013, primarily due to higher income tax expense, partially offset by an increase in income from insurance operations.

For the year ended December 31, 2015, the effective tax rate on pre-tax operating income was 28.0 percent. The significant factors that contributed to the difference from the statutory rate included tax benefits resulting from tax-exempt interest income,

TABLE OF CONTENTS

the effect of foreign operations and other permanent tax items, certain tax benefits associated with the partial completion of the Internal Revenue Service examination covering tax year 2006 and the impact of other discrete tax benefits.

For the year ended December 31, 2014, the effective tax rate on pre-tax operating income was 30.9 percent. The significant factors that contributed to the difference from the statutory rate included tax benefits resulting from tax exempt interest income and other permanent tax items, and the impact of discrete tax benefits.

For the year ended December 31, 2013, the effective tax rate on pre-tax operating income was 28.8 percent. The significant factors that contributed to the difference from the statutory rate included tax benefits resulting from tax exempt interest income and other permanent tax items, and the impact of discrete tax benefits.

Segment Results

We report the results of our operations through two reportable segments: Commercial Insurance and Consumer Insurance. The Corporate and Other category consists of businesses and items not allocated to our reportable segments.

The following table summarizes the operations of each reportable segment and Corporate and Other. See also Note 3 to the Consolidated Financial Statements.

Years Ended December 31, *(in millions)*	2015	2014	2013
Commercial Insurance*	$ 1,652	$ 5,510	$ 4,980
Consumer Insurance*	3,378	4,474	4,564
Corporate and Other	(883)	(379)	(265)
Consolidations, eliminations and other adjustments	(92)	(31)	111
Pre-tax operating income	$ 4,055	$ 9,574	$ 9,390
Changes in fair value of securities used to hedge guaranteed living benefits	(43)	260	(161)
Changes in benefit reserves and DAC, VOBA, and SIA related to net realized capital gains (losses)	(15)	(217)	(1,608)
Other income (expense) – net	(233)	-	(72)
Loss on extinguishment of debt	(756)	(2,282)	(651)
Net realized capital gains	776	739	1,939
Income (loss) from divested businesses	(59)	2,169	(177)
Non-operating litigation reserves and settlements	82	258	708
Reserve development related to non-operating run-off insurance business	(30)	-	-

Restructuring and other costs	**(496)**	-	-
Pre-tax income	**$ 3,281**	$ 10,501	$ 9,368

* Certain 2013 severance expenses for Commercial Insurance and Consumer Insurance are included in Corporate & Other. As these expenses, which totaled $263 million, were related to an overall AIG initiative to centralize work streams into lower cost locations, and create a more streamlined organization, they have not been allocated to the operating segments.

TABLE OF CONTENTS

pre-tax operating INCOME *(in millions)*	
commercial insurance	**consumer insurance**

Pre-tax Income Comparison for 2015 and 2014

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

- a decrease in Commercial Insurance pre-tax operating income, reflecting an underwriting loss in 2015 compared to underwriting income in 2014 driven by adverse prior year loss reserve development from Property Casualty of $3.5 billion in 2015 compared to $655 million in 2014 and lower net investment income;

- a decrease in Consumer Insurance pre-tax operating income, reflecting lower net investment income, less favorable adjustments related to the update of actuarial assumptions, less favorable mortality experience in Life, and an underwriting loss in Personal Insurance in 2015, partially offset by higher policy and advisory fees;

- restructuring and other costs; and

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

These decreases were partially offset by:

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

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

- higher net realized capital gains from sales of investments, which included realized gains on the sales of Class B shares of Prudential Financial, Inc., a portion of our holdings in PICC P&C shares and common shares of Springleaf Holdings Inc. (Springleaf), mostly offset by a realized loss on the sale of ordinary shares of AerCap and an increase in other-than-temporary impairment charges.

Pre-tax Income Comparison for 2014 and 2013

Pre-tax income increased in 2014 compared to 2013 primarily due to:

- an increase in pre-tax operating income for Commercial Insurance;

- a $2.3 billion increase in income from divested businesses associated with the gain recognized upon completion of the sale of ILFC in 2014; and

- lower changes in benefit reserves and DAC, VOBA, and SIA related to net realized capital gains, which were primarily affected by loss recognition expense in the Life Insurance Companies of $30 million in 2014 compared to $1.5 billion in 2013. The loss recognition in 2013 was primarily attributable to investment sales in the Institutional Markets and Retirement operating segments related to capital loss carryforward utilization, with reinvestment of the sales proceeds at lower yields. Loss recognition expense in Corporate and Other was $140 million in 2014 and $98 million in 2013.

These increases were partially offset by decreases from:

- higher loss on extinguishment of debt from on-going debt management activities;

- a decrease in net realized capital gains driven by lower gains from sales of investments related to capital loss carryforward utilization in 2013;

- a decrease in legal settlements with financial institutions that participated in the creation, offering and sale of RMBS from which we realized losses during the financial crisis, which is reflected in Non-operating litigation reserves and settlements; and

- a $149 million change in the fair value of GMWB and GMAB embedded derivatives related to variable annuity guaranteed living benefits, net of the change in fair value of all related economic hedges.

Net Investment Income

Net investment income is attributed to the operating segments of Commercial Insurance and Consumer Insurance based on internal models consistent with the nature of the underlying businesses.

For Commercial Insurance — Property Casualty and Consumer Insurance — Personal Insurance, we estimate investable funds based primarily on loss reserves, unearned premiums and a capital allocation for each operating segment. The net investment income allocation is calculated based on the estimated investable funds and risk-free yields (plus a liquidity premium) consistent with the approximate duration of the liabilities, and excludes net investment income associated with the run-off insurance lines reported in

Corporate and Other. The remaining excess is attributed to Commercial Insurance — Property Casualty and Consumer Insurance — Personal Insurance based on the relative net investment income previously allocated.

For Commercial Insurance — Institutional Markets, Consumer Insurance — Retirement and Consumer Insurance — Life, net investment income is attributed based on invested assets from segregated product line portfolios. Invested assets in excess of liabilities are allocated to product lines based on internal capital estimates.

TABLE OF CONTENTS

Item 7 / Results of Operations

Foreign Currency Impact

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

Years Ended December 31,				Percentage Change	
Rate for 1 USD	**2015**	2014	2013	2015 vs. 2014	2014 vs. 2013
Currency:					
JPY	**120.82**	104.43	95.86	16%	9%
EUR	**0.89**	0.75	0.76	19%	(1)%
GBP	**0.65**	0.61	0.64	7%	(5)%

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

Commercial insurance

Commercial Insurance Results

The following table presents Commercial Insurance results:

Years Ended December 31,				Percentage Change	
(in millions)	**2015**	2014	2013	2015 vs. 2014	2014 vs. 2013
Revenues:					
Premiums	**$22,521**	$22,221	$22,096	1%	1%
Policy fees	**199**	187	113	6	65
Net investment income	**5,474**	6,393	6,653	(14)	(4)
Benefits and expenses:					
Policyholder benefits and losses incurred	**20,017**	16,575	17,002	21	(3)
Interest credited to policyholder account balances	**408**	410	413	-	(1)
Amortization of deferred policy acquisition costs	**2,342**	2,512	2,418	(7)	4
General operating and other expenses*	**3,775**	3,794	4,049	(1)	(6)
Pre-tax operating income	**$ 1,652**	$ 5,510	$ 4,980	(70)%	11%

* Includes general operating expenses, commissions and other acquisition expenses.

Commercial Insurance Results by Operating Segment

Commercial Insurance presents its financial information in three operating segments – Property Casualty, Mortgage Guaranty and Institutional Markets. The following section provides a comparative discussion of Commercial Insurance Results of Operations for 2015, 2014 and 2013 by operating segment.

TABLE OF CONTENTS

Property Casualty Results

The following table presents Property Casualty results:

Years Ended December 31,				Percentage Change	
(in millions)	**2015**	2014	2013	2015 vs. 2014	2014 vs. 2013
Underwriting results:					
Net premiums written	**$ 20,436**	$21,020	$20,880	(3)%	1%
Increase in unearned premiums	**(407)**	(135)	(203)	(201)	33
Net premiums earned	**20,029**	20,885	20,677	(4)	1
Losses and loss adjustment expenses incurred	**17,274**	14,956	14,872	15	1
Acquisition expenses:					
Amortization of deferred policy acquisition costs	**2,309**	2,486	2,394	(7)	4
Other acquisition expenses	**907**	796	937	14	(15)
Total acquisition expenses	**3,216**	3,282	3,331	(2)	(1)
General operating expenses	**2,542**	2,697	2,810	(6)	(4)
Underwriting loss	**(3,003)**	(50)	(336)	NM	85
Net investment income	**3,596**	4,298	4,431	(16)	(3)
Pre-tax operating income	**$ 593**	$ 4,248	$ 4,095	(86)%	4%

NET PREMIUMS WRITTEN *(in millions)*	**Pre-Tax oPERATING INCOME** *(in millions)*

2015 and 2014 Comparison

Pre tax operating income decreased in 2015 compared to 2014 primarily due to an increase in net adverse prior year loss reserve development and lower net investment income. Net adverse prior year loss reserve development, including related premium adjustments, was $3.5 billion in 2015 compared to $550 million in 2014. The increase in net adverse prior year loss reserve development primarily reflected the loss reserve strengthening of $3.0 billion in the fourth quarter of 2015, in classes of business with long reporting tails, primarily excess and primary casualty and financial lines. Premium adjustments consisted of return premiums of $49 million in 2015 compared to additional premiums of $105 million in 2014. See Insurance Reserves – Non-Life Insurance Companies — Net Loss Development for further discussion. Current accident year loss ratio, as adjusted, increased due to higher casualty and severe losses, which were mostly offset by improvement in attritional losses in Property and Specialty. Net loss reserve discount benefit was $68 million in 2015 compared to a net loss reserve discount charge of $71 million in 2014. See Insurance Reserves — Non-Life Insurance Companies – Discounting of Reserves for further discussion. Catastrophe losses were $581 million in 2015 compared to $602 million in 2014.

Acquisition expenses decreased slightly in 2015 compared to 2014, primarily due to the strengthening of the U.S. dollar against the Major Currencies, as discussed above. Excluding the effect of foreign exchange, acquisition expenses increased primarily due to an increase in commission expenses in certain classes of business in Property and Specialty and higher premium taxes and other assessments reflecting a change in business mix.

General operating expenses decreased in 2015 compared to 2014, primarily due to the strengthening of the U.S. dollar against the Major Currencies, as well as lower employee-related expenses, partially offset by increased technology-related costs, and the acquisition of NSM, whose expenses were consolidated commencing in the second quarter of 2015.

Net investment income decreased in 2015 compared to 2014, primarily due to lower income on alternative investments and a decrease in net investment income related to assets accounted for under the fair value option.

See MD&A — Investments for additional information on the Non-Life Insurance Companies invested assets, investment strategy, and asset-liability management process.

2014 and 2013 Comparison

Pre-tax operating income increased in 2014 compared to 2013 due to decreases in underwriting loss, partially offset by a decrease in net investment income. The decrease in underwriting loss was primarily due to an increase in production, lower charges due to changes in discount for workers' compensation reserves as discussed further under Insurance Reserves – Non-Life Insurance Companies – Discounting of Reserves, lower catastrophe losses and lower general operating expenses. The loss reserve discount charge decreased to $71 million in 2014 from $322 million in 2013. Catastrophe losses decreased to $602 million in 2014 from $710 million in 2013. These decreases were partially offset by higher net adverse prior year loss reserve development in all lines of business except for Property, and an increase in current accident year losses reflecting higher frequency of non-severe losses in the Property and Specialty businesses. The current accident year losses for 2014 included 30 severe losses totaling $592 million compared to 27 severe losses totaling $569 million in the prior year. Net adverse prior year loss reserve development, including related premium adjustments, was $550 million and $294 million in 2014 and 2013, respectively, as discussed further under Insurance Reserves – Non-Life Insurance Companies – Net Loss Development.

Acquisition expenses decreased in 2014 compared to 2013 primarily due to a reduction in expenses related to personnel engaged in sales support activities, and lower premium taxes and guaranty fund and other assessments reflecting a change in business mix.

General operating expenses decreased in 2014 compared to 2013, primarily due to efficiencies from organizational realignment initiatives, partially offset by higher technology-related expenses and an increase in bad debt expense. In 2013, general operating expenses benefitted from an unusually low bad debt expense.

Net investment income decreased in 2014 compared to 2013, primarily due to a decrease in interest rates during 2014, as yields on new purchases were lower than the weighted average yield of the overall portfolio, lower income on alternative investments, and lower income associated with investments accounted for under the fair value option, as the increase related to the PICC P&C rights offerings was more than offset by a decrease from fixed maturity investments accounted for under the fair value option. These were partially offset by the effect of continued portfolio diversification. The decrease in allocated net investment income is also due to a reduction in net loss reserves.

Property Casualty Net Premiums Written

The following table presents Property Casualty's net premiums written by major line of business:

Years Ended December 31,				Percentage Change in U.S. dollars		Percentage Chang Original Curren	
(in millions)	**2015**	2014	2013	2015 vs. 2014	2014 vs. 2013	2015 vs. 2014	2014 v
Casualty	**$ 6,957**	$ 7,649	$ 8,154	(9)%	(6)%	(6)%	
Property	**5,160**	5,136	4,718	-	9	6	
Specialty	**3,653**	3,714	3,737	(2)	(1)	3	
Financial lines	**4,666**	4,521	4,271	3	6	9	
Total Property Casualty net premiums written	**$20,436**	$21,020	$20,880	(3)%	1%	2%	

Property Casualty NET PREMIUMS WRITTEN by Line of Business

(in millions)

2015 and 2014 Comparison

Property Casualty net premiums written decreased in 2015 compared to 2014, primarily due to strengthening of the U.S. dollar against the Major Currencies. Excluding the effect of foreign exchange, net premiums written increased in 2015 from 2014, primarily due to new business growth across all regions in all lines except for U.S. Casualty. Additionally, the increase in net premiums written in U.S. Financial lines reflected higher renewal in certain targeted growth products. The following paragraphs discuss the changes within our lines of business exclusive of the effect of foreign exchange.

Casualty net premiums written decreased in 2015 compared to 2014, reflecting continued execution of our strategy to enhance the portfolio mix, particularly in the U.S., and rate pressure. Additionally, net premiums written included return premiums related to the loss sensitive businesses of $49 million for 2015 compared to additional premiums of $105 million in 2014. An increase in new business in targeted growth products in 2015, particularly in EMEA, was more than offset by the declines in the U.S.

TABLE OF CONTENTS

Property net premiums written increased in 2015 compared to 2014, primarily due to strong growth in new business across all regions.

Specialty net premiums written increased in 2015 compared to 2014, primarily due to new business increases related to targeted growth products across all regions, partially offset by a decrease in certain classes of business, particularly in the U.S. as a result of the effect of our strategy to enhance risk selection.

Financial lines net premiums written increased in 2015 compared to 2014 primarily due to strong growth in new business and higher retention related to targeted growth products across all regions. Additionally, 2015 reflected the first quarter renewal of a multi-year E&O policy in the U.S.

2014 and 2013 Comparison

Property Casualty net premiums written increased in 2014 compared to 2013, reflecting increases in new business related to targeted growth products in Property and Financial lines. The following paragraphs discuss the changes within our lines of business exclusive of the effect of foreign exchange.

Casualty net premiums written decreased in 2014 compared to 2013 primarily due to the effect on renewals from our strategy to enhance risk selection, particularly in the Americas. Strong growth and new writings in certain lines of business, particularly in EMEA, were more than offset by the declines in the Americas.

Property net premiums written increased in 2014 compared to 2013 primarily due to new business increases in targeted growth products, and optimization of Property Casualty's reinsurance structure as part of its decision to retain more favorable risks while continuing to manage aggregate exposure.

Specialty net premiums written decreased slightly in 2014, compared to 2013 primarily reflecting lower retention and rate decline in the EMEA region. This decline was largely offset by new business increases related to targeted growth products, including growth in small and medium sized enterprise markets in the Americas region.

Financial lines net premiums written increased in 2014, compared to 2013 reflecting growth in new business related to targeted growth products across all regions, as well as a favorable rate environment in the U.S.

Property Casualty Net Premiums Written by Region

The following table presents Property Casualty's net premiums written by region:

Years Ended December 31,	Percentage Change in	Percentage Chang

				U.S. dollars		Original Curren	
(in millions)	**2015**	2014	2013	2015 vs. 2014	2014 vs. 2013	2015 vs. 2014	2014
Property Casualty:							
Americas	**$13,572**	$13,799	$14,050	(2)%	(2)%	(1)%	
Asia Pacific	**1,936**	2,029	2,035	(5)	-	7	
EMEA	**4,928**	5,192	4,795	(5)	8	6	
Total net premiums written	**$20,436**	$21,020	$20,880	(3)%	1%	2%	

83

property casualty NET PREMIUMS WRITTEN by Region

(in millions)

The following paragraphs discuss the changes in net premiums written on a constant dollar basis, which exclude the effect of foreign exchange.

2015 and 2014 Comparison

The Americas net premiums written decreased in 2015 compared to 2014, primarily due to continued execution of our strategy to enhance risk selection and optimize our product portfolio in Casualty, largely offset by strong growth in new business related to targeted growth products in Property, Specialty and Financial lines. Additionally, for 2015, net premiums written reflected the renewal of a multi-year E&O policy in the U.S.

Asia Pacific net premiums written increased in 2015 compared to 2014, primarily due to new business and higher retention in all lines of business.

EMEA net premiums written increased in 2015 compared to 2014, primarily due to new business growth in targeted growth products across all lines of business.

2014 and 2013 Comparison

The Americas net premiums written decreased in 2014 compared to 2013, primarily due to declines in new business growth and rate pressure, particularly in the Casualty business. However, for 2014, the decrease in net premiums written was partially offset by lower ceded premiums from catastrophe reinsurance transactions described above in 2014 compared to 2013.

Asia Pacific net premiums written increased slightly in 2014 compared to 2013, primarily due to increases in targeted growth products, and changes to optimize our reinsurance structure as part of our decision to retain more favorable risks while continuing to manage aggregate exposure, particularly in Japan.

EMEA net premiums written increased in 2014 compared to 2013, due to new business growth across all lines of businesses, except for Specialty.

TABLE OF CONTENTS

Property Casualty Underwriting Ratios

The following tables present the Property Casualty combined ratios based on GAAP data and reconciliation to the accident year combined ratio, as adjusted:

Years Ended December 31,				Increase (Decrease)	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
Loss ratio	**86.2**	71.6	71.9	14.6	(0.3)
Catastrophe losses and reinstatement premiums	**(2.9)**	(2.9)	(3.4)	-	0.5
Prior year development net of premium adjustments	**(17.5)**	(2.8)	(1.5)	(14.7)	(1.3)
Net reserve discount benefit (charge)	**0.4**	(0.3)	(1.6)	0.7	1.3
Accident year loss ratio, as adjusted	**66.2**	65.6	65.4	0.6	0.2
Acquisition ratio	**16.1**	15.7	16.1	0.4	(0.4)
General operating expense ratio	**12.7**	12.9	13.6	(0.2)	(0.7)
Expense ratio	**28.8**	28.6	29.7	0.2	(1.1)
Combined ratio	**115.0**	100.2	101.6	14.8	(1.4)
Catastrophe losses and reinstatement premiums	**(2.9)**	(2.9)	(3.4)	-	0.5
Prior year development net of premium adjustments	**(17.5)**	(2.8)	(1.5)	(14.7)	(1.3)
Net reserve discount benefit (charge)	**0.4**	(0.3)	(1.6)	0.7	1.3
Accident year combined ratio, as adjusted	**95.0**	94.2	95.1	0.8	(0.9)

property casualty ratios

Property Casualty Net Premiums Written by Region

See Insurance Reserves – Non-Life Insurance Companies for further discussion of discounting of reserves and prior year development.

85

TABLE OF CONTENTS

The following tables present Property Casualty's accident year catastrophe and severe losses by region and number of events:

Catastrophes[a]

(in millions)	# of Events	Americas	Asia Pacific	EMEA	Total
Year Ended December 31, 2015					
Flooding	**4**	**$ 74**	**$ -**	**$ 69**	**$ 143**
Windstorms and hailstorms	**14**	**274**	**121**	**15**	**410**
Wildfire	**1**	**9**	**-**	**-**	**9**
Tropical cyclone	**1**	**-**	**12**	**-**	**12**
Earthquakes	**1**	**7**	**-**	**-**	**7**
Total catastrophe-related charges	**21**	**$ 364**	**$ 133**	**$ 84**	**$ 581**
Year Ended December 31, 2014					
Flooding	1	$ 16	$ -	$ -	$ 16
Windstorms and hailstorms	14	306	63	21	390
Tropical cyclone	4	96	34	15	145
Earthquakes	1	48	-	1	49
Reinstatement premiums		-	-	2	2
Total catastrophe-related charges	20	$ 466	$ 97	$ 39	$ 602
Year Ended December 31, 2013					
Flooding	8	$ 195	$ 8	$ 114	$ 317
Windstorms and hailstorms	10	205	-	78	283
Wildfire	1	40	-	-	40
Tropical cyclone	3	4	66	-	70
Total catastrophe-related charges	22	$ 444	$ 74	$ 192	$ 710

(a) Catastrophes are generally weather or seismic events having a net impact on AIG in excess of $10 million each.

Severe Losses[b]

Years Ended December 31, *(in millions)*	# of Events	Americas	Asia Pacific	EMEA	Total
2015	**29**	**$ 378**	**$ 27**	**$ 294**	**$ 699**
2014	30	$ 169	$ 73	$ 350	$ 592
2013	27	$ 139	$ 184	$ 246	$ 569

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

2015 and 2014 Comparison

Property Casualty Net Premiums Written by Region

The loss ratio and combined ratio increased by 14.6 points and 14.8 points, respectively, in 2015 compared to 2014, primarily due to higher net adverse prior year loss development.

The accident year combined ratio, as adjusted, increased by 0.8 points in 2015 compared to 2014 primarily due to a higher accident year loss ratio, as adjusted, and an increase in the acquisition ratio.

The accident year loss ratio, as adjusted, increased by 0.6 points in 2015 compared to 2014, primarily due to higher casualty and severe losses, partially offset by lower attritional losses in U.S. Property, and Specialty, particularly in the U.S. and EMEA. Severe losses represented approximately 3.5 points and 2.8 points of the accident year loss ratio, as adjusted, respectively, in 2015 and 2014.

The acquisition ratio increased by 0.4 points in 2015 compared to 2014 primarily due to higher commission expenses in certain classes of business in Property and Specialty and higher premium taxes and other assessments reflecting a change in business mix.

TABLE OF CONTENTS

The general operating expense ratio decreased by 0.2 points in 2015 compared to 2014, primarily due to lower employee-related expenses partially offset by additional expense resulting from the NSM acquisition and higher technology-related expenses.

2014 and 2013 Comparison

The combined ratio decreased by 1.4 points in 2014 compared to 2013 reflecting decreases in the expense ratio and the loss ratio.

The accident year combined ratio, as adjusted, decreased by 0.9 points in 2014 compared 2013, primarily due to lower expense ratio which was partially offset by a higher accident year loss ratio, as adjusted.

The accident year loss ratio, as adjusted, increased by 0.2 points in 2014, compared to 2013, primarily due to higher frequency of non-severe losses, particularly in Property and Specialty businesses. This was partially offset by an improvement in Financial lines, particularly in the U.S., reflecting enhanced risk selection and pricing discipline. Severe losses represented approximately 2.8 points of the accident year loss ratio, as adjusted, in both 2014 and 2013.

The acquisition ratio decreased by 0.4 points in 2014 compared to 2013, primarily due to a reduction in expenses of personnel engaged in sales support activities and lower premium taxes and guaranty fund and other assessments.

The general operating expense ratio decreased by 0.7 points in 2014 compared to 2013, primarily due to efficiencies from organizational realignment initiatives, partially offset by higher technology-related expenses and an increase in bad debt expense. In 2013, general operating expenses benefitted from an unusually low bad debt expense.

Mortgage Guaranty Results

The following table presents Mortgage Guaranty results:

Years Ended December 31,				Percentage Change	
(dollars in millions)	**2015**	2014	2013	2015 vs. 2014	2014 vs. 2013
Underwriting results:					
Net premiums written	**$ 1,050**	$ 1,024	$ 1,048	3%	(2)%
Increase in unearned premiums	**(138)**	(120)	(239)	(15)	50
Net premiums earned	**912**	904	809	1	12
Losses and loss adjustment expenses incurred	**160**	223	514	(28)	(57)
Acquisition expenses:					
Amortization of deferred policy acquisition costs	**30**	22	20	36	10

Other acquisition expenses	**51**	49	60	4	(18)
Total acquisition expenses	**81**	71	80	14	(11)
General operating expenses	**166**	156	142	6	10
Underwriting income	**505**	454	73	11	NM
Net investment income	**139**	138	132	1	5
Pre-tax operating income	**644**	592	205	9	189
Key metrics:					
Prior year loss reserve development (favorable)/ unfavorable	**$ (69)**	$ (104)	$ 30	(34)%	NM%
Domestic first-lien:					
New insurance written	**$50,842**	$42,038	$49,356	21	(15)
Combined ratio	**44.6**	52.6	91.1		
Risk in force	**$47,442**	$42,106	$36,367	13	16
60+ day delinquency ratio on primary loans[a]	**3.4%**	4.4%	5.9%		
Domestic second-lien:					
Risk in force[b]	**$ 399**	$ 446	$ 1,026	(11)	(57)

87

Property Casualty Net Premiums Written by Region

(a) Based on number of policies.

(b) Represents the full amount of second-lien loans insured reduced for contractual aggregate loss limits on certain pools of loans, which is usually 10 percent of the full amount of loans insured in each pool. Certain second-lien pools have reinstatement provisions, which will expire as the loan balances are repaid.

Pre-Tax oPERATING INCOME

(in millions)

domestic first-lien new insurance written on mortgage loans

(in millions)

The following table presents Mortgage Guaranty first-lien results:

Years Ended December 31,				Percentage Change	
(dollars in millions)	**2015**	2014	2013	2015 vs. 2014	2014 vs. 2013
Underwriting results:					
Net premiums written	**$ 990**	$ 929	$ 950	7%	(2)%
Increase in unearned premiums	**(137)**	(117)	(256)	(17)	54
Net premiums earned	**853**	812	694	5	17
Losses and loss adjustment expenses incurred	**174**	233	462	(25)	(50)

Acquisition expenses:					
Amortization of deferred policy acquisition costs	**29**	21	16	38	31
Other acquisition expenses	**52**	49	60	6	(18)
Total acquisition expenses	**81**	70	76	16	(8)
General operating expenses	**150**	124	95	21	31
Underwriting income	**448**	385	61	16	NM
Net investment income	**127**	124	116	2	7
Pre-tax operating income	**$ 575**	$ 509	$ 177	13%	188%

2015 and 2014 Comparison

Pre-tax operating income increased in 2015 compared to 2014 due to an increase in first-lien net premiums earned as a result of higher new insurance written increasing the amount of insurance in-force, an acceleration of earnings on the cancellations of single premium business for which a return premium is generally not required, and a decline in incurred losses from lower delinquency rates and higher cure rates. Offsetting these increases in operating income was a reduction in favorable prior year loss development of $35 million primarily related to a settlement with a large lender which resulted in $64 million of favorable prior year loss development in 2014.

TABLE OF CONTENTS

First-Lien Results

First-lien pre-tax operating income increased $66 million in 2015 compared to 2014, primarily due to improved underwriting income as a result of a $41 million increase in first-lien net premiums earned in 2015 compared to 2014, largely from growth in the book of business and the acceleration of premiums earned as a result of cancellations of single premium business. Additionally, there was a $72 million decrease in accident year losses offset in part by a $13 million reduction in prior year loss development, which was driven primarily by $57 million of favorable prior year loss development from a settlement with a large lender in 2014. The increases in operating income were offset in part by a $37 million increase in acquisition and general operating expenses. The combined ratio was 47.5 points in 2015, compared to 52.6 points in 2014, reflecting a decrease in the loss ratio, partially offset by an increase in the expense ratio.

Acquisition expenses increased in 2015 compared to 2014, primarily as a result of sales support solicitation activities, which generated new insurance written.

General operating expenses increased in 2015 compared to 2014, primarily due to an increase in costs related to servicing the growth of the in-force business, technology-related and customer service initiatives expenses and severance.

Other Business Results

Other business results include international mortgage insurance operations and the run-off portfolios of second-lien insurance and student loan insurance.

The Other business' pre-tax operating income for 2015 was $69 million compared to $82 million in 2014. The decrease in pre-tax operating income was due to a decrease in net premiums earned and net investment income offset by the decrease in general operating expenses and losses and loss adjustment expenses, which included $35 million of favorable prior year loss development largely attributable to recoveries on previously paid claims.

2014 and 2013 Comparison

Pre-tax operating income increased in 2014 compared to 2013 due to a decline in incurred losses from lower delinquency rates, higher cure rates and an increase in first-lien net premiums earned reflecting higher persistency.

First Lien Results

First-lien pre-tax operating income increased in 2014 compared to 2013, primarily due to improved underwriting income as a result of a $229 million decrease in first-lien losses and loss adjustment expenses incurred reflecting fewer new delinquencies, favorable prior year loss reserve development, and higher cure rates. In addition, first-lien pre-tax operating income increased due to a $119 million increase in first-lien net premiums earned in 2014 compared to 2013, largely from growth in the book of business, higher persistency, and, to a lesser extent, the acceleration of premiums earned as the result of the recognition of a shorter expected coverage period on certain single premium business. The decrease in first-lien losses and loss adjustment expenses incurred combined with the increase in earned premiums resulted in an improved combined ratio of 52.6 points in 2014 compared to 91.1 points in 2013.

Acquisition expenses decreased in 2014 compared to 2013, primarily as a result of the decrease in new insurance written related to the decline in mortgage originations.

General operating expenses increased in 2014 compared to 2013 due to increased technology expenses and an impairment charge on certain capitalized technology costs.

Other Business Results

The Other business' pre-tax operating income for 2014 was $82 million compared to $27 million in 2013. The increase in pre-tax operating income is due to a decline in losses and loss adjustment expenses incurred of $62 million and a $17 million reduction in underwriting expenses, partially offset by a decline in net premiums earned of $22 million and a decline in net investment income of $2 million.

New Insurance Written

Domestic first-lien new insurance written increased to a record level of $50.8 billion in 2015 compared to $42.0 billion in 2014, driven by an increase in refinancing, improvements in existing home sales due to lower down payment requirements and new purchase volume.

The decline in domestic first-lien new insurance written to $42.0 billion in 2014 from $49.4 billion in 2013 was primarily due to the contraction in the mortgage originations market and an increase in competition.

Delinquency Inventory

The delinquency inventory for domestic first-lien business declined during 2015 as a result of cures and paid claims exceeding the number of newly reported delinquencies. Mortgage Guaranty's first-lien primary delinquency ratio at December 31, 2015 was 3.4 percent compared to 4.4 percent at December 31, 2014. Over the last several years, Mortgage Guaranty has experienced a decline in newly reported defaults and an increase in cure rates.

The delinquency inventory for domestic first lien business declined during 2014 as a result of cures and paid claims exceeding the number of newly reported delinquencies. Mortgage Guaranty's first lien primary delinquency ratio at December 31, 2014 was 4.4 percent compared to 5.9 percent at December 31, 2013.

The following table provides a summary of activity in Mortgage Guaranty's domestic first lien delinquency inventory:

Years Ended December 31,			
(number of policies)	**2015**	2014	2013
Number of delinquencies at the beginning of the year	**38,357**	47,518	62,832
Newly reported	**39,619**	47,239	56,194
Cures	**(36,279)**	(42,680)	(51,283)
Claims paid	**(8,451)**	(11,601)	(19,862)
Other	**(1,961)**	(2,119)	(363)
Number of delinquencies at the end of the year	**31,285**	38,357	47,518

Mortgage Guaranty Underwriting Ratios

The following tables present the Mortgage Guaranty combined ratios based on GAAP data:

Years Ended December 31,				Increase (Decrease)	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013

Loss ratio	**17.5**	24.7	63.5	(7.2)	(38.8)
Acquisition ratio	**8.9**	7.8	9.9	1.1	(2.1)
General operating expense ratio	**18.2**	17.3	17.5	0.9	(0.2)
Expense ratio	**27.1**	25.1	27.4	2.0	(2.3)
Combined ratio	**44.6**	49.8	90.9	(5.2)	(41.1)

2015 and 2014 Comparison

The combined ratio decreased by 5.2 points in 2015 compared to 2014. The decrease in the ratio in 2015 was driven primarily by a reduction in the loss ratio due to a decrease in incurred losses driven by lower delinquencies and higher cure rates, partially offset by a reduction in favorable prior year loss development.

The acquisition ratio increased by 1.1 points in 2015 compared to 2014, primarily due to the increases in sales-related activities supporting the $8.8 billion increase in new insurance written.

TABLE OF CONTENTS

The general operating expense ratio increased by 0.9 points in 2015 compared to 2014, primarily due to an increase in technology-related expenses, customer service initiatives and severance.

2014 and 2013 Comparison

The combined ratio decreased by 41.1 points in 2014 compared to 2013. The decrease was driven primarily by a reduction in the loss ratio due to lower losses and loss adjustment expenses incurred from fewer new delinquencies, favorable prior year loss reserve development, and higher cure rates.

The acquisition ratio decreased by 2.1 points in 2014 compared to 2013. Acquisition expenses decreased compared to an increase in net premiums earned, driven by the decreases in new insurance written in 2014 due to lower mortgage originations.

The general operating expense ratio decreased by 0.2 points in 2014 compared to 2013. The decrease was driven primarily by growth in net premiums earned.

Institutional Markets Results

The following table presents Institutional Markets results:

Years Ended December 31,				Percentage Change	
(in millions)	**2015**	2014	2013	2015 vs. 2014	2014 vs. 2013
Revenues:					
Premiums	**$ 1,580**	$ 432	$ 610	266%	(29)%
Policy fees	**199**	187	113	6	65
Net investment income	**1,739**	1,957	2,090	(11)	(6)
Benefits and expenses:					
Policyholder benefits and losses incurred	**2,583**	1,396	1,616	85	(14)
Interest credited to policyholder account balances	**408**	410	413	-	(1)
Amortization of deferred policy acquisition costs	**3**	4	4	(25)	-
Other acquisition expenses	**32**	30	36	7	(17)
General operating expenses	**77**	66	64	17	3
Pre-tax operating income	**$ 415**	$ 670	$ 680	(38)	(1)

TABLE OF CONTENTS

Item 7 / results of operations / commercial insurance

INSTITUTIONAL MARKETS pre-tax OPERATING INCOME *(in millions)*

2015 and 2014 Comparison

Pre-tax operating income in 2015 decreased compared to 2014, primarily due to a decrease in net investment income. Fee income increased in 2015 compared to 2014, driven by growth in reserves and assets under management, primarily from continued development of the stable value wrap business. The notional amount of stable value wrap assets under management at December 31, 2015 grew by $3.0 billion or nine percent from December 31, 2014. The increases in premiums and benefit expense in 2015 compared to 2014 were primarily due to the premiums received and establishment of future policy benefit reserves for terminal funding annuities issued in 2015.

Net investment income in 2015 decreased compared to 2014, primarily due to lower returns on alternative investments in hedge funds and lower yield enhancements from bond call and tender income. See MD&A – Investments – Life Insurance Companies for additional information on the investment strategy, asset-liability management process and invested assets of our Life Insurance Companies, which include the invested assets of the Institutional Markets business.

General operating expenses in 2015 increased compared to 2014, primarily due to higher state guaranty fund assessment expenses, technology investments and higher interest expense.

2014 and 2013 Comparison

Pre-tax operating income for 2014 decreased slightly compared to 2013, as a decrease in net investment income was only partially offset by an increase in fee income. The increase in fee income was driven by growth in reserves and assets under management, primarily from strong development of the stable value wrap business. The notional amount of stable value wrap assets under management at December 31, 2014 grew by $7.8 billion or 32 percent from December 31, 2013, which excluded a $2.5 billion deposit to the separate accounts for a stable value funding agreement. Growth in reserves also reflected a GIC deposit of $450 million in the fourth quarter of 2014 under a funding agreement-backed notes issuance program, in which an unaffiliated, non-consolidated statutory trust issues to investors medium-term notes, which are secured by GICs issued by one of the Life Insurance Companies. Under the funding agreement-backed notes program, issuances will be made opportunistically based upon pricing and demand available in the marketplace.

Net investment income for 2014 decreased compared to 2013, primarily due to lower net investment income from alternative investments and from the base portfolio. The 2014 decrease in alternative investment income of $41 million compared to 2013 primarily reflected high hedge fund income in 2013 due to favorable equity market conditions. The decrease in base net investment income in 2014 compared to 2013 primarily reflected lower base portfolio yield as a result of reinvestment in the low interest rate environment, partially offset by growth in average assets. See MD&A – Investments – Life Insurance Companies for additional information on the investment strategy, asset-liability management process and invested assets of our Life Insurance Companies, which include the invested assets of the Institutional Markets business.

General operating expenses in 2014 increased slightly compared to 2013, primarily due to investments in technology.

Institutional Markets Premiums, Deposits and Net Flows

For Institutional Markets, premiums represent amounts received on traditional life insurance policies and life-contingent payout annuities or structured settlements. Premiums and deposits is a non GAAP financial measure that includes direct and assumed premiums as well as deposits received on universal life insurance and investment-type annuity contracts, including GICs and stable value wrap funding agreements.

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

Years Ended December 31, *(in millions)*	**2015**	2014	2013
Premiums and deposits	**$ 1,782**	$ 3,797	$ 991
Deposits	**(169)**	(3,344)	(354)
Other	**(33)**	(21)	(27)
Premiums	**$ 1,580**	$ 432	$ 610

Premiums and deposits for 2015 decreased compared to 2014, primarily due to a $2.5 billion deposit to the separate accounts of one of the Life Insurance Companies for a stable value wrap funding agreement that was reflected in 2014. Excluding the $2.5 billion deposit in the prior year period, premiums and deposits for 2015 increased compared to 2014, primarily due to higher premiums, which reflected increased sales of terminal funding annuities in 2015.

The decrease in premiums in 2014 compared to 2013 was primarily due to a high volume of single-premium products sold in 2013, including life-contingent payout annuities. Sales of these products decreased in 2014 compared to 2013 due to a more competitive environment as well as continued low interest rates. The increase in deposits in 2014 compared to 2013 included a $2.5 billion deposit to the separate accounts of one of the Life Insurance Companies for a stable value wrap funding agreement. The majority of stable value wrap sales are measured based on the notional amount included in assets under management, but do not include the receipt of funds that would be included in premiums and deposits. The increase in deposits in 2014 compared to 2013 also reflected a $450 million GIC issued in 2014.

TABLE OF CONTENTS

Item 7 / results of operations / consumer insurance

Consumer insurance

Consumer Insurance Results

The following table presents Consumer Insurance results:

Years Ended December 31,				Percentage Change	
(in millions)	**2015**	2014	2013	2015 vs. 2014	2014 vs. 2013
Revenues:					
Premiums	**$14,085**	$14,936	$15,302	(6)%	(2)%
Policy fees	**2,557**	2,453	2,252	4	9
Net investment income	**8,322**	9,082	9,352	(8)	(3)
Other income	**2,105**	1,998	1,754	5	14
Benefits and expenses:					
Policyholder benefits and losses incurred	**10,475**	10,796	10,957	(3)	(1)
Interest credited to policyholder account balances	**3,316**	3,353	3,477	(1)	(4)
Amortization of deferred policy acquisition costs	**2,887**	2,759	2,836	5	(3)
General operating and other expenses*	**7,013**	7,087	6,826	(1)	4
Pre-tax operating income	**$ 3,378**	$ 4,474	$ 4,564	(24)%	(2)%

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

Consumer Insurance Results by Operating Segment

Consumer Insurance presents its operating results in three operating segments – Retirement, Life and Personal Insurance. The following section provides a comparative discussion of Consumer Insurance Results of Operations for 2015, 2014 and 2013 by operating segment.

Retirement Results

The following table presents Retirement results:

Years Ended December 31,				Percentage Change	
(in millions)	**2015**	2014	2013	2015 vs. 2014	2014 vs. 2013
Revenues:					
Premiums	**$ 168**	$ 287	$ 188	(41)%	53%
Policy fees	**1,072**	1,010	861	6	17

Net investment income	**6,002**	6,489	6,628	(8)	(2)
Advisory fee and other income	**2,056**	1,998	1,754	3	14
Benefits and expenses:					
Policyholder benefits and losses incurred	**511**	537	364	(5)	48
Interest credited to policyholder account balances	**2,823**	2,846	2,935	(1)	(3)
Amortization of deferred policy acquisition costs	**480**	346	273	39	27
Non deferrable insurance commissions	**282**	265	249	6	6
Advisory fee expenses	**1,349**	1,315	1,175	3	12
General operating expenses	**1,014**	980	945	3	4
Pre-tax operating income	**$ 2,839**	$ 3,495	$ 3,490	(19)%	-%

94

Property Casualty Net Premiums Written by Region

TABLE OF CONTENTS

RETIREMENT pre-tax OPERATING INCOME *(in millions)*

2015 and 2014 Comparison

Pre-tax operating income in 2015 decreased compared to 2014, primarily due to lower net investment income and a lower net positive adjustment to reflect the update of actuarial assumptions, partially offset by growth in fee income. In addition, DAC amortization in Retirement Income Solutions increased in 2015 due to growth in the business and lower equity market returns compared to 2014. Base net investment income decreased in 2015, which resulted in base spreads compression, but this decrease was partially offset by higher policy fees due to growth in variable annuity separate account assets under management, principally driven by positive net flows.

Pre-tax operating income in both years included a net positive impact from the update of certain estimated gross profit assumptions used to amortize DAC and related items in the investment-oriented product lines, which resulted in a $140 million net increase in pre-tax operating income in 2015, compared to a $246 million net increase in pre-tax operating income in 2014. See Insurance Reserves - Life Insurance Companies DAC and Reserves – Update of Actuarial Assumptions for amounts by product line and financial statement line item and additional discussion.

Net investment income for 2015 decreased compared to 2014, primarily due to lower returns on alternative investments in hedge funds and lower base net investment income.

Base net investment income for 2015 decreased compared to 2014, primarily due to the effect of lower base yields from reinvestment at rates below the weighted average yield of the overall portfolio. See Investments – Life Insurance Companies for additional information on the investment strategy, asset-liability management process and invested assets of our Life Insurance Companies, which include the invested assets of the Retirement business.

Overall, Retirement fixed maturity portfolio yields in 2015 declined compared to 2014, primarily as a result of investment purchases and investment of portfolio cash flows at rates below the weighted average yield of the existing portfolio given the sustained low interest rate environment. While average interest crediting rates were down slightly due to active rate management, the decline in base yield resulted in spread compression in Fixed Annuities base spreads compared to 2014. Group Retirement base spread was flat compared to 2014, due to slightly lower average crediting rates as well as additional accretion income in 2015, which helped offset the decline in yield on the base portfolio. See Spread Management below for additional discussion.

TABLE OF CONTENTS

General operating expenses increased in 2015 compared to 2014, due in part to technology investments and higher expenses associated with continued strong sales in the Retirement Income Solutions product line.

2014 and 2013 Comparison

Pre-tax operating income for Retirement in 2014 was comparable to 2013, as higher policy fees and the higher positive impact of actuarial assumption updates were offset by lower net investment income from alternative investments. The increase in policy fees was driven by growth in variable annuity separate account assets from positive net flows and favorable equity markets. A higher volume of commissions and advisory fees included in Other income, net of related expenses, was driven by increased assets under management.

Pre-tax operating income in both years included a net positive impact from the update of certain estimated gross profit assumptions used to amortize DAC and related items in the investment-oriented product lines, which resulted in a $246 million net increase in pre-tax operating income in 2014, compared to a $233 million net increase in pre-tax operating income in 2013. See Insurance Reserves - Life Insurance Companies DAC and Reserves – Update of Actuarial Assumptions for amounts by product line and financial statement line item and additional discussion.

Net investment income for 2014 decreased compared to 2013, primarily due to a $158 million decrease in income from alternative investments, including lower hedge fund income, which in 2013 had benefited from favorable equity market conditions and several large hedge fund redemptions. The decrease in hedge fund income in 2014 compared to 2013 was partially offset by an increase in private equity fund income.

Base net investment income for 2014 increased slightly compared to 2013, as participation income on a commercial mortgage loan and income from the redemption of an invested asset in 2014 more than offset the effect of lower base yields from reinvestment at rates below the weighted average yield of the overall portfolio. See Investments – Life Insurance Companies for additional information on the investment strategy, asset-liability management process and invested assets of our Life Insurance Companies, which include the invested assets of the Retirement business.

Overall, Retirement fixed maturity portfolio yields in 2014 declined compared to 2013, primarily as a result of investment purchases and investment of portfolio cash flows at rates below the weighted average yield of the existing portfolio in the historically low interest rate environment. The Fixed Annuities and Group Retirement product lines were able to maintain base spreads in 2014 at a level comparable to 2013, and Retirement Income Solutions base spread increased, as a result of active crediting rate management. See Spread Management below for additional discussion.

General operating expenses increased in 2014 compared to 2013, due in part to technology investments and the volume of continued sales growth of annuities in the Retirement Income Solutions and Fixed Annuities product lines.

Spread Management

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 Life Insurance Companies' asset liability management process, product design elements and crediting rate strategies, a sustained low interest rate environment may negatively affect future profitability.

Disciplined pricing on new business and active crediting rate management are used in the Fixed Annuities and Group Retirement product lines to partially offset the impact of a continued decline in base yields resulting from investment of available cash flows in the low interest rate environment.

Disciplined pricing on new business is used to pursue new sales of annuity products at targeted net investment spreads in the current rate environment. Retirement has an active product management process to ensure that new business offerings appropriately reflect the current interest rate environment. To the extent that Retirement cannot achieve targeted net investment spreads on new business, products are re-priced or no longer sold. Additionally, where appropriate, existing products that had higher minimum rate guarantees have been re-filed with lower crediting rates as permitted under state insurance laws for new sales. As a result, new sales of fixed annuity products generally have minimum interest rate guarantees of one percent.

Renewal crediting rate management is done under contractual provisions in annuity products 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. Retirement will continue to adjust crediting rates on in-force business to mitigate the pressure on spreads from declining base yields. In addition to deferred annuity products, certain traditional long-duration products for which Retirement does not have the ability to adjust interest rates, such as payout annuities, are exposed to reduced earnings and potential loss recognition reserve increases in a sustained low interest rate environment.

As of December 31, 2015, Retirement's fixed annuity reserves, which include fixed options offered within variable annuities sold in the Group Retirement and Retirement Income Solutions product lines as well as reserves of the Fixed Annuities product line, had minimum guaranteed interest rates ranging from one percent to 5.5 percent, with the higher rates representing guarantees on older in-force products. As indicated in the table below, approximately 73 percent of annuity account values were at their minimum crediting rates as of December 31, 2015, compared to 71 percent at December 31, 2014. As a result of disciplined pricing on new business and the run-off of older business with higher minimum crediting rates, fixed annuity account values having contractual minimum guaranteed rates above one percent decreased to 74 percent of total fixed annuity reserves at December 31, 2015 from 79 percent at December 31, 2014.

The following table presents fixed annuity account values by contractual minimum guaranteed interest rate and current crediting rates:

December 31, 2015 Contractual Minimum Guaranteed Interest Rate *(in millions)*	Current Crediting Rates At Contractual Minimum Guarantee	1-50 Basis Points Above Minimum Guarantee	More than 50 Basis Points Above Minimum Guarantee	Total
Fixed annuities *				
1%	$ 5,896	$ 6,340	$ 12,635	$ 24,871
> 1% - 2%	12,659	2,341	2,974	17,974
> 2% - 3%	30,611	473	1,067	32,151
> 3% - 4%	12,231	50	10	12,291
> 4% - 5%	7,671	-	4	7,675
> 5% - 5.5%	202	-	5	207
Total	$ 69,270	$ 9,204	$ 16,695	$ 95,169
Percentage of total	73%	10%	17%	100%

* Fixed annuities shown include fixed options within variable annuities sold in Group Retirement and Retirement Income Solutions product lines.

Retirement Premiums and Deposits, Surrenders and Net Flows

Premiums

For Retirement, premiums primarily represent amounts received on life-contingent payout annuities. Premiums and deposits is a non GAAP financial measure that includes, in addition to direct and assumed premiums, deposits received on investment-type annuity contracts and mutual funds.

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

Years Ended December 31, *(in millions)*	**2015**	2014	2013
Premiums and deposits*	**$ 25,241**	$ 24,023	$ 23,729
Deposits	**(25,078)**	(23,903)	(23,690)
Other	**5**	167	149
Premiums	**$ 168**	$ 287	$ 188

TABLE OF CONTENTS

* Excludes activity related to closed blocks of fixed and variable annuities.

Premiums have fluctuated since 2013 primarily due to changes in immediate annuity premiums in the Fixed Annuities product line.

Premiums and Deposits and Net Flows

The following table presents Retirement premiums and deposits and net flows by product line:

				Percentage Change	
(in millions)	**2015**	2014	2013	2015 vs. 2014	2014 vs. 2013
Fixed Annuities	**$ 3,702**	$ 3,578	$ 2,914	3%	23%
Retirement Income Solutions	**10,828**	10,325	8,608	5	20
Retail Mutual Funds	**3,791**	3,377	4,956	12	(32)
Group Retirement	**6,920**	6,743	7,251	3	(7)
Total Retirement premiums and deposits*	**$ 25,241**	$ 24,023	$ 23,729	5%	1%

Years Ended December 31,

(in millions)	**2015**	2014	2013
Net flows			
Fixed Annuities	**$ (2,188)**	$ (2,313)	$ (2,820)
Retirement Income Solutions	**7,010**	6,566	5,092
Retail Mutual Funds	**1,026**	(1)	2,780
Group Retirement	**(2,135)**	(3,797)	(492)
Total Retirement net flows*	**$ 3,713**	$ 455	$ 4,560

* Excludes activity related to closed blocks of fixed and variable annuities, which had reserves of approximately $5.0 billion and $5.4 billion at December 31, 2015 and 2014, respectively.

RETIREMENT PREMIUMS AND DEPOSITS by Product Line *(in millions)*

Property Casualty Net Premiums Written by Region

TABLE OF CONTENTS

Premiums and deposits increased in 2015 compared to 2014, primarily due to growth in Retirement Income Solutions and Retail Mutual Funds. Premiums and deposits increased in 2014 compared to 2013, primarily in Retirement Income Solutions product lines and in Fixed Annuities, partially offset by lower deposits in Retail Mutual Funds and Group Retirement.

Net flows for annuity products included in the Fixed Annuities, Retirement Income Solutions and Group Retirement product lines represent premiums and deposits less death, surrender and other withdrawal benefits. Net flows from mutual funds, which are included in both the Retail Mutual Funds and Group Retirement product lines, represent deposits less withdrawals.

Total net flows for Retirement increased in 2015 compared to 2014, primarily due to lower surrenders in Group Retirement, improvement in both sales and the level of withdrawals in Retail Mutual Funds, and continued growth in Retirement Income Solutions.

Total net flows for Retirement decreased in 2014 compared to 2013, primarily due to higher surrenders and withdrawals in 2014, primarily in the Group Retirement and Retail Mutual Funds product lines, which resulted in a significant decrease in net flows compared to 2013.

Premiums and Deposits and Net Flows by Product Line

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

Fixed Annuities premiums and deposits increased in 2015 compared to 2014, due to new product offerings and increases in market interest rates driven by widening credit spreads in the second half of the year, but net flows continued to be negative, primarily due to the sustained relatively low interest rate environment. The increase in Fixed Annuities deposits in 2014 compared to 2013 was due to modest increases in interest rates and steepening of the yield curve in the first half of 2014, compared to lower rates in the prior year, particularly in the first half of 2013. Fixed Annuities net flows in 2014 were negative, but improved compared to 2013, primarily due to the increased deposits.

Retirement Income Solutions premiums and deposits and net flows increased in 2015 compared to 2014, reflecting an increase in index annuity sales. Premiums and deposits and net flows increased significantly in 2014 compared to 2013, reflecting a high volume of variable and index annuity sales, which benefitted from consumer demand for retirement products with guaranteed benefit features, product enhancements, expanded distribution and a more favorable competitive environment. The improvement in surrender rates in 2015 and 2014 compared to the prior years (see Surrender Rates below) was primarily due to the significant growth in account value driven by the high volume of sales, which has increased the proportion of business that is within the surrender charge period.

Retail Mutual Funds deposits and net flows increased in 2015 compared to 2014, and decreased in 2014 compared to 2013, driven primarily by activity within the Focused Dividend Strategy Portfolio. After record sales in 2013, the Focused Dividend Strategy Portfolio experienced relatively less favorable performance in 2014, putting pressure on 2014 sales and withdrawal activity. In 2015, sales and withdrawals for this portfolio improved, due to a return to strong performance levels, resulting in overall growth in Retail Mutual Funds net flows compared to 2014.

Group Retirement net flows increased in 2015 compared to 2014, primarily due to lower surrender activity. The improvement in the surrender rate in 2015 compared to 2014 was due in part to lower large group surrenders, which were approximately $1.5 billion in 2015, compared to $2.7 billion in 2014. Group Retirement net flows decreased in 2014 compared to 2013, primarily due to higher group surrender activity, as well as lower premiums and deposits. The large group market has become increasingly competitive and has been impacted by the consolidation of healthcare providers and other employers in our target markets. This trend of heightened competition is expected to continue in 2016 as plan sponsors perform reviews of existing retirement plan relationships.

TABLE OF CONTENTS

Surrender Rates

The following table presents reserves for annuity product lines by surrender charge category:

At December 31,	2015			2014		
(in millions)	Group Retirement[(a)]	Fixed Annuities	Retirement Income Solutions	Group Retirement[(a)]	Fixed Annuities	Retirement Income Solutions
No surrender charge[(b)(c)]	$ 60,720	$ 34,331	$ 14,184	$ 61,751	$ 34,255	$ 14,429
Greater than 0% - 2%	1,199	1,543	4,517	1,648	2,736	4,512
Greater than 2% - 4%	1,363	2,285	4,565	1,657	2,842	4,254
Greater than 4%	5,952	13,138	31,683	5,793	12,754	26,165
Non-surrenderable	676	3,723	358	770	3,605	151
Total reserves	$ 69,910	$ 55,020	$ 55,307	$ 71,619	$ 56,192	$ 49,511

(a) Excludes mutual fund assets under management of $14.5 billion and $14.6 billion at December 31, 2015 and 2014, respectively.

(b) Group Retirement amounts in this category include reserves of approximately $6.2 billion, at both December 31, 2015 and 2014, which are subject to 20 percent annual withdrawal limitations.

(c) Retirement Income Solutions amounts in this category for 2014 include $12.5 billion of reserves with zero surrender charge that were previously reported within “Greater than 0% - 2%”.

The following table presents surrender rates for deferred annuities by product line:

Years Ended December 31,	2015	2014	2013
Surrenders as a percentage of average account value			
Fixed Annuities	6.9 %	7.0 %	6.6 %
Retirement Income Solutions	6.0	7.1	8.7
Group Retirement	10.0	11.6	9.0

Life Results

The following table presents Life results:

Years Ended December 31,				Percentage Change	
(in millions)	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
Revenues:					
Premiums	$ 2,759	$ 2,679	$ 2,737	3%	(2)%
Policy fees	1,485	1,443	1,391	3	4

Net investment income	**2,100**	2,199	2,269	(5)	(3)
Other income	**49**	-	-	NM	NM
Benefits and expenses:					
Policyholder benefits and losses incurred	**3,812**	3,771	3,568	1	6
Interest credited to policyholder account balances	**493**	507	542	(3)	(6)
Amortization of deferred policy acquisition costs	**433**	321	360	35	(11)
Non deferrable insurance commissions	**222**	257	272	(14)	(6)
General operating expenses	**968**	885	849	9	4
Pre-tax operating income	**$ 465**	$ 580	$ 806	(20)	(28)

100

TABLE OF CONTENTS

Life pre-tax OPERATING INCOME *(in millions)*

2015 and 2014 Comparison

Pre-tax operating income decreased in 2015 compared to 2014, primarily due to lower net investment income, mortality experience that was within pricing expectations but less favorable than the prior year, and a higher net negative adjustment to reflect updated actuarial assumptions. These decreases were partially offset by a $20 million reduction in the reserve for IBNR death claims related to enhanced claims practices, due to updated estimates in 2015, compared to a $104 million increase in this reserve in 2014, which was primarily related to a legacy block of small policies for which personal data elements were unavailable or incomplete.

Other income in 2015 was primarily related to commission and profit sharing revenues received by Laya Healthcare for the distribution of insurance products. Laya Healthcare, which we acquired on March 31, 2015, is Ireland's second largest primary health insurance provider. Laya Healthcare distributes and administers primary healthcare for approximately 550,000 customers, and also offers other coverage including life, dental and travel insurance.

The net negative adjustment of $146 million related to an update of actuarial assumptions in 2015 was primarily due to lower assumed surrender rates for certain later-duration universal life with secondary guarantees, which represent approximately eight percent of the Life Insurance Companies' total U.S. life reserves. The net negative adjustment also reflected lower investment spread assumptions, partially offset by more favorable than expected assumptions for mortality, as well as loss recognition expense of $28 million for certain discontinued long-term care products primarily due to lower future premium assumptions. These negative adjustments were partially offset by a decrease in certain Group Benefit claim reserves based on updated experience data. See Insurance Reserves - Life Insurance Companies DAC and Reserves – Update of Actuarial Assumptions for amounts by financial statement line item and additional discussion of loss recognition.

Net investment income for 2015 decreased compared to 2014, primarily due to lower returns on alternative investments in hedge funds and, to a lesser extent, a decrease due to lower yields on the base portfolio. See Investments – Life Insurance Companies for additional discussion of the investment strategy, asset-liability management process and invested assets of our Life Insurance Companies, which include the invested assets of the Life business.

General operating expenses increased in 2015 compared to 2014, primarily related to the expansion of the international Life business through the acquisitions of AIG Life Limited and Laya Healthcare. Higher expenses from the international acquisitions were partially offset by domestic savings from organizational changes.

2014 and 2013 Comparison

Pre-tax operating income decreased in 2014 compared to 2013, primarily due to increases in policyholder benefit reserves, lower net investment income and higher general operating expenses. Updates of actuarial assumptions also decreased pre-tax operating income by $119 million in 2014 compared to $80 million in 2013. These decreases were partially offset by a $28 million increase in pre-tax operating income in 2014 compared to 2013, due to a 2013 increase in equity-indexed universal life reserves, which was reflected in Interest credited to policyholder account balances.

Overall, mortality experience for 2014 was similar to 2013 and within pricing assumptions. Policyholder benefit expense in 2014 included an increase of approximately $104 million to the estimated reserves for IBNR death claims, which reflected continuing efforts to identify deceased insureds and their beneficiaries who have not presented a valid claim, pursuant to the 2012 resolution of a multi-state audit and market conduct examination. The 2014 increase in the IBNR reserve was related primarily to a legacy block of in-force and lapsed small face amount policies, for which certain personal data elements were unavailable or incomplete. In 2014, in the process of reviewing these policies as required under the terms of the regulatory agreement, we refined our estimate of the ultimate cost of these claims. The reserve increase in 2014 was in addition to amounts previously provided for IBNR claims in 2011 and 2012, which totaled $259 million.

Net investment income decreased in 2014 compared to 2013, primarily due to lower income from alternative investments and lower yields on the base portfolio due to investment of portfolio cash flows at rates below the weighted average yield of the existing portfolio. See Investments – Life Insurance Companies for additional discussion of the investment strategy, asset-liability management process and invested assets of our Life Insurance Companies, which include the invested assets of the Life business.

General operating expenses increased in 2014 compared to 2013 primarily due to strategic investments in technology and service platforms in the U.S. and Japan.

Spread Management

Disciplined pricing on new business is used to pursue new sales of life products at targeted net investment spreads in the current interest rate environment. Life has an active product management process to ensure that new business offerings appropriately reflect the current interest rate environment. To the extent that Life cannot achieve targeted net investment spreads on new business, products are re-priced or no longer sold. Additionally, where appropriate, existing products with higher minimum rate guarantees have been re-filed with lower crediting rates, as permitted under state insurance laws for new sales. Universal life insurance interest rate guarantees are generally two to three percent on new non-indexed products and zero to two percent on new indexed products, and are designed to meet targeted net investment spreads.

In-force Management. Crediting rates for in-force policies are adjusted in accordance with contractual provisions that were designed to allow crediting rates to be reset subject to minimum crediting rate guarantees.

The following table presents universal life account values by contractual minimum guaranteed interest rate and current crediting rates:

		Current Crediting Rates		
December 31, 2015				
Contractual Minimum Guaranteed Interest Rate *(in millions)*	At Contractual Minimum Guarantee	1-50 Basis Points Above Minimum Guarantee	More than 50 Basis Points Above Minimum Guarantee	Total
Universal life insurance				
1%	$ -	$ -	$ 7	$ 7
> 1% - 2%	32	164	212	408
> 2% - 3%	552	304	1,452	2,308
> 3% - 4%	2,066	495	1,090	3,651
> 4% - 5%	3,939	204	-	4,143

TABLE OF CONTENTS

Item 7 / results of operations / consumer insurance

> 5% - 5.5%		327	-		-		327
Total	$	6,916	$ 1,167	$	2,761	$	10,844
Percentage of total		64%	11%		25%		100%

Life Premiums and Deposits

Premiums for Life represent amounts received on traditional life insurance policies and group benefit policies. Premiums and deposits for Life is a non GAAP financial measure that includes direct and assumed premiums as well as deposits received on universal life insurance.

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

Years Ended December 31, *(in millions)*		**2015**		2014		2013
Premiums and deposits	$	**4,974**	$	4,806	$	4,862
Deposits		**(1,540)**		(1,532)		(1,541)
Other		**(675)**		(595)		(584)
Premiums	$	**2,759**	$	2,679	$	2,737

Excluding the effect of foreign exchange, Life premiums and deposits increased six percent in 2015 compared to 2014, and premiums increased eight percent, principally driven by growth in Japan and the acquisition of AIG Life Limited in the U.K.

The decrease in Life premiums in 2014 compared to 2013 was primarily due to the non-renewal of certain group benefit accounts and the strengthening of the U.S. dollar against the Japanese yen, partially offset by solid growth in Japan premiums excluding the effect of foreign exchange. As a result of the decrease in premiums, premiums and deposits also decreased in 2014 compared to 2013.

Personal Insurance Results

The following table presents Personal Insurance results:

Years Ended December 31,				Percentage Change	
(in millions)	**2015**	2014	2013	2015 vs. 2014	2014 vs. 2013
Underwriting results:					
Net premiums written	**$11,580**	$12,412	$12,700	(7)%	(2)
Increase in unearned premiums	**(422)**	(442)	(323)	5	(37)
Net premiums earned	**11,158**	11,970	12,377	(7)	(3)
Losses and loss adjustment expenses incurred	**6,152**	6,488	7,025	(5)	(8)

Acquisition expenses:					
Amortization of deferred policy acquisition costs	**1,974**	2,092	2,203	(6)	(5)
Other acquisition expenses	**1,183**	1,165	1,044	2	12
Total acquisition expenses	**3,157**	3,257	3,247	(3)	-
General operating expenses	**1,995**	2,220	2,292	(10)	(3)
Underwriting income (loss)	**(146)**	5	(187)	NM	NM
Net investment income	**220**	394	455	(44)	(13)
Pre-tax operating income	**$ 74**	$ 399	$ 268	(81)%	49

103

Property Casualty Net Premiums Written by Region

NET PREMIUMS WRITTEN *(in millions)*		Pre-Tax oPERATING INCOME *(in millions)*

2015 and 2014 Comparison

Pre tax operating income decreased in 2015, compared to 2014, primarily due to a decrease in net investment income and underwriting results. Catastrophe losses were $145 million in 2015 compared to $126 million in 2014. In 2015, net favorable prior year loss reserve development was $19 million compared to $77 million in 2014.

Acquisition expenses decreased in 2015 compared to 2014. Excluding the effect of foreign exchange, acquisition expenses increased due to higher acquisition costs, primarily in automobile and property businesses, and higher profit share expenses related to warranty service programs, partially offset by a decrease in non-deferred direct marketing expenses. The non-deferred direct marketing expenses, excluding commissions, for 2015 were approximately $292 million, and, excluding the impact of foreign exchange, decreased by approximately $71 million from 2014.

General operating expenses decreased in 2015 compared to 2014, primarily due to the effect of foreign exchange and reflected an ongoing focus on cost efficiency.

Net investment income decreased in 2015 compared to 2014, primarily due to the continued impact of low interest rates resulting in yields on new purchases that were lower than the weighted average yield of the overall portfolio, negative performance of alternative investments in hedge funds, the strengthening of the U.S. dollar against most major foreign currencies, and lower allocation of net investment income.

See MD&A — Investments for additional information on the Non-Life Insurance Companies invested assets, investment strategy, and asset-liability management process.

2014 and 2013 Comparison

Pre tax operating income increased in 2014 compared to 2013, primarily due to a decrease in current accident year losses and lower general operating expenses, partially offset by higher catastrophe losses and lower net favorable prior year loss reserve development, higher acquisition expenses and a decrease in net investment income. Catastrophe losses were $126 million in 2014, compared to $77 million in 2013. The accident year losses include severe losses of approximately $54 million in 2014 compared to $17 million in 2013. Net favorable loss reserve development was $77 million in 2014 compared to $155 million in 2013, and included approximately $7 million of favorable loss reserve development from Storm Sandy compared to $41 million in 2013. Foreign exchange did not have a significant impact on the pre-tax operating income compared to 2013.

TABLE OF CONTENTS

Acquisition expenses increased in 2014 compared to 2013, primarily due to the change in business mix and higher costs in growth-targeted lines of business, partially offset by the effect of foreign exchange as a result of the strengthening of the U.S. dollar against the Japanese yen. Direct marketing expenses, excluding commissions, for 2014 were $392 million, compared to $440 million in 2013. Excluding the impact of foreign exchange, direct marketing expenses decreased by approximately $24 million in 2014 compared to 2013. Direct marketing accounted for approximately 17 percent of net premiums written in both 2014 and 2013.

General operating expenses decreased in 2014 compared to 2013. Excluding the effect of foreign exchange, general operating expenses remained flat, as efficiencies from organizational realignment initiatives were offset by increased technology-related expenses.

Net investment income decreased in 2014 compared to 2013, primarily due to a decrease in interest rates during 2014, as yields on new purchases were lower than the weighted average yield of the overall portfolio, lower income on alternative investments, and lower income associated with investments accounted for under the fair value option method as an increase related to the PICC P&C rights offerings was more than offset by a decrease from fixed maturity investments accounted for under the fair value option. These were partially offset by the effect of continued portfolio diversification. The decrease in allocated net investment income was also due to a reduction in net loss reserves.

See MD&A — Investments for additional information on the Non-Life Insurance Companies invested assets, investment strategy, and asset-liability management process.

Personal Insurance Net Premiums Written

The following table presents Personal Insurance net premiums written by major line of business:

Years Ended December 31,				Percentage Change in U.S. dollars		Percentage Chan Original Curren	
(in millions)	**2015**	2014	2013	2015 vs. 2014	2014 vs. 2013	2015 vs. 2014	2014 v
Accident & Health	**$ 4,990**	$ 5,441	$ 5,714	(8)%	(5)%	1%	
Personal Lines	**6,590**	6,971	6,986	(5)	-	4	
Total Personal Insurance net premiums written	**$11,580**	$12,412	$12,700	(7)%	(2)%	3%	

TABLE OF CONTENTS

Personal Insurance

(in millions)

2015 and 2014 Comparison

Personal Insurance net premiums written decreased in 2015 compared to 2014 due to the strengthening of the U.S. dollar against the Major Currencies. Excluding the effect of foreign exchange, net premiums written increased in 2015 compared to 2014, as the business continued to grow through multiple product and distribution channels. The following paragraphs discuss the changes in net premiums written on a constant dollar basis, which exclude the effect of foreign exchange.

Accident & Health net premiums written increased in 2015 compared to 2014, primarily due to production increases in Accident and Health in Japan, partially offset by the decrease in Accident and Health in the U.S., due to continued underwriting discipline.

Personal Lines net premiums written increased in 2015 compared to 2014. These increases were primarily due to increased production in personal property business in the U.S. and Japan and in the automobile business in all regions, partially offset by decreased production of warranty service programs. The increase in the U.S. personal property business in 2015 was attributable to new business sales and improved retention in the AIG Private Client Group, whereas in Japan the increase was due to new business sales as a result of the recent increase in new housing starts and heightened demand before the duration restriction on long-term fire insurance became effective in October 2015. In addition, the increase in U.S. personal property business in 2015 reflected changes to optimize our reinsurance structure to retain more favorable risks, while continuing to manage aggregate exposure.

2014 and 2013 Comparison

Personal Insurance net premiums written decreased in 2014 compared to 2013, primarily due to the impact of foreign exchange as the U.S. dollar strengthened against the Japanese yen. Excluding the effect of foreign exchange, net premiums written increased in 2014 compared to 2013 as the business continued to grow through multiple product and distribution channels, including direct marketing. The following paragraphs discuss the changes in net premiums written on a constant dollar basis, which exclude the effect of foreign exchange.

TABLE OF CONTENTS

Item 7 / results of operations / consumer insurance

Accident & Health net premiums written decreased in 2014 compared to 2013. The decrease was primarily due to our focus on maintaining underwriting discipline in certain classes of business in the U.S., partially offset by growth in Japan and Latin America.

Personal Lines net premiums written increased in 2014 compared to 2013. The increase was primarily due to increased rates and improved retention in AIG Private Client Group and continued growth of automobile business outside of Japan, partially offset by declines in the U.S. warranty service programs.

Personal Insurance Net Premiums Written by Region

The following table presents Personal Insurance net premiums written by region:

Years Ended December 31,				Percentage Change in U.S. dollars		Percentage Chan Original Curren	
(in millions)	**2015**	2014	2013	2015 vs. 2014	2014 vs. 2013	2015 vs. 2014	2014 v
Americas	**$ 3,810**	$ 3,824	$ 3,794	-%	1%	2%	
Asia Pacific	**5,916**	6,516	6,893	(9)	(5)	3	
EMEA	**1,854**	2,072	2,013	(11)	3	3	
Total net premiums written	**$11,580**	$12,412	$12,700	(7)%	(2)%	3%	

Personal insurance NET PREMIUMS WRITTEN by Region

(in millions)

The following paragraphs discuss the changes in net premiums written on a constant dollar basis, which exclude the effect of foreign exchange.

2015 and 2014 Comparison

Americas net premiums written in 2015 increased compared to 2014 due to growth in personal property and automobile businesses, offset by decreases in warranty service programs and Accident and Health businesses in the U.S. The growth in personal property business is primarily driven by new business sales and improved retention in AIG Private Client Group in the U.S., as well as the changes in the reinsurance structure discussed above.

Asia Pacific net premiums written increased in 2015 compared to 2014, primarily due to increased production in personal property, Accident and Health and automobile businesses.

TABLE OF CONTENTS

EMEA net premiums written increased in 2015 compared to 2014, primarily in automobile and in warranty service programs, partially offset by decreases in Accident and Health.

2014 and 2013 Comparison

Americas net premiums written increased in 2014 compared to 2013, primarily due to an increase in all product lines in our Latin America operations and growth in U.S. personal property and automobile businesses. These were partially offset by a decrease in U.S. Accident and Health due to our continued focus on maintaining underwriting discipline.

Asia Pacific net premiums written increased in 2014 compared to 2013, primarily due to production increases in Japan Accident and Health and in property and automobile business outside of Japan.

EMEA net premiums written increased in 2014 compared to 2013, due to growth in the automobile business and warranty service programs, partially offset by a decrease in the Accident and Health business.

Personal Insurance Underwriting Ratios

The following tables present the Personal Insurance combined ratios based on GAAP data and reconciliation to the accident year combined ratio, as adjusted:

Years Ended December 31,				Increase (Decrease)	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
Loss ratio	**55.1**	54.2	56.8	0.9	(2.6)
Catastrophe losses and reinstatement premiums	**(1.3)**	(1.1)	(0.7)	(0.2)	(0.4)
Prior year development net of premium adjustments	**0.2**	0.7	1.3	(0.5)	(0.6)
Accident year loss ratio, as adjusted	**54.0**	53.8	57.4	0.2	(3.6)
Acquisition ratio	**28.3**	27.2	26.2	1.1	1.0
General operating expense ratio	**17.9**	18.5	18.5	(0.6)	-
Expense ratio	**46.2**	45.7	44.7	0.5	1.0
Combined ratio	**101.3**	99.9	101.5	1.4	(1.6)
Catastrophe losses and reinstatement premiums	**(1.3)**	(1.1)	(0.7)	(0.2)	(0.4)
Prior year development net of premium adjustments	**0.2**	0.7	1.3	(0.5)	(0.6)
Accident year combined ratio, as adjusted	**100.2**	99.5	102.1	0.7	(2.6)

TABLE OF CONTENTS

Item 7 / results of operations / consumer insurance

Personal Insurance ratios

The following tables present Personal Insurance accident year catastrophe and severe losses by region and the number of events:

Catastrophes[a]

(in millions)	# of Events		Americas		Asia Pacific		EMEA		Total
Year Ended December 31, 2015									
Flooding	**4**	**$**	**4**	**$**	**-**	**$**	**2**	**$**	**6**
Windstorms and hailstorms	**13**		**82**		**37**		**-**		**119**
Wildfire	**1**		**1**		**-**		**-**		**1**
Tropical cyclone	**1**		**-**		**19**		**-**		**19**
Total catastrophe-related charges	**19**	**$**	**87**	**$**	**56**	**$**	**2**	**$**	**145**
Year Ended December 31, 2014									
Windstorms and hailstorms	14		51		46		-		97
Tropical cyclone	4		9		19		-		28
Earthquakes	1		1		-		-		1
Total catastrophe-related charges	19	$	61	$	65	$	-	$	126
Year Ended December 31, 2013									
Flooding	7	$	26	$	-	$	2	$	28
Windstorms and hailstorms	2		11		-		5		16
Tropical cyclone	-		-		33		-		33
Total catastrophe-related charges	9	$	37	$	33	$	7	$	77

(a) Catastrophes are generally weather or seismic events having a net impact on AIG in excess of $10 million each.

Severe Losses[b]

Years Ended December 31, *(in millions)*	# of Events	Americas	Asia Pacific	EMEA	Total
2015	**1**	**$ 12**	**$ -**	**$ -**	**$ 12**
2014	4	$ 50	$ 4	$ -	$ 54
2013	1	$ 17	$ -	$ -	$ 17

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

2015 and 2014 Comparison

The combined ratio increased by 1.4 points in 2015 compared to 2014, reflecting an increase in the loss ratio and acquisition ratio, partially offset by a decrease in the general operating expense ratio. The accident year combined ratio, as adjusted, increased by 0.7 points in 2015 compared to 2014.

The accident year loss ratio, as adjusted, increased by 0.2 points in 2015, compared to 2014, due to higher large but not severe losses in automobile and personal property businesses, partially offset by a decrease in losses in warranty service programs and lower severe losses. The loss ratio improvement in warranty service programs was offset by an increase in the acquisition ratio due to a related profit sharing arrangement.

The acquisition ratio increased by 1.1 points in 2015 compared to 2014, primarily due to increases in acquisition costs in warranty service programs and in the automobile business, partially offset by lower direct marketing expenses in the Accident and Health business.

The general operating expense ratio decreased by 0.6 points in 2015 compared to 2014, reflecting an ongoing focus on cost efficiency.

2014 and 2013 Comparison

The combined ratio decreased by 1.6 points in 2014 compared to 2013, primarily due to a lower loss ratio, partially offset by a higher acquisition ratio as discussed below.

The accident year combined ratio, as adjusted, decreased by 2.6 points in 2014 compared to 2013, primarily due to an improved accident year loss ratio, as adjusted.

The accident year loss ratio, as adjusted, decreased by 3.6 points in 2014 compared to 2013, as a result of improvements across all lines of business. The lower losses associated with a warranty retail program were largely offset by an increase in the related profit sharing arrangement, which increased the acquisition ratio in 2014 compared to 2013. The severe losses of $54 million, resulting largely from four fire claims, accounted for 0.5 points of the accident year loss ratio, as adjusted, in 2014.

The general operating expense ratio remained unchanged in 2014 compared to 2013, reflecting the impact of efficiencies from organizational realignment initiatives, offset by increased technology-related expenses.

Corporate and Other

Corporate and Other Results

The following table presents AIG's Corporate and Other results:

Years Ended December 31,				Percentage Change	
(in millions)	**2015**	2014	2013	2015 vs. 2014	2014 vs. 20
Corporate and Other pre-tax operating loss:					
Equity in pre-tax operating earnings of AerCap[(a)]	**$ 255**	$ 434	$ -	(41)%	N
Fair value of PICC investments[(b)]	**33**	37	-	(11)	N
Income from other assets, net[(c)]	**1,382**	373	47	271	N
Corporate general operating expenses	**(985)**	(1,146)	(1,115)	14	(
Severance expense[(d)]	**-**	-	(265)	NM	N
Interest expense	**(1,101)**	(1,233)	(1,412)	11	

110

TABLE OF CONTENTS

Item 7 / results of operations / Corporate and other

Direct Investment book	**-**	1,241	1,448	NM	(14)
Global Capital Markets	**-**	359	625	NM	(43)
Run-off insurance Lines	**(488)**	(445)	403	(10)	NM
Consolidation and eliminations	**21**	1	4	NM	(75)
Total Corporate and Other pre-tax operating loss	**$ (883)**	$ (379)	$ (265)	(133)%	(43)%

(a) Represents our share of AerCap's pre-tax operating income, which excludes certain post-acquisition transaction expenses incurred by AerCap in connection with its acquisition of ILFC and the difference between expensing AerCap's maintenance rights assets over the remaining lease term as compared to the remaining economic life of the related aircraft.

(b) During the first quarter of 2015, Non-Life Insurance Companies sold a portion of their investment in PICC P&C to AIG Parent. During 2014, the Life Insurance Companies sold their investment in PICC Group to AIG Parent.

(c) Consists of the results of investments held by AIG Parent to support various corporate needs as well as the remaining positions of AIGFP, life settlements, real estate, equipment leasing and lending and other secured lending investments held by AIG Parent and certain subsidiaries. As a result of the progress of the wind down and de-risking activities of the DIB and the derivative portfolio of AIGFP included within GCM, AIG has discontinued separate reporting of the DIB and GCM. Their results have been reported within Income from other assets, net, beginning with the first quarter of 2015. This reporting aligns with the manner in which AIG manages its financial resources. Prior periods are presented in historical format for informational purposes. Interest expense for 2015 includes $70 million of interest expense previously reported in DIB results.

(d) Includes $263 million of severance expense attributable to the Property Casualty and Personal Insurance operating segments.

Corporate and Other Results

2015 and 2014 Comparison

Corporate and Other pre-tax operating losses increased in 2015 compared to 2014 primarily due to lower fair value appreciation on ABS CDOs, lower credit valuation adjustments on assets for which the fair value option was elected, and lower mark-to-market income on CDS positions as a result of portfolio wind down and more significant spread tightening in 2014, all of which are reflected in Income from other assets, net. Partially offsetting these declines were lower corporate general operating expenses resulting from a pension curtailment credit and lower interest expense from ongoing liability management activities.

Run-off insurance lines reported an increase in pre-tax operating loss in 2015 primarily due to higher net adverse prior year loss reserve development reflecting the loss reserve strengthening in classes of business with long reporting tails and transfers of certain casualty lines, including environmental liability and healthcare coverage that were no longer offered by Commercial Insurance to Run-off insurance lines. See Insurance Reserves – Non-Life Insurance Companies – Net Loss Development for further discussion. These increases in net adverse prior year loss reserve development were partially offset by excess workers' compensation net loss reserve discount benefit, primarily reflecting an increase in Treasury rates in 2015. See Insurance Reserves – Non-Life Insurance Companies – Discounting of Reserves for further discussion.

2014 and 2013 Comparison

Corporate and Other pre tax operating losses increased in 2014 compared to 2013 primarily due to an increase in general operating expenses as a result of centralizing processes to lower-cost locations and increased costs related to investments in technology, lower fair value appreciation on ABS CDOs driven primarily by improved collateral pricing due to more significant improvements in home price indices and amortization of the underlying collateral in 2013, lower credit valuation adjustments on assets for which the fair value option was elected, and lower mark-to-market income on CDS positions as a result of portfolio wind down and spread widening, partially offset by our share of AerCap's pre-tax operating income, which was accounted for under the equity method, and lower interest expense from ongoing debt management activities described in Liquidity and Capital Resources.

Run-off insurance lines reported a pre-tax operating loss of $445 million in 2014 compared to income of $403 million in 2013, primarily as a result of a $407 million charge from a decrease in reserve discount in 2014 compared to a $631 million benefit from an increase in discount in 2013. This discounting-related charge was partially offset by a $98 million decrease in net adverse prior year loss reserve development and an improvement in current accident year loss experience, particularly in the environmental liability business (2004 and prior). The discount charge was primarily due to the decline in risk free rates during

2014 used under Pennsylvania and Delaware prescribed or permitted practices, change in payout pattern assumptions, including the effect of commutations and accelerated settlements for the certain Excess Workers' Compensation reserves, as well as accretion. See Insurance Reserves - Discounting of Reserves for additional information.

Overview

Our investment strategies are tailored to the specific business needs of each operating unit. The investment objectives are driven by the respective business models for Non-Life Insurance Companies, Life Insurance Companies 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 intermediate and long duration fixed maturity securities.

- A rise in rates, widening of credit spreads and sales of equity securities resulted in a decrease in our net unrealized gain position in our investment portfolio. Net unrealized gains in our available for sale portfolio decreased to approximately $8.8 billion as of December 31, 2015 from approximately $19.0 billion as of December 31, 2014.

- We continued to make investments in structured securities and other fixed maturity securities and increased lending activities in mortgage loans with favorable risk versus return characteristics to improve yields and increase net investment income.

- Our alternative investments portfolio performance experienced a significant drop off in the second half of 2015 due to increased volatility in equity markets, which affected the performance of our hedge fund portfolio.

- Blended investment yields on new investments were lower than blended rates on investments that were sold, matured or called.

- Other-than-temporary impairments increased due to impairments within the energy and emerging markets sectors, driven primarily by slowing growth in China and weakness in commodity markets.

• We experienced an increase in gains of sales of securities in 2015 versus 2014 due to a partial divestiture of our PICC equity interests.

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 Non-Life Insurance Companies consist of a mix of instruments that meet our current risk-return, tax, liquidity, credit quality and diversification objectives.

TABLE OF CONTENTS

Item 7 / INVESTMENTS

• Outside of the U.S., fixed maturity securities held by Non-Life Insurance Companies consist primarily of intermediate duration high-grade securities generally denominated in the currencies of the countries in which we operate.

• While more of a focus is placed on asset-liability management in Life Insurance Companies, our fundamental strategy across all of our investment portfolios is to optimize the duration characteristics of the assets within a target range based on comparable liability characteristics, to the extent practicable.

• AIG Parent actively manages its assets and liabilities in terms of products, counterparties and duration. AIG Parent's liquidity sources are held in the form of cash, short-term investments and publicly traded, intermediate term investment-grade rated fixed maturity securities. Based upon an assessment of its immediate and longer-term funding needs, AIG Parent purchases publicly traded, intermediate term, 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.

Investments by Legal Entity Category

The following tables summarize the composition of AIG's investments:

(in millions)	Non-Life Insurance Companies	Life Insurance Companies	Corporate and Other[(a)]	Total
December 31, 2015				
Fixed maturity securities:				
Bonds available for sale, at fair value	**$ 84,849**	**$ 157,150**	**$ 6,246**	**$ 248,245**
Other bond securities, at fair value	**1,463**	**3,589**	**11,730**	**16,782**
Equity securities:				
Common and preferred stock available for sale, at fair value	**2,821**	**144**	**(50)**	**2,915**
Other Common and preferred stock, at fair value	**355**	**-**	**566**	**921**
Mortgage and other loans receivable, net of allowance	**8,278**	**23,979**	**(2,692)**	**29,565**
Other invested assets	**10,571**	**12,398**	**6,825**	**29,794**
Short-term investments	**3,189**	**2,877**	**4,066**	**10,132**
Total investments[(b)]	**111,526**	**200,137**	**26,691**	**338,354**
Cash	**1,011**	**557**	**61**	**1,629**
Total invested assets	**$ 112,537**	**$ 200,694**	**$ 26,752**	**$ 339,983**
December 31, 2014				
Fixed maturity securities:				
Bonds available for sale, at fair value	$ 92,942	**$** 164,527	$ 2,390	$ 259,859
Other bond securities, at fair value	1,733	2,785	15,194	19,712

Equity securities:				
Common and preferred stock available for sale, at fair value	4,241	150	4	4,395
Other Common and preferred stock, at fair value	495	-	554	1,049
Mortgage and other loans receivable, net of allowance	6,686	20,874	(2,570)	24,990
Other invested assets	10,372	11,916	12,230	34,518
Short-term investments	4,154	2,131	4,958	11,243
Total investments[(b)]	120,623	202,383	32,760	355,766
Cash	1,191	451	116	1,758
Total invested assets	$ 121,814	$ 202,834	$ 32,876	$ 357,524

(a) Beginning in the fourth quarter of 2015, Eaglestone Reinsurance Company is reported in Corporate and Other.

(b) At December 31, 2015, approximately 90 percent and 10 percent of investments were held by domestic and foreign entities, respectively, compared to approximately 90 percent and 10 percent, respectively, at December 31, 2014.

TABLE OF CONTENTS

Item 7 / INVESTMENTS

The following table presents the components of Net Investment Income:

Years Ended December 31, (in millions)	2015	2014	2013
Interest and dividends	$ 12,856	$ 13,246	$ 13,199
Alternative investments	1,476	2,624	2,803
Other investment income*	249	726	356
Total investment income	14,581	16,596	16,358
Investment expenses	528	517	548
Total net investment income	$ 14,053	$ 16,079	$ 15,810

* Includes changes in fair value of certain fixed maturity securities where the fair value option has been elected and which are used to economically hedge the interest rate risk in GMWB embedded derivatives. For the years ended December 31, 2015, 2014 and 2013, the net investment income (loss) recorded on these securities was $(43) million, $260 million and $(161) million, respectively.

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

Net investment income for 2014 increased compared to 2013 primarily due to positive performance on bonds where we elected the fair value option, driven by movements in interest rates, partially offset by lower income on alternative investments due to equity market performance and lower reinvestment yields on our fixed maturity securities portfolio due to the low interest rate environment.

Non-Life Insurance Companies

For the Non-Life 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 Non-Life Insurance Companies focuses on growth of surplus and preservation of capital, subject to liability and other business considerations.

The Non-Life 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 Non-Life 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 Non-Life Insurance

Companies' liquidity, duration and credit quality objectives as well as current risk return and tax objectives.

In addition, the Non-Life 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. The Non-Life Insurance Companies' investment portfolio also includes, to a lesser extent, equity securities.

With respect to non-affiliate over the counter derivatives, the Non-Life Insurance Companies conduct business with highly rated counterparties and do not expect the counterparties to fail to meet their obligations under the contracts. The Non-Life Insurance Companies have controls in place to monitor credit exposures by limiting transactions with specific counterparties within specified dollar limits and assessing the creditworthiness of counterparties periodically. The Non-Life Insurance Companies generally use ISDA Master Agreements and Credit Support Annexes (CSAs) with bilateral collateral provisions to reduce counterparty credit exposures.

Fixed maturity investments of the Non-Life Insurance Companies domestic operations, with an intermediate duration of 4.7 years, are currently comprised primarily of tax-exempt securities, which provide attractive risk-adjusted after-tax returns, as well as taxable municipal bonds, government and agency bonds, and corporate bonds. The majority of these high quality investments are rated A or higher based on composite ratings.

Fixed maturity investments held in the Non-Life Insurance Companies foreign operations are of high quality, primarily rated A or higher based on composite ratings, and short to intermediate duration, averaging 3.2 years.

Life Insurance Companies

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

The Life Insurance Companies use asset liability management as a primary tool to monitor and manage risk in their businesses. The Life Insurance Companies' fundamental investment strategy is to maintain a diversified, high quality portfolio of fixed maturity securities that, to the extent possible, 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.

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

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

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

Fixed maturity investments of the Life Insurance Companies domestic operations, with an intermediate duration of 6.6 years, are comprised of taxable corporate bonds, as well as taxable municipal and government bonds, and agency and non agency structured securities. The majority of these investments are held in the available for sale portfolio and are rated investment grade based on its composite ratings.

Fixed maturity investments held in the Life Insurance Companies foreign operations are of high quality, primarily rated A or higher based on composite ratings, and intermediate to long duration, averaging 13.7 years.

TABLE OF CONTENTS

Item 7 / INVESTMENTS

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 Life Insurance Companies fixed maturity security portfolio by NAIC Designation, and the distribution by composite AIG credit rating, which is generally based on ratings of the three major rating agencies. See Investments – Credit Ratings herein for a full description of the composite AIG credit ratings.

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

December 31, 2015
(in millions)

NAIC Designation	1	2	Total Investment Grade	3	4	5	6	Inves
Other fixed maturity securities	$44,714	$58,029	$ 102,743	$4,801	$2,739	$413	$133	$
Mortgage-backed, asset-backed and collateralized	42,411	2,091	44,502	239	181	29	471	
Total*	$87,125	$60,120	$ 147,245	$5,040	$2,920	$442	$604	$

* Excludes $4.5 billion of fixed maturity securities for which no NAIC Designation is available because they are not held in legal entities within Life Insurance Companies that require a statutory filing.

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

December 31, 2015
(in millions)

	Total Investment	CCC and

Composite AIG Credit Rating		AAA/AA/A	BBB	Grade	BB	B	Lower
Other fixed maturity securities	$	44,758$	58,156$	102,914 $	4,692$	2,808$	415$
Mortgage-backed, asset-backed and collateralized		26,312	3,352	29,664	1,266	1,033	13,459
Total*	$	71,070$	61,508$	132,578 $	5,958$	3,841$	13,874$

* Excludes $4.5 billion of fixed maturity securities for which no NAIC Designation is available because they are not held in legal entities within Life Insurance Companies that require a statutory filing.

Credit Ratings

At December 31, 2015, approximately 90 percent of our fixed maturity securities were held by our domestic entities. Approximately 16 percent of such securities were rated AAA by one or more of the principal rating agencies, and approximately 17 percent were rated below investment grade or not rated. Our investment decision process relies primarily on internally generated fundamental analysis and internal risk ratings. Third-party rating services' ratings and opinions provide one source of independent perspective for consideration in the internal analysis.

TABLE OF CONTENTS

Item 7 / INVESTMENTS

A significant portion of our foreign entities' fixed maturity securities portfolio is rated by Moody's Investors' Service Inc. (Moody's), Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. (S&P), or similar foreign rating services. Rating services are not available for some foreign-issued securities. Our Credit Risk Management department closely reviews the credit quality of the foreign portfolio's non-rated fixed maturity securities. At December 31, 2015, approximately 16 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 5 percent were below investment grade or not rated. Approximately 44 percent of the foreign entities' fixed maturity securities portfolio is comprised of sovereign fixed maturity securities supporting policy liabilities in the country of issuance.

Composite AIG Credit Ratings

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

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

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

	Available for Sale		Other		Total	
(in millions)	**December 31, 2015**	December 31, 2014	**December 31, 2015**	December 31, 2014	**December 31, 2015**	December 31, 2014
Rating:						
Other fixed maturity securities						
AAA	$ **12,274**	$ 15,463	$ **3,222**	$ 5,322	$ **15,496**	$ 20,785
AA	**35,344**	36,730	**207**	224	**35,551**	36,954
A	**50,741**	56,693	**1,781**	242	**52,522**	56,935
BBB	**71,766**	75,607	**186**	250	**71,952**	75,857
Below investment grade	**12,305**	10,651	**133**	303	**12,438**	10,954
Non-rated	**920**	1,035	**-**	-	**920**	1,035
Total	$ **183,350**	$ 196,179	$ **5,529**	$ 6,341	$ **188,879**	$ 202,520
Mortgage-backed, asset-backed and collateralized						

AAA	$ 26,382	$ 24,783	$ 1,756	$ 2,313	$ 28,138	$ 27,096
AA	5,003	4,078	708	1,549	5,711	5,627
A	7,462	7,606	416	494	7,878	8,100
BBB	4,394	3,813	497	620	4,891	4,433
Below investment grade	21,638	23,376	7,771	8,314	29,409	31,690
Non-rated	16	24	105	81	121	105
Total	$ 64,895	$ 63,680	$ 11,253	$ 13,371	$ 76,148	$ 77,051
Total						
AAA	$ 38,656	$ 40,246	$ 4,978	$ 7,635	$ 43,634	$ 47,881
AA	40,347	40,808	915	1,773	41,262	42,581
A	58,203	64,299	2,197	736	60,400	65,035
BBB	76,160	79,420	683	870	76,843	80,290
Below investment grade	33,943	34,027	7,904	8,617	41,847	42,644
Non-rated	936	1,059	105	81	1,041	1,140
Total	$ 248,245	$ 259,859	$ 16,782	$ 19,712	$ 265,027	$ 279,571

TABLE OF CONTENTS

Item 7 / INVESTMENTS

Available for Sale Investments

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

(in millions)		Fair Value at December 31, 2015		Fair Value at December 31, 2014
Bonds available for sale:				
U.S. government and government sponsored entities	$	1,844	$	2,992
Obligations of states, municipalities and political subdivisions		27,323		27,659
Non-U.S. governments		18,195		21,095
Corporate debt		135,988		144,433
Mortgage-backed, asset-backed and collateralized:				
RMBS		36,227		37,520
CMBS		13,571		12,885
CDO/ABS		15,097		13,275
Total mortgage-backed, asset-backed and collateralized		64,895		63,680
Total bonds available for sale*		248,245		259,859
Equity securities available for sale:				
Common stock		2,401		3,629
Preferred stock		22		25
Mutual funds		492		741
Total equity securities available for sale		2,915		4,395
Total	$	251,160	$	264,254

* At December 31, 2015 and 2014, the fair value of bonds available for sale held by us that were below investment grade or not rated totaled $34.9 billion and $35.1 billion, respectively.

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

(in millions)		December 31, 2015		December 31, 2014
Japan	$	5,416	$	5,728
Canada		1,453		2,181
Germany		832		1,315
France		784		614
United Kingdom		661		648
Mexico		563		661

Netherlands	**511**	639
Norway	**503**	619
Singapore	**426**	545
Chile	**386**	395
Other	**6,710**	7,752
Total	**$ 18,245**	$ 21,097

118

Property Casualty Net Premiums Written by Region

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

	December 31, 2015					December 31, 2014
(in millions)	Sovereign	Financial Institution	Non-Financial Corporates	Structured Products	Total	Total
Euro-Zone countries:						
France	$ 784	$ 1,215	$ 2,019	$ -	$ 4,018	$ 4,498
Netherlands	511	991	1,505	397	3,404	4,276
Germany	832	285	2,227	21	3,365	4,155
Ireland	2	-	598	674	1,274	850
Spain	29	90	968	15	1,102	1,557
Italy	19	115	863	12	1,009	1,245
Belgium	219	120	516	-	855	973
Luxembourg	-	18	448	30	496	243
Finland	65	34	130	-	229	235
Austria	104	3	17	-	124	155
Other - EuroZone	680	48	200	1	929	1,022
Total Euro-Zone	$ 3,245	$ 2,919	$ 9,491	$ 1,150	$ 16,805	$ 19,209
Remainder of Europe						
United Kingdom	$ 661	$ 2,968	$ 8,015	$ 3,642	$ 15,286	$ 16,076
Switzerland	49	1,195	1,275	-	2,519	2,941
Sweden	144	488	195	-	827	1,135
Norway	503	43	142	-	688	846
Russian Federation	36	8	78	-	122	311
Other - Remainder of Europe	198	119	111	15	443	494
Total - Remainder of Europe	$ 1,591	$ 4,821	$ 9,816	$ 3,657	$ 19,885	$ 21,803
Total	$ 4,836	$ 7,740	$ 19,307	$ 4,807	$ 36,690	$ 41,012

Investments in Municipal Bonds

At December 31, 2015, the U.S. municipal bond portfolio was composed primarily of essential service revenue bonds and high-quality tax-backed bonds with over 95 percent of the portfolio rated A or higher.

TABLE OF CONTENTS

Item 7 / INVESTMENTS

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

	December 31, 2015				
(in millions)	State General Obligation	Local General Obligation	Revenue	Total Fair Value	December 31, 2014 Total Fair Value
State:					
New York	$ 35	$ 620	$ 3,958	$ 4,613	$ 4,116
California	663	610	2,568	3,841	4,707
Texas	328	1,534	1,553	3,415	3,356
Illinois	111	367	1,008	1,486	1,364
Massachusetts	693	-	694	1,387	1,417
Washington	530	144	685	1,359	1,278
Florida	155	-	980	1,135	1,052
Virginia	65	5	808	878	918
Georgia	280	243	347	870	819
Washington DC	156	1	548	705	607
Pennsylvania	269	23	384	676	537
Arizona	-	94	482	576	734
Ohio	128	8	395	531	604
All other states(a)	1,061	547	4,243	5,851	6,150
Total(b)(c)	$ 4,474	$ 4,196	$ 18,653	$ 27,323	$ 27,659

(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 $2.9 billion of pre-refunded municipal bonds.

Investments in Corporate Debt Securities

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

Industry Category *(in millions)*	**Fair Value at December 31, 2015**	Fair Value at December 31, 2014
Financial institutions:		
Money Center /Global Bank Groups	$ 9,104	$ 10,682

Regional banks — other	**568**	543
Life insurance	**3,295**	3,575
Securities firms and other finance companies	**380**	422
Insurance non-life	**5,421**	5,625
Regional banks — North America	**6,823**	6,636
Other financial institutions	**7,808**	8,169
Utilities[(a)]	**18,497**	19,249
Communications	**10,251**	10,316
Consumer noncyclical	**15,391**	16,792
Capital goods	**8,973**	8,594
Energy[(a)]	**13,861**	16,494
Consumer cyclical	**9,767**	11,197
Basic	**7,512**	9,187
Other	**18,337**	16,952
Total [(b)]	**$ 135,988**	$ 144,433

(a) The Utilities and Energy amounts at December 31, 2014, have been revised from $23.7 billion and $12.0 billion to $19.2 billion and $16.5 billion, respectively, to conform to current industry classification, which are not considered material to previously issued financial statements.

120

TABLE OF CONTENTS

Item 7 / INVESTMENTS

(b) At December 31, 2015 and December 31, 2014, approximately 91 percent and 93 percent, respectively, of these investments were rated investment grade.

Our investments in the energy category, as a percentage of total investments in available-for-sale fixed maturities, were 5.6 percent and 6.4 percent at December 31, 2015 and 2014, respectively. The decline in energy exposure from December 31, 2014 resulted from unrealized losses due to reduction in the energy sector pricing, sales of securities and other-than-temporary impairments. While the energy investments are primarily investment grade and are actively managed, the category continues to experience volatility that could adversely affect credit quality and fair value.

Investments in RMBS

The following table presents AIG's RMBS available for sale investments by year of vintage:

(in millions)	Fair Value at December 31, 2015	Fair Value at December 31, 2014
Total RMBS		
2015	$ 2,273	$ -
2014	1,096	871
2013	2,178	2,724
2012	1,944	2,382
2011	4,800	5,310
2010 and prior*	23,936	26,233
Total RMBS	$ 36,227	$ 37,520
Agency		
2015	$ 2,025	$ -
2014	1,000	799
2013	2,094	2,625
2012	1,877	2,234
2011	2,927	3,428
2010 and prior	2,628	3,324
Total Agency	$ 12,551	$ 12,410
Alt-A		
2015	-	-
2014	-	-
2013	-	-
2012	-	-
2011	$ -	$ -
2010 and prior	12,831	13,001

Total Alt-A	**$**	**12,831**	$	13,001
Subprime				
2015		**-**		-
2014		**-**		-
2013		**-**		-
2012		**-**		-
2011		**-**		-
2010 and prior	**$**	**2,376**	$	2,423
Total Subprime	**$**	**2,376**	$	2,423

Prime non-agency		
2015	$ -	$ -
2014	-	-
2013	8	8
2012	53	126
2011	1,873	1,882
2010 and prior	5,716	7,047
Total Prime non-agency	$ 7,650	$ 9,063
Total Other housing related	$ 819	$ 623

* Includes approximately $13.2 billion and $13.5 billion at December 31, 2015, and December 31, 2014, respectively, of certain RMBS that had experienced deterioration in credit quality since their origination. See Note 5 to the Consolidated Financial Statements for additional discussion on Purchased Credit Impaired (PCI) Securities.

The following table presents our RMBS available for sale investments by credit rating:

(in millions)	Fair Value at December 31, 2015	Fair Value at December 31, 2014
Rating:		
Total RMBS		
AAA	$ 14,884	$ 14,699
AA	389	418
A	509	546
BBB	661	911
Below investment grade[(a)]	19,779	20,937
Non-rated	5	9
Total RMBS[(b)]	$ 36,227	$ 37,520
Agency RMBS		
AAA	$ 12,547	$ 12,405
AA	4	5
Total Agency	$ 12,551	$ 12,410
Alt-A RMBS		
AAA	$ 5	$ 7
AA	17	33
A	121	85
BBB	216	317
Below investment grade[(a)]	12,472	12,559
Total Alt-A	$ 12,831	$ 13,001
Subprime RMBS		
AAA	$ 15	$ 18
AA	68	117

A		**247**		252
BBB		**200**		207
Below investment grade[(a)]		**1,846**		1,829
Total Subprime	**$**	**2,376**	$	2,423
Prime non-agency				
AAA	**$**	**1,986**	$	2,076
AA		**188**		253
A		**138**		205
BBB		**209**		351
Below investment grade[(a)]		**5,124**		6,169
Non-rated		**5**		9
Total prime non-agency	**$**	**7,650**	$	9,063
Total Other housing related	**$**	**819**	$	623

122

TABLE OF CONTENTS

Item 7 / INVESTMENTS

(a) Includes certain RMBS that had experienced deterioration in credit quality since their origination. See Note 5 to the Consolidated Financial Statements for additional discussion on PCI Securities.

(b) The weighted average expected life was six years at both December 31, 2015 and December 31, 2014.

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

Investments in CMBS

The following table presents our CMBS available for sale investments:

(in millions)	**Fair Value at December 31, 2015**	Fair Value at December 31, 2014
CMBS (traditional)	**$ 11,132**	$ 11,265
Agency	**1,622**	1,372
Other	**817**	248
Total	**$ 13,571**	$ 12,885

The following table presents the fair value of our CMBS available for sale investments by rating agency designation and by vintage year:

(in millions)	AAA	AA	A	BBB	Below Investment Grade	Non-Rated	Total
December 31, 2015							
Year:							
2015	**$ 824**	**$ 404**	**$ 465**	**$ 240**	**$ -**	**$ -**	**$ 1,933**
2014	**1,604**	**183**	**11**	**-**	**-**	**-**	**1,798**
2013	**2,611**	**433**	**89**	**54**	**-**	**-**	**3,187**
2012	**737**	**60**	**31**	**83**	**-**	**10**	**921**
2011	**1,015**	**25**	**31**	**21**	**-**	**-**	**1,092**
2010 and prior	**921**	**700**	**635**	**738**	**1,646**	**-**	**4,640**
Total	**$ 7,712**	**$ 1,805**	**$ 1,262**	**$ 1,136**	**$ 1,646**	**$ 10**	**$ 13,571**
December 31, 2014							
Year:							
2014	$ 1,570	$ 183	$ 11	$ -	$ -	$ -	$ 1,764
2013	2,684	442	91	58	-	-	3,275

2012	1,158	61	28	92	-	12	1,351
2011	1,022	20	37	21	-	-	1,100
2010 and prior	1,119	626	814	843	1,993	-	5,395
Total	$ 7,553	$ 1,332	$ 981	$ 1,014	$ 1,993	$ 12	$ 12,885

TABLE OF CONTENTS

Item 7 / INVESTMENTS

The following table presents our CMBS available for sale investments by geographic region:

(in millions)	Fair Value at December 31, 2015	Fair Value at December 31, 2014
Geographic region:		
New York	$ 3,149	$ 2,759
California	1,244	1,305
Texas	791	831
Florida	520	562
New Jersey	433	457
Virginia	362	389
Illinois	323	344
Pennsylvania	295	291
Georgia	253	286
Massachusetts	231	247
Maryland	229	222
North Carolina	218	222
All Other*	5,523	4,970
Total	$ 13,571	$ 12,885

* Includes Non-U.S. locations.

The following table presents our CMBS available for sale investments by industry:

(in millions)	Fair Value at December 31, 2015	Fair Value at December 31, 2014
Industry:		
Retail	$ 3,978	$ 3,700
Office	3,896	3,652
Multi-family*	3,036	2,889
Lodging	1,005	1,127
Industrial	868	679
Other	788	838
Total	$ 13,571	$ 12,885

* Includes Agency-backed CMBS.

The fair value of CMBS holdings remained stable throughout 2015. 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.

TABLE OF CONTENTS

Item 7 / INVESTMENTS

Investments in CDOs

The following table presents our CDO available for sale investments by collateral type:

(in millions)	Fair value at December 31, 2015	Fair value at December 31, 2014
Collateral Type:		
Bank loans (CLO)	$ 7,962	$ 6,683
Other	153	388
Total	$ 8,115	$ 7,071

The following table presents our CDO available for sale investments by credit rating:

(in millions)	Fair Value at December 31, 2015	Fair Value at December 31, 2014
Rating:		
AAA	$ 2,870	$ 1,922
AA	2,543	2,135
A	2,247	2,317
BBB	298	366
Below investment grade	157	331
Total	$ 8,115	$ 7,071

Commercial Mortgage Loans

At December 31, 2015, we had direct commercial mortgage loan exposure of $22.1 billion of which, approximately 99 percent of the loans were current.

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

		Class							
(dollars in millions)	Number of Loans	Apartments	Offices	Retail	Industrial	Hotel	Others	Total	Percent of Total
December 31, 2015									
State:									
New York	97	$ 823	$ 2,968	$ 516	$ 301	$ 166	$ 186	$ 4,960	22%
California	95	87	547	433	533	788	308	2,696	12
Texas	60	120	696	106	147	187	48	1,304	6

New Jersey	45	441	338	324	-	29	33	1,165	5
Florida	78	187	113	374	116	20	146	956	4
Illinois	21	174	369	21	32	36	23	655	3
Massachusetts	19	56	168	360	-	-	33	617	3
Connecticut	20	314	152	23	81	-	-	570	3
Pennsylvania	28	6	29	436	62	27	4	564	3
Ohio	37	122	28	211	67	-	5	433	2
Other states	302	1,118	1,203	1,514	414	595	229	5,073	23
Foreign	47	471	1,234	520	161	250	438	3,074	14
Total*	849	$ 3,919	$ 7,845	$ 4,838	$ 1,914	$ 2,098	$ 1,453	$ 22,067	100%

TABLE OF CONTENTS

Item 7 / INVESTMENTS

December 31, 2014									
State:									
New York	90	$ 545	$ 2,111	$ 285	$ 148	$ 68	$ 215	$ 3,372	18%
California	115	29	635	389	472	597	469	2,591	14
New Jersey	48	490	353	308	-	30	74	1,255	7
Florida	89	141	192	335	118	137	161	1,084	6
Texas	58	62	482	121	171	187	54	1,077	6
Illinois	24	175	327	26	73	36	-	637	3
Massachusetts	19	-	198	321	-	-	34	553	3
Colorado	18	62	158	48	-	120	101	489	2
Connecticut	23	279	155	5	43	-	-	482	2
Pennsylvania	49	45	89	170	107	16	5	432	2
Other states	349	920	1,140	1,738	494	310	281	4,883	26
Foreign	142	636	678	78	63	176	423	2,054	11
Total*	1,024	$ 3,384	$ 6,518	$ 3,824	$ 1,689	$ 1,677	$ 1,817	$ 18,909	100%

* Does not reflect allowance for credit losses.

See Note 6 to the Consolidated Financial Statements for additional discussion on commercial mortgage loans.

Impairments

The following table presents impairments by investment type:

Years Ended December 31, *(in millions)*	2015	2014	2013
Other-than-temporary Impairments:			
Fixed maturity securities, available for sale	**$ 425**	$ 180	$ 173
Equity securities, available for sale	**166**	37	14
Private equity funds and hedge funds	**80**	30	45
Subtotal	**671**	247	232
Other impairments:			
Investments in life settlements	**540**	201	971
Other investments	**166**	126	112
Real estate	**23**	8	19
Total	**$ 1,400**	$ 582	$ 1,334

Our investments in life settlements are monitored for impairment on a contract-by-contract basis quarterly.

An investment in life settlements is considered impaired if the undiscounted cash flows resulting from the expected proceeds would not be sufficient to recover our estimated future carrying amount, which is the current carrying amount for the investment in life settlements plus anticipated undiscounted future premiums and other capitalizable future costs, if any. Impaired investments in life settlements are written down to their estimated fair value which is determined on a discounted cash flow basis, incorporating current market mortality assumptions and market yields.

In late 2015, several insurance providers gave notice of increases in policy premiums related to our investments in life settlements. The increase in premiums required to keep policies in force results in lower future expected net cash flows which are insufficient to recover our net investment on certain policies.

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.

TABLE OF CONTENTS

Item 7 / INVESTMENTS

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 reportable segment and impairment type:

(in millions)	Non-Life Insurance Companies	Life Insurance Companies	Corporate and Other Operations	Total
For the Year Ended December 31, 2015				
Impairment Type:				
Severity	**$ 13**	**$ -**	**$ -**	**$ 13**
Change in intent	**7**	**145**	**81**	**233**
Foreign currency declines	**33**	**24**	**-**	**57**
Issuer-specific credit events	**178**	**168**	**2**	**348**
Adverse projected cash flows	**7**	**13**	**-**	**20**
Total	**$ 238**	**$ 350**	**$ 83**	**$ 671**
For the Year Ended December 31, 2014				
Impairment Type:				
Severity	$ 3	$ -	$ -	$ 3
Change in intent	8	32	-	40
Foreign currency declines	9	10	-	19
Issuer-specific credit events	60	109	-	169
Adverse projected cash flows	5	11	-	16
Total	$ 85	$ 162	$ -	$ 247
For the Year Ended December 31, 2013				
Impairment Type:				
Severity	$ 6	$ -	$ -	$ 6
Change in intent	1	45	2	48
Foreign currency declines	1	-	-	1
Issuer-specific credit events	43	127	-	170
Adverse projected cash flows	1	6	-	7
Total	$ 52	$ 178	$ 2	$ 232

Other-than-temporary impairment charges by investment type and impairment type:

(in millions)	RMBS	CDO/ABS	CMBS	Other Fixed Maturity	Equities/Other Invested Assets*	Total
For the Year Ended December 31, 2015						
Impairment Type:						
Severity	**$ -**	**$ -**	**$ -**	**$ -**	**$ 13**	**$ 13**
Change in intent	**3**	**-**	**14**	**131**	**85**	**233**

Foreign currency declines	-	-	-	57	-	57
Issuer-specific credit events	79	3	8	110	148	348
Adverse projected cash flows	20	-	-	-	-	20
Total	$ 102	$ 3	$ 22	$ 298	$ 246	$ 671

127

Item 7 / INVESTMENTS

For the Year Ended December 31, 2014						
Impairment Type:						
Severity	$ -	$ -	$ -	$ -	$ 3	$ 3
Change in intent	-	-	-	27	13	40
Foreign currency declines	-	-	-	19	-	19
Issuer-specific credit events	80	9	21	8	51	169
Adverse projected cash flows	16	-	-	-	-	16
Total	$ 96	$ 9	$ 21	$ 54	$ 67	$ 247
For the Year Ended December 31, 2013						
Impairment Type:						
Severity	$ -	$ -	$ -	$ -	$ 6	$ 6
Change in intent	1	-	-	46	1	48
Foreign currency declines	-	-	-	1	-	1
Issuer-specific credit events	36	5	50	27	52	170
Adverse projected cash flows	7	-	-	-	-	7
Total	$ 44	$ 5	$ 50	$ 74	$ 59	$ 232

* Includes other-than-temporary impairment charges on private equity funds, hedge funds and direct private equity investments.

Other-than-temporary impairment charges by investment type and credit rating:

(in millions)	RMBS	CDO/ABS	CMBS	Other Fixed Maturity	Equities/Other Invested Assets*	Total
For the Year Ended December 31, 2015						
Rating:						
AAA	**$ -**	**$ -**	**$ -**	**$ 12**	**$ -**	**$ 12**
AA	**-**	**-**	**-**	**12**	**-**	**12**
A	**-**	**-**	**-**	**12**	**-**	**12**
BBB	**2**	**-**	**-**	**50**	**-**	**52**
Below investment grade	**100**	**3**	**22**	**208**	**-**	**333**
Non-rated	**-**	**-**	**-**	**4**	**246**	**250**
Total	**$ 102**	**$ 3**	**$ 22**	**$ 298**	**$ 246**	**$ 671**
For the Year Ended December 31, 2014						
Rating:						
AAA	$ -	$ -	$ -	$ 4	$ -	$ 4
AA	3	-	-	2	-	5
A	-	-	-	2	-	2
BBB	2	-	-	11	-	13
Below investment grade	91	5	21	35	-	152
Non-rated	-	4	-	-	67	71

Total	$ 96	$ 9	$ 21	$ 54	$ 67	$ 247
For the Year Ended December 31, 2013						
Rating:						
AAA	$ 1	$ -	$ -	$ -	$ -	$ 1
AA	2	-	-	-	-	2
A	1	-	-	-	-	1
BBB	1	-	-	44	-	45
Below investment grade	39	5	50	29	-	123
Non-rated	-	-	-	1	59	60
Total	$ 44	$ 5	$ 50	$ 74	$ 59	$ 232

* Includes other-than-temporary impairment charges on private equity funds, hedge funds and direct private equity investments.

Item 7 / INVESTMENTS

We recorded other-than-temporary impairment charges in the years ended December 31, 2015, 2014 and 2013 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 $735 million in 2015, $725 million in 2014 and $774 million in 2013. See Note 6 to the Consolidated Financial Statements for a discussion of our other-than-temporary impairment accounting policy.

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

December 31, 2015	Less Than or Equal to 20% of Cost[b]			Greater Than 20% to 50% of Cost[b]			Greater Than 50% of Cost[b]			Total		
Aging[a] *(dollars in millions)*	Cost[c]	Unrealized Loss	Items[e]	Cost[c]	Unrealized Loss	Items[e]	Cost[c]	Unrealized Loss	Items[e]	Cost[c]	Unrealized Loss[d]	Item
Investment grade bonds												
0-6 months	$35,961	$ 815	5,516	$ 408	$ 115	82	$ -	$ -	-	$36,369	$ 930	5,5
7-11 months	23,134	1,342	3,594	1,061	275	201	-	-	-	24,195	1,617	3,7
12 months or more	6,883	501	938	2,363	733	183	21	13	6	9,267	1,247	1,1
Total	$65,978	$2,658	10,048	$ 3,832	$1,123	466	$ 21	$ 13	6	$69,831	$ 3,794	10,5
Below investment grade bonds												
0-6 months	$ 6,024	$ 199	2,341	$ 567	$ 168	100	$ 17	$ 11	13	$ 6,608	$ 378	2,4
7-11 months	2,706	168	814	199	59	132	7	6	3	2,912	233	9
12 months or more	5,164	324	766	871	278	200	385	243	83	6,420	845	1,0
Total	$13,894	$ 691	3,921	$ 1,637	$ 505	432	$ 409	$ 260	99	$15,940	$ 1,456	4,4

Total bonds												
0-6 months	$41,985	$1,014	7,857	$ 975	$ 283	182	$ 17	$ 11	13	$42,977	$ 1,308	8,0
7-11 months	25,840	1,510	4,408	1,260	334	333	7	6	3	27,107	1,850	4,7
12 months or more	12,047	825	1,704	3,234	1,011	383	406	256	89	15,687	2,092	2,1
Total[(e)]	$79,872	$3,349	13,969	$ 5,469	$1,628	898	$ 430	$ 273	105	$85,771	$ 5,250	14,9
Equity securities												
0-11 months	$ 280	$ 13	124	$ 35	$ 11	50	$ -	$ -	-	$ 315	$ 24	1
Total	$ 280	$ 13	124	$ 35	$ 11	50	$ -	$ -	-	$ 315	$ 24	1

(a) Represents the number of consecutive months that fair value has been less than cost by any amount.

(b) Represents the percentage by which fair value is less than cost at December 31, 2015.

(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.

TABLE OF CONTENTS

Item 7 / INVESTMENTS

Change in Unrealized Gains and Losses on Investments

The change in net unrealized gains and losses on investments in 2015 was primarily attributable to decreases in the fair value of fixed maturity securities. For 2015, net unrealized gains related to fixed maturity and equity securities decreased by $10.2 billion due primarily to the rise in rates, widening of credit spreads, and the sale of equity securities.

The change in net unrealized gains and losses on investments in 2014 was primarily attributable to increases in the fair value of fixed maturity securities. For 2014, net unrealized gains related to fixed maturity and equity securities increased by $7.3 billion due to a decrease in interest rates on investment grade fixed maturity securities, partially offset by the widening of spreads.

See also Note 5, Investments to the Consolidated Financial Statements for further discussion of our investment portfolio.

The following section provides discussion of insurance reserves for both the Non-Life Insurance Companies and the Life Insurance Companies, including Eaglestone Reinsurance Company, which is reported in Corporate and Other.

Non-Life Insurance Companies

The following section provides discussion of the consolidated liability for unpaid losses and loss adjustment expenses for the Non-Life Insurance Companies.

The following table presents the components of AIG's gross loss reserves by major lines of business on a U.S. statutory basis[(a)]:

At December 31, *(in millions)*	2015	2014[(b)]
Other liability occurrence (including asbestos and environmental)	$ 24,856	$ 24,988
Workers' compensation (net of discount)	14,978	16,014
Other liability claims made	14,006	13,632
Property	5,823	6,350
Auto liability	4,692	4,814
Accident and health	1,783	1,972

Products liability	**1,681**	1,678
Medical malpractice	**1,603**	1,520
Aircraft	**1,286**	1,340
Mortgage guaranty / credit	**733**	1,008
Other	**3,501**	3,944
Total	**$ 74,942**	$ 77,260
Total U.S. & Canada	**$ 58,890**	$ 58,729
Total International [(c)]	**$ 16,052**	$ 18,531

(a) Presented by lines of business pursuant to statutory reporting requirements as prescribed by the NAIC.

(b) 2014 reflects the reclassification of International reserves to major lines of business.

(c) The decrease was primarily the effect of foreign exchange on gross reserves, a payment on a large loss, and the net of other claim payments and reserve movements.

Property Casualty Net Premiums Written by Region

TABLE OF CONTENTS

Item 7 / insurance reserves / NON-LIFE INSURANCE COMPANIES

Gross loss reserves represent the accumulation of estimates of ultimate losses, including estimates for IBNR and loss expenses, less estimated salvage and subrogation and applicable discount. The Non-Life Insurance Companies regularly review and update the methods and assumptions used to determine loss reserve estimates and to establish the resulting reserves. Any adjustments resulting from this review are reflected in pre tax operating income. Because loss reserve estimates are subject to the outcome of future events, changes in estimates are unavoidable given that loss trends vary and time is often required for changes in trends to be recognized and confirmed. Reserve changes that increase prior years' estimates of ultimate cost are referred to as unfavorable or adverse development or reserve strengthening. Reserve changes that decrease prior years' estimates of ultimate cost are referred to as favorable development. See MD&A Critical Accounting Estimates – Details of the Loss Reserving Process.

Net loss reserves represent gross loss reserves reduced by reinsurance recoverable, net of an allowance for unrecoverable reinsurance.

The following table presents the components of net loss reserves:

December 31, *(in millions)*	**2015**	2014
Gross loss reserves before reinsurance and discount	**$ 78,090**	$ 80,337
Less: discount	**(3,148)**	(3,077)
Gross loss reserves, net of discount, before reinsurance	**74,942**	77,260
Less: reinsurance recoverable*	**(14,339)**	(15,648)
Net liability for unpaid losses and loss adjustment expenses	**$ 60,603**	$ 61,612

* Includes $1.8 billion and $1.5 billion of reinsurance recoverable under a retroactive reinsurance agreement at December 31, 2015, and December 31, 2014, respectively.

Gross loss reserves before reinsurance and discount are net of contractual deductible recoverable amounts due from policyholders of approximately $12.6 billion and $12.4 billion at December 31, 2015 and 2014, respectively. These recoverable amounts are related to certain policies with high deductibles (meaning, the policy attachment point is above 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 deductible portion of the claim the Non-Life Insurance Companies manage and pay the entire claim on behalf of the insured and are reimbursed by the insured for the deductible portion of the claim. At December 31, 2015 and 2014, the Non-Life Insurance Companies held collateral of approximately $9.6 billion and $9.4 billion, respectively, for these deductible recoverable amounts, consisting primarily of letters of credit and assets in trusts.

The following table classifies the components of net loss reserves by business unit:

December 31,

(in millions)		**2015**		2014
Commercial Property Casualty:				
Casualty	$	**32,620**	$	33,065
Financial lines		**9,265**		9,538
Specialty		**5,197**		5,786
Property		**4,013**		4,079
Total Commercial Property Casualty		**51,095**		52,468
Commercial Mortgage Guaranty		**713**		977
Consumer Personal Insurance				
Personal lines		**2,661**		2,763
Accident and health		**1,662**		1,878
Total Consumer Personal Insurance		**4,323**		4,641
Other run-off insurance lines*		**4,472**		3,526
Net liability for unpaid losses and loss adjustment expenses	$	**60,603**	$	61,612

TABLE OF CONTENTS

Item 7 / insurance reserves / NON-LIFE INSURANCE COMPANIES

* In 2015, $1.2 billion of loss reserves for certain environmental liability, healthcare, casualty, and specialty coverages, previously reported in Commercial Casualty and Specialty lines of business, were transferred to other run-off insurance lines.

Discounting of Reserves

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

December 31,	**2015**			2014		
(in millions)	**Property Casualty**	**Run-off Insurance Lines**	**Total**	Property Casualty	Run-off Insurance Lines	Total
U.S. workers' compensation:						
Tabular	**$ 635**	**$ 218**	**$ 853**	$ 623	$ 229	$ 852
Non-tabular	**1,542**	**746**	**2,288**	1,525	689	2,214
Asbestos	**-**	**7**	**7**	-	11	11
Total reserve discount	**$ 2,177**	**$ 971**	**$ 3,148**	$ 2,148	$ 929	$ 3,077

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

Years Ended December 31,	**2015**			2014			2013	
(in millions)	**Property Casualty**	**Run-off Insurance Lines**	**Total**	Property Casualty	Run-off Insurance Lines	Total	Property Casualty	Run-off Insurance Lines
Current accident year	**$ 182**	**$ -**	**$ 182**	$ 189	$ -	$ 189	$ 175	$ - $
Accretion and other adjustments to prior year discount	**(262)**	**(74)**	**(336)**	(145)	(235)	(380)	(225)	102
Effect of interest rate changes	**148**	**77**	**225**	(225)	(172)	(397)	(272)	529
Effect of re-pooling	**-**	**-**	**-**	110	-	110	-	-
Net reserve discount benefit (charge)	**68**	**3**	**71**	(71)	(407)	(478)	(322)	631
Amount transferred to run-off insurance lines	**(39)**	**39**	**-**	-	-	-	-	-
Net change in total reserve discount	**$ 29**	**$ 42**	**$ 71**	$ (71)	$ (407)	$ (478)	$ (322)	$ 631 $
Comprised of:								
U.S. Workers' compensation	**$ 29**	**$ 46**	**$ 75**	$ (71)	$ (385)	$ (456)	$ (322)	$ 649 $
Asbestos	**$ -**	**$ (4)**	**$ (4)**	$ -	$ (22)	$ (22)	$ -	$ (18) $

U.S. Workers' Compensation

The Non-Life Insurance Companies discount certain workers' compensation reserves in accordance with practices prescribed or permitted by New York, Pennsylvania and Delaware. New York rules generally do not permit non-tabular discounting on IBNR and prescribe a fixed 5 percent discount rate for application to case reserves. Pennsylvania permits non-tabular discounting of IBNR and, commencing in 2013, approved variable discount rates determined using risk-free rates based on the U.S. Treasury forward yield curve plus a liquidity margin, applicable to IBNR and case reserves. Delaware has permitted discounting on the same basis as the Pennsylvania domiciled companies.

The net increase in workers' compensation discount in 2015 of $75 million was partially due to the increase in forward yield curve rates used for discounting under the prescribed or permitted practices. The increase in the forward yield curve component of the discount rates resulted in a $225 million increase in the loss reserve discount, as Treasury rates generally increased along the payout pattern horizon in 2015. In addition, the effects of the discount attributable to newly established

TABLE OF CONTENTS

reserves for accident year 2015 increased the discount by $182 million in 2015. These increases were partially offset by a $332 million reduction for accident years 2014 and prior, primarily from accretion of discount on reserves during 2015.

On January 1, 2014, the Non-Life Insurance Companies merged their two internal pooling arrangements into one pool, and changed the participation percentages of the pool members resulting in a reallocation of reserves from New York domiciled companies to those domiciled in Pennsylvania and Delaware. As a result of these changes in the participation percentages and domiciliary states of the participants of the combined pool, the Non-Life Insurance Companies recognized a discount benefit of $110 million in the first quarter of 2014.

Annual Reserving Conclusion

AIG net loss reserves represent our best estimate of the liability for net losses and loss adjustment expenses as of December 31, 2015. While we regularly review the adequacy of established loss reserves, there can be no assurance that our recorded loss reserves will not develop adversely in future years and materially exceed our loss reserves as of December 31, 2015. In our opinion, such adverse development and resulting increase in reserves are not likely to have a material adverse effect on our consolidated financial condition, although such events could have a material adverse effect on our consolidated results of operations for an individual reporting period.

The following table presents the rollforward of net loss reserves:

Years Ended December 31, *(in millions)*	**2015**	2014	2013
Net liability for unpaid losses and loss adjustment expenses at beginning of year	**$ 61,612**	$ 64,316	$ 68,782
Foreign exchange effect	**(1,429)**	(1,061)	(617)
Other, including dispositions	**-**	-	(79)
Change due to retroactive asbestos reinsurance	**20**	141	22
Losses and loss adjustment expenses incurred:			
Current year, undiscounted	**20,308**	21,279	22,171
Prior years unfavorable development, undiscounted*	**4,119**	703	557
Change in discount	**(71)**	478	(309)
Losses and loss adjustment expenses incurred	**24,356**	22,460	22,419
Losses and loss adjustment expenses paid:			
Current year	**5,751**	6,358	7,431
Prior years	**18,205**	17,886	18,780
Losses and loss adjustment expenses paid	**23,956**	24,244	26,211
Net liability for unpaid losses and loss adjustment expenses			

at end of year	**$**	**60,603**	$	61,612	$	64,316

* See tables below for details of prior year development by business unit, accident year and major class of business.

TABLE OF CONTENTS

The following table summarizes development, (favorable) or unfavorable, of incurred losses and loss expenses for prior years, net of reinsurance, by business unit and major class of business:

Years Ended December 31, *(in millions)*	**2015**	2014	2013
Prior accident year development by major class of business:			
Commercial Property Casualty - U.S. & Canada:			
Excess casualty	**$ 1,529**	$ (36)	$ (144)
Financial lines including professional liability	**579**	(47)	(113)
On-going Environmental	**108**	137	151
Primary casualty:			
Loss-sensitive (offset by premium adjustments below)[(a)]	**(49)**	105	89
Other	**1,175**	445	409
Healthcare	**207**	109	(54)
Property excluding natural catastrophes	**(117)**	50	(80)
Natural catastrophes	**(52)**	(102)	179
All other, net	**6**	72	23
Total Commercial Property Casualty - U.S. & Canada	**3,386**	733	460
Commercial Property Casualty International:			
Excess casualty	**71**	(62)	(15)
Primary casualty	**89**	(5)	(25)
Financial lines	**47**	182	74
Specialty	**(5)**	(30)	(51)
Property excluding natural catastrophes	**(64)**	(82)	(3)
Natural catastrophes	**(44)**	(77)	(71)
All other, net	**-**	(4)	(14)
Total Commercial Property Casualty - International	**94**	(78)	(105)
Total Commercial Property Casualty	**3,480**	655	355
Commercial Mortgage Guaranty	**(69)**	(104)	30
Consumer Personal Insurance - U.S. & Canada:			
Natural catastrophes	**(12)**	(8)	(69)
All other, net	**(54)**	(44)	(46)
Total Consumer Personal Insurance - U.S. & Canada	**(66)**	(52)	(115)
Consumer Personal Insurance - International:			
Natural catastrophes	**2**	(8)	-
All other, net	**45**	(17)	(40)
Total Consumer Personal Insurance - International	**47**	(25)	(40)
Total Consumer Personal Insurance	**(19)**	(77)	(155)
Run-off Insurance Lines			
Asbestos and environmental (1986 and prior)	**281**	124	67
Run-off environmental	**132**	120	238
Run-off healthcare[(b)]	**50**	-	-

Other run-off	**272**	-	-
All other, net	**(8)**	(15)	22
Total Run-off Insurance Lines	**727**	229	327
Total prior year unfavorable development	**$ 4,119**	$ 703	$ 557
Premium adjustments on primary casualty loss sensitive business	**49**	(105)	(89)
Total prior year development, net of premium adjustments	**$ 4,168**	$ 598	$ 468

(a) Represents prior year development on active retrospectively rated components of risk-sharing policies.

(b) In 2015, includes $30 million of non-operating adverse prior year development.

134

TABLE OF CONTENTS

Net Loss Development

In determining the loss development from prior accident years, we consider and evaluate inputs from many sources, including actual claims data, the performance of prior reserve estimates, observed industry trends, our internal peer review processes (including challenges and recommendations from our Enterprise Risk Management group) as well as the views of third party actuarial firms. We use these inputs to improve our evaluation techniques, and to analyze and assess the change in estimated ultimate loss for each accident year by class of business. Our analyses produce a range of indications from various methods, from which we select our best estimate.

We analyze and evaluate the change in estimated ultimate loss for each accident year by class of business. For example, if loss emergence for a class of business is different than expected for certain accident years, we examine the indicated effect such emergence would have on the reserves of that class of business. In some cases, the lower or higher than expected emergence may result in no clear change in the ultimate loss estimate for the accident years in question, and no adjustment would be made to the reserves for the class of business. In other cases, the lower or higher than expected emergence may result in a change, either favorable or unfavorable. As appropriate, we make adjustments in response to the difference between the actual and expected loss emergence for each accident year. As part of our reserving process, we also consider notices of claims received with respect to emerging and/or evolving issues, in particular those related to complex, claims-related class action litigation and latent exposure claims. Our analyses and conclusions about prior year reserves also help inform our judgments about the current accident year loss and loss adjustment expense ratio selected (Commercial: 66.2 points; Consumer: 54.0 points; Mortgage Guaranty: 25.1 points) and the current year's addition to reserves.

In 2015 and 2014, we recognized $4.1 billion and $703 million of adverse development, respectively, driven in each period by adverse loss development in Commercial Property Casualty and Run-off Insurance Lines partially offset by Consumer Personal Insurance and Mortgage Guaranty business. In 2013, we recognized $557 million of adverse development primarily due to the adverse prior year loss reserve development in Commercial Property Casualty, Mortgage Guaranty business and Run-off Insurance Lines, partially offset by Consumer Personal Insurance.

See Results of Operations — Commercial Insurance and Results of Operations — Consumer Personal Insurance Results herein for further discussion of net loss development.

The following is a discussion of the primary reasons for the development in 2015, 2014 and 2013 of those classes of business that experienced significant prior accident year development during the three-year period. See MD&A — Critical Accounting Estimates for a description of our loss reserving process, basis for selections and sensitivities to certain assumptions.

Commercial Property Casualty

In 2015, the Commercial Property Casualty adverse prior year loss reserve development of $3.5 billion was driven by Excess Casualty, Primary Casualty, Environmental, Financial Lines, Healthcare and International Excess Casualty, partially offset by Property excluding natural catastrophes and Natural catastrophes.

In 2014, the Commercial Property Casualty adverse prior year loss reserve development of $655 million was driven by Primary Casualty, Environmental, International Financial Lines, and Healthcare, partially offset by Natural catastrophes, International Primary Casualty and International Commercial Property.

In 2013, the Commercial Property Casualty adverse prior year loss reserve development of $355 million was driven by Primary Casualty, International Financial Lines, Environmental, and Healthcare, partially offset by Excess Casualty, Financial Lines, and Natural catastrophes.

Excess Casualty – U.S. & Canada

The excess casualty class presents unique challenges for estimating the liability for unpaid losses. Our policies tend to attach at a high layer above underlying policies, usually issued by other insurance companies, which can limit our access to relevant information to help inform our judgments. Our insureds are generally required to provide us with notice of claims that exceed a threshold, either expressed as a proportion of our coverage attachment point (e.g., 50 percent of the attachment) or for particular types of claims (e.g., death, quadriplegia). This threshold is generally established well below our attachment point, to provide us with a precautionary notice of claims that could potentially reach our excess layer of coverage. This means that the majority of claims reported to us are closed without payment by us because the claims never reach our layer, while the claims that reach our layer and close with payment by us can be large and highly variable. Thus, estimates of unpaid losses carry significant uncertainty.

During 2015, Excess Casualty experienced $1.5 billion of adverse development largely driven by worse than expected loss emergence reported in 2015, including $1.2 billion (primarily for U.S. risks) in the fourth quarter when we completed our scheduled detail valuation review for this class. This increase was largely driven by adverse emergence in both general liability and umbrella auto liability, reflecting worsening trends in the number and nature of high severity losses. Approximately $411 million of the adverse development is related to auto liability. We reacted to the adverse emergence by updating our assumptions about loss severity, loss development patterns and expected loss ratios for the most recent accident years. We have seen an increasing trend in the frequency of high severity claims, especially in the umbrella auto liability portfolio. We also observed deterioration in certain class action claims that have complex coverage uncertainties and high limits characterized by increases in new claims and/or demands reported in 2015 and progress towards potential settlements, which have further informed our actuarial projections of ultimate losses for these types of claims. These types of claim classes have the longest emergence period within the excess casualty class and can impact multiple accident years, and are therefore inherently more volatile. In addition, we also increased losses associated with bad-faith claims by approximately $120 million reflecting an increase in recent settlements. These types of claims have the longest emergence period within the excess casualty class and can impact multiple accident years, and are therefore inherently more volatile.

During 2014, Excess Casualty experienced $36 million of favorable development largely driven by savings on a few large claims. In our Excess Umbrella analysis in 2014, our revised segmentation led to lower 2005 and subsequent accident year estimates for non-mass tort claims where we expect underwriting actions and reductions in policy limits to have a favorable effect on ultimate losses from accident years 2007 to 2013 in particular. This was entirely offset by higher selected ultimate losses for accident years 2004 and prior as a result of updated loss development patterns for mass tort claims which we segmented separately from the non-mass tort claims.

During 2013, Excess Casualty experienced $144 million of favorable development due to favorable outcomes on some large cases from 2010 and lower than expected emergence in high layer Catastrophic Casualty business.

Primary Casualty – U.S. and Canada

Primary Casualty includes Workers' Compensation, General Liability and Auto Liability lines of business. The business is segmented by industry and where relevant, by geography.

Many of our primary casualty policies contain risk-sharing features, including high deductibles, self-insured retentions or retrospective rating features, in addition to a traditional insurance component. These risk-sharing programs generally are large and complex, comprising multiple products, years and structures, and are subject to amendment over time. As part of the year end reserve review related to these policies, in addition to reviewing normal development we enhanced our segmentation to better reflect the specified policy features. Based on the analysis, we increased our reserves by $540 million, primarily for accident years 2012 and prior and in the workers' compensation class, to reflect estimated increased losses and reduced expectations of future recoveries from our insureds through these risk-sharing features.

We also recognized $100 million of adverse prior year development in Workers' Compensation coverages sold to government contractors in U.S and non-U.S. military installations as a result of adverse loss emergence from several large accounts in the recent accident years. In addition, we reacted to the adverse emergence by increasing our expected loss ratios in recent accident years.

For the remainder of the primary workers' compensation portfolio our analysis was based on the refined segmentation from 2014, which indicated that prior year loss reserve development was flat after taking into account the initiatives that our claim function had undertaken to manage high risk claims.

TABLE OF CONTENTS

Item 7 / insurance reserves / NON-LIFE INSURANCE COMPANIES

For Primary General Liability, we increased our ultimate loss estimates for prior accident years by $146 million largely related to coverage sold to the Construction sectors as we reacted to noteworthy adverse loss emergence throughout the year, by changing our assumptions about loss development and expected loss ratios. For construction, the adverse development was driven by construction defect claims. The construction class is being re-underwritten to reduce New York and U.S. residential exposures.

For Primary Auto liability, we have observed increases in both the frequency and severity of claims occurring since the recovery from the recent U.S. economic downturn, which have significantly outpaced the pricing rate increases implemented during the same period. As a result, we recognized $144 million of adverse development during 2015 as we increased the expected loss ratios for recent accident years to reflect the deteriorating trends.

We also-reassessed the reasonableness of our liability for future claim handling expenses related to existing loss reserves and updated our estimates to reflect the costs from recent investments in claims systems, processes and people with the objective of improving our ability to better manage total loss costs. We increased our reserve estimates by $214 million based on refined analyses, $100 million of which was attributable to U.S. & Canada primary casualty. The balance was distributed among other classes.

During 2014, we continued to refine our segmentation of primary workers' compensation into guaranteed cost and excess of large deductible business by deductible size group. The net result of the analysis was adverse development of $137 million for the primary workers' compensation class of business. The key drivers of the adverse development in this class of business were increases for guaranteed cost business in California and New York, and increases for excess of large deductible business, as well as adverse experience in the Construction class. Each of these segments appears to have been impacted by specific structural changes in the portfolio. For California business, our tail factor increases were in response to changing long-term medical development patterns. In New York, there has been a lengthening of the period between the date of accident and the classification of non-scheduled permanent partial injuries. We completed a review of claim emergence and payouts for our top six states in workers' compensation and concluded that California and New York were the main states where the loss development patterns had materially changed since our last review. For excess of large deductible business across all states, we updated our analyses to consider the impact of changes in the mix of retentions that has occurred over time as the data by retention band was becoming more credible. For the Construction class, we note that the construction sector has experienced a comparatively slow recovery in payroll employment. As a result of the diminished employment opportunities in this industry sector, injured workers may experience limited return-to-work opportunities, which moderate the shortening of claim duration that normally accompanies a labor market recovery. For all other states combined excluding California and New York, we saw favorable emergence in our middle market Specialty Workers' Compensation segment. The net effect of these revised selections had the greatest adverse effect on the Construction class of business ($140 million adverse development) and the National Accounts class of business ($125 million adverse development). The most significant favorable effect was in the Specialty Workers' Compensation class of business ($155 million favorable development). Our analysis considers our best estimate expectations of medical inflation and loss costs trends and also reflects the impacts of enhancements in our claim management and loss mitigation activities, such as opioid management, fraud investigation and medical management.

For primary general liability in 2014, we increased our ultimate loss estimates for prior years by $182 million. This was largely driven by the construction segment as a result of several large construction defect claims and increases in the costs of claims in New York associated with New York Labor Law. The construction results in California and New York continue to be the main sources of adverse development in our guaranteed cost primary general liability books although we did experience adverse development from construction defect claims in other states in 2014. Our large account primary non-construction general liability business was adversely impacted by claim activity in the layers excess of large insured retentions and we increased our loss development patterns for these layers to reflect the changes.

For commercial auto in 2014, we reacted to an increase in frequency of large claims in the accident years 2010 to 2013, where the economic recovery has contributed to increased frequency and severity, especially for those claims in excess of a client deductible of $500,000, which generally take several years to emerge and settle. This led to adverse prior year loss reserve development of $156 million for the automobile subset of primary casualty.

During 2013, we continued to refine the segmentation of our analyses of primary workers' compensation, which indicated that prior year loss reserve development was flat after taking into account the initiatives that our claim function had undertaken to manage high risk claims.

During 2013, for primary general liability, we increased our reserves for prior years by approximately $355 million. Most of the increase was driven by construction related primary general liability claims, especially construction defect claims where we increased our ultimate loss estimates by $219 million to reflect the higher than expected frequency and severity of these claims especially in states that experienced heavy increases in construction activity after the 2004 and 2005 hurricanes and during the housing boom prior to 2007. Due to the subsequent home price declines observed in many of these states, the frequency of reported losses has increased as the losses subsequently represented a larger percentage of the equity values of the affected homes, and homeowners increasingly looked to insurance recoveries as a way to recoup some of that lost value.

Financial Lines – U.S. and Canada

Financial Lines business includes Director and Officer (D&O) and Related Management Liability, various Professional Liability classes of business as well as the Fidelity book of business. The Financial Lines book consists mostly of the D&O class of business.

During 2015, we recognized $579 million of adverse development, primarily as a result of our scheduled annual detailed valuation review conducted in the fourth quarter, driven largely by the adverse loss emergence that we have seen over the last year, especially in D&O and Professional Liability. In particular, we have observed greater than expected loss costs for several claims from accident years 2006 through 2010, driven by unfavorable settlements and deterioration in known claims. We responded to this adverse emergence by updating our loss development factors and expected loss ratio assumptions for all accident years. In addition, we recognized losses associated with bad-faith claims primarily based on actual settlements in the fourth quarter.

During 2014, we recognized $47 million of favorable development driven by the Professional Liability and D&O and Related Management Liability classes of business, somewhat offset by adverse development on the Fidelity book in recent accident years due to the changing economic cycle.

During 2013, we recognized $113 million of favorable development driven somewhat evenly among the Professional Liability, Fidelity and D&O and Related Management Liability classes of business. The year-end 2013 Professional Liability loss reserve actuarial review adopted a refined segmentation for this class of business with the selection of differentiated frequency and severity trends for various Professional Liability classes of business which appear to be behaving differently in the post financial crisis years than when reviewed in total.

Healthcare

During 2015, we recognized $207 million of adverse development driven by deteriorating loss experience in accident years 2008 and subsequent characterized by large claims in various segments including hospitals, nursing homes, and pharmaceutical and medical products liability. We reacted to these large claims by increasing our expected loss ratios for recent accident years and putting physicians and surgeons and pharmaceutical and medical products classes into runoff.

During 2014, we recognized $109 million of adverse development in this class largely driven by three large and relatively unusual claims of $25 million each in relatively recent accident years. While there have not been any significant structural changes to the portfolio, there can be material volatility in loss experience in this class of business where individual claims can be of high severity.

During 2013, this class recognized $54 million of favorable prior year development due to lower than expected loss emergence in many classes such as Excess Hospital Liability.

International Casualty (Excess and Primary Casualty) and Specialty

During 2015, we recognized $155 million of adverse prior year development, primarily due to three large product liability claims in our Casualty and Specialty lines totaling approximately $115 million. Two of these claims arose in Japan, which is unusual for our portfolio in that market.

During 2014 and 2013, we had $97 million and $91 million of favorable development, respectively. The favorable development in each year was due to lower than expected loss emergence in many classes and countries outside the U.S., with the majority from various countries in the EMEA region.

Financial Lines – International

During 2014 we implemented an enhanced claims operating model in Europe and Australasia which has provided our actuaries with more detailed case reserve data and analysis, enabling AIG's actuaries to react sooner to case development than in prior years.

During 2015, we recognized $47 million of adverse prior year development, driven by increased claims emergence and related updates to the assumptions for loss development factors and expected loss ratios used in the annual detailed valuation review for these reserves, primarily related to Europe and Australasia risks.

During 2014, we recognized $182 million of adverse development in the international Financial Lines segments, driven by large claims emergence in the U.K., Australasia and Europe. Multiple accident years contributed to this total, but it was concentrated most heavily in accident years 2008-2011. The Australasia emergence was due to a number of specific large losses in the Australia and New Zealand D&O business. In Europe, adverse prior year loss reserve development was concentrated in the D&O class of business, where we have observed a greater incidence of severe claims compared with prior years, and the Professional class of business, with large losses from one insured.

During 2013, we recognized $74 million of adverse development, all of which stemmed from losses in the D&O books in Europe, UK and Australasia, with the other segments showing modest favorable development. The development we recognized can be directly linked to a small number of specific claims booked throughout the year.

Natural Catastrophes

During 2015 and 2014, we experienced favorable property catastrophe prior year development of $52 million and $102 million, respectively, in our U.S. and Canada business, primarily due to favorable development from several U.S. events in accident year 2013. We also experienced favorable property catastrophe prior year loss reserve development of $44 million and $77 million from our international property class of business for 2015 and 2014, respectively.

During 2013, we experienced adverse development from Storm Sandy totaling $108 million, or 5.4 percent of the 2012 estimate. This development resulted from higher severities on a small number of large and complex commercial claims driven by a number of factors including the extensive damage caused to properties in the downtown New York metropolitan area.

Mortgage Guaranty

Mortgage Guaranty business includes domestic first liens (96 percent of total reserves) and run-off books in second liens, student loans and international.

During 2015, we recognized $69 million of favorable prior year loss reserve development driven by lower than expected frequency due to improving cure rates. Post-claim recoveries also contributed to favorable prior year development.

During 2014, we recognized $104 million of favorable prior year loss reserve development driven primarily by the benefit of a settlement with a mortgage lender, steady increases in year-over-year first lien cure rates, a reflection of the improved economic environment, and in part by favorable frequency trends and recoveries in second lien claims. Partially offsetting these improvements were upward trends in severity, particularly for older (pre-2012) accident periods.

During 2013, we recognized $30 million of adverse prior year loss reserve development due to unfavorable emergence of overturns of prior claim cancellations and increased severity estimates in first liens, partially offset by favorable frequency in student loans and a reduction in the unallocated loss adjustment expense reserve.

Consumer Personal Insurance

During 2015, 2014 and 2013, we recognized $19 million, $77 million, and $155 million of favorable development, respectively.

During 2015 and 2014, we experienced favorable loss reserve development of $10 million and $16 million, respectively, from Natural Catastrophes.

The remaining $61 million of favorable development in 2014 was primarily from Homeowners, International Accident & Health and U.S. Warranty.

Run-Off Insurance Lines

The following is a discussion of the primary reasons for the Run-Off Insurance Lines development in 2015, 2014 and 2013 of those classes of business that experienced significant prior accident year development during the three-year period.

Asbestos and Environmental (1986 and prior)

Asbestos coverage has been excluded from AIG policies commencing in 1985. Most of AIG's asbestos reserves are ceded to National Indemnity Company (NICO) under a retrospective reinsurance arrangement entered into in 2011. However, certain asbestos-related exposures are not subject to the NICO agreement, including asbestos exposures for which we have negotiated fixed payment schedules, and third party reinsurance assumed policies. The reported claim activity on the assumed claims has increased in the last year. As a result, we modified certain of our loss-reserve-related assumptions to better reflect this AIG-specific experience as well as consideration of recent industry-wide trends regarding expanding coverage theories for liability. As a result, we increased our 2015 reserves by $164 million and by $117 million for Asbestos and Environmental, respectively.

Other Run-Off Insurance

During 2015, we transferred approximately $1.2 billion of loss reserves, largely representing coverages we have not written for at least five years, from Commercial Insurance into Run-off insurance lines. We increased the reserves for these coverages by $272 million to reflect updated assumptions about future loss development.

Excess Workers' Compensation – U.S.

This class of business, which is reported in our run-off unit, has an extremely long tail and is one of the most challenging classes of business from a reserving perspective, particularly when the excess coverage is provided above a self-insured retention layer. The class is highly sensitive to small changes in assumptions, e.g. — in the rate of medical inflation or the longevity of injured workers, which can have a significant effect on the ultimate reserve estimate.

During 2015, this class of business did not experience significant development in loss reserves. The proactive management of settlement negotiations and other claims mitigation strategies minimized the volatility observed during 2015. The nominal reduction in reserves as a result of commutations and individual claims settlement strategies amounted to $222 million in 2015 compared to $242 million in 2014 and $25 million in 2013.

During 2014, we updated our analyses of Excess Workers compensation using a range of scenarios and methodologies and determined that our carried reserves were adequate after recognizing $20 million of favorable prior year development as a result of claim settlements and commutations of assumed reinsurance business, as well as reflecting changes in estimates in our loss mitigation strategies. We commuted several large assumed reinsurance agreements in 2014 and reduced the reserves faster than was previously expected as a result of our proactive management by the run-off unit.

During 2013, we updated our analysis of Excess Workers' Compensation reserves and determined that no changes to our carried reserves were needed. We also updated our analysis of underlying claims cost drivers used in 2012 through accident year 2004, discussed in more detail below.

As noted above, we write loss sensitive business within our primary casualty portfolio. We recognized (return) additional premiums on loss sensitive business of $(49) million, $105 million and $89 million in 2015, 2014 and 2013, respectively, which entirely offset development in that business.

For the year ended December 31, 2015, we incurred reinsurance reinstatement premiums of $(4) million, compared to $(2) million and $27 million for 2014 and 2013, respectively.

See MD&A — Critical Accounting Estimates — Liability for Unpaid Losses and Loss Adjustment Expenses for further discussion of our loss reserving process.

See Commercial Insurance and Consumer Personal Insurance Results herein for further discussion of net loss development.

The following table summarizes development, (favorable) or unfavorable, of incurred losses and loss adjustment expenses for prior years, net of reinsurance, by accident year:

Years Ended December 31, *(in millions)*	**2015**	2014	2013
Prior accident year development by accident year:			
Accident Year			
2014	**$ 397**	$ -	$ -
2013	**396**	(283)	-
2012	**488**	(59)	(181)
2011	**296**	37	217
2010	**277**	12	(350)
2009	**188**	31	157
2008	**231**	8	(1)
2007	**48**	(113)	-
2006	**103**	64	(75)
2005	**90**	105	61
2004 and prior (see table below)	**1,605**	901	729

Total prior year unfavorable development	**$ 4,119**	$ 703	$ 557

Net Loss Development by Accident Year

For 2015, the adverse development in accident years 2011 through 2014 was driven by significantly greater actual versus expected loss emergence for primary and excess Auto Liability, Financial Lines and Healthcare. Individual large claims in the non-Auto Excess Casualty and International Casualty books along with deterioration in specific large accounts in the government contractors workers' compensation portfolio were concentrated in these most recent accident years. The impact of revised loss expectations based on emergence in earlier accident years also contributed to the adverse development for Excess Casualty and Financial Lines in this period. In addition, our updated assumptions for bad-faith claims and unallocated loss adjustment expenses disproportionately impacted these years. Accident years 2005 through 2010 were largely impacted by updated loss development selections in Financial Lines and revised estimates on expected future recoveries from risk-sharing policies in the Primary Casualty portfolio. For accident years 2004 and prior, the adverse development was driven by

TABLE OF CONTENTS

Excess Casualty revised tail factor selections, updated loss development selections for various run-off portfolios, updated industry experience for asbestos and revised estimates on expected future recoveries from risk-sharing policies.

For 2014, the favorable development in accident years 2013 and 2012 was driven by Financial Lines, Commercial Property and other short tailed lines, like Personal Lines. For accident year 2007, the favorable development was driven by U.S. and Canada Financial lines and Excess Casualty. For accident years 2004 and prior, the adverse development was driven by the Excess Casualty results of the a mass-tort resegmentation analysis, the updated primary workers' compensation loss development selections (principally in California, New York and the excess of deductible segments) as well as the run-off pollution products business (1987-2004) and the asbestos and environmental (1986 and prior) exposure.

For 2013, the favorable development from accident year 2012 was driven primarily by consumer lines and lower losses in domestic commercial property, while the favorable development from accident year 2010 was primarily the result of favorable claims emergence from domestic excess casualty and from liability and financial lines coverage policies that are on a claims-made basis. The adverse development from accident year 2011 was driven by large losses in financial lines and adverse development in primary casualty, including the loss-sensitive business. The adverse development from accident year 2009 was driven by large losses in financial lines and adverse development in primary casualty including loss-sensitive business. The adverse development from accident years 2003 and prior was primarily driven by loss development on toxic tort claims, construction general liability claims and pollution product claims.

For certain categories of claims (e.g., construction defect claims and environmental claims) and for reinsurance recoverable, losses may sometimes be reclassified to an earlier or later accident year as more information about the date of occurrence becomes available to AIG. These reclassifications are shown as development in the respective years in the tables above.

The following table summarizes development, (favorable) or unfavorable, of incurred losses and loss adjustment expenses for accident year 2004 and prior by major class of business and driver of development:

Years Ended December 31, *(in millions)*	**2015**	2014	2013
2004 and prior accident year development by major class of business and driver of development:			
Excess Casualty - primarily mass torts[a]	**$ 388**	$ 301	$ -
Excess Casualty - all other	**104**	53	251
Primary Casualty - loss sensitive business	**1**	37	(24)
Primary Casualty - all other[b]	**362**	196	102
Run-off environmental (1987 to 2004)[c]	**74**	97	214
Asbestos and Environmental (1986 and prior)	**281**	124	67
Commutations and Arbitrations[d]	**62**	63	21

All Other	**333**	30	98
Total prior year unfavorable development	**$ 1,605**	$ 901	$ 729

(a) Updates of mass tort loss development patterns.

(b) Includes loss development on excess of deductible exposures in workers' compensation, general liability and commercial auto.

(c) Includes results of comprehensive specific large claim file reviews initiated in 2012 and updated in 2013 and 2014.

(d) The effects of commutations are shown separately from the related classes of business, primarily excess workers' compensation. Commutations are reflected for the years in which they were contractually binding.

The main sources of unfavorable prior year development for accident years 2004 and prior recorded in 2013 through 2015 are as follows:

• Update of the mass tort loss development patterns and segmentation used for U.S. Excess Casualty, which accounted for $689 million and other loss emergence including specific large loss development totaling $408 million across the three years;

• Loss sensitive business that is entirely offset by premium adjustments accounted for $14 million;

TABLE OF CONTENTS

Item 7 / insurance reserves / NON-LIFE INSURANCE COMPANIES

- Update of the loss development patterns used for U.S. Primary Casualty including loss development patterns used in guaranteed cost workers' compensation for NY and CA construction class of business and updates to the loss development patterns for business written on excess of deductible exposures in workers' compensation, general liability and the commercial auto classes of business which collectively accounted for approximately $660 million across the three years;

- Update of the Environmental run-off portfolio's losses following the 2012 comprehensive claims review that provided a more refined approach for the development of actuarial estimates for toxic tort claims (which were found to have a distinctly lengthier loss development pattern than other general liability claims in the environmental portfolio) as well as a more appropriate methodology for incorporating case reserving based estimates of ultimate loss costs for complex claims involving environmental remediation and/or from policies with high policy limits (greater than $5 million per policy). These updates which commenced in 2012 and have been applied in each subsequent year, accounted for approximately $385 million;

- Update of our net retained asbestos and environmental exposure from 1986 and prior which accounted for approximately $472 million ($238 million environmental and $234 million asbestos) across the three years;

- Commutations in the three-year period ending December 31, 2015, accounted for approximately $146 million. These commutations serve to reduce the uncertainty in AIG's required reserves; and

- Update of the assumptions for future loss development for the run-off insurance lines, primarily for coverages we have not written in at least five years, accounted for approximately $272 million of the All Other total amount of $461 million across the three years.

During the period 2013 to 2015, we completed refinements of our reserving methodologies for U.S. mass tort, toxic tort, retained asbestos, environmental and other specific large losses. We also conducted extensive additional studies to corroborate our judgments for our U.S. primary workers compensation and excess workers' compensation classes of business. Further, we refined our loss reserving methodologies for our U.S. Excess Casualty class of business and our U.S. Primary Casualty class of business written over excess of deductible exposures where loss development patterns may lengthen if client retentions increase over time. Collectively, the reserves for the aforementioned classes of business or loss exposures account for the majority of the remaining net loss reserves for accident years 2004 and prior.

Asbestos and Environmental Reserves

Loss Reserve Estimates - Asbestos and Environmental

We consider a number of factors and recent experience, in addition to the results of both external and internal analyses, to estimate asbestos and environmental loss reserves. Nonetheless, we believe that significant uncertainty remains as to our ultimate liability for asbestos and environmental claims, which is due to several factors, including:

- the long latency period between asbestos exposure and disease manifestation, leading to the potential for involvement of multiple policy periods for individual claims;

- claims filed under the non aggregate premises or operations section of general liability policies;

- the number of insureds seeking bankruptcy protection and the effect of prepackaged bankruptcies;

- diverging legal interpretations; and

- the difficulty in estimating the allocation of remediation cost among various parties with respect to environmental claims.

In 2015, as in prior years, both the retained accounts and retroceded accounts ground-up reviews for asbestos were updated. As a result, we increased gross undiscounted asbestos incurred losses by $13 million and increased net undiscounted asbestos incurred losses by $164 million. The net undiscounted change reflects an increase primarily due to third party assumed reinsurance exposures. With the gross incurred loss increase less than the net incurred loss increase, the resulting ceded incurred losses were reduced. For environmental, we increased gross environmental incurred losses by $214 million and net environmental incurred losses by $117 million as a result of top down actuarial analyses performed during the year, as well as development on a large sediment site.

TABLE OF CONTENTS

Item 7 / insurance reserves / NON-LIFE INSURANCE COMPANIES

In 2014, both the retained accounts and retroceded accounts ground-up reviews for asbestos were updated. As a result, we decreased gross undiscounted asbestos incurred losses by $6 million and increased net undiscounted asbestos incurred losses by $64 million. The net undiscounted increase reflects a buyout settlement on a retained account as well as a reduction in estimated ceded loss reserves (prior to the retroactive reinsurance retrocession). For environmental, we increased gross environmental incurred losses by $140 million and net environmental incurred losses by $60 million as a result of top down actuarial analyses performed during the year as well as development on a number of large accounts.

In 2013, we completed a ground up review of all our remaining retained accounts for asbestos. In addition, a subsidiary of the retrocessionaire for our retroactive reinsurance contract completed a ground up asbestos study for the largest accounts it assumed. As a result, we increased gross asbestos incurred losses by $169 million and net asbestos incurred losses by $6 million. For environmental, we increased gross environmental incurred losses by $98 million and net environmental incurred losses by $61 million as a result of top down actuarial analyses performed during the year as well as development on a number of large accounts.

In addition to the U.S. asbestos and environmental reserve amounts shown in the tables below, the Non - Life Insurance Companies also have asbestos reserves relating to foreign risks written by non U.S. entities of $121 million gross and $93 million net as of December 31, 2015. The asbestos reserves relating to non U.S. risks written by non U.S. entities were $132 million gross and $105 million net as of December 31, 2014.

The following table provides a summary of reserve activity, including estimates for applicable IBNR, relating to asbestos and environmental claims:

As of or for the Years Ended December 31,	2015		2014		2013	
(in millions)	Gross	Net	Gross	Net	Gross	Net
Asbestos:						
Liability for unpaid losses and loss adjustment expenses at beginning of year	**$ 4,117**	**$ 388**	$ 4,720	$ 529	$ 4,896	$ 427
Change in net loss reserves due to retroactive reinsurance	**-**	**20**	-	141	-	22
Dispositions	**-**	**-**	-	-	(12)	(12)
Losses and loss adjustment expenses incurred:						
Undiscounted	**13**	**164**	(6)	64	169	6
Change in discount	**9**	**4**	39	22	51	18
Losses and loss adjustment expenses incurred*	**22**	**168**	33	86	220	24
Losses and loss adjustment expenses paid*	**(544)**	**(130)**	(636)	(368)	(444)	(59)
Other changes	**-**	**-**	-	-	60	127
Liability for unpaid losses and loss adjustment expenses at end of year	**$ 3,595**	**$ 446**	$ 4,117	$ 388	$ 4,720	$ 529
Environmental:						
Liability for unpaid losses and loss adjustment expenses						

at beginning of year	**$ 368**	**$ 185**	$ 313	$ 163	$ 309	$ 163
Dispositions	**-**	**-**	-	-	(1)	(1)
Losses and loss adjustment expenses incurred	**214**	**117**	140	60	98	61
Losses and loss adjustment expenses paid	**(37)**	**(32)**	(85)	(38)	(93)	(60)
Other changes	**-**	**6**	-	-	-	-
Liability for unpaid losses and loss adjustment expenses at end of year	**$ 545**	**$ 276**	$ 368	$ 185	$ 313	$ 163
Combined:						
Liability for unpaid losses and loss adjustment expenses at beginning of year	**$ 4,485**	**$ 573**	$ 5,033	$ 692	$ 5,205	$ 590
Change in net loss reserves due to retroactive reinsurance	**-**	**20**	-	141	-	22
Dispositions	**-**	**-**	-	-	(13)	(13)

TABLE OF CONTENTS

Losses and loss adjustment expenses incurred:						
Undiscounted	**227**	**281**	134	124	267	67
Change in discount	**9**	**4**	39	22	51	18
Losses and loss adjustment expenses incurred	**236**	**285**	173	146	318	85
Losses and loss adjustment expenses paid	**(581)**	**(162)**	(721)	(406)	(537)	(119)
Other changes	**-**	**6**	-	-	60	127
Liability for unpaid losses and loss adjustment expenses at end of year	**$ 4,140**	**$ 722**	$ 4,485	$ 573	$ 5,033	$ 692

* These amounts exclude benefit from retroactive reinsurance.

On June 17, 2011, we completed a transaction under which the bulk of AIG Property Casualty's net domestic asbestos liabilities were transferred to National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway, Inc. This was part of our ongoing strategy to reduce our overall loss reserve development risk. This transaction covers potentially volatile U.S.-related asbestos exposures. It does not, however, cover asbestos accounts that we believe have already been reserved to their limit of liability or certain other ancillary asbestos exposure assumed by AIG Property Casualty subsidiaries.

Upon the closing of this transaction, but effective as of January 1, 2011, we ceded the bulk of AIG Property Casualty's net domestic asbestos liabilities to NICO under a retroactive reinsurance agreement with an aggregate limit of $3.5 billion. Within this aggregate limit, NICO assumed collection risk for existing third-party reinsurance recoverable associated with these liabilities. AIG Property Casualty paid NICO approximately $1.67 billion as consideration for this cession and NICO assumed approximately $1.82 billion of net U.S. asbestos liabilities. As a result of this transaction, AIG Property Casualty recorded a deferred gain of $150 million in the second quarter of 2011, which is being amortized into income over the settlement period of the underlying claims.

Under retroactive reinsurance arrangements any recoveries for development associated with the ceded losses are not recognized immediately; rather this development increases or decreases the deferred gain, which is amortized into income as described above. During 2015, 2014 and 2013, we recognized approximately $233 million, $0 and $72 million, respectively, of adverse loss development that was ceded under this reinsurance arrangement. This development, which is net of the deferred gain amortization, is being reported in Other income/expense, consistent with the way we manage the business and assess performance and is therefore excluded from net losses incurred and our loss ratios to avoid distortion of our ongoing insurance business.

IBNR Loss Reserve Estimates — Asbestos and Environmental

The following table presents the estimate of the gross and net IBNR included in the Liability for unpaid losses and loss adjustment expenses, relating to asbestos and environmental claims:

December 31,	**2015**		2014		2013	
(in millions)	Gross	Net*	Gross	Net*	Gross	Net*

Asbestos	**$ 1,680**	**$ 162**	$ 2,363	$ 79	$ 3,190	$ 16
Environmental	**331**	**171**	157	87	94	51
Combined	**$ 2,011**	**$ 333**	$ 2,520	$ 166	$ 3,284	$ 67

* Net IBNR includes the reduction due to the NICO reinsurance transaction of $912 million, $803 million and $1,284 million as of December 31, 2015, 2014 and 2013, respectively.

145

TABLE OF CONTENTS

Item 7 / insurance reserves / NON-LIFE INSURANCE COMPANIES

Claim Counts — Asbestos and Environmental

The following table presents a summary of asbestos and environmental claims count activity:

As of or for the Years Ended December 31,	**2015**			2014			2	
	Asbestos	Environmental	Combined	Asbestos	Environmental	Combined	Asbestos	Enviro
Claims at beginning of year	**4,049**	**1,240**	**5,289**	4,680	1,517	6,197	5,230	
Claims during year:								
Opened	**279**	**209**	**488**	130	126	256	83	
Settled	**(310)**	**(182)**	**(492)**	(216)	(163)	(379)	(194)	
Dismissed or otherwise resolved	**(509)**	**(350)**	**(859)**	(545)	(240)	(785)	(439)	
Other	**-**	**-**	**-**	-	-	-	-	
Claims at end of year	**3,509**	**917**	**4,426**	4,049	1,240	5,289	4,680	

Survival Ratios — Asbestos and Environmental

The following table presents AIG's survival ratios for asbestos and environmental claims at December 31, 2015, 2014 and 2013. The survival ratio is derived by dividing the current carried loss reserve by the average payments for the three most recent calendar years for these claims. Therefore, the survival ratio is a simplistic measure estimating the number of years it would take before the current ending loss reserves for these claims would be paid off using recent year average payments.

Many factors, such as aggressive settlement procedures, reinsurance commutations, mix of business and level of coverage provided, have a significant effect on the amount of asbestos and environmental reserves and payments and the resulting survival ratio. Additionally, we primarily base our determination of these reserves based on ground-up and top-down analyses, and not on survival ratios. The net Asbestos survival ratio for 2015 was significantly impacted by both the increase in net loss reserves as a result of our ground-up review, as well as the by the large ceded reinsurance commutation executed in the fourth quarter of 2015, the proceeds of which were booked a negative paid loss.

The following table presents survival ratios for asbestos and environmental claims, separately and combined, which were based upon a three-year average payment:

Years Ended December 31,	**2015**		2014		2013	
	Gross	Net*	Gross	Net*	Gross	Net*
Survival ratios:						
Asbestos	**6.6**	**15.0**	8.3	7.6	10.6	10.5
Environmental	**7.6**	**6.4**	5.0	4.3	4.6	3.9
Combined	**6.8**	**13.1**	7.9	7.1	9.8	9.4

* Survival ratios are calculated consistent with the basis on historical reserve excluding the effects of the NICO reinsurance transaction.

Life Insurance Companies DAC and Reserves

The following section provides discussion of deferred policy acquisition costs and insurance reserves for Life Insurance Companies.

Update of Actuarial Assumptions

The Life Insurance Companies review and update estimated gross profit assumptions used to amortize DAC and related items for investment-oriented products at least annually. Estimated gross profit assumptions include net investment income and spreads, net realized capital gains and losses, fees, surrender charges, expenses, and mortality gains and losses. If the assumptions used for estimated gross profits change significantly, DAC and related reserves (which may include VOBA, SIA, guaranteed benefit reserves and unearned revenue reserve) are recalculated using the new assumptions, and any resulting adjustment is included in income. Updating such assumptions may result in acceleration of amortization in some products and deceleration of amortization in other products.

In addition to estimated gross profit assumptions, the update of actuarial assumptions in 2015, 2014 and 2013 included adjustments to reserves for universal life with secondary guarantees, group benefit claim reserves and loss recognition for certain long-term care products. The update of assumptions also included adjustments to the valuation of variable annuity GMWB features that are accounted for as embedded derivatives. Changes in the fair value of such embedded derivatives are recorded in net realized capital gains (losses) and, together with related DAC adjustments, are excluded from pre-tax operating income.

The net increases (decreases) to pre-tax operating income and pre-tax income as a result of the update of actuarial assumptions in 2015, 2014 and 2013 are shown in the following tables.

The following table presents the increase (decrease) in pre-tax operating income resulting from the update of actuarial assumptions for the U.S. Life Insurance Companies, by product line:

Years Ended December 31, *(in millions)*	**2015**	2014	2013
Consumer Insurance:			
Retirement			
Fixed Annuities	**$ 92**	$ 196	$ 306
Retirement Income Solutions	**-**	4	(28)
Group Retirement	**48**	46	(45)
Total Retirement	**140**	246	233
Life	**(146)**	(119)	(80)
Total Consumer Insurance	**(6)**	127	153
Commercial Insurance:			
Institutional Markets	**-**	2	-
Total increase (decrease) in pre-tax operating income from update of assumptions	**(6)**	129	153

The following table presents the increase (decrease) in pre-tax income resulting from the update of actuarial assumptions of the U.S. Life Insurance Companies, by line item as reported in Results of Operations:

Years Ended December 31, *(in millions)*	**2015**	2014	2013
Policy fees	**$ 21**	$ 27	$ 28
Interest credited to policyholder account balances	**74**	90	63
Amortization of deferred policy acquisition costs	**79**	181	129
Policyholder benefits and losses incurred	**(180)**	(169)	(67)

Increase (decrease) in pre-tax operating income	**(6)**	129	153
Change in DAC related to net realized capital gains (losses)	**11**	(12)	(21)
Net realized capital gains (losses)	**(2)**	51	82
Increase in pre-tax income	**$ 3**	$ 168	$ 214

In 2015, pre-tax operating income of the Life Insurance Companies in the aggregate was reduced by $6 million as a result of the update of actuarial assumptions. This aggregate net adjustment of $6 million included a net negative adjustment of $146 million in the Life operating segment, which was offset in large part by net positive adjustments in the Retirement operating segment of $92 million in Fixed Annuities and $48 million in Group Retirement. See Update of Actuarial Assumptions by Operating Segment for additional discussion of the adjustments for each segment.

In 2014, pre-tax operating income of the Life Insurance Companies in the aggregate was increased by $129 million as a result of the update of assumptions, primarily due to net positive adjustments related to investment spread assumptions in the Retirement operating segment from the update of estimated gross profit assumptions in Fixed Annuities and Group Retirement, partially offset by loss recognition for certain long-term care business and additions to reserves for universal life with secondary guarantees in the Life operating segment.

In 2013, pre-tax operating income of the Life Insurance Companies in the aggregate increased by a net positive adjustment of $153 million as a result of the update of assumptions, primarily due to a net positive adjustment in Fixed Annuities, partially offset by net negative adjustments in Retirement Income Solutions and Group Retirement and a negative adjustment in Life from the update of mortality assumptions. In Group Retirement, the negative adjustments were partially offset by an increase in the assumption for separate account asset long-term growth rates.

Adjustments related to the update of assumptions for the valuation of variable annuity GMWB features accounted for as embedded derivatives and measured at fair value, which are primarily in the Retirement Income Solutions and Group Retirement product lines, are recorded in net realized capital gains (losses) and excluded from pre-tax operating income. The update of GMWB valuation assumptions in 2015, which included improved mortality, lapse and withdrawal assumptions, resulted in a net decrease in the GMWB liability. After offsets for related adjustments to DAC, this update of GMWB valuation assumptions resulted in a net increase to 2015 pre-tax income of $9 million.

In 2014, improved mortality, lapse and withdrawal assumptions for GMWB embedded derivative liabilities resulted in a net increase to pre-tax income of $39 million, net of DAC. In 2013, the update of GMWB valuation assumptions resulted in a net increase to pre-tax income of $61 million, net of DAC, primarily due to updated mortality assumptions.

A discussion of the adjustments to reflect the update of assumptions for the Retirement and Life operating segments follows.

Update of Actuarial Assumptions by Operating Segment

Retirement

The update of actuarial assumptions resulted in net positive adjustments to pre-tax operating income of the Retirement operating segment of $140 million, $246 million and $233 million in 2015, 2014 and 2013, respectively.

In Fixed Annuities, the update of estimated gross profit assumptions resulted in a net positive adjustment of $92 million in 2015, which reflected refinements to investment spread assumptions, lower terminations than previously assumed and decreases to expense assumptions. In 2014, a net positive adjustment of $196 million in Fixed Annuities was primarily due to better spreads than previously assumed. In 2013, a net positive adjustment of $306 million in the Fixed Annuities product line was the result of active spread management of crediting rates and higher future investment yields than those previously assumed.

In Retirement Income Solutions, there were offsetting changes to assumed investment fees, modeled expenses, and terminations resulting in no adjustment to pre-tax operating income in 2015, compared to a $4 million net positive adjustment in 2014, due to the update of estimated gross profit assumptions. A net negative adjustment of $28 million in Retirement Income Solutions in 2013 resulted primarily from the update of variable annuity spreads and surrender rates. Adjustments related to the update of assumptions for the valuation of variable annuity GMWB features accounted for as embedded derivatives and measured at fair value, which primarily relate to the Retirement Income Solutions product line, are recorded in net realized capital gains (losses) and excluded from pre-tax operating income. See Update of Actuarial Assumptions above for discussion of these adjustments.

In Group Retirement, a net positive adjustment from the update of estimated gross profit assumptions of $48 million in 2015 was primarily due to revisions to mortality and surrender assumptions, partially offset by decreased spread assumptions. In 2014, a net positive adjustment of $46 million in Group Retirement was primarily due to more favorable assumptions for investment spreads and surrenders than previously assumed. A net negative adjustment of $45 million in Group Retirement in 2013 resulted primarily from the update of variable annuity spreads and surrender rates, partially offset by an increase in the assumption for separate account asset long-term growth rates under our reversion to the mean methodology.

Life

The net negative adjustment of $146 million related to the update of actuarial assumptions, which reduced pre-tax operating income of the Life operating segment in 2015, included additions to reserves for universal life with secondary guarantees due to lower surrender rates (partially offset by better mortality than previously assumed), loss recognition expense for certain long-term care products primarily due to updated future premium assumptions, and an additional net negative adjustment from the update of estimated gross profit assumptions primarily due to lower investment spread assumptions. These negative adjustments were partially offset by a decrease in certain Group Benefit claim reserves based on updated experience data.

A net negative adjustment of $119 million in the Life operating segment in 2014 was primarily due to loss recognition expense, as discussed below, and also included additions to reserves for universal life with secondary guarantees, primarily due to lower investment spread and mortality assumptions which, while higher than previously assumed, were still within pricing assumptions.

A negative adjustment of $80 million in the Life operating segment in 2013 resulted primarily from the update of mortality assumptions.

The Life operating segment recorded loss recognition expense of $28 million and $87 million to increase reserves for certain long-term care business in 2015 and 2014, respectively, which reduced pre-tax operating income in those periods. Loss recognition expense is included in Other reserve changes in the rollforward table presented in Life Insurance Companies Reserves. The Life loss recognition for both periods was primarily a result of lower future premium increase assumptions and, in 2014, lower yield assumptions. Assumptions related to investment yields, mortality experience and expenses are reviewed periodically and updated as appropriate, which could result in additional loss recognition reserves. While the U.S. Life Insurance Companies do not currently offer standalone long-term care products, these needs are addressed with various benefits and riders in the existing portfolio, such as chronic illness riders.

Variable Annuity Guaranteed Benefit Features and Hedging Program

Our Retirement Income Solutions and Group Retirement businesses offer variable annuity products with riders that provide guaranteed living benefit features, which include GMWB and GMAB. The liabilities for GMWB and GMAB are accounted for as embedded derivatives measured at fair value. The fair value of the embedded derivatives may fluctuate significantly based on market interest rates, equity prices, credit spreads and market volatility.

In addition to risk-mitigating features in our variable annuity product design, we have an economic hedging program designed to manage market risk from GMWB and GMAB, including exposures to changes in interest rates, equity prices, credit spreads and volatilities. The hedging program utilizes derivative instruments, including but not limited to equity options, futures contracts and interest rate swap and swaption contracts, as well as fixed maturity securities with a fair value election. See Enterprise Risk Management – Life Insurance Companies Key Insurance Risks – Variable Annuity Risk Management and Hedging Program for additional discussion of market risk management related to these product features.

Impact on Pre-tax Income

Changes in the fair value of the GMWB and GMAB embedded derivatives, and changes in the fair value of related derivative hedging instruments, are recorded in Other realized capital gains (losses). Realized capital gains (losses), as well as net investment income from changes in the fair value of the fixed maturity securities used in the variable annuity hedging program, for which the fair value option has been elected, are excluded from pre-tax operating income of the Retirement operating segment.

The following table presents the net increase (decrease) to consolidated pre-tax income from changes in the fair value of the GMWB and GMAB embedded derivatives and related hedges:

Years Ended December 31, *(in millions)*		2015		2014		2013
Change in fair value of GMWB and GMAB embedded derivatives	$	63	$	(759)	$	1,252
Change in fair value of variable annuity hedging portfolio:						
Fixed maturity securities		(43)		260		(161)
Interest rate derivative contracts		343		742		(468)
Equity derivative contracts		(86)		(230)		(461)
Net impact on pre-tax income	$	277	$	13	$	162

The effect of the changes in the fair value of the GMWB and GMAB embedded derivatives and the related hedging portfolio had a net positive impact on consolidated pre-tax income in 2015, 2014 and 2013. The change in the fair value of the embedded derivatives and the change in the value of the hedging portfolio are not expected to be fully offsetting, primarily due to differences between the U.S. GAAP valuation of the embedded derivatives and the economic hedge target, which include a non-performance or “own credit” spread adjustment (NPA) to the rate used to discount projected benefit cash flows. When corporate credit spreads widen, as they did in 2015, the change in the NPA generally reduces the fair value of the embedded derivative liabilities, resulting in a gain, and when corporate credit spreads narrow or tighten, the change in the NPA generally increases the fair value of the embedded derivative liabilities, resulting in a loss. See Note 4 to the Consolidated Financial Statements for additional discussion of the fair value measurement of the embedded derivatives under U.S. GAAP and the estimation of the NPA, and see Differences in Valuation of Embedded Derivatives and Economic Hedge Target, below.

In 2015, there was a slight gain from a decline in the fair value of the embedded derivative liabilities, as losses from the decrease in market interest rates were more than offset by gains from a higher NPA, related to widening corporate credit spreads. The losses from the decrease in market interest rates in 2015 were largely offset by interest rate hedges. In 2014, the decrease in market interest rates resulted in losses from a significant increase in the fair value of the embedded derivative liabilities, which was only partially offset by higher equity markets. Since the change in NPA was relatively small in 2014, the loss on the embedded derivatives was primarily offset by hedging. In 2013, there was a significant decline in the embedded derivative liabilities, driven by both higher interest rates and higher equity markets, which was only partially offset by a decline in NPA from spread tightening. The embedded derivative gains due to higher interest rates were offset by interest rate hedging to a lesser extent in 2013, as we had not elected to fully hedge interest rate risk until the second half of 2014.

These changes in the fair value of the embedded derivatives were offset in part by the following changes in the fair value of the variable annuity hedging portfolio:

• Changes in the fair value of fixed maturity securities, for which the fair value option has been elected, that are used as a capital-efficient way to economically hedge interest rate risk. In 2012, we began to use U.S. Treasury bonds in this hedging program to reduce our interest rate risk exposure over time. Effective June 30, 2015, we discontinued the U.S. Treasury bond interest rate hedging program and initiated a corporate bond hedging program, which is intended to provide the same capital efficiency as the previous U.S. Treasury bond hedging program. The 2015 losses from the change in the fair value of fixed maturity securities were primarily due to the impact on the U.S. Treasury position in the first half of the year from increasing market interest rates. The gains in 2014 and losses in 2013 from the change in the fair value of the fixed maturities securities were due to market interest rates, which decreased in 2014 and increased 2013.

• Changes in the fair value of interest rate derivative contracts, which included swaps, swaptions, futures and options, resulted in gains in 2015 and 2014 due to decreasing market interest rates, and losses in 2013 driven by increasing interest rates. Prior to 2014, we had elected to only partially hedge GMWB and GMAB interest rate risk.

• Losses from the change in the fair value of equity derivative contracts, which included futures and options, were relatively smaller in 2015 compared to 2014 and 2013, due to higher equity market returns in those years.

TABLE OF CONTENTS

Differences in Valuation of Embedded Derivatives and Economic Hedge Target

The variable annuity hedging program utilizes an economic hedge target, which represents an estimate of the underlying economic drivers of the embedded derivatives. The economic hedge target differs from the U.S. GAAP valuation of the GMWB and GMAB embedded derivatives due to the following:

- Rider fees are 100 percent included in the economic hedge target present value calculations; the U.S. GAAP valuation reflects those collected fees attributed to the embedded derivative such that the initial value at contract issue equals zero;

- Actuarial assumptions for U.S. GAAP are adjusted to remove explicit risk margins, including margins for policyholder behavior and fund basis risk, and use best estimate assumptions for the economic hedge target; and

- Non-performance adjustment (NPA or "own credit" risk) is excluded from the discount rates used for the economic hedge target.

The market value of the hedge portfolio compared to the economic hedge target at any point in time may be different and is not expected to be fully offsetting. In addition to the derivatives held in conjunction with the variable annuity hedging program, the Life Insurance Companies have cash and invested assets available to cover future claims payable under these guarantees. The primary sources of difference between the change in the fair value of the hedging portfolio and the economic hedge target include:

- Basis risk due to the variance between expected and actual fund returns, which may be either positive or negative;

- Realized volatility versus implied volatility;

- Actual versus expected changes in the hedge target related to items not subject to hedging, particularly policyholder behavior; and

- Risk exposures that we have elected not to explicitly or fully hedge, which in 2014 and 2013 included a portion of the interest rate risk.

DAC

The following table summarizes the major components of the changes in Life Insurance Companies DAC, including VOBA:

Years Ended December 31, *(in millions)*	**2015**	2014	2013
Balance, beginning of year	**$ 7,258**	$ 6,920	$ 5,815

Acquisition costs deferred	**1,288**	1,114	1,034
Amortization expense:			
Update of assumptions included in pre-tax operating income	**79**	183	129
Related to realized capital gains and losses	**(1)**	(23)	(23)
All other operating amortization	**(994)**	(887)	(780)
Increase (decrease) in DAC due to foreign exchange	**(34)**	(32)	(39)
Other change in DAC	**23**	343	-
Change related to unrealized depreciation (appreciation) of investments	**848**	(360)	784
Balance, end of year*	**$ 8,467**	$ 7,258	$ 6,920

* DAC balance excluding the amount related to unrealized depreciation (appreciation) of investments was $9.1 billion, $8.7 billion, and $8.0 billion at December 31, 2015, 2014 and 2013, respectively.

The net adjustments to DAC amortization from the update of actuarial assumptions for estimated gross profits in 2015 and 2014, including those reported within change in DAC related to net realized capital gains (losses), represented one percent and two percent of the DAC balance excluding the amount related to unrealized depreciation (appreciation) of investments as of December 31, 2015 and 2014, respectively.

Reversion to the Mean

In 2013, we revised the growth rate assumptions for the five-year reversion to the mean period for the Group Retirement product line in our Retirement segment, because annual growth assumptions indicated for that period had fallen below our floor of zero percent due to the favorable performance of equity markets. This adjustment increased Retirement pre-tax operating income by $35 million in 2013. For variable annuities in the Retirement Income Solutions product line, the assumed annual growth rate has remained above zero percent for the five-year reversion to the mean period and therefore has not met the criteria for adjustment in 2015, 2014 or 2013; however, additional favorable equity market performance in excess of long-term assumptions could result in unlocking in this product line in the future, with a positive effect on pre-tax income in the period of the unlocking. See Critical Accounting Estimates – Estimated Gross Profits for Investment-Oriented Products (Life Insurance Companies) for additional discussion of assumptions related to our reversion to the mean methodology.

DAC and Reserves Related to Unrealized Appreciation of Investments

DAC for universal life and investment-type products (collectively, investment-oriented products) is adjusted at each balance sheet date to reflect the change in DAC as if fixed maturity and equity securities available for sale had been sold at their stated aggregate fair value and the proceeds reinvested at current yields (shadow DAC). The change in shadow DAC generally moves in the opposite direction of the change in unrealized appreciation of the available for sale securities portfolio. In addition, significant unrealized appreciation of investments in a prolonged low interest rate environment may cause additional future policy benefit liabilities to be recorded (shadow loss reserves). Market interest rates increased as a result of widening spreads in 2015. As a result, the Life Insurance Companies' unrealized appreciation of investments at December 31, 2015 decreased by $7.4 billion compared to December 31, 2014, which resulted in an increase in shadow DAC and a decrease in shadow loss reserves. Shadow loss reserves decreased to $18 million at December 31, 2015 compared to $1.2 billion at December 31, 2014.

Life Insurance Companies Reserves

The following table presents a rollforward of Life Insurance Companies' insurance reserves, including separate accounts and mutual fund assets under management, by operating segment:

Years Ended December 31, *(in millions)*	**2015**	2014	2013
Institutional Markets:			
Balance at beginning of year, gross	**$ 35,080**	$ 32,100	$ 32,242
Premiums and deposits	**1,782**	3,797	991
Surrenders and withdrawals	**(674)**	(766)	(2,620)
Death and other contract benefits	**(1,628)**	(1,530)	(1,371)
Subtotal	**(520)**	1,501	(3,000)

Change in fair value of underlying assets and reserve accretion, net of policy fees	**982**	1,130	1,156
Cost of funds	**408**	410	413
Other reserve changes	**(127)**	(61)	1,289
Balance at end of year	**35,823**	35,080	32,100
Reserves related to unrealized appreciation of investments	**-**	1,054	-
Reinsurance ceded	**(5)**	(5)	(5)
Total insurance reserves	**$ 35,818**	$ 36,129	$ 32,095
Retirement:			
Balance at beginning of year, gross	**$ 204,627**	$ 195,493	$ 173,281
Premiums and deposits	**25,297**	24,077	23,788
Surrenders and withdrawals	**(18,251)**	(20,504)	(16,459)
Death and other contract benefits	**(3,894)**	(3,690)	(3,353)
Subtotal	**3,152**	(117)	3,976

TABLE OF CONTENTS

Item 7 / Insurance reserves / Life Insurance companies

Change in fair value of underlying assets and reserve accretion, net of policy fees	**(2,255)**	6,390	14,482
Cost of funds	**2,724**	2,781	2,837
Other reserve changes	**85**	80	917
Balance at end of year	**208,333**	204,627	195,493
Reserves related to unrealized appreciation of investments	**-**	100	-
Reinsurance ceded	**(361)**	(353)	(366)
Total insurance reserves and mutual fund assets under management	**$ 207,972**	$ 204,374	$ 195,127
Life:			
Balance at beginning of year, gross	**$ 33,536**	$ 32,810	$ 32,176
Premiums and deposits	**4,974**	4,806	4,862
Surrenders and withdrawals	**(759)**	(853)	(896)
Death and other contract benefits	**(954)**	(812)	(772)
Subtotal	**3,261**	3,141	3,194
Change in fair value of underlying assets and reserve accretion, net of policy fees	**(802)**	(691)	(673)
Cost of funds	**493**	507	541
Other reserve changes	**(2,318)**	(2,231)	(2,428)
Balance at end of year	**34,170**	33,536	32,810
Reserves related to unrealized appreciation of investments	**-**	-	-
Reinsurance ceded	**(1,395)**	(1,315)	(1,354)
Total insurance reserves	**$ 32,775**	$ 32,221	$ 31,456
Total Life Insurance Companies:			
Balance at beginning of year, gross	**$ 273,243**	$ 260,403	$ 237,699
Premiums and deposits	**32,053**	32,680	29,641
Surrenders and withdrawals	**(19,684)**	(22,123)	(19,975)
Death and other contract benefits	**(6,476)**	(6,032)	(5,496)
Subtotal	**5,893**	4,525	4,170
Change in fair value of underlying assets and reserve accretion, net of policy fees	**(2,075)**	6,829	14,965
Cost of funds	**3,625**	3,698	3,791
Other reserve changes	**(2,360)**	(2,212)	(222)
Balance at end of year	**278,326**	273,243	260,403
Reserves related to unrealized appreciation of investments	**-**	1,154	-
Reinsurance ceded	**(1,761)**	(1,673)	(1,725)
Total insurance reserves and mutual fund assets under management	**$ 276,565**	$ 272,724	$ 258,678

Life Insurance Companies insurance reserves including separate accounts and mutual fund assets under management were comprised of the following balances:

At December 31,

(in millions)	**2015**	2014
Future policy benefits*	**$ 41,562**	$ 40,931
Policyholder contract deposits	**127,704**	124,716
Separate account liabilities	**79,564**	80,025
Total insurance reserves	**248,830**	245,672
Mutual fund assets under management	**27,735**	27,052
Total insurance reserves and mutual fund assets under management	**$ 276,565**	$ 272,724

* Excludes certain intercompany assumed reinsurance.

TABLE OF CONTENTS

Item 7 / LIQUIDITY AND CAPITAL rESOURCES

Overview

Liquidity refers to the ability to generate sufficient cash resources to meet our payment obligations. It is defined as cash and unencumbered assets that can be monetized in a short period of time at a reasonable cost. We manage our liquidity prudently through various risk committees, policies and procedures, and a stress testing and liquidity risk framework established by Enterprise Risk Management (ERM). Our liquidity risk framework is designed to manage liquidity at both AIG Parent and subsidiaries to meet our financial obligations over a twelve-month period under a liquidity stress scenario. See Enterprise Risk Management — Risk Appetite, Limits, Identification, and Measurement and Enterprise Risk Management — Liquidity Risk Management below for additional information.

Capital refers to the long-term financial resources available to support the operation of our businesses, fund business growth, and cover financial and operational needs that arise from adverse circumstances. Our primary source of ongoing capital generation is the profitability of our insurance subsidiaries. We must comply with numerous constraints on our minimum capital positions. These constraints drive the requirements for capital adequacy for both AIG and the individual businesses and are based on internally-defined risk tolerances, regulatory requirements, rating agency and creditor expectations and business needs. Actual capital levels are monitored on a regular basis, and using ERM's stress testing methodology, we evaluate the capital impact of potential macroeconomic, financial and insurance stresses in relation to the relevant capital constraints of both AIG and our insurance subsidiaries.

We believe that we have sufficient liquidity and capital resources to satisfy future requirements and meet our obligations to policyholders, customers, creditors and debt-holders, including those arising from reasonably foreseeable contingencies or events.

Nevertheless, some circumstances may cause our cash or capital needs to exceed projected liquidity or readily deployable capital resources as was the case in 2008. Additional collateral calls, deterioration in investment portfolios or reserve strengthening affecting statutory surplus, higher surrenders of annuities and other policies, downgrades in credit ratings, or catastrophic losses may result in significant additional cash or capital needs and loss of sources of liquidity and capital. In addition, regulatory and other legal restrictions could limit our ability to transfer funds freely, either to or from our subsidiaries.

Depending on market conditions, regulatory and rating agency considerations and other factors, we may take various liability and capital management actions. Liability management actions may include, but are not limited to, repurchasing or redeeming outstanding debt, issuing new debt or engaging in debt exchange offers. Capital management actions may include, but are not limited to, paying dividends to our shareholders and share repurchases.

TABLE OF CONTENTS

Item 7 / LIQUIDITY AND CAPITAL rESOURCES

Sources

- ***AIG Parent Funding from Subsidiaries***

During 2015, AIG Parent received \$7.8 billion[(a)] in dividends and loan repayments from subsidiaries. Of this amount, \$3.2 billion was dividends in the form of cash and fixed maturity securities from our Non-Life Insurance Companies and \$4.6 billion[(a)] was dividends and loan repayments in the form of cash and fixed maturity securities from our Life Insurance Companies. The \$7.8 billion in dividends and loan repayments included \$2.8 billion of dividends that were declared during the fourth quarter of 2014.

AIG Parent also received a net amount of \$1.4 billion[(a)] in tax sharing payments from our insurance businesses in 2015, reflecting \$102 million[(a)] that was reimbursed from AIG Parent to our insurance businesses during the fourth quarter of 2015 as a result of adjustments made to prior-year tax sharing payments. The tax sharing payments may continue to be subject to adjustment in future periods.

- ***Debt Issuances***

In January 2015, we issued \$1.2 billion aggregate principal amount of 3.875% Notes due 2035 and \$800 million aggregate principal amount of 4.375% Notes due 2055.

In March 2015, we issued \$350 million aggregate principal amount of 4.35% Callable Notes due 2045.

In July 2015, we issued \$1.25 billion aggregate principal amount of 3.750% Notes due 2025, \$500 million aggregate principal amount of 4.700% Notes due 2035 and \$750 million aggregate principal amount of 4.800% Notes due 2045. In addition, in July 2015, we issued \$290 million aggregate principal amount of 4.90% Callable Notes due 2045.

In September 2015, we issued \$420 million aggregate principal amount of 4.90% Callable Notes due 2045.

- ***PICC P&C and Springleaf***

In April 2015, AIG Parent received gross proceeds of approximately \$500 million from our sale of 256 million ordinary H shares of PICC P&C by means of a placement to certain institutional investors.

In May 2015, AIG Parent received net proceeds of approximately \$410 million from the sale of approximately 8.4 million shares of common stock of Springleaf.

In December 2015, AIG Parent received gross proceeds of approximately \$381 million from our sale of 184 million ordinary H shares of PICC P&C by means of a placement to certain institutional investors.

- ***AerCap***

In June 2015, AIG Parent received net proceeds of approximately $3.7 billion from the sale of approximately 86.9 million ordinary shares of AerCap by means of an underwritten public offering of approximately 71.2 million ordinary shares and a private sale of approximately 15.7 million ordinary shares to AerCap.

In August 2015, AIG Parent received net proceeds of approximately $500 million from the sale of our remaining approximately 10.7 million ordinary shares of AerCap by means of an underwritten public offering.

TABLE OF CONTENTS

Item 7 / LIQUIDITY AND CAPITAL rESOURCES

Uses[b]

• ***Debt Reduction***

In March 2015, we repurchased, through cash tender offers, approximately $1.0 billion aggregate principal amount of certain senior notes issued or guaranteed by AIG for an aggregate purchase price of approximately $1.1 billion.

In April 2015, we repurchased, through cash tender offers, (i) approximately $22 million aggregate principal amount of certain senior notes issued or guaranteed by AIG for an aggregate purchase price of approximately $24 million, and (ii) approximately $915 million aggregate principal amount of certain junior subordinated debentures issued or guaranteed by AIG for an aggregate purchase price of approximately $1.25 billion.

In July 2015, we repurchased, through cash tender offers, (i) approximately $142 million aggregate principal amount of certain senior notes issued by AIG for an aggregate purchase price of approximately $153 million, and (ii) approximately $3.3 billion aggregate principal amount of certain senior notes and junior subordinated notes issued or guaranteed by AIG for an aggregate purchase price of approximately $3.6 billion.

We also made other repurchases and repayments of approximately $4.6 billion during 2015. AIG Parent made interest payments on our debt instruments totaling $1.0 billion during 2015.

• ***Dividend***

We paid a cash dividend of $0.125 per share on AIG Common Stock during each of the first and second quarters of 2015, and a cash dividend of $0.28 per share during each of the third and fourth quarters of 2015.

• ***Repurchase of Common Stock[c]***

We repurchased approximately 182 million shares of AIG Common Stock during 2015, for an aggregate purchase price of approximately $10.7 billion. The total number of shares of AIG Common Stock repurchased in 2015 includes (but the aggregate purchase price does not include) approximately 3.5 million shares of AIG Common Stock received in January 2015 upon the settlement of an ASR agreement executed in the fourth quarter of 2014.

• ***PICC P&C***

During 2015, AIG Parent purchased 440 million ordinary H shares of PICC P&C from our Non-Life Insurance Companies for approximately $864 million.

(a) Presented net of $818 million of tax payments to the Life Insurance Companies, which were returned in the form of dividends.

(b) In January 2016, AIG Parent made a capital contribution of approximately $2.9 billion to our Non-Life Insurance Companies.

(c) Pursuant to Exchange Act Rule 10b5-1 repurchase plans, from January 1 to February 11, 2016, we have repurchased approximately $2.5 billion of additional shares of AIG Common Stock. As of February 11, 2016, approximately $5.8 billion remained under our share repurchase authorization.

Analysis of Sources and Uses of Cash

The following table presents selected data from AIG's Consolidated Statements of Cash Flows:

Years Ended December 31, *(in millions)*	**2015**	2014*	2013
Sources:			
Net cash provided by operating activities	**$ 2,877**	$ 5,007	$ 5,865
Net cash provided by changes in restricted cash	**1,457**	-	1,244
Net cash provided by other investing activities	**7,005**	15,731	5,855
Changes in policyholder contract balances	**2,410**	1,719	-
Issuance of long-term debt	**6,867**	6,687	5,235
Total sources	**20,616**	29,144	18,199

156

TABLE OF CONTENTS

Item 7 / LIQUIDITY AND CAPITAL rESOURCES

Uses:			
Change in restricted cash	**-**	(1,447)	-
Change in policyholder contract balances	**-**	-	(547)
Repayments of long-term debt	**(9,805)**	(16,160)	(14,197)
Purchases of AIG Common Stock	**(10,691)**	(4,902)	(597)
Net cash used in other financing activities	**(210)**	(7,132)	(1,652)
Total uses	**(20,706)**	(29,641)	(16,993)
Effect of exchange rate changes on cash	**(39)**	(74)	(92)
Increase (decrease) in cash	**$ (129)**	$ (571)	$ 1,114

* For 2014, cash decreased by $162 million due to reclassification of $289 million to restricted cash presented in Other assets, partially offset by a $127 million reclassification from Short-term investments, to correct prior period presentation.

The following table presents a summary of AIG's Consolidated Statement of Cash Flows:

Years Ended December 31, *(in millions)*	**2015**	2014	2013
Summary:			
Net cash provided by operating activities	**$ 2,877**	$ 5,007	$ 5,865
Net cash provided by investing activities	**8,462**	14,284	7,099
Net cash used in financing activities	**(11,429)**	(19,788)	(11,758)
Effect of exchange rate changes on cash	**(39)**	(74)	(92)
Increase (decrease) in cash	**(129)**	(571)	1,114
Cash at beginning of year	**1,758**	2,241	1,151
Change in cash of businesses held for sale	**-**	88	(24)
Cash at end of year	**$ 1,629**	$ 1,758	$ 2,241

Operating Cash Flow Activities

Insurance companies generally receive most premiums in advance of the payment of claims or policy benefits. The ability of insurance companies to generate positive cash flow is affected by the frequency and severity of losses under their insurance policies, policy retention rates and operating expenses.

Interest payments totaled $1.4 billion in 2015, compared to $3.4 billion in 2014 and $3.9 billion in 2013. Excluding interest payments, AIG generated positive operating cash flow of $4.2 billion, $8.3 billion and $9.7 billion in 2015, 2014 and 2013, respectively.

Cash provided by operating activities of our Non-Life Insurance Companies was $1.0 billion in 2015, compared to $0.9 billion in 2014 and $0.4 billion in 2013. The increase in 2014 compared to 2013 was primarily due to the timing of the payments related to catastrophe losses for 2013.

Cash provided by operating activities of our Life Insurance Companies was $3.8 billion in 2015, compared to $4.4 billion in 2014 and $4.3 billion in 2013. The decline in 2015 compared to 2014 was primarily due to a greater increase in other assets and liabilities, net.

Cash provided by operating activities of businesses held for sale was $2.9 billion for 2013.

TABLE OF CONTENTS

Item 7 / LIQUIDITY AND CAPITAL rESOURCES

Investing Cash Flow Activities

Net cash provided by investing activities in 2015 included:

• approximately $1.8 billion of cash collateral received in connection with our Life Insurance Companies' securities lending program; and

• approximately $4.2 billion of net cash proceeds from the sale of ordinary shares of AerCap.

Net cash provided by investing activities in 2014 included:

• a reduction in net investment purchase activity; and

• approximately $2.4 billion of net cash proceeds from the sale of ILFC.

Net cash provided by investing activities for 2013 included an increase in net investment purchase activity.

Financing Cash Flow Activities

Net cash used in financing activities in 2015 included:

• approximately $1.0 billion in the aggregate to pay a dividend of $0.125 per share on AIG Common Stock in each of the first and second quarters of 2015 and $0.28 per share on AIG Common Stock in each of the third and fourth quarters of 2015;

• approximately $10.7 billion to repurchase approximately 182 million shares of AIG Common Stock; and

• approximately $9.9 billion to repay long-term debt.

These items were partially offset by approximately $6.9 billion in proceeds from the issuance of long-term debt.

Net cash used in financing activities for 2014 included:

• approximately $712 million in the aggregate to pay dividends of $0.125 per share on AIG Common Stock in each of the four quarters of 2014;

• approximately $4.9 billion to repurchase approximately 88 million shares of AIG Common Stock;

- approximately $271 million to repay long-term debt of business held-for-sale; and
- approximately $16.2 billion to repay long-term debt.

Net cash used in financing activities for 2013 included:

- approximately $294 million in the aggregate to pay dividends of $0.10 per share on AIG Common Stock in each of the third and fourth quarters of 2013;
- approximately $597 million to repurchase approximately 12 million shares of AIG Common Stock;
- approximately $9.3 billion to repay long term debt; and

approximately $4.9 billion in repayments of long term debt of business held-for-sale.

Item 7 / LIQUIDITY AND CAPITAL rESOURCES

Liquidity and Capital Resources of AIG Parent and Subsidiaries

AIG Parent

As of December 31, 2015, AIG Parent had approximately $13.7 billion in liquidity sources. AIG Parent's liquidity sources are primarily held in the form of cash, short-term investments and publicly traded, investment grade rated fixed maturity securities. Fixed maturity securities primarily include U.S. government and government sponsored entity securities, U.S. agency mortgage-backed securities, corporate and municipal bonds and certain other highly rated securities. AIG Parent actively manages its assets and liabilities in terms of products, counterparties and duration. Based upon an assessment of funding needs, the liquidity sources can be readily monetized through sales, repurchase agreements or contributed as admitted assets to regulated insurance companies. AIG Parent liquidity is monitored through the use of various internal liquidity risk measures. AIG Parent's primary sources of liquidity are dividends, distributions, loans and other payments from subsidiaries and credit facilities. AIG Parent's primary uses of liquidity are for debt service, capital and liability management, operating expenses and subsidiary capital needs.

We generally manage capital flows between AIG Parent and its subsidiaries through internal, Board approved policies and standards. In addition, AIG Parent has unconditional capital maintenance agreements (CMAs) in place with certain subsidiaries. Nevertheless, regulatory and other legal restrictions could limit our ability to transfer capital freely, either to or from our subsidiaries.

We believe that we have sufficient liquidity and capital resources to satisfy our reasonably foreseeable future requirements and meet our obligations to our creditors, debt-holders and insurance company subsidiaries. We expect to access the debt markets from time to time to meet funding requirements as needed.

We utilize our capital resources to support our businesses, with the majority of capital allocated to our insurance operations. Should we have or generate more capital than is needed to support our business strategies (including organic growth or acquisition opportunities) or mitigate risks inherent to our business, we may develop plans to distribute such capital to shareholders via dividends or share repurchase authorizations or deploy such capital towards liability management.

In the normal course, it is expected that a portion of the capital released by our insurance operations or through the utilization of AIG's deferred tax assets may be available for distribution to shareholders. Additionally, it is expected that capital associated with businesses or investments that do not directly support our insurance operations may be available for distribution to shareholders or deployment towards liability management upon its monetization.

In developing plans to distribute capital, AIG considers a number of factors, including, but not limited to: 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, as well as regulatory standards for capital and capital distributions.

In January 2016, AIG Parent made a capital contribution of approximately $2.9 billion to our Non-Life Insurance Companies as a result of our fourth quarter reserve strengthening.

The following table presents AIG Parent's liquidity sources:

(In millions)	**As of December 31, 2015**	As of December 31, 2014
Cash and short-term investments[(a)]	**$ 3,497**	$ 5,085
Unencumbered fixed maturity securities[(b)]	**5,723**	4,727
Total AIG Parent liquidity	**9,220**	9,812
Available capacity under syndicated credit facility[(c)]	**4,500**	4,000
Available capacity under contingent liquidity facility[(d)]	**-**	500
Total AIG Parent liquidity sources	**$ 13,720**	$ 14,312

159

TABLE OF CONTENTS

Item 7 / LIQUIDITY AND CAPITAL rESOURCES

(a) Cash and short-term investments include reverse repurchase agreements totaling $1.5 billion and $1.6 billion as of December 31, 2015 and 2014, respectively.

(b) Unencumbered securities consist of publicly traded, investment grade rated fixed maturity securities. Fixed maturity securities primarily include U.S. government and government sponsored entity securities, U.S. agency mortgage-backed securities, corporate and municipal bonds and certain other highly rated securities.

(c) For additional information relating to this syndicated credit facility, see Credit Facilities below.

(d) The contingent liquidity facility expired by its terms on December 15, 2015. For additional information relating to the contingent liquidity facility, see Contingent Liquidity Facilities below.

Non-Life Insurance Companies

We expect that our Non-Life Insurance Companies will be able to continue to satisfy reasonably foreseeable future liquidity requirements and meet their obligations, including those arising from reasonably foreseeable contingencies or events, through cash from operations and, to the extent necessary, monetization of invested assets. Our Non-Life Insurance Companies’ liquidity resources are primarily held in the form of cash, short-term investments and publicly traded, investment grade rated fixed maturity securities.

Each of our Non-Life Insurance Companies’ liquidity is monitored through the use of various internal liquidity risk measures. The primary sources of liquidity are premiums, fees, reinsurance recoverables and investment income. The primary uses of liquidity are paid losses, reinsurance payments, dividends, expenses, investments and collateral requirements.

Our Non-Life Insurance Companies may require additional funding to meet capital or liquidity needs under certain circumstances. Large catastrophes may require us to provide additional support to our affected operations. Downgrades in our credit ratings could put pressure on the insurer financial strength ratings of our subsidiaries, which could result in non renewals or cancellations by policyholders and adversely affect the subsidiary’s ability to meet its own obligations. Increases in market interest rates may adversely affect the financial strength ratings of our subsidiaries, as rating agency capital models may reduce the amount of available capital relative to required capital. Other potential events that could cause a liquidity strain include an economic collapse of a nation or region significant to our operations, nationalization, catastrophic terrorist acts, pandemics or other events causing economic or political upheaval.

Certain Non-Life Insurance Companies are members of the Federal Home Loan Banks (FHLBs) in their respective districts. Borrowings from the FHLBs may be used to supplement liquidity. As of December 31, 2015 and 2014, none of our Non-Life Insurance Companies had FHLB borrowings outstanding.

In April 2015, AIG Parent and Ascot Corporate Name Limited (ACNL), a Non-Life Insurance Company, entered into a new $725 million letter of credit facility, which replaced the prior $625 million letter of credit facility. ACNL, as a member of the Lloyd’s of London insurance syndicate (Lloyd’s), is required to hold capital at Lloyd’s, known as Funds at Lloyds (FAL). Under the new facility, the entire FAL capital requirement of $625 million as of December 31, 2015, which supports the 2015, 2016 and 2017 years of account, was satisfied with a letter of credit in that amount issued under the facility.

AIG generally manages capital between AIG Parent and our Non-Life Insurance Companies through internal, Board-approved policies and guidelines. In addition, AIG Parent is party to a CMA with its Mortgage Guaranty insurance company. Among other things, the CMA provides that AIG Parent will maintain capital and surplus of the Mortgage Guaranty insurance company at or above a specified minimum required capital based on a specified risk-to-capital ratio. In addition, the CMA provides that if capital and surplus of the Mortgage Guaranty insurance company is in excess of that same specified minimum required capital, subject to its board approval and compliance with applicable insurance laws, the Mortgage Guaranty insurance company would declare and pay ordinary dividends to its equity holders up to an amount necessary to reduce projected or actual capital and surplus to a level equal to or not materially greater than such specified minimum required capital. As structured, the CMA contemplates that the specified minimum required capital would be reviewed and agreed upon at least annually. As of December 31, 2015, the minimum required capital for the CMA with the Mortgage Guaranty insurance company is based on a risk-to-capital ratio of 19 to 1.

In 2015, our Non-Life Insurance Companies paid approximately $3.2 billion in dividends in the form of cash and fixed maturity securities to AIG Parent, of which $600 million represented the remainder of dividends that were declared by our Non-Life

TABLE OF CONTENTS

Item 7 / LIQUIDITY AND CAPITAL rESOURCES

Insurance Companies in the fourth quarter of 2014. The fixed maturity securities primarily include U.S. government and government sponsored entity securities, U.S. agency mortgage-backed securities, corporate and municipal bonds and certain other highly rated securities.

Life Insurance Companies

We expect that our Life Insurance Companies will be able to continue to satisfy reasonably foreseeable future liquidity requirements and meet their obligations, including those arising from reasonably foreseeable contingencies or events, through cash from operations and, to the extent necessary, monetization of invested assets. Our Life Insurance Companies' liquidity sources are primarily held in the form of cash, short-term investments and publicly traded, investment grade rated fixed maturity securities.

Each of our Life Insurance Companies' liquidity is monitored through the use of various internal liquidity risk measures. The primary sources of liquidity are premiums, fees, reinsurance recoverables and investment income. The primary uses of liquidity are benefit claims, interest payments, surrenders, withdrawals, dividends, expenses, investments and collateral requirements.

Management believes that because of the size and liquidity of our Life Insurance Companies' investment portfolios, normal deviations from projected claim or surrender experience would not create significant liquidity risk. However, as we saw in 2008, in times of extreme capital markets disruption, liquidity needs could outpace resources. Furthermore, our Life Insurance Companies' products contain certain features that mitigate surrender risk, including surrender charges. As part of their risk management framework, our Life Insurance Companies continue to evaluate and, where appropriate, pursue strategies and programs to improve their liquidity position and facilitate their ability to maintain a fully invested asset portfolio.

Certain of our U.S. Life Insurance Companies are members of the FHLBs in their respective districts. Borrowings from the FHLBs are used to supplement liquidity or for other uses deemed appropriate by management. Our U.S. Life Insurance Companies had outstanding borrowings from the FHLBs in an aggregate amount of $2 million and $44 million as of December 31, 2015 and 2014, respectively.

Certain of our U.S. Life Insurance Companies have programs, which began in 2012, that lend securities from their investment portfolio to supplement liquidity or for other uses as deemed appropriate by management. Under these programs, these U.S. Life Insurance Companies lend securities to financial institutions and receive cash as collateral equal to 102 percent of the fair value of the loaned securities. Cash collateral received is invested in short-term investments. Additionally, the aggregate amount of securities that a Life Insurance Company is able to lend under its program at any time is limited to five percent of its general account statutory-basis admitted assets. At December 31, 2015, our U.S. Life Insurance Companies had $1.1 billion of securities subject to these agreements and $1.1 billion of liabilities to borrowers for collateral received. Our U.S. Life Insurance Companies had no securities subject to lending agreements and no collateral liability at December 31, 2014.

AIG generally manages capital between AIG Parent and our Life Insurance Companies through internal, Board-approved policies and guidelines. In addition, AIG Parent is party to a CMA with AGC Life Insurance Company. Among other things, the CMA provides that AIG Parent will maintain the total adjusted capital of AGC Life Insurance Company at or above a specified minimum percentage of its projected NAIC Company Action Level Risk-Based Capital (RBC). As of December 31, 2015, the specified minimum percentage under this CMA was 250 percent.

In 2015, our U.S. Life Insurance Companies paid approximately $4.6 billion to AIG Parent, which included $5.4 billion in dividends and loan repayments in the form of cash and fixed maturity securities, net of an $818 million tax settlement payment received from AIG Parent. The 2015 dividend payments included $2.2 billion that represented the remainder of dividends that were declared in the fourth quarter of 2014. The fixed maturity securities primarily included U.S. government and government sponsored entity securities, U.S. agency mortgage-backed securities, corporate and municipal bonds and certain other highly rated securities.

Credit Facilities

We maintain a committed, revolving syndicated credit facility as a potential source of liquidity for general corporate purposes. On November 5, 2015, we amended and restated the five-year syndicated credit facility that was entered into on June 19, 2014 (the Previous Facility). The amended and restated five-year syndicated facility (the Five-Year Facility) provides for aggregate commitments by the bank syndicate to provide unsecured revolving loans and/or standby letters of credit of up to $4.5 billion (increased from a $4.0 billion commitment in the Previous Facility) without any limits on the type of borrowings and is scheduled to expire in November 2020 (the Previous Facility was scheduled to expire in June 2019). The increased commitment of $500 million to the Five-Year Facility offsets the effect of the expiration of our $500 million contingent liquidity facility. See Contingent Liquidity Facilities below.

As of December 31, 2015, a total of $4.5 billion remains available under the Five-Year Facility. Our ability to borrow under the Five-Year Facility is not contingent on our credit ratings. However, our ability to borrow under the Five-Year Facility is conditioned on the satisfaction of certain legal, operating, administrative and financial covenants and other requirements contained in the Five-Year Facility. These include covenants relating to our maintenance of a specified total consolidated net worth and total consolidated debt to total consolidated capitalization. Failure to satisfy these and other requirements contained in the Five-Year Facility would restrict our access to the Five-Year Facility and could have a material adverse effect on our financial condition, results of operations and liquidity. We expect to borrow under the Five-Year Facility from time to time, and may use the proceeds for general corporate purposes.

Contingent Liquidity Facilities

AIG Parent had access to a contingent liquidity facility of up to $500 million as a potential source of liquidity for general corporate purposes. Under this facility, we had the unconditional right, prior to December 15, 2015, to issue up to $500 million in senior debt to the counterparty, based on a put option agreement between AIG Parent and the counterparty. The contingent liquidity facility expired by its terms on December 15, 2015. The expiration of the contingent liquidity facility is offset by the effect of the increased commitment of $500 million to our Five-Year Facility. See Credit Facilities above.

TABLE OF CONTENTS

Item 7 / LIQUIDITY AND CAPITAL rESOURCES

Contractual Obligations

The following table summarizes contractual obligations in total, and by remaining maturity:

December 31, 2015		Payments due by Period			
(in millions)	Total Payments	2016	2017 - 2018	2019 - 2020	Thereafter
Insurance operations					
Loss reserves	$ 78,090	$ 19,035	$ 22,202	$ 12,243	$ 24,610
Insurance and investment contract liabilities	229,806	15,691	28,322	24,999	160,794
Borrowings	813	-	-	106	707
Interest payments on borrowings	1,141	54	109	109	869
Operating leases	986	253	350	197	186
Other long-term obligations	25	4	11	6	4
Total	$ 310,861	$ 35,037	$ 50,994	$ 37,660	$ 187,170
Other					
Borrowings	$ 23,548	$ 1,619	$ 3,208	$ 2,475	$ 16,246
Interest payments on borrowings	17,142	1,067	1,998	1,759	12,318
Operating leases	149	51	52	23	24
Other long-term obligations	107	-	-	-	107
Total	$ 40,946	$ 2,737	$ 5,258	$ 4,257	$ 28,695
Consolidated					
Loss reserves	$ 78,090	$ 19,035	$ 22,202	$ 12,243	$ 24,610
Insurance and investment contract liabilities	229,806	15,691	28,322	24,999	160,794
Borrowings	24,361	1,619	3,208	2,581	16,953
Interest payments on borrowings	18,283	1,121	2,107	1,868	13,187
Operating leases	1,135	304	402	219	210
Other long-term obligations[a]	132	4	11	6	111
Total[b]	$ 351,807	$ 37,774	$ 56,252	$ 41,916	$ 215,865

(a) Primarily includes contracts to purchase future services and other capital expenditures.

(b) Does not reflect unrecognized tax benefits of $4.3 billion, the timing of which is uncertain.

Loss Reserves

Loss reserves relate to our Non-Life Insurance Companies and represent future losses and loss adjustment expense payments estimated based on historical loss development payment patterns. Due to the significance of the assumptions used, the payments by period presented above could be materially different from actual required payments. We believe that our Non-Life Insurance Companies maintain adequate financial resources to meet the actual required payments under these obligations.

Insurance and Investment Contract Liabilities

Insurance and investment contract liabilities, including GIC liabilities, relate to our Life Insurance Companies. These liabilities include various investment-type products with contractually scheduled maturities, including periodic payments of a term certain nature. These liabilities also include benefit and claim liabilities, of which a significant portion represents policies and contracts that do not have stated contractual maturity dates and may not result in any future payment obligations. For these policies and contracts (i) we are not currently making payments until the occurrence of an insurable event, such as death or disability, (ii) payments are conditional on survivorship or (iii) payment may occur due to a surrender or other non-scheduled event beyond our control.

TABLE OF CONTENTS

Item 7 / LIQUIDITY AND CAPITAL rESOURCES

We have made significant assumptions to determine the estimated undiscounted cash flows of these contractual policy benefits. These assumptions include mortality, morbidity, future lapse rates, expenses, investment returns and interest crediting rates, offset by expected future deposits and premiums on in-force policies. Due to the significance of the assumptions, the periodic amounts presented could be materially different from actual required payments. The amounts presented in this table are undiscounted and exceed the future policy benefits and policyholder contract deposits included in the Consolidated Balance Sheets.

We believe that our Life Insurance Companies have adequate financial resources to meet the payments actually required under these obligations. These subsidiaries have substantial liquidity in the form of cash and short-term investments. In addition, our Life Insurance Companies maintain significant levels of investment grade rated fixed maturity securities, including substantial holdings in government and corporate bonds, and could seek to monetize those holdings in the event operating cash flows are insufficient. We expect liquidity needs related to GIC liabilities to be funded through cash flows generated from maturities and sales of invested assets.

Borrowings

Our borrowings exclude those incurred by consolidated investments and include hybrid financial instrument liabilities recorded at fair value. We expect to repay the long-term debt maturities and interest accrued on borrowings by AIG through maturing investments and dispositions of invested assets, future cash flows from operations, cash flows generated from invested assets, future debt issuance and other financing arrangements. Borrowings supported by assets of AIG include various notes and bonds payable as well as GIAs that are supported by cash and investments held by AIG Parent and certain non-insurance subsidiaries for the repayment of those obligations.

Off-Balance Sheet Arrangements and Commercial Commitments

The following table summarizes Off-Balance Sheet Arrangements and Commercial Commitments in total, and by remaining maturity:

December 31, 2015		Amount of Commitment Expiring			
	Total Amounts		2017 -	2019 -	
(in millions)	Committed	2016	2018	2020	Thereafter
Insurance operations					
Guarantees:					
Standby letters of credit	$ 870	$ 180	$ 59	$ 627	$ 4
Guarantees of indebtedness	128	101	27	-	-
All other guarantees[a]	-	-	-	-	-
Commitments:					
Investment commitments[b]	2,406	1,615	538	247	6
Commitments to extend credit	2,403	1,171	856	290	86
Letters of credit	6	6	-	-	-
Total[c]	$ 5,813	$ 3,073	$ 1,480	$ 1,164	$ 96
Other					
Guarantees:					
Liquidity facilities[d]	$ 74	$ -	$ -	$ -	$ 74
Standby letters of credit	208	208	-	-	-
All other guarantees	153	140	13	-	-
Commitments:					
Investment commitments[b]	145	72	1	-	72
Commitments to extend credit[e]	500	-	-	500	-
Letters of credit	25	25	-	-	-
Total[c][f]	$ 1,105	$ 445	$ 14	$ 500	$ 146
Consolidated					
Guarantees:					
Liquidity facilities[d]	$ 74	$ -	$ -	$ -	$ 74
Standby letters of credit	1,078	388	59	627	4
Guarantees of indebtedness	128	101	27	-	-
All other guarantees[a]	153	140	13	-	-
Commitments:					
Investment commitments[b]	2,551	1,687	539	247	78
Commitments to extend credit[e]	2,903	1,171	856	790	86
Letters of credit	31	31	-	-	-
Total[c][f]	$ 6,918	$ 3,518	$ 1,494	$ 1,664	$ 242

(a) Includes construction guarantees connected to affordable housing investments by our Life Insurance

Companies. Excludes potential amounts for indemnification obligations included in asset sales agreements. See Note 9 to the Consolidated Financial Statements for further information on indemnification obligations.

(b) Includes commitments to invest in private equity funds, hedge funds and mutual funds and commitments to purchase and develop real estate in the United States and abroad. The commitments to invest in private equity funds, hedge funds and other funds are called at the discretion of each fund, as needed for funding new investments or expenses of the fund. The expiration of these commitments is estimated in the table above based on the expected life cycle of the related fund, consistent with past trends of requirements for funding. Investors under these commitments are primarily insurance and real estate subsidiaries.

(c) Does not include guarantees, CMAs or other support arrangements among AIG consolidated entities.

(d) Primarily represents liquidity facilities provided in connection with certain municipal swap transactions and collateralized bond obligations.

(e) Includes a five-year senior unsecured revolving credit facility between AerCap Ireland Capital Limited, as borrower, and AIG Parent, as lender (the AerCap Credit Facility) scheduled to mature in May 2019. The AerCap Credit Facility permits loans for general corporate purposes. In June 2015, upon the receipt by AIG Parent of the $500 million principal amount of 6.50% fixed-to-floating rate junior subordinated notes issued by AerCap Global Aviation Trust, the aggregate commitment under the AerCap Credit Facility was reduced to $500 million from $1.0 billion. At December 31, 2015, no amounts were outstanding under the AerCap Credit Facility.

(f) Excludes commitments with respect to pension plans. The annual pension contribution for 2016 is expected to be approximately $67 million for U.S. and non-U.S. plans.

TABLE OF CONTENTS

Item 7 / LIQUIDITY AND CAPITAL rESOURCES

Arrangements with Variable Interest Entities

We enter into various arrangements with variable interest entities (VIEs) in the normal course of business, and we consolidate a VIE when we are the primary beneficiary of the entity. For a further discussion of our involvement with VIEs, see Note 9 to the Consolidated Financial Statements.

Indemnification Agreements

We are subject to financial guarantees and indemnity arrangements in connection with our sales of businesses. These arrangements may be triggered by declines in asset values, specified business contingencies, the realization of contingent liabilities, litigation developments, or breaches of representations, warranties or covenants provided by us. These arrangements are typically subject to time limitations, defined by contract or by operation of law, such as by prevailing statutes of limitation. Depending on the specific terms of the arrangements, the maximum potential obligation may or may not be subject to contractual limitations. For additional information regarding our indemnification agreements, see Note 15 to the Consolidated Financial Statements.

We have recorded liabilities for certain of these arrangements where it is possible to estimate them. These liabilities are not material in the aggregate. We are unable to develop a reasonable estimate of the maximum potential payout under some of these arrangements. Overall, we believe that it is unlikely we will have to make any material payments under these arrangements.

Debt

The following table provides the rollforward of AIG's total debt outstanding:

Year Ended December 31, 2015 *(in millions)*	Balance at December 31, 2014	Issuances	Maturities and Repayments	Effect of Foreign Exchange	Other Changes
Debt issued or guaranteed by AIG:					
AIG general borrowings:					
Notes and bonds payable	$ 15,570	$ 5,540	$ (3,828)	$ (156)	$ 10
Subordinated debt	250	-	(250)	-	-
Junior subordinated debt	2,466	-	(1,073)	(57)	1
AIG Japan Holdings Kabushiki Kaisha	-	110	(1)	(3)	-
AIGLH notes and bonds payable	284	-	-	-	-
AIGLH junior subordinated debt	536	-	(114)	-	-

Total AIG general borrowings	19,106	5,650	(5,266)	(216)	11
AIG borrowings supported by assets:[(a)]					
MIP notes payable	2,870	-	(1,351)	(143)	(4)
Series AIGFP matched notes and bonds payable	34	-	(2)	-	2
GIAs, at fair value	4,648	388	(1,812)	-	52(b)
Notes and bonds payable, at fair value	818	16	(431)	-	(9)(b)
Total AIG borrowings supported by assets	8,370	404	(3,596)	(143)	41
Total debt issued or guaranteed by AIG	27,476	6,054	(8,862)	(359)	52
Debt not guaranteed by AIG:					
Other subsidiaries notes, bonds, loans and mortgages payable	58	450	(505)	(1)	-
Debt of consolidated investments[(c)]	3,683	363	(614)	(1)	1,556(d)
Total debt not guaranteed by AIG	3,741	813	(1,119)	(2)	1,556
Total debt	$ 31,217	$ 6,867	$ (9,981)	$ (361)	$ 1,608

166

TABLE OF CONTENTS

Item 7 / LIQUIDITY AND CAPITAL rESOURCES

(a) AIG Parent guarantees all such debt, except for MIP notes payable and Series AIGFP matched notes and bonds payable, which are direct obligations of AIG Parent. Collateral posted to third parties was $2.4 billion and $3.5 billion at December 31, 2015 and 2014, respectively. This collateral primarily consists of securities of the U.S. government and government sponsored entities and generally cannot be repledged or resold by the counterparties.

(b) Primarily represents adjustments to the fair value of debt.

(c) At December 31, 2015, includes debt of consolidated investment vehicles related to real estate investments of $2.4 billion, affordable housing partnership investments and securitizations of $2.2 billion and other securitization vehicles and investments of $359 million. At December 31, 2014, includes debt of consolidated investment vehicles related to real estate investments of $2.1 billion, affordable housing partnership investments and securitizations of $853 million, and other securitization vehicles and investments of $728 million.

(d) Includes the effect of consolidating previously unconsolidated partnerships.

Total DEBT OUTSTANDING

(in millions)

Debt Maturities

The following table summarizes maturing debt at December 31, 2015 of AIG (excluding $5.0 billion of borrowings of consolidated investments) for the next four quarters:

(in millions)	First Quarter 2016	Second Quarter 2016	Third Quarter 2016	Fourth Quarter 2016	Total
AIG general borrowings	**$ -**	**$ 684**	**$ -**	**$ 308**	**$ 992**
AIG borrowings supported by assets	**107**	**72**	**83**	**365**	**627**
Total	**$ 107**	**$ 756**	**$ 83**	**$ 673**	**$ 1,619**

See Note 14 to the Consolidated Financial Statements for additional details for debt outstanding.

167

Item 7 / LIQUIDITY AND CAPITAL rESOURCES

Credit Ratings

Credit ratings estimate a company's ability to meet its obligations and may directly affect the cost and availability of financing to that company. The following table presents the credit ratings of AIG and certain of its subsidiaries as of February 10, 2016. Figures in parentheses indicate the relative ranking of the ratings within the agency's rating categories; that ranking refers only to the major rating category and not to the modifiers assigned by the rating agencies.

	Short-Term Debt		Senior Long-Term Debt		
	Moody's	S&P	Moody's[a]	S&P[b]	Fitch[c]
AIG	**P-2 (2nd of 3)**	**A-2 (2nd of 8)**	**Baa 1 (4th of 9)**	**A- (3rd of 8)**	**BBB+ (4th of**
	Stable Outlook		***Stable Outlook***	***Negative Outlook***	***Stable Outlo***
AIG Financial Products Corp.[d]	**P-2**	**A-2**	**Baa 1**	**A-**	**-**
	Stable Outlook		***Stable Outlook***	***Negative Outlook***	

(a) Moody's appends numerical modifiers 1, 2 and 3 to the generic rating categories to show relative position within the rating categories.

(b) S&P ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

(c) Fitch ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

(d) AIG guarantees all obligations of AIG Financial Products Corp.

These credit ratings are current opinions of the rating agencies. They may be changed, suspended or withdrawn at any time by the rating agencies as a result of changes in, or unavailability of, information or based on other circumstances. Ratings may also be withdrawn at our request.

We are party to some agreements that contain "ratings triggers." Depending on the ratings maintained by one or more rating agencies, these triggers could result in (i) the termination or limitation of credit availability or a requirement for accelerated repayment, (ii) the termination of business contracts or (iii) a requirement to post collateral for the benefit of counterparties.

In the event of adverse actions on our long-term debt ratings by the major rating agencies, AIGFP and certain other AIG entities would be required to post additional collateral under some derivative transactions or could experience termination of the transactions. Such requirements and terminations could adversely affect our business, our consolidated results of operations in a reporting period or our liquidity. In the event of a further downgrade of AIG's long-term senior debt ratings, AIGFP and certain other AIG entities would be required to post additional collateral, and certain of the counterparties of AIGFP or of such other AIG entities would be permitted to terminate their contracts early.

The actual amount of collateral that we would be required to post to counterparties in the event of such downgrades, or the aggregate amount of payments that we could be required to make, depends on market conditions, the fair value of outstanding affected transactions and other factors prevailing at the time of the downgrade.

For a discussion of the effects of downgrades in the financial strength ratings of our insurance companies or our credit ratings, see Note 10 to the Consolidated Financial Statements herein and Part I, Item 1A. Risk Factors – Liquidity, Capital and Credit.

Regulation and Supervision

For a discussion of our regulation and supervision by different regulatory authorities in the United States and abroad, including with respect to our liquidity and capital resources, see Item 1. Business — Regulation and Item 1A. Risk Factors — Regulation.

168

TABLE OF CONTENTS

Item 7 / LIQUIDITY AND CAPITAL rESOURCES

Dividends and Repurchases of AIG Common Stock

On February 12, 2015, our Board of Directors declared a cash dividend on AIG Common Stock of $0.125 per share, payable on March 26, 2015 to shareholders of record on March 12, 2015. On April 30, 2015, our Board of Directors declared a cash dividend on AIG Common Stock of $0.125 per share, payable on June 25, 2015 to shareholders of record on June 11, 2015. On August 3, 2015, our Board of Directors declared a cash dividend on AIG Common Stock of $0.28 per share, payable on September 28, 2015 to shareholders of record on September 14, 2015. On November 2, 2015, our Board of Directors declared a cash dividend on AIG Common Stock of $0.28 per share, payable on December 21, 2015 to shareholders of record on December 7, 2015.

On February 11, 2016, our Board of Directors declared a cash dividend on AIG Common Stock of $0.32 per share, payable on March 28, 2016 to shareholders of record on March 14, 2016. The payment of any future dividends will be at the discretion of our Board of Directors and will depend on various factors, including the regulatory framework applicable to us, as discussed further in Note 16 to the Consolidated Financial Statements.

Our Board of Directors has authorized the repurchase of shares of AIG Common Stock through a series of actions. On December 16, 2015, our Board of Directors authorized an additional increase of $3.0 billion to the previous share repurchase authorization.

During 2015, we repurchased approximately 182 million shares of AIG Common Stock for an aggregate purchase price of approximately $10.7 billion pursuant to this authorization. The total number of shares of AIG Common Stock repurchased in 2015 includes (but the aggregate purchase price does not include) approximately 3.5 million shares of AIG Common Stock received in January 2015 upon the settlement of an ASR agreement executed in the fourth quarter of 2014. Pursuant to Exchange Act Rule 10b5-1 repurchase plans, from January 1 to February 11, 2016, we have repurchased approximately $2.5 billion of additional shares of AIG Common Stock.

On February 11, 2016, our Board of Directors authorized an additional increase to the repurchase authorization of AIG Common Stock of $5.0 billion, resulting in a remaining authorization on such date of approximately $5.8 billion. Shares may be repurchased from time to time in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise (including through the purchase of warrants). Certain of our share repurchases have been and may from time to time be effected through Exchange Act Rule 10b5-1 repurchase plans. The timing of any future share repurchases will depend on market conditions, our financial condition, results of operations, liquidity and other factors, including the regulatory framework applicable to us.

Dividend Restrictions

Payments of dividends to AIG by its insurance subsidiaries are subject to certain restrictions imposed by regulatory authorities. See Note 18 to the Consolidated Financial Statements for a discussion of restrictions on payments of dividends by our subsidiaries.

TABLE OF CONTENTS

Item 7 / enterprise risk management

Risk management includes the identification and measurement of various forms of risk, the establishment of risk thresholds and the creation of processes intended to maintain risks within these thresholds while optimizing returns. We consider risk management an integral part of managing our core businesses and a key element of our approach to corporate governance.

Overview

We have an integrated process for managing risks throughout our organization in accordance with our firm wide risk appetite. Our Board of Directors has oversight responsibility for the management of risk. Our Enterprise Risk Management (ERM) Department supervises and integrates the risk management functions in each of our business units, providing senior management with a consolidated view of the firm's major risk positions. Within each business unit, senior leaders and executives approve risk taking policies and targeted risk tolerance within the framework provided by ERM. ERM supports our businesses and management in the embedding of enterprise risk management in our key day-to-day business processes and in identifying, assessing, quantifying, managing, monitoring and reporting, and mitigating the risks taken by us and our businesses. Nevertheless, our risk management efforts may not always be successful and material adverse effects on our business, results of operations, cash flows, liquidity or financial condition may occur.

- Our ERM framework provides senior management with a consolidated view of our risk appetite and major risk positions.
- In each of our business units, senior leaders and executives approve risk-taking policies and targeted risk tolerances within the ERM framework while working with ERM to mitigate risks across the firm.
- Risk management is an integral part of how we manage our core businesses.

Risk Governance Structure

Our risk governance structure fosters the development and maintenance of a risk and control culture that encompasses all significant risk categories. Accountability for the implementation and oversight of risk policies is aligned with individual corporate executives, with the risk committees receiving regular reports regarding compliance with each policy to support risk governance at our corporate level as well as in each business unit. We review our governance and committee structure on a regular basis and make changes as appropriate to continue to effectively manage and govern our risks and risk-taking.

Our Board of Directors oversees the management of risk through its Risk and Capital Committee (RCC) and Audit Committee. Those committees regularly interact with other committees of the Board of Directors. Our Chief Risk Officer (CRO) reports to both the RCC and our Chief Executive Officer (CEO).

The Group Risk Committee (GRC): The GRC is the senior management group charged with assessing all significant risk issues on a global basis to protect our financial strength, optimize our intrinsic value, and protect our reputation. The GRC is chaired by our CRO. Its membership includes our CEO, Chief Financial Officer (CFO), and other executives from across our corporate functions and business units. Our CRO reports periodically on behalf of the GRC to both the RCC and the Audit Committee of the Board of Directors. Our CRO is also a member of the management strategy committee providing ERM the opportunity to review, monitor and consider the impact of changes in strategy.

Management committees that support the GRC are described below. These committees are comprised of senior executives and experienced business representatives from a range of functions and business units throughout AIG and its subsidiaries. These committees are charged with identifying, analyzing and reviewing specific risk matters within their respective mandates.

Financial Risk Group (FRG): The FRG is responsible for the oversight of financial risks taken by us and our subsidiaries. Its mandate includes overseeing our aggregate credit, market, interest rate, capital, liquidity and model risks, as well as asset-liability management, derivatives activity, and foreign exchange transactions. It provides the primary corporate-level review function for all proposed transactions and business practices that are significant in size, complex in scope, or that present heightened legal, reputational, accounting or regulatory risks. Membership of the FRG includes our CFO, CRO, Chief Investment Officer and Chief Strategy Officer.

Operational Risk Committee (ORC): This committee oversees operational risk management activities across our businesses, functions, and geographic locations. The ORC reviews the enterprise-wide identification, escalation and mitigation of operational risks that may arise from inadequate or failed internal processes, people, systems, or external events. The ORC also monitors current and emerging operational risks, as well as management actions taken to reduce risks to acceptable levels. The ORC approves the Operational Risk Management (ORM) Policy and ORM Framework, which includes the identification, assessment, monitoring and measurement of risks. The ORC ensures applicable governance structures are established to provide oversight of operational risk at each business unit and corporate function. The ORC also reviews aggregate firm-wide operational risk reports and provides a forum for senior management to assess our operational risk profile and to discuss operational risks that may affect our strategic objectives.

ORC members include senior AIG executives with expertise in legal, compliance, technology, human resources, finance and operational risk, as well as business continuity management and the chief risk officer of our business units.

Business Unit Risk and Capital Committees: Each of our major insurance businesses has established a risk committee that serves as the senior management committee responsible for risk oversight at the individual business unit level. The risk committees are responsible for the identification, assessment and monitoring of all sources of risk within their respective portfolios. Specific responsibilities include setting risk tolerances, reviewing capital management strategies (including asset allocation and risk financing), insurance portfolio optimization, risk management policies and providing oversight of risk-adjusted metrics. In addition, each business unit has established subordinate committees which identify, assess and monitor the specific operational, transactional and financial risks inherent in its respective business. Together, the committees described above provide comprehensive risk oversight throughout the organization.

171

TABLE OF CONTENTS

Item 7 / enterprise risk management

Risk Appetite, Limits, Identification, and Measurement

Risk Appetite Framework

Our Risk Appetite Framework integrates stakeholder interests, strategic business goals and available financial resources. We balance these by seeking to take measured risks that are expected to generate repeatable, sustainable earnings and create long-term value for our shareholders. The framework includes our Risk Appetite Statement approved by the Board of Directors or a committee thereof and a set of supporting tools, including risk tolerances, risk limits and policies, which we use to manage our risk profile and financial resources.

We articulate our aggregate risk-taking by setting risk tolerances on capital and liquidity measures. These measures are set at the AIG Parent as well as the legal entity level and cover consolidated and insurance company capital and liquidity ratios. We must comply with standards for capital adequacy and maintain sufficient liquidity to meet all our obligations as they come due in accordance with our internal capital management and liquidity policies. Our risk tolerances take into consideration regulatory requirements, rating agency expectations, and business needs. The GRC routinely reviews the level of risk taken by the consolidated organization in relation to the established risk tolerances. A consolidated risk report is also presented periodically, as required, to the RCC by our CRO.

Risk Limits

A key component of our Risk Appetite Framework is having a process in place that establishes and maintains appropriate limits on the material risks identified for our core businesses and facilitates monitoring and meeting of both internal and external stakeholder expectations. Our objectives include:

- Monitoring of risks, providing early warning indicators, and ensuring timely oversight and enforceability;

- Defining a consistent and transparent approach to limits governance from the group-level to regional entities; and

- Alignment with Risk Appetite Statement, where applicable.

To support the monitoring and management of AIG's and its business units' material risks, ERM has an established limits framework that employs a three-tiered hierarchy:

- **Level I Limits** are AIG consolidated level limits. They define our aggregate maximum exposures for core risks within the boundaries set by the Risk Appetite Statement, and constrain our concentration in specific risk types. These limits are set to manage key risks identified by ERM and to meet requirements by regulators and rating agencies at a consolidated level. Level 1 Limits are reported to the FRG, GRC and RCC.

- **Level II Limits** are business unit level limits. They define our appetite for specific, material risk taking activities within business units and corporate functions. These key risks are identified by ERM for the business unit and/or corporate function, and risk limits are developed to meet the specific requirements of regulators and rating agencies. Level II Limits are reported to the business unit RCCs, where applicable.

- **Level III Limits** monitor risk utilization on the regional or local level and are developed to address any specific requirements by regulators and rating agencies for that region not captured by the Level I and Level II limits. Level III Limits are reported at the local entity risk committee.

All limits are reviewed by the FRG, GRC or relevant business unit RCCs on a periodic basis and revisions, if applicable, are approved by those committees.

The business units are responsible for measuring and monitoring their risk exposures. ERM is responsible for monitoring compliance with limits and providing regular, timely reporting to our senior management and risk committees. Limit breaches

Item 7 / enterprise risk management

are required to be reported in a timely manner and are documented and escalated in accordance with their level of severity or materiality.

Risk Identification and Measurement

One tool we use to inform our Risk Appetite Framework is risk identification. We conduct risk identification through a number of processes at the business unit and corporate level focused on capturing our material risks and key areas of focus for follow-up risk management actions. A key initiative is our integrated bottom-up risk identification and assessment process down to the product-line level. These processes are used as a critical input to enhance and develop our analytics for measuring and assessing risks across the organization.

We employ various approaches to measure, monitor, and manage risk exposures, including the utilization of a variety of metrics and early warning indicators. We use a proprietary stress testing framework to measure our quantifiable risks. This framework is built on our existing ERM stress testing methodology for both insurance and non-insurance operations.

The framework measures risk over multiple time horizons and under different levels of stress. We develop a range of stress scenarios based both on internal experience and regulatory guidance. The stress tests are intended to ensure that sufficient resources are available under both idiosyncratic and systemic market stress conditions.

The stress testing framework assesses our aggregate exposure to our most significant financial and insurance risks, including the risk in each of our key insurance company subsidiaries in relation to its capital needs under stress, risks inherent in our non-insurance company subsidiaries, and risks to AIG consolidated capital. We use this information to determine the resources needed at the AIG Parent level to support our subsidiaries and capital resources required to maintain consolidated company target capitalization levels.

- Credit Risk Management
- Market Risk Management
- Liquidity Risk Management
- Operational Risk Management
- Insurance Risks
- Other Operations Risks

Credit Risk Management

Overview

Credit risk is defined as the risk that our customers or counterparties are unable or unwilling to repay their contractual obligations when they become due. Credit risk may also result from a downgrade of a counterparty's credit ratings or a widening of its credit spreads.

We devote considerable resources to managing our direct and indirect credit exposures. These exposures may arise from, but are not limited to, fixed income investments, equity securities, deposits, commercial paper investments, reverse repurchase agreements and repurchase agreements, corporate and consumer loans, leases, reinsurance recoverables, counterparty risk arising from derivatives activities, collateral extended to counterparties, insurance risk cessions to third parties, financial guarantees and letters of credit.

173

Item 7 / enterprise risk management

Governance

Our credit risks are managed by a team of investment professionals, subject to ERM oversight and various control processes. ERM is assisted by credit functions headed by highly experienced credit professionals. Their primary role is to assure appropriate credit risk management in accordance with our credit policies and procedures relative to our credit risk parameters. Our Chief Credit Officer (CCO) and credit executives are primarily responsible for the development, implementation and maintenance of a risk management framework, which includes the following elements related to our credit risks:

- developing and implementing our company-wide credit policies and procedures;
- approving delegated credit authorities to our credit executives and qualified investment professionals;
- developing methodologies for quantification and assessment of credit risks, including the establishment and maintenance of our internal risk rating process;
- managing a system of credit and program limits, as well as the approval process for credit transactions, above limit exposures, and concentrations of risk that may exist or be incurred;
- evaluating, monitoring, reviewing and reporting of credit risks and concentrations regularly with senior management; and
- approving appropriate credit reserves, credit-related other-than-temporary impairments and corresponding methodologies for all credit portfolios.

We monitor and control our company-wide credit risk concentrations and attempt to avoid unwanted or excessive risk accumulations, whether funded or unfunded. To minimize the level of credit risk in some circumstances, we may require mitigants, such as third party guarantees, reinsurance or collateral, including commercial bank-issued letters of credit and trust collateral accounts. We treat these guarantees, reinsurance recoverables, and letters of credit as credit exposure and include them in our risk concentration exposure data. We also monitor closely the quality of any trust collateral accounts.

See Investments – Available for Sale Investments herein for further information on our credit concentrations and credit exposures.

Market Risk Management

Market risk is defined as the risk of adverse impact due to systemic movements in one or more of the following market risk drivers: equity and commodity prices, residential and commercial real estate values, interest rates, credit spreads, foreign exchange, inflation, and their levels of volatility.

We are engaged in a variety of insurance, investment and other financial services businesses that generate market risk, directly and indirectly. We are exposed to market risks primarily within our insurance and capital markets activities, on both the asset and liability side of our balance sheet through on and off-balance sheet exposures. The chief risk officer within each business is responsible for creating a framework to properly identify these risks, then ensuring that they are appropriately measured, monitored and managed in accordance with the risk governance framework established by the Chief Market Risk Officer (CMRO).

The scope and magnitude of our market risk exposures is managed under a robust framework that contains documented risk-taking authorities, defined risk limits and minimum standards for managing market risk in a manner consistent with our Risk Appetite Statement. Our market risk management framework focuses on quantifying the financial repercussions of changes in these broad market observables, as opposed to from the idiosyncratic risks associated with individual assets that are addressed through our credit risk management function.

TABLE OF CONTENTS

Item 7 / enterprise risk management

Risk Identification

Market risk focuses on quantifying the financial repercussions of changes in broad, external, predominantly market observable risks. Financial repercussions can include an adverse impact on results of operations, financial condition, liquidity and capital.

Each of the following systemic risks is considered a market risk:

Equity prices. We are exposed to changes in equity market prices affecting a variety of instruments. Changes in equity prices can affect the valuation of publicly-traded equity shares, investments in private equity, hedge funds and mutual funds, exchange-traded funds, and other equity-linked capital market instruments as well as equity-linked insurance products, including but not limited to index annuities, variable annuities, universal life insurance and variable universal life insurance.

Residential and commercial real estate values. Our investment portfolios are exposed to the risk of changing values in a variety of residential and commercial real estate investments. Changes in residential/commercial real estate prices can affect the valuation of residential/commercial mortgages, residential/commercial mortgage backed securities and other structured securities with underlying assets that include residential/commercial mortgages: trusts that include residential/commercial real estate and/or mortgages, residential mortgage insurance contracts and commercial real estate investments.

Interest rates. Interest rate risk can arise from a mismatch in the interest rate exposure of assets versus liabilities. Lower interest rates generally result in lower investment income and make certain of our product offerings less attractive to investors. Conversely, higher interest rates are typically beneficial for the opposite reasons. However, when rates rise quickly, there can be a temporary asymmetric U.S. GAAP accounting effect where the existing securities lose market value, which is largely reported in Other comprehensive income, and the offsetting decrease in the value of related liabilities may not be recognized. Changes in interest rates can affect the valuation of fixed maturity securities, financial liabilities, insurance contracts including but not limited to fixed rate annuities, variable annuities and derivative contracts.

Credit spreads. Credit spreads measure an instrument’s risk premium or yield relative to that of a comparable duration, default free instrument. Changes in credit spreads can affect the valuation of fixed maturity securities, including but not limited to corporate bonds, ABS, mortgage-backed securities, AIG-issued debt obligations, credit derivatives and derivative credit valuation adjustments. Much like higher interest rates, wider credit spreads with unchanged default losses mean more investment income in the long term. In the short term, quickly rising spreads will cause a loss in the value of existing fixed maturity securities, which is largely reported in Other comprehensive income. A precipitous rise in credit spreads may also signal a fundamental weakness in the credit worthiness of bond obligors, potentially resulting in default losses.

Foreign exchange (FX) rates. We are a globally diversified enterprise with significant income, assets and liabilities denominated in, and significant capital deployed in, a variety of currencies. Changes in FX rates can affect the valuation of a broad range of balance sheet and income statement items as well as the settlement of cash flows exchanged in specific transactions.

Commodity Prices. Changes in commodity prices (the value of commodities) can affect the valuation of publicly traded commodities, commodity indices and derivatives on commodities and commodity indices. We are exposed to commodity prices primarily through their impact on the prices and credit quality of commodity producers' debt and equity securities in our investment portfolio.

Inflation. Changes in inflation can affect the valuation of fixed maturity securities, including AIG-issued debt obligations, derivatives and other contracts explicitly linked to inflation indices, and insurance contracts where the claims are linked to inflation either explicitly, via indexing, or implicitly, through medical costs or wage levels.

Governance

Market risk is overseen at the corporate level within ERM through the CMRO, who reports directly to the AIG CRO. The CMRO is supported by a dedicated team of professionals within ERM. Market Risk is managed by our finance, treasury and

TABLE OF CONTENTS

Item 7 / enterprise risk management

investment management corporate functions, collectively, and in partnership with ERM. The CMRO is primarily responsible for the development and maintenance of a risk management framework that includes the following key components:

- written policies that define the rules for our market risk-taking activities and provide clear guidance regarding their execution and management;
- a limit framework that aligns with our Board-approved Risk Appetite Statement;
- independent measurement, monitoring and reporting for line of business, business unit and enterprise-wide market risks; and
- clearly defined authorities for all individuals and committee roles and responsibilities related to market risk management.

These components facilitate the CMRO's identification, measurement, monitoring, reporting and management of our market risks.

Risk Measurement

Our market risk measurement framework was developed with the main objective of communicating the range and scale of our market risk exposures. At the firm wide level market risk is measured in a manner that is consistent with AIG's Risk Appetite Statement. This is designed to ensure that we remain within our stated risk tolerance levels and can determine how much additional market risk taking capacity is available within our framework. Our risk appetite is currently defined in terms of capital and liquidity levels. At the market risk level, the framework measures our overall exposure to each systemic market risk change on an economic basis.

In addition, we continue to use enhanced economic, U.S. GAAP accounting and statutory capital based risk measures at the market risk level, business unit level and firm wide levels. This process aims to ensure that we have a comprehensive view of the impact of our market risk exposures.

Sensitivity analysis. Sensitivity analysis measures the impact from a unit change in a market risk input. Examples of such sensitivities include a one basis point increase in yield on fixed maturity securities, a one basis point increase in credit spreads of fixed maturity securities, and a one percent increase in prices of equity securities.

Scenario analysis. Scenario analysis uses historical, hypothetical, or forward looking macroeconomic scenarios to assess and report exposures. Examples of hypothetical scenarios include a 100 basis point parallel shift in the yield curve or a 20 percent immediate and simultaneous decrease in world wide equity markets. Scenarios may also utilize a stochastic framework to arrive at a probability distribution of losses.

Stress testing. Stress testing is a special form of scenario analysis in which the scenarios are designed to lead to a material adverse outcome. Examples of such scenarios include the stock market crash of October 1987 or the widening of yields or spreads of RMBS or CMBS during 2008.

176

TABLE OF CONTENTS

Market Risk Sensitivities

The following table provides estimates of our sensitivity to changes in yield curves, equity prices and foreign currency exchange rates:

	Balance Sheet Exposure		Balance Sheet Effect	
(dollars in millions)	**December 31, 2015**	December 31, 2014	**December 31, 2015**	December 31, 2014
Sensitivity factor			100 bps parallel increase in all yield curves	
Interest rate sensitive assets:				
Fixed maturity securities	**260,689**	273,885	**(14,549)**	(15,107)
Mortgage and other loans receivable	**18,878**	16,594	**(1,092)**	(921)
Preferred stock	**20**	19	**(1)**	(1)
Total interest rate sensitive assets	**$ 279,587**(a)	$ 290,498(a)	**$ (15,642)**	$ (16,029)
Sensitivity factor			20% decline in stock prices and value of alternative investments	
Equity and alternative investments exposure:				
Hedge funds	**10,917**	10,798	**(2,183)**	(2,160)
Private equity	**7,233**	8,858	**(1,447)**	(1,772)
Real estate investments	**6,579**	3,612	**(1,316)**	(722)
PICC[b]	**2,239**	3,375	**(448)**	(675)
Common equity	**1,574**	2,044	**(315)**	(409)
Aircraft asset investments	**477**	651	**(95)**	(130)
AerCap[c]	**-**	4,972	**-**	(994)
Other investments	**472**	1,331	**(94)**	(266)
Total equity and alternative investments exposure	**$ 29,491**	$ 35,641	**$ (5,898)**	$ (7,128)
Sensitivity factor			10% depreciation of all foreign currency exchange rates against the U.S. dollar	
Foreign currency-denominated net asset position:				
Great Britain pound	**2,158**	3,884	**(216)**	(388)
Hong Kong dollar	**2,138**	2,875	**(214)**	(288)
Euro	**2,053**	768	**(205)**	(77)
All other foreign currencies	**4,310**	4,478	**(431)**	(448)

Total foreign currency-denominated net asset position[d]	**$ 10,659**	$ 12,005	**$ (1,066)**	$ (1,201)

(a) At December 31, 2015, the analysis covered $279.6 billion of $298.7 billion interest-rate sensitive assets. Excluded were $10.7 billion of loans and $3.6 billion of investments in life settlements. In addition, $4.8 billion of assets across various asset categories were excluded due to modeling limitations. At December 31, 2014, the analysis covered $290.4 billion of $308.9 billion interest-rate sensitive assets. Excluded were $8.4 billion of loans and $3.8 billion of investments in life settlements. In addition, $6.3 billion of assets across various asset categories were excluded due to modeling limitations.

(b) Includes our investments in PICC Group and PICC P&C.

(c) In September 2015, we sold the remainder of our ordinary shares of AerCap. Our 2014 sensitivity calculation for AerCap was based on our carrying value rather than the stock price as of the applicable date, as we applied the equity method of accounting prior to the sale.

(d) The majority of the foreign currency exposure is reported on a one quarter lag.

Foreign currency-denominated net asset position reflects our consolidated non U.S. dollar assets less our consolidated non U.S dollar liabilities on a U.S. GAAP basis. We use a bottom-up approach in managing our foreign currency exchange rate exposures with the objective of protecting statutory capital at the regulated insurance entity level. We manage cash flow risk on our foreign currency-denominated debt issued by AIG Parent and use a variety of techniques to mitigate this risk, including but not limited to the execution of cross-currency swaps and the issuance of new foreign currency-denominated debt to replace equivalent maturing debt. At the AIG Parent level, we monitor our foreign currency exposures against single currency and

TABLE OF CONTENTS

Item 7 / enterprise risk management

aggregate currency portfolio limits. As a matter of general practice, we do not typically hedge our foreign currency exposures to net investments in subsidiaries.

At December 31, 2015, our foreign currency-denominated net asset position decreased by $1.3 billion, or 11.2 percent, compared to December 31, 2014. The decrease was mostly due to a $1.7 billion decrease in our British pound position, primarily resulting from the unwinding of a cross-currency swap and a $737 million decrease in our Hong Kong dollar position, primarily resulting from the sale of ordinary shares in PICC P&C. These decreases were partially offset by a $1.3 billion increase in our euro position, primarily resulting from debt repurchases and hedging.

For illustrative purposes, we modeled our sensitivities based on a 100 basis point increase in yield curves, a 20 percent decline in equities and alternative assets, and a 10 percent depreciation of all foreign currency exchange rates against the U.S. dollar. The estimated results presented in the table above should not be taken as a prediction, but only as a demonstration of the potential effects of such events.

The sensitivity factors utilized for 2015 and presented above were selected based on historical data from 1995 to 2015, as follows (see the table below):

- a 100 basis point parallel shift in the yield curve is consistent with a one standard deviation movement of the benchmark ten-year treasury yield;

- a 20 percent drop for equity and alternative investments is broadly consistent with a one standard deviation movement in the S&P 500; and

- a 10 percent depreciation of foreign currency exchange rates is consistent with a one standard deviation movement in the U.S. dollar (USD)/Great Britain pound (GBP) exchange rate.

	Period	Standard Deviation	Suggested 2015 Scenario	2015 Scenario as a Multiple of Standard Deviation	2015 Change/ Return	2015 as a Multiple of Standard Deviation	Original 2014 Scena on Standard De 1994-201
10-Year Treasury	1995-2015	0.01	0.01	1.00	-	0.10	
S&P 500	1995-2015	0.18	0.20	1.09	(0.01)	0.04	
USD/GBP	1995-2015	0.09	0.10	1.06	(0.05)	0.57	

Risk Monitoring and Limits

The risk monitoring responsibilities, owned by the business units, include ensuring compliance with market risk limits and escalation and remediation of limit breaches. Such activities must be reported to the ERM Market Risk team by the relevant business unit. This monitoring approach is aligned with our overall risk limits framework.

To control our exposure to market risk, we rely on a three-tiered hierarchy of limits that the CMRO closely monitors and reports to our CRO, senior management and risk committees.

See Risk Appetite, Limits, Identification, and Measurement – Risk Limits herein for further information on our three-tiered hierarchy of limits.

Liquidity Risk Management

Liquidity risk is defined as the risk that our financial condition will be adversely affected by the inability or perceived inability to meet our short-term cash, collateral or other financial obligations. Failure to appropriately manage liquidity risk can result in insolvency, reduced operating flexibility, increased costs, reputational harm and regulatory action.

AIG and its legal entities seek to maintain sufficient liquidity during both the normal course of business and under defined liquidity stress scenarios to ensure that sufficient cash can be generated to meet the obligations as they come due.

AIG Parent liquidity risk tolerance levels allow it to meet its obligations over a twelve month horizon consistent with its risk appetite. We maintain a target range for required liquidity and minimum coverage ratios designed to ensure that funding needs are met under varying market conditions. If we project that we will breach these tolerances, we will assess and determine appropriate liquidity management actions. However, the market conditions in effect at that time may not permit us to achieve an increase in liquidity sources or a reduction in liquidity requirements.

Risk Identification

The following sources of liquidity and funding risks could impact our ability to meet short-term financial obligations as they come due.

- Market/Monetization Risk: Assets cannot be readily transformed into cash due to unfavorable market conditions. Market liquidity risk may limit our ability to sell assets at reasonable values to meet liquidity needs.

- Cash Flow Mismatch Risk: Discrete and cumulative cash flow mismatches or gaps over short-term horizons under both expected and adverse business conditions may create future liquidity shortfalls.

- Event Funding Risk: Additional funding is required as the result of a trigger event. Event funding risk comes in many forms and may result from a downgrade in credit ratings, a market event, or some other event that creates a funding obligation or limits existing funding options.

- Financing Risk: We are unable to raise additional cash on a secured or unsecured basis due to unfavorable market conditions, AIG-specific issues, or any other issue that impedes access to additional funding.

Governance

Liquidity risk is overseen at the corporate level within ERM through the CMRO, who reports directly to the AIG CRO. The AIG CRO has responsibility for the oversight of the Liquidity Risk Management Framework and delegates the day-to-day implementation of this framework to the AIG Treasurer. Our corporate treasury function manages liquidity risk, subject to ERM oversight and various control processes.

The Liquidity Risk Management Framework is guided by the liquidity risk tolerance as set forth in the Board-approved Risk Appetite Statement. The principal objective of this framework is to establish minimum liquidity requirements that protect our long-term viability and ability to fund our ongoing business, and to meet short-term financial obligations in a timely manner in both normal and stressed conditions.

Our Liquidity Risk Management Framework includes a number of liquidity and funding policies and monitoring tools to address AIG-specific, broader industry and market related liquidity events.

Risk Measurement

Comprehensive cash flow projections under normal conditions are the primary component for identifying and measuring liquidity risk. We produce comprehensive liquidity projections over varying time horizons that incorporate all relevant liquidity sources and uses and include known and likely cash inflows and outflows. In addition, we perform stress testing by identifying liquidity stress scenarios and assessing the effects of these scenarios on our cash flow and liquidity.

Target Liquidity Range: Target Liquidity Range specifies the amount of assets required to be maintained in specific liquidity portfolios to meet obligations as they arise over a twelve month horizon under stressed liquidity conditions.

Coverage Ratios: Coverage Ratios measure the adequacy of available liquidity sources, including the ability to monetize assets to meet the forecasted cash flows over a specified time horizon. The portfolio of assets is selected based on our ability to convert those assets into cash under the assumed market conditions and within the specified time horizon.

Cash Flow Forecasts: Cash Flow Forecasts measure the liquidity needed for a specific legal entity over a specified time horizon.

Stress Testing: Coverage Ratios and Asset Ratios are re-measured under defined liquidity stress scenarios that will impact net cash flows, liquid assets and/or other funding sources.
Relevant liquidity reporting is produced and reported regularly to AIG Parent and business unit risk committees. The frequency, content, and nature of reporting will vary for each business unit and legal entity, based on its complexity, risk profile, activities and size.

Operational Risk Management

Operational risk is defined as the risk of loss, or other adverse consequences, resulting from inadequate or failed internal processes, people, systems, or from external events. Operational risk includes legal, regulatory and compliance risks, but excludes business and strategy risks.

Operational risk is inherent in each of our business units. Operational risks can have many impacts, including but not limited to: unexpected economic losses or gains, reputational harm due to negative publicity, regulatory action from supervisory agencies, operational and business disruptions, and/or damage to customer relationships.

ORM oversees the Operational Risk policy and framework, which includes risk identification, assessment, prioritization, measurement, monitoring, and reporting of operational risk. As part of the framework, we deploy a series of operational risk programs to support our business units with the identification, monitoring and reporting of operational risks. The ORM programs include, but are not limited to, several key components as outlined below:

- The Risk Event Capture process enables each employee to identify, document, and escalate operational risk impacts, with a view to enhancing, processes and promoting lessons learned.

- The Vulnerability Identification (VID) process identifies emerging risks, which we consider to be risks that have not yet fully manifested themselves but could become significant over time.

• The Ordinal Risk Ranking effort provides an ordinal ranking of the firm's most significant operational risks at the Enterprise, Segment or Regional levels, with the goal of prioritizing assessment and remediation activity.

• The Risk and Control Self-Assessments (RCSAs) allow for the identification and assessment of the key operational risks within our respective business units and a determination as to whether the related controls are effective.

• Scenario Analyses are executed to identify the remote, but plausible, potential risks that could result in severe financial losses.

ORM, working together with other key second lines of defense functions (e.g., Model Validation and the Technology Risk office, as well as Compliance, SOX, and Global Business Continuity), provides an independent view of Operational Risk for each business, and works with the business to facilitate implementation of the above programs. This includes coverage of operational risks related to core insurance activities, investing, model risk, technology (including cyber security, access, data

TABLE OF CONTENTS

Item 7 / enterprise risk management

privacy and data security), third-party providers, as well as compliance and regulatory matters. Based on the results of the risk identification and assessment efforts above, business leaders are accountable for tracking and remediating identified issues in line with our risk monitoring procedures. Governance committees support these efforts and promote transparency and management decision making.

- ensure first line accountability and ownership of risks and controls;
- promote role clarity among the business and risk and control functions;
- enhance transparency, risk management governance and culture;
- foster greater consistency in identifying and ranking material risks;
- pro-actively address potential risk issues and assign clear ownership and accountability for addressing identified risk issues; and
- accelerate the development of technology solutions that support objectives above.

Insurance Risks

Except as described above, we manage our business risk oversight activities through our insurance operations. A primary goal in managing our insurance operations is to achieve an acceptable risk-adjusted return on equity. To achieve this goal, we must be disciplined in risk selection, premium adequacy, and appropriate terms and conditions to cover the risk accepted.

We operate our insurance businesses on a global basis, and we are exposed to a wide variety of risks with different time horizons. We manage these risks throughout the organization, both centrally and locally, through a number of procedures:

- pre-launch approval of product design, development and distribution;
- underwriting approval processes and authorities;
- exposure limits with ongoing monitoring;

- management of relationship between assets and liabilities, including hedging;

- enhanced pricing models;

- modeling and reporting of aggregations and limit concentrations at multiple levels (policy, line of business, product group, country, individual/group, correlation and catastrophic risk events);

- compliance with financial reporting and capital and solvency targets;

- use of reinsurance, both internal and third-party; and

- review and establishment of reserves.

We closely manage insurance risk by monitoring and controlling the nature and geographic location of the risks in each line of business underwritten, the terms and conditions of the underwriting and the premiums we charge for taking on the risk. We analyze concentrations of risk using various modeling techniques, including both probability distributions (stochastic) and/or single-point estimates (deterministic) approaches.

TABLE OF CONTENTS

Item 7 / enterprise risk management

Risk Identification

- **Non-Life Insurance Companies** — risks covered include property, casualty, fidelity/surety, accident and health, aviation, management liability and mortgage insurance. We manage risks in the general insurance business through aggregations and limitations of concentrations at multiple levels: policy, line of business, geography, industry and legal entity. We manage risks in the mortgage insurance business through geographic classification, risk based pricing, premium adequacy monitoring, and prudent credit policy and underwriting standards.

- **Life Insurance Companies** ~~– ri~~sks include mortality and morbidity in the insurance-oriented products and insufficient cash flows to cover contract liabilities and longevity risk in the retirement savings-oriented products. We manage risks through product design, sound medical and non-medical underwriting, and external reinsurance programs.

We purchase reinsurance for our insurance operations. Reinsurance facilitates insurance risk management (retention, volatility, concentrations) and capital planning. We may purchase reinsurance on a pooled basis. Pooling of our reinsurance risks enables us to purchase reinsurance more efficiently at a consolidated level, manage global counterparty risk and relationships and manage global catastrophe risks, both for the Non-Life Insurance Companies and the Life Insurance Companies.

Governance

Insurance risks are monitored at the business unit level within ERM and overseen by the business unit chief risk officer, who reports directly to our CRO. The framework includes the following key components:

- written policies that define the rules for our insurance risk-taking activities;

- a limit framework focused on key insurance risks that aligns with our Board-approved Risk Appetite Statement; and

- clearly defined authorities for all individuals and committee roles and responsibilities related to insurance risk management.

Risk Measurement, Monitoring and Limits

Stochastic methods. Stochastic methods are used to measure and monitor risks including natural catastrophe, reserve and premium risk. We develop probabilistic estimates of risk based on our exposures, historical observed volatility or industry-recognized models in the case of catastrophe risk.

Scenario analysis. Scenario or deterministic analysis is used to measure and monitor risks such as terrorism or to estimate losses due to man-made catastrophic scenarios.
In addition, we monitor concentrations of exposure through insurance limits aggregated along dimensions such as geography, industry, or counterparty.

The risk monitoring responsibilities of the business units include ensuring compliance with insurance risk limits and escalation and remediation of limit breaches. Such activities are reported to management by the relevant business unit for informative decision-making on a regular basis. This monitoring approach is aligned with our overall risk limits framework.

Risk limits have a consistent framework used across AIG, its business units, and legal entities. This includes escalation thresholds in cases where measurement is particularly challenging.

TABLE OF CONTENTS

Item 7 / enterprise risk management

See Risk Appetite, Limits, Identification, and Measurement – Risk Limits herein for further information on our three-tiered hierarchy of limits

Non-Life Insurance Companies Key Insurance Risks

We manage insurance risks through risk review and selection processes, exposure limitations, exclusions, deductibles, self-insured retentions, coverage limits, attachment points, and reinsurance. This management is supported by sound underwriting practices, pricing procedures and the use of actuarial analysis to help determine overall adequacy of provisions for insurance. Underwriting practices and pricing procedures incorporate historical experience, changes in underlying exposure, current regulation and judicial decisions as well as proposed or anticipated regulatory changes.

For Non-Life Insurance Companies, insurance risks primarily include the following:

• **Liability for Unpaid Losses and Loss Adjustment Expenses -** The potential inadequacy of the liabilities we establish for unpaid losses and loss adjustment expenses is a key risk faced by the Non-Life Insurance Companies. There is significant uncertainty in factors that may drive the ultimate development of losses compared to our estimates of losses and loss adjustment expenses. We manage this uncertainty through internal controls and oversight of the loss reserve setting process, as well as reviews by external experts. See Item 1. Business – A review of Liability for Unpaid Losses and Loss Adjustment Expenses herein for further information.

• **Underwriting -** The potential inadequacy of premiums charged for future risk periods on risks underwritten in our portfolios can impact the Non-Life Insurance Companies'ability to achieve an underwriting profit. We develop pricing based on our estimates of losses and expenses, but factors such as market pressures and the inherent uncertainty and complexity in estimating losses may result in premiums that are inadequate to generate underwriting profit. This may be driven by adverse economic conditions, unanticipated emergence of risks or increase in frequency of claims, worse than expected prepayment of policies, investment results, or unexpected or increased costs or expenses.

• **Catastrophe Exposure -** Our business is exposed to various catastrophic events in which multiple losses can occur and affect multiple lines of business in any calendar year. Natural disasters, such as hurricanes, earthquakes and other catastrophes, have the potential to adversely affect our operating results. Other risks, such as man-made catastrophes or pandemic disease, could also adversely affect our business and operating results to the extent they are covered by our insurance products. Concentration of exposure in certain industries or geographies may cause us to suffer disproportionate losses.

• **Single Risk Loss Exposure –** Our business is exposed to loss events that have the potential to generate losses from a single insured client. Events such as fires or explosions can result in loss activity for our clients. The net risk to us is managed to acceptable limits established by our GRC through a combination of internal underwriting standards and external reinsurance. Furthermore, single risk loss exposure is managed and monitored on both a segregated and aggregated basis.

- **Reinsurance -** Since we use reinsurance to limit our losses, we are exposed to risks associated with reinsurance including the unrecoverability of expected payments from reinsurers either due to an inability or unwillingness to pay, contracts that do not respond properly to the event, or that actual reinsurance coverage is different than anticipated. The inability or unwillingness to pay is considered credit risk and is monitored through our credit risk management framework.

Natural Catastrophe Risk

We manage catastrophe exposure with multiple approaches such as setting risk limits based on aggregate Probable Maximum Loss (PML) modeling, monitoring overall exposures and risk accumulations, and purchasing catastrophe reinsurance through both the traditional reinsurance and capital markets in addition to other reinsurance protections.

We use third-party catastrophe risk models and other tools to evaluate and simulate frequency and severity of catastrophic events and associated losses to our portfolios of exposures. We apply a proprietary multi-model approach to account for

Item 7 / enterprise risk management

relative strengths and weaknesses of vendor models, and make adjustments to modeled losses to account for loss adjustment expenses, model biases, data quality and non-modeled risks.

We perform post-catastrophe event studies to identify model weaknesses, underwriting gaps, and improvement opportunities. Lessons learned from post-catastrophe event studies are incorporated into the modeling and underwriting processes of risk pricing and selection. The majority of policies exposed to catastrophic risks are one-year contracts which allow us to adjust our underwriting guidelines, pricing and exposure accumulation in a relatively short period.

We recognize that climate change has implications for insurance industry exposure to natural catastrophe risk. With multiple levels of risk management processes in place, we actively analyze the latest climate science and policy to anticipate potential changes to our risk profile, pricing models and strategic planning. For example, we continually consider changes in climate and weather patterns as an integral part of the underwriting process. In addition, we are committed to providing innovative insurance products and services to help our clients be proactive against the threat of climate change, including expanding natural disaster resilience, promoting adaptation, and reducing greenhouse gas emissions. Our internal product development, underwriting, modeling, and sustainability practices will continue to adapt to and evolve with the developing risk exposures attributed to climate change.

Our natural catastrophe exposure is primarily driven by the U.S. and Japan, though our overall exposure is diversified across multiple countries. For example, we have exposures to additional perils such as European windstorms and floods. Within the U.S., we have significant hurricane exposure in Florida, the Gulf of Mexico, Northeast U.S. and mid-Atlantic regions. Events impacting the Northeast U.S. and the mid-Atlantic may result in a higher share of industry losses than other regions primarily due to our relative share of exposure in those regions. Within the U.S., we have significant earthquake exposure in California, the Pacific Northwest and New Madrid regions. Earthquakes impacting the Pacific Northwest and New Madrid regions may result in a higher share of industry losses than other regions primarily due to our relative share of exposure in these regions.

The estimates below are the Occurrence Exceedance Probability (OEP) losses, which reflect losses that may occur in any single event due to the defined peril. The 1-in-100 and 1-in-250 PMLs are the probable maximum losses from a single natural catastrophe event with probability of 1 percent and 0.4 percent in a year, respectively.

The following table presents an overview of OEP modeled losses for top perils and countries.

At December 31, 2015 *(in millions)*	Gross	Net of 2016 Reinsurance	Net of 2016 Reinsurance, After Tax	Percent of Total Shareholder Equity
Exposures:				
U.S. Hurricane (1-in-100)[(a)]	$ 5,332	$ 3,144	$ 2,044	2.3%
U.S. Earthquake (1-in-250)[(b)]	7,484	3,827	2,487	2.8
Japanese Wind (1-in-100)	936	523	340	0.4

Japanese Earthquake (1-in-250)[c]	$ 993	$ 601	$ 391	0.4%

(a) The U.S. hurricane amount includes losses to Property from hurricane hazards of wind and storm surge.

(b) U.S. earthquake loss estimates represent exposure to Property, Workers' Compensation (U.S.) and A&H business lines.

(c) Japan Earthquake represents exposure to Property and A&H business lines.

The OEP estimates provided above reflect our in-force portfolios at September 30, 2015, for both U.S. and Japan exposures. The catastrophe reinsurance program is as of January 1, 2016.

As noted above, AIG, along with other non-life insurance and reinsurance companies, utilizes industry-recognized catastrophe models and apply their proprietary modeling processes and assumptions to arrive at loss estimates. The use of different methodologies and assumptions could materially change the projected losses. Since there is no industry standard for assumptions and preparation of insured data for use in these models, modeled losses may not be comparable to estimates made by other companies.

Also, the modeled results are based on the assumption that all reinsurers fulfill their obligations to us under the terms of the reinsurance arrangements and all catastrophe bonds attach and pay as modeled. However, reinsurance recoverable may not be fully collectible. In particular, the use of catastrophe bonds may not provide commensurate levels of protection compared to

TABLE OF CONTENTS

Item 7 / enterprise risk management

traditional reinsurance transactions. Therefore, these estimates are inherently uncertain and may not accurately reflect our exposure to these events.

Our 2016 catastrophe reinsurance program includes coverage for natural catastrophes and some coverage for terrorism events. It consists of a large North American occurrence cover (without reinstatement) to protect against large North America losses, and Japan occurrence and aggregate covers to protect against losses in Japan. The attachment point for this reinsurance program is at $3 billion for the North American cover and varies by line of business for the Japan covers.

Actual results in any period are likely to vary, perhaps materially, from the modeled scenarios. The occurrence of one or more severe events could have a material adverse effect on our financial condition, results of operations and liquidity. See also Item 1A. Risk Factors — Reserves and Exposures for additional information.

Terrorism Risk

We actively monitor terrorism risk and manage exposures to losses from terrorist attacks. We have set risk limits based on modeled losses from certain terrorism attack scenarios. Terrorism risks are modeled using a third-party vendor model and various terrorism attack modes and scenarios. Adjustments are made to account for vendor model gaps and the nature of the Non-Life Insurance Companies exposures. Examples of modeled scenarios are conventional bombs of different sizes, anthrax attacks and nuclear attacks.

Our largest terrorism exposures are in New York City, and estimated losses are largely driven by the Property and Workers' Compensation lines of business. At our largest exposure location, modeled losses for a five-ton bomb attack net of the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) and reinsurance recoveries are estimated to be $3 billion as of September 30, 2015. We also have smaller terrorism exposure in Canadian cities and in London.

Our exposure to terrorism risk is mitigated by TRIPRA in addition to limited private reinsurance protections. TRIPRA covers terrorist attacks within the United States or U.S. missions and against certain U.S. carriers or vessels and excludes certain lines of business as specified by applicable law. In 2016, TRIPRA covers 84 percent of insured losses above a deductible, decreasing by one percent each year to 80 percent in 2020. The current estimate of our deductible is approximately $2.7 billion for 2015.

We offer terrorism coverage in many other countries through various insurance products and participate in country terrorism pools when applicable. International terrorism exposure is estimated using scenario-based modeling and exposure concentration is monitored routinely. Targeted reinsurance purchases are made for some lines of business to cover potential losses due to terrorist attacks.

Mortgage Risk

For Mortgage Guaranty, the potential exposure to loss is due to borrower default on a first-lien residential mortgage; the primary drivers of this risk are changes in mortgage underwriting standards, home price depreciation, changes in the unemployment rate, changes in mortgage rates, and mortgagee behavior.

Mortgage Guaranty manages the quality of the loans it insures through use of a proprietary risk quality index. Mortgage Guaranty uses this index to determine an insurability threshold as well as to manage the risk distribution of its new business. Along with traditional mortgage underwriting variables, Mortgage Guaranty's risk-based pricing model uses rating factors such as local housing economic conditions to establish premium rates.

Reinsurance Recoverable

AIG's reinsurance recoverable assets are comprised of:

185

TABLE OF CONTENTS

Item 7 / enterprise risk management

- Paid losses recoverable – balances due from reinsurers for losses and loss adjustment expenses paid by our subsidiaries and billed, but not yet collected.

- Ceded loss reserves – ultimate ceded reserves for losses and loss adjustment expenses, including reserves for claims reported but not yet paid and estimates for IBNR.

- Ceded reserves for unearned premiums.

At December 31, 2015, total reinsurance recoverable assets were $20.4 billion. These assets include general reinsurance paid losses recoverable of $1.2 billion, ceded loss reserves of $14.5 billion including reserves for IBNR, and ceded reserves for unearned premiums of $3.0 billion, as well as life reinsurance recoverables of $1.7 billion. The methods used to estimate IBNR and to establish the resulting ultimate losses involve projecting the frequency and severity of losses over multiple years. These methods are continually reviewed and updated by management. Any adjustments are reflected in income. We believe that the amount recorded for ceded loss reserves at December 31, 2015 reflects a reasonable estimate of the ultimate losses recoverable. Actual losses may, however, differ, perhaps materially, from the reserves currently ceded.

The Reinsurance Credit Department (RCD) conducts periodic detailed assessments of the financial strength and condition of current and potential reinsurers, both foreign and domestic. The RCD monitors both the financial condition of reinsurers as well as the total reinsurance recoverable ceded to reinsurers, and set limits with regard to the amount and type or exposure we are willing to take with reinsurers. As part of these assessments, we attempt to identify whether a reinsurer is appropriately licensed, assess its financial capacity and liquidity; and evaluate the local economic and financial environment in which a foreign reinsurer operates. The RCD reviews the nature of the risks ceded and the need for measures, including collateral to mitigate credit risk. For example, in our treaty reinsurance contracts, we frequently include provisions that allow us to require a reinsurer to post collateral or use other measures to reduce exposure when a referenced event occurs. Furthermore, we limit our unsecured exposure to reinsurers through the use of credit triggers such as insurer financial strength rating downgrades, declines in regulatory capital, or specified declines in risk-based capital (RBC) ratios. We also set maximum limits for reinsurance recoverable exposure, which in some cases is the recoverable amount plus an estimate of the maximum potential exposure from unexpected events for a reinsurer. In addition, credit executives within ERM review reinsurer exposures and credit limits and approve reinsurer credit limits above specified levels. Finally, even where we conclude that uncollateralized credit risk is acceptable, we require collateral from active reinsurance counterparties where it is necessary for our subsidiaries to recognize the reinsurance recoverable assets for statutory accounting purposes. At December 31, 2015, we held $7.4 billion of collateral, in the form of funds withheld, securities in reinsurance trust accounts and/or irrevocable letters of credit, in support of reinsurance recoverable assets from unaffiliated reinsurers. We believe that no exposure to a single reinsurer represents an inappropriate concentration of risk to us, nor is our business substantially dependent upon any single reinsurance contract.

The following table presents information for each reinsurer representing in excess of five percent of our total reinsurance recoverable assets:

At December 31, 2015 *(in millions)*	S&P Rating[(a)]	A.M. Best Rating[(a)]	Gross Reinsurance Assets	Percent of Reinsurance Assets[(b)]	Collateral Held[(c)]	Uncollateralized Reinsurance Assets
Reinsurer:						
Swiss Reinsurance Group of Companies	AA-	A+	$ 2,553	12.5%	$ 733	$ 1,820
Berkshire Hathaway Group of Companies	AA+	A++	$ 2,275(d)	11.1%	$ 1,408	$ 867
Munich Reinsurance Group of Companies	AA-	A+	$ 1,637	8.0%	$ 660	$ 977

(a) The financial strength ratings reflect the ratings of the various reinsurance subsidiaries of the companies listed as of February 5, 2016.

(b) Total reinsurance assets include both the Non-Life Insurance Companies and the Life Insurance Companies reinsurance recoverable.

(c) Excludes collateral held in excess of applicable balances.

(d) Includes $1.8 billion recoverable under the 2011 retroactive reinsurance transaction pursuant to which a large portion of the Non-Life Insurance Companies net domestic asbestos liabilities were transferred to NICO. Does not include reinsurance assets ceded to other reinsurers for which NICO has assumed the collection risk. See Liability for Unpaid Losses and Loss Adjustment Expenses — Transfer of Domestic Asbestos Liabilities.

At December 31, 2015, we had no significant general reinsurance recoverable due from any individual reinsurer that was financially troubled. Reinsurer capital levels continued to increase in 2015, thereby increasing the industry's underwriting capacity. This increased capacity has resulted in increased competition and lower rates for 2016 renewals. Reduced profitability associated with lower rates could potentially result in reduced capacity or rating downgrades for some reinsurers.

186

TABLE OF CONTENTS

Item 7 / enterprise risk management

The RCD, in conjunction with the credit executives within ERM, reviews these developments, monitors compliance with credit triggers that may require the reinsurer to post collateral, and seeks to use other appropriate means to mitigate any material risks arising from these developments.

See Item 7. MD&A – Critical Accounting Estimates – Reinsurance Assets for further discussion of reinsurance recoverable.

Life Insurance Companies Key Insurance Risks

Our Retirement and Life segments manage risk through product design, experience monitoring, pricing actions, risk limitations, reinsurance and active monitoring and management of the relationships between assets and liabilities, including hedging.

For our Retirement and Life products offered by the Life Insurance Companies, key insurance risks include the following:

- **Mortality risk** – represents the risk of loss arising from actual mortality rates being higher than expected mortality rates. This risk could arise from pandemics or other events, including longer-term societal changes that cause higher than expected mortality. This risk exists in a number of our product lines, but is most significant for our life insurance products.

- **Longevity risk** – represents the risk of a change in value of a policy or benefit as a result of actual mortality rates being lower than the expected mortality rates. This risk could arise from longer-term societal health changes as well as other factors. This risk exists in a number of our product lines but is most significant for our retirement, institutional and annuity products.

- **Policyholder behavior risk including surrender/lapse risk** – represents the risk that actual policyholder behavior differs from expected behavior in a manner that has an adverse effect on our results of operations. There are many assumptions made when products are sold, including how long the contracts will persist. Actual experience can vary significantly from these assumptions. This risk is impacted by a number of factors including changes in market conditions, especially interest rate and equity market changes, tax law, regulations and policyholder preferences. This risk exists in the majority of our product lines.

- **Interest rate risk** - represents the potential for loss due to a change in interest rates. Interest rate risk is measured with respect to assets, liabilities (both insurance-related and financial) and derivatives. This risk manifests itself when interest rates move significantly in a short period of time. Rapidly rising interest rates create the potential for increased surrenders. Interest rate risk can also manifest itself over a longer period of time, such as in a persistent low interest rate environment. Low long-term interest rates put pressure on investment returns, which may negatively affect sales of interest rate sensitive products and reduce future profits on certain existing fixed rate products.

• **Equity risk** – represents the potential for loss due to changes in equity prices. It affects equity-linked insurance products, including but not limited to index annuities, variable annuities (and associated guaranteed living and death benefits, as discussed below), universal life insurance and variable universal life insurance. In addition, changes in the volatility of equity prices can affect the valuation of insurance features that are accounted for as embedded derivatives and the related economic hedges.

The emergence of significant adverse experience compared to the initial assumptions at policy issuance or updated assumption would require an adjustment to DAC and benefit reserves, which could have a material adverse effect on our consolidated results of operations for a particular period. For additional discussion of the impact of actual and expected experience on DAC and benefit reserves, see Critical Accounting Estimates – Future Policy Benefits for Life and Accident and Health (Life Insurance Companies) and Critical Accounting Estimates – Guaranteed Benefit Features of Variable Annuity Products (Life Insurance Companies). For additional discussion of business risks, see Item 1A. Risk Factors — Business and Operations.

Variable Annuity Risk Management and Hedging Program

Our Retirement Income Solutions and Group Retirement businesses offer variable annuity products with riders that guarantee a certain level of benefits. Certain guaranteed living benefits, which include GMWB and GMAB, are accounted for as embedded derivatives measured at fair value, with changes in the fair value recorded in Other realized capital gains (losses). GMWB and GMAB features subject the Life Insurance Companies to market risk, including exposure to changes in interest rates, equity prices, credit spreads and market volatility.

Variable annuity product design is the first step in managing our exposure to these market risks. Risk mitigation features of our variable annuity product design include GMWB rider fees indexed to an equity market volatility index, which can provide additional fee assessments in periods of market volatility, required minimum allocations to fixed accounts to reduce overall equity exposure, and the utilization of volatility control funds, which reduce equity exposure in the funds in response to changes in market volatility, even under sudden or extreme market movements.

After reflecting our product risk-mitigating features, we hedge our remaining economic exposure to market risk within GMWB and GMAB features through our variable annuity hedging program, which is designed to offset certain changes in the economic value of these GMWB and GMAB embedded derivatives, within established thresholds. The hedging program is designed to provide additional protection against large and combined movements in interest rates, equity prices, credit spreads and market volatility under multiple scenarios.

Our hedging program utilizes an economic hedge target, which represents our estimate of the underlying economic drivers of these embedded derivatives, based on the present value of the future expected benefit payments for the GMWB and GMAB, less the present value of future rider fees, over numerous stochastic scenarios. This stochastic projection method uses best estimate assumptions for policyholder behavior (including mortality, lapses, withdrawals and benefit utilization) in conjunction with market scenarios calibrated to observable equity and interest rate option prices. Policyholder behaviors are regularly evaluated to compare current assumptions to actual experience and, if appropriate, changes are made to the policyholder behavior assumptions. The risk of changes in policyholder behavior is not explicitly hedged and such differences between expected and actual policyholder behaviors may result in hedge ineffectiveness.

Due to differences between the calculation of the economic hedge target and U.S. GAAP valuation of the embedded derivative, which include differences in the treatment of rider fees and exclusion of certain risk margins and other differences in discount rates, we expect relative movements in the economic hedge target and the U.S. GAAP embedded derivative valuation will vary over time with changes in equity markets, interest rates and credit spreads. See Results of Operations – Life Insurance Companies DAC and Reserves - Variable Annuity Guaranteed Benefit Features and Hedging Program for information on the impact on our consolidated pre-tax income from the change in fair value of the embedded derivatives and the hedging portfolio, as well as additional discussion of differences between the economic hedge target and the valuation of the embedded derivatives.

In designing our hedging portfolio, we make assumptions and projections about the future performance of the underlying contract holder funds. To project future account value changes, we make assumptions about how each of the underlying funds will perform. We map the contract holder funds to a set of publicly traded indices that we believe best represent the liability to be hedged. Basis risk exists due to the variance between these assumptions and actual fund returns, which may result in variances between changes in the hedging portfolio and changes in the economic hedge target. Net hedge results and the cost of hedging are also impacted by differences between realized volatility and implied volatility.

To manage the capital market exposures embedded within the economic hedge target, we identify and hedge market sensitivities to changes in equity markets, interest rates, volatility and credit spreads. The hedge program purchases derivative instruments or securities having sensitivities that offset those in the economic hedge target, within internally defined threshold levels. Since the relative movements of the hedging portfolio and the economic hedge target vary over time or with market changes, the net exposure can be outside the threshold limits, and adjustments to the hedging portfolio are made periodically to return the net exposure to within threshold limits.

Our hedging program utilizes various derivative instruments, including but not limited to equity options, futures contracts, interest rate swaps and swaption contracts, as well as other hedging instruments. In addition, we purchase certain fixed income securities and elect the fair value option as a capital efficient way to manage interest rate and credit spread exposures. To minimize counterparty credit risk, the majority of our derivative instrument hedges are implemented using exchange-traded futures and options, cleared through global exchanges. Over the counter derivatives are highly collateralized.

The hedging program is monitored on a daily basis to ensure that the economic hedge target and derivative portfolio are within the threshold limits, pursuant to the approved hedge strategy. Daily risk monitoring verifies that the net risk exposures, as measured through sensitivities to a large set of market shocks, are within the approved net risk exposure threshold limits. In addition, monthly stress tests are performed to determine the program’s effectiveness relative to the applicable limits, under an

TABLE OF CONTENTS

array of combined severe market stresses in equity prices, interest rates, volatility and credit spreads. Finally, hedge strategies are reviewed regularly to gauge their effectiveness in managing our market exposures in the context of our overall risk appetite.

Other Operations Risks

Derivative Transactions

We utilize derivatives principally to enable us to hedge exposure to interest rates, currencies, credit, commodities, equities and other risks. Credit risk associated with derivative counterparties exists for a derivative contract when that contract has a positive fair value to us. The maximum potential exposure will increase or decrease during the life of the derivative commitments as a function of maturity and market conditions. All derivative transactions must be transacted within counterparty limits that have been approved by ERM.

We evaluate counterparty credit quality by internal analysis consistent with the AIG Credit Policy. We utilize various credit enhancements, including letters of credit, guarantees, collateral, credit triggers, credit derivatives, margin agreements and subordination to reduce the credit risk relating to outstanding financial derivative transactions. We require credit enhancements in connection with specific transactions based on, among other things, the creditworthiness of the counterparties, and transaction size and maturity. Furthermore, we enter into certain agreements that have the benefit of set-off and close-out netting provisions, such as ISDA Master Agreements. These provisions provide that, in the case of an early termination of a transaction, we can set off receivables from a counterparty against payables to the same counterparty arising out of all covered transactions. As a result, where a legally enforceable netting agreement exists, the fair value of the transaction with the counterparty represents the net sum of estimated fair values.

The fair value of our interest rate, currency, credit, commodity and equity swaps, options, swaptions, and forward commitments, futures, and forward contracts reported as a component of Other Assets, was approximately $1.3 billion at December 31, 2015 and $1.6 billion at December 31, 2014. Where applicable, these amounts have been determined in accordance with the respective master netting agreements.

The following table presents the fair value of our derivatives portfolios in asset positions by internal counterparty credit rating:

At December 31, *(in millions)*	2015	2014
Rating:		
AAA	**$ 56**	$ 11

AA	**103**	129
A	**256**	441
BBB	**767**	838
Below investment grade	**127**	184
Total	**$ 1,309**	$ 1,603

See Note 10 to the Consolidated Financial Statements for additional discussion related to derivative transactions.

AIG Parent and Other

The major risk for investments in life settlements is longevity risk, which represents the risk of a change in the carrying value of the contracts arising from actual mortality rates being lower than the expected mortality rates. This risk could arise from longer term societal health changes as well as other factors.

Item 7 / CRITICAL aCCOUNTING eSTIMATES

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

- income tax assets and liabilities, including recoverability of our net deferred tax asset and the predictability of future tax operating profitability of the character necessary to realize the net deferred tax asset;
- liability for unpaid losses and loss adjustment expenses;
- 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; and
- fair value measurements of certain financial assets and liabilities.

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

The major assumptions used to establish each critical accounting estimate are discussed below.

Income Taxes

Recoverability of Net Deferred Tax Asset

The evaluation of the recoverability of our net 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 net deferred tax asset will not be realized. The weight given to the evidence is commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is necessary and the more difficult it is to support a conclusion that a valuation allowance is not needed.

We consider a number of factors to reliably estimate future taxable income so we can determine the extent of our ability to realize net operating losses (NOLs), foreign tax credits (FTCs), realized capital loss and other carryforwards. These factors include forecasts of future income for each of our businesses and actual and planned business and operational changes, both of which include assumptions about future macroeconomic and AIG specific conditions and events. We subject the forecasts to stresses of key assumptions and evaluate the effect on tax attribute utilization. We also apply stresses to our assumptions about the effectiveness of relevant prudent and feasible tax planning strategies. Our income forecasts, coupled with our tax

TABLE OF CONTENTS

Item 7 / CRITICAL aCCOUNTING eSTIMATES

planning strategies, all resulted in sufficient taxable income to achieve realization of the U.S. tax attributes prior to their expiration.

We separately assess the recoverability of our net deferred tax asset related to unrealized tax capital losses in the U.S. Life Insurance Companies' available for sale portfolio. The deferred tax asset relates to the unrealized losses for which the carryforward period has not yet begun, as such when assessing its recoverability we consider our ability and intent to hold the underlying securities to recovery. As of December 31, 2015, based on all available evidence, we concluded that a valuation allowance should be established on a portion of the deferred tax asset related to unrealized losses that are not more-likely-than-not to be realized.

See Note 22 to the Consolidated Financial Statements for a discussion of our framework for assessing the recoverability of our deferred tax asset.

Uncertain Tax Positions

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

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

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

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

Insurance Liabilities

Liability for Unpaid Losses and Loss Adjustment Expenses (Non-Life Insurance Companies)

The estimate of the Liability for unpaid losses and loss adjustment expenses consists of several key judgments:

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

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

TABLE OF CONTENTS

is particularly true for long-tail casualty classes of business such as excess casualty, asbestos, D&O, and primary or excess workers' compensation.

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

In some of our estimation processes we rely on the claims department estimates of our case reserves as an input to our best estimate of the ultimate loss cost.

The Non-Life Insurance Companies' loss reserves can generally be categorized into two distinct groups. Short-tail classes of business consist principally of property, Personal Insurance and certain casualty classes. Long-tail casualty classes of business include excess and umbrella liability, D&O, professional liability, medical malpractice, workers' compensation, general liability, products liability and related classes.

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

TABLE OF CONTENTS

Item 7 / CRITICAL aCCOUNTING eSTIMATES

Estimation of ultimate net losses and loss adjustment expenses (net losses) for long-tail casualty classes of business is a complex process and depends on a number of factors, including the class and volume of business, as well as estimates of the reinsurance recoverable. Experience in the more recent accident years shows limited statistical credibility in reported net losses on long-tail casualty classes of business. That is because a relatively low proportion of net incurred losses represents reported claims and expenses, and an even smaller percentage represents net losses paid. Therefore, IBNR constitutes a relatively high proportion of net losses.	*To estimate net losses for long-tail casualty classes of business, we use a variety of actuarial methods and assumptions.*
To estimate net losses for long-tail casualty classes of business, we use a variety of actuarial methods and assumptions and other analytical techniques as described below. A detailed reserve review is generally performed at least once per year to allow for comprehensive actuarial evaluation and collaboration with claims, underwriting, business unit management, risk management and senior management.	

We generally make a number of actuarial assumptions in the review of reserves for each class of business.

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

- **Expected loss ratios** for the latest accident year (i.e., accident year 2015 for the year-end 2015 loss reserve analysis) and, in some cases for accident years prior to the latest accident year. The expected loss ratio generally reflects the projected loss ratio from prior accident years, adjusted for the loss trend and the effect of rate changes and other quantifiable factors on the loss ratio. For low-frequency, high-severity classes such as excess casualty, expected loss ratios generally are used for at least the three most recent accident years.

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

We record quarterly changes in loss reserves for each of the Non-Life Insurance Companies classes of business. The overall change in our loss reserves is based on the sum of the changes for all classes of business. For most long-tail classes of business, the quarterly loss reserve changes are based on the estimated current loss ratio for each class of coverage less any amounts paid. Also, any change in estimated ultimate losses from prior accident years deemed to be necessary based on the results of our latest reserve studies or large loss analysis, either positive or negative, is reflected in the loss reserve for the current quarter. Differences between actual loss emergence in a given period compared to our expectations may also influence our judgment with respect to reserve adequacy.

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

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

The reserve analysis for each class of business is performed by the actuarial personnel who are most familiar with that class of business. In this process, the actuaries are required to make numerous assumptions, including the selection of loss development factors and loss cost trend factors. They are also required to determine and select the most appropriate actuarial methods for each business class. Additionally, they must determine the segmentation of data that will enable the most suitable test of reserve adequacy. In the course of these detailed reserve reviews an actuarial central estimate of the loss reserve is determined. The sum of these central estimates for each class of business provides an overall actuarial central estimate of the loss reserve for that class.

We selected our central estimate based on point estimates from each method with weights that vary by accident year. In 2015, we began developing our ranges of reasonable estimates for certain classes by evaluating ranges derived from multiple methodologies. We considered the range of reasonable parameter selections (for example, three-year versus ten-year average loss development factors) for each appropriate method and calculated a range of indications for each method. Where we have ranges, we assess the position of the actuarial central estimate in the range to help inform management's decision making. The range of reasonable estimates are not intended to cover all possibilities or extreme values.

We continue to consult with third party environmental litigation and engineering specialists, third party toxic tort claims professionals, third party clinical and public health specialists, third party workers' compensation claims adjusters and third party actuarial advisors to help inform our judgments. In 2015, the third party actuarial reviews covered the majority of net reserves held for our Commercial long-tail classes of business, and run-off portfolios reported in Corporate and Other.

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

Item 7 / CRITICAL aCCOUNTING eSTIMATES

- an assessment of economic conditions including real GDP growth, inflation, employment rates or unemployment duration, stock market volatility and changes in corporate bond spreads;

- changes in the legal, regulatory, judicial and social environment including changes in road safety, public health and cleanup standards;

- changes in medical cost trends (inflation, intensity and utilization of medical services) and wage inflation trends

- underlying policy pricing, terms and conditions including attachment points and policy limits;

- claims handling processes and enhancements;

- third-party claims reviews that are periodically performed for key classes of claims such as toxic tort, environmental and other complex casualty claims and

- third-party actuarial reviews that are periodically performed for key classes of business.

Loss reserve development can also be affected by commutations of assumed and ceded reinsurance agreements.

Actuarial and Other Methods for Major Classes of Business

In testing the reserves for each class of business, our actuaries determine the most appropriate actuarial methods. This determination is based on a variety of factors including the nature of the claims associated with the class of business, such as the frequency or severity of the claims. Other considerations include the loss development characteristics associated with the claims, the volume of claim data available for the applicable class, and the applicability of various actuarial methods to the class. In addition to determining the actuarial methods, the actuaries determine the appropriate loss reserve groupings of data. For example, we write many unique subclasses of professional liability. For pricing or other purposes, it is appropriate to evaluate the profitability of each subclass individually. However, for purposes of estimating the loss reserves for many classes of business, we believe it is appropriate to combine the subclasses into larger groups to produce a greater degree of credibility in the claims experience. This determination of data segmentation and actuarial methods is carefully considered for each class of business. The segmentation and actuarial methods chosen are those which together are expected to produce the most robust central estimate of the loss reserves.

The actuarial methods we use for most long-tail casualty classes of business include loss development methods, expected loss ratio methods, including “Bornhuetter Ferguson” methods described below, and frequency/severity models. Loss development methods utilize the actual loss development patterns from prior accident years to project the reported losses to an ultimate basis for subsequent accident years. Loss development methods generally are most appropriate for classes of business which exhibit a stable pattern of loss development from one accident year to the next, and for which the components of the classes have similar development characteristics. For example, property exposures would generally not be combined into the same class as casualty exposures, and primary casualty exposures would generally not be combined into the same class as excess casualty exposures. In 2015, we continued to refine our loss reserving techniques for the domestic primary casualty classes of business and adopted further segmentations based on our analysis of the differing emerging loss patterns for certain classes of insureds. We generally use expected loss ratio methods in cases where the reported loss data lacks sufficient credibility to utilize loss development methods, such as for new classes of business or for long-tail classes at early stages of loss development. Frequency/severity models may be used where sufficient frequency counts are available to apply such approaches.

Expected loss ratio methods rely on the application of an expected loss ratio to the earned premium for the class of business to determine the loss reserves. For example, an expected loss ratio of 70 percent applied to an earned premium base of $10 million for a class of business would generate an ultimate loss estimate of $7 million. Subtracting any reported paid losses and loss adjustment expenses would result in the indicated loss reserve for this class. Under the “Bornhuetter Ferguson” methods, the expected loss ratio is applied only to the expected unreported portion of the losses. For example, for a

195

Item 7 / CRITICAL aCCOUNTING eSTIMATES

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

A key advantage of loss development methods is that they respond more quickly to any actual changes in loss costs for the class of business. Therefore, if loss experience is unexpectedly deteriorating or improving, the loss development method gives full credibility to the changing experience. Expected loss ratio methods would be slower to respond to the change, as they would continue to give more weight to the expected loss ratio, until enough evidence emerged to modify the expected loss ratio to reflect the changing loss experience. On the other hand, loss development methods have the disadvantage of overreacting to changes in reported losses if the loss experience is not credible. For example, the presence or absence of large losses at the early stages of loss development could cause the loss development method to overreact to the favorable or unfavorable experience by assuming it will continue at later stages of development. In these instances, expected loss ratio methods such as “Bornhuetter Ferguson” have the advantage of recognizing large losses without extrapolating unusual large loss activity onto the unreported portion of the losses for the accident year.

Frequency/severity methods generally rely on the determination of an ultimate number of claims and an average severity for each claim for each accident year. Multiplying the estimated ultimate number of claims for each accident year by the expected average severity of each claim produces the estimated ultimate loss for the accident year. Frequency/severity methods generally require a sufficient volume of claims in order for the average severity to be predictable. Average severity for subsequent accident years is generally determined by applying an estimated annual loss cost trend to the estimated average claim severity from prior accident years. In certain cases, a structural approach may also be used to predict the ultimate loss cost. Frequency/severity methods have the advantage that ultimate claim counts can generally be estimated more quickly and accurately than can ultimate losses. Thus, if the average claim severity can be accurately estimated, these methods can more quickly respond to changes in loss experience than other methods. However, for average severity to be predictable, the class of business must consist of homogeneous types of claims for which loss severity trends from one year to the next are reasonably consistent. Generally these methods work best for high frequency, low severity classes of business such as personal auto.

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

- Claim by claim reviews to determine the stability and likelihood of settling an injured worker's indemnity and medical benefits – the claim file review was facilitated by third party specialists experienced in workers' compensation claims;

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

- Analysis of the cost of medical price inflation for each category of medical spend (services and devices) and for cost of l