

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

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

FORM 10-Q

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

For the quarterly period ended March 31, 2018

Commission File Number 1-8787

American International Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-2592361

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

175 Water Street, New York, New York

(Address of principal executive offices)

10038

(Zip Code)

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

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

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

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

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

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

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

As of April 30, 2018, there were 897,683,367 shares outstanding of the registrant’s common stock.

AMERICAN INTERNATIONAL GROUP, INC.

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

March 31, 2018

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Investments:

Fixed maturity securities:

Bonds available for sale, at fair value (amortized cost: 2018 - \$225,352; 2017 - \$225,461) \$ 2

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

Equity Securities:

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

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

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

Other invested assets (portion measured at fair value: 2018 - \$6,232; 2017 - \$6,248)

Short-term investments, including restricted cash of 2018 - \$47; 2017 - \$58

(portion measured at fair value: 2018 - \$3,094; 2017 - \$2,615)

Total investments 3

Cash

Accrued investment income

Premiums and other receivables, net of allowance

Reinsurance assets, net of allowance

Deferred income taxes

Deferred policy acquisition costs

Other assets, including restricted cash of \$221 in 2018 and \$317 in 2017

(portion measured at fair value: 2018 - \$774; 2017 - \$922)

Separate account assets, at fair value

Total assets \$ 4**Liabilities:**Liability for unpaid losses and loss adjustment expenses \$

Unearned premiums

Future policy benefits for life and accident and health insurance contracts

Policyholder contract deposits (portion measured at fair value: 2018 - \$3,711; 2017 - \$4,150) 1

Other policyholder funds

Other liabilities (portion measured at fair value: 2018 - \$1,158; 2017 - \$1,124)

Long-term debt (portion measured at fair value: 2018 - \$2,820; 2017 - \$2,888)

Separate account liabilities

Total liabilities

Contingencies, commitments and guarantees (See Note 10)

AIG shareholders' equity:

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

Treasury stock, at cost; 2018 - 1,008,989,984 shares; 2017 - 1,007,626,835 shares of common stock

Additional paid-in capital

Retained earnings

Accumulated other comprehensive income

Total AIG shareholders' equity

Non-redeemable noncontrolling interests

Total equity

Total liabilities and equity

See accompanying Notes to Condensed Consolidated Financial Statements.

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American International Group, Inc.

Condensed Consolidated Statements of Income *(unaudited)*

	Three Months Ended M
	31,
	2018
<i>(dollars in millions, except per share data)</i>	
Revenues:	
Premiums	\$ 7,275 \$
Policy fees	764
Net investment income	3,261
Net realized capital losses:	
Total other-than-temporary impairments on available for sale securities	(75)
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income (loss)	(12)
Net other-than-temporary impairments on available for sale securities recognized in net income	(87)
Other realized capital gains (losses)	68
Total net realized capital losses	(19)
Other income	431
Total revenues	11,712
Benefits, losses and expenses:	
Policyholder benefits and losses incurred	5,667
Interest credited to policyholder account balances	916
Amortization of deferred policy acquisition costs	1,358
General operating and other expenses	2,271
Interest expense	277
(Gain) loss on extinguishment of debt	4
Net (gain) loss on sale of divested businesses	(8)
Total benefits, losses and expenses	10,485
Income from continuing operations before income tax expense	1,227
Income tax expense	277
Income from continuing operations	950
Income (loss) from discontinued operations, net of income tax expense	(1)
Net income	949
Less:	
Net income from continuing operations attributable to noncontrolling interests	11
Net income attributable to AIG	\$ 938 \$
Income per common share attributable to AIG:	
Basic:	
Income from continuing operations	\$ 1.03 \$

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Income from discontinued operations	\$	-	\$
Net income attributable to AIG	\$	1.03	\$
Diluted:			
Income from continuing operations	\$	1.01	\$
Income from discontinued operations	\$	-	\$
Net income attributable to AIG	\$	1.01	\$
Weighted average shares outstanding:			
Basic		907,951,597	980,77
Diluted		925,266,577	1,005,31
Dividends declared per common share	\$	0.32	\$

See accompanying Notes to Condensed Consolidated Financial Statements.

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American International Group, Inc.

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

	Three Months Ended March 31,	
<i>(in millions)</i>	2018	2017
Net income	\$ 949	\$1,211
Other comprehensive income (loss), net of tax		
Change in unrealized appreciation (depreciation) of fixed maturity securities on which other-than-temporary credit impairments were taken	(150)	11
Change in unrealized appreciation (depreciation) of all other investments	(2,708)	69
Change in foreign currency translation adjustments	158	(276)
Change in retirement plan liabilities adjustment	29	1
Change in fair value of liabilities under fair value option attributable to changes in own credit risk	2	
Other comprehensive income (loss)	(2,669)	55
Comprehensive income (loss)	(1,720)	1,766
Comprehensive income attributable to noncontrolling interests	11	2
Comprehensive income (loss) attributable to AIG	\$(1,731)	\$1,731

See accompanying Notes to Condensed Consolidated Financial Statements.

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American International Group, Inc.

Condensed Consolidated Statements of Equity (*unaudited*)

<i>(in millions)</i>	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income
Three Months Ended March 31, 2018					
Balance, beginning of year	\$ 4,766	\$ (47,595)	\$ 81,078	\$ 21,457	\$ 5,465
Cumulative effect of change in accounting principle, net of tax	-	-	-	568	(576)
Common stock issued under stock plans	-	186	(336)	-	-
Purchase of common stock	-	(298)	-	-	-
Net income attributable to AIG or noncontrolling interests	-	-	-	938	-
Dividends	-	-	-	(289)	-
Other comprehensive income (loss)	-	-	-	-	(2,669)
Net increase due to acquisitions and consolidations	-	-	-	-	-
Contributions from noncontrolling interests	-	-	-	-	-
Distributions to noncontrolling interests	-	-	-	-	-
Other	-	1	99	(3)	-
Balance, end of period	\$ 4,766	\$ (47,706)	\$ 80,841	\$ 22,671	\$ 2,220
Three Months Ended March 31, 2017					
Balance, beginning of year	\$ 4,766	\$ (41,471)	\$ 81,064	\$ 28,711	\$ 3,230
Common stock issued under stock plans	-	139	(302)	-	-
Purchase of common stock	-	(3,585)	-	-	-
Net income attributable to AIG or noncontrolling interests	-	-	-	1,185	-
Dividends	-	-	-	(307)	-
Other comprehensive income (loss)	-	-	-	-	551
Net increase due to acquisitions and consolidations	-	-	-	-	-
Contributions from noncontrolling interests	-	-	-	-	-
Distributions to noncontrolling interests	-	-	-	-	-
Other	-	2	84	2	-
Balance, end of period	\$ 4,766	\$ (44,915)	\$ 80,846	\$ 29,591	\$ 3,781

See accompanying Notes to Condensed Consolidated Financial Statements.

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American International Group, Inc.

Condensed Consolidated Statements of Cash Flows (*unaudited*)

	Three Months Ended March 31,	
	2018	2017
<i>(in millions)</i>		
Cash flows from operating activities:		
Net income	\$ 949	\$ 1,211
(Income) loss from discontinued operations	1	-
Adjustments to reconcile net income to net cash used in operating activities:		
Noncash revenues, expenses, gains and losses included in income:		
Net gains on sales of securities available for sale and other assets	(120)	(112)
Net (gain) loss on sale of divested businesses	(8)	100
(Gains) losses on extinguishment of debt	4	(1)
Unrealized (gains) losses in earnings - net	268	(226)
Equity in income from equity method investments, net of dividends or distributions	(86)	(109)
Depreciation and other amortization	1,382	1,012
Impairments of assets	105	173
Changes in operating assets and liabilities:		
Insurance reserves	137	401
Premiums and other receivables and payables - net	400	(189)
Reinsurance assets and funds held under reinsurance treaties	(1,706)	(12,237)
Capitalization of deferred policy acquisition costs	(1,397)	(1,201)
Current and deferred income taxes - net	250	446
Other, net	(1,117)	396
Total adjustments	(1,888)	(11,547)
Net cash used in operating activities	(938)	(10,336)
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales or distributions of:		
Available for sale securities	5,638	15,307
Other securities	1,385	888
Other invested assets	1,064	1,816
Divested businesses, net	6	24
Maturities of fixed maturity securities available for sale	5,347	7,145
Principal payments received on and sales of mortgage and other loans receivable	1,037	1,543
Purchases of:		
Available for sale securities	(9,042)	(10,028)
Other securities	(384)	(185)
Other invested assets	(847)	(783)
Mortgage and other loans receivable	(2,490)	(2,181)
Net change in short-term investments	(3,040)	1,250

Other, net	(646)	(297)
Net cash provided by (used in) investing activities	(1,972)	14,499
Cash flows from financing activities:		
Proceeds from (payments for)		
Policyholder contract deposits	7,069	4,002
Policyholder contract withdrawals	(4,160)	(3,682)
Issuance of long-term debt	3,039	151
Repayments of long-term debt	(1,327)	(602)
Purchase of common stock	(298)	(3,585)
Dividends paid	(289)	(307)
Other, net	(1,548)	(25)
Net cash provided by (used in) financing activities	2,486	(4,048)
Effect of exchange rate changes on cash and restricted cash	58	(82)
Net increase (decrease) in cash and restricted cash	(366)	33
Cash and restricted cash at beginning of year	2,737	2,107
Change in cash of businesses held for sale	-	52
Cash and restricted cash at end of period	\$ 2,371	\$ 2,192

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American International Group, Inc.

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

	Three Months Ended March 31,	
	2018	2017
Cash	\$2,103	\$1,918
Restricted cash included in Short-term investments*	47	61
Restricted cash included in Other assets*	221	213
Total cash and restricted cash shown in the Condensed Consolidated Statements of Cash Flows	\$2,371	\$2,192
Cash paid during the period for:		
Interest	\$ 357	\$ 354
Taxes	\$ 28	\$ 68
Non-cash investing/financing activities:		
Interest credited to policyholder contract deposits included in financing activities	\$ 825	\$ 824

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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

1. Basis of Presentation

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

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

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

Interim-period operating results may not be indicative of the operating results for a full year. We evaluated the need to recognize or disclose events that occurred subsequent to March 31, 2018 and prior to the issuance of these Condensed Consolidated Financial Statements.

Use of Estimates

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

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

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

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

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

2. Summary of Significant Accounting Policies

Accounting Standards Adopted During 2018

Revenue Recognition

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

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

Recognition and Measurement of Financial Assets and Financial Liabilities

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

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

Classification of Certain Cash Receipts and Cash Payments

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

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

Intra-Entity Transfers of Assets Other than Inventory

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

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

Restricted Cash

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

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

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

Gains and Losses from the Derecognition of Nonfinancial Assets

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

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

Improving the Presentation of Net Periodic Pension and Postretirement Benefit Cost

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

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

Modification of Share-Based Payment Awards

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

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

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued an accounting standard that allows the optional reclassification of stranded tax effects within accumulated other comprehensive income to retained earnings that arise due to the enactment of the Tax Cuts and Jobs Act of 2017 (Tax Act). The amount of the reclassification would

reflect the effect of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances, if any, at the date of enactment of the Tax Act and other income tax effects of the Tax Act on items remaining in accumulated other comprehensive income.

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

Future Application of Accounting Standards

Leases

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

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

TABLE OF CONTENTSITEM 1 | **Notes to Condensed Consolidated Financial Statements (unaudited) | 2. Summary of Significant Accounting Policies****Financial Instruments - Credit Losses**

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

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

Simplifying the Test for Goodwill Impairment

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

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

Premium Amortization on Purchased Callable Debt Securities

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

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

cash flows or required disclosures.

Derivatives and Hedging

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

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

3. Segment Information

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

General Insurance

General Insurance business is presented as two operating segments:

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

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

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

Life and Retirement

Life and Retirement business is presented as four operating segments:

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

Other Operations

Other Operations category consists of:

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

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

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

Legacy Portfolio segment consists of:

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

- **Legacy General Insurance Run-Off Lines** consists of asbestos and environmental exposures and other exposures within certain Property and Casualty profit centers no longer actively marketed, including excess workers' compensation, environmental impairment liability, public entity liability, accident & health, physicians and surgeons professional liability, and various other workers' compensation and general liability exposures.
- **Legacy Life and Retirement Run-Off Lines** include whole life, long-term care and exited accident & health product lines. Also includes certain structured settlement, pension risk transfer annuities and single premium immediate annuities written prior to April 2012.
- **Legacy Investments** include investment classes that we have placed into run-off.

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

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

Three Months Ended March 31,

	2018		
<i>(in millions)</i>	Total Revenues	Adjusted Pre-tax Income (Loss)	Rev
General Insurance			
North America	\$ 3,340	\$ 320	
International	4,104	190	
Total General Insurance	7,444	510	
Life and Retirement			
Individual Retirement	1,361	499	
Group Retirement	761	282	
Life Insurance	1,061	52	
Institutional Markets	277	59	
Total Life and Retirement	3,460	892	
Other Operations	150	(342)	

Legacy Portfolio	836	145
AIG Consolidation and elimination	(62)	11
Total AIG Consolidated adjusted revenues and adjusted pre-tax income	11,828	1,216
Reconciling Items from adjusted pre-tax income to pre-tax income:		
Changes in fair value of securities used to hedge guaranteed living benefits	(77)	(77)
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains	-	(31)
Other income (expense) - net	(11)	-
Gain (Loss) on extinguishment of debt	-	(4)
Net realized capital losses*	(29)	(19)
Income (loss) from divested businesses	-	8
Non-operating litigation reserves and settlements	1	(13)
(Unfavorable) favorable prior year development and related amortization changes ceded under retroactive reinsurance agreements	-	(34)
Net loss reserve discount benefit (charge)	-	205
Restructuring and other costs	-	(24)
Revenues and Pre-tax income	\$ 11,712\$	1,227 \$

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

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

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

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

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

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

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

March 31, 2018*(in millions)***Assets:****Bonds available for sale:**

	Level 1	Level 2	Level 3	Counterparty Netting ^(a)	Cash Collateral
U.S. government and government sponsored entities	\$ -	\$ 2,833	\$ -	\$ -	\$ -
Obligations of states, municipalities and political subdivisions	-	15,550	2,261	-	-
Non-U.S. governments	25	15,689	9	-	-
Corporate debt	-	129,468	1,871	-	-
RMBS	-	20,050	15,839	-	-
CMBS	-	13,025	584	-	-
CDO/ABS	-	8,864	7,846	-	-
Total bonds available for sale	25	205,479	28,410	-	-

Other bond securities:

U.S. government and government sponsored entities	594	2,183	-	-	-
Non-U.S. governments	-	54	-	-	-
Corporate debt	-	1,784	19	-	-
RMBS	-	391	1,427	-	-
CMBS	-	493	73	-	-
CDO/ABS	-	603	4,776	-	-
Total other bond securities	594	5,508	6,295	-	-

Other equity securities^(b)

	1,716	6	3	-	-
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Mortgage and other loans receivable

	-	-	-	-	-
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Other invested assets^(c)

	5	1	292	-	-
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Derivative assets:

Interest rate contracts	-	2,549	-	-	-
Foreign exchange contracts	-	792	3	-	-
Equity contracts	48	142	78	-	-
Credit contracts	-	-	2	-	-
Other contracts	-	-	17	-	-
Counterparty netting and cash collateral	-	-	-	(1,589)	(1,268)
Total derivative assets	48	3,483	100	(1,589)	(1,268)

Short-term investments

	2,611	483	-	-	-
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Separate account assets

	85,362	5,227	-	-	-
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Total

	\$ 90,361	\$ 220,187	\$ 35,100	\$ (1,589)	\$ (1,268)
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Liabilities:**Policyholder contract deposits**

	\$ -	\$ 15	\$ 3,696	\$ -	\$ -
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Derivative liabilities:

Interest rate contracts	1	2,185	17	-	-
Foreign exchange contracts	-	1,213	4	-	-
Equity contracts	-	13	-	-	-
Credit contracts	-	12	252	-	-
Other contracts	-	-	-	-	-