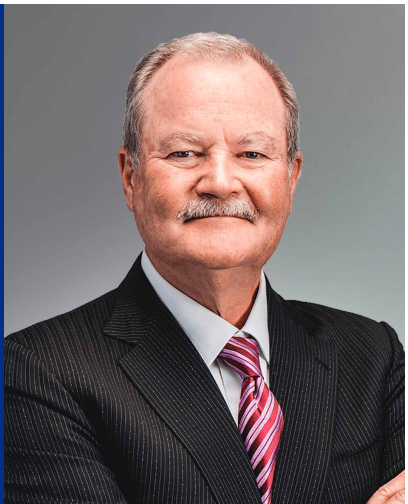
American International Group, Inc.

2020 Annual Report

Executive Chair of the Board Letter to Shareholders



Brian Duperreault
Executive Chair of the Board
American International Group, Inc.

Dear AIG Shareholder:

For AIG, 2020 was a year to remember because of our improving financial performance and the substantial advancements we made to become a top-performing company and leading insurance franchise. It was also a year to never forget because of the pandemic that brought economies to a standstill, and the unfortunate displays of social and racial injustice that permanently changed our perspective on true advancement with respect to diversity, equity, and inclusion.

In 2020, AIG's 45,000 global colleagues were remarkably strong as we served our clients and communities while also investing for a successful future. I want to thank each of them for their unyielding resilience, dedication, and perseverance in supporting our many stakeholders – and each other – even as their own lives and work situations were significantly disrupted.

AIG's 2020 financial results and progress on strategic initiatives demonstrated the considerable changes we have made across the organization since late 2017. Today, we are a significantly de-risked company with a stronger balance sheet, fortified reinsurance programs, enhanced underwriting capabilities, and a diverse platform of products and services. This substantial progress allowed us to announce our intention to separate the Life and Retirement business from AIG.

In 2020, we also announced leadership transitions, with Peter Zaffino taking on the role of Chief Executive Officer and me becoming Executive Chair. Peter and I seamlessly transitioned into these new roles on March 1, 2021. Doug Steenland has become Lead Independent Director of the AIG Board.

As Executive Chair, I look forward to supporting Peter as we continue our journey toward industry leadership. Together, we have tackled many of the foundational challenges facing the company. I take pride in what the team has accomplished and know the company and our colleagues will be in great hands with Peter as President & Chief Executive Officer.

I am also confident that the entirety of AIG is aligned with the long-term goals and objectives of each of you – our shareholders – as well as our other stakeholders.

AIG's focus will continue to be centered on value creation for our shareholders, clients and distribution partners, colleagues, and communities.

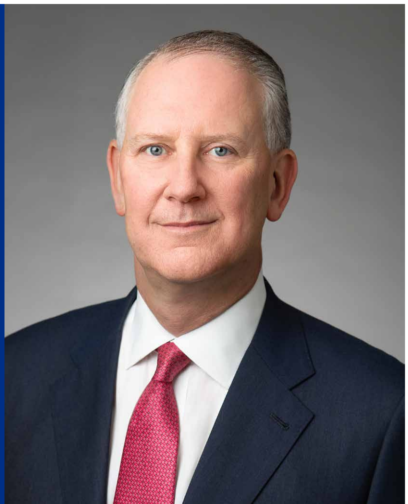
Your trust and confidence in AIG are well placed.

Sincerely,

Brian Duperreault
Executive Chair of the Board
American International Group, Inc.

As Executive Chair, I look forward to supporting Peter as we continue our journey toward industry leadership.

President & Chief Executive Officer Letter to Shareholders



Peter Zaffino
President & Chief Executive Officer
American International Group, Inc.

At AIG, success starts with our colleagues.

Dear AIG Shareholder:

It is an honor to be writing to you as AIG's President & Chief Executive Officer. Following the transition from Brian Duperreault to me on March 1, 2021, I am looking to the future with gratitude and a sense of optimism.

I want to thank Brian and the other members of the Board of Directors for their confidence in me and for giving me the opportunity to lead AIG. I also want to thank our hard-working, diligent, and committed colleagues whose focus and dedication over the last few years allowed us to make remarkable strategic, operational, and financial progress, which has positioned AIG for long-term profitability and industry-leading performance.

At AIG, success starts with our colleagues.

For our colleagues to thrive, we must invest in them and continually develop and evolve the skill sets required to allow us to achieve underwriting and operational excellence, and meet the changing needs of our clients and distribution partners with respect to risk management and insurance. We must also maintain an inclusive and diverse work environment where advancement for everyone is possible. Engaged and motivated employees serve our clients and distribution partners well, which results in client retention, acquisition, and expansion – and value creation for our shareholders and other stakeholders.

In 2020, the world changed for everyone and every organization. The responsibilities, accountabilities, and opportunities facing commercial enterprises today, especially related to the well-being and health of colleagues, surpasses anything the global business community has ever faced. A pandemic, combined with social and racial injustices, shook the foundation of our economies, our sense of normalcy, our belief systems, and the stability of our communities.

AIG manages risks around the world, and in March 2020, the most immediate risk we faced was our colleagues' health and safety while they continued to serve our clients, policyholders, and distribution partners during an unprecedented time of disruption and uncertainty. We transitioned over 90 percent of our workforce to a remote working environment virtually overnight and more than a year later continue to manage through this global health and economic crisis.

The AIG Board of Directors and Executive Leadership Team are proud of the job our colleagues did in rising to this challenge while looking out for each other and our many stakeholders.

Value Creation: Shareholders

The keys to value creation for our shareholders are to build a more focused and aligned organization that is designed to deliver sustained, industry-leading performance; to continue refining our operating fundamentals with regard to underwriting, reinsurance, risk appetite, strategic investments, and particularly with capital management; to return capital to our shareholders through dividends and, when appropriate, share buybacks; and to improve the experience of working with AIG for our clients and distribution partners, which will drive revenue and improved profitability.

Overall, we are making very good progress on our financial performance as demonstrated by AIG's full-year 2020 operating results.

Our accident year combined ratio, as adjusted*, for 2020 was 94.1 percent, a 190 basis-point improvement year-over-year. The General Insurance Global Commercial Lines accident year combined ratio, as adjusted*, for 2020 was 93.2 percent, a 340 basis-point improvement year-over-year. Our target to achieve a sub-90 percent accident year combined ratio, as adjusted*, is on track for the end of 2022. In addition, Life and Retirement's adjusted pre-tax income held steady at $3.5 billion in 2020, and the business achieved a solid 13.6 percent Return on Adjusted Segment Common Equity* for the year, as Life and Retirement continues to demonstrate its ability to thrive as a standalone company.

We are actively working toward an IPO of up to 19.9 percent of Life and Retirement. Additionally, in connection with our October 2020 announcement about separation, we received inquiries from parties interested in aligning with us and potentially purchasing up to a 19.9 percent stake. We are carefully weighing the relative merits of this path compared to an IPO by considering the impact on value creation for AIG, execution certainty, regulatory and rating agency implications, and delivery of Life and Retirement's strategy over the long term.

We are also making progress on AIG 200, our enterprise-wide effort focused on underwriting excellence, modernizing our operating infrastructure, enhancing the client and employee experience, and becoming a more unified company. We exceeded our target run-rate savings for 2020, and the costs required to achieve were lower than initially expected. We exited 2020 with a $400 million run-rate benefit, which is 30 percent ahead of the guidance we provided in 2020.

Our overall target for AIG 200 remains unchanged. We expect to achieve run-rate savings of $650 million by the end of 2021 and to deliver aggregate run-rate savings of $1 billion by the end of 2022 against a total investment of $1.3 billion. AIG 200 will help drive long-term, sustainable value creation for our shareholders.

Value Creation: Clients and Distribution Partners

Protection from the unexpected, unwanted, and unknown for small- and mid-sized businesses, large enterprises, multinationals, families, and individuals is at the heart of what AIG does for its clients and distribution partners. Our goal as risk management and insurance experts, working closely with our distribution partners, is to reinforce the trust and confidence of our clients every single day.

With a world that is rapidly changing, our clients' and distribution partners' expectations and insights are also changing, and we must keep pace.

Our goal: reinforce the trust and confidence of our clients every single day.

The real-time client experience demands digital excellence, a swiftness of information exchange, and insights from data. To address this evolution, we continue to make strategic investments in people and in client-centered technology. In 2021, a major focus for AIG will be advancing our digital strategy through the effective use of data and process-enabling technologies, which will provide us with valuable information upon which to make decisions.

Value Creation: Communities

The COVID-19 pandemic, combined with the social and racial injustices we witnessed in 2020 – and the real-time challenges confronting the business community to respond appropriately – makes being a company of action more important than ever before.

As a CEO with a platform and responsibility to impact lives, I feel a deep sense of conviction that we can never return to the prior status quo. Corporations and individuals must do better by embracing and pursuing racial and social justice and advancements for our colleagues and communities. At AIG, we are taking deliberate and meaningful actions that will result in positive outcomes for our local and global communities.

For example, the AIG Foundation℠ committed funds to organizations focused on racial equity; we are working with the International Association of Black Actuaries to attract and recruit more Black talent; we are providing free legal counsel to individuals and organizations on matters related to criminal and social justice reform through AIG's Pro Bono Program; and we are encouraging and fostering a culture of candor for our colleagues through our Employee Resource Groups and a program called Courageous Conversations.

Our efforts continue to be recognized and, in 2020, AIG was once again named to DiversityInc's Top 50 Companies for Diversity. In 2021, for the 10th year since 2011, AIG was named a Best Place to Work for LGBTQ Equality by the Human Rights Campaign.

AIG also seeks to be a leader on issues such as gender equity. It is why, in 2019, we chose to become the title sponsor of the AIG Women's Open – one of the most prestigious women's professional golf events in the world. As title sponsor, we advocated for increasing the winner's purse by almost 40 percent as an initial step in achieving pay equity for these athletes. Also, in the face of COVID-19, we extended our title sponsorship through 2025, standing proudly as allies with these accomplished women golfers and enabling them to continue to break down barriers that will provide a lasting example for future generations.

In 2021 and beyond, AIG's focus will continue to be centered on value creation for our shareholders, clients and distribution partners, colleagues, and communities. I am immensely proud of what we accomplished in 2020 and am confident about what lies ahead.

AIG's future is compelling. It is colleague- and client-focused.
It is one of excellence and quality.
It is transparent. It is evolving.
It is diverse and inclusive.
It is compassionate.

And, it is getting better and stronger for our shareholders.

Sincerely,

Peter Zaffino
President & Chief Executive Officer
American International Group, Inc.

AIG's future is compelling. It is colleague- and client-focused. It is one of excellence and quality.

* These are non-GAAP financial measures. The definition and reconciliation of **Accident Year Combined Ratio, as adjusted,** to the most comparable GAAP measure are on pages 52 and 87, respectively, of AIG's Annual Report on Form 10-K for the fiscal year ended December 31, 2020 (included herein). The definitions and reconciliations of **General Insurance Global Commercial Lines Accident Year Combined Ratio, as adjusted,** and **Life and Retirement Return on Adjusted Segment Common Equity** to the most comparable GAAP measure are included on pages 352 and 353 of this Annual Report.

Colleagues & Community

Caring, supporting, connecting

During a year of extraordinary difficulties amidst the COVID-19 pandemic and civil unrest, AIG's robust resources enabled us to demonstrate continuous dedication to longstanding initiatives while remaining highly responsive to the critical and timely needs of both our colleagues and our communities. We focused our efforts on addressing the impacts of COVID-19, helping employees stay connected and engaged, and addressing global calls for social justice and advancement in diversity, equity, and inclusion.

Citizenship

By expanding our strong citizenship offerings, AIG, its employees and the **AIG Foundation** built on our long history of giving back to the communities where we live, work, and serve our customers through funding and employee volunteerism.

We reinstated the **AIG Foundation** as our primary vehicle for strategic giving with an inaugural $5 million contribution, of which $4.5 million was directed toward organizations leading vital COVID-19 relief efforts: International Medical Corps, Feeding America, and the Coalition to Back Black Businesses.

Throughout 2020, AIG has donated funds and resources, including more than $22 million in charitable contributions and matching grants and nearly 200,000 units of personal protective equipment (PPE) to healthcare workers around the world in response to demand created by COVID-19.

The AIG Matching Grants Program matches employee charitable contributions 2:1 up to $10,000 per year. That maximum was raised to $12,000 for donations made in 2020 to further support individual philanthropy during a year of extraordinary need.

In December 2020, we launched the AIG Compassionate Colleagues Fund ("the Fund") to facilitate the collection of voluntary donations to aid fellow employees in overcoming serious financial hardships, with an initial commitment of $2 million by AIG. The Fund is already providing direct relief to more than 525 employees as of February 2021.

AIG employees continued to demonstrate a commitment to volunteering as all events went virtual. This included hosting a month-long Virtual Food Drive that provided approximately 265,000 meals to food banks across the United States; a #GivingTuesday virtual community event; and the Thousand Acts of Kindness campaign, during which colleagues internally showcased personal acts of support for essential workers, small businesses, and neighbors in need.

Colleagues utilized AIG's longstanding Volunteer Time Off (VTO) program, which grants employees up to 16 hours per calendar year to volunteer in their communities. For 2020, AIG increased the VTO allowance to 24 hours per employee – providing the opportunity for an extra day of service specifically towards diversity, equity, and inclusion causes.

Culture

The value we create for our clients, distribution partners, shareholders, communities, and other stakeholders is a direct result of the hard work and commitment of AIG colleagues. This has never been truer than in 2020, when we supported more than ever employee wellness and an inclusive work environment in which our teams can thrive.

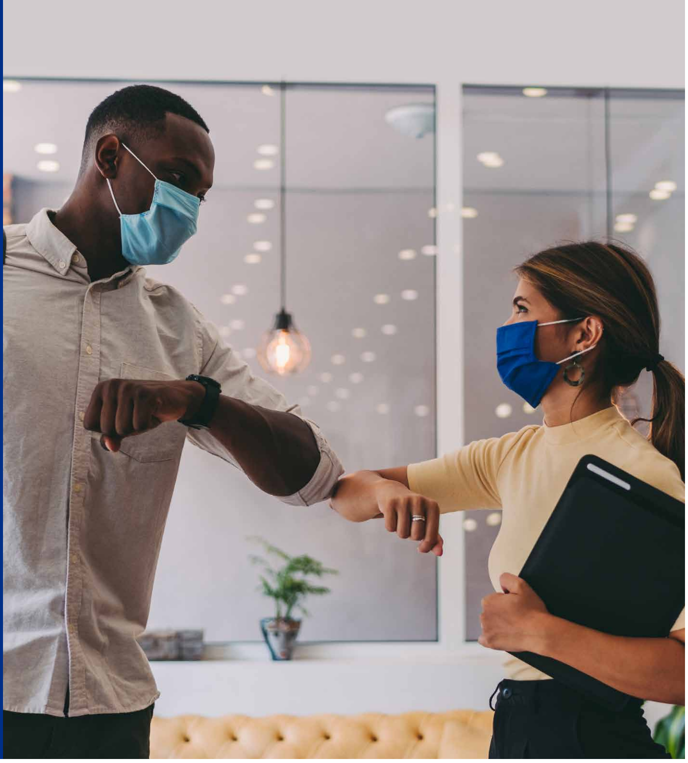
In February and March 2020, as the COVID-19 pandemic emerged, AIG quickly and effectively transitioned 90% of all colleagues globally to remote working arrangements. AIG provided a $500 grant to all employees to assist with the unanticipated costs related to COVID-19. AIG also established a Pandemic Financial Assistance Program to extend low- and no-interest loans to eligible employees experiencing financial hardship due to COVID-19.

Throughout 2020, AIG has donated funds and resources, including over $22 million in charitable contributions and matching grants and nearly 200,000 units of personal protective equipment (PPE) to healthcare workers around the world in response to demand created by COVID-19.

In hard times, AIG colleagues step up where we work and live.

Top: A colleague serves her community by volunteering as a first responder in addition to her role at AIG.

Bottom: To support children who are homeschooling, an AIG colleague helped those in need by donating funds and more than 1,000 toys to children in Connecticut.



AIG has elevated its rank on DiversityInc's Top 50 Companies for Diversity list each year since reaching the Top 50 in 2018, thanks to our talent programs, workplace practices, philanthropy, and leadership accountability.

AIG has scored 100% on the Human Rights Campaign's Corporate Equality Index for 10 years, earning the coveted title of "Best Place to Work for LGBTQ Equality."

AIG recognizes that COVID-19 placed undue stress upon its employees, ranging from feelings of isolation and concerns over staying safe, to difficulties balancing work and home life. To address these issues, AIG launched a COVID-19 landing page on its employee intranet, featuring executive messaging, news, program updates, tips, and resources for employees to stay safe and manage stress. The landing page featured uplifting content to foster a strong sense of community and to keep employees engaged and encouraged. On April 10, 2020, AIG gave all employees an additional paid holiday to provide extra time to focus on themselves and their families.

In October 2020, AIG launched Wellness at AIG, an initiative aimed at supporting the mental and social well-being of our colleagues. AIG hosted numerous virtual workshops and events and encouraged employees to take Personal Time Off or Annual Leave to switch off from work as needed. In recognition of AIG's Global Diversity & Inclusion Month and World Mental Health Day, all employees were given an extra day off to tend to their self-care.

Diversity, Equity, and Inclusion

At AIG, we strive to cultivate an inclusive workplace, which we believe is essential to being a top-performing company and leading insurance franchise. Attracting, developing, and retaining diverse talent while fostering a culture of belonging and equity for all of our employees are critical priorities.

We have taken important steps at AIG and helped to promote diversity, equity, and inclusion in the broader insurance industry and across major companies. But, we know there is much more to be done. After the global social unrest this past summer, AIG took further steps to make a lasting impact. For example, in 2020 and early 2021:

- AIG established an Executive Diversity Council to mobilize global leaders throughout the company to align our diversity, equity, and inclusion efforts with our corporate strategy imperatives.

Signs of Lasting Change

In 2020, 51% of AIG job placements globally were female and 42% of U.S. placements were ethnically diverse.

36% of AIG's executive hires and promotions in 2020 were female and/or ethnically diverse.

AIG's 2020 summer intern class was 44% female globally and 46% ethnically diverse in the U.S.

- More than a third of AIG employees participated in Courageous Conversations to learn about unconscious bias, systemic racism, and standing as allies with our colleagues.

- After providing a condensed version of AIG's Equal Employment Opportunity Commission EEO-1 report for several years, we committed to further increase transparency into the diversity of our U.S. workforce by making our consolidated EEO-1 report publicly available on aig.com after it is filed.

- AIG joined forces with 26 other corporations to launch the New York Jobs CEO Council, whose members have committed to hiring 100,000 New Yorkers from diverse, low-income communities by 2030.

- To support the Black community and racial equity, the **AIG Foundation** made $500,000 in grants allocated to the NAACP Legal Defense and Educational Fund, Inc. and the Equal Justice Initiative.

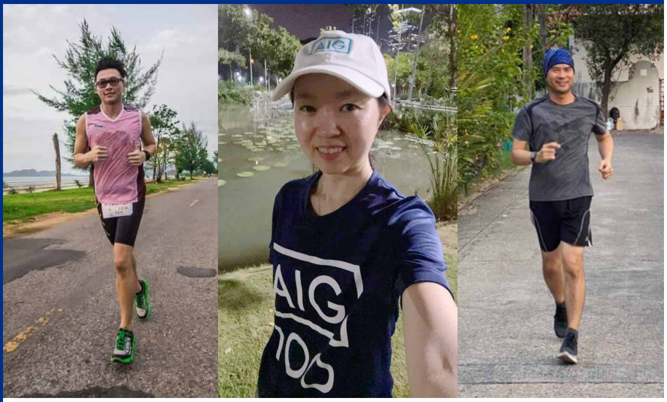
- Each colleague was offered the opportunity to take an additional paid day off to volunteer for an organization that supports diversity, equity, and inclusion; criminal justice reform; human and civil rights; or underrepresented and at-risk groups.

- AIG's well-established Legal Pro Bono Program added criminal and social justice reform to its key pillars and launched a five-year partnership with the Legal Aid Society.

- To attract more diverse talent with actuarial experience, AIG became a partner and joined the Corporate Advisory Board of the International Association of Black Actuaries – a professional and student member organization whose mission is to contribute to an increase in the number of Black actuaries and to influence their successful career development, civic growth, and achievement.

- Our 130+ Employee Resource Groups, which reflect 13 dimensions of diversity, focused in particular on creating awareness about allyship and addressing bias, among other efforts.

As AIG colleagues bring out the best, their well-being remains priority #1.



Above: AIG's Thailand Women & Allies Employee Resource Group hosted a Virtual Walk/Run to promote a healthy lifestyle and reduce stress.

AIG established an Executive Diversity Council to mobilize global leaders throughout the company to align our diversity, equity, and inclusion efforts with our corporate strategy imperatives.

For the latest information on Citizenship, Culture, and Diversity, Equity, and Inclusion at AIG, visit: www.aig.com/about-us

Sustainability

Moving toward a more resilient future

As a global insurance organization, AIG is dedicated to helping individuals, businesses, and the communities in which we operate build a more sustainable, secure world.

AIG's sustainability agenda focuses on future-proofing communities through four key priorities: community resilience, financial security, sustainable operations, and sustainable investing. It includes AIG's commitment to reducing our own operational carbon emissions to net zero by 2050 and undertaking a carbon exposure assessment of our investment and underwriting portfolios to guide our climate strategy and ambitions going forward.

We are committed to being an agent of change in helping the world navigate climate challenges – using our risk expertise to support an orderly transition to a low-carbon economy, and to offer new products and services that can mitigate climate-related risks. We believe in promoting preparedness through diverse energy portfolios around the world as an insurer of renewable energy and lower-carbon industries. In addition, AIG risk engineers support clients' resiliency and loss prevention strategies, using risk modeling to identify areas vulnerable to flood and recommend solutions.

AIG integrates Environmental, Social, and Governance (ESG) considerations into its investment analyses. We continue to pursue ESG investment opportunities for ourselves as well as offerings for our clients. For more than 35 years, we have been a leading investor in renewable energy, including more than $2.3 billion in wind, solar, geothermal, and hydroelectric projects.

Our external partnerships are valuable resources and drivers of our sustainability progress, as well as outlets for AIG to contribute to broader resiliency efforts and dialogue on appropriate standards for insurers. For example, by joining the UN Global Compact in 2021, AIG has committed to align with its ten principles and advance the UN Sustainable Development Goals.

As a public respondent to the CDP for the last 11 years and one of the first U.S. insurance companies to publish a Task Force on Climate-related Financial Disclosures (TCFD) report, AIG continues to build on this transparency. This summer, AIG intends to publish its first holistic sustainability report on ESG topics aligned with global standards and frameworks such as the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI), and TCFD.

For the latest information, visit: www.aig.com/about-us/sustainability

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, 2020
OR
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to
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:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, Par Value $2.50 Per Share	AIG	New York Stock Exchange
5.75% Series A-2 Junior Subordinated Debentures	AIG 67BP	New York Stock Exchange
4.875% Series A-3 Junior Subordinated Debentures	AIG 67EU	New York Stock Exchange
Stock Purchase Rights		New York Stock Exchange
Depositary Shares Each Representing a 1/1,000th Interest in a Share of Series A 5.85% Non-Cumulative Perpetual Preferred Stock	AIG PRA	New York Stock Exchange

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark 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 ☐

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☑

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 $26,860,000,000.

As of February 9, 2021, there were outstanding 864,790,669 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 2021 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, 2020
TABLE OF CONTENTS

Form 10-K

Part I

ITEM 1 | Business

Maximizing Industry Leadership and Global Footprint

Creating Value through Profitable Growth and a Culture of Underwriting and Operational Excellence

American International Group, Inc. (AIG) is a leading global insurance organization. We provide a wide range of property casualty insurance, life insurance, retirement solutions, and other financial services to customers in approximately 80 countries and jurisdictions. These diverse offerings include products and services that help businesses and individuals protect their assets, manage risks and provide for retirement security. AIG common stock is listed on the New York Stock Exchange.

In addition to natural catastrophes, in 2020, AIG effectively managed through COVID-19 and its collateral effects on the global economy thanks to the strong foundation created since late 2017 to instill a culture of underwriting excellence, adjust risk tolerances, implement a best-in-class reinsurance program, de-risk our balance sheet and maintain a balanced investment portfolio. We continue this momentum and embark on an important phase of our journey in becoming a top-performing company with our proactive leadership transition and corporate structure changes to come.

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

About AIG

World-Class Insurance Franchises that are among the leaders in their geographies and segmentations, providing differentiated service and expertise.

Breadth of Loyal Customers including millions of clients and policyholders ranging from multi-national Fortune 500 companies to individuals throughout the world.

Broad and Long-Standing Distribution Relationships with brokers, agents, advisors, banks and other distributors across all lines of business.

Highly Engaged Global Workforce Recognized for Inclusivity with more than 25 percent participating in Employee Resource Groups that foster a culture of inclusion, engage employees and help create a sense of belonging.

Balance Sheet Quality and Capital Strength as demonstrated by over $66 billion in shareholders' equity and AIG Parent liquidity sources of $15.0 billion as of December 31, 2020.

2021 Priorities

- **Separation of Life and Retirement Business from AIG** – Pursue separation of Life and Retirement business from AIG in a manner intended to maximize value for shareholders and other stakeholders and establish two strong, market-leading companies
- **Business Mix & Targeted Growth** – Build on strategic portfolio improvement and product diversity by focusing on growing segments of our business that perform well and are aligned with our underwriting strategy
- **Leadership, Culture and Talent** – Maintain focus on attracting, developing and retaining world-class employees; further promote diversity, equity and inclusion at all levels through continued support of robust employee resource and development programs and recruitment strategies
- **Underwriting Excellence and Pricing Discipline –** Continue to enhance General Insurance portfolio rate adequacy through use of underwriting framework and guidelines and clear communication of risk appetite; continue long-standing disciplined approach in Life and Retirement with respect to product pricing and features
- **AIG 200** – Continue progress on multi-year initiatives to support underwriting excellence, modernize our operating infrastructure, enhance user and customer experiences and become a more unified company
- **Optimize Risk Management** – Optimize risk profile through disciplined underwriting, reinsurance programs and asset-liability management in the investment portfolio
- **Capital Management –** Maintain strong capitalization and financial flexibility for our businesses, implement a stand-alone capital structure for our Life and Retirement business and recapitalize AIG Parent debt to create long-term shareholder value

2020 Highlights

Resilient General Insurance Portfolio from Underwriting Discipline

Manageable impact of COVID-19 and natural catastrophes reflected in 2020 Calendar Year Combined Ratio of 104.3 compared to 99.6 in 2019. 2020 Accident Year Combined Ratio, As Adjusted[(a)] of 94.1 compared to 96.0 in 2019 showed continued improvement due to underwriting discipline, limit management and continued focus on expense reduction

Continued Solid Returns from Life and Retirement

Full-Year 2020 Adjusted Pre-tax Income of $3.5 billion compared to $3.6 billion in 2019

Results reflect diversified product portfolio and balanced risk profile[(b)]

Effective Risk Management

Established Syndicate 2019 with Lloyd's to access strategic partners to participate in peak zones while facilitating growth in AIG's high net worth business, and completed the sale of our majority interest in Fortitude Group Holdings, LLC (Fortitude Holdings) to mitigate a significant portion of our legacy risks[(c)]

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

(b) On October 26, 2020, AIG announced its intention to separate its Life and Retirement business from AIG.

(c) *For further discussion on the Fortitude Holdings transaction see Note 1 to the Consolidated Financial Statements.*

AIG's Operating Structure

In the fourth quarter of 2020, AIG's chief operating decision makers modified their view of AIG's businesses and how they allocate resources and assess performance. The new operating structure no longer includes a Legacy segment. AIG now reports the results of its businesses through three segments – General Insurance, Life and Retirement and Other Operations. Prior periods were revised to conform to the current period presentation.

General Insurance consists of two operating segments – North America and International. Life and Retirement consists of four operating segments – Individual Retirement, Group Retirement, Life Insurance and Institutional Markets. Certain run-off life insurance portfolios previously reported in our Legacy segment have been realigned into the Life Insurance operating segment. The run-off high net worth (private placement variable universal life and private placement variable annuity) and structured settlement portfolios previously reported in our Legacy segment have been realigned into the Institutional Markets operating segment. Other Operations is primarily comprised of corporate, our institutional asset management business and consolidation and eliminations. On October 26, 2020, we announced our intention to separate our Life and Retirement business from AIG.

Consistent with how we manage our business, our General Insurance North America operating segment primarily includes insurance businesses in the United States, Canada, Bermuda, and our global reinsurance business, AIG Re. Our General Insurance International operating segment includes regional insurance businesses in Japan, the United Kingdom, Europe, Middle East and Africa (EMEA region), Asia Pacific, Latin America and Caribbean, and China. International also includes the results of Talbot Holdings, Ltd. as well as AIG's global specialty business.

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

Business Segments

General Insurance

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

North America | International

General Insurance includes the following major operating companies: National Union Fire Insurance Company of Pittsburgh, Pa. (National Union); American Home Assurance Company (American Home); Lexington Insurance Company (Lexington); AIG General Insurance Company, Ltd. (AIG Sonpo); AIG Asia Pacific Insurance, Pte, Ltd.; AIG Europe S.A.; American International Group UK Ltd.; Validus Reinsurance, Ltd. (Validus Re); Talbot Holdings Ltd. (Talbot); Western World Insurance Group, Inc. and Glatfelter Insurance Group (Glatfelter).

Life and Retirement

Life and Retirement is a unique franchise that brings together a broad portfolio of life insurance, retirement and institutional products offered through an extensive, multichannel distribution network. It holds long-standing, leading market positions in many of the markets it serves in the U.S. With its strong capital position, customer-focused service, breadth of product expertise and deep distribution relationships across multiple channels, Life and Retirement is well positioned to serve growing market needs. On October 26, 2020, AIG announced its intention to separate its Life and Retirement business from AIG.

Individual Retirement | Group Retirement | Life Insurance | Institutional Markets

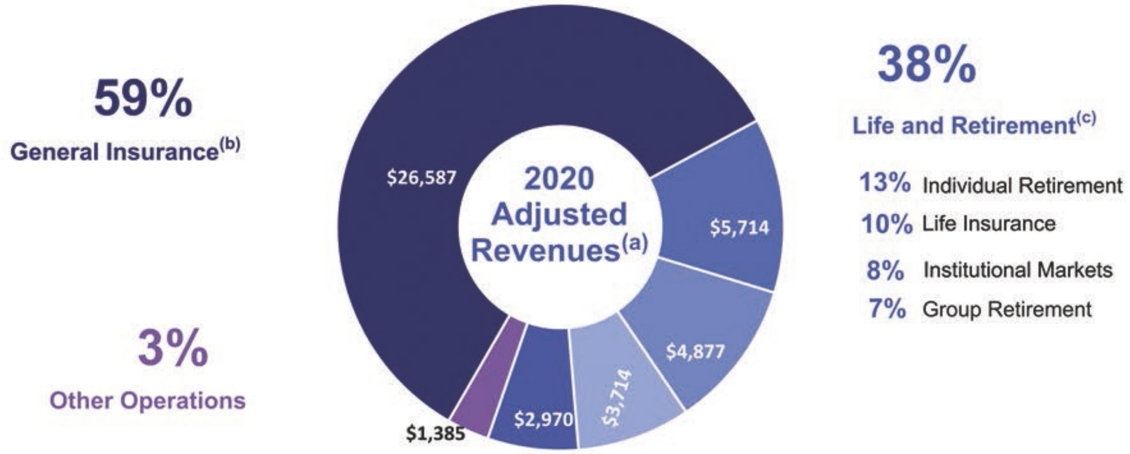
Life and Retirement includes the following major operating companies: American General Life Insurance Company (AGL); The Variable Annuity Life Insurance Company (VALIC); The United States Life Insurance Company in the City of New York (U.S. Life); Laya Healthcare Limited and AIG Life Limited.

Other Operations

Other Operations primarily consists of income from assets held by AIG Parent and other corporate subsidiaries, deferred tax assets related to tax attributes, corporate expenses and intercompany eliminations, our institutional asset management business and results of our consolidated investment entities, General Insurance portfolios in run-off previously reported within Legacy as well as the historical results of our legacy insurance lines ceded to Fortitude Reinsurance Company Ltd. (Fortitude Re).

Diversified Mix of Businesses

(dollars in millions)



(a) Our Total revenues were $43.7 billion in 2020. The graph above represents Adjusted revenues. *For reconciliation of Adjusted revenues to Total revenues see Note 3 to the Consolidated Financial Statements.*

(b) General Insurance adjusted revenues is comprised of $10.3 billion and $13.4 billion of Net premiums earned in North America and International, respectively, and $2.9 billion in Net investment income.

(c) On October 26, 2020, we announced our intention to separate our Life and Retirement business from AIG.

Geographic Concentration

In 2020, 5.5 percent of our property casualty direct premiums were written in the state of California, and 15.6 percent and 7.3 percent were written in Japan and the United Kingdom, respectively. No other state or foreign jurisdiction accounted for more than five percent of our property casualty direct premiums.

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

How We Generate Revenues and Profitability

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

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

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

Investment Activities of Our Insurance Operations

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

The practice for managing the investments of the insurance companies places primary emphasis on meeting the specific needs of each business unit. The investment objectives are the generation of investment income, preservation of capital, liquidity management and growth of surplus to support the insurance products. The majority of assets backing our insurance liabilities consist of fixed maturity securities issued by corporations, municipalities and other governmental agencies, as well as structured securities collateralized by, among other assets, residential and commercial real estate and commercial mortgage loans.

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

Loss Reserve Development Process

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

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

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

Human Capital Management

We believe that a major strength of AIG is the dedication, commitment and loyalty of our colleagues. AIG’s key human capital management objectives include attracting, developing and retaining the highest quality talent.

At December 31, 2020, we had approximately 45,000 employees based in over 50 countries, with 42 percent in North America, 40 percent in the Asia Pacific region and the remaining 18 percent in the EMEA region, United Kingdom and Latin America.

To improve our employee experience and assess the health of our organization, we periodically undertake cultural and employee engagement surveys. In August 2019, AIG conducted an Organizational Health Index survey, which was responded to by approximately 80 percent of our workforce and which covered topics across multiple dimensions, including leadership, business operations and effectiveness, diversity, equity and inclusion and customer focus. In response to this feedback, our colleagues’ ideas and suggestions have been applied across AIG and informed the development of the AIG 200 operational programs. In January 2021, we launched our second Organizational Health Index survey to give our colleagues another opportunity to share their insights, gather input on how AIG has progressed over the past year and continue to help make AIG a more rewarding place to work.

We believe that we foster a constructive and healthy work environment for our employees and colleagues. Some examples of key programs and initiatives that are designed to attract, develop and retain our diverse workforce include:

Competitive Compensation and Benefits. Under the oversight of the Compensation and Management Resources Committee of our Board of Directors, we seek to align the compensation of our employees with AIG's overall performance and provide competitive compensation opportunities to attract and retain highly skilled employees for our various business needs. Both management and the Compensation and Management Resources Committee of our Board of Directors engage the services of third-party compensation consultants and advisors to help us monitor the market competitiveness of our incentive programs. We provide a performance-driven compensation structure that consists of base salary, short- and long-term incentive. We also offer comprehensive benefits to support the health and wellness needs of our colleagues, including subsidized health care plans, life insurance and disability, wellness and mental health benefits, liberal paid time off and parental leave policies and matching 401(k) contributions.

Health and Safety. AIG cares about the health and safety of its employees. In response to the COVID-19 crisis, we quickly and effectively transitioned 90 percent of our employees to remote work and established a cross-functional COVID-19 Task Force to ensure that AIG implemented best practices to protect the safety of colleagues while continuing to serve clients, distribution partners and other stakeholders. The COVID-19 Task Force is also responsible for our return-to-office planning, which is informed by a Return to Workplace survey recently completed by our employees.

Through our Employee Assistance Program, AIG provides employees with mental health resources, including counseling sessions and webinars. AIG also funded a pandemic financial assistance program developed to provide financial assistance to employees in the form of low or no-interest loans. Further, in December 2020, we launched our Compassionate Colleagues Fund to aid employees in overcoming serious financial hardships, with an initial contribution of $2 million by AIG. Since then voluntary contributions by employees have grown the size of the fund designed to help their fellow colleagues.

Career Development. AIG has developed numerous programs to foster leadership, growth and development opportunities for our employees. We believe that professional development is a positive investment in our talent. Our goal is to build skills of our employees by providing ample opportunities to access learning and development that enhances their abilities to perform in their current or future roles. As such, AIG makes available a library of on-demand learning options, combined with immersive learning experiences to build skills at all levels. In addition, we offer tuition and certification and training reimbursement programs to encourage employees to enhance their education, skills and knowledge for their continued growth.

Our management places significant importance and attention on promoting internal talent and succession planning. Accordingly, we review our talent development and succession plans for each of our functions and operating segments annually, to identify and develop a pipeline of diverse talent for positions at all levels of the organization. In 2020, 27 percent of all our open positions were filled with internal talent.

Diversity and Inclusion. AIG is committed to creating an inclusive workplace focused on attracting, retaining and developing diverse talent that fosters a culture of belonging for all employees. To that end, each member of the executive leadership team has a diversity, equity and inclusion objective embedded in their individual performance goals tied to their annual short-term incentive awards. In September 2020, AIG established an Executive Diversity Council, tasked with monitoring diversity, equity and inclusion initiatives as an integral part of AIG's business strategies. In addition, in October 2020, AIG appointed a new Chief Diversity Officer to coordinate the Company's efforts in creating meaningful strides as it relates to diversity, equity and inclusion. Management periodically reports to the Compensation and Management Resources Committee of our Board of Directors on initiatives and progress on various human capital management initiatives and metrics, including diversity, equity and inclusion.

AIG sponsors over 130 Employee Resource Groups (ERGs), which are groups of employees who come together based on a shared interest in a specific dimension of diversity. AIG's global ERG network spans 13 different dimensions of diversity and is open to all employees. The ERGs are a cornerstone of our diversity, equity and inclusion efforts. Our ERGs represent and support our diverse workforce, facilitate networking and connections with peers, and create a culture of inclusion and engagement within AIG. In 2020, more than 17,000 global colleagues participated in Courageous Conversations, a training program about unconscious bias and systemic racism.

In addition, AIG has developed three leadership programs targeted at our diverse talent pool. AIG's Women's Executive Leadership Initiative and the Executive Men's Development Initiative (for men of color) seek to hone executive leadership skills of high-potential employees. Our Accelerated Leadership Development program matches mid-level men and women of color in AIG's leadership pipeline with senior executive mentors and coaches them on essential senior management and executive leadership skills.

Regulation

OVERVIEW

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

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

In particular, significant legislative and regulatory activity has occurred at both the U.S. federal and state levels, as well as globally, in response to COVID-19 and its impact on insurance consumers. For example, many jurisdictions have issued regulations and guidance advising or requiring insurers to offer accommodations to policyholders adversely impacted by COVID-19, including requirements to defer payment of, or refund, premiums, postpone policy lapses, and have sought information and data from insurers on a number of topics, including operational preparedness, policyholder data, claims data, and other matters. While some of these legislative and regulatory initiatives have expired, resurgence of the COVID-19 virus may lead to a renewal of those initiatives. A number of U.S. states have also passed legislation or issued other guidance that creates a presumption of coverage under workers' compensation insurance for certain people impacted by COVID-19. In most cases, the presumption applies to first responders and medical professionals, but some states apply the scope of the presumption more broadly, and efforts are underway in other states to further expand the scope of the presumption. Members of the U.S. Congress have held discussions and sought information with respect to business interruption, travel and other insurance lines impacted by the COVID-19 crisis and legislators both in the U.S. and overseas are discussing a number of potential loss-sharing programs, some of which contemplate participation by insurers, including a proposed pandemic risk insurance bill relating to business interruption and event cancellation insurance. In the EU and UK, insurance regulators have issued recommendations or requirements for insurance groups subject to their jurisdiction to temporarily suspend discretionary dividend payments and share buybacks for the benefit of shareholders, and variable remuneration policies such as cash bonuses. We cannot predict what form legal and regulatory responses to concerns about COVID-19 and related public health issues will take, or how such responses will impact our business. We continue to actively monitor these developments and to cooperate fully with all government and regulatory authorities as they develop their responses.

In addition to the information set forth elsewhere in this Annual Report on Form 10-K, our regulatory status is also discussed in Item 1A. Risk Factors – COVID-19 is adversely affecting, and is expected to continue to adversely affect, our global business, financial condition and results of operations, and its ultimate impact will depend on future developments that are uncertain and cannot be predicted, including the scope, severity and duration of the crisis, and the governmental, legislative and regulatory actions taken and court decisions rendered in response thereto.

U.S. REGULATION

Dodd-Frank

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

- The Council has authority to determine, subject to certain statutory and regulatory standards, that any nonbank financial company be designated as a nonbank SIFI subject to supervision by the FRB and enhanced prudential standards. The Council may also recommend that state insurance regulators or other regulators apply new or heightened standards and safeguards for activities or practices that nonbank financial services companies, including insurers, engage in.

- Title II of Dodd-Frank (Orderly Liquidation Authority) provides that a financial company whose largest United States subsidiary is an insurer may be subject to a special orderly liquidation process outside the Bankruptcy Code. That process is to be administered by the Federal Deposit Insurance Corporation upon a determination that the company is: (i) in default or in danger of default, (ii) would have serious adverse effects on U.S. financial stability were it to fail and be resolved, (iii) is not likely to attract private sector alternatives to default and (iv) is not suitable for resolution under the Bankruptcy Code. Dodd-Frank authorizes possible assessments to cover the costs of any special resolution of a financial company conducted under Title II. U.S. insurance subsidiaries of any such financial company, however, would be subject to rehabilitation and liquidation proceedings under state insurance law.
- Title VII of Dodd-Frank provides for significantly increased regulation of and restrictions on derivatives markets and transactions that have affected and, as additional regulations come into effect, could affect various activities of insurance and other financial services companies, including (i) regulatory reporting for swaps and security-based swaps, (ii) mandated clearing through central counterparties and execution through regulated swap execution facilities for certain swaps and security-based swaps and (iii) margin and collateral requirements. Although the Commodities Futures Trading Commission (CFTC), which oversees and regulates the U.S. swap, commodities and futures markets, has finalized most of its requirements, the Securities and Exchange Commission (SEC) has yet to finalize the majority of rules comprising its security-based swap regulatory regime. Increased regulation of and restrictions on derivatives markets and transactions could increase the cost of our trading and hedging activities, reduce liquidity and reduce the availability of customized hedging solutions and derivatives.
- Dodd-Frank mandated a study to determine whether stable value contracts should be included in the definition of "swap." If that study concludes that stable value contracts are swaps, Dodd-Frank authorizes certain federal regulators to determine whether an exemption from the definition of a swap for stable value contracts is appropriate and in the public interest. Certain of our affiliates participate in the stable value contract business. We cannot predict what regulations might emanate from the aforementioned study or be promulgated applicable to this business in the future.
- Title V of Dodd-Frank authorizes the United States to enter into covered agreements with foreign governments or regulatory entities regarding the business of insurance and reinsurance. On September 22, 2017, the U.S. and the European Union (EU) entered into such an agreement, and on December 18, 2018, the U.S. signed a covered agreement with the United Kingdom (UK) in anticipation of the UK’s withdrawal of its membership in the EU, commonly referred to as Brexit. *For additional information, see – International Regulation.*
- Dodd-Frank established the Bureau of Consumer Financial Protection (BCFP), an independent agency within the FRB, to regulate certain non-insurance consumer financial products and services offered primarily for personal, family or household purposes. Insurance products and services are not within the BCFP's general jurisdiction. Broker-dealers and investment advisers are not subject to the BCFP's jurisdiction when acting in their registered capacity.
- Dodd-Frank established the Federal Insurance Office (FIO) to serve as the central insurance authority in the federal government. While not serving a regulatory function, FIO performs certain duties related to the business of insurance. FIO serves as a non-voting member of the Council, has authority to collect information on the insurance industry and recommend prudential standards, monitors market access issues, represents the United States in international insurance forums, has authority to determine, after consulting with the relevant State and the United States Trade Representative, if certain regulations are preempted by covered agreements, and assists the Secretary of the Treasury in administering the Terrorism Risk Insurance Program under the Terrorism Risk Insurance Act of 2002.

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

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

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

In addition, on April 21, 2017 the President of the United States directed the Secretary of the Treasury to evaluate and provide recommendations regarding the Council's processes for designating nonbank SIFIs. The Treasury published a report pursuant to this directive on November 17, 2017, recommending that the Council prioritize an activities-based approach to regulating systemic risk rather than designating individual entities, and recommending that the Council increase the analytical rigor of its designation analyses, enhance engagement with relevant regulators and transparency to the public, and provide a clear off-ramp to designated nonbank SIFIs. On December 4, 2019, the Council finalized amendments to its guidance on nonbank financial company designations. The new guidance prioritizes an activities-based approach to monitoring and addressing potential systemic risk, and indicates that the Council will pursue entity-specific nonbank SIFI designations only if a potential risk or threat cannot be adequately addressed through an activities-based approach. The guidance became effective on January 29, 2020. We will continue to monitor developments resulting from these changes.

Insurance Regulation

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

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

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

In the U.S., the NAIC is a standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. The NAIC itself is not a regulator, but, with assistance from the NAIC, state insurance regulators establish standards and best practices, conduct peer review and coordinate regulatory oversight. Every state has adopted, in substantial part, the Risk-Based Capital (RBC) Model Law promulgated by the NAIC or a substantially similar law, which allows states to act upon the results of RBC calculations, and provides four incremental levels of regulatory action regarding insurers whose RBC calculations fall below specific thresholds. Those levels of action range from the requirement to submit a plan describing how an insurer would regain a specified RBC ratio to a mandatory regulatory takeover of the company. The RBC formula is designed to measure the adequacy of an insurer's statutory surplus in relation to the risks inherent in its business and computes a risk-adjusted surplus level by applying discrete factors to various asset, premium, reserve and other financial statement items, or in the case of interest rate and equity return (C-3) market risk, applying stochastic scenario analyses. These factors are developed to be risk-sensitive so that higher RBC requirements are applied to items exposed to greater risk. The statutory surplus of each of our U.S. based (re)insurance companies exceeded RBC minimum required levels as of December 31, 2020.

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

The NAIC's Model Regulation "Valuation of Life Insurance Policies" (Regulation XXX) requires insurers to establish additional statutory reserves for term life insurance policies with long-term premium guarantees and universal life policies with secondary guarantees (ULSGs). NAIC Actuarial Guideline 38 (Guideline AXXX) clarifies the application of Regulation XXX as to these guarantees, including certain ULSGs. In December 2012, the NAIC approved a new Valuation Manual (VM) containing a principle-based approach to life insurance company reserves. Principle-based reserving (PBR) is designed to tailor the reserving process to more closely reflect the risks of specific products, rather than the factor-based approach typically employed historically. The VM became effective on January 1, 2017, after revisions to the NAIC's model Standard Valuation Law were enacted by the requisite number of states, representing the required premium volume. Variable Annuity (VA) reserving requirements are contained in subsection 21 of the VM (VM-21), and replace the previous Actuarial Guideline XLIII (AG 43) requirements, which also employed a principle-based approach. Substantial revisions to VM-21 have been adopted effective January 1, 2020, with options for early adoption or phased-in adoption. We have not elected either of these adoptions, and instead have applied VM-21 in full, effective January 1, 2020, to both new and existing VA business. VM-21 is also referred to as "VA PBR". Subsection 20 of the Valuation Manual (VM-20) applies to individual life insurance reserves, most notably term insurance and universal life with secondary guarantees (ULSG). VM-20 is also referred to as "Life PBR", and replaces Regulation XXX and Guideline AXXX for new life insurance business issued after January 1, 2017. As permitted by applicable regulations, we deferred implementation of Life PBR until January 1, 2020, and have implemented it as of such date with respect to relevant policies issued on or after January 1, 2020. *See Item 1A. Risk Factors and Note 19 to the Consolidated Financial Statements for risk and additional information related to these statutory reserving requirements.*

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

The NAIC's Risk Management and Own Risk and Solvency Assessment Model Act (ORSA) requires that insurers maintain a risk management framework and conduct an internal own risk and solvency assessment of the insurer's material risks in normal and stressed environments. All of the states where AIG has domestic insurers have enacted a version of ORSA. The NAIC has also adopted a Corporate Governance Annual Disclosure Model Act (CGAD) that requires insurers to submit an annual filing regarding their corporate governance structure, policies and practices. All of the states where AIG has domestic insurers have enacted a version of the CGAD.

ERISA

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), and/or the Internal Revenue Code of 1986, as amended (the Internal Revenue Code). Plans subject to ERISA include certain pension and profit sharing plans and welfare plans, including health, life and disability plans. As a result, our activities are subject to the restrictions imposed by ERISA and the Internal Revenue Code, including the requirement under ERISA that fiduciaries must perform their duties solely in the interests of ERISA plan participants and beneficiaries, and that fiduciaries may not cause a covered plan to engage in certain prohibited transactions. The applicable provisions of ERISA and the Internal Revenue Code are subject to enforcement by the DOL, the Internal Revenue Service (IRS) and the Pension Benefit Guaranty Corporation.

Standard of Care Developments

In our Life and Retirement business, we and our distributors are subject to laws and regulations regarding the standard of care applicable to sales of our products and the provision of advice to our customers. In recent years, many of these laws and regulations have been revised or reexamined while others have been newly adopted. We continue to closely follow these legislative and regulatory activities. Changes in standard of care requirements or new standards issued by governmental authorities, such as the DOL, the SEC, the NAIC or state regulators and/or legislators, may affect our businesses, results of operations and financial condition.

DOL Fiduciary Rule

In June 2020, the DOL issued final guidance consistent with the June 2018 decision of the Fifth Circuit Court of Appeals which vacated the DOL's Fiduciary Rule that redefined who would be considered a "fiduciary" for purposes of transactions with ERISA qualified plans, related plan participants and Individual Retirement Accounts. The DOL's final guidance formally reinstated the previous five-part test for determining who is an investment advice fiduciary, and also reinstated related exemptions which had been modified by the vacated guidance. In December 2020, the DOL issued the final version of a new prohibited transaction exemption, for parties that qualify as investment advice fiduciaries, which is intended to broadly align with the SEC's Best Interest Regulation (discussed under *"SEC Best Interest Regulation"* below) as well as other relevant standards of care requirements. The terms of the DOL's exemption impose impartial conduct standards (including a best interest standard), as well as:

- disclosure obligations,
- a duty to establish, maintain, and follow policies and procedures intended to comply with the exemption, and
- a duty to perform an annual retrospective review for compliance with the exemption.

We have reviewed the final DOL exemption and associated preamble, both for applicability and for the impact the exemption may have on our businesses and operations, including the scope of any applicable fiduciary status and duties. As a general matter, where fiduciary status would be applicable, we would expect to be able to utilize the processes and procedures we implemented for the SEC's Best Interest Regulation to satisfy some or all of the corresponding provisions in the DOL guidance. Nevertheless, implementation may still result in increased compliance obligations and costs for certain of our Life and Retirement businesses.

SEC Best Interest Regulation

On June 30, 2020, Regulation Best Interest (Regulation BI), which establishes new rules regarding the standard of care a broker must meet when making a recommendation to a retail customer in connection with the sale of a security or other covered recommendation, and Form CRS, which requires enhanced disclosure by broker-dealers and investment advisers regarding client relationships and certain conflicts of interest issues, became effective. Both had been adopted by the SEC in June 2019 as part of a package of final rulemakings and interpretations, at the same time as the SEC issued two interpretations under the Investment Advisers Act of 1940. The first interpretation addressed the standard of conduct applicable to SEC-registered investment advisers, including details regarding the fiduciary duty owed to clients, required disclosures and the adviser's continuous monitoring obligations. The second interpretation clarified when investment advice would be considered "solely incidental" to brokerage activity for purposes of the broker-dealer exclusion from SEC investment adviser registration. These two SEC interpretations became final upon publication. The SEC has also issued multiple sets of FAQs on certain aspects of Regulation BI and Form CRS, and the SEC could provide additional guidance regarding these final rules and further clarify its interpretations through the issuance of additional FAQs and other publications.

We have evaluated the impact of the package of final rulemakings and interpretations on us and our customers, distribution partners and financial advisers, and have implemented and enhanced processes and procedures, where needed, to comply with the final rules and interpretations. These efforts and enhancements have resulted in increased compliance costs primarily for Group Retirement.

State Developments

In February 2020, the NAIC adopted revisions to its Suitability in Annuity Transactions Model Regulation (#275) (NAIC Model) implementing a best interest standard of care applicable to sales and recommendations of annuities. The new NAIC Model conforms in large part to Regulation BI, providing that all recommendations by agents and insurers must be in the best interest of the consumer under known circumstances at the time an annuity recommendation is made, without placing agents' or insurers' financial interests ahead of the consumers' interest in making a recommendation. Specifically, the model requires agents and carriers to act with "reasonable diligence, care and skill" in making recommendations. The revisions also include enhancements to the current model's supervision system to assist in compliance. Certain states have already adopted amendments to their suitability rules based on the NAIC Model revisions, and we expect that additional states will do so. We are closely monitoring these developments, including state-level variations from the NAIC Model. We are also implementing and enhancing processes and procedures, where needed, designed to comply with the NAIC Model and state-specific revisions.

In addition, certain state insurance and/or securities regulators and legislatures have adopted, or are considering adoption of, their own best interest or fiduciary standards, some of which are broader in scope than the NAIC Model. For example, in July 2018, the New York State Department of Financial Services adopted a best interest standard of care regulation applicable to annuity and life transactions through issuance of the First Amendment to Insurance Regulation 187 – Suitability and Best Interests in Life Insurance and Annuity Transactions (Regulation 187). The compliance date for Regulation 187 was August 1, 2019 for annuity products and was February 1, 2020 for life products. As amended, Regulation 187 requires producers to act in their client's best interest when making point-of-sale and in-force recommendations, and provide in writing the basis for the recommendation, as well as the facts and analysis to support the recommendation. The amended regulation also imposes additional duties on life insurance companies in relation to these transactions, such as requiring insurers to establish and maintain procedures designed to prevent financial exploitation and abuse. We have implemented and enhanced processes and procedures, where needed, designed to comply with this regulation.

Besides New York, other states have also adopted, or are considering adopting, legislative and/or regulatory proposals involving best interest or fiduciary duty standards with applicability to insurance producers, agents, financial advisors, investment advisers, broker-dealers and/or insurance companies. While many of them generally impose (or would impose) a best interest standard, not unlike the standard in Regulation BI and the NAIC Model, the proposals also reflect a variation of fiduciary and non-fiduciary standards, and they vary in scope, applicability and timing of implementation. We are closely monitoring these developments and evaluating their potential impacts on our products and services, our customers, distribution partners and financial advisors, and the life and retirement industry overall in the U.S.

SECURE Act

On December 20, 2019 the Setting Every Community Up for Retirement Enhancement (SECURE) Act was signed into law as part of larger federal appropriations legislation. The SECURE Act includes many provisions affecting qualified contracts, some of which became effective upon enactment on January 1, 2020 or later, and some of which were retroactively effective. Some of the SECURE Act provisions that became effective on January 1, 2020, include, without limitation: an increase in the age at which required minimum distributions generally must commence, to age 72, from the previous age of 70 ½; new limitations on the period for beneficiary distributions following the death of the plan participant or individual retirement account (IRA) owner; elimination of the age 70 ½ restriction on IRA contributions (combined with an offset to the amount of eligible qualified charitable distributions by the amount of post-70 ½ IRA contributions); a new exception to the 10 percent additional tax on early distributions for the birth or adoption of a child, which also became an allowable plan distribution event; and, reduction of the earliest permissible age for in-service distributions from pension plans and certain Section 457 plans to 59 ½. Some of the changes in law made by the SECURE Act are complex and still require further regulatory guidance. We have implemented new processes and procedures, where needed, designed to comply with the new requirements.

CARES Act

On March 27, 2020, the U.S. enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act to mitigate the economic impacts of the COVID-19 crisis. This legislation contains multiple provisions, including some that provide greater access to assets held in tax-qualified retirement plans and IRAs for qualifying individuals, which have relevance to the products and services offered by Individual Retirement and Group Retirement. The relief provided in the CARES Act includes, among others, temporary liberalization of access to distributions and loans, and loan repayment suspension, for eligible individuals in many defined contribution retirement plans; a waiver of the 10% additional tax on qualifying distributions which otherwise applies to early distributions (generally, prior to age 59 ½) from retirement plans and IRAs; and a temporary waiver of required minimum distributions due to be taken in 2020 from retirement plans and IRAs. We implemented an array of forms, processes and procedures to assist in making these provisions available to plan sponsors, plan participants and IRA owners. All of these temporary provisions expired by the end of 2020. Any additional liberalization would require enactment of new legislation.

COVID-19 Relief Legislation

On December 21, 2020, the House and Senate passed the Consolidated Appropriations Act, 2021 (the Act), which was signed into law on December 27, 2020, to further mitigate the economic impacts of the COVID-19 crisis. The Act contains multiple provisions, including some that impact retirement plans and other that update the fixed interest rate assumptions used to qualify life insurance policies, which have relevance to the products and services offered by Life Insurance, Individual Retirement and Group Retirement. At this time, we cannot predict what or the extent of the impact the provisions of the Act will ultimately have on our Life and Retirement businesses.

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

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

Our variable life insurance, variable annuity and mutual fund products generally are subject to regulation as “securities” under applicable federal securities laws, except where exempt. Such regulation includes registration of the offerings of these products with the SEC, as well as recordkeeping, reporting, and other requirements. This regulation also involves the registration of mutual funds and other investment products offered by our businesses, and the separate accounts through which our variable life insurance and variable annuity products are issued, as investment companies under the Investment Company Act of 1940, as amended (Investment Company Act), except where exempt. The Investment Company Act imposes requirements relating to compliance, corporate governance, disclosure, recordkeeping, registration and other matters. In addition, the offering of these products may involve filing and other requirements under the securities laws of the states and other jurisdictions where offered, including the District of Columbia and Puerto Rico. Our separate account investment products are also subject to applicable state insurance regulation.

We have several subsidiaries that are registered as broker-dealers under the Securities Exchange Act of 1934, as amended (Exchange Act) and are members of FINRA, and/or are registered as investment advisers under the Investment Advisers Act of 1940, as amended (Advisers Act). In addition to registration requirements, the Exchange Act, the Advisers Act, and the regulations thereunder, impose various compliance, disclosure, qualification, recordkeeping, reporting and other requirements on these subsidiaries and their operations. Broker-dealers and investment advisers, and their licensed representatives, are also subject to standard of care obligations. *See – Standard of Care Developments above*. State securities laws also impose filing and other requirements on broker-dealers, investment advisers and/or their licensed representatives, except where exempt. The SEC, FINRA and other governmental regulatory bodies also have the authority to examine regulated entities, such as our broker-dealer and investment adviser subsidiaries, and to institute administrative or judicial proceedings that may result in censure, fines, prohibitions or restrictions on activities, or other administrative sanctions.

Further, our licensed sales professionals appointed with our broker-dealer and/or investment adviser subsidiaries and our other employees, insofar as they sell products that are securities, including wholesale and retail activity, are subject to the Exchange Act and to examination requirements and regulation by the SEC, FINRA and state securities commissioners. Regulation and examination requirements also extend to our subsidiaries that employ or control those individuals.

Privacy, Data Protection and Cybersecurity

We are subject to U.S. laws and regulations that require financial institutions and other businesses to protect personal and other sensitive information and provide notice of their practices relating to the collection, disclosure and other processing of personal information. We also are subject to U.S. laws and regulations requiring notification to affected individuals and regulators of security breaches. Below we highlight a few, key, recently-enacted regulations.

On March 1, 2019, the NYDFS cybersecurity regulation became fully effective, requiring covered financial services institutions to implement a cybersecurity program designed to protect information systems. The regulation imposes specific technical safeguards as well as governance, risk assessment, monitoring and testing, third-party service provider incident response and reporting and other requirements. AIG companies covered by the regulation annually file certifications of compliance. Requirements under the NYDFS' cybersecurity regulation are similar in many, but not all, respects to those under the NAIC Model Law, as described below.

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

Effective January 1, 2020, California enacted the California Consumer Privacy Act of 2018 (CCPA). The CCPA contains a number of new requirements regarding the personal information of California consumers as defined by the statute, including new individual rights and mandatory disclosures regarding consumers' personal information. The statute also establishes a private right of action in some cases if consumers' personal information is subject to a data breach as a result of a business' failure to implement and maintain reasonable security practices.

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

Thrift Regulator

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

INTERNATIONAL REGULATION

Insurance and Financial Services Regulation

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

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

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

Legislation in the EU could also affect our international (re)insurance operations. The EU issues Directives and Regulations on a wide range of topics that impact financial services. Insurance companies operating in the EU are subject to the Solvency II framework. The Prudential Regulation Authority, the United Kingdom's (UK's) prudential regulator, is the lead prudential supervisor for our new UK entity, American International Group UK Limited (AIG UK). The UK's Financial Conduct Authority has oversight of AIG UK for consumer protection and competition matters. For example, we are subject to the UK's Senior Managers and Certification Regime (SMCR), legislation that is intended to reduce harm to consumers and strengthen market integrity by making senior individuals more accountable for their conduct and competence. The SMCR comprises 3 elements: the Senior Managers Regime, which requires that firms appoint an individual with responsibility for each senior management function and subjects such individuals to regulatory pre-approval; the Certification Regime, which requires firms to certify (on an on-going basis) the fitness and propriety of certain employees who could harm the firm, its customers or the market; and the Conduct Rules, which are high-level standards of behavior expected of those working in financial services.

The Luxembourg insurance regulator, the Commissariat aux Assurances, is the insurance regulator for AIG Europe SA, which serves our European Economic Area (EEA) and Swiss policyholders. For information on the UK's withdrawal of its membership in the EU, see – Brexit. In addition, financial companies that operate in the EU are subject to a range of regulations enforced by the national regulators in each member state in which that firm operates. The EU has also established a set of regulatory requirements under the European Market Infrastructure Regulation (EMIR) that include, among other things, risk mitigation, risk management, regulatory reporting and clearing requirements. Solvency II governs the insurance industry's solvency framework for the EU, including minimum capital and solvency requirements, governance requirements, risk management and public reporting standards. In accordance with Solvency II, the European Commission is required to make a determination as to whether a supervisory regime outside of the EU is "equivalent."

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

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

On December 18, 2018, the U.S. Treasury Department and the Office of the U.S. Trade Representative signed the Bilateral Agreement between the U.S. and the UK on Prudential Measures Regarding Insurance and Reinsurance. The terms of the agreement are substantially similar to the U.S.-EU Covered Agreement. The agreement has been entered into in order to maintain regulatory certainty and market continuity in connection with the UK's exit from the EU. The agreement is still subject to U.S. and UK internal requirements and procedures. In addition, the agreement notes with respect to the date of entry into force that the UK must take into account its obligations arising in respect of any agreement between the EU and the UK pursuant to Article 50 of the Treaty on European Union, which sets out the process under which an EU member state may withdraw from the EU.

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

The Registrar of Companies (the ROC) regulates the compliance by AIG's entities in Bermuda which carry on a Relevant Activity, as defined in Bermuda's Economic Substance Act 2018 and related Economic Substance Regulations 2018 (as amended, the ES Laws). The purpose of the ES Laws is to ensure that Bermuda does not facilitate the use of structures which attract profits but which do not reflect real economic activity that is being undertaken in Bermuda. The ROC imposes the filing of an annual declaration form demonstrating compliance with the requirements of the ES Laws by entities which carry on a Relevant Activity.

The Japan Financial Services Agency (JFSA) regulates AIG's operating insurance and reinsurance subsidiaries in Japan. The JFSA has extensive authority under the Insurance Business Act and related regulations to oversee company licensing, sales practices, business conduct, investments, reserves and solvency, among other items. Our Japanese insurance and reinsurance operations are required to maintain a minimum solvency margin ratio (SMR), which is a measure of capital adequacy. The failure to maintain an appropriate SMR, or comply with other similar indicators of financial health, could result in the JFSA imposing corrective actions on our operations.

Privacy, Data Protection and Cybersecurity

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

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

We also are subject to other international laws and regulations that require financial institutions and other businesses to protect personal and other sensitive information and provide notice of their practices relating to the collection, disclosure and other processing of personal information and to obtain consent pertaining to such processing. We are also subject to laws and regulations requiring notification to affected individuals and regulators of security breaches. In addition, we must comply with laws and regulations regarding data localization and the cross-border transfer of information, an example of which is described below.

On July 16, 2020, the European Court of Justice (Court) ruled that the protection provided by the EU-U.S. privacy shield with respect to data export mechanisms used to transfer personal data from the EEA to the U.S. was inadequate. On November 10, 2020, the European Data Protection Board (EDPB) adopted recommendations outlining European data protection authorities' expectations for how data exporters, supported by data importers, should approach international cross-border data transfers of personal data following the Court's decision. Such approach includes suggested supplemental technical, organizational and contractual measures companies can adopt to help comply with GDPR and protect against overreaching government surveillance outside of Europe.

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

FSB and IAIS

The Financial Stability Board (FSB) consists of representatives of national financial authorities of the G20 countries. The FSB itself is not a regulator but is focused primarily on promoting international financial stability. It does so by coordinating the work of national financial authorities and international standard-setting bodies as well as developing and promoting the implementation of regulatory, supervisory and other financial policies. The FSB has issued a series of frameworks and recommendations to address such issues as systemic financial risk, financial group supervision, capital and solvency standards, effective recovery and resolution regimes, corporate governance including compensation, and a number of related issues associated with responses to the financial crisis.

The IAIS represents insurance regulators and supervisors of more than 200 jurisdictions (including regions and states) in nearly 140 countries and seeks to promote globally consistent insurance industry supervision. The IAIS itself is not a regulator, but one of its activities is to develop insurance regulatory standards for use by local authorities across the globe. The FSB has charged the IAIS with developing a framework for measuring and mitigating systemic risks posed by the insurance sector, and the IAIS has developed standards relative to many of the areas of focus of the FSB, which go beyond the IAIS' basic Insurance Core Principles. The IAIS has adopted ComFrame, a Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs). ComFrame sets out qualitative and quantitative standards tailored to the international activity and size of IAIGs. These standards assist supervisors in collectively addressing an IAIG's activities and risks, identifying and avoiding supervisory gaps and coordinating supervisory activities, particularly between the group-wide supervisor and other involved supervisors. ComFrame provides standards for group supervision, governance and internal controls, enterprise risk management, and recovery and resolution planning. As part of ComFrame, the IAIS is developing a risk-based global insurance capital standard (ICS) applicable to IAIGs, with the purpose of creating a common language for supervisory discussions of group solvency of IAIGs. We currently meet the criteria set forth to identify an IAIG.

The IAIS has adopted ICS Version 2.0 for a five year monitoring phase, an initial phase commencing January 2020, during which ICS Version 2.0 will be used for confidential reporting to group-wide supervisors and discussion in supervisory colleges, but will not trigger supervisory action. The purpose of the monitoring period is to monitor the performance of the ICS over a period of time, and not to assess the capital adequacy of IAIGs. During the monitoring period, the IAIS will collect and consider feedback from supervisors, stakeholder engagement, a public consultation, and the results of an economic impact assessment, all of which could result in changes to ICS Version 2.0.

At the conclusion of the five year monitoring period, the IAIS has agreed to a second phase of implementation, whereby the ICS will be applied as a group-wide prescribed capital requirement, defined as a solvency control level above which the supervisor does not intervene on capital adequacy grounds.

Confidential reporting of ICS Version 2.0 will include reporting by IAIGs of a reference ICS, a consolidated group-wide measure based on a standard method for determining capital requirements and a market adjusted valuation of assets and liabilities. In recognition that the United States and other interested jurisdictions are developing an Aggregation Method (AM) to a group capital calculation, the IAIS is aiding in the development of the AM, including the collection of data from interested jurisdictions. Although the AM is not part of ICS Version 2.0, the IAIS aims to be in a position by the end of the monitoring phase to assess whether the AM provides substantially the same outcome as the ICS, in which case it will be considered an outcome-equivalent approach to the ICS. The IAIS has begun work on developing criteria to assess whether the AM provides comparable outcomes to the ICS, including a project plan focused on delivery by the end of the monitoring period.

The IAIS has adopted a Holistic Framework for the assessment and mitigation of systemic risk in the insurance sector, for implementation beginning in 2020. The Holistic Framework recognizes that systemic risk can emanate from specific activities and exposures arising from either sector-wide trends or concentrations in individual insurers. The Holistic Framework consists of:

- an enhanced set of supervisory policy measures for macroprudential purposes (including supervisory requirements applied to insurers targeting liquidity risk, macroeconomic exposure, and counterparty exposure; enhanced macroprudential supervision; crisis management and planning; and supervisory powers of intervention),
- an annual IAIS global monitoring exercise to assess trends and to detect the potential build-up of systemic risks (including an assessment of the possible concentration of systemic risks at individual insurers),
- mechanisms for collective IAIS discussion and assessment, including coordinated supervisory responses when needed, and
- an IAIS assessment of the consistency of implementation across jurisdictions.

In light of the IAIS adoption of the Holistic Framework, the FSB decided to continue its suspension of the identification of global systemically important insurers (G-SII). In November 2022, based on the initial years of implementation of the Holistic Framework, the FSB will review the need to either discontinue or re-establish an annual identification of G-SIIs.

The standards issued by the FSB and/or the IAIS are not binding on the United States or other jurisdictions around the world unless and until the appropriate local governmental bodies or regulators adopt laws and regulations implementing such standards. At this time, as these standards have been adopted only recently and in some cases remain under development, it is not known how the IAIS' frameworks and/or standards might be implemented in the United States and other jurisdictions around the world, or how they might ultimately apply to us.

Brexit

On June 23, 2016, the UK held a referendum in which a majority voted for the UK to withdraw its membership in the EU, commonly referred to as Brexit. The UK left the EU on January 31, 2020. Under the negotiated withdrawal agreement, there was an 11 month "transition period" during which EU rules continued to apply in the UK and the UK and EU negotiated their future relationship. On December 24, 2020, a Trade and Cooperation Agreement (TCA) was reached between the UK and the EU which applies provisionally from January 1, 2021 until February 28, 2021, and is expected to be extended until April 30, 2021. While the TCA covers areas like economic and security co-operation, tariff-free trade in goods, social security coordination, law enforcement and judicial cooperation in criminal matters, among others, it is largely silent on financial services which are expected to be addressed in subsequent negotiations.

AIG has significant operations and employees in the UK and other EU member states. Prior to December 1, 2018, our General Insurance business operated through AIG Europe Limited (AEL), a UK-incorporated insurer with branches across the EEA. These branches operated through the EU concept of Freedom of Establishment, which allows an insurer in any member state to establish branch operations in any other member state but with a single capital pool and a single prudential regulator (which in this case was the UK's Prudential Regulation Authority as AEL was UK-authorized). In addition, the various establishments of AEL were able to sell insurance products across borders into other member states under the EU principle of Freedom of Services. The UK government did not pursue continued UK membership of the EU single market and so AEL's structure would not have remained efficient or able to take advantage of these freedoms beyond the transitional period.

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

This reorganization addressed the uncertainty for UK insurers generated by Brexit because it ensured that notwithstanding the loss of Freedom of Establishment and Freedom of Services in the EU for UK financial institutions, AIG will be able to continue to service and pay claims on existing policies, and write new and renewal business where the insured risk is located in the remaining EEA countries. AIG has also put measures in place to adapt to other changes arising from Brexit such as the issuance of additional documentation to motorists it insures who travel cross border and continues to monitor other risks including, for example, the effect of the ending of the transition period and the TCA on the wider UK and EU economies and on its investments.

Derivatives

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

Markets in Financial Instruments Directive (MiFID) II

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

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, and Technology Committees
- *Corporate Governance Guidelines*
- *Director, Executive Officer and Senior Financial Officer Code of Business Conduct and Ethics (we will post on our website any amendment or waiver to this Code within the time period required by the SEC)*
- *Employee Code of Conduct*
- *Related-Party Transactions Approval Policy*

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

ITEM 1A | Risk Factors

Risk Factor Summary

The following is a summary of the material risks and uncertainties that could adversely affect our business, financial condition and results of operations. You should read this summary together with the more detailed description of each risk factor contained below.

Market Conditions

- COVID-19 is adversely affecting, and is expected to continue to adversely affect, our global business, financial condition and results of operations, and its ultimate impact will depend on future developments that are uncertain and cannot be predicted, including the scope, severity and duration of the crisis, and the governmental, legislative and regulatory actions taken and court decisions rendered in response thereto.
- Deterioration of economic conditions, geopolitical tensions or weakening in global capital markets may materially affect our businesses, results of operations, financial condition and liquidity.
- Sustained low, declining or negative interest rates, or rapidly increasing interest rates, have materially and adversely affected and may continue to materially and adversely affect our profitability.

Reserves and Exposures

- The amount and timing of insurance and reinsurance liability claims are difficult to predict and such claims may exceed the related liability for unpaid losses and loss adjustment expenses or future policy benefits, or the liabilities associated with certain guaranteed benefits and indexed features accounted for as embedded derivatives at fair value.
- Reinsurance may not be available or affordable and may not be adequate to protect us against losses.
- Our consolidated results of operations, liquidity, financial condition and ratings are subject to the effects of natural and man-made catastrophic events.
- Concentration of our insurance, reinsurance and other risk exposures may have adverse effects.
- Following the Majority Interest Fortitude Sale, our largest reinsurance counterparty, Fortitude Re, is no longer affiliated with us, and a failure by Fortitude Re to perform its obligations could have a material effect on our business, results of operations or liquidity and the accounting treatment of our reinsurance agreements with Fortitude Re could also lead to volatility in our net income.
- Interest rate fluctuations, increased lapses and surrenders, declining investment returns and other events may require our subsidiaries to accelerate the amortization of deferred policy acquisition costs (DAC) and record additional liabilities for future policy benefits.
- Losses due to nonperformance or defaults by counterparties can materially and adversely affect the value of our investments, our profitability and sources of liquidity.
- Climate change may adversely affect our business and financial condition.

Investment Portfolio and Concentration of Investments

- Our investment portfolio is concentrated in certain segments of the economy, and the performance and value of our investment portfolio are subject to a number of risks and uncertainties, including changes in interest rates and credit spreads.
- Our valuation of investments and derivatives 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 or lead to volatility in our net income.

Liquidity, Capital and Credit

- AIG Parent’s ability to access funds from our subsidiaries is limited.
- Our internal sources of liquidity may be insufficient to meet our needs, including providing capital that may be required by our subsidiaries.
- We may not be able to generate cash to meet our needs due to the illiquidity of some of our investments.
- A downgrade in the Insurer Financial Strength ratings of our insurance or reinsurance companies could limit their retention of customers and in-force business and retaining customers and business, and a downgrade in our credit ratings could adversely affect our business, our results of operations or our liquidity.

- Changes in the method for determining LIBOR and the upcoming phasing out of LIBOR and uncertainty related to LIBOR replacement rates may affect our business and results of operations.

Business and Operations

- No assurances can be given that the separation of our Life and Retirement business will occur or as to the specific terms or timing thereof. In addition, the separation could cause the emergence or exacerbate the effects of other risks to which AIG is exposed.
- Failure to effectively execute on AIG 200 could result in costs that are greater than expected, savings that are less than expected and disruption to our businesses that could have a material effect on our operations or financial condition.
- Pricing for our products is subject to our ability to adequately assess risks and estimate losses.
- Guarantees within certain of our products may increase the volatility of our results.
- Our foreign operations expose us to risks that may affect our operations.
- Our restructuring initiatives may not yield our expected reductions in expenses and improvements in operational and organizational efficiency.
- We may experience difficulty in marketing and distributing products through our current and future distribution channels and the use of third parties may result in additional liabilities.
- We are exposed to certain risks if we are unable to maintain the availability of our critical technology systems and data and safeguard the confidentiality and integrity of our data, which could compromise our ability to conduct business and adversely affect our consolidated financial condition or results of operations.
- Third parties we rely upon to provide certain business and administrative services on our behalf may not perform as anticipated, which could have an adverse effect on our business and results of operations.
- Business or asset acquisitions and dispositions may expose us to certain risks.
- Significant legal proceedings may adversely affect our results of operations or financial condition.
- Our risk management policies and procedures may prove to be ineffective and leave us exposed to unidentified or unanticipated risk, which could adversely affect our businesses or result in losses.

Regulation

- Our businesses are heavily regulated and changes in laws and regulations may affect our operations, increase our insurance subsidiary capital requirements or reduce our profitability.
- Actions by foreign governments, regulators and international standard setters could result in substantial additional regulation to which we may be subject.

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.
- If our businesses do not perform well and/or their estimated fair values decline, we may be required to recognize an impairment of our goodwill or to establish a valuation allowance against the deferred income tax assets, which could have a material adverse effect on our results of operations and financial condition.

Competition and Employees

- We face intense competition in each of our businesses.
- Competition for employees in our industry is intense, and managing key employee succession is critical to our success. We may not be able to attract and retain the key employees and highly skilled people we need to support our business.

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 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 above and beyond a risk's singular impact.

MARKET CONDITIONS

COVID-19 is adversely affecting, and is expected to continue to adversely affect, our global business, financial condition and results of operations, and its ultimate impact will depend on future developments that are uncertain and cannot be predicted, including the scope, severity and duration of the crisis, and the governmental, legislative and regulatory actions taken and court decisions rendered in response thereto. The COVID-19 crisis, and the governmental and regulatory responses thereto, are causing ongoing economic and societal disruption. We are continually assessing the impact and, due to the evolving and disruptive nature of the COVID-19 crisis, cannot estimate its ultimate impact on our business, financial condition and results of operations. We also cannot, at this time, estimate the full extent to which the crisis has caused and will continue to cause certain risks to our global business, including those discussed herein, to be heightened or realized.

Adverse changes and developments affecting the global economy, including the significant global economic downturn and increased volatility in financial and capital markets and credit spreads, individually and in the aggregate, have had and may continue to have negative effects on our overall investment portfolio. While, to date, the short-term economic impacts of COVID-19 have been largely offset by intervention taken by governments and monetary authorities, it remains difficult to quantify the potential long-term financial impacts on our investment portfolio. Further, as the COVID-19 crisis continues, there can be no assurance that governments and monetary authorities will continue to intervene and if they do, whether such intervention will be successful. Within our investment portfolio, there is concentrated exposure to certain segments of the economy, including real estate and real estate-related investments, which exposes us to negative impacts from the deferral of mortgage payments, renegotiated commercial mortgage loans or outright mortgage defaults, as well as significant exposure to certain industries negatively impacted by the economic downturn, such as energy. There is also the potential for permanent or longer term acceleration in macro trends such as work from home and online shopping that may negatively impact elements of our investment portfolio such as commercial real estate.

Moreover, continued low interest rates and the slowdown in the U.S. or global economy, which may continue or increase in severity, have adversely affected and may continue to adversely affect the values of, and the performance of and cash flows derived from, some of the investment assets we hold. These circumstances may also lead to increased defaults or distressed situations among the investments in our investment portfolio. In addition, actions taken by governments as well as monetary authorities such as the FRB have been implemented to curtail the impact of economic disruption in the capital markets. The discontinuation of such programs in advance of substantial economic recovery could adversely impact the performance of our investment portfolio. Finally, market volatility has created and may continue to create dislocations, decreases or variations in observable market activity or availability of information used in the valuation of our assets and liabilities, which could negatively impair the estimates and assumptions used to run our business or result in greater variability and subjectivity in our investment decisions.

Furthermore, market disruptions and uncertainty have negatively affected and may negatively affect our credit ratings or ratings outlook or our ability to generate or access liquidity we may need to operate our business and meet our obligations, including to pay interest on our debt, discharge or refinance our maturing debt obligations, meet capital needs of our subsidiaries, and to satisfy our regulatory capital and liquidity ratios. If the economic downturn persists or worsens, or economic recovery is prolonged, an increased number of clients and policyholders may face difficulty paying insurance premiums and global regulators may seek to implement new or renew existing premium relief measures to alleviate such difficulties, especially as certain industries, such as travel, are dislocated, which could impair our cash flows. As a holding company, AIG Parent depends on dividends, distributions and other payments from its subsidiaries for its liquidity needs; these subsidiaries' ability to pay dividends, make distributions or otherwise generate parent liquidity may, depending on the scope, severity and duration of the COVID-19 crisis, be reduced to the extent they are unable to generate sufficient distributable income or in the event regulators suspend or otherwise restrict dividends or other payments from subsidiaries to parent companies. We also depend on access to capital markets and other financing sources, including our $4.5 billion revolving syndicated credit facility, and access to these funding sources may become restricted or unavailable, and the terms on which additional financing is available may be adversely affected or limited, if the COVID-19 crisis continues to impair the global economy.

Our insurance businesses have experienced and may continue to experience increased claim volume under our Life and Retirement Insurance products, which are offered primarily in the U.S., the jurisdiction that currently has the highest number of COVID-19 cases and deaths worldwide, and our General Insurance policies, which are offered both in the U.S. and internationally, including commercial property (business interruption), travel, trade credit, accident and health, workers' compensation, directors and officers, event cancellation and liability insurance. Beginning in March 2020, we experienced an increase in mortality claims, which we expect to continue until the COVID-19 crisis subsides, and decreased demand for certain of our insurance product lines, such as travel insurance, and it is unclear when such demand will return. In addition, COVID-19 adversely affected our premiums and deposits in some of our insurance lines, including our Life and Retirement products. If the economic contraction continues or increases in severity, or the economic recovery is prolonged, we expect these impacts will continue in 2021 and possibly beyond. Further, our policies with premium adjustment features tied to exposure levels, as is the case in certain specialty and casualty lines, may be triggered, resulting in premium reductions. In response to the COVID-19 crisis and the resulting ongoing adverse, economic, financial and market impacts, we have made and may continue to make changes to underwriting guidelines or product design. We may also incur higher expenses in our insurance businesses and higher legal costs as a result of coverage disputes, including class actions and other proceedings that have been or may in the future be filed against us, our insureds, or others in the United States, the UK or other jurisdictions seeking coverage for COVID 19-related losses or alleging bad-faith denials of coverage for such losses. The outcome of coverage decisions may in turn affect the perceived value of the products we offer and therefore the demand for them.

While we seek to mitigate our exposure to loss through reinsurance, the availability of reinsurance relief will typically depend on several factors, including the timing and nature of how individual claims manifest, which may not be immediately known. Furthermore, due to the scope, severity and uncertain duration of the COVID-19 crisis, reinsurance may not be available or, if available, may be more difficult or costly to obtain in general or for certain types of coverage, such as natural catastrophes, going forward. In addition, reinsurance terms and conditions may change whereby, even if reinsurance is available, the coverage provided may not be the same or similar to the reinsurance terms and conditions currently available in the reinsurance market.

Increased economic uncertainty or increased unemployment resulting from the economic impacts of the COVID-19 crisis have resulted and may continue to result in policyholders cancelling or not renewing insurance policies or may result in policyholders seeking sources of liquidity such as policy loans and withdrawals at rates greater than expected. If policyholder behavior, including lapse and surrender rates, significantly exceed or vary from our expectations, it could have a material adverse effect on our business, requiring our subsidiaries to accelerate the amortization of deferred policy acquisition costs and record additional liabilities for future policy benefits.

Government officials have recommended or mandated precautions to mitigate the spread of COVID-19, including prohibitions on congregating in heavily populated areas, social distancing requirements, stay-at-home orders and similar measures. As a result, we implemented work-from-home business continuity plans for non-essential staff globally. Our results may be adversely impacted by these and other actions taken to contain or reduce the impact of COVID-19, and the extent of such impact will depend on future developments, which are highly uncertain and cannot be predicted. Moreover, the extended remote work environment puts stress on our business continuity plans and may prove them to be less effective than expected. Our business operations may also be significantly disrupted if our critical workforce, key vendors, third-party providers or other counterparties we transact business with, are unable to work effectively, including because of illness, quarantines, government and regulatory actions in response to COVID-19 or other reasons, or if the technology on which our remote business operations rely, some of which is developed and maintained by third parties, is disrupted or impaired or becomes unavailable. Certain pre-existing operational risks have been and may continue to be exacerbated, notably with respect to potential phishing or other cybersecurity-related events and our increased reliance on technology, including technology of our employees and service providers. Other pre-existing operational risks, such as privacy incidents, fraud, operational resilience and risks related to the operations and resiliency of our vendors, third-party providers and other counterparties, may also be exacerbated. Further, significant disruption to our businesses could adversely affect the timing or terms of, or our ability to execute, key business strategies, transactions and initiatives, such as the separation of the Life and Retirement business and AIG 200, resulting in higher costs or reduced savings or lower profit than was expected.

As noted herein, legislative and regulatory initiatives and court decisions following major catastrophes (such as pandemics) could require us to pay insureds beyond the provisions of their original insurance policies and may prohibit the application of a deductible, resulting in inflated and unanticipated catastrophe claims; or impose other restrictions after the occurrence thereof, which would reduce our ability to mitigate exposure. For example, COVID-19 has given rise to regulatory measures intended to encourage or require insurers to assist policyholders adversely impacted by COVID-19 (in some cases with retroactive effect), including lapse, payment or rate increase moratoriums, premium refunds, contributions to relief funds and similar measures. While some of these legislative and regulatory initiatives have expired, with the resurgence of the COVID-19 virus, legislative and regulatory authorities have extended certain of these initiatives and may seek to renew or impose more of them until the COVID-19 crisis subsides. These initiatives could impair our cash flows and, without regulatory relief, could reduce our subsidiaries' capital ratios. In addition, in certain jurisdictions legislative initiatives have emerged requiring contribution to relief funds or threatening to require insurers to provide insurance coverage beyond the scope of the original contract by re-writing contracts on a retroactive basis, including with respect to the availability of business interruption coverage in commercial property policies, or creating insurance solutions prospectively. Such legislative and regulatory initiatives or court decisions could result in requirements or restrictions that negatively impact our business operations or require us to pay beyond the provisions of original insurance policies and assumed reinsurance contracts. Finally, the adverse impacts of COVID-19 on Federal and state tax revenues could lead to increased taxes and assessments on insurers in order to address budget shortfalls.

Models utilizing historic information on correlations among macroeconomic factors, our insurance products and our investment portfolio may not reflect the relationship between macroeconomic factors, our insurance products and our investment portfolio in the current environment, as a result of the unique nature of the pandemic and the intervention by regulators monetary authorities to mitigate the impacts on policyholders and the broader economy. This could increase volatility in estimates.

Due to the evolving and disruptive nature of the COVID-19 crisis, we cannot estimate its ultimate impact at this time. Depending on the scope, severity and duration of the COVID-19 crisis, the events described above have adversely affected and may continue to have an adverse effect, which could be material, on our business, results of operations and financial condition. In addition, we could experience other potential impacts as a result of COVID-19, including, but not limited to, potential impairment charges to the carrying amounts of goodwill, deferred tax assets, and increased reserve builds to levels that are difficult to accurately estimate. Further, new and potentially unforeseen risks beyond those described above and in other Risk Factors herein may arise as a result of the COVID-19 crisis and the actions taken by governmental and regulatory authorities to mitigate its impact. Even after the crisis subsides, it is possible that the U.S. and other major economies will experience a prolonged recession or a prolonged economic recovery, in which event our businesses, results of operations and financial condition could be materially and adversely affected.

See also "Reinsurance may not be available or affordable and may not be adequate to protect us against losses" and "Our consolidated results of operations, liquidity, financial condition and ratings are subject to the effects of natural and man-made catastrophic events" below.

Deterioration of economic conditions, geopolitical tensions or weakening in global capital markets may materially affect our businesses, results of operations, financial condition and liquidity. Our businesses are highly dependent on global economic and market conditions. Weaknesses in economic conditions and the capital markets or market volatility have in the past led, and may in the future lead to, among other consequences, a poor operating environment, erosion of consumer and investor confidence, reduced business volumes, deteriorating liquidity and declines in asset valuations. Adverse economic conditions may result from global economic and political developments, including plateauing business activity and inflationary pressures in developed economies, civil unrest, uncertainty surrounding China's ability to successfully maintain growth as well as ongoing trade disputes between the U.S. and China, the effects of Brexit (as defined below) on business investment, hiring, migration and labor supply and intensifying trade protectionism including through tariffs, subsidies and other government actions. These and other market, economic, and political factors could have a material adverse effect on our businesses, results of operations, financial condition and liquidity in many ways, including (i) lower levels of consumer and commercial business activities that have decreased and may continue to decrease revenues and profitability and thus impair goodwill, deferred tax assets or other long-term assets, (ii) widening of credit spreads and higher than expected defaults that could reduce investment asset valuations, increase credit losses across numerous asset classes, and increase statutory capital requirements, (iii) increased market volatility and uncertainty that could decrease liquidity, increase borrowing costs and limit access to capital markets, (iv) the reduction of investment income generated by our investment portfolio, (v) disruption to our business operations in countries experiencing geopolitical tensions as well as increased costs associated with meeting customer needs in such regions, and (vi) impeding our ability to execute strategic transactions. Other ways in which we have in the past been, and could in the future be, negatively affected by economic conditions include, but are not limited to: increases in policy surrenders and cancellations; write-offs of deferred policy acquisition costs; increases in liability for future policy benefits due to loss recognition on certain long-duration insurance and reinsurance contracts; and increases in expenses associated with third-party reinsurance, or decreased ability to obtain reinsurance at acceptable terms.

For a discussion regarding the effects of the COVID-19 crisis on the global economy, see "COVID-19 is adversely affecting, and is expected to continue to adversely affect, our global business, financial condition and results of operations, and its ultimate impact will depend on future developments that are uncertain and cannot be predicted, including the scope, severity and duration of the crisis, and the governmental, legislative and regulatory actions taken and court decisions rendered in response thereto" above.

Sustained low, declining or negative interest rates, or rapidly increasing interest rates, have materially and adversely affected and may continue to materially and adversely affect our profitability. Interest rates have been declining globally, including in the United States, and in many cases, at or near historic lows. Changes in interest rates may be correlated with inflation trends, which would impact our loss trends. Sustained low interest rates have negatively affected and may continue to negatively affect the performance of our investments and reduce the level of investment income earned on our investment portfolios. We experience lower investment income as well as lower sales of new Life and Retirement insurance products and policies when a low or declining U.S. interest rate environment persists, and/or interest rates turn or, in certain circumstances remain negative across various global economies. For example, the low interest rate environment has negatively affected sales of interest rate sensitive products in our industry and negatively impacted the profitability of our existing business as we reinvest cash flows from investments, including due to increased calls and prepayments of fixed maturity securities and mortgage loans, at rates below the average yield of our existing portfolios. Due to practical and capital markets limitations, we have not been and may not be able to fully mitigate our interest rate risk by matching exposure of our assets relative to our liabilities. Continued low levels of interest rates have and could continue to 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.

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

RESERVES AND EXPOSURES

The amount and timing of insurance and reinsurance liability claims are difficult to predict and such claims may exceed the related liability for unpaid losses and loss adjustment expenses or future policy benefits, or the liabilities associated with certain guaranteed benefits and indexed features accounted for as embedded derivatives at fair value. We regularly review the adequacy of the established liability for unpaid losses and loss adjustment expenses or future policy benefits, as well as liabilities associated with certain guaranteed benefits and indexed features accounted for as embedded derivatives at fair value. We also conduct extensive analyses of our reserves and embedded derivatives during the year. Our liability for unpaid losses and loss adjustment expenses, future policy benefits and embedded derivatives, however, may develop adversely and materially impact our businesses, results of operations, financial condition and liquidity.

For General Insurance, estimation of ultimate net losses, loss expenses and the liability for unpaid losses and loss adjustment expenses is a complex process, particularly for both long-tail and medium-tail liability lines of business. These lines include, but are not limited to, excess casualty, workers' compensation, general liability, commercial automobile liability, environmental and crisis management coverages, Financial Lines, insurance and risk management programs for large corporate customers and other customized structured insurance products, as well as excess and umbrella liability, errors and omissions, products liability, programs and specialty. There is also greater uncertainty in establishing reserves with respect to new business, particularly new business that is generated with respect to more recently introduced product lines. In these cases, there is less historical experience or knowledge and less data upon which the actuaries can rely. Estimating reserves is further complicated by unexpected claims or unintended coverages that emerge due to changing conditions, such as unanticipated claims as a result of COVID-19. These emerging issues may increase the size or number of claims beyond our underwriting intent and may not become apparent for many years after a policy is issued.

While we use a number of analytical reserve development techniques to project future loss development, the liability for unpaid losses and loss adjustment expenses has been and may continue to be significantly affected by changes in loss cost trends or loss development factors that were relied upon in setting the liability for unpaid losses and loss adjustment expenses. For example, in 2018, we recorded net adverse prior year development of $366 million, in adjusted pre-tax income (loss), to strengthen our General Insurance liability for unpaid losses and loss adjustment expenses, reflecting adverse development in classes of business with long reporting tails, primarily in Casualty and Financial Lines. Whereas, in 2020 and 2019, we recorded favorable net development of $76 million and $294 million, respectively, including $396 million and $442 million in 2020 and 2019, respectively, in U.S. Workers' Compensation. These changes in loss cost trends or loss development factors could be due to changes in actual versus expected claims and losses, difficulties in predicting changes, such as changes in inflation, unemployment duration, or other social or economic factors affecting claims, including the effects of the COVID-19 crisis, judicial and legislative approaches, and changes in the tort 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 Life and Retirement, establishment and ongoing calculations of future policy benefits is a complex process, with significant judgmental inputs and assumptions. Experience may develop adversely such that additional reserves must be established or the value of embedded derivatives may increase. Adverse experience could arise out of a severe short-term event such as a pandemic or changes to policyholder behavior during stressed economic periods, or due to misestimation of long-term assumptions such as mortality, mortality improvement, interest rate, equity market and expense assumptions. Certain variables, such as policyholder behavior can be difficult to estimate and have a significant impact on reserves and embedded derivatives. Life and Retirement future policy benefits and embedded derivatives and related assumptions are reviewed regularly and we regularly carry out loss recognition and cash flow testing.

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

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

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

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

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

We currently have limited catastrophe reinsurance coverage for terrorist attacks. Further, the availability of private sector reinsurance for terrorism is limited. We benefit from 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 U.S. TRIPRA was reauthorized in December 2019 for a further seven years. Under TRIPRA, once our losses for certain acts of terrorism exceed a deductible equal to 20 percent of our direct commercial property and casualty insurance premiums for covered lines for the prior calendar year, the federal government will reimburse us for 80 percent of losses in excess of our deductible, up to a total industry program limit of $100 billion. TRIPRA does not cover losses in certain lines of business such as personal property and personal casualty. We also rely on the government sponsored and government arranged terrorism reinsurance programs, including pools, in force in applicable non-U.S. jurisdictions.

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

For a discussion regarding the impact of the Majority Interest Fortitude sale on our reinsurance program, see “Following the Majority Interest Fortitude Sale, our largest reinsurance counterparty, Fortitude Re, is no longer affiliated with us, and a failure by Fortitude Re to perform its obligations could have a material effect on our business, results of operations or liquidity and could also lead to volatility in our net income” below.

For a discussion regarding the effects of the COVID-19 crisis on our reinsurance program, see “COVID-19 is adversely affecting, and is expected to continue to adversely affect, our global business, financial condition and results of operations, and its ultimate impact will depend on future developments that are uncertain and cannot be predicted, including the scope, severity and duration of the crisis, and the governmental, legislative and regulatory actions taken and court decisions rendered in response thereto” above.

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, hailstorms, flooding, earthquakes, wildfires, solar storms, war or other military action, acts of terrorism, explosions and fires, cyber-crimes, product defects, pandemics, such as COVID-19, and other highly contagious diseases, mass torts, civil unrest and other catastrophes have adversely affected our business in the past and could do so in the future. For example, we incurred pre-tax catastrophe losses of $2.4 billion in 2020, which included losses in our General Insurance business from the COVID-19 crisis, windstorms and hailstorms, hurricanes, wildfires and civil unrest, and pre-tax catastrophe losses of $1.3 billion in 2019, which included losses from typhoons in Japan, Hurricane Dorian, a tornado in Dallas and wildfires in California.

Catastrophic events, and any relevant regulations, could result in losses in any business in which we operate, and could expose us to:

- widespread claim costs associated with property, workers’ compensation, accident and health, travel, 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;
- revenue loss due to decline in customer base;
- 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
- significant disruptions to our physical infrastructure, systems and operations.

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

In addition, legislative and regulatory initiatives and court decisions following major catastrophes (both natural and man-made) 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 and unanticipated claims; or impose other restrictions after the occurrence of a major catastrophe, which would reduce our ability to mitigate exposure.

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

For a discussion regarding the effects of climate change on our business, see "Climate change may adversely affect our business and financial condition" below.

For a discussion regarding the effects of the COVID-19 crisis on our business, see "COVID-19 is adversely affecting, and is expected to continue to adversely affect, our global business, financial condition and results of operations, and its ultimate impact will depend on future developments that are uncertain and cannot be predicted, including the scope, severity and duration of the crisis, and the governmental, legislative and regulatory actions taken and court decisions rendered in response thereto" above.

Concentration of our insurance, reinsurance and other risk exposures may have adverse effects. We are exposed to risks as a result of concentrations in our insurance and reinsurance policies, investments, derivatives and other obligations that we undertake for customers and counterparties. We manage these concentration risks by monitoring the accumulation of our exposures to factors such as exposure type and size, industry, geographic region, counterparty and other factors. We also seek to use third-party reinsurance, hedging and other arrangements to limit or offset exposures that exceed the retention and risk appetite limits we define as part of our Risk Appetite Statement. In certain circumstances, however, these risk management arrangements may not be available on acceptable terms or may prove to be ineffective for certain exposures. Our risk exposures under insurance and reinsurance policies, derivatives and other obligations are, from time to time, compounded by risk exposure assumed in our investment business. 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.

In addition, the proposed separation of our Life and Retirement business, if consummated, could increase the materiality of these potential concentrations in the remaining portfolio. *For further discussion of risks associated with the separation of the Life and Retirement business from AIG, see "No assurances can be given that the separation of our Life and Retirement business will occur or as to the specific terms or timing thereof. In addition, the separation could cause the emergence or exacerbate the effects of other risks to which AIG is exposed" below.*

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

Following the Majority Interest Fortitude Sale, our largest reinsurance counterparty, Fortitude Re, is no longer affiliated with us, and a failure by Fortitude Re to perform its obligations could have a material effect on our business, results of operations or liquidity and the accounting treatment of our reinsurance agreements with Fortitude Re could also lead to volatility in our net income. As of June 2, 2020, we consummated the Majority Interest Fortitude Sale, upon which Fortitude Holdings, the parent of Fortitude Re, became controlled 71.5% by affiliates of The Carlyle Group Inc. and 25% by affiliates of T&D Holdings, Inc., and our ownership interest in Fortitude Holdings was reduced to 3.5%. As of December 31, 2020, approximately $30.5 billion of reserves from AIG's Life and Retirement Run-Off Lines and approximately $4.1 billion of reserves from AIG's General Insurance Run-Off Lines, related to business written by multiple wholly-owned AIG subsidiaries, had been ceded to Fortitude Re under these reinsurance transactions. While we retained a seat on the board of managers of Fortitude Holdings, our ability to influence its operations going forward will be very limited. Our subsidiaries continue to remain primarily liable to policyholders under the business reinsured with Fortitude Re. As a result, and if Fortitude Re is unable to successfully operate independently, or other issues arise that affect its financial condition or ability to satisfy or perform its obligations to our subsidiaries under the various reinsurance arrangements in force between Fortitude Re and such subsidiaries, we could experience a material adverse effect on our results of operations and liquidity to the extent the amount of collateral posted in respect of our reinsurance receivable is inadequate. Further, upon the occurrence of certain triggers on the part of Fortitude Re under the applicable reinsurance agreements, our subsidiaries may elect or may be required, to recapture the business ceded under such reinsurance agreements, which would result in a substantial increase to our net insurance liabilities. In addition, pursuant to certain risk-sharing arrangements, AIG may be required to pay Fortitude Re for certain adverse development in property casualty related reserves, based on an agreed methodology, that may occur on or prior to December 31, 2023, up to a maximum payment of $500 million.

Furthermore, the accounting treatment for the various reinsurance agreements can lead to volatility in our net income. These reinsurance transactions between AIG and Fortitude Re were structured as modified coinsurance (modco) for the Life and Retirement Run-Off Lines and loss portfolio transfer arrangements with funds withheld (funds withheld) for the General Insurance Run-Off Lines.

In modco and funds withheld arrangements, the investments supporting the reinsurance agreements, and which reflect the majority of the consideration that would be paid to the reinsurer for entering into the transaction, are withheld by, and therefore continue to reside on the balance sheet of, the ceding company (i.e., AIG and its subsidiaries) thereby creating an obligation for the ceding company to pay the reinsurer (i.e., Fortitude Re) at a later date. Additionally, as AIG maintains ownership of these investments, AIG will maintain its existing accounting for these assets (e.g., the changes in fair value of available for sale securities will be recognized within other comprehensive income). As a result of the deconsolidation resulting from the Majority Interest Fortitude Sale, AIG has established a funds withheld payable to Fortitude Re while simultaneously establishing a reinsurance asset representing reserves for the insurance coverage that Fortitude Re has assumed. The funds withheld payable contains an embedded derivative and changes in fair value of the embedded derivative related to the funds withheld payable are recognized in earnings through realized capital gains (losses). This embedded derivative is considered a total return swap with contractual returns that are attributable to various assets and liabilities associated with these reinsurance agreements.

For further discussion on the sale of Fortitude Holdings see Item 7 MD&A – Consolidated Results of Operations.

For further discussion of our exposure to credit risk of reinsurers, see "Reinsurance may not be available or affordable and may not be adequate to protect us against losses" above.

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

DAC for investment-oriented products is generally amortized in proportion to actual and estimated gross profits. Estimated gross profits are affected by a number of factors, including levels of current and expected interest rates, net investment income and spreads, net realized capital gains and losses, fees, surrender rates, mortality experience, policyholder behavior experience and equity market returns and volatility. If actual and/or future estimated gross profits are less than originally expected, then the amortization of these costs would be accelerated in the period this is determined 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, and thereby a strain on cash flow. Additionally, this would also result in a decrease in expected future profitability and an acceleration of the amortization of DAC, and therefore lower than expected pre-tax income earned during the then current period.

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, but not limited to, mortality, morbidity, persistency, maintenance expenses and investment returns, including net realized capital gains (losses). If actual experience or revised future expectations result in projected future losses, we may be required to amortize any remaining DAC and record additional liabilities through a charge to policyholder benefit expense in the then current period, which could negatively affect our results of operations.

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

Losses due to nonperformance or defaults by counterparties can materially and adversely affect the value of our investments, our profitability and sources of liquidity. We are exposed to credit risk arising from exposures to various counterparties related to investments, derivatives, premiums receivable, certain General Insurance businesses and reinsurance recoverables. These counterparties include, but are not limited to, issuers of fixed income and equity securities we hold, borrowers of loans we hold, customers, trading counterparties, counterparties under swaps and other derivatives contracts, reinsurers, corporate and governmental entities whose payments or performance we insure, joint venture partners, clearing agents, exchanges, clearing houses and other third parties, financial intermediaries and guarantors. These counterparties may default on their obligations to us due to bankruptcy, insolvency, receivership, financial distress, lack of liquidity, adverse economic conditions, operational failure, fraud, government intervention and other reasons. In addition, for exchange-traded derivatives, such as futures, options as well as "cleared" over-the-counter derivatives, we are generally exposed to the credit risk of the relevant central counterparty clearing house and futures commission merchants through which we clear derivatives. Defaults by these counterparties on their obligations to us could have a material adverse effect on the value of our investments, business, financial condition, results of operations and liquidity.

Additionally, if the underlying assets supporting the structured securities we invest in are expected to default or actually default on their payment obligations, our securities may incur losses.

Climate change may adversely affect our business and financial condition. AIG supports the scientific consensus that climate change is a reality of increasing global concern. Climate change, indicated by higher concentrations of greenhouse gases, a warming atmosphere and ocean, wildfires, diminished snow and ice, and sea level rise, appears to have contributed to unpredictability, increase in the frequency and severity of natural disasters and the creation of uncertainty as to future trends and exposures. As such, climate change potentially poses serious financial implications for the insurance industry in areas such as underwriting, claims and investments, as well as risk capacity, financial reserving and operations.

Climate change exposes us to physical risks which may challenge our ability to effectively underwrite, model and price catastrophe risk particularly if the frequency and severity of catastrophic events such as pandemics, hurricanes, tornadoes, floods, wildfires and windstorms and other natural disasters continue to increase. For example, losses resulting from actual policy experience may be adverse as compared to the assumptions made in product pricing as well as mortality assumptions and our ability to mitigate our exposure may be reduced.

Climate change-related risks may also adversely impact the value of the securities that we hold or lead to increased credit risk of other counterparties we transact business with, including reinsurers. Our reputation or corporate brand could also be negatively impacted as a result of changing customer or societal perceptions of organizations that we either insure or invest in due to their actions (or lack thereof) with respect to climate change. In addition, regulators have imposed and may continue to impose new requirements or issue new guidance aimed at addressing or mitigating climate change-related risks. These emerging regulatory initiatives, or any policies adopted by investors to address changing societal perceptions on climate change, could result in increased compliance cost to our businesses and changes to our corporate governance and risk management practices, and may affect the type of assets we hold in our investment portfolio. We cannot predict the long-term impacts of climate change on our business and results of operations.

For a discussion regarding risks associated with other catastrophic events, see "Our consolidated results of operations, liquidity, financial condition and ratings are subject to the effects of natural and man-made catastrophic events" above.

INVESTMENT PORTFOLIO AND CONCENTRATION OF INVESTMENTS

Our investment portfolio is concentrated in certain segments of the economy, and the performance and value of our investment portfolio are subject to a number of risks and uncertainties, including changes in interest rates and credit spreads. 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. For example, we have significant exposure to real estate and real estate-related investments, including residential mortgage-backed, commercial mortgage-backed and other asset-backed securities and residential and commercial mortgage loans. We also have significant exposures to financial institutions and, in particular, to money center banks and global banks, certain industries, such as energy and utilities, the U.S. federal, state and local government issuers and authorities, and global 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 the valuation of our investments to the extent they are concentrated in such segments. Our ability to sell assets in such segments may be limited. In addition, the COVID-19 crisis may exacerbate the risks of a concentrated investment portfolio given market volatility. For a discussion regarding the effects of the COVID-19 crisis on our investment portfolio, *see "COVID-19 is adversely affecting, and is expected to continue to adversely affect, our global business, financial condition and results of operations, and its ultimate impact will depend on future developments that are uncertain and cannot be predicted, including the scope, severity and duration of the crisis, and the governmental, legislative and regulatory actions taken and court decisions rendered in response thereto" above.*

Our investments are also subject to market risks and uncertainties, including, in addition to interest rate risk, changes in the level of credit spreads, currency rates, and commodity and equity prices, each of which has affected and will continue to affect the value of investments in our investment portfolio as well as the performance of, and returns generated by, such investments. The discontinuation of actions taken by legislators and monetary authorities in advance of substantial economic recovery could adversely impact the performance of our investment portfolio. *For a discussion regarding risks associated with interest rate volatility, see "Sustained low, declining or negative interest rates, or rapidly increasing interest rates, have materially and adversely affected and may continue to materially and adversely affect our profitability" above.*

Furthermore, our alternative investment portfolio, which is subject to increased volatility in equity markets, includes investments for which changes in fair value are reported through pre-tax income. An economic downturn or decline in the capital markets may have a material adverse effect on our investment income, including as a result of decreases in the fair value of alternative investments.

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

For a discussion regarding volatility in accounting as it relates to Fortitude Re, see "Following the Majority Interest Fortitude Sale, our largest reinsurance counterparty, Fortitude Re, is no longer affiliated with us, and a failure by Fortitude Re to perform its obligations could have a material effect on our business, results of operations or liquidity and could also lead to volatility in our net income" above.

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 Preferred Stock, to fund repurchases of AIG Common Stock and debt obligations and to make payments due on its obligations, including its outstanding debt. The majority of our investments are held by our regulated subsidiaries. Certain of our subsidiaries are limited in their ability to make dividend payments or other distributions to AIG Parent in the future because of the need to support their own capital levels or because of regulatory limits and restrictions or rating agency requirements. Our decision to pursue strategic changes or transactions in our business and operations may also subject our subsidiaries' dividend plans to heightened regulatory scrutiny and could make obtaining regulatory approvals for extraordinary distributions by our subsidiaries, if any are sought, more difficult. We are also subject to certain other restrictions on our capital from time to time. For example, following the closing of the sale of our controlling interest in Fortitude Holdings in June 2020, we contributed approximately $835 million of the proceeds to certain of our insurance company subsidiaries. The inability of our subsidiaries to make payments, dividends or other distributions in an amount sufficient to enable AIG Parent to meet its cash requirements could have an adverse effect on our operations, and on our ability to pay dividends, repurchase AIG Common Stock and debt obligations or to meet our debt service obligations.

Our internal sources of liquidity may be insufficient to meet our needs, including providing capital that may be required by our subsidiaries. We need liquidity to pay our operating expenses, interest on our debt, maturing debt obligations and to meet capital needs of our subsidiaries, including to maintain regulatory capital ratios, comply with rating agency requirements and meet unexpected cash flow obligations as well as pursuant to capital maintenance agreements we have in place with certain subsidiaries. If our liquidity is insufficient to meet our needs, at such time, we may 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 financial strength or 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. If AIG Parent is unable to satisfy a capital need of a subsidiary, the credit rating agencies could downgrade the subsidiary's financial strength ratings or the subsidiary could become insolvent or, in certain cases, could be seized by its regulator.

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

For further discussion of rating agency requirements, see "A downgrade by one or more of the rating agencies in the Insurer Financial Strength ratings of our insurance or reinsurance companies could limit their ability to write or prevent them from writing new business and impair their retention of customers and in-force business, and a downgrade in our credit ratings could adversely affect our business, our results of operations or our liquidity" below.

We may not be able to generate cash to meet our needs due to the illiquidity of some of our investments. Our subsidiaries have a diversified investment portfolio. However, economic conditions as well as adverse capital market conditions, including a lack of buyers, the inability of potential buyers to obtain financing on reasonable terms, volatility, credit spread changes, interest rate changes, foreign currency exchange rates and/or decline in collateral values have in the past impacted, and may in the future impact, the liquidity and value of our investments.

For example, we have made investments in certain securities that are generally considered illiquid, including certain fixed income securities and certain structured securities, privately placed 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 $65 billion at December 31, 2020. Adverse changes in the valuation of real estate and real estate-linked assets, deterioration of capital markets and widening credit spreads have in the past, and may in the future, materially adversely affect the liquidity and the value of our investment portfolios, including our residential and commercial mortgage related securities portfolios.

In the event additional liquidity is required by one or more of our companies, it may be difficult for us to generate additional liquidity by selling, pledging or otherwise monetizing these or other of our investments at reasonable prices and time frames.

A downgrade by one or more of the rating agencies in the Insurer Financial Strength ratings of our insurance or reinsurance companies could limit their ability to write or prevent them from writing new business and impair their retention of customers and in-force business, and a downgrade in our credit ratings could adversely affect our business, our results of operations and our liquidity. Insurer Financial Strength (IFS) ratings are an important factor in establishing the competitive position of insurance or reinsurance companies. IFS ratings measure an insurance or reinsurance company's ability to meet its obligations to contract holders and policyholders.

Credit rating agencies estimate a company's ability to meet its ongoing financial obligations and high IFS and credit ratings help maintain public confidence in a company's products, facilitate marketing of products and enhance its competitive position. Downgrades of the IFS ratings of our insurance or reinsurance companies could prevent these companies from selling, or make it more difficult for them to succeed in selling, products and services, or result in increased policy cancellations, lapses and surrenders, termination of, or increased collateral posting obligations under, assumed reinsurance contracts, or return of premiums. Under credit rating agency policies concerning the relationship between parent and subsidiary ratings, a downgrade in AIG Parent's credit ratings could result in a downgrade of the IFS ratings of our insurance or reinsurance subsidiaries. Similarly, under credit rating agency policies, a downgrade of the IFS ratings of our insurance and reinsurance subsidiaries could also result in a downgrade in AIG Parent's credit ratings.

In addition, a downgrade of our long-term debt ratings by one or more of the major rating agencies could potentially increase our financing costs and limit the availability of financing. A downgrade would also require us to post additional collateral payments related to derivative transactions to which we are a party, and could permit the termination of these derivative transactions. This could adversely affect our business, our consolidated results of operations in a reporting period and/or our liquidity.

In response to the announcement by AIG in October 2020 of its intention to separate the Life and Retirement business from AIG, Fitch placed the credit ratings of AIG on "Rating Watch Negative," Moody's placed the debt ratings of AIG on review for downgrade and S&P placed the credit ratings of AIG and the financial strength ratings of most of the General Insurance subsidiaries on CreditWatch with negative implications. Moody's and Fitch affirmed the financial strength ratings and outlooks on AIG's insurance subsidiaries. Rating agencies may take further actions, including as a result of any decisions relating to our intent to separate our Life and Retirement business, which could adversely affect our business.

For a further discussion of rating agency actions in response to AIG's announced intention to separate its Life and Retirement business from AIG, see Item 7. MD&A – Liquidity and Capital Resources – Recent Rating Agency Actions.

Changes in the method for determining LIBOR and the upcoming phasing out of LIBOR and uncertainty related to LIBOR replacement rates may affect our business and results of operations. The UK Financial Conduct Authority announced in 2017 that it would no longer compel banks to submit London Interbank Offered Rate (LIBOR) rates after 2021. On November 30, 2020, the ICE Benchmark Administration Limited ("IBA"), which is supervised by the UK Financial Conduct Authority, announced a proposal to extend the publication of the most commonly used USD LIBOR settings until June 30, 2023. However, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency continue to strongly encourage banks to cease entering into new contracts that use USD LIBOR as a reference rate as soon as practicable and in any event by December 31, 2021. Since the initial announcement in 2017, we have been monitoring developments and determining how our hedging strategies, asset portfolio, liabilities, systems and operations may be affected in, and in the transition to, a post-LIBOR environment.

Potential changes to LIBOR, as well as uncertainty related to such potential changes and the establishment of any alternative reference rates, may adversely affect the market for LIBOR-based securities and could adversely impact the substantial amount of derivatives contracts used to hedge our assets, insurance and other liabilities. In addition, the discontinuance of LIBOR or changes or reforms to the determination or supervision of LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on the market for LIBOR-based securities or the value of our investment portfolio and the derivatives contracts used to hedge our assets, insurance and other liabilities.

While markets are developing alternative reference rates, questions concerning liquidity and how to appropriately adjust these rates to eliminate any economic value transfer at the time of transition remain a significant concern for us and others in the marketplace. The effect of any changes or reforms to LIBOR or discontinuation of LIBOR on new or existing financial instruments to which we have exposure or on our businesses will vary depending on (i) existing fallback provisions in individual contracts and (ii) whether, how, and when industry participants develop and widely adopt alternative reference rates and fallbacks for both legacy and new products or instruments. At this time, because the response of markets to these potential alternative reference rates is still evolving, we cannot predict the effect of any changes to or discontinuation of LIBOR on new or existing financial instruments to which we have exposure and our liability profile.

Internal actions taken to address the transition from LIBOR and to mitigate potential risks include, among other things, ensuring new legal contracts and our asset and debt issuances reference appropriate LIBOR fallback provisions and identifying fallback provisions in existing contracts and investments which mature after the relevant LIBOR phase-out date, updating valuation and actuarial models which utilize LIBOR, determining the impact of new accounting and tax requirements, adjusting applicable technology applications to be able to support both LIBOR and new alternative rates and executing test trades for derivatives, assets and debt issuances utilizing the new alternative reference rates. We also participate in certain LIBOR replacement working groups under the auspices of ISDA and the U.S. based Alternative Reference Rate Committee (ARRC) and conduct periodic discussions with our industry peers, banking institutions and the relevant administrators of LIBOR and the ARRC in order to monitor, provide appropriate feedback and otherwise participate in discussions regarding the transition from LIBOR.

We continue to actively monitor both market and regulatory changes in order to prepare for any discontinuation of the LIBOR benchmark.

We may be required to post additional collateral because of changes in our reinsurance liabilities to regulated insurance companies, or because of regulatory changes that affect our businesses. In the ordinary course of our business, we are required to post collateral for our insurance company subsidiaries from time to time. If our reinsurance liabilities increase, we may be required to post additional collateral for insurance company clients that we reinsure. In addition, regulatory changes could require us to post additional collateral. The need to post this additional collateral, if significant enough, may require us to sell investments at a loss in order to provide securities of suitable credit quality or otherwise secure adequate capital at an unattractive cost. This could adversely impact our consolidated results of operations, liquidity and financial condition.

BUSINESS AND OPERATIONS

No assurances can be given that the separation of our Life and Retirement business will occur or as to the specific terms or timing thereof. In addition, the separation could cause the emergence or exacerbate the effects of other risks to which AIG is exposed. On October 26, 2020, AIG announced its intention to separate its Life and Retirement business from AIG. Similar to other business dispositions, the separation involves a number of risks, including (i) unanticipated developments that may delay, prevent or otherwise adversely affect our ability to effect a separation; (ii) significant costs and disruption or distraction of management from AIG's other business operations, whether or not a separation is completed; (iii) satisfaction of various conditions and approvals, including approval by the AIG Board of Directors, and receipt of insurance and other required regulatory approvals, and satisfaction of any applicable requirements of the Securities and Exchange Commission; (iv) other regulatory requirements that could impact our operations or capital requirements or delay or impede completion of a separation; (v) rating agency actions; (vi) unforeseen losses, liabilities or asset impairment arising from the structure of any definitive separation transaction; and (vii) if we are successful in separating the business, increased concentration of our business operations. No assurance can be given regarding the structure of the initial disposition of up to a 19.9% interest in the Life and Retirement business or the specific terms or timing thereof, or that a separation will in fact occur.

In addition, the separation of our Life and Retirement business, if consummated, could cause the emergence or exacerbate the effects of many of the other risks noted herein, including: (i) the risk of indemnity claims that could be made against us in connection with divested businesses; (ii) our ability to utilize certain tax loss and credit carryforwards to offset future taxable income; (iii) competition for employees and managing retention of key employees; (iv) maintaining relationships with certain key distributors; (v) concentration of our insurance and other risk exposures; and (vi) increased exposure to certain risks related to deriving revenue from non-U.S. sources. A significant delay in the consummation of the separation could also exacerbate these risks.

For a discussion regarding risks associated with rating agency actions, see "A downgrade by one or more of the rating agencies in the Insurer Financial Strength ratings of our insurance or reinsurance companies could limit their ability to write or prevent them from writing new business and impair their retention of customers and in-force business, and a downgrade in our credit ratings could adversely affect our business, our results of operations and our liquidity" above. In addition, see Item 7. MD&A – Liquidity and Capital Resources – Recent Rating Agency Actions; see also "Business or asset acquisitions and dispositions may expose us to certain risks" below.

Failure to effectively execute on AIG 200 could result in costs that are greater than expected, savings that are less than expected and disruption to our businesses that could have a material effect on our operations or financial condition. In 2019, we announced AIG 200, our global, multi-year and enterprise-wide program involving transformational change across the Company. AIG 200 is comprised of ten operational programs mapped against four core objectives that are complex and require significant investment and resource prioritization. We may not achieve some or all of the expected benefits from these operational programs, and the work we are undertaking could result in disruption to our businesses and loss of talent. Other risks associated with AIG 200 include delays in execution across the programs, particularly with respect to implementation of technology platforms, lack of sufficient resources to execute on a timely basis, inefficiencies stemming from changes that may be required to programs or sequencing, failure to meet operational and financial targets due to additional priorities or other factors, and the inability to secure regulatory approvals, if and when needed. These risks may impair our ability to achieve anticipated improvements in our businesses or may otherwise harm our operations which could materially and adversely affect our businesses, financial condition and cash flow.

Pricing for our products is subject to our ability to adequately assess risks and estimate losses. We seek to price our insurance and reinsurance products such that premiums, policy fees and other charges and future net investment income earned on revenues received will result in an acceptable profit in excess of expected claims, assumed expense loads and the cost of capital. Our business is dependent on our ability to price our products effectively and charge appropriate premiums. Pricing adequacy depends on a number of factors and assumptions, including proper evaluation of insurance risks, our expense levels, net investment income realized, our response to rate actions taken by competitors, legal and regulatory developments and the ability to obtain regulatory approval for rate changes. For example, some of our life insurance policies and annuity contracts provide management the right to adjust certain nonguaranteed charges or benefits and interest crediting rates if necessary; however, this right is limited and may be subject to guaranteed minimums or maximums, and the exercise of these rights could result in reputational and/or litigation risk. Inadequate pricing could have a material adverse effect on the profitability of our operations and our financial condition.

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

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

For example, differences between the change in fair value of the embedded derivatives associated with GLBs and the value of the related hedging portfolio are caused by extreme and unanticipated movements in the level of equity markets, interest rates and market volatility, policyholder behavior that differs from our assumptions and our inability to purchase hedging instruments or reinsurance at prices consistent with the desired risk and return trade-off. The occurrence of one or more of these events has in the past resulted in, and could in the future result in, an increase in the fair value of liabilities associated with the guaranteed benefits or decline in the value of our hedges without an offsetting decline in our liabilities, thus reducing our pre-tax net income and shareholders' equity.

While we believe that our actions have reduced the risks related to guaranteed benefits and guaranteed interest crediting, our risk exposures are not fully, and may not be effectively, hedged.

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

Our foreign operations expose us to risks that may affect our operations. We provide insurance, reinsurance, investment and other financial products and services to both businesses and individuals in approximately 80 countries and jurisdictions. A substantial portion of our business is conducted outside the U.S., and we intend to continue to grow business in strategic markets. Operations outside the U.S. have in the past been, and may in the future be, affected by regional economic downturns, changes in foreign currency exchange rates, political events or upheaval, nationalization and other restrictive government or regulatory 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.

In addition, AIG Parent and its subsidiaries are subject to various extraterritorial laws and regulations, including such laws adopted by the U.S. that affect how we do business around the world. These laws and regulations may conflict and we may incur penalties and/or reputational harm if we fail to adhere to them. For example, increased international data localization and cross-border data transfer regulatory restrictions may affect how we do business around the world and may cause us to incur penalties and/or suffer reputational harm.

On June 23, 2016, the United Kingdom (UK) held a referendum in which a majority voted for the UK to withdraw its membership in the European Union (EU), commonly referred to as Brexit. The UK left the EU on January 31, 2020. Under the negotiated withdrawal agreement, there was an 11 month "transition period" during which EU rules continued to apply in the UK and negotiations continued to determine the future relationship between the UK and EU. On December 24, 2020, a Trade and Cooperation Agreement was reached between the UK and the EU, which applies provisionally from January 1, 2021 until February 28, 2021, and is expected to be extended until April 30, 2021. The full text of the agreement is yet to be approved by the EU member states and European parliaments. We have significant operations and employees in the UK and other EU member states, and, as a result of Brexit, we have completed a reorganization of our operations and legal entity structure in the UK and the EU through the establishment of a European subsidiary in Luxembourg with branches across the EEA and Switzerland, and a UK subsidiary. For additional information regarding the reorganization of our European operations in light of Brexit, *see Item 1. Business – Regulation – International Regulation – Brexit*. However, there still remains uncertainty around the post-Brexit regulatory environment as the provisions of the new agreement do not cover certain business areas, e.g., financial services. Brexit has also affected and could continue to affect the U.S. dollar/British pound exchange rate, increased the volatility of exchange rates among the euro, British pound and the Japanese yen, and created volatility in the financial markets. It is possible that the uncertainty around the effects of the end of the transition period will lead to further turbulence in the financial markets, which may affect the value of our investments and the capital invested in our UK and EU subsidiaries.

Our restructuring initiatives may not yield our expected reductions in expenses and improvements in operational and organizational efficiency. Outside of our AIG 200 transformational program and announced plan to separate the Life and Retirement business, we continue to undertake certain restructuring initiatives in the ordinary course of business. We may not be able to fully realize the anticipated expense reductions and operational and organizational efficiency improvements we expect to result from our regional and operational restructuring initiatives. Actual costs to implement these initiatives may exceed our estimates or we may be unable to fully implement and execute these initiatives as planned. The implementation of these initiatives may harm our relationships with customers or employees or our competitive position. Our businesses and results of operations may be negatively impacted if we are unable to realize these anticipated expense reductions and efficiency improvements or if implementing these initiatives harms our relationships with customers or employees or our competitive position. The successful implementation of these initiatives may continue to require us to effect workforce reductions, business rationalizations, systems enhancements, business process outsourcing, business and asset dispositions and acquisitions and other actions, which depend on a number of factors, some of which are beyond our control.

We may experience difficulty in marketing and distributing products through our current and future distribution channels and the use of third parties may result in additional liabilities. 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, limit the products they sell, including the types of products offered by us, or otherwise reduce or terminate their distribution relationships with us. This could be due to various reasons, such as industry consolidation of distributors or other industry changes that increase the competition for access to distributors, developments in laws or regulations that affect our business or industry, including the marketing and sale of our products and services, adverse developments in our business, strategic decisions that impact our business, adverse rating agency actions or concerns about market-related risks. An interruption or reduction 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, we are responsible for the actions of our employees and can, in certain circumstances, be held responsible for the actions of our third-party distributors, including broker dealers, registered representatives, insurance agents and agencies and marketing organizations, in connection with the marketing and sale of our products by such parties in a manner that is deemed not compliant with applicable laws and regulations. This is particularly acute with respect to unaffiliated distributors. If our products are distributed to customers for whom they are unsuitable or distributed in a manner deemed inappropriate, we could suffer reputational and/or other financial harm to our business.

For a discussion regarding suitability standards, Item 1. Business – Regulation – U.S. Regulation.

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

Like other global companies, the systems we maintain and third party systems we use have in the past been, and will likely in the future be, subject to or targets of unauthorized or fraudulent access, including physical or electronic break-ins or unauthorized tampering, as well as attempted cyber and other security threats and other computer-related penetrations. Also, like other global companies, we have an increasing challenge of attracting and retaining highly qualified security personnel to assist us in combatting these security threats. The frequency and sophistication of such threats continue to increase and often become further heightened in connection with geopolitical tensions. We must continuously monitor and develop our information technology networks and infrastructure in an effort to prevent, detect, address and mitigate the risk of threats to our data and systems, including malware and computer virus attacks, ransomware, unauthorized access, business e-mail compromise, misuse, denial-of-service attacks, system failures and disruptions. There is no assurance that our security measures, including information security policies, administrative, technical and physical controls and other actions designed as preventative, 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 compromise 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 and secure, we may be unable to do so in all events, especially with clients, vendors, service providers, counterparties and other third parties who may not have or use appropriate controls to protect personal, confidential or proprietary information. Any problems caused by these third parties, including those resulting from breakdowns or other disruptions in information technology services provided by a vendor, failure of a vendor to handle current or higher volumes, cyber-attacks and security breaches at a vendor have in the past, and could in the future, adversely affect our ability to deliver products and services to our customers and otherwise conduct our business.

Furthermore, certain of our businesses are subject to compliance with laws and regulations enacted by U.S. federal and state governments, the European Union or other jurisdictions or enacted by various regulatory organizations or exchanges relating to the privacy and security of the information of clients, employees or others. The variety of applicable privacy and information security laws and regulations exposes us to heightened regulatory scrutiny and requires us to incur significant technical, legal and other expenses in an effort to ensure and maintain compliance. If we are found not to be in compliance with these laws and regulations, we could be subjected to significant civil and criminal liability and exposed to reputational harm. For additional information on data protection and cybersecurity regulations, *see Item 1. Business – Regulation – U.S. Regulation – Privacy, Data Protection and Cybersecurity and – International Regulation – Privacy, Data Protection and Cybersecurity, and Item 7. MD&A – Enterprise Risk Management – Operational Risk Management – Cybersecurity Risk.*

Additionally, the compromise of personal, confidential or proprietary information could cause a loss of data, give rise to remediation or other expenses, expose us to liability under U.S. and international laws and regulations, and subject us to litigation, investigations, sanctions and regulatory and law enforcement action, and result in reputational harm and loss of business, which could have a material adverse effect on our business, cash flows, financial condition and results of operations.

We are continuously evaluating and enhancing systems and creating new systems and processes, including to maintain or upgrade our business continuity plans (including, for example, use of cloud services), as our business depends on our ability to maintain and improve our technology systems for interacting with customers, brokers and employees. We have been required to further rely on our technology systems recently because as of March 2020, all non-essential staff were transitioned to a remote work environment in response to the COVID-19 crisis. Due to the complexity and interconnectedness of these systems and processes, these changes, as well as changes designed to update and enhance our protective measures to address new threats, increase the risk of a system or process failure or the creation of a gap in the associated security measures. Any such failure or gap could adversely affect our business operations and the advancement of our business or strategic initiatives.

For a discussion regarding the effects of the COVID-19 crisis on our business, see "COVID-19 is adversely affecting, and is expected to continue to adversely affect, our global business, financial condition and results of operations, and its ultimate impact will depend on future developments that are uncertain and cannot be predicted, including the scope, severity and duration of the crisis, and the governmental, legislative and regulatory actions taken and court decisions rendered in response thereto" above.

Third parties we rely upon to provide certain business and administrative services on our behalf may not perform as anticipated, which could have an adverse effect on our business and results of operations. We rely on the use of third-party providers to deliver contracted services in a broad range of areas. For example, we have engaged with Accenture plc for the delivery of services related to the administration or servicing of certain policies and contracts and investment assets, investment accounting and operational functions, finance and actuarial services, human resources and information technology services related to infrastructure, application development and maintenance. Some of these providers are located outside the U.S., which exposes us to business disruptions and political risks inherent when conducting business outside of the U.S. We periodically negotiate provisions and renewals of these relationships, and there can be no assurance that such terms will remain acceptable to us, such third parties or regulators. If such third-party providers experience disruptions, fail to meet applicable licensure requirements, do not perform as anticipated or in compliance with applicable laws and regulations, or such third-party provider in turn relies on services from another third-party provider, who experiences such disruptions, licensure failures, nonperformance or noncompliance, we may experience operational difficulties, an inability to meet obligations (including, but not limited to, legal, regulatory or policyholder obligations), a loss of business, increased costs or reputational harm, compromises to our data integrity, or suffer other negative consequences, all of which may have a material adverse effect on our business, consolidated results of operations, liquidity and financial condition. Third parties performing regulated activities on our behalf, such as sales and servicing of insurance products, pose a heightened risk as we may be held accountable for third party conduct that is not in compliance with applicable law.

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

For a discussion regarding increased risks arising from our reliance on third parties as a result of the COVID-19 crisis, see "COVID-19 is adversely affecting, and is expected to continue to adversely affect, our global business, financial condition and results of operations, and its ultimate impact will depend on future developments that are uncertain and cannot be predicted, including the scope, severity and duration of the crisis, and the governmental, legislative and regulatory actions taken and court decisions rendered in response thereto" above.

Business or asset acquisitions and dispositions may expose us to certain risks. The completion of any business or asset acquisition or disposition is subject to certain risks, including those relating to the receipt of required regulatory approvals, the terms and conditions of regulatory approvals including any financial accommodations required by regulators, our ability to satisfy such terms, conditions and accommodations, the occurrence of any event, change or other circumstances that could give rise to the termination of a transaction and the risk that parties may not be willing or able to satisfy the conditions to a transaction. As a result, there can be no assurance that any business or asset acquisition or disposition will be completed as contemplated, or at all, or regarding the expected timing of the completion of the acquisition or disposition. For example, on October 26, 2020, AIG announced its intention to separate its Life and Retirement business from AIG. No decisions have yet been made regarding the structure of the initial disposition of up to a 19.9% interest in the Life and Retirement business. In addition, any separation transaction will be subject to the satisfaction of various conditions and approvals, including approval by the AIG Board of Directors, receipt of insurance and other required regulatory approvals, and satisfaction of any applicable requirements of the SEC. No assurance can be given regarding the form that a separation transaction may take or the specific terms or timing thereof, or that a separation will in fact occur. There can be no guarantee that we will receive the required approvals or that closing conditions will be satisfied in order to consummate the separation of the Life and Retirement business and for any other disposition.

Once we complete acquisitions or dispositions, there can be no assurance that we will realize the anticipated economic, strategic or other benefits of any transaction. For example, the integration of businesses we acquire may not be as successful as we anticipate or there may be undisclosed risks present in such businesses. Acquisitions involve a number of risks, including operational, strategic, financial, accounting, legal, compliance and tax risks. Difficulties integrating an acquired business may result in the acquired business performing differently than we expected (including through the loss of customers) or in our failure to realize anticipated expense-related efficiencies. Our existing businesses could also be negatively impacted by acquisitions. Risks resulting from future acquisitions may have a material adverse effect on our results of operations and financial condition. In connection with a business or asset disposition, we may also hold a concentrated position in securities of the acquirer as part of the consideration, which subjects us to risks related to the price of equity securities and our ability to monetize such securities. In addition, with respect to certain dispositions, we are subject to regulatory and other restrictions on our use of proceeds. For example, following the closing of the sale of our controlling interest in Fortitude Holdings in June 2020, we contributed approximately $835 million of the proceeds of the sale of

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

For additional information regarding the risks associated with AIG's separation of its Life and Retirement business, see "No assurances can be given that the separation of our Life and Retirement business will occur or as to the specific terms or timing thereof. In addition, the separation could exacerbate other risks to which AIG is exposed." above.

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

Significant legal proceedings may adversely affect our results of operations or financial condition. In the normal course of business, we face significant risk from regulatory and governmental investigations and civil actions, litigation and other forms of dispute resolution in various domestic and foreign jurisdictions. In our insurance and reinsurance operations, we frequently engage in litigation and arbitration concerning the scope of coverage under insurance and reinsurance contracts, and face litigation and arbitration in which our subsidiaries defend or indemnify their insureds under insurance and reinsurance contracts. Additionally, from time to time, various regulatory and governmental agencies review the transactions and practices of AIG and our subsidiaries in connection with industry-wide and other inquiries into, among other matters, the business practices of current and former operating insurance subsidiaries. Such investigations, inquiries or examinations have and could develop into administrative, civil or criminal proceedings or enforcement actions, in which remedies could include fines, penalties, restitution or alterations in our business practices, and could result in additional expenses, limitations on certain business activities and reputational damage.

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

For a discussion of certain legal proceedings, including certain tax controversies, see Notes 16 and 22 to the Consolidated Financial Statements.

For a discussion regarding potential litigation exposure as a result of the COVID-19 crisis, see "COVID-19 is adversely affecting, and is expected to continue to adversely affect, our global business, financial condition and results of operations, and its ultimate impact will depend on future developments that are uncertain and cannot be predicted, including the scope, severity and duration of the crisis, and the governmental, legislative and regulatory actions taken and court decisions rendered in response thereto" above.

Our risk management policies and procedures may prove to be ineffective and leave us exposed to unidentified or unanticipated risk, which could adversely affect our businesses or result in losses. We have developed and continue to develop enterprise-wide risk management policies and procedures to mitigate risk and loss to which we are exposed, which include hedging programs designed to manage market risk and reinsurance to manage geographic accumulations. There are, however, inherent limitations to risk management strategies because there may exist, or develop in the future, risks that we have not sufficiently or accurately anticipated or identified. For example, our hedging programs utilize various derivative instruments, including but not limited to equity options, futures contracts, interest rate swaps and swaptions, as well as other hedging instruments, which may not effectively or completely reduce our risk; and assumptions underlying models used to measure accumulations and support reinsurance purchases may be proven inaccurate and could leave us exposed to larger than expected catastrophe losses in a given year. In addition, our current business continuity and disaster recovery plans may not be sufficient to reduce the impact of pandemics and other natural or man-made catastrophic events that are beyond our anticipated thresholds or impact tolerances. If our risk management policies and procedures are ineffective, we may suffer unexpected losses and could be materially adversely affected. As our businesses change and the markets in which we operate evolve, our risk management framework may not evolve at the same pace as those changes. As a result, there is a risk that new products or new business strategies may present risks that are not appropriately identified, monitored or managed. In times of market stress, unanticipated financial market movements or unanticipated claims experience resulting from adverse mortality, morbidity or policyholder behavior, the effectiveness of our risk management strategies may be limited, resulting in losses to us. In addition, there can be no assurance that we can effectively review and monitor all risks or that all of our employees will follow our risk management policies and procedures.

REGULATION

Our businesses are heavily regulated and changes in laws and regulations may affect our operations, increase our insurance subsidiary capital requirements or reduce our profitability. Our operations generally, and our insurance and reinsurance subsidiaries in particular, are subject to extensive and potentially conflicting laws and regulations in the jurisdictions in which we operate. Our business and financial condition are also subject to supervision and regulation by authorities in the various jurisdictions in which we do business. Federal, state and foreign regulators also periodically review and investigate our insurance and reinsurance businesses, including AIG-specific and industry-wide practices. The primary purpose of insurance regulation is the protection of our insurance and reinsurance contract holders, and not our investors. The extent of domestic regulation on our insurance and reinsurance business varies, but generally is governed by state statutes that delegate regulatory, supervisory and administrative authority to state insurance departments. In addition, federal and state securities laws and regulations apply to certain of our insurance products that are considered 'securities' under such laws, including our variable annuity contracts, variable life insurance policies and the separate accounts that issue them, as well as our broker-dealer, investment advisor and mutual funds operations. The laws and regulations that apply to our business and operations generally grant regulatory agencies and/or self-regulatory organizations broad rulemaking and enforcement powers, including the power to regulate the issuance, sale and distribution of our products, the standard of care applicable to our producers and agents who sell our products and the manner in which certain conflicts of interest arising from or related to such sale are to be addressed, the delivery of our services, the nature or extent of disclosures required to be given to our customers, the compensation of our distribution partners, the manner in which we handle claims on our policies and the administration of our policies and contracts, as well as the power to limit or restrict the conduct of business for failure to comply with applicable securities laws and regulations.

We strive to comply with laws and regulations applicable to our businesses, operations and legal entities. The application of and compliance with such laws and regulations may be subject to interpretation, evolving industry practices and regulatory expectations that could result in increased compliance costs. The relevant authorities may not agree with our interpretation of these laws and regulations, including, for example, our implementation of requirements related to new or changes in capital, accounting treatment or reserving such as those governing principle-based reserving (PBR), or with our policies and procedures adopted to address evolving industry practices or meet regulatory expectations. Such authorities' interpretation and views may also change from time to time. If we are found not to have complied with applicable legal or regulatory requirements, these authorities could preclude or temporarily suspend us from carrying on some or all of our activities, impose substantial fines or require corrective actions to be taken, which individually or in the aggregate could adversely affect our business, operations and financial condition. Additionally, if such authorities' interpretation of requirements related to new or changes in capital, accounting treatment and/or valuation manual or reserving (such as PBR) materially differs from ours, we may incur higher operating costs or sales of products subject to such requirement or treatment may be affected.

We also strive to maintain all required licenses and approvals. Regulatory authorities have relatively broad discretion to grant, renew or revoke licenses and approvals. If we do not have the required licenses and approvals, 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 apply enhanced supervision to the business and operations of an insurance or reinsurance company.

In the U.S., the RBC formula is designed to measure the adequacy of an insurer's statutory surplus in relation to the risks inherent in its business. Regulators in other jurisdictions in which we do business have adopted capital and liquidity standards applicable to insurers and reinsurers operating in their jurisdiction. Failure to comply with such RBC capital, liquidity and similar requirements would generally permit the insurance regulator to take certain regulatory actions that could materially impact the affected company's operations. Those actions range from requiring an insurer to submit a plan describing how it would regain a specified RBC ratio to a mandatory regulatory takeover of the company. The NAIC and the IAIS are also developing and testing methodologies for assessing group-wide regulatory capital, which might evolve into more formal group-wide capital requirements on certain insurance companies and/or their holding companies that may augment state-law RBC standards, and similar international standards, that apply at the legal entity level, and such capital calculations may be made, in whole or in part, on bases other than the statutory statements of our insurance and reinsurance subsidiaries. We cannot predict the effect these initiatives may have on our business, consolidated results of operations, liquidity and financial condition.

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

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

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

For a discussion regarding the regulatory response to the COVID-19 crisis, see "COVID-19 is adversely affecting, and is expected to continue to adversely affect, our global business, financial condition and results of operations, and its ultimate impact will depend on future developments that are uncertain and cannot be predicted, including the scope, severity and duration of the crisis, and the governmental, legislative and regulatory actions taken and court decisions rendered in response thereto" above.

Actions by foreign governments, regulators and international standard setters could result in substantial additional regulation to which we may be subject. We cannot predict the impact laws and regulations adopted in foreign jurisdictions may have on the financial markets generally or our businesses, results of operations or cash flows. It is possible such laws and regulations, our satisfaction of the IAIG criteria and certain standard-setting initiatives by the FSB and the IAIS, including, but not limited to, the IAIS' Common Framework for the Supervision of IAIGs, a holistic framework for the assessment and mitigation of systemic risk and the development and refinement of a risk-based global ICS, Solvency II and European Data Protection Board Cross Border Data Transfer in the European Union, may significantly alter our business practices. For example, regulators have imposed and may continue to impose new requirements or issue new guidance aimed at addressing or mitigating climate change-related risks. They may also limit our ability to engage in capital or liability management, require us to raise additional capital, and impose burdensome requirements and additional costs. It is also 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 in which we operate, including the U.S.

For a discussion of the effects of regulations related to climate change on our business, see "Climate change may adversely affect our business and financial condition" above.

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

Attempts to efficiently manage the impact of Regulation XXX, Actuarial Guideline AXXX and Principle-Based Reserving may not be successful in whole or in part resulting in an adverse effect on our financial condition and results of operations. 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 (Guideline AXXX) clarifies the application of Regulation XXX as to certain universal life insurance policies with secondary guarantees. In December 2012, the NAIC approved a new Valuation Manual (VM) containing a principle-based approach to life insurance company reserves, which became effective on January 1, 2017, and replaced Regulation XXX and Guideline AXXX for new life insurance business issued after January 1, 2017. As permitted by applicable regulations, we deferred implementing PBR until January 1, 2020, and have applied it as of such date for relevant life insurance business issued on or after January 1, 2020.

For additional information regarding principle-based reserving, see Item 1. Business – Regulation – U.S. Regulation – Insurance Regulation.

Our domestic Life and Retirement companies manage the capital impact of statutory reserve requirements under Regulation XXX and Guideline AXXX through reinsurance transactions. We have also begun and may continue to pursue reinsurance transactions to manage the capital impact of statutory reserve requirements under PBR. The application of Regulation XXX, Guideline AXXX and PBR involve numerous interpretations. If state insurance departments do not agree with our interpretations or if regulations change with respect to our ability to manage the capital impact of certain statutory reserve requirements, our statutory reserve requirements could increase, or our ability to take reserve credit for reinsurance transactions could be reduced or eliminated. As a result, we could be required to raise capital to replace the reserve credit provided by the reinsurance transactions or incur higher costs to obtain reinsurance, each of which could adversely affect our sales of these products and our financial condition or results of operations.

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

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

For a discussion regarding the regulatory response to the COVID-19 crisis, see "COVID-19 is adversely affecting, and is expected to continue to adversely affect, our global business, financial condition and results of operations, and its ultimate impact will depend on future developments that are uncertain and cannot be predicted, including the scope, severity and duration of the crisis, and the governmental, legislative and regulatory actions taken and court decisions rendered in response thereto" above.

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

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

An "ownership change" could limit our ability to utilize tax loss and credit carryforwards to offset future taxable income. As of December 31, 2020, on a U.S. GAAP basis, we had U.S. federal net operating loss carryforwards of approximately $31.6 billion and $1.4 billion in foreign tax credits. Our ability to use these tax attributes to offset future taxable income may be significantly limited if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code. In general, an ownership change will occur when the percentage of AIG Parent's ownership (measured by value) by one or more "5-percent shareholders" (as defined in the Internal Revenue Code) has increased by more than 50 percentage points 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 utilization of 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 (AFR) (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 of the Internal Revenue Code would be dependent on the value of our equity and the AFR at the time of any ownership change. If we were to experience an "ownership change", it is possible that a significant portion of our tax loss and credit carryforwards could expire before we would be able to use them to offset future taxable income.

On March 9, 2011, our Board adopted our Tax Asset Protection Plan (the Plan) to help protect these tax loss and credit carryforwards, and on December 14, 2016, our Board adopted an amendment to the Plan, extending its expiration date to December 14, 2019. Our shareholders ratified the amendment of the Plan at our 2017 Annual Meeting of Shareholders. Thereafter, on December 11, 2019, our Board adopted a further amendment to the Plan, extending its expiration date to December 11, 2022. Our shareholders ratified the amendment of the Plan at our 2020 Annual Meeting of Shareholders. At our 2011 Annual Meeting of Shareholders, our shareholders adopted a protective amendment to our Restated Certificate of Incorporation (Protective Amendment), which is designed to prevent certain transfers of AIG Common Stock that could result in an "ownership change". At our 2017 Annual Meeting of Shareholders, our shareholders approved the amendment to our Amended and Restated Certificate of Incorporation to adopt a successor to the Protective Amendment that contains substantially the same terms as the Protective Amendment. At our 2020 Annual Meeting of Shareholders, our shareholders adopted an amendment and restatement to our Amended and Restated Certificate of Incorporation to adopt a successor to the Protective Amendment that contains substantially the same terms as the Protective Amendment but would expire on May 13, 2023.

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 Common Stock then outstanding or (ii) increase the percentage of AIG Common Stock owned by a Five Percent Stockholder (as defined in the Plan). Despite the intentions of the Plan and the Protective Amendment to deter and prevent an "ownership change", such an event may still occur. In addition, the Plan and the Protective Amendment may make it more difficult and more expensive to acquire us, and may discourage open market purchases of AIG Common Stock or a non-negotiated tender or exchange offer for AIG Common Stock. Accordingly, the Plan and the Protective Amendment may limit a shareholder's ability to realize a premium over the market price of AIG Common Stock in connection with any stock transaction.

Changes to tax laws, including U.S. legislation enacted in late 2017, could increase our corporate taxes or make some of our products less attractive to consumers. The 2017 Tax Act, known informally as the Tax Cuts and Jobs Act, reduced the statutory rate of U.S. federal corporate income tax to 21 percent and enacted numerous other changes impacting AIG and the insurance industry.

The reduction in the statutory U.S. federal corporate income tax rate has positively impacted AIG's future U.S. after-tax earnings. Other changes in the Tax Act that broaden the tax base by reducing or eliminating deductions for certain items (e.g., reductions to separate account dividends received deductions, disallowance of entertainment expenses, and limitations on the deduction of certain executive compensation costs) will offset a portion of the benefits from the lower statutory rate. Other specific changes, including the calculation of insurance tax reserves and the amortization of deferred acquisition costs, will impact the timing of our tax expense items and could impact the pricing of certain insurance products.

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

Furthermore, the overall impact of the Tax Act is subject to the effect of other complex provisions in the Tax Act (including the base erosion and anti-abuse tax (BEAT) and global intangible low-taxed income (GILTI)), which reduce a portion of the benefit from the lower statutory U.S. federal rate. While the U.S. tax authorities issued formal guidance and recently issued final regulations for BEAT and other provisions of the Tax Act, there are still certain aspects of the Tax Act that remain unclear. AIG will continue to review the impact of BEAT, GILTI and related provisions as further guidance is issued. Any further guidance may result in changes to the interpretations and assumptions we made and actions we may take, which as a result may impact the amounts recorded with respect to international provisions of the Tax Act, possibly materially.

In addition, new tax laws outside the U.S. similar to BEAT or enacted in response to proposals by the Organisation for Economic Co-operation and Development could make substantive changes to the global international tax regime. Such changes could impact cross border reinsurance transactions, which could increase our tax costs globally.

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

For additional information see Item 7. MD&A – Consolidated Results of Operations – U.S. Tax Law Changes.

The USA PATRIOT Act, the Foreign Corrupt Practices Act, the Office of Foreign Assets Control regulations and similar laws and regulations that apply to us may expose us to significant penalties. As a company that operates in approximately 80 countries and jurisdictions, AIG is subject to myriad regulations which govern items such as sanctions, bribery and anti-money laundering, for which failure to comply exposes us to significant penalties. The USA PATRIOT Act of 2001 requires companies to know certain information about their clients and to monitor their transactions for suspicious activities. The Foreign Corrupt Practices Act makes it unlawful for certain classes of persons and entities to make payments to foreign government officials to assist in obtaining or retaining business. Also, the Department of the Treasury's Office of Foreign Assets Control administers regulations requiring U.S. persons to refrain from doing business, or allowing their clients to do business through them, with certain organizations or individuals on a prohibited list maintained by the U.S. government or with certain countries. The UK, the EU and other jurisdictions maintain similar laws and regulations. The laws and regulations of other jurisdictions may sometimes conflict with those of the U.S. Although we have instituted compliance programs to address these requirements, as well as potential conflicts of law, there are inherent risks in global transactions.

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. To the extent that any of our operating practices and procedures do not accurately produce, or reproduce, data that we use to conduct any or all aspects of our business, such errors may negatively impact our business, reputation, results of operations, and financial condition. For example, modeling for man-made catastrophes, such as terrorism and cyber events is especially difficult and less reliable given such models are in the early stages of development and therefore, not widely adopted or available. In addition, actions taken by governments and monetary authorities in response to the COVID-19 crisis have affected and may affect our models used to estimate volatility, among other items, which could adversely affect our business. As our businesses continue to expand and evolve, the number and complexity of models we employ has grown, increasing our inherent 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 impact our consolidated results of operations and financial condition. Our financial statements are subject to the application of U.S. GAAP, which is periodically revised. Accordingly, from time to time, we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the Financial Accounting Standards Board (FASB).

The FASB has revised the accounting standards for insurance contracts. The FASB issued Accounting Standards Update (ASU) No. 2018-12 – Targeted Improvements to the Accounting for Long-Duration Contracts, which has an effective date of January 1, 2023 and will significantly change the accounting measurements and disclosures for long-duration insurance contracts, which primarily relates to our life and annuity products as well as certain accident and health products, among others. Changes to the manner in which we account for long-duration products could impact our consolidated results of operations, liquidity and financial condition.

The FASB issued ASU No. 2016-13 – Measurement of Credit Losses on Financial Instruments, which took effect on January 1, 2020. This standard changes how we account for credit losses for most financial assets, premiums receivable and reinsurance receivables. The standard replaces the incurred loss impairment model with a “current expected credit loss model” that generally results in earlier recognition of credit losses. The standard applies 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 are measured in a similar manner, except that losses are recognized as allowances rather than reductions in the amortized cost of the securities. The standard impacts our consolidated results of operations, liquidity and financial condition and requires additional information to be disclosed in the Notes to the Consolidated Financial Statements.

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

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

If our businesses do not perform well and/or their estimated fair values decline, we may be required to recognize an impairment of our goodwill or to establish an additional valuation allowance against the deferred income tax assets, which could have a material adverse effect on our results of operations and financial condition. Goodwill represents the excess of the amounts we paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. We test goodwill at least annually for impairment and conduct interim qualitative assessments on a periodic basis. Impairment testing is performed based upon estimates of the fair value of the “reporting unit” to which the goodwill relates. In 2020, for substantially all of the reporting units we elected to bypass the qualitative assessment of whether goodwill impairment may exist and, therefore, performed quantitative assessments that supported a conclusion that the fair value of all of the reporting units tested exceeded their book value. The fair value of the reporting unit is impacted by the performance of the business and could be adversely impacted if new business, customer retention, profitability or other drivers of performance differ from expectations, or upon the occurrence of certain events, including a significant and adverse change in regulations, legal factors, accounting standards or business climate, or an adverse action or assessment by a regulator. Our goodwill balance was $4.1 billion at December 31, 2020. If it is determined that goodwill has been impaired, we must write down goodwill by the amount of the impairment, with a corresponding charge to net income (loss). These write-downs could have a material adverse effect on our consolidated results of operations, liquidity and financial condition. *For further discussion regarding goodwill impairment, see Item 7. MD&A – Critical Accounting Estimates – Allowance for Credit Losses and Goodwill Impairment – Goodwill Impairment and Note 12 to the Consolidated Financial Statements.*

Deferred income tax represents the tax effect of the differences between the book and tax basis of assets and liabilities. Deferred tax assets are assessed periodically by management to determine if they are realizable. As of December 31, 2020, we had net deferred tax assets, after valuation allowance, of $12.4 billion, related to federal, foreign, and state and local jurisdictions. The performance of the business, including the ability to generate future taxable income from a variety of sources and planning strategies, is factored into management's determination. If, based on available evidence, it is more likely than not that the deferred tax asset will not be realized, then a valuation allowance must be established with a corresponding charge to net income, which such action we have taken from time to time. Such charges could have a material adverse effect on our consolidated results of operations, liquidity and financial condition. *For further discussion regarding deferred tax assets, see Item 7. MD&A – Critical Accounting Estimates – Income Taxes and Note 22 to the Consolidated Financial Statements.*

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

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

COMPETITION AND EMPLOYEES

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

Technological advancements and innovation in the insurance industry, including those related to evolving customer preferences, the digitization of insurance products and services, acceleration of automated underwriting, and electronic processes present competitive risks. Technological advancements and innovation are occurring in distribution, underwriting, claims and operations at a rapid pace, and that pace may increase, particularly as companies increasingly use data analytics and technology as part of their business strategy. While we seek opportunities to leverage technological advancements and innovation for our customers' benefit, our business and results of operations could be materially and adversely affected if external technological advancements or innovation, or the regulation of technological advancements or innovation, limit our ability to retain existing business, write new business at adequate rates or on appropriate terms, render our insurance products less suitable or impact our ability to adapt or deploy current products as quickly and effectively as our competitors.

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

Competition for employees in our industry is intense, and managing key employee succession is critical to our success. We may not be able to attract and retain the key employees and highly skilled people we need to support our business. Our success depends, in large part, on our ability to attract and retain key employees and highly skilled 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. For example, there is heightened competition for actuarial talent in the U.S. 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, including the proposed separation of the Life and Retirement business from AIG. Losing any of our key people also could have a material adverse effect on our operations given their skills, knowledge of our business, years of industry experience and the potential difficulty of promptly finding qualified replacement employees. Our business and consolidated results of operations could be materially adversely affected if we are unsuccessful in attracting and retaining key employees.

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

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

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

ITEM 1B | Unresolved Staff Comments

There are no 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 Exchange Act.

ITEM 2 | Properties

During 2019, we executed a sale and concurrent leaseback of our corporate headquarters building, which includes a portion of the operations of our General Insurance companies, located at 175 Water Street, New York, New York. We operate from approximately 146 offices in the United States and approximately 268 offices in approximately 50 foreign countries. We own 13 office buildings in the United States.

Our General Insurance companies own offices in 12 foreign countries and jurisdictions including Bermuda, Ecuador, Japan, Mexico, the UK and Venezuela. The remainder of the office space we use is leased. We believe that our leases and properties are sufficient for our current purposes.

LOCATIONS OF CERTAIN ASSETS

As of December 31, 2020, approximately 8 percent of our consolidated assets were located outside the U.S. and Canada, including $797 million of cash and securities on deposit with regulatory authorities in those locations.

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

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

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

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

ITEM 3 | Legal Proceedings

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

ITEM 4 | Mine Safety Disclosures

Not applicable.

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).There were approximately 21,324 stockholders of record of AIG Common Stock as of February 9, 2021.

Equity Compensation Plans

Our table of equity compensation plans will be included in the definitive proxy statement for AIG's 2021 Annual Meeting of Shareholders. The definitive proxy statement will be filed with the SEC no later than 120 days after the end of AIG's fiscal year pursuant to Regulation 14A.

Purchases of Equity Securities

On February 13, 2019, our Board of Directors authorized an additional increase to its previous repurchase authorization of AIG Common Stock of $1.5 billion.

During the three-month period ended December 31, 2020, we did not repurchase any shares of AIG Common Stock or any warrants to purchase shares of AIG Common Stock under this authorization.

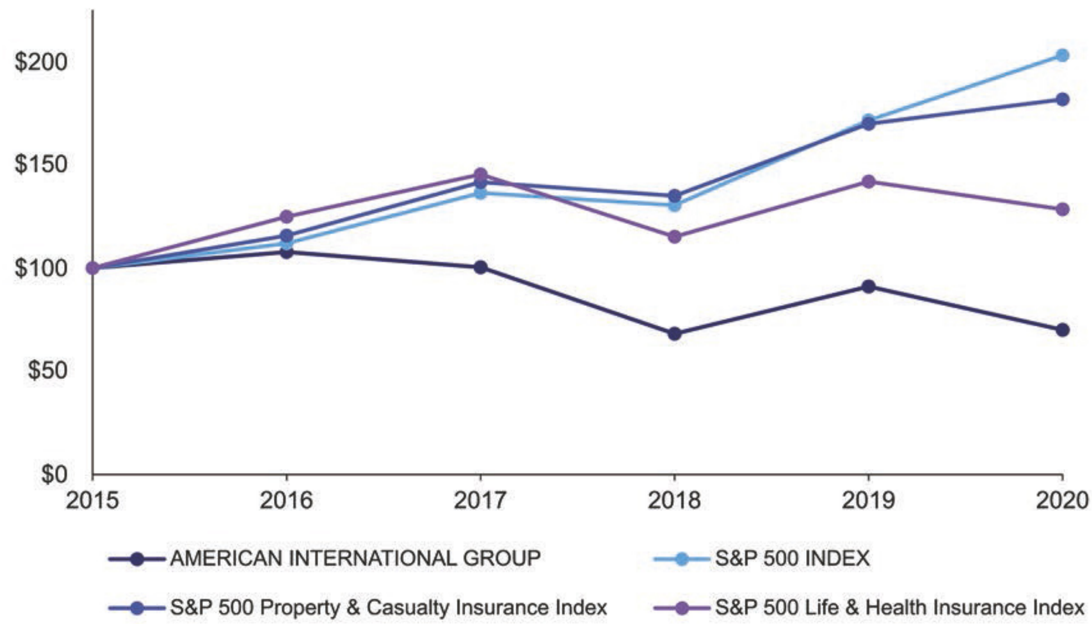
As of December 31, 2020, approximately $1.5 billion remained under the authorization. In January 2021, we repurchased approximately $92 million of additional shares of AIG Common Stock pursuant to an Exchange Act Rule 10b5-1 repurchase plan. Shares may be repurchased from time to time in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise (including through the purchase of warrants). Certain of our share repurchases have been and may from time to time be effected through Exchange Act Rule 10b5-1 repurchase plans. The timing of any future share repurchases will depend on market conditions, our business and strategic plans, financial condition, results of operations, liquidity and other factors. The repurchase of AIG Common Stock and warrants to purchase shares of AIG Common Stock is also subject to the terms of AIG's Series A 5.85% Non-Cumulative Preferred Stock (Series A Preferred Stock), pursuant to which AIG may not (other than in limited circumstances) purchase, redeem or otherwise acquire AIG Common Stock unless the full dividends for the latest completed dividend period on all outstanding shares of Series A Preferred Stock have been declared and paid or provided for.

For additional information on our share purchases see Notes 17 and 23 to the Consolidated Financial Statements.

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, 2015 to December 31, 2020) with the cumulative total return of the S&P's 500 stock index (which includes AIG), the S&P Property and Casualty Insurance Index and the S&P Life and Health Insurance Index.

Value of $100 Invested on December 31, 2015
(All $ as of December 31st)



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

	As of December 31,					
	2015	2016	2017	2018	2019	**2020**
AIG	$ 100.00	$ 107.77	$ 100.37	$ 68.16	$ 91.05	**$ 70.03**
S&P 500	100.00	111.96	136.40	130.42	171.49	**203.04**
S&P 500 Property & Casualty Insurance Index	100.00	115.71	141.61	134.97	169.88	**181.70**
S&P 500 Life & Health Insurance	100.00	124.86	145.37	115.17	141.88	**128.43**

ITEM 6 | Selected Financial Data

Not applicable.

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

Cautionary Statement Regarding Forward-Looking Information

This Annual Report on Form 10-K and other publicly available documents may include, and officers and representatives of AIG may from time to time make and discuss, projections, goals, assumptions and statements that may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These projections, goals, assumptions and statements are not historical facts but instead represent only a belief regarding future events, many of which, by their nature, are inherently uncertain and outside AIG's control. These projections, goals, assumptions and statements include statements preceded by, followed by or including words such as "will," "believe," "anticipate," "expect," "intend," "plan," "focused on achieving," "view," "target," "goal" or "estimate." These projections, goals, assumptions and statements may relate to future actions, prospective services or products, future performance or results of current and anticipated services or products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, anticipated organizational, business or regulatory changes, the effect of catastrophes, such as the COVID-19 crisis, and macroeconomic events, anticipated dispositions, monetization and/or acquisitions of businesses or assets, or successful integration of acquired businesses, management succession and retention plans, exposure to risk, trends in operations and financial results.

It is possible that AIG's 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 AIG's actual results to differ, possibly materially, from those in the specific projections, goals, assumptions and statements include:

- the adverse impact of COVID-19, including with respect to AIG's business, financial condition and results of operations;
- changes in market and industry conditions, including the significant global economic downturn, volatility in financial and capital markets, prolonged economic recovery and disruptions to AIG's operations driven by COVID-19 and responses thereto, including new or changed governmental policy and regulatory actions;
- the occurrence of catastrophic events, both natural and man-made, including COVID-19, other pandemics, civil unrest and the effects of climate change;
- AIG's ability to successfully dispose of, monetize and/or acquire businesses or assets or successfully integrate acquired businesses, including any separation of the Life and Retirement business from AIG and the impact any separation may have on AIG, its businesses, employees, contracts and customers;
- AIG's ability to effectively execute on AIG 200 transformational programs designed to achieve underwriting excellence, modernization of AIG's operating infrastructure, enhanced user and customer experiences and unification of AIG;
- the impact of potential information technology, cybersecurity or data security breaches, including as a result of cyber-attacks or security vulnerabilities, the likelihood of which may increase due to extended remote business operations as a result of COVID-19;
- disruptions in the availability of AIG's electronic data systems or those of third parties;
- availability and affordability of reinsurance;
- the effectiveness of our risk management policies and procedures, including with respect to our business continuity and disaster recovery plans;
- nonperformance or defaults by counterparties, including Fortitude Re;
- changes in judgments concerning potential cost-saving opportunities;
- concentrations in AIG's investment portfolios;
- changes to the valuation of AIG's investments;
- changes to our sources of or access to liquidity;
- actions by rating agencies with respect to our credit and financial strength ratings;
- changes in judgments or assumptions concerning insurance underwriting and insurance liabilities;
- the effectiveness of strategies to recruit and retain key personnel and to implement effective succession plans;
- the requirements, which may change from time to time, of the global regulatory framework to which AIG is subject;
- significant legal, regulatory or governmental proceedings;
- changes in judgments concerning the recognition of deferred tax assets and the impairment of goodwill; and
- such other factors discussed in:
  - Part I, Item 1A. Risk Factors of this Annual Report; and
  - this Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) of this Annual Report.

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

INDEX TO ITEM 7

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

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

Use of Non-GAAP Measures

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 “generally accepted accounting principles” in the United States. The non-GAAP financial measures we present may not be comparable to similarly-named measures reported by other companies.

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

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

Adjusted after-tax income attributable to AIG common shareholders is derived by excluding the tax effected adjusted pre-tax income (APTI) adjustments described below, dividends on preferred stock, and the following tax items from net income attributable to AIG:

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

and by excluding the net realized capital gains (losses) and other charges from noncontrolling interests.

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

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

Adjusted pre-tax income is derived by excluding the items set forth below from income from continuing operations before income tax. This definition is consistent across our segments. These items generally fall into one or more of the following broad categories: legacy matters having no relevance to our current businesses or operating performance; adjustments to enhance transparency to the underlying economics of transactions; and measures that we believe to be common to the industry. APTI is a GAAP measure for our segments. For the period ended December 31, 2018, we have excluded changes in the fair value of equity securities from adjusted pre-tax income to be consistent with our elected prospective treatment beginning in the first quarter of 2019 due to a change in accounting principle. Excluded items include the following:

- changes in fair value of securities used to hedge guaranteed living benefits;
- changes in benefit reserves and deferred policy acquisition costs (DAC), value of business acquired (VOBA), and sales inducement assets (SIA) related to net realized capital gains and losses;
- changes in the fair value of equity securities;
- net investment income on Fortitude Re funds withheld assets post deconsolidation of Fortitude Re;
- following deconsolidation of Fortitude Re, net realized capital gains and losses on Fortitude Re funds withheld assets held by AIG in support of Fortitude Re's reinsurance obligations to AIG (Fortitude Re funds withheld assets);
- loss (gain) on extinguishment of debt;
- all net realized capital gains and losses except earned income (periodic settlements and changes in settlement accruals) on derivative instruments used for non-qualifying (economic) hedging or for asset replication. Earned income on such economic hedges is reclassified from net realized capital gains and losses to specific APTI line items based on the economic risk being hedged (e.g. net investment income and interest credited to policyholder account balances);
- income or loss from discontinued operations;
- net loss reserve discount benefit (charge);
- pension expense related to a one-time lump sum payment to former employees;
- income and loss from divested businesses;
- non-operating litigation reserves and settlements;
- restructuring and other costs related to initiatives designed to reduce operating expenses, improve efficiency and simplify our organization;
- the portion of favorable or unfavorable prior year reserve development for which we have ceded the risk under retroactive reinsurance agreements and related changes in amortization of the deferred gain;
- integration and transaction costs associated with acquiring or divesting businesses;
- losses from the impairment of goodwill; and
- non-recurring costs associated with the implementation of non-ordinary course legal or regulatory changes or changes to accounting principles.

- ***General Insurance***
  - **Ratios:** We, along with most property and casualty insurance companies, use the loss ratio, the expense ratio and the combined ratio as measures of underwriting performance. These ratios are relative measurements that describe, for every $100 of net premiums earned, the amount of losses and loss adjustment expenses (which for General Insurance excludes net loss reserve discount), and the amount of other underwriting expenses that would be incurred. A combined ratio of less than 100 indicates underwriting income and a combined ratio of over 100 indicates an underwriting loss. Our ratios are calculated using the relevant segment information calculated under GAAP, and thus may not be comparable to similar ratios calculated for regulatory reporting purposes. The underwriting environment varies across countries and products, as does the degree of litigation activity, all of which affect such ratios. In addition, investment returns, local taxes, cost of capital, regulation, product type and competition can have an effect on pricing and consequently on profitability as reflected in underwriting income and associated ratios.
  - **Accident year loss and combined ratios, as adjusted:** both the accident year loss and combined ratios, as adjusted, exclude catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting. Natural catastrophe losses are generally weather or seismic events having a net impact on AIG in excess of $10 million each and man-made catastrophe losses, such as terrorism and civil disorders that exceed the $10 million threshold. We believe that as adjusted ratios are meaningful measures of our underwriting results on an ongoing basis as they exclude catastrophes and the impact of reserve discounting which are outside of management's control. We also exclude prior year development to provide transparency related to current accident year results.

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

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

Critical Accounting Estimates

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

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

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

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

INSURANCE LIABILITIES

Loss Reserves

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

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

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

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

OVERVIEW OF LOSS RESERVING PROCESS AND METHODS

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

Short-Tail Reserves

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

Long-Tail Reserves

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

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

- **Loss cost trend factors** are used to establish expected loss ratios for subsequent accident years based on the projected loss ratios for prior accident years.
- **Expected loss ratios** are used for the latest accident year (i.e., accident year 2020 for the year-end 2020 loss reserve analysis) and, in some cases for accident years prior to the latest accident year. The expected loss ratio generally reflects the projected loss ratio from prior accident years, adjusted for the loss cost trend and the effect of rate changes and other quantifiable factors on the loss ratio. For low-frequency, high-severity lines of business such as excess casualty, expected loss ratios generally are used for at least the three most recent accident years.
- **Loss development factors** are used to project the reported losses for each accident year to an ultimate basis. Generally, the actual loss development factors observed from prior accident years would be used as a basis to determine the loss development factors for the subsequent accident years.
- **Tail factors are development factors** used for certain longer tailed lines of business (for example, excess casualty, workers' compensation and general liability), to project future loss development for periods that extend beyond the available development data. The development of losses to the ultimate loss for a given accident year for these lines may take decades and the projection of ultimate losses for an accident year is very sensitive to the tail factors selected beyond a certain age.

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

Details of the Loss Reserving Process

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

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

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

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

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

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

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

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

Actuarial and Other Methods for Major Lines of Business

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

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

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

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

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

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

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

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

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

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

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

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

Discussion of Key Assumptions of our Actuarial Methods

Line of Business or Category	Key Assumptions
U.S. Workers' Compensation	We generally use a combination of loss development and expected loss ratio methods for U.S. Workers' Compensation as this line of business is long-tail. The loss cost trend assumption is not believed to be material with respect to our guaranteed cost loss reserves. This is primarily because our actuaries are generally able to use loss development projections for all but the most recent accident year's reserves, so there is limited need to rely on loss cost trend assumptions for primary workers' compensation business. The tail factor is typically the most critical assumption, and small changes in the selected tail factor can have a material effect on our carried reserves. For example, the tail factors beyond twenty years for guaranteed cost business could vary by one and one-half percent below to two percent above those actually indicated in the 2020 loss reserve review. For excess of deductible business, in our judgment, it is reasonably likely that tail factors beyond twenty years could vary by four percent below to six percent above those actually indicated in the 2020 loss reserve review.

Line of Business or Category	Key Assumptions
U.S. Excess Casualty	We utilize various loss cost trend assumptions for different segments of the portfolio. After evaluating the historical loss cost trends from prior accident years since the early 1990s, in our judgment, it is reasonably likely that actual loss cost trends applicable to the year-end 2020 loss reserve review for U.S. Excess Casualty may range five percent lower or higher than this estimated loss trend. The loss cost trend assumption is critical for the U.S. Excess Casualty class of business due to the long-tail nature of the losses, and is applied across many accident years. Thus, there is the potential for the loss reserves with respect to a number of accident years (the expected loss ratio years) to be significantly affected by changes in loss cost trends that were initially relied upon in setting the loss reserves. These changes in loss trends could be attributable to changes in inflation or in the judicial environment, or in other social or economic conditions affecting losses. U.S. Excess Casualty is a long-tail class of business and any deviation in loss development factors might not be discernible for an extended period of time subsequent to the recording of the initial loss reserve estimates for any accident year. Mass tort claims in particular may develop over a very extended period and impact multiple accident years, so we usually select a separate pattern for them. Thus, there is the potential for the loss reserves with respect to a number of accident years to be significantly affected by changes in loss development factors that were initially relied upon in setting the reserves. After evaluating the historical loss development factors from prior accident years since the early 1990s, in our judgment, it is reasonably likely that the actual loss development factors could vary by an amount equivalent to a six month shift from those actually utilized in the year-end 2020 reserve review. This would impact projections both for accident years where the selections were directly based on loss development methods as well as the a priori loss ratio assumptions for accident years with selections based on Bornhuetter-Ferguson or Cape Cod methods. Similar to loss cost trends, these changes in loss development factors could be attributable to changes in inflation or in the judicial environment, or in other social or economic conditions affecting losses.
U.S. Other Casualty	The key uncertainties for other casualty lines are similar to excess casualty, as the underlying business is long-tailed and can be subject to variability in loss cost trends and changes in loss development factors. These may differ significantly by line of business as coverages such as general liability, medical malpractice and environmental may be subject to different risk drivers.
U.S. Financial Lines	The loss cost trends for U.S. Directors and Officers (D&O) liability business vary by year and subset, but for the most recent accident years, it is assumed to have been generally close to zero. After evaluating the historical loss cost levels from prior accident years since the early 1990s, including the potential effect of losses relating to the credit crisis, in our judgment, it is reasonably likely that the actual variation in loss cost levels for these subsets could vary by approximately 10 percent lower or higher on a year-over-year basis than the assumptions actually utilized in the year-end 2020 reserve review. Because U.S. D&O business has exhibited highly volatile loss trends from one accident year to the next, there is the possibility of an exceptionally high deviation. In our analysis, the effects of loss cost trend assumptions affect the results through the a priori loss ratio assumptions used for the Bornhuetter-Ferguson and Cape Cod methods, which impact the projections for the more recent accident years. The selected loss development factors are also an important assumption, but are less critical than for U.S. Excess Casualty. Because these classes are written on a claims made basis, the loss reporting and development tail is much shorter than for U.S. Excess Casualty. However, the high severity nature of the losses does create the potential for significant deviations in loss development patterns from one year to the next. Similar to U.S. Excess Casualty, after evaluating the historical loss development factors from prior accident years since the early 1990s, in our judgment, it is reasonably likely that actual loss development factors could change by an amount equivalent to a shift by six months from those actually utilized in the year-end 2020 reserve review.
Europe Casualty and Financial Lines	Similar to U.S. business, European Casualty and Financial Lines can be significantly impacted by loss cost trends and changes in loss development factors. The variation in such factors can differ significantly by product and region.
U.S. Property and Special Risks, and Europe Property and Special Risks	For short-tail lines such as Property and Special Risks, variance in outcomes for individual large claims or events can have a significant impact on results. These outcomes generally relate to unique characteristics of events such as catastrophes or losses with significant business interruption claims.
U.S. Personal Insurance, and Europe, and Japan Personal Insurance	Personal Insurance is short-tailed in nature similar to Property and Special Risks but less volatile. Variance in estimates can result from unique events such as catastrophes. In addition, some subsets of this business, such as auto liability, can be impacted by changes in loss development factors and loss cost trends.

Line of Business or Category	Key Assumptions
U.S. Run-Off Long Tail Insurance lines	We historically have used a combination of loss development methods and expected loss ratio methods for excess workers' compensation and other run-off insurance lines. For environmental claims, we have utilized a variety of methods including traditional loss development approaches, claim department and other expert evaluations of the ultimate costs for certain claims and survival ratio metrics. U.S. Run-Off Long Tail Insurance lines is an extremely long-tail class of business, with a much greater than normal uncertainty as to the appropriate loss development factors for the tail of the loss development. Specifically for excess workers' compensation, after evaluating the historical loss development factors for prior accident years since the 1980s as well as the development over the past several years of the ground up loss projections utilized to help select the loss development factors in the tail for this class of business, in our judgment, it is reasonably likely that the tail factor beyond 30 years could vary by 10 percent above or below that actually indicated in the 2020 loss reserve review.
Other Reserve Items	Loss adjustment expenses (LAE) are separated into two broad categories: allocated loss adjustment expenses (ALAE), also referred to as legal defense and cost containment or "legal" and unallocated loss adjustment expenses, which includes certain claims adjuster fees and other internal claim management costs. We determine reserves for legal expenses for each class of business by one or more actuarial or structural driver methods. For the majority of lines of business, legal costs are analyzed in conjunction with losses. For lines of business where they are separately analyzed the methods used generally include development methods comparable to those described for loss development methods. The development could be based on either the paid loss adjustment expenses or the ratio of paid loss adjustment expenses to paid losses, or both. Other methods include the utilization of expected ultimate ratios of paid loss expense to paid losses, based on actual experience from prior accident years or from similar product lines of business. The bulk of adjuster expenses are allocated and charged to individual claim files. For these expenses, we generally determine reserves based on calendar year ratios of adjuster expenses paid to losses paid for the particular product line of business. For other internal claim costs, which generally relate to specific claim department expenses that are not allocated to individual claim files such as technology costs and other broad initiatives, we look at historic and expected expenditures for these items and project these into the future. The incidence of LAE is directly related to the frequency, complexity and level of underlying claims. As a result, a key driver of variability in LAE is the variability in the overall claims, particularly for long tail lines.

The following sensitivity analysis table summarizes the effect on the loss reserve position of using certain alternative loss cost trend (for accident years where we use expected loss ratio methods) or loss development factor assumptions rather than the assumptions actually used in determining our estimates in the year-end loss reserve analyses in 2020:

December 31, 2020 *(in millions)*	Increase (Decrease) to Loss Reserves		Increase (Decrease) to Loss Reserves
Loss cost trends:		**Loss development factors:**	
U.S. Excess Casualty:		**U.S. Excess Casualty:**	
5 percent increase	$ 1,000	6-months slower	$ 1,050
5 percent decrease	(650)	6-months faster	(800)
U.S. Financial Lines (D&O)		**U.S. Financial Lines (D&O)**	
10 percent increase	1,100	6-months slower	650
10 percent decrease	(650)	6-months faster	(450)
		U.S. Workers' Compensation:	
		Tail factor increase(a)	1,100
		Tail factor decrease(b)	(800)

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

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

FUTURE POLICY BENEFITS FOR LIFE AND ACCIDENT AND HEALTH INSURANCE CONTRACTS

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

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

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

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

Groupings for loss recognition testing are consistent with our manner of acquiring, servicing, and measuring the profitability of the business and are applied by product groupings, including traditional life, payout annuities and long-term care insurance. Once loss recognition has been recorded for a block of business, the old assumption set is replaced and the assumption set used for the loss recognition would then be subject to the lock-in principle. For the business ceded to Fortitude Re, 100 percent of the risk is transferred and no additional loss recognition will occur. Key judgments made in loss recognition testing include the following:

- To determine investment returns used in loss recognition tests, we typically match liabilities with assets of comparable duration, to the extent practicable, and then project future cash flows on those assets. Assets supporting insurance liabilities are primarily comprised of a diversified portfolio of high to medium quality fixed maturity securities, and may also include, to a lesser extent, alternative investments. Our projections include a reasonable allowance for investment expenses and expected credit losses over the projection horizon. A critical assumption in the projection of expected investment income is the assumed net rate of investment return at which excess cash flows are to be reinvested. For products in which asset and liability durations are matched relatively well, this is less of a consideration since interest on excess cash flows are not a significant component of future cash flows. For the reinvestment rate assumption, anticipated future changes to the yield curves could have a large effect. Given the interest rate environment applicable at the date of our most recent loss recognition tests, we assumed a modest and gradual increase in long-term interest rates over time.
- For mortality assumptions, key judgments include the extent of industry versus own experience to base future assumptions as well as the extent of expected mortality improvements in the future. The latter judgment is based on a combination of historical mortality trends and advice from industry, public health and demography specialists that were consulted by AIG's actuaries and published industry information.
- For surrender rates, a key judgment involves the correlation between expected increases/decreases in interest rates and increases/decreases in surrender rates. To support this judgment, we compare crediting rates on our products to expected rates on competing products under different interest rate scenarios.
- For in-force long-term care insurance, rate increases are allowed but must be approved by state insurance regulators. Consequently, the extent of rate increases that may be assumed requires judgment. In establishing our assumption for rate increases for long-term care insurance, we consider historical experience as to the frequency and level of rate increases approved by state regulators.

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

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

GUARANTEED BENEFIT FEATURES OF VARIABLE ANNUITY PRODUCTS

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

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

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

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

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

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

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

Guaranteed Benefit Feature	Reserving Methodology & Assumptions and Accounting Judgments
GMDB	We determine the GMDB liability at each balance sheet date by estimating the expected value of death benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected fee assessments. *For additional information on how we reserve for variable annuity products with guaranteed benefit features see Note 14 to the Consolidated Financial Statements.* Key assumptions include: • Mortality rates, which are based upon actual experience modified to allow for variations in policy form • Lapse rates, which are based upon actual experience modified to allow for variations in policy form • Investment returns, using assumptions from a stochastic equity model In applying asset growth assumptions for the valuation of the GMDB liability, we use a reversion to the mean methodology, similar to that applied for DAC. *For a description of this methodology see Estimated Gross Profits for Investment-Oriented Products below.*
GMWB	GMWB living benefits are embedded derivatives that are required to be bifurcated from the host contract and carried at fair value. *For additional information on how we reserve for variable annuity products with guaranteed benefit features see Note 14 to the Consolidated Financial Statements, and for information on fair value measurement of these embedded derivatives, including how we incorporate our own non-performance risk see Note 5 to the Consolidated Financial Statements.* The fair value of the embedded derivatives is based on actuarial and capital market assumptions related to projected cash flows over the expected lives of the contracts. Key assumptions include: • Interest rates • Equity market returns • Market volatility • Credit spreads • Equity / interest rate correlation • Policyholder behavior, including mortality, lapses, withdrawals and benefit utilization. Estimates of future policyholder behavior are subjective and based primarily on our historical experience • In applying asset growth assumptions for the valuation of GMWBs, we use market-consistent assumptions calibrated to observable interest rate and equity option prices • Allocation of fees between the embedded derivative and host contract

VALUATION OF EMBEDDED DERIVATIVES FOR FIXED INDEX ANNUITY AND LIFE PRODUCTS

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

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

ESTIMATED GROSS PROFITS FOR INVESTMENT–ORIENTED PRODUCTS

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

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

In estimating future gross profits for variable annuity products as of December 31, 2020, a long-term annual asset growth assumption of 7.0 percent (before expenses that reduce the asset base from which future fees are projected) was applied to estimate the future growth in assets and related asset-based fees. In determining the asset growth rate, the effect of short-term fluctuations in the equity markets is partially mitigated through the use of a reversion to the mean methodology, whereby short-term asset growth above or below the long-term annual rate assumption impacts the growth assumption applied to the five-year period subsequent to the current balance sheet date. The reversion to the mean methodology allows us to maintain our long-term growth assumptions, while also giving consideration to the effect of actual investment performance. When actual performance significantly deviates from the annual long-term growth assumption, as evidenced by growth assumptions for the five-year reversion to the mean period falling below a certain rate (floor) or above a certain rate (cap) for a sustained period, judgment may be applied to revise or “unlock” the growth rate assumptions to be used for both the five-year reversion to the mean period as well as the long-term annual growth assumption applied to subsequent periods. The use of a reversion to the mean assumption is common within the industry; however, the parameters used in the methodology are subject to judgment and vary within the industry.

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

The following table summarizes the sensitivity of changes in certain assumptions for DAC and SIA, embedded derivatives and other reserves related to guaranteed benefits and URR, measured as the related hypothetical impact on December 31, 2020 balances and the resulting hypothetical impact on pre-tax income, before hedging.

	Increase (decrease) in				
December 31, 2020 *(in millions)*	DAC/SIA Asset	Other Reserves Related to Guaranteed Benefits	Unearned Revenue Reserve	Embedded Derivatives Related to Guaranteed Benefits	Pre-Tax Income
Assumptions:					
Net Investment Spread					
Effect of an increase by 10 basis points	$ 118	$ (42)	$ (8)	$ (184)	$ 352
Effect of a decrease by 10 basis points	(115)	43	6	189	(353)
Equity Return[(a)]					
Effect of an increase by 1%	104	(30)	-	(62)	196
Effect of a decrease by 1%	(100)	38	-	63	(201)
Volatility[(b)]					
Effect of an increase by 1%	(3)	24	-	(44)	17
Effect of a decrease by 1%	3	(23)	-	45	(19)
Interest Rate[(c)]					
Effect of an increase by 1%	-	-	-	(2,675)	2,675
Effect of a decrease by 1%	-	-	-	3,469	(3,469)
Mortality					
Effect of an increase by 1%	(7)	43	(5)	(55)	10
Effect of a decrease by 1%	14	(42)	6	55	(5)
Lapse					
Effect of an increase by 10%	(122)	(89)	(25)	(113)	105
Effect of an decrease by 10%	135	94	25	118	(102)

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

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

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

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

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

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

REINSURANCE RECOVERABLE

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

We assess the collectability of reinsurance recoverable balances, at minimum on an annual basis, through either comparison with historical trends of disputes and credit events or financial analysis of the credit quality of the reinsurer. We record adjustments to reflect the results of these assessments through an allowance for credit losses and disputes on uncollectable reinsurance that reduces the carrying amount of reinsurance and other assets on the balance sheet (collectively, the reinsurance recoverable balances). This estimate requires significant judgment for which key considerations include:

- paid and unpaid amounts recoverable;
- whether the balance is in dispute or subject to legal collection;
- the relative financial health of the reinsurer as determined by the Obligor Risk Ratings (ORRs) we assign to each reinsurer based upon our financial reviews; reinsurers that are financially troubled (i.e., in run-off, have voluntarily or involuntarily been placed in receivership, are insolvent, are in the process of liquidation or otherwise subject to formal or informal regulatory restriction) are assigned ORRs that will generate significant allowance; and
- whether collateral and collateral arrangements exist.

An estimate of the reinsurance recoverable's lifetime expected credit losses is established utilizing a probability of default and loss given default method, which reflects the reinsurer's ORR rating. The allowance for credit losses excludes disputed amounts. An allowance for disputes is established for a reinsurance recoverable using the losses incurred model for contingencies.

At December 31, 2020, the allowance for credit losses and disputes on reinsurance recoverable was $375 million, or less than one percent of the consolidated reinsurance recoverable.

Risk transfer

All insurance contracts, including reinsurance contracts, must meet risk transfer requirements in order to use insurance accounting, principally resulting in the recognition of cash flows under the contract as premiums and losses. If risk transfer requirements are not met, a contract is to be accounted for as a deposit, typically resulting in the recognition of cash flows under the contract through a deposit asset or liability and not as revenue or expense. To meet risk transfer requirements, all insurance and reinsurance contracts must include insurance risk, consisting of underwriting and timing risk; in addition, reinsurance contracts must also include a reasonable possibility of a significant loss for the assuming entity. We have entered into certain insurance and reinsurance contracts, primarily in our General Insurance companies, that do not contain sufficient insurance risk to be accounted for as insurance or reinsurance and are therefore subject to deposit accounting.

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

ALLOWANCE FOR CREDIT LOSSES AND GOODWILL IMPAIRMENT

Allowance for Credit Losses

Available for sale securities

If we intend to sell a fixed maturity security, or it is more likely than not that we will be required to sell a fixed maturity security before recovery of its amortized cost basis and the fair value of the security is below amortized cost, an impairment has occurred and the amortized cost is written down to current fair value, with a corresponding charge to realized capital losses. No allowance is established in these situations and any previously recorded allowance is reversed. When assessing our intent to sell a fixed maturity security, or whether it is more likely than not that we will be required to sell a fixed maturity security before recovery of its amortized cost basis, management evaluates relevant facts and circumstances including, but not limited to, decisions to reposition our investment portfolio, sales of securities to meet cash flow needs and sales of securities to take advantage of favorable pricing.

For fixed maturity securities for which a decline in the fair value below the amortized cost is due to credit related factors, an allowance is established for the difference between the estimated recoverable value and amortized cost with a corresponding charge to realized capital losses. The allowance for credit losses is limited to the difference between amortized cost and fair value. The estimated recoverable value is the present value of cash flows expected to be collected, as determined by management. The difference between fair value and amortized cost that is not associated with credit related factors is presented in unrealized appreciation (depreciation) of fixed maturity securities on which an allowance for credit losses was previously recognized (a separate component of accumulated other comprehensive income). Accrued interest is excluded from the measurement of the allowance for credit losses.

Commercial and residential mortgage loans

At the time of origination or purchase, an allowance for credit losses is established for mortgage and other loan receivables and is updated each reporting period. Changes in the allowance for credit losses are recorded in realized capital losses. This allowance reflects the risk of loss, even when that risk is remote, and reflects losses expected over the remaining contractual life of the loan. The allowance for credit losses considers available relevant information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts of future economic conditions. We revert to historical information when we determine that we can no longer reliably forecast future economic assumptions.

The allowances for the commercial mortgage loans and residential mortgage loans are estimated utilizing a probability of default and loss given default model. Loss rate factors are determined based on historical data and adjusted for current and forecasted information. The loss rates are applied based on individual loan attributes and considering such data points as loan-to-value ratios, Fair Isaac Corporation (FICO) scores, and debt service coverage.

The estimate of credit losses also reflects management's assumptions on certain macroeconomic factors that include, but are not limited to, gross domestic product growth, employment, inflation, housing price index, interest rates and credit spreads.

For additional information on the methodology and significant inputs, by investment type, that we use to determine the amount of impairment and allowances for loan losses see the discussion in Notes 6 and 7 to the Consolidated Financial Statements.

Goodwill Impairment

For a discussion of goodwill impairment see Part I, Item 1A. Risk Factors – Estimates and Assumptions and Note 12 to the Consolidated Financial Statements. In 2020, 2019 and 2018, for substantially all of the reporting units we elected to bypass the qualitative assessment of whether goodwill impairment may exist and, therefore, performed quantitative assessments that supported a conclusion that the fair value of all of the reporting units tested exceeded their book value. To determine fair value, we primarily use a discounted expected future cash flow analysis that estimates and discounts projected future distributable earnings. Such analysis is principally based on our business projections that inherently include judgments regarding business trends.

COVID-19 has caused significant market volatility impacting our actual and projected results and contributed to a decline in our stock price. As this is an evolving crisis, we expect to continue to monitor developments and perform updated analyses as necessary.

LIABILITY FOR LEGAL CONTINGENCIES

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

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

FAIR VALUE MEASUREMENTS OF CERTAIN FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

December 31, 2020 *(in billions)*		Fair Value	Percent of Total
Fair value based on external sources[(a)]	$	255.4	91.9 %
Fair value based on internal sources		22.4	8.1
Total fixed maturity and equity securities[(b)]	**$**	**277.8**	**100.0 %**

(a) Includes $20.6 billion for which the primary source is broker quotes.

(b) Includes available for sale and other securities.

Level 3 Assets and Liabilities

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

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

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

(in billions)		December 31, 2020	Percentage of Total		December 31, 2019	Percentage of Total
Assets	$	31.8	5.4 %	$	31.2	5.9 %
Liabilities		15.9	3.1		7.0	1.5

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

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

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

INCOME TAXES

Recoverability of Net Deferred Tax Asset

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

We consider a number of factors to reliably estimate future taxable income so we can determine the extent of our ability to realize net operating losses, foreign tax credits, 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. We have also considered the impact of the Tax Act on our forecasts of taxable income, made certain assumptions related to interpretation of relevant new rules, and incorporated guidance issued by the U.S. tax authority. Our analysis also reflects the effect of slower utilization of our tax credits due to a reduction in the U.S. statutory tax rate as a result of the Tax Act.

Recent events, including the COVID-19 crisis, multiple reductions in target interest rates by the Board of Governors of the Federal Reserve System, and significant market volatility, continued to impact actual and projected results of our business operations as well as our views on potential effectiveness of certain prudent and feasible tax planning strategies. In order to demonstrate the predictability and sufficiency of future taxable income necessary to support the realizability of the net operating losses and foreign tax credit carryforwards, we have considered forecasts of future income for each of our businesses, including assumptions about future macro-economic and AIG-specific conditions and events, and any impact these conditions and events may have on our prudent and feasible tax planning strategies. We also subjected the forecasts to a variety of stresses of key assumptions and evaluated the effect on tax attribute utilization.

The carryforward periods of our foreign tax credit carryforwards range from tax years 2021 through 2023. Carryforward periods for our net operating losses extend from 2028 forward. However, utilization of a portion of our net operating losses is limited under separate return limitation year rules. Based on 2020 events and our analysis of their potential impact on utilization of our tax attributes, we concluded that a valuation allowance should be established on a portion of our foreign tax credit carryforwards that are no longer more-likely-than-not to be realized, all of which was allocated to continuing operations.

For 2020, recent changes in market conditions, including the COVID-19 crisis and interest rate fluctuations, impacted the unrealized tax gains and losses in the U.S. Life Insurance companies' available for sale securities portfolio, resulting in a deferred tax liability related to net unrealized tax capital gains. As of December 31, 2020, based on all available evidence, we concluded that no valuation allowance is necessary in the U.S. Life Insurance companies' available for sale securities portfolio.

For 2020, recent changes in market conditions, including interest rate fluctuations, impacted the unrealized tax gains and losses in the U.S. non-life companies' available for sale securities portfolio, resulting in a deferred tax liability related to net unrealized tax capital gains. As of December 31, 2020, based on all available evidence, we concluded that no valuation allowance is necessary in the U.S. non-life companies' available for sale securities portfolio.

For a discussion of our framework for assessing the recoverability of our deferred tax asset see Note 22 to the Consolidated Financial Statements.

Uncertain Tax Positions

Our accounting for income taxes, including uncertain tax positions, represents management's best estimate of various events and transactions, and requires judgment. FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" 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 percent likely to be realized upon settlement.

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

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

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

U.S. Tax Law Changes

On December 22, 2017, the U.S. enacted the Tax Act. The Tax Act reduced the statutory rate of U.S. federal corporate income tax to 21 percent and enacted numerous other changes impacting AIG and the insurance industry.

The Tax Act includes provisions for GILTI under which taxes are imposed on the excess of a deemed return on tangible assets of certain foreign subsidiaries and for BEAT under which taxes are imposed on certain base eroding payments to affiliated foreign companies. While the U.S. tax authorities issued formal guidance, including recently issued regulations for BEAT and other provisions of the Tax Act, there are still certain aspects of the Tax Act that remain unclear and subject to substantial uncertainties. Additional guidance is expected in future periods. Such guidance may result in changes to the interpretations and assumptions we made and actions we may take, which may impact amounts recorded with respect to international provisions of the Tax Act, possibly materially. Consistent with accounting guidance, we treat BEAT as a period tax charge in the period the tax is incurred and have made an accounting policy election to treat GILTI taxes in a similar manner.

On March 27, 2020, the U.S. enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act to mitigate the economic impacts of the COVID-19 crisis. The tax provisions of the CARES Act have not had and are currently not expected to have a material impact on AIG's U.S. federal tax liabilities.

For an additional discussion of the Tax Act see Note 22 to the Consolidated Financial Statements.

Executive Summary

OVERVIEW

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

Announcement of Intent to Separate Life and Retirement

On October 26, 2020, AIG announced its intention to separate its Life and Retirement business from AIG. No decisions have yet been made regarding the structure of the initial disposition of up to a 19.9% interest in the Life and Retirement business. In addition, any separation transaction will be subject to the satisfaction of various conditions and approvals, including approval by the AIG Board of Directors, receipt of insurance and other required regulatory approvals, and satisfaction of any applicable requirements of the SEC. No assurance can be given regarding the form that a separation transaction may take or the specific terms or timing thereof, or that a separation will in fact occur.

Sale of Fortitude Holdings

On June 2, 2020, we completed the sale of a majority of the interests in Fortitude Holdings to Carlyle FRL, an investment fund advised by an affiliate of Carlyle, and T&D, a subsidiary of T&D Holdings, Inc., under the terms of a membership interest purchase agreement entered into on November 25, 2019 by and among AIG, Fortitude Holdings, Carlyle FRL, Carlyle, T&D and T&D Holdings, Inc. (the Majority Interest Fortitude Sale). AIG established Fortitude Reinsurance Company Ltd. (Fortitude Re), a wholly-owned subsidiary of Fortitude Holdings, in 2018 in a series of reinsurance transactions related to AIG's Run-Off portfolio. As of December 31, 2020, approximately $30.5 billion of reserves from AIG's Life and Retirement Run-Off Lines and approximately $4.1 billion of reserves from AIG's General Insurance Run-Off Lines, related to business written by multiple wholly-owned AIG subsidiaries, had been ceded to Fortitude Re under these reinsurance transactions. As of closing of the Majority Interest Fortitude Sale, these reinsurance transactions are no longer considered affiliated transactions and Fortitude Re is the reinsurer of the majority of AIG's Run-Off operations. As these reinsurance transactions are structured as modified coinsurance and loss portfolio transfers with funds withheld, following the closing of the Majority Interest Fortitude Sale, AIG continues to reflect the invested assets, which consist mostly of available for sale securities, supporting Fortitude Re's obligations, in AIG's financial statements.

AIG sold a 19.9 percent ownership interest in Fortitude Holdings to TCG, an affiliate of Carlyle, in November 2018 (the 2018 Fortitude Sale). As a result of completion of the Majority Interest Fortitude Sale, Carlyle FRL purchased from AIG a 51.6 percent ownership interest in Fortitude Holdings and T&D purchased from AIG a 25 percent ownership interest in Fortitude Holdings; AIG retained a 3.5 percent ownership interest in Fortitude Holdings and one seat on its Board of Managers. The $2.2 billion of proceeds received by AIG at closing include (i) the $1.8 billion under the Majority Interest Fortitude Sale, which is subject to a post-closing purchase price adjustment pursuant to which AIG will pay Fortitude Re for certain adverse development in property casualty related reserves, based on an agreed methodology, that may occur on or prior to December 31, 2023, up to a maximum payment of $500 million; and (ii) a $383 million purchase price adjustment from Carlyle FRL and T&D, corresponding to their respective portions of a proposed $500 million non-pro rata distribution from Fortitude Holdings that was not received by AIG prior to the closing.

For further discussion on the sale of Fortitude Holdings see Note 8 to the Consolidated Financial Statements

Segment Changes

In the fourth quarter of 2020, AIG's chief operating decision makers modified their view of AIG's businesses and how they allocate resources and assess performance. The new operating structure no longer includes a Legacy segment. AIG now reports the results of its businesses through three segments – General Insurance, Life and Retirement and Other Operations. *See Note 3 to the Consolidated Financial Statements for further information on our segment changes.*

FINANCIAL PERFORMANCE SUMMARY

Net Income (Loss) Attributable To AIG Common Shareholders

(in millions)

2020 and 2019 Comparison

Net loss attributable to AIG common shareholders in 2020 compared to Net income attributable to AIG common shareholders in 2019 primarily due to:

- loss on the closing of the Majority Interest Fortitude Sale;
- higher catastrophe losses in General Insurance due to the impact of COVID-19, wildfires, civil unrest and other events and unfavorable impact from COVID-19 mortality in Life and Retirement;
- lower investment returns due primarily to lower income on our available for sale fixed maturity securities due to yield compression and fixed maturity securities for which the fair value option was elected due to a widening of credit spreads in 2020. This compares to the prior year where we experienced higher income on our available for sale fixed maturity securities and higher gains on our fixed maturity securities for which the fair value option was elected due to a decrease in rates and narrowing of credit spreads;
- net realized capital losses in 2020 compared to net realized capital gains in the prior year primarily driven by the loss on the embedded derivative related to the Fortitude Re funds withheld assets; and
- asset impairment charges as a result of Blackboard being placed into run-off.

This decrease was partially offset by:

- lower accident year loss ratio, as adjusted due to underwriting discipline, increased use of reinsurance and a change in business mix;
- lower net loss reserve discount charge;
- lower general operating expenses primarily driven by lower employee related expenses as well as a reduction in travel expenses as a result of the COVID-19 crisis; and
- the impact of noncontrolling interest attributed to Fortitude Re results as discussed in Consolidated Results of Operations.

For further discussion see Consolidated Results of Operations.

2019 and 2018 Comparison

Net income attributable to AIG common shareholders increased due to:

- improvement in accident year losses in General Insurance as a result of underwriting discipline, increased use of reinsurance and a change in business mix as well as lower catastrophe losses and favorable prior year loss reserve development compared to unfavorable loss reserve development in the prior year in General Insurance;
- higher investment returns in our alternative investments portfolio due to robust equity market returns in 2019, income from an initial public offering of a holding in the private equity portfolio, and an increase in income from fixed maturity securities for which the fair value option was elected. This compares to the prior year where returns were lower as a result of an increase in interest rates and widening credit spreads that occurred, lower hedge fund performance as well as negative performance of our fair value option equity securities portfolio;
- net realized capital gains in 2019 compared to net realized capital losses in the prior year; and
- lower general and other operating expenses as a result of ongoing strategic initiatives to reduce costs.

These increases were partially offset by:

- a net loss reserve discount charge in 2019 compared to a loss reserve discount benefit in 2018; and
- the impact of noncontrolling interest attributed to Fortitude Re results in 2019 as discussed in Consolidated Results of Operations.

For further discussion see Consolidated Results of Operations.

Adjusted Pre-Tax Income*

(in millions)

2020 and 2019 Comparison

Adjusted pre-tax income decreased primarily due to:

- higher catastrophe losses in General Insurance due to the impact of COVID-19, wildfires, civil unrest and other events and unfavorable impact from COVID-19 mortality in Life and Retirement; and
- lower investment returns due to the sale of Fortitude Re and lower income on our available for sale fixed maturity securities due to yield compression and fixed maturity securities for which the fair value option was elected due to a widening of credit spreads in 2020. This compares to the prior year where we experienced higher income on our available for sale fixed maturity securities and higher gains on our fixed maturity securities for which the fair value option was elected due to a decrease in rates and narrowing of credit spreads.

This decrease was partially offset by:

- lower accident year loss ratio, as adjusted due to underwriting discipline, increased use of reinsurance and a change in business mix; and
- lower general operating expenses primarily driven by lower employee related expenses as well as a reduction in travel expenses as a result of the COVID-19 crisis.

2019 and 2018 Comparison

Adjusted pre-tax income increased primarily due to:

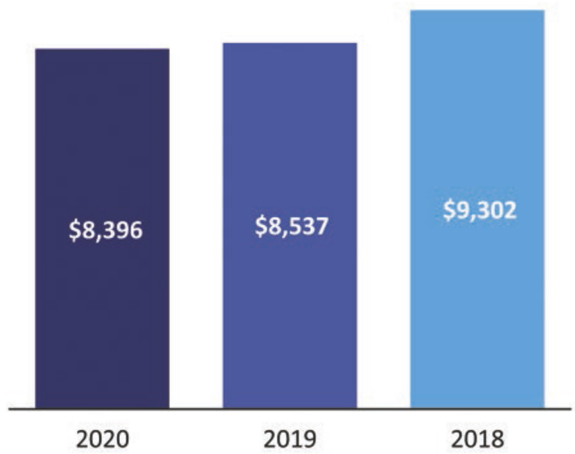
- lower catastrophe losses and lower accident year losses as a result of underwriting discipline, increased use of reinsurance and a change in business mix and favorable prior year loss reserve development compared to unfavorable loss reserve development in the prior year;
- higher investment returns in our alternative investments portfolio due to robust equity market returns in 2019, income from an initial public offering of a holding in the private equity portfolio, and an increase in income from fixed maturity securities for which the fair value option was elected. In the prior year returns were lower as a result of an increase in interest rates and widening credit spreads that occurred and lower hedge fund performance; and
- lower general operating and other expenses as a result of ongoing strategic initiatives to reduce costs.

For further discussion see Consolidated Results of Operations.

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

General Operating and Other Expenses

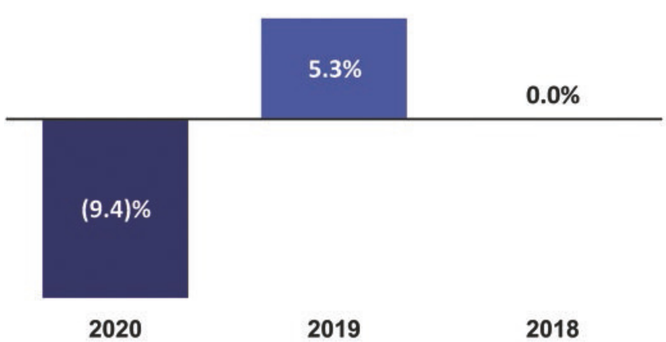
(in millions)



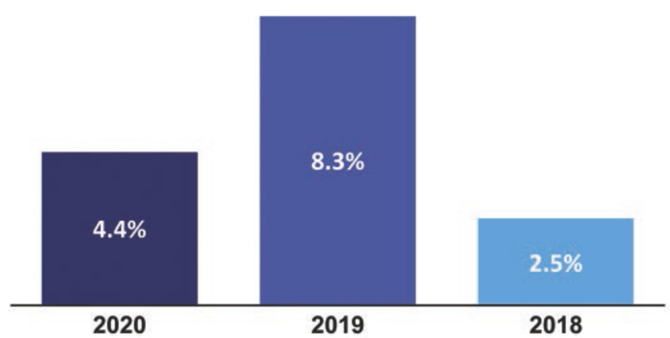
General operating and other expenses decreased in 2020 compared to 2019 primarily due to lower employee related expenses as well as a reduction in travel expenses as a result of the COVID-19 crisis. General operating and other expenses declined in 2019 compared to 2018 primarily due to lower employee related expenses and professional fee reductions pertaining to expense reduction initiatives. The declines were partially offset by an increase in expenses caused by the acquisitions of Validus and Glatfelter in the third and fourth quarters of 2018, respectively.

General operating and other expenses for 2020, 2019 and 2018 included approximately $435 million, $218 million and $395 million, respectively, of pre-tax restructuring and other costs which were primarily comprised of employee severance charges and other costs related to organizational simplification, operational efficiency, and business rationalization.

Return on Common Equity

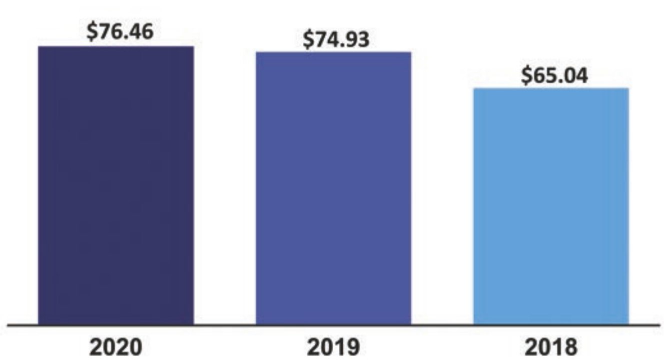


Adjusted Return on Common Equity*

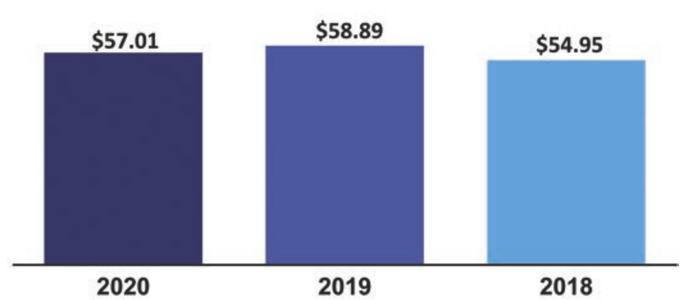


* Non-GAAP measure – *for reconciliation of Non-GAAP to GAAP measures see Consolidated Results of Operations.*

Book Value Per Common Share



Adjusted Book Value Per Common Share*



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

AIG'S OUTLOOK – INDUSTRY AND ECONOMIC FACTORS

Our business is affected by industry and economic factors such as interest rates, currency exchange rates, credit and equity market conditions, catastrophic claims events, regulation, tax policy, competition, and general economic, market and political conditions. We continued to operate under difficult market conditions in 2020, characterized by factors such as the impact of COVID-19 and the related governmental and societal responses, historically low interest rates, global economic contraction, global trade tensions and Brexit. Brexit has also affected the U.S. dollar/British pound exchange rate and increased the volatility of exchange rates among the Euro, British pound and the Japanese yen (the Major Currencies), which may continue for some time.

On October 26, 2020, AIG announced its intention to separate its Life and Retirement business from AIG. No decisions have yet been made regarding the structure of the initial disposition of up to a 19.9% interest in the Life and Retirement business. In addition, any separation transaction will be subject to the satisfaction of various conditions and approvals, including approval by the AIG Board of Directors, receipt of insurance and other required regulatory approvals, and satisfaction of any applicable requirements of the SEC. No assurance can be given regarding the form that a separation transaction may take or the specific terms or timing thereof, or that a separation will in fact occur.

For additional information please see Part I, Item 1A. Risk Factors – Business and Operations – No assurances can be given that the separation of our Life and Retirement business will occur or as to the specific terms or timing thereof. In addition, the separation could cause the emergence or exacerbate the effects of other risks to which AIG is exposed.

Impact of COVID-19

We are continually assessing the impact on our business, operations and investments of COVID-19 and the resulting ongoing and severe economic and societal disruption. These impacts, including a global economic contraction, disruptions in financial markets, increased market volatility and declines in certain equity and other asset prices have had and may continue to have negative effects on our investments, our access to liquidity, our ability to generate new sales and the costs associated with claims. In addition, in response to the crisis, new governmental, legislative and regulatory actions have been taken and continue to be developed that have resulted and could continue to result in additional restrictions and requirements, or court decisions rendered, relating to or otherwise affecting our policies that may have a negative impact on our business, operations and capital.

General Insurance offers numerous products for which we are monitoring claims activity and assessing adverse impact on future new and renewal business in relation to the COVID-19 crisis. General Insurance had $2.4 billion of pre-tax catastrophe losses, net of reinsurance, in 2020, which included $1.1 billion of estimated COVID-19 losses primarily related to Commercial Property, Validus Re, contingency and travel. The remainder of the catastrophe losses were primarily weather-related. We are continually reassessing our exposures in light of unfolding developments in the U.S. and globally and evaluating coverage by our reinsurance arrangements.

In our Life and Retirement business, the most significant impacts relating to COVID-19 have been the impact of interest rate and equity market levels on spread and fee income, deferred acquisition cost amortization and adverse mortality. We are actively monitoring our claims activity and the potential direct and indirect impacts that COVID-19 may have across our portfolio of Life and Retirement businesses.

We have a diverse investment portfolio with material exposures to various forms of credit risk. To date, the far reaching economic impacts of COVID-19 have been largely offset, to date, by intervention taken by governments and monetary authorities and equity market rebound resulting in a minimal impact on the value of the portfolio. At this point in time, uncertainty surrounding the duration and severity of the COVID-19 crisis makes the long-term financial impact difficult to quantify.

For additional information please see Part I, Item 1A. Risk Factors – COVID-19 is adversely affecting, and is expected to continue to adversely affect, our global business, financial condition and results of operations, and its ultimate impact will depend on future developments that are uncertain and cannot be predicted, including the scope, severity and duration of the crisis, and the governmental, legislative and regulatory actions taken and court decisions rendered in response thereto.

Impact of Changes in the Interest Rate Environment

In 2020, interest rates declined in response to COVID-19 and related impacts with key benchmark rates in the U.S. and in many developed markets close to historic lows and, in some international jurisdictions, negative. The low interest rate environment negatively affects sales of interest rate sensitive products in our industry and negatively impacts the profitability of our existing business as we reinvest cash flows from investments, including increased calls and prepayments of fixed maturity securities and mortgage loans, at rates below the average yield of our existing portfolios. The severe market impacts in 2020 have, however, resulted in an increase in certain credit spreads that partially offset the decrease in benchmark rates. On the other hand, if rates rise, some of these impacts may abate while there may be different impacts, some of which are highlighted below. We actively manage our exposure to the interest rate environment through portfolio selection and asset-liability management, including spread management strategies for our investment-oriented products and economic hedging of interest rate risk from guarantee features in our variable and fixed index annuities.

Additionally, sustained low interest rates may result in higher pension expense due to the impact on discounting of projected benefit cash flows.

Annuity Sales and Surrenders

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

Reinvestment and Spread Management

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

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

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

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

Of the aggregate fixed account values of our Individual Retirement and Group Retirement annuity products, 67 percent were crediting at the contractual minimum guaranteed interest rate at December 31, 2020. The percentage of fixed account values of our annuity products that are currently crediting at rates above one percent was 59 percent and 61 percent at December 31, 2020 and December 31, 2019, respectively. These businesses continue to focus on pricing discipline and strategies to manage the minimum guaranteed interest crediting rates offered on new sales in the context of regulatory requirements and competitive positioning. In the core universal life business in our Life Insurance business, 68 percent of the account values were crediting at the contractual minimum guaranteed interest rate at December 31, 2020.

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

	Current Crediting Rates			
December 31, 2020 Contractual Minimum Guaranteed Interest Rate *(in millions)*	At Contractual Minimum Guarantee	1-50 Basis Points Above Minimum Guarantee	More than 50 Basis Points Above Minimum Guarantee	Total
Individual Retirement*				
<=1%	$ 8,388	$ 1,953	$ 18,898	$ 29,239
> 1% - 2%	5,018	36	1,699	6,753
> 2% - 3%	11,025	5	19	11,049
> 3% - 4%	8,622	41	6	8,669
> 4% - 5%	492	-	4	496
> 5% - 5.5%	34	-	5	39
Total Individual Retirement	$ 33,579	$ 2,035	$ 20,631	$ 56,245
Group Retirement*				
1%	$ 1,868	$ 3,120	$ 4,469	$ 9,457
> 1% - 2%	5,986	702	160	6,848
> 2% - 3%	14,869	-	-	14,869
> 3% - 4%	755	-	-	755
> 4% - 5%	7,039	-	-	7,039
> 5% - 5.5%	167	-	-	167
Total Group Retirement	$ 30,684	$ 3,822	$ 4,629	$ 39,135
Universal life insurance				
1%	$ -	$ -	$ -	$ -
> 1% - 2%	100	25	366	491
> 2% - 3%	262	550	1,201	2,013
> 3% - 4%	1,476	191	194	1,861
> 4% - 5%	3,200	2	-	3,202
> 5% - 5.5%	245	-	-	245
Total universal life insurance	$ 5,283	$ 768	$ 1,761	$ 7,812
Total	$ 69,546	$ 6,625	$ 27,021	$ 103,192
Percentage of total	67 %	7 %	26 %	100 %

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

General Insurance

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

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

Standard of Care Developments

In our Life and Retirement business, we and our distributors are subject to laws and regulations regarding the standard of care applicable to sales of our products and the provision of advice to our customers. In recent years, many of these laws and regulations have been revised or reexamined while others have been newly adopted. We continue to closely follow these legislative and regulatory activities. *For additional information regarding these legislative and regulatory activities, see Item 1. Business – Regulation – U.S. Regulation – Standard of Care Developments*. Changes in standard of care requirements or new standards issued by governmental authorities, such as the DOL, the SEC, the NAIC or state regulators and/or legislators, may affect our businesses, results of operations and financial condition. While we cannot predict the long-term impact of these legislative and regulatory developments on our Life and Retirement businesses, we believe our diverse product offerings and distribution relationships position us to compete effectively in this evolving marketplace.

Impact of Currency Volatility

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

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

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

Years Ended December 31,				Percentage Change	
Rate for 1 USD	**2020**	2019	2018	2020 vs. 2019	2019 vs. 2018
Currency:					
GBP	**0.78**	0.79	0.75	(1)%	5 %
EUR	**0.88**	0.90	0.84	(2)%	7 %
JPY	**107.23**	109.31	110.50	(2)%	(1)%

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

Other Industry Developments

On September 7, 2017, the UK Ministry of Justice announced a proposal to increase the Ogden rate from negative 0.75 percent to between zero and one percent. Following this announcement, on December 20, 2018 the UK Parliament passed the Civil Liability Act 2018 which implements a new framework for determining the Ogden rate and requires the UK Ministry of Justice to start a review of the Ogden rate within 90 days of its commencement and review periodically thereafter. The Ministry of Justice concluded a public call for evidence on January 30, 2019 prior to beginning its first review. On July 15, 2019, the UK Ministry of Justice announced a change in the Ogden rate from negative 0.75 percent to negative 0.25 percent with an effective date of August 5, 2019.

Consolidated Results of Operations

The following section provides a comparative discussion of our Consolidated Results of Operations on a reported basis for the three-year period ended December 31, 2020. Factors that relate primarily to a specific business are discussed in more detail within the business segment operations section.

For a discussion of the Critical Accounting Estimates that affect our results of operations see Critical Accounting Estimates.

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

Years Ended December 31,				Percentage Change	
(in millions)	2020	2019	2018	2020 vs. 2019	2019 vs. 2018
Revenues:					
Premiums	$ 28,523	$ 30,561	$ 30,614	(7)%	- %
Policy fees	2,917	3,015	2,791	(3)	8
Net investment income	13,631	14,619	13,086	(7)	12
Net realized capital gains (losses)	(2,238)	632	(51)	NM	NM
Other income	903	919	949	(2)	(3)
Total revenues	43,736	49,746	47,389	(12)	5
Benefits, losses and expenses:					
Policyholder benefits and losses incurred	24,806	25,402	27,412	(2)	(7)
Interest credited to policyholder account balances	3,622	3,832	3,754	(5)	2
Amortization of deferred policy acquisition costs	4,211	5,164	5,386	(18)	(4)
General operating and other expenses	8,396	8,537	9,302	(2)	(8)
Interest expense	1,457	1,417	1,309	3	8
(Gain) loss on extinguishment of debt	12	32	7	(63)	357
Net (gain) loss on sale or disposal of divested businesses	8,525	75	(38)	NM	NM
Total benefits, losses and expenses	51,029	44,459	47,132	15	(6)
Income (loss) from continuing operations before income tax expense (benefit)	(7,293)	5,287	257	NM	NM
Current	217	545	336	(60)	62
Deferred	(1,677)	621	(182)	NM	NM
Income tax expense (benefit)	(1,460)	1,166	154	NM	NM
Income (loss) from continuing operations	(5,833)	4,121	103	NM	NM
Income (loss) from discontinued operations, net of income taxes	4	48	(42)	(92)	NM
Net income (loss)	(5,829)	4,169	61	NM	NM
Less: Net income attributable to noncontrolling interests	115	821	67	(86)	NM
Net income (loss) attributable to AIG	(5,944)	3,348	(6)	NM	NM
Less: Dividends on preferred stock	29	22	-	32	NM
Net income (loss) attributable to AIG common shareholders	$ (5,973)	$ 3,326	$ (6)	NM%	NM%

Years Ended December 31,	2020	2019	2018
Return on common equity	(9.4)%	5.3 %	0.0%
Adjusted return on common equity	4.4 %	8.3 %	2.5 %

(in millions, except per common share data)	December 31, 2020	December 31, 2019
Balance sheet data:		
Total assets	$ 586,481	$ 525,064
Long-term debt and debt of consolidated investment entities	37,534	35,350
Total AIG shareholders’ equity	66,362	65,675
Book value per common share	76.46	74.93
Adjusted book value per common share	57.01	58.89

The following table presents a reconciliation of Book value per common share to Book value per common share, excluding AOCI adjusted for the cumulative unrealized gains and losses related to Fortitude Re's Funds Withheld Assets and DTA (Adjusted book value per common share), which is a non-GAAP measure. *For additional information see Use of Non-GAAP Measures.*

	At December 31,		
(in millions, except per common share data)	**2020**	2019	2018
Total AIG shareholders' equity	**$ 66,362**	$ 65,675	$ 56,361
Preferred equity	**485**	485	-
Total AIG common shareholders' equity	**65,877**	65,190	56,361
Less: Accumulated other comprehensive income (loss)	**13,511**	4,982	(1,413)
Add: Cumulative unrealized gains and losses related to Fortitude Re's Funds Withheld Assets	**4,657**	-	-
Less: Deferred tax assets	**7,907**	8,977	10,153
Adjusted common shareholders' equity	**$ 49,116**	$ 51,231	$ 47,621
Total common shares outstanding	**861,558,049**	869,999,031	866,609,429
Book value per common share	**$ 76.46**	$ 74.93	$ 65.04
Adjusted book value per common share	**57.01**	58.89	54.95

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

Years Ended December 31,			
(dollars in millions)	**2020**	2019	2018
Actual or annualized net income (loss) attributable to AIG common shareholders	**$ (5,973)**	$ 3,326	$ (6)
Actual or annualized adjusted after-tax income (loss) attributable to AIG common shareholders	**2,201**	4,078	1,215
Average AIG common shareholders' equity	**$ 63,225**	$ 62,205	$ 60,819
Less: Average AOCI	**7,529**	3,261	1,193
Add: Average cumulative unrealized gains and losses related to Fortitude Re's Funds Withheld Assets	**2,653**	-	-
Less: Average DTA	**8,437**	9,605	10,133
Average adjusted AIG common shareholders' equity	**$ 49,912**	$ 49,339	$ 49,493
Return on common equity	**(9.4) %**	5.3 %	0.0 %
Adjusted return on common equity	**4.4 %**	8.3 %	2.5 %

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

Years Ended December 31,	2020				2019				2018			
(in millions, except per common share data)	Pre-tax	Total Tax (Benefit) Charge	Non-controlling Interests[e]	After Tax	Pre-tax	Total Tax (Benefit) Charge	Non-controlling Interests[e]	After Tax	Pre-tax	Total Tax (Benefit) Charge	Non-controlling Interests[e]	After Tax
Pre-tax income (loss)/net income (loss), including noncontrolling interests	**$ (7,293)**	**$ (1,460)**	**$ -**	**$ (5,829)**	$ 5,287	$ 1,166	$ -	4,169	$ 257	$ 154	$ -	$ 61
Noncontrolling interests			**(115)**	**(115)**			(821)	(821)			(67)	(67)
Pre-tax income (loss)/net income (loss)	**$ (7,293)**	**$ (1,460)**	**$ (115)**	**$ (5,944)**	$ 5,287	$ 1,166	$ (821)	$ 3,348	$ 257	$ 154	$ (67)	$ (6)
Dividends on preferred stock				**29**				22				-
Net income (loss) attributable to AIG common shareholders				**$ (5,973)**				$ 3,326				$ (6)
Changes in uncertain tax positions and other tax adjustments[a]		**132**	**-**	**(132)**		(30)	-	30		(48)	-	48
Deferred income tax valuation allowance (releases) charges[b]		**65**	**-**	**(65)**		43	-	(43)		(21)	-	21
Changes in fair value of securities used to hedge guaranteed living benefits	**(41)**	**(9)**	**-**	**(32)**	(194)	(40)	-	(154)	154	32	-	122
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses)	**(12)**	**(3)**	**-**	**(9)**	(56)	(12)	-	(44)	(6)	(3)	-	(3)
Changes in the fair value of equity securities	**(200)**	**(42)**	**-**	**(158)**	(158)	(33)	-	(125)	184	38	-	146
Loss on extinguishment of debt	**12**	**2**	**-**	**10**	32	7	-	25	7	1	-	6
Net investment income on Fortitude Re funds \withheld assets[c]	**(1,053)**	**(221)**	**-**	**(832)**	-	-	-	-	-	-	-	-
Net realized capital (gains) losses on Fortitude Re funds withheld assets[c]	**(463)**	**(98)**	**-**	**(365)**	-	-	-	-	-	-	-	-
Net realized capital (gains) losses on Fortitude Re funds withheld embedded derivative[c]	**2,645**	**555**	**-**	**2,090**	-	-	-	-	-	-	-	-
Net realized capital (gains) losses[d]	**97**	**22**	**-**	**75**	(456)	(99)	-	(357)	199	42	-	157
(Income) loss from discontinued operations				**(4)**				(48)				42
(Income) loss from divested businesses	**8,525**	**1,610**	**-**	**6,915**	75	9	-	66	(38)	(8)	-	(30)
Non-operating litigation reserves and settlements	**(21)**	**(4)**	**-**	**(17)**	(2)	-	-	(2)	19	4	-	15
Favorable prior year development and related amortization changes ceded under retroactive reinsurance agreements	**(221)**	**(46)**	**-**	**(175)**	(267)	(56)	-	(211)	675	142	-	533
Net loss reserve discount (benefit) charge	**516**	**109**	**-**	**407**	955	201	-	754	(371)	(79)	-	(292)
Integration and transaction costs associated with acquiring or divesting businesses	**12**	**3**	**-**	**9**	24	5	-	19	124	26	-	98
Restructuring and other costs	**435**	**91**	**-**	**344**	218	46	-	172	395	83	-	312
Non-recurring costs related to regulatory or accounting changes	**65**	**14**	**-**	**51**	12	2	-	10	-	-	-	-
Noncontrolling interests primarily related to net realized capital gains (losses) of Fortitude Holdings' standalone results[e]			**62**	**62**			660	660			46	46
Adjusted pre-tax income/Adjusted after-tax income attributable to AIG common shareholders	**$ 3,003**	**$ 720**	**$ (53)**	**$ 2,201**	$ 5,470	$ 1,209	$ (161)	$ 4,078	$ 1,599	$ 363	$ (21)	$ 1,215
Weighted average diluted shares outstanding[f]				**869.3**				889.5				910.1
Income (loss) per common share attributable to AIG common shareholders (diluted)[f]				**$ (6.88)**				$ 3.74				$ (0.01)
Adjusted after-tax income per common share attributable to AIG common shareholders (diluted)[f]				**$ 2.52**				$ 4.58				$ 1.34

(a) The year ended December 31, 2020 includes the tax audit resolution related to the IRS audit settlement for tax years 1991-2006 and the write-down of net operating loss deferred tax assets in certain foreign jurisdictions, which is offset by valuation allowance release.

(b) The year ended December 31, 2020 includes valuation allowance established against a portion of foreign tax credit carryforwards of AIG's U.S. federal consolidated income tax group, as well as net valuation allowance release in certain foreign jurisdictions for 2020.

(c) Represents activity subsequent to the deconsolidation of Fortitude Re on June 2, 2020.

(d) 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 and net realized gains and losses on Fortitude Re funds withheld assets.

(e) Prior to June 2, 2020, noncontrolling interests was primarily due to the 19.9 percent investment in Fortitude Holdings by an affiliate of Carlyle, which occurred in the fourth quarter of 2018. Carlyle was allocated 19.9 percent of Fortitude Holdings' standalone financial results through the June 2, 2020 closing date of the Majority Interest Fortitude Sale. Fortitude Holdings' results were mostly eliminated in AIG's consolidated income from continuing operations given that its results arose from intercompany transactions. Noncontrolling interests was calculated based on the standalone financial results of Fortitude Holdings. The most significant component of Fortitude Holdings' standalone results was the change in fair value of the embedded derivatives which changes with movements in interest rates and credit spreads, and which was recorded in net realized capital gains and losses of Fortitude Holdings. In accordance with AIG's adjusted after-tax income definition, realized capital gains and losses are excluded from noncontrolling interests. Subsequent to the Majority Interest Fortitude Sale, AIG owns 3.5 percent of Fortitude Holdings and no longer consolidates Fortitude Holdings in its financial statements as of such date. The minority interest in Fortitude Holdings is carried at cost within AIG's Other invested assets, which was $100 million as of December 31, 2020.

Fortitude Holdings' summarized financial information (standalone results), prior to the Majority Interest Fortitude Sale on June 2, 2020, is presented below:

Years Ended December 31,	2020		2019	
(in millions)	Fortitude Holdings	AIG Noncontrolling Interest	Fortitude Holdings	AIG Noncontrolling Interest
Revenues	$ 653	$ 130	$ 2,359	$ 470
Expenses	702	140	1,890	376
Adjusted pre-tax income (loss)	(49)	(10)	469	94
Taxes (benefit) expense	(10)	(2)	98	20
Adjusted after-tax income (loss)	(39)	(8)	371	74
Net realized capital gains and other charges	383	77	4,216	839
Taxes on realized capital gains and other charges	81	16	886	177
Net realized capital gains and other charges - after-tax	302	61	3,330	662
Net income	$ 263	$ 53	$ 3,701	$ 736

(f) For the year ended December 31, 2020, because we reported a net loss attributable to AIG common shareholders, all common stock equivalents are anti-dilutive and are therefore excluded from the calculation of diluted shares and diluted per share amounts. However, because we reported adjusted after-tax income attributable to AIG common shareholders, the calculation of adjusted after-tax income per diluted share attributable to AIG common shareholders includes 5,401,597 dilutive shares for the year ended December 31, 2020.

PRE-TAX INCOME (LOSS) COMPARISON FOR 2020 AND 2019

We recorded a pre-tax loss in 2020 compared to pre-tax income in 2019 primarily due to:

- an $8.3 billion loss on the closing of the Majority Interest Fortitude Sale;
- higher catastrophe losses in General Insurance due to the impact of COVID-19, wildfires, civil unrest and other events and unfavorable impact from COVID-19 mortality in Life and Retirement;
- lower investment returns due primarily to lower income on our available for sale fixed maturity securities due to yield compression and fixed maturity securities for which the fair value option was elected due to a widening of credit spreads in 2020. This compares to the prior year where we experienced higher income on our available for sale fixed maturity securities and higher gains on our fixed maturity securities for which the fair value option was elected due to a decrease in rates and narrowing of credit spreads;
- net realized capital losses in 2020 compared to net realized gains in the prior year due to:
  - fair value loss on embedded derivative related to the Fortitude Re funds withheld assets;
  - partially offset by Life and Retirement guaranteed living benefits, net of hedges, reflecting net realized capital gains in 2020 compared to net realized capital losses in 2019, primarily due to changes in the movement in the NPA, which is not hedged as part of our economic hedging program *(see Insurance Reserves – Life and Annuity Reserves and DAC – Variable Annuity Guaranteed Benefits and Hedging Results)*.
- asset impairment charges as a result of Blackboard being placed into run-off.

This decrease was partially offset by:

- lower accident year loss ratio, as adjusted due to underwriting discipline, increased use of reinsurance and a change in business mix;
- lower net loss reserve discount charge; and
- lower general operating expenses primarily driven by lower employee related expenses as well as a reduction in travel expenses as a result of the COVID-19 crisis.

PRE-TAX INCOME (LOSS) COMPARISON FOR 2019 AND 2018

Pre-tax income increased in 2019 compared to 2018 primarily due to:

- improvement in accident year losses in General Insurance as a result of underwriting discipline, increased use of reinsurance and a change in business mix as well as lower catastrophe losses and favorable prior year loss reserve development compared to unfavorable loss reserve development in the prior year in General Insurance;
- higher investment returns in our alternative investments portfolio due to robust equity market returns in 2019, income from an initial public offering of a holding in the private equity portfolio, and an increase in income from fixed maturity securities for which the fair value option was elected. This compares to lower returns in the prior year as a result of an increase in interest rates and widening credit spreads that occurred, lower hedge fund performance, as well as negative performance of our fair value option equity securities portfolio;

- net realized capital gains in 2019 compared to net realized capital losses in the prior year due to gains on the sales of securities and foreign exchange compared to losses on sales of securities and foreign exchange in 2018, as well as lower impairments in 2019 and losses on private equity sales in 2018. Partially offsetting these gains were derivative losses in 2019 compared to gains in 2018; and
- lower general and other operating expenses as a result of ongoing strategic initiatives to reduce costs.

These increases were partially offset by:

- a net loss reserve discount charge in 2019 compared to a loss reserve discount benefit in the prior year.

U.S. TAX LAW CHANGES

On December 22, 2017, the U.S. enacted Public Law 115-97, known informally as the Tax Act. The Tax Act includes provisions for Global Intangible Low-Taxed Income (GILTI) under which taxes are imposed on the excess of a deemed return on tangible assets of certain foreign subsidiaries and for Base Erosion and Anti Abuse Tax (BEAT) under which taxes are imposed on certain base eroding payments to affiliated foreign companies. While the U.S. tax authorities issued formal guidance, including recently issued regulations for BEAT and other provisions of the Tax Act, there are still certain aspects of the Tax Act that remain unclear and subject to substantial uncertainties. Additional guidance is expected in future periods. Such guidance may result in changes to the interpretations and assumptions we made and actions we may take, which may impact amounts recorded with respect to international provisions of the Tax Act, possibly materially. Consistent with accounting guidance, we treat BEAT as a period tax charge in the period the tax is incurred and have made an accounting policy election to treat GILTI taxes in a similar manner.

On March 27, 2020, the U.S. enacted the CARES Act to mitigate the economic impacts of the COVID-19 crisis. The tax provisions of the CARES Act have not had and are currently not expected to have a material impact on AIG's U.S. federal tax liabilities.

Repatriation Assumptions

For 2020, we consider our foreign earnings with respect to certain operations in Canada, South Africa, the Far East, Latin America, Bermuda as well as the European, Asia Pacific and Middle East regions to be indefinitely reinvested. These earnings relate to ongoing operations and have been reinvested in active business operations. Deferred taxes, if necessary, have been provided on earnings of non-U.S. affiliates whose earnings are not indefinitely reinvested.

INCOME TAX EXPENSE ANALYSIS

For the year ended December 31, 2020, the effective tax rate on loss from continuing operations was 20.0 percent. The effective tax rate on loss from continuing operations differs from the statutory tax rate of 21 percent primarily due to:

- tax charges of:
  - $186 million related to tax effects of the Majority Interest Fortitude Sale,
  - $150 million associated with the establishment of U.S. federal valuation allowance related to certain tax attribute carryforwards,
  - $165 million net charge associated with changes in uncertain tax positions primarily driven by the accrual of IRS interest,
  - $76 million associated with the effect of foreign operations; and
  - $35 million of excess tax charges related to share-based compensation payments recorded through the income statement;
- partially offset by tax benefits of:
  - $379 million associated with the remeasurement of tax liabilities, penalties and interest primarily related to the IRS audit settlement for tax years 1991-2006,
  - $101 million of reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities, and
  - $58 million associated with tax exempt income.

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

For the year ended December 31, 2019, the effective tax rate on income from continuing operations was 22.1 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 21 percent primarily due to:

- tax charges of:
  - $96 million net charge primarily related to the accrual of IRS interest (including interest related to uncertain tax positions),
  - $82 million associated with the effect of foreign operations,
  - $37 million of tax charges and related interest associated with increases in uncertain tax positions primarily related to open tax issues and audits in state and local jurisdictions,
  - $27 million of excess tax charges related to share-based compensation payments recorded through the income statement, and
  - $15 million of non-deductible transfer pricing charges;
- partially offset by tax benefits of:
  - $113 million of reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities,
  - $65 million associated with tax exempt income, and
  - $44 million of valuation allowance activity related to certain foreign subsidiaries and state jurisdictions.

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

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

- tax charges of:
  - $83 million net charge primarily related to the accrual of IRS interest (including interest related to uncertain tax positions),
  - $62 million measurement period adjustment related to the deemed repatriation tax,
  - $44 million associated with the effect of foreign operations,
  - $21 million of additional U.S. taxes imposed on income of our foreign subsidiaries under international provisions of the Tax Act,
  - $21 million valuation allowance activity related to certain foreign subsidiaries and state jurisdictions, and
  - $29 million of non-deductible transfer pricing charges;
- partially offset by tax benefits of:
  - $72 million of reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities,
  - $37 million of tax exempt income, and
  - $13 million of excess tax deductions related to share based compensation payments recorded through the income statement.

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

For additional information see Note 22 to the Consolidated Financial Statements.

Business Segment Operations

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

General Insurance consists of two operating segments: North America and International. Life and Retirement consists of four operating segments: Individual Retirement, Group Retirement, Life Insurance and Institutional Markets. Other Operations is primarily comprised of corporate, our institutional asset management business and consolidation and eliminations.

On October 26, 2020, AIG announced its intention to separate its Life and Retirement business from AIG.

In the fourth quarter of 2020, AIG's chief operating decision makers modified their view of AIG's businesses and how they allocate resources and assess performance. The new operating structure no longer includes a Legacy segment. AIG now reports the results of its businesses through three segments – General Insurance, Life and Retirement and Other Operations. Prior periods were revised to conform to the current period presentation. *See Note 3 to the Consolidated Financial Statements for further information on our segment changes.*

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

Years Ended December 31, *(in millions)*	**2020**	2019	2018
General Insurance			
North America - Underwriting loss	**$ (1,301)**	$ (365)	$ (2,430)
International - Underwriting income (loss)	**277**	454	(707)
General Insurance Net investment income	**2,925**	3,444	2,843
General Insurance	**$ 1,901**	$ 3,533	$ (294)
Life and Retirement			
Individual Retirement	**1,938**	1,977	1,678
Group Retirement	**1,013**	937	936
Life Insurance	**142**	331	472
Institutional Markets	**438**	308	257
Life and Retirement	**3,531**	3,553	3,343
Other Operations	**(1,963)**	(1,312)	(1,489)
Consolidation and eliminations	**(466)**	(304)	39
Adjusted pre-tax income	**$ 3,003**	$ 5,470	$ 1,599

General Insurance

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

PRODUCTS AND DISTRIBUTION

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

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

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

Global Specialty: Products include aerospace, political risk, trade credit, portfolio solutions, energy-related property insurance products, marine and crop insurance.

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

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

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

BUSINESS STRATEGY

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

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

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

COMPETITION AND CHALLENGES

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

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

Our challenges include:

- long-tail Commercial Lines exposures that create added challenges to pricing and risk management;
- over-capacity in certain lines of business that creates downward market pressure on pricing;
- tort environment volatility in certain jurisdictions and lines of business; and
- volatility in claims arising from natural and man-made catastrophes, including public health events, such as the COVID-19 crisis.

OUTLOOK–INDUSTRY AND ECONOMIC FACTORS

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

The ultimate impact of COVID-19 continues to evolve and will depend upon the scope, severity and duration of the crisis as well as the actions taken by governments, legislative bodies or regulators and other third parties in response, all of which are subject to continuing uncertainty. The results for 2020 include COVID-19 related impacts to both our premium volume and our estimates for catastrophe losses. COVID-19 has driven a material reduction in our revenues in 2020, particularly within the Travel line of business (given the travel restrictions imposed as a result of COVID-19 and the global slowdown) and other lines to a lesser degree. The recessionary impact of COVID-19 has and continues to adversely affect our clients, particularly in certain industry segments where demand and exposures dropped significantly and is likely to remain challenging for a period of time, even after the COVID-19 crisis subsides. The ultimate impact of COVID-19 on our business will depend upon the speed at which government mandated safety precautions can be lifted (and the impact of any future shutdowns), the distribution and effectiveness of vaccinations, and the manner and speed with which economic activity rebounds. Although we have seen some benefit in claims experience in lines where economic and social activities have been suppressed (e.g. Personal Auto), this continues to be partly offset by requirements for premium refunds in those lines. The regulatory approach to the crisis and impact on the insurance industry is still developing and its ultimate impact remains uncertain.

General Insurance – North America

In recent periods Commercial Lines have seen growing market support for rate increases in challenged businesses where major carriers are reducing risk appetite and exhibiting increasing market discipline. As a result, multiple markets are now experiencing rate increases. We are seeing rate increases across U.S. Financial Lines and Liability lines of business (outside of Workers' Compensation), with a common driver being higher industry-wide claims severity trends, as well as within our Property portfolio. We continue to achieve positive rate increases across a number of lines and classes of business as a result of our disciplined underwriting strategy and focus on risk selection. Despite the higher rates, our retention of business remains in line with recent years and in certain instances has increased. These retention rates are often coupled with an exposure limit management strategy to reduce volatility within the portfolio. We continue to proactively identify businesses to grow in light of evolving market conditions using a portfolio management approach.

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

General Insurance – International

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

The Commercial Lines business is showing signs of change, with capacity reducing and the tightening of terms and conditions. We are continuing to grow our most profitable lines of business and diversify our portfolio across all regions by expanding into new product lines (e.g., cyber), new client types (e.g., middle market) and new distribution channels (e.g., digital and national brokers) while remaining a market leader in key developed and developing markets. Overall, Commercial Lines are showing positive rate increases, particularly in our Global Specialty, Financial Lines and Property portfolio and across international markets where market events or withdrawal of capability and capacity have favorably impacted pricing. We are maintaining our underwriting discipline, reducing gross and net limits, increasing use of reinsurance to reduce volatility, as well as continuing our risk selection strategy to improve profitability.

Personal Insurance focuses on individual customers, as well as group and corporate clients. Although market competition within Personal Insurance has increased, we continue to benefit from the underwriting quality, portfolio diversity, and generally low volatility of the short-tailed risk in these business lines, although some product classes are exposed to catastrophe losses.

GENERAL INSURANCE RESULTS

Years Ended December 31,				Percentage Change	
(in millions)	**2020**	2019	2018	2020 vs. 2019	2019 vs. 2018
Underwriting results:					
Net premiums written	**$ 22,959**	$ 25,092	$ 26,407	(9)%	(5)%
Decrease in unearned premiums[(a)]	**703**	1,346	1,098	(48)	23
Net premiums earned	**23,662**	26,438	27,505	(11)	(4)
Losses and loss adjustment expenses incurred[(b)]	**16,803**	17,246	20,824	(3)	(17)
Acquisition expenses:					
Amortization of deferred policy acquisition costs	**3,538**	4,482	4,596	(21)	(2)
Other acquisition expenses	**1,283**	1,292	1,385	(1)	(7)
Total acquisition expenses	**4,821**	5,774	5,981	(17)	(3)
General operating expenses	**3,062**	3,329	3,837	(8)	(13)
Underwriting income (loss)	**(1,024)**	89	(3,137)	NM	NM
Net investment income	**2,925**	3,444	2,843	(15)	21
Adjusted pre-tax income (loss)	**$ 1,901**	$ 3,533	$ (294)	(46)%	NM%
Loss ratio[(b)]	**71.0**	65.2	75.7	5.8	(10.5)
Acquisition ratio	**20.4**	21.8	21.7	(1.4)	0.1
General operating expense ratio	**12.9**	12.6	14.0	0.3	(1.4)
Expense ratio	**33.3**	34.4	35.7	(1.1)	(1.3)
Combined ratio[(b)]	**104.3**	99.6	111.4	4.7	(11.8)
Adjustments for accident year loss ratio, as adjusted and accident year combined ratio, as adjusted:					
Catastrophe losses and reinstatement premiums	**(10.3)**	(4.8)	(10.5)	(5.5)	5.7
Prior year development, net of (additional) return premium on loss sensitive business	**0.1**	1.1	(1.5)	(1.0)	2.6
Adjustment for ceded premiums under reinsurance contracts related to prior accident years and other	**-**	0.1	0.3	NM	(0.2)
Accident year loss ratio, as adjusted	**60.8**	61.6	64.0	(0.8)	(2.4)
Accident year combined ratio, as adjusted	**94.1**	96.0	99.7	(1.9)	(3.7)

(a) In 2018, the underwriting loss included an additional $115 million of net premium earned for multi-year policies related to earlier accident years.

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

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

Years Ended December 31,				Percentage Change in U.S. dollars		Percentage Change in Original Currency	
(in millions)	**2020**	2019	2018	2020 vs. 2019	2019 vs. 2018	2020 vs. 2019	2019 vs. 2018
North America	**$ 9,784**	$ 11,490	$ 10,994	(15)%	5 %	(15)%	5 %
International[(a)]	**13,175**	13,602	15,413	(3)	(12)	(3)	(10)
Total net premiums written	**$ 22,959**	$ 25,092	$ 26,407	(9)%	(5)%	(9)%	(4)%

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

The following tables present General Insurance accident year catastrophes by geography[(a)] and number of events:

Catastrophes[(b)]

(in millions)	# of Events	North America	International	Total
Year Ended December 31, 2020				
Flooding and rainstorms	**4**	**$ 27**	**$ 64**	**$ 91**
Windstorms and hailstorms	**14**	**759**	**195**	**954**
Wildfires	**N/A[(c)]**	**145**	**2**	**147**
Earthquakes	**2**	**35**	**12**	**47**
COVID-19	**N/A[(d)]**	**703**	**390**	**1,093**
Civil unrest	**1**	**68**	**28**	**96**
Reinstatement premiums		**(11)**	**25**	**14**
Total catastrophe-related charges	**21**	**$ 1,726**	**$ 716**	**$ 2,442**
Year Ended December 31, 2019				
Flooding and rainstorms	3	$ 20	$ 13	$ 33
Windstorms and hailstorms	26	749	384	1,133
Wildfire	3	58	10	68
Civil unrest	2	-	23	23
Reinstatement premiums		(14)	35	21
Total catastrophe-related charges	34	$ 813	$ 465	$ 1,278
Year Ended December 31, 2018				
Flooding and rainstorms	3	$ 16	$ 154	$ 170
Windstorms and hailstorms	23	1,135	779	1,914
Wildfire	5	708	8	716
Earthquakes	3	20	81	101
Volcanic eruptions	1	16	2	18
Reinstatement premiums	-	(32)	(2)	(34)
Total catastrophe-related charges	35	$ 1,863	$ 1,022	$ 2,885

(a) Geography: North America primarily includes insurance businesses in the United States, Canada, Bermuda, and our global reinsurance business, AIG Re. International includes regional insurance businesses in Japan, the United Kingdom, Europe, Middle East and Africa (EMEA region), Asia Pacific, Latin America and Caribbean, and China. International also includes the results of Talbot Holdings, Ltd. as well as AIG's global specialty business.

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

(c) As the losses related to the wildfires continue to evolve given their geographical dispersion, the number of events is yet to be determined.

(d) As COVID-19 continues to evolve and affects many lines of business, the number of events is yet to be determined.

NORTH AMERICA RESULTS

Years Ended December 31,				Percentage Change	
(in millions)	2020	2019	2018	2020 vs. 2019	2019 vs. 2018
Underwriting results:					
Net premiums written	$ 9,784	$ 11,490	$ 10,994	(15)%	5 %
Decrease in unearned premiums[(a)]	518	646	821	(20)	(21)
Net premiums earned	10,302	12,136	11,815	(15)	3
Losses and loss adjustment expenses incurred[(b)]	8,720	8,867	10,641	(2)	(17)
Acquisition expenses:					
Amortization of deferred policy acquisition costs	1,365	1,923	1,744	(29)	10
Other acquisition expenses	359	478	512	(25)	(7)
Total acquisition expenses	1,724	2,401	2,256	(28)	6
General operating expenses	1,159	1,233	1,348	(6)	(9)
Underwriting loss	$ (1,301)	$ (365)	$ (2,430)	(256)%	85 %
Loss ratio[(b)]	84.6	73.1	90.1	11.5	(17.0)
Acquisition ratio	16.7	19.8	19.1	(3.1)	0.7
General operating expense ratio	11.3	10.2	11.4	1.1	(1.2)
Expense ratio	28.0	30.0	30.5	(2.0)	(0.5)
Combined ratio[(b)]	112.6	103.1	120.6	9.5	(17.5)
Adjustments for accident year loss ratio, as adjusted and accident year combined ratio, as adjusted:					
Catastrophe losses and reinstatement premiums	(16.7)	(6.8)	(15.9)	(9.9)	9.1
Prior year development, net of (additional) return premium on loss sensitive business	1.2	1.0	(4.4)	0.2	5.4
Adjustment for ceded premiums under reinsurance contracts related to prior accident years and other	(0.1)	0.2	0.8	(0.3)	(0.6)
Accident year loss ratio, as adjusted	69.0	67.5	70.6	1.5	(3.1)
Accident year combined ratio, as adjusted	97.0	97.5	101.1	(0.5)	(3.6)

(a) In 2018, the underwriting loss included an additional $115 million of net premium earned for multi-year policies related to earlier accident years.

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

Business and Financial Highlights

The North America General Insurance business continues to make progress in strengthening our underwriting, actively managing our portfolio to improve business mix and articulating our revised risk appetite to the marketplace. We are leading the industry across multiple lines in terms of driving rate momentum while simultaneously increasing the level of business retained in targeted lines. As we see increasing disruption in the marketplace, we are well placed to capitalize on opportunities, including within our excess and surplus business which is seeing an increase in submission flow and achieving significant rate improvement.

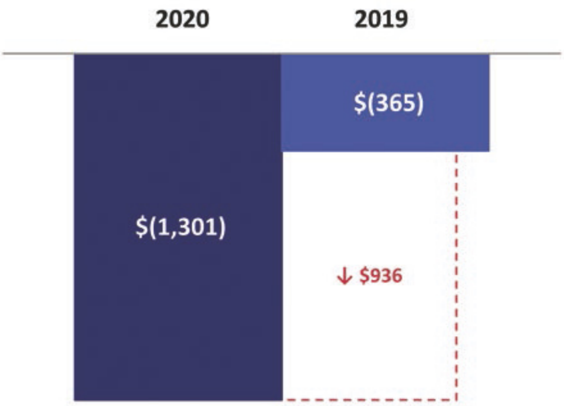
During the second quarter of 2020, AIG entered into a series of quota share reinsurance agreements, including with Lloyd's Syndicate 2019, a Lloyd's syndicate managed by Talbot, to reinsure risks related to PCG. These transactions further AIG's continued optimization of its General Insurance portfolio, create additional products for clients and diversify AIG's capital base.

The underwriting loss increased in 2020 compared to the prior year, primarily due to the impact of COVID-19 on catastrophe losses and a higher accident year loss ratio, which resulted from a combination of an adverse effect from changes in business mix partially offset by a benefit from rate increases in Commercial Lines, partially offset by related lower acquisition expenses, higher favorable prior year loss reserve development and lower general operating expenses due to ongoing expense discipline.

Net premiums written decreased in the year ended December 31, 2020 compared to the prior year primarily due to the new quota share reinsurance agreements related to PCG, which includes cessions to the newly launched Syndicate 2019, and the impact of COVID-19 most notably in Travel, partially offset by business growth and strong rate driven increases across Commercial Lines.

For a discussion of Reinsurance Activities see MD&A - Enterprise Risk Management.

North America Underwriting Loss
(in millions)



2020 and 2019 Comparison

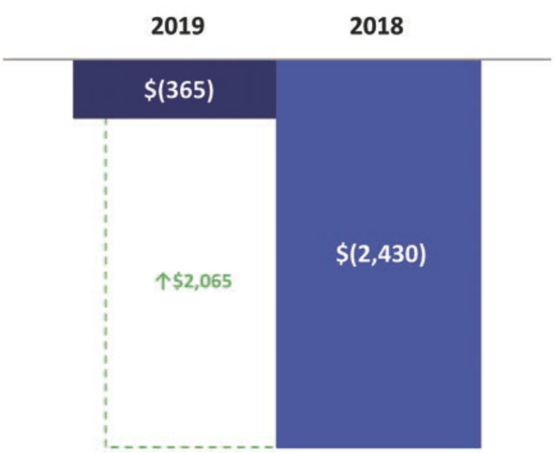
Underwriting loss increased primarily due to:

- higher catastrophe losses primarily due to the impact of COVID-19, windstorms and hailstorms, wildfires, civil unrest and other events; and
- higher accident year loss ratio, which is a combination of an adverse effect from changes in business mix partially offset by a benefit from rate increases in Commercial Lines and underwriting actions.

These increases were partially offset by:

- lower acquisition expenses primarily driven by changes in business mix including the impact of COVID-19 as well as new quota share reinsurance agreements;
- higher favorable prior year loss reserve development; and
- lower general operating expense reflecting ongoing expense discipline.

North America Underwriting Loss
(in millions)

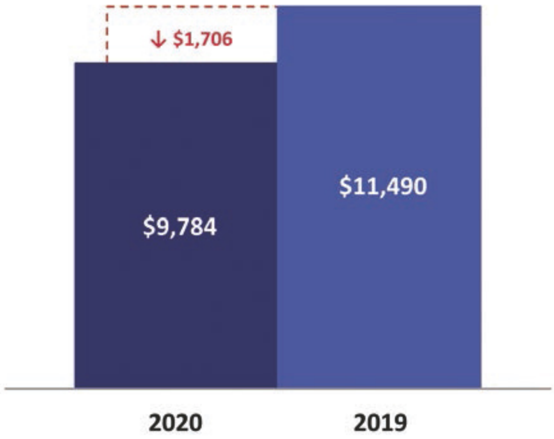


2019 and 2018 Comparison

Underwriting loss decreased primarily due to:

- significantly lower catastrophe losses;
- favorable prior year loss reserve development in 2019 compared to unfavorable loss reserve development in 2018;
- the lower accident year loss ratio, as adjusted primarily driven by a change in business mix including the Validus and Glatfelter acquisitions, improved new business and renewal terms, reduced net severity of loss events and changes in 2019 reinsurance programs which have reduced volatility; and
- lower general operating expenses as a result of ongoing expense reduction initiatives.

North America Net Premiums Written
(in millions)



2020 and 2019 Comparison

Net premiums written decreased primarily due to:

- higher ceded premiums due to the new series of quota share reinsurance agreements to reinsurance risks related to PCG;
- the impact of COVID-19 most notably in Travel; and
- underwriting actions taken to improve the portfolio.

These decreases were partially offset by:

- growth in assumed reinsurance business, as well as strong rate driven increases and retention across Commercial Lines.

North America Net Premiums Written
(in millions)

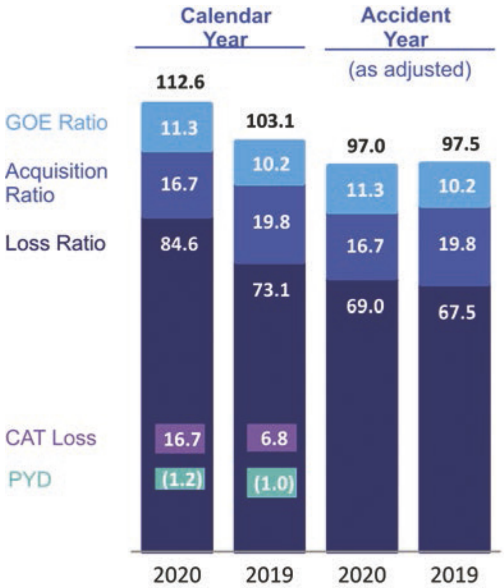
2019 and 2018 Comparison

Net premiums written increased primarily due to the inclusion of the Validus and Glatfelter acquisitions as well as growth within the Validus business.

This increase was partially offset by:

- lower production primarily due to underwriting actions taken to strengthen our portfolio and to maintain pricing discipline; and
- higher ceded premiums due to the changes in 2019 reinsurance programs.

North America Combined Ratios



2020 and 2019 Comparison

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

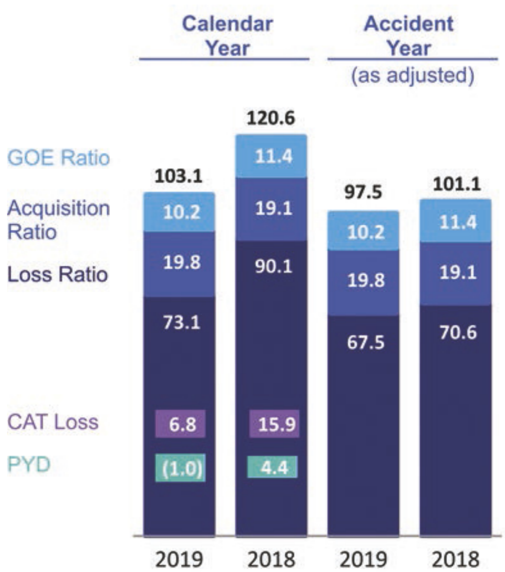
The increase in the loss ratio reflected:

- higher catastrophe losses primarily due to the impact of COVID-19, wildfires, civil unrest and other events; and
- higher accident year loss ratio, as adjusted, driven by changes in North America personal insurance business mix, partially offset by a benefit from rate increases in Commercial Lines and underwriting actions.

The decrease in the expense ratio reflected:

- lower acquisition ratio primarily driven by changes in business mix including the impact of COVID-19 as well as new quota share reinsurance agreements; and
- higher general expense ratio primarily due to lower premiums partially offset by ongoing expense discipline.

North America Combined Ratios



2019 and 2018 Comparison

The decrease in the combined ratio reflected a decrease in both the loss ratio and the expense ratio.

The decrease in the loss ratio reflected:

- significantly lower catastrophe losses;
- favorable prior year loss reserve development compared to unfavorable loss reserve development in the prior year; and
- lower accident year loss ratio, as adjusted, primarily driven by a change in business mix including the Validus and Glatfelter acquisitions, improved new business and renewal terms, reduced net severity of loss events and changes in 2019 reinsurance programs which have reduced volatility.

The decrease in the expense ratio reflected lower general operating expense ratio driven by ongoing expense reduction initiatives.

INTERNATIONAL RESULTS

Years Ended December 31, (in millions)	2020	2019	2018	Percentage Change 2020 vs. 2019	Percentage Change 2019 vs. 2018
Underwriting results:					
Net premiums written	$ 13,175	$ 13,602	$ 15,413	(3)%	(12)%
Decrease in unearned premiums	185	700	277	(74)	153
Net premiums earned	13,360	14,302	15,690	(7)	(9)
Losses and loss adjustment expenses incurred	8,083	8,379	10,183	(4)	(18)
Acquisition expenses:					
Amortization of deferred policy acquisition costs	2,173	2,559	2,852	(15)	(10)
Other acquisition expenses	924	814	873	14	(7)
Total acquisition expenses	3,097	3,373	3,725	(8)	(9)
General operating expenses	1,903	2,096	2,489	(9)	(16)
Underwriting income (loss)	$ 277	$ 454	$ (707)	(39)%	NM%
Loss ratio	60.5	58.6	64.9	1.9	(6.3)
Acquisition ratio	23.2	23.6	23.7	(0.4)	(0.1)
General operating expense ratio	14.2	14.7	15.9	(0.5)	(1.2)
Expense ratio	37.4	38.3	39.6	(0.9)	(1.3)
Combined ratio	97.9	96.9	104.5	1.0	(7.6)
Adjustments for accident year loss ratio, as adjusted and accident year combined ratio, as adjusted:					
Catastrophe losses and reinstatement premiums	(5.3)	(3.2)	(6.5)	(2.1)	3.3
Prior year development, net of (additional) return premium on loss sensitive business	(0.7)	1.1	0.6	(1.8)	0.5
Adjustment for ceded premiums under reinsurance contracts related to prior accident years	-	0.1	-	NM	0.1
Accident year loss ratio, as adjusted	54.5	56.6	59.0	(2.1)	(2.4)
Accident year combined ratio, as adjusted	91.9	94.9	98.6	(3.0)	(3.7)

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

Business and Financial Highlights

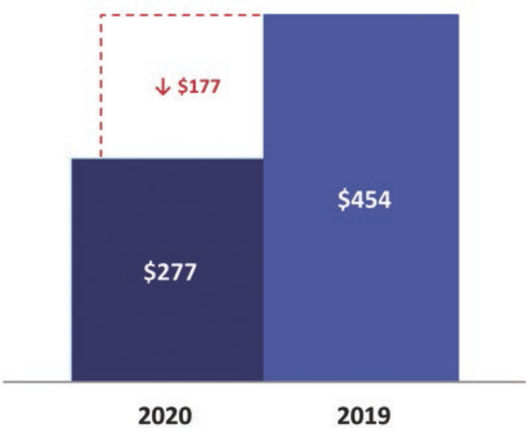
The International General Insurance business is focused on underwriting profits and improved efficiency, further improving underwriting margins, and growing profitably in businesses and geographies that support our growth strategy.

Underwriting income decreased in 2020 compared to the prior year, primarily due to the impact of COVID-19 on catastrophe losses, unfavorable prior year loss reserve development principally in Financial Lines as compared to favorable prior year loss reserve development in Global Specialty and Personal Auto in the prior year, partially offset by lower accident year loss ratio, as adjusted and lower general operating expenses.

Net premiums written, excluding the impact of foreign exchange, decreased in the year ended December 31, 2020 compared to the prior year, primarily due to the impact of COVID-19, higher ceded premiums due to changes in the 2020 reinsurance program and lower premiums from run-off business partially offset by business growth and rate increases in Commercial Lines.

For a discussion of Reinsurance Activities see Enterprise Risk Management.

International Underwriting Income
(in millions)



2020 and 2019 Comparison

Underwriting income decreased primarily due to:

- impact of COVID-19 on catastrophe losses; and
- unfavorable prior year loss reserve development principally in Financial Lines compared to favorable prior year loss reserve development in Global Specialty and Personal Auto in the prior year.

These increases were partially offset by:

- lower accident year loss ratio, as adjusted primarily driven by strong premium rate increases in Commercial Lines, benefits from underwriting actions and better risk selection; and
- lower general operating expenses reflecting ongoing expense discipline.

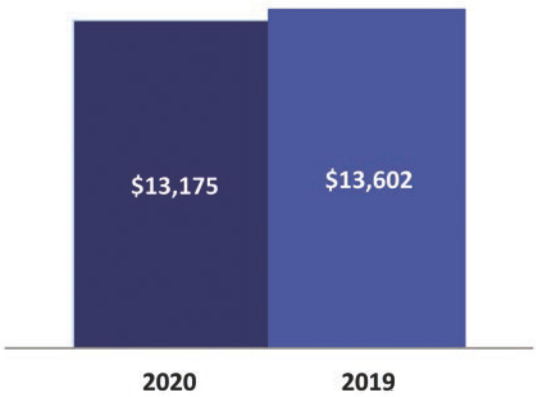
International Underwriting Income (Loss)
(in millions)

2019 and 2018 Comparison

Underwriting income in 2019 compared to underwriting loss in 2018 primarily reflected:

- lower catastrophe losses;
- lower general operating expense driven by the Japan Merger Impact in 2018 and ongoing expense reduction initiatives;
- lower accident year loss ratio, as adjusted primarily driven by reduced exposure to severe loss events;
- inclusion of the Validus acquisition; and
- higher favorable prior year loss reserve development.

International Net Premiums Written
(in millions)



2020 and 2019 Comparison

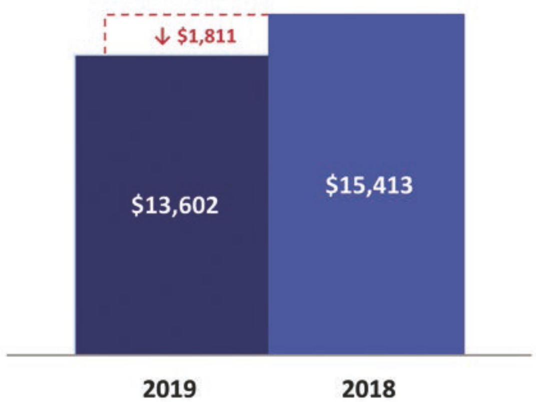
Net premiums written, excluding the impact of foreign exchange, decreased due to:

- the impact of COVID-19, most notably in Travel as well as certain other Personal and Commercial Lines;
- higher ceded premiums due to changes in 2020 reinsurance program; and
- lower premiums from portfolios in run-off.

These decreases were partially offset by:

- rate increases across most Commercial Lines, in particular Financial Lines and Global Specialty; and
- growth in Warranty.

International Net Premiums Written
(in millions)



2019 and 2018 Comparison

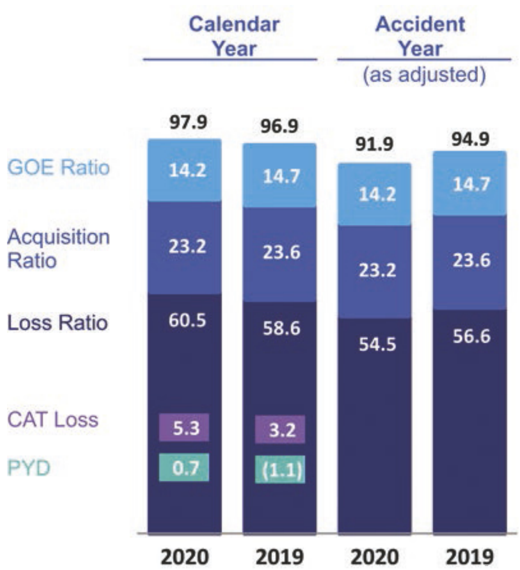
Net premiums written, excluding the impact of foreign exchange, decreased due to:

- lower Accident & Health business in Asia Pacific;
- lower production primarily due to underwriting actions taken to strengthen our portfolio and to maintain pricing discipline, partially offset by profitable business growth across lines and geographies;
- the Japan Merger Impact in 2018; and
- higher ceded premiums due to changes in the 2019 reinsurance program.

These decreases were partially offset by:

- inclusion of the Validus acquisition.

International Combined Ratios



2020 and 2019 Comparison

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

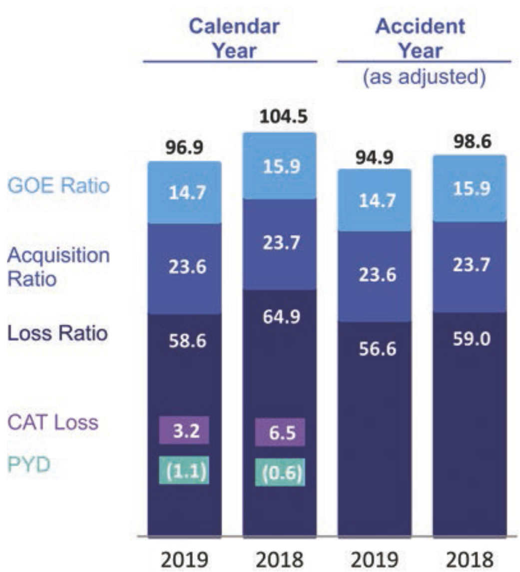
The increase in the loss ratio reflected:

- the impact of COVID-19 on catastrophe losses; and
- unfavorable prior year loss reserve development principally in Financial Lines compared to favorable prior year loss reserve development in Global Specialty and Personal Auto in the prior year.

These increases were partially offset by lower accident year loss ratio, as adjusted primarily driven by strong premium rate increases in Commercial Lines, benefits from underwriting actions and better risk selection.

The decrease in the expense ratio reflected lower general operating expenses due to ongoing expense discipline and a lower acquisition ratio primarily driven by change in business mix.

International Combined Ratios



2019 and 2018 Comparison

The decrease in the combined ratio reflected a decrease in both the loss ratio and the expense ratio.

This decrease in the loss ratio was primarily driven by:

- significantly lower catastrophe losses; and
- lower accident year loss ratio, as adjusted primarily driven by reduced exposure to severe loss events.

This decrease in the expense ratio reflected a lower general operating expense ratio driven by ongoing expense reduction initiatives.

Life and Retirement

Life and Retirement consists of four operating segments: Individual Retirement, Group Retirement, Life Insurance and Institutional Markets. We offer a broad portfolio of products in the U.S. through a multichannel distribution network and life and health products in the UK and Ireland.

PRODUCTS AND DISTRIBUTION

Individual Retirement

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

Index Annuities: Products include fixed index annuities that provide growth potential based in part on the performance of a market index as well as optional living guaranteed features that provide lifetime income protection. Fixed index annuities are distributed primarily through banks, broker-dealers, independent marketing organizations and independent insurance agents.

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

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

Group Retirement

Group Retirement: Products and services consist of group mutual funds, group annuities, individual annuity and investment products, financial planning and advisory services, and plan administrative and compliance services.

In March 2019, the products and services marketed by The Variable Annuity Life Insurance Company were rebranded under the AIG Retirement Services name to allow the business to fully leverage the strength and scale of the AIG brand. Legal entity names, however, remain unchanged: The Variable Annuity Life Insurance Company and its subsidiaries, VALIC Financial Advisors, Inc. and VALIC Retirement Services Company.

AIG Retirement Services career financial advisors and independent financial advisors provide retirement plan participants with enrollment support and comprehensive financial planning services.

Life Insurance

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

Institutional Markets

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

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

BUSINESS STRATEGY

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

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

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

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

Group Retirement continues to enhance its technology platform to improve the customer experience for plan sponsors and individual participants. AIG Retirement Services' (formerly VALIC) self-service tools paired with its career financial advisors provide a compelling service platform. Group Retirement's strategy also involves providing financial planning services for its clients and meeting their need for income in retirement. In this advisory role, Group Retirement's clients may invest in assets in which AIG or a third-party is custodian.

Life Insurance in the U.S. will continue to position itself for growth and changing market dynamics while continuing to execute strategies to enhance returns. Our focus is on materializing success from a multi-year effort of building state-of-the-art platforms and underwriting innovations, which are expected to bring process improvements and cost efficiencies.

In the UK, AIG Life Insurance will continue to focus on growing the business organically and through potential acquisition opportunities.

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

Enhance Operational Effectiveness by simplifying processes and operating environments to increase competitiveness, improve service and product capabilities and facilitate delivery of our target customer experience. We continue to invest in technology to improve operating efficiency and ease of doing business for our distribution partners and customers. We believe that simplifying our operating models will enhance productivity and support further profitable growth.

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

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

COMPETITION AND CHALLENGES

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

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

Our primary challenges include:

- a sustained low interest rate environment, which makes it difficult to profitably price new products and puts margin pressure on existing business due to lower reinvestment yields;
- increased competition in our primary markets, including aggressive pricing of annuities by private equity-backed annuity writers, increased competition and consolidation of employer groups in the group retirement planning market, and competitors with different profitability targets in the pension risk transfer space as well as other product lines;
- increasingly complex new and proposed regulatory requirements, which have affected industry growth and costs;
- upgrading our technology and underwriting processes while managing general operating expenses; and
- decreased premiums and deposits and adverse mortality experience due to COVID-19.

OUTLOOK–INDUSTRY AND ECONOMIC FACTORS

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

The impact of COVID-19 is evolving and will ultimately depend upon the scope, severity and duration of the crisis as well as the actions taken by governments, legislative bodies or regulators and other third parties in response, as well as the distribution and effectiveness of vaccinations, all of which continue to be subject to significant uncertainty at this time. The results for 2020 include COVID-19 related impacts on a number of areas including but not limited to DAC/SIA amortization, mortality, reserves and investment returns. During 2020, we experienced significant decreases on our premiums and deposits primarily due to distribution channel disruptions related to COVID-19 and low interest rates. The regulatory approach to the crisis and impact on the insurance industry is continuing to evolve and its ultimate impact remains uncertain.

On October 26, 2020, AIG announced its intention to separate its Life and Retirement business from AIG. No decisions have yet been made regarding the structure of the initial disposition of up to a 19.9% interest in the Life and Retirement business. In addition, any separation transaction will be subject to the satisfaction of various conditions and approvals, including approval by the AIG Board of Directors, receipt of insurance and other required regulatory approvals, and satisfaction of any applicable requirements of the SEC. No assurance can be given regarding the form that a separation transaction may take or the specific terms or timing thereof, or that a separation will in fact occur.

For additional information please see Part I, Item 1A. Risk Factors – Business and Operations – No assurances can be given that the separation of our Life and Retirement business will occur or as to the specific terms or timing thereof. In addition, the separation could cause the emergence or exacerbate the effects of other risks to which AIG is exposed.

Individual Retirement

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

Changes in the capital markets (interest rate environment, equity markets, volatility) can have a significant impact on sales, surrender rates, investment returns, guaranteed income features, and net investment spreads in the annuity industry.

Group Retirement

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

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

Life Insurance

Consumers have a significant need for life insurance, whether it is used for income replacement for their surviving family, estate planning or wealth transfer. Additionally, consumers use life insurance to provide living benefits in case of chronic, critical or terminal illnesses, and to supplement retirement income.

In response to consumer needs and a sustained low interest rate environment, our Life Insurance product portfolio will continue to promote products with lower long-duration interest rate risk and mitigate exposure to products that have long-duration interest rate risk through sales levels and hedging strategies.

As life insurance ownership remains at historical lows in the U.S. and the UK, efforts to expand the reach and increase the affordability of life insurance are critical. The industry is investing in consumer-centric efforts to reduce traditional barriers to securing life protection by simplifying the sales and service experience. Digitally enabled processes and tools provide a fast, friendly and simple path to life insurance protection.

Institutional Markets

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

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

For additional discussion of the impact of market interest rate movement on our Life and Retirement business see Executive Summary – AIG's Outlook – Industry and Economic Factors – Impact of Changes in the Interest Rate Environment.

LIFE AND RETIREMENT RESULTS

Years Ended December 31,				Percentage Change	
(in millions)	**2020**	2019	2018	2020 vs. 2019	2019 vs. 2018
Revenues:					
Premiums	**$ 4,624**	$ 3,789	$ 2,788	22 %	36 %
Policy fees	**2,874**	2,923	2,701	(2)	8
Net investment income	**8,881**	8,733	8,238	2	6
Advisory fee and other income	**896**	911	953	(2)	(4)
Total adjusted revenues	**17,275**	16,356	14,680	6	11
Benefits, losses and expenses:					
Policyholder benefits and losses incurred	**6,884**	5,824	4,471	18	30
Interest credited to policyholder account balances	**3,551**	3,603	3,522	(1)	2
Amortization of deferred policy acquisition costs	**632**	672	700	(6)	(4)
General operating and other expenses*	**2,522**	2,542	2,478	(1)	3
Interest expense	**155**	162	166	(4)	(2)
Total benefits, losses and expenses	**13,744**	12,803	11,337	7	13
Adjusted pre-tax income	**$ 3,531**	$ 3,553	$ 3,343	(1)%	6 %

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

For information on the impact of actuarial assumptions on our Life and Retirement results, see Insurance Reserves – Life and Annuity Reserves and DAC - Update of Actuarial Assumptions by Business Segment.

Our insurance companies generate significant revenues from investment activities. As a result, the operating segments in Life and Retirement are subject to variances in net investment income on the asset portfolios that support insurance liabilities and surplus.

For additional information on our investment strategy, asset-liability management process and invested asset composition see Investments.

INDIVIDUAL RETIREMENT RESULTS

Years Ended December 31,				Percentage Change	
(in millions)	**2020**	2019	2018	2020 vs. 2019	2019 vs. 2018
Revenues:					
Premiums	**$ 151**	$ 104	$ 52	45 %	100 %
Policy fees	**861**	811	804	6	1
Net investment income	**4,131**	4,122	3,821	-	8
Advisory fee and other income	**571**	606	655	(6)	(7)
Benefits and expenses:					
Policyholder benefits and losses incurred	**397**	409	261	(3)	57
Interest credited to policyholder account balances	**1,751**	1,726	1,677	1	3
Amortization of deferred policy acquisition costs	**590**	449	630	31	(29)
Non deferrable insurance commissions	**334**	318	324	5	(2)
Advisory fee expenses	**205**	219	238	(6)	(8)
General operating expenses	**427**	468	442	(9)	6
Interest expense	**72**	77	82	(6)	(6)
Adjusted pre-tax income (loss)	**$ 1,938**	$ 1,977	$ 1,678	(2)%	18 %
Fixed annuities base net investment spread:					
Base yield*	**4.16 %**	4.54 %	4.60 %	(38) bps	(6) bps
Cost of funds	**2.63**	2.68	2.65	(5)	3
Fixed annuities base net investment spread	**1.53 %**	1.86 %	1.95 %	(33) bps	(9) bps

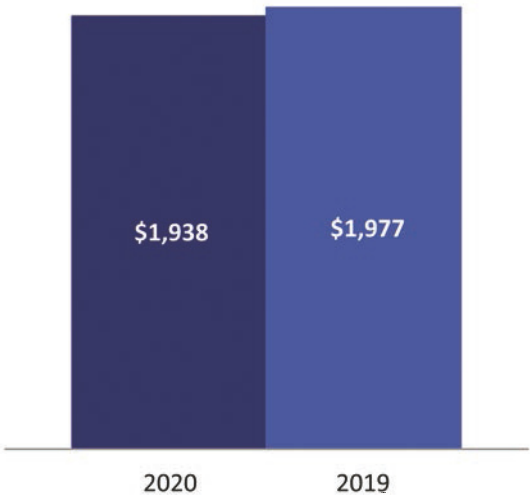
* Includes returns from base portfolio including accretion and income (loss) from certain other invested assets.

Business and Financial Highlights

The market environment continues to reflect uncertainties in the annuity business resulting from a sustained low interest rate environment as well as the COVID-19 crisis. Interest rates declined in 2020 and remain at or near historical lows. Premiums and deposits decreased in 2020 compared to the prior year. Net flows decreased in 2020 compared to the prior year primarily due to lower sales in fixed and index annuities and lower Retail Mutual Fund sales, partially offset by lower surrenders and withdrawals. Excluding prior year deposits from FHLB funding agreements, premiums and deposits increased in 2019 compared to 2018. Net flows in 2019 remained negative but improved compared to 2018 primarily due to higher deposits driven by increased fixed and index annuities sales, offset by lower sales for the variable annuities and Retail Mutual Funds.

Adjusted pre-tax income decreased in 2020 compared to the prior year, primarily due to lower base net investment yield driven by lower interest rates resulting in spread compression, lower gains on securities for which the fair value option was elected, a higher net unfavorable adjustment from the review and update of actuarial assumptions, in addition to DAC and reserve model adjustments compared to the prior year. Partially offsetting these decreases were higher private equity income, higher call and tender income and lower general operating expenses. Adjusted pre-tax income increased in 2019 compared to 2018, primarily driven by decreases in Variable Annuity DAC amortization and reserves due to stronger equity market performances, growth in income from base portfolio due to higher invested assets, higher gains on securities for which the fair value option was elected, and prior year DAC and reserve model adjustments. Partially offsetting these increases were lower Variable Annuity policy and advisory fee income, net of expenses due to Variable Annuity and Retail Mutual Fund negative net flows.

Individual Retirement Adjusted Pre-Tax Income
(in millions)



2020 and 2019 Comparison

Adjusted pre-tax income decreased primarily due to:

- higher net unfavorable adjustment from the review and update of actuarial assumptions compared to the prior year, in addition to DAC and reserve model adjustments.

Partially offsetting these decreases were:

- higher net investment returns due to higher private equity income, and higher call and tender income, offset by lower base investment yield due to lower interest rates resulting in spread compression, and lower gains on securities for which the fair value option was elected; and
- lower general operating expenses primarily due to lower travel and other employee related expenses.

Individual Retirement Adjusted Pre-Tax Income
(in millions)

2019 and 2018 Comparison

Adjusted pre-tax income increased primarily due to:

- higher net investment returns including growth in income from base net investment spread due to higher invested assets, driven by increased sales, higher gains on securities for which the fair value option was elected, and income from an initial public offering of a holding in the private equity portfolio, partially offset by lower affordable housing returns, and prior year non-recurring payments on structured securities; and
- stronger equity market performance, which contributed to decreases in Variable Annuity DAC amortization and reserves, prior year DAC and reserve model adjustment, and lower Fixed Annuity DAC amortization due to lower surrenders, partially offset by higher Index Annuity DAC amortization and reserves driven by growth in sales and DAC model adjustments.

Partially offsetting these increases were:

- lower policy and advisory fee income net of expenses due to negative Variable Annuity and Retail Mutual Fund net flows and a decrease in Variable Annuity and Retail Mutual Fund average AUM related to the equity market decline at the end of 2018.

INDIVIDUAL RETIREMENT GAAP PREMIUMS, PREMIUMS AND DEPOSITS, SURRENDERS AND NET FLOWS

For Individual Retirement, premiums primarily represent amounts received on life-contingent payout annuities. Premiums increased in 2020 compared to 2019 and 2018. Premiums are generally not a significant driver of Individual Retirement results.

Premiums and deposits is a non-GAAP financial measure that includes, in addition to direct and assumed premiums, deposits received on investment-type annuity contracts, FHLB funding agreements and mutual funds under administration.

Net flows for annuity products in Individual Retirement represent premiums and deposits less death, surrender and other withdrawal benefits. Net flows for mutual funds represent deposits less withdrawals. Deposits from FHLB funding agreement are excluded from net flows of Individual Retirement in 2018, as net flows from this funding agreement is not considered part of the metric to measure Individual Retirement's core recurring performance.

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

Years Ended December 31, *(in millions)*	2020	2019	2018
Premiums	$ 151	$ 104	$ 52
Deposits	10,228	14,804	15,578
Other	(9)	(9)	(9)
Premiums and deposits	$ 10,370	$ 14,899	$ 15,621

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

Years Ended December 31,	2020	2019	2018
Surrenders as a percentage of average reserves			
Fixed annuities	5.9 %	7.2 %	8.1 %
Variable and index annuities	5.6	6.4	6.6

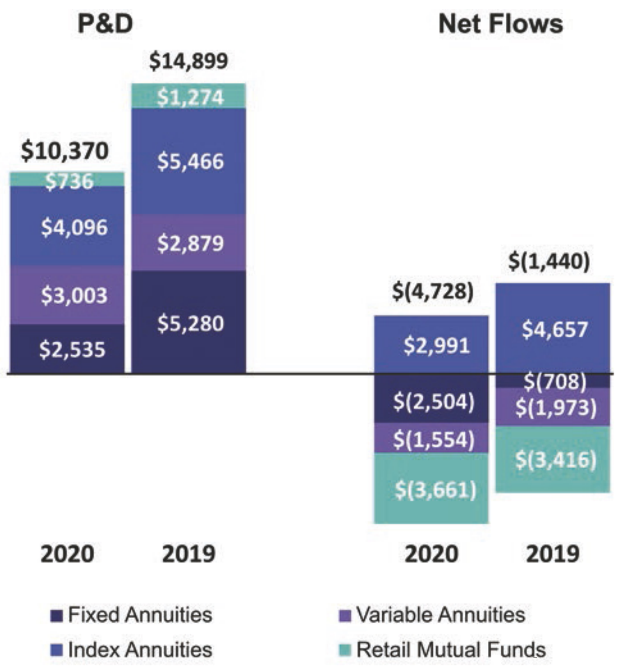
The following table presents reserves for fixed annuities and variable and index annuities by surrender charge category:

At December 31,	2020		2019	
(in millions)	Fixed Annuities	Variable and Index Annuities	Fixed Annuities	Variable and Index Annuities
No surrender charge	$ 27,394	$ 30,763	$ 27,714	$ 24,477
Greater than 0% - 2%	2,323	11,573	2,052	9,514
Greater than 2% - 4%	2,787	15,264	3,198	14,854
Greater than 4%	16,335	32,056	16,396	32,096
Non-surrenderable	1,704	567	2,157	-
Total reserves	$ 50,543	$ 90,223	$ 51,517	$ 80,941

Individual Retirement annuities are typically subject to a four- to seven-year surrender charge period, depending on the product. For fixed annuities, the proportion of reserves subject to surrender charge at December 31, 2020 was flat compared to December 31, 2019. The increase in reserves with no surrender charge for variable and index annuities at December 31, 2020 compared to December 31, 2019 was principally due to normal aging of business.

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

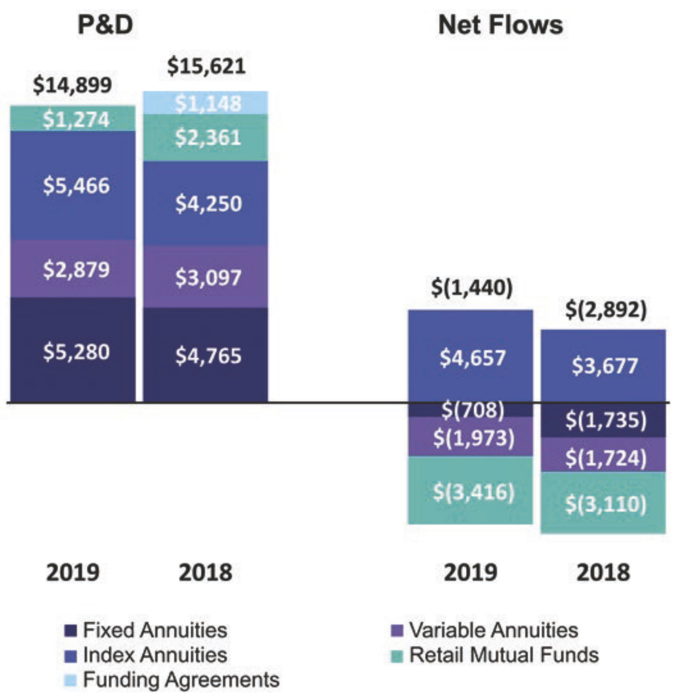
Individual Retirement Premiums and Deposits (P&D) and Net Flows
(in millions)



2020 and 2019 Comparison

- **Fixed Annuities** premiums and deposits decreased primarily due to distribution channel disruptions related to COVID-19 and sustained low interest rate environment. Net flows were negative primarily due to lower premiums and deposits partially offset by lower surrenders.
- **Variable and Index Annuities** premiums and deposits decreased primarily due to a decrease in index annuity sales due to distribution channel disruptions related to COVID-19 partially offset by higher variable annuity sales. Variable annuity net flows remained negative but improved primarily due to an increase in sales and lower surrenders. Index annuity net flows decreased primarily due to lower sales and higher surrenders.
- **Retail Mutual Funds** premiums and deposits decreased due to continued negative industry trends in U.S. actively managed equity funds and disruptions caused by COVID-19, and reduction of flows within our largest fund. Net flows remained negative and deteriorated due to lower deposits offset by lower surrenders.

Individual Retirement Premiums and Deposits and Net Flows
(in millions)



2019 and 2018 Comparison

- **Fixed Annuities** premiums and deposits increased primarily due to higher broker dealer and Independent Market Organization distribution sales driven by increased sales of products with living benefit features. Net flows improved primarily due to higher premiums and deposits, and lower surrenders.
- **Variable and Index Annuities** premiums and deposits increased primarily due to higher index annuity sales driven by growth in all key distribution channels partially offset by a decline in variable annuity premiums and deposits driven by lower broker dealer and bank distribution sales. Index annuity net flows increased primarily due to higher sales partially offset by higher surrenders. Variable annuity net flows remained negative and deteriorated primarily due to a decline in sales.
- **Funding Agreements** premiums and deposits in 2018 reflected deposits from the FHLB funding agreements, which were excluded from reported net flows.
- **Retail Mutual Funds** net flows remained negative and deteriorated reflecting lower deposits, offset by lower surrenders and withdrawals due to industry trends in the U.S. and the impact of underperformance within our largest fund

GROUP RETIREMENT RESULTS

Years Ended December 31, (in millions)	2020	2019	2018	Percentage Change 2020 vs. 2019	Percentage Change 2019 vs. 2018
Revenues:					
Premiums	$ 19	$ 16	$ 34	19 %	(53)%
Policy fees	443	429	446	3	(4)
Net investment income	2,236	2,240	2,175	-	3
Advisory fee and other income	272	262	239	4	10
Benefits and expenses:					
Policyholder benefits and losses incurred	72	65	85	11	(24)
Interest credited to policyholder account balances	1,123	1,147	1,122	(2)	2
Amortization of deferred policy acquisition costs	7	81	95	(91)	(15)
Non deferrable insurance commissions	117	114	117	3	(3)
Advisory fee expenses	111	103	91	8	13
General operating expenses	485	456	406	6	12
Interest expense	42	44	42	(5)	5
Adjusted pre-tax income (loss)	$ 1,013	$ 937	$ 936	8 %	- %
Base net investment spread:					
Base yield*	4.26 %	4.53 %	4.50 %	(27) bps	3 bps
Cost of funds	2.65	2.72	2.73	(7)	(1)
Base net investment spread	1.61 %	1.81 %	1.77 %	(20) bps	4 bps

* Includes returns from base portfolio including accretion and income (loss) from certain other invested assets.

Business and Financial Highlights

Group Retirement is focused on implementing initiatives to grow its business. However, external factors, including increased competition and the consolidation of healthcare providers and other employers in target markets, continue to impact Group Retirement's customer retention. Premiums and deposits decreased in 2020 compared to the prior year. Net flows remained negative but improved in 2020 compared to the prior year primarily due to lower surrenders partially offset by lower deposits. Excluding deposits from FHLB funding agreement, premiums and deposits decreased in 2019 compared to 2018. Net flows remained negative but improved in 2019 compared to 2018 primarily due to lower surrenders partially offset by decreased deposits.

Adjusted pre-tax income increased in 2020 compared to the prior year primarily due to a net favorable adjustment from the review and update of actuarial assumptions compared to a net unfavorable adjustment in the prior year, higher private equity income, higher yield enhancement income and higher policy and advisory fee income, net of expenses, due to an increase in separate account and mutual fund average assets. Partially offsetting these increases were lower gains on base net investment spread primarily due to lower reinvestment yields, lower gains on securities for which the fair value option was elected, higher general operating expenses and higher variable annuity DAC amortization and reserves due to equity market performance. Adjusted pre-tax income remained relatively flat in 2019 compared to 2018.

Group Retirement Adjusted Pre-Tax Income
(in millions)

2020 and 2019 Comparison

Adjusted pre-tax income increased primarily due to:

- a net favorable adjustment from the review and update of actuarial assumptions compared to a net unfavorable adjustment in the prior year;
- higher policy and advisory fee income, net of expenses, due to an increase in separate account and mutual fund average assets; and
- higher net investment income due to higher private equity income, and higher yield enhancement income partially offset by lower gains on securities for which the fair value option was elected.

Partially offsetting these increases were:

- a decrease in base net investment spread primarily due to lower reinvestment yields and lower accretion partially offset by higher average invested assets and lower interest credited;
- higher general operating expenses primarily due to increased regulatory expenses partially offset by savings from COVID-19 travel restrictions; and
- increases in variable annuity DAC amortization and reserves due to lower equity market performance compared to prior year.

Group Retirement Adjusted Pre-Tax Income
(in millions)

2019 and 2018 Comparison

Adjusted pre-tax income increased primarily due to:

- an increase in base net investment spread primarily due to higher average invested assets;
- lower variable annuity DAC amortization and reserves due to stronger equity market performance; and
- higher net investment returns in our alternative investment portfolio, including income from an initial public offering of a holding in the private equity portfolio and higher gains on securities for which the fair value option was elected, partially offset by the prior year receipt of non-recurring payments on structured securities and lower returns on affordable housing income.

Partially offsetting these increases were:

- a net unfavorable adjustment from the review and update of actuarial assumptions compared to a net favorable adjustment in the prior year; and
- higher general operating expenses primarily due to continued investment in people and technology.

GROUP RETIREMENT GAAP PREMIUMS, PREMIUMS AND DEPOSITS, SURRENDERS AND NET FLOWS

For Group Retirement, premiums primarily represent amounts received on life-contingent payout annuities. Premiums in 2020, which primarily represents immediate annuities, increased compared to 2019 and decreased compared to 2018. Premiums are not a significant driver of Group Retirement results.

Premiums and deposits is a non-GAAP financial measure that includes, in addition to direct and assumed premiums, deposits received on investment-type annuity contracts, FHLB funding agreements and mutual funds under administration.

Net flows for annuity products included in Group Retirement represent premiums and deposits less death, surrender and other withdrawal benefits. Net flows for mutual funds represent deposits less withdrawals. Deposits from FHLB funding agreement was excluded from net flows of Group Retirement in 2018, as net flows from this funding agreement is not considered part of the metric to measure Group Retirement's core recurring performance.

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

Years Ended December 31, *(in millions)*	**2020**	2019	2018
Premiums	**$ 19**	$ 16	$ 34
Deposits	**7,477**	8,330	8,605
Premiums and deposits	**$ 7,496**	$ 8,346	$ 8,639

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

Years Ended December 31,	**2020**	2019	2018
Surrenders as a percentage of average reserves and mutual funds	**8.6 %**	10.7 %	11.3 %

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

At December 31, *(in millions)*	**2020**[(a)]	2019[(a)]
No surrender charge[(b)]	**$ 77,507**	$ 71,912
Greater than 0% - 2%	**565**	1,140
Greater than 2% - 4%	**829**	672
Greater than 4%	**6,119**	6,038
Non-surrenderable	**616**	614
Total reserves	**$ 85,636**	$ 80,376

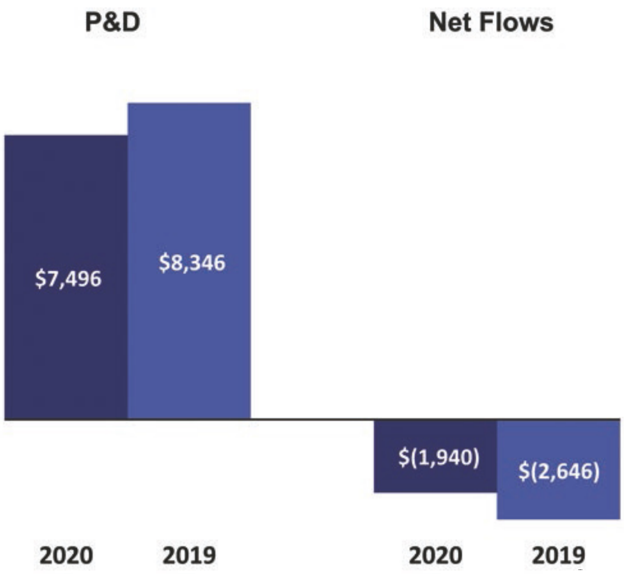
(a) Excludes mutual fund assets under administration of $25.0 billion and $21.7 billion at December 31, 2020 and 2019, respectively.

(b) Group Retirement amounts in this category include general account reserves of approximately $6.3 billion and $6.2 billion at December 31, 2020 and December 31, 2019 respectively, which are subject to 20 percent annual withdrawal limitations at the participant level and general account reserves of $5.8 billion and $5.4 billion at December 31, 2020 and December 31, 2019, respectively, which are subject to 20 percent annual withdrawal limitations at the plan level.

Group Retirement annuity deposits are typically subject to a five- to seven-year surrender charge period, depending on the product. At December 31, 2020, Group Retirement annuity reserves with no surrender charge increased compared to December 31, 2019 primarily due to growth in assets under management while reserves with a 0% - 2% surrender charge decreased primarily due to normal aging of business. The surrender rate in 2020 decreased compared to the prior year due to lower individual surrenders as well as fewer large plan surrenders.

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

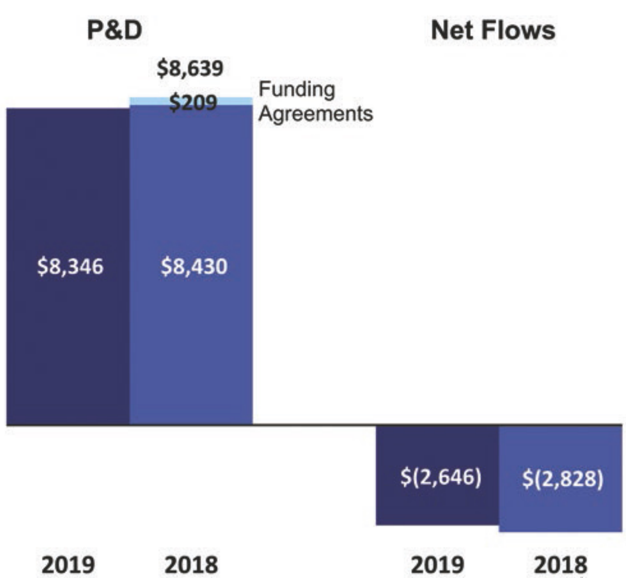
Group Retirement Premiums and Deposits and Net Flows
(in millions)



2020 and 2019 Comparison

Net flows remained negative but improved primarily due to lower individual surrenders partially offset by decreased deposits. There were approximately $1.0 billion of large plan related surrenders in 2020 compared to approximately $1.3 billion of large plan surrenders for 2019. External factors including consolidation of healthcare providers and other employers in target markets continue to impact Group Retirement customer retention, although this was partially mitigated by short term impacts from market conditions related to COVID-19.

Group Retirement Premiums and Deposits and Net Flows
(in millions)



2019 and 2018 Comparison

Net flows remained negative but improved primarily due to lower surrenders partially offset by decreased deposits. There were approximately $1.3 billion of large plan surrenders for 2019 compared to approximately $1.6 billion of large plan surrenders for 2018. External factors including consolidation of healthcare providers and other employers in target markets continue to impact Group Retirement customer retention. Premiums and deposits in 2018 reflected deposits from FHLB funding agreement, which were excluded from reported net flows.

LIFE INSURANCE RESULTS

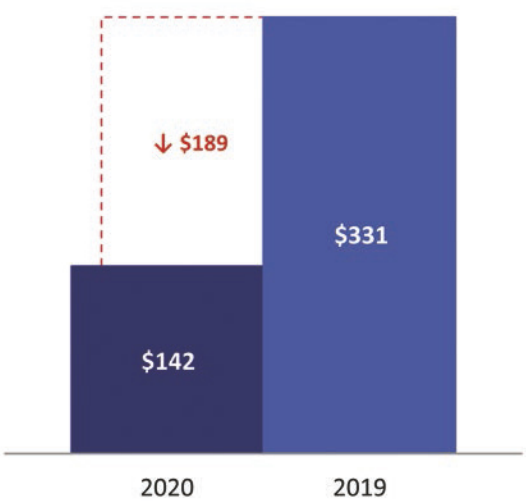
Years Ended December 31,				Percentage Change	
(in millions)	**2020**	2019	2018	2020 vs. 2019	2019 vs. 2018
Revenues:					
Premiums	**$ 1,915**	$ 1,805	$ 1,747	6 %	3 %
Policy fees	**1,384**	1,495	1,267	(7)	18
Net investment income	**1,526**	1,483	1,450	3	2
Other income	**52**	42	58	24	(28)
Benefits and expenses:					
Policyholder benefits and losses incurred	**3,569**	3,189	2,905	12	10
Interest credited to policyholder account balances	**373**	374	381	-	(2)
Amortization of deferred policy acquisition costs	**30**	137	(30)	(78)	NM
Non deferrable insurance commissions	**108**	104	100	4	4
General operating expenses	**625**	660	665	(5)	(1)
Interest expense	**30**	30	29	-	3
Adjusted pre-tax income	**$ 142**	$ 331	$ 472	(57)%	(30)%

Business and Financial Highlights

Life Insurance is focused on selling profitable new products through strategic channels to enhance future returns. Adjusted pre-tax income decreased in 2020 compared to the prior year primarily due to higher mortality driven primarily by COVID-19 and a net unfavorable adjustment from the review and update of actuarial assumptions partially offset by higher net investment income. Adjusted pre-tax income decreased in 2019 compared to the prior year primarily due to prior year favorable actuarial adjustments to universal life and prior year favorable ceded premium reinsurance adjustments, unfavorable reinsurance valuation allowance adjustment in 2019 and less favorable mortality. Partially offsetting these decreases were higher gains on calls and higher net investment income including gains on alternative investments due to higher private equity income.

Life Insurance Adjusted Pre-Tax Income

(in millions)



2020 and 2019 Comparison

Adjusted pre-tax income decreased primarily due to:

- higher mortality driven by COVID-19; and
- a higher net unfavorable adjustment from the review and update of actuarial assumptions.

Partially offsetting these decreases were:

- higher net investment income, primarily driven by higher gains on calls and higher equity partnership income.

Life Insurance Adjusted Pre-Tax Income
(in millions)

2019 and 2018 Comparison

Adjusted pre-tax income decreased primarily due to:

- prior year favorable U.S. reserve and reinsurance adjustments and an unfavorable reinsurance valuation allowance adjustment in 2019; and
- less favorable mortality experience in the U.S.

Partially offsetting these decreases were:

- higher investment income primarily due to higher base portfolio income driven by growth in invested assets, higher returns in our alternative investment portfolio, including income from an initial public offering of a holding in the private equity portfolio, and higher gains on calls.

LIFE INSURANCE GAAP PREMIUMS AND PREMIUMS AND DEPOSITS

Premiums for Life Insurance represent amounts received on traditional life insurance policies, primarily term life and international life and health. Premiums, excluding the effect of foreign exchange, increased in 2020 compared to 2019 and 2018. Premiums for 2018 included favorable ceded premium reinsurance refinements in domestic life business. Premiums and deposits for Life Insurance is a non-GAAP financial measure that includes direct and assumed premiums as well as deposits received on universal life insurance.

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

Years Ended December 31, *(in millions)*	**2020**	2019	2018
Premiums	**$ 1,915**	$ 1,805	$ 1,747
Deposits	**1,648**	1,667	1,657
Other	**850**	810	734
Premiums and deposits	**$ 4,413**	$ 4,282	$ 4,138

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

Life Insurance Premiums and Deposits
(in millions)

Premiums and deposits, excluding the effect of foreign exchange, increased in 2020 compared to 2019 primarily due to growth in international life and group premiums.

Premiums and deposits, excluding the effect of foreign exchange, increased in 2019 compared to 2018 primarily due to growth in domestic term life and international life, including the acquisition of Ellipse in the U.K.

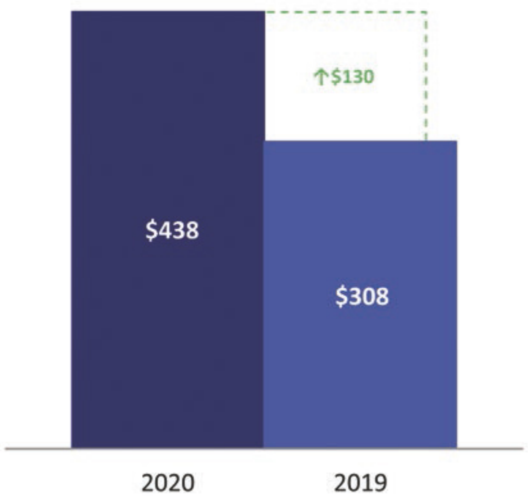
INSTITUTIONAL MARKETS RESULTS

Years Ended December 31,				Percentage Change	
(in millions)	**2020**	2019	2018	2020 vs. 2019	2019 vs. 2018
Revenues:					
Premiums	**$ 2,539**	$ 1,864	$ 955	36 %	95 %
Policy fees	**186**	188	184	(1)	2
Net investment income	**988**	888	792	11	12
Other income	**1**	1	1	-	-
Benefits and expenses:					
Policyholder benefits and losses incurred	**2,846**	2,161	1,220	32	77
Interest credited to policyholder account balances	**304**	356	342	(15)	4
Amortization of deferred policy acquisition costs	**5**	5	5	-	-
Non deferrable insurance commissions	**31**	31	31	-	-
General operating expenses	**79**	69	64	14	8
Interest expense	**11**	11	13	-	(15)
Adjusted pre-tax income (loss)	**$ 438**	$ 308	$ 257	42 %	20 %

Business and Financial Highlights

Institutional Markets continued to opportunistically grow its portfolio, which drove the increase in net investment income. Product distribution continues to be strong and the business is focused on maintaining pricing discipline.

Institutional Markets Adjusted Pre-Tax Income
(in millions)



2020 and 2019 Comparison

Increases in premiums and policyholder benefits were primarily due to higher pension risk transfer business written in 2020 compared to 2019.

Adjusted pre-tax income increased primarily due to:

- growth in the portfolio from new business, higher alternative investment returns due to higher equity partnership returns and yield enhancement income, partially offset by the impact of the new business on policyholder benefits and losses incurred;
- decrease in interest crediting results from impact of lower interest rates on floating-rate GICs and related hedging; and
- favorable mortality experience.

Institutional Markets Adjusted Pre-Tax Income
(in millions)

2019 and 2018 Comparison

Increase in premiums and policyholder benefits were primarily due to pension risk transfer business written during 2018 and 2019. Growth in reserves and AUM drove the increase in net investment income with similar impact to policyholder benefits and interest credited.

Adjusted pre-tax income increased primarily due to:

- higher net investment income due to higher invested assets resulting from growth in pension risk transfer and GICs.

INSTITUTIONAL MARKETS GAAP PREMIUMS AND PREMIUMS AND DEPOSITS

Premiums for Institutional Markets primarily represent amounts received on pension risk transfer or structured settlement annuities with life contingencies. Premiums increased in 2020 compared to the prior year primarily driven by the pension risk transfer business (direct and assumed reinsurance) written in 2020. Premiums increased in 2019 compared to the prior year primarily driven by the pension risk transfer business written in 2019.

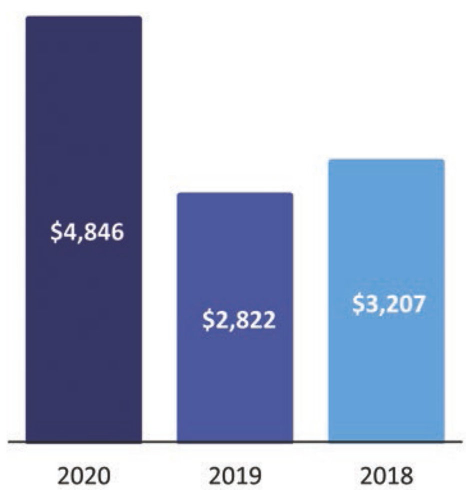
Premiums and deposits for Institutional Markets is a non-GAAP financial measure that includes direct premiums as well as deposits received on investment-type annuity contracts, including GICs. Deposits also include FHLB funding agreements.

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

Years Ended December 31, *(in millions)*	**2020**	2019	2018
Premiums	**$ 2,539**	$ 1,864	$ 955
Deposits	**2,281**	931	2,190
Other	**26**	27	62
Premiums and deposits	**$ 4,846**	$ 2,822	$ 3,207

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

Institutional Markets Premiums and Deposits
(in millions)



Premiums and deposits increased in 2020 due to higher pension risk transfer (direct and assumed reinsurance) sales and higher deposits on GICs.

Premiums and deposits decreased in 2019 compared to the prior year due to lower deposits offset by higher pension risk transfer sales. Deposits in 2018 include $1.4 billion of FHLB agreements. The shift in premium and deposit mix is consistent with Institutional Markets' strategy to opportunistically grow and diversify its portfolio.

Other Operations

Other Operations primarily consists of income from assets held by AIG Parent and other corporate subsidiaries, deferred tax assets related to tax attributes, corporate expenses and intercompany eliminations, our institutional asset management business and results of our consolidated investment entities, General Insurance portfolios in run-off previously reported within Legacy as well as the historical results of our legacy insurance lines ceded to Fortitude Re.

OTHER OPERATIONS RESULTS

Years Ended December 31,				Percentage Change	
(in millions)	**2020**	2019	2018	2020 vs. 2019	2019 vs. 2018
Revenues:					
Premiums	**$ 233**	$ 334	$ 330	(30)%	1 %
Policy fees	**43**	92	89	(53)	3
Net investment income:					
Interest and dividends	**905**	2,015	1,984	(55)	2
Alternative investments	**82**	252	98	(67)	157
Other investment income	**147**	407	376	(64)	8
Investment expenses	**(47)**	(76)	(52)	38	(46)
Total net investment income	**1,087**	2,598	2,406	(58)	8
Other income	**22**	36	41	(39)	(12)
Total adjusted revenues	**1,385**	3,060	2,866	(55)	7
Benefits, losses and expenses:					
Policyholder benefits and losses incurred	**816**	1,650	1,802	(51)	(8)
Interest credited to policyholder account balances	**89**	208	228	(57)	(9)
Acquisition expenses:					
Amortization of deferred policy acquisition costs	**50**	64	94	(22)	(32)
Other acquisition expenses	**1**	9	6	(89)	50
Total acquisition expenses	**51**	73	100	(30)	(27)
General operating expenses					
Corporate and Other	**1,004**	1,099	1,034	(9)	6
Asset Management	**42**	42	85	-	(51)
Amortization of intangible assets	**40**	40	15	-	167
Total General operating expenses	**1,086**	1,181	1,134	(8)	4
Interest expense:					
Interest - Corporate and Other	**1,148**	1,089	1,065	5	2
Interest - Asset Management*	**158**	171	26	(8)	NM
Total interest expense	**1,306**	1,260	1,091	4	15
Total benefits, losses and expenses	**3,348**	4,372	4,355	(23)	-
Adjusted pre-tax income (loss) before consolidation and eliminations	**(1,963)**	(1,312)	(1,489)	(50)	12
Consolidation and eliminations	**(466)**	(304)	39	(53)	NM
Adjusted pre-tax loss	**$ (2,429)**	$ (1,616)	$ (1,450)	(50)%	(11)%
Adjusted pre-tax income (loss) by activities:					
Corporate and Other	**$ (2,041)**	$ (1,378)	$ (1,504)	(48)%	8 %
Asset Management	**78**	66	15	18	340
Consolidation and eliminations	**(466)**	(304)	39	(53)	NM
Adjusted pre-tax loss	**$ (2,429)**	$ (1,616)	$ (1,450)	(50)%	(11)%

* Interest – Asset Management primarily represents interest expense on consolidated investment entities of $148 million, $158 million and $11 million in 2020, 2019 and 2018, respectively.

2020 AND 2019 COMPARISON

Adjusted pre-tax loss increased primarily due to:

- lower net investment income due to the deconsolidation of Fortitude Re on June 2, 2020; and
- higher interest expenses driven by debt issuances in the second quarter of 2020.

2019 AND 2018 COMPARISON

Adjusted pre-tax loss increased primarily due to:

- lower net investment income associated with available for sale securities, higher corporate general operating expenses due to higher compensation and technology costs; and
- higher interest expenses driven by corporate debt issuances in the first quarter of 2019 and 2018, and debt associated with consolidated investment entities.

The increase in adjusted pre-tax loss was partially offset by:

- higher net investment income associated with consolidated investment entities.
- higher earnings on portfolios in run-off due to an increase in net investment income as a result of gains on fair value option securities and a decrease in policyholder benefits and losses incurred due to non-recurring loss recognition incurred on accident and health business (other than long-term care) in 2018.

Investments

OVERVIEW

Our investment strategies are tailored to the specific business needs of each operating unit by targeting an asset allocation mix that supports estimated cash flows of our outstanding liabilities and provides diversification from an asset class, sector, issuer, and geographic perspective. The primary objectives are generation of investment income, preservation of capital, liquidity management and growth of surplus. The majority of assets backing our insurance liabilities consist of fixed maturity securities.

The impact of COVID-19 is evolving rapidly and will depend upon the scope, severity and duration of the crisis as well as the actions taken by governments, legislative bodies or regulators and other third parties in response, all of which are continuing to evolve and are subject to continuing uncertainty. Weak economic conditions resulting from COVID-19 have been met with intervention taken by governments and monetary authorities aimed at stimulating growth, resulting in a sharp recovery on our overall investment portfolio to pre-COVID-19 conditions. In certain segments of our diversified investment portfolio, there have been exposures to certain segments of the economy significantly affected by the crisis, which has, in certain periods, resulted in the recognition of credit losses and increases in our allowance for credit losses. Further recognition of credit losses and increases in our allowances for credit losses could result if businesses remain closed (or are closed again due to resurgences in infections) and the impact of the crisis on the global economy worsens.

Investment Highlights in 2020

- A significant drop in interest rates was partially offset by a widening of credit spreads that resulted in a net unrealized gain movement in our investment portfolio. Net unrealized gains in our available for sale portfolio increased to approximately $27.4 billion as of December 31, 2020 from approximately $17.9 billion as of December 31, 2019.
- We continued to make investments in structured securities and other fixed maturity securities with favorable risk compared to return characteristics to improve yields and increase net investment income.
- We experienced lower income from fixed maturity securities for which the fair value option was elected due to a widening of credit spreads and lower fixed maturity security assets in 2020. This compares to the prior year where we experienced higher gains in our fixed maturities securities portfolio for which we elected the fair value option due to higher fixed maturity security assets and a drop in rates and narrowing credit spreads.
- Blended investment yields on new investments were lower than blended rates on investments that were sold, matured or called.
- Implemented CECL, the new credit loss accounting standard, in the first quarter of 2020.

Investment Strategies

Investment strategies are assessed at the segment level and involve considerations that include local and general market conditions, duration and cash flow management, risk appetite and volatility constraints, rating agency and regulatory capital considerations, and tax and legal investment limitations.

Some of our key investment strategies are as follows:

- Our fundamental strategy across the portfolios is to seek investments with similar characteristics to the associated insurance liabilities to the extent practicable. AIG embeds Environmental, Social and Governance (ESG) considerations in its fundamental investment analysis of the companies or projects we invest in to ensure that they have sustainable earnings over the full term of our investment. AIG considers internal and external factors and evaluates changes in consumer behavior, industry trends related to ESG factors as well as the ability of the management of companies to respond appropriately to these changes in order to maintain their competitive advantage.
- We seek to originate investments that offer enhanced yield through illiquidity premiums, such as private placements and commercial mortgage loans, which also add portfolio diversification. These assets typically afford credit protections through covenants, ability to customize structures that meet our insurance liability needs, and deeper due diligence given information access.
- Given our global presence, we have access to assets that provide diversification from local markets. To the extent we purchase these investments, we generally hedge any currency risk using derivatives, which could provide opportunities to earn higher risk adjusted returns compared to assets in the functional currency.

- AIG Parent, included in Other Operations, actively manages its assets and liabilities, counterparties and duration. AIG Parent's liquidity sources are held primarily in the form of cash, short-term investments and publicly traded, investment grade rated fixed maturity securities that can be readily monetized through sales or repurchase agreements. This strategy allows us to both diversify our sources of liquidity and reduce the cost of maintaining sufficient liquidity.
- Within the U.S., the Life and Retirement and General Insurance investments are generally split between reserve backing and surplus portfolios.
  - Insurance reserves are backed by mainly investment grade fixed maturity securities that meet our duration, risk-return, tax, liquidity, credit quality and diversification objectives. We assess asset classes based on their fundamental underlying risk factors, including credit (public and private), commercial real estate and residential real estate regardless of whether such investments are bonds, loans, or structured products.
  - Surplus investments seek to enhance portfolio returns and are generally comprised of a mix of fixed maturity investment grade and below investment grade securities and various alternative asset classes, including private equity, real estate equity, and hedge funds. Over the past few years, hedge fund investments have been reduced with more emphasis given to private equity, real estate and below investment grade credit.

Outside of the U.S., fixed maturity securities held by insurance companies consist primarily of investment-grade securities generally denominated in the currencies of the countries in which we operate.

Asset Liability Management

The investment strategy within the General Insurance companies focuses on growth of surplus, maintenance of sufficient liquidity for unanticipated insurance claims, and preservation of capital. General Insurance invests 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. Fixed maturity securities of the General Insurance companies' North America operations have an average duration of 3.3 years. Fixed maturity securities of the General Insurance companies' international operations have an average duration of 4.4 years.

While invested assets backing reserves of the General Insurance companies are primarily invested in conventional liquid fixed maturity securities, we have continued to allocate to asset classes that offer higher yields through structural and illiquidity premiums, particularly in our North America operations. In addition, we continue to invest in both fixed rate and floating rate asset-backed investments to manage our exposure to potential changes in interest rates and inflation. We seek to diversify the portfolio across asset classes, sectors, and issuers to mitigate idiosyncratic portfolio risks.

In addition, a portion of the surplus of General Insurance is invested in a diversified portfolio of alternative investments that seek to balance liquidity, volatility and growth of surplus. There is a higher allocation to equity-oriented investments in General Insurance surplus relative to other AIG portfolios given the underlying inflation risks inherent in that business. 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 investment strategy of the Life and Retirement companies is to provide net investment income to back liabilities that result in stable distributable earnings and enhance portfolio value, subject to asset liability management, capital, liquidity, and regulatory constraints.

The Life and Retirement companies use asset-liability management as a primary tool to monitor and manage risk in their businesses. The Life and Retirement companies maintain a diversified, high-to-medium quality portfolio of 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 that, to the extent practicable, match the duration characteristics of the liabilities. We seek to diversify the portfolio across asset classes, sectors, and issuers to mitigate idiosyncratic portfolio risks. The investment portfolio of each product line is tailored to the specific characteristics of its insurance liabilities, and as a result, duration varies between distinct portfolios. The interest rate environment has a direct impact on the asset liability management profile of the businesses, and an extended low interest rate environment may result in a lengthening of liability durations from initial estimates, primarily due to lower lapses, which may require us to further extend the duration of the investment portfolio. A further lengthening of the portfolio will be assessed in the context of available market opportunities as longer duration markets may not provide similar diversification benefits as shorter duration markets.

Fixed maturity securities of the Life and Retirement companies' domestic operations have an average duration of 8.8 years.

In addition, the Life and Retirement companies seek to enhance surplus portfolio returns through investments in a diversified portfolio of alternative investments. Although these alternative investments are subject to periodic earnings fluctuations, they have historically achieved returns in excess of the fixed maturity portfolio returns.

NAIC Designations of Fixed Maturity Securities

The Securities Valuation Office (SVO) of the 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. NAIC designations for non-agency RMBS and CMBS are calculated using third party modeling results provided through the NAIC. 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 AIG subsidiaries' fixed maturity security portfolio by NAIC Designation, and the distribution by composite AIG credit rating, which is generally based on ratings of the three major rating agencies.

For a full description of the composite AIG credit ratings see – Credit Ratings.

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

December 31, 2020
(in millions)

NAIC Designation	1	2	Total Investment Grade	3	4	5	6	Total Below Investment Grade	Total
Other fixed maturity securities	$ 103,101	$ 84,892	**$ 187,993**	$ 10,049	$ 6,975	$ 1,610	$ 112	**$ 18,746**	**$ 206,739**
Mortgage-backed, asset-backed and collateralized	63,310	4,154	**67,464**	310	120	47	2,096	**2,573**	**70,037**
Total*	$ 166,411	$ 89,046	**$ 255,457**	$ 10,359	$ 7,095	$ 1,657	$ 2,208	**$ 21,319**	**$ 276,776**

* Excludes $10.6 million of fixed maturity securities for which no NAIC Designation is available.

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

December 31, 2020
(in millions)

Composite AIG Credit Rating	AAA/AA/A	BBB	Total Investment Grade	BB	B	CCC and Lower	Total Below Investment Grade	Total
Other fixed maturity securities	$ 107,016	$ 80,877	**$ 187,893**	$ 9,670	$ 6,999	$ 2,177	**$ 18,846**	**$ 206,739**
Mortgage-backed, asset-backed and collateralized	53,818	4,480	**58,298**	682	361	10,696	**11,739**	**70,037**
Total*	$ 160,834	$ 85,357	**$ 246,191**	$ 10,352	$ 7,360	$ 12,873	**$ 30,585**	**$ 276,776**

* Excludes $10.6 million of fixed maturity securities for which no NAIC Designation is available.

Credit Ratings

At December 31, 2020, approximately 89 percent of our fixed maturity securities were held by our domestic entities. Approximately 88 percent of these securities were rated investment grade by one or more of the principal rating agencies. Our investment decision process relies primarily on internally generated fundamental analysis and internal risk ratings. Third-party rating services' ratings and opinions provide one source of independent perspective for consideration in the internal analysis.

Moody's Investors Service Inc. (Moody's), Standard & Poor's Financial Services LLC, a subsidiary of S&P Global Inc. (S&P), or similar foreign rating services rate a significant portion of our foreign entities' fixed maturity securities portfolio. Rating services are not available for some foreign-issued securities. Our Credit Risk Management department closely reviews the credit quality of the foreign portfolio's non-rated fixed maturity securities. At December 31, 2020, approximately 95 percent of such investments were either rated investment grade or, on the basis of our internal analysis, were equivalent from a credit standpoint to securities rated investment grade. Approximately 27 percent of the foreign entities' fixed maturity securities portfolio is comprised of sovereign fixed maturity securities supporting policy liabilities in the country of issuance.

Composite AIG Credit Ratings

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

For a discussion of credit risks associated with Investments see Enterprise Risk Management.

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

	Available for Sale		Other		Total	
(in millions)	**December 31, 2020**	December 31, 2019	**December 31, 2020**	December 31, 2019	**December 31, 2020**	December 31, 2019
Rating:						
Other fixed maturity securities						
AAA	**$ 11,758**	$ 11,821	**$ 1,803**	$ 2,121	**$ 13,561**	$ 13,942
AA	**36,146**	31,141	**42**	-	**36,188**	31,141
A	**57,255**	49,437	**12**	11	**57,267**	49,448
BBB	**80,878**	75,598	**-**	-	**80,878**	75,598
Below investment grade	**18,087**	15,905	**-**	7	**18,087**	15,912
Non-rated	**769**	1,301	**-**	-	**769**	1,301
Total	**$ 204,893**	$ 185,203	**$ 1,857**	$ 2,139	**$ 206,750**	$ 187,342
Mortgage-backed, asset-backed and collateralized						
AAA	**$ 31,133**	$ 29,419	**$ 347**	$ 365	**$ 31,480**	$ 29,784
AA	**15,287**	14,816	**195**	201	**15,482**	15,017
A	**6,711**	6,861	**145**	165	**6,856**	7,026
BBB	**4,137**	4,154	**343**	98	**4,480**	4,252
Below investment grade	**9,281**	10,575	**2,165**	3,630	**11,446**	14,205
Non-rated	**54**	58	**239**	84	**293**	142
Total	**$ 66,603**	$ 65,883	**$ 3,434**	$ 4,543	**$ 70,037**	$ 70,426
Total						
AAA	**$ 42,891**	$ 41,240	**$ 2,150**	$ 2,486	**$ 45,041**	$ 43,726
AA	**51,433**	45,957	**237**	201	**51,670**	46,158
A	**63,966**	56,298	**157**	176	**64,123**	56,474
BBB	**85,015**	79,752	**343**	98	**85,358**	79,850
Below investment grade	**27,368**	26,480	**2,165**	3,637	**29,533**	30,117
Non-rated	**823**	1,359	**239**	84	**1,062**	1,443
Total	**$ 271,496**	$ 251,086	**$ 5,291**	$ 6,682	**$ 276,787**	$ 257,768

Available-for-Sale Investments

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

(in millions)	**Fair Value at December 31, 2020**	Fair Value at December 31, 2019
Bonds available for sale:		
U.S. government and government sponsored entities	**$ 4,126**	$ 5,380
Obligations of states, municipalities and political subdivisions	**16,124**	15,318
Non-U.S. governments	**15,345**	14,869
Corporate debt	**169,298**	149,636
Mortgage-backed, asset-backed and collateralized:		
RMBS	**31,465**	32,805
CMBS	**16,133**	14,430
CDO/ABS	**19,005**	18,648
Total mortgage-backed, asset-backed and collateralized	**66,603**	65,883
Total bonds available for sale*	**$ 271,496**	$ 251,086

* At December 31, 2020 and 2019, the fair value of bonds available for sale held by us that were below investment grade or not rated totaled $28.2 billion and $27.8 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, 2020	December 31, 2019
Japan	$ 1,510	$ 1,651
Canada	986	989
United Kingdom	820	638
France	790	1,013
Germany	642	593
Indonesia	554	589
Israel	535	399
United Arab Emirates	519	494
Qatar	410	353
Chile	398	353
Other	8,181	7,797
Total	$ 15,345	$ 14,869

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

	December 31, 2020					
(in millions)	Sovereign	Financial Institution	Non-Financial Corporates	Structured Products	Total	December 31, 2019 Total
Euro-Zone countries:						
France	$ 790	$ 1,883	$ 1,533	$ -	$ 4,206	$ 4,304
Germany	642	179	2,870	-	3,691	3,329
Netherlands	272	1,105	1,320	107	2,804	2,626
Ireland	30	141	467	1,524	2,162	2,132
Belgium	131	260	1,147	-	1,538	1,254
Spain	25	330	634	-	989	1,122
Luxembourg	96	242	374	-	712	381
Italy	16	125	439	-	580	482
Finland	56	27	40	-	123	192
Austria	93	-	-	-	93	164
Other Euro-Zone	557	92	279	-	928	826
Total Euro-Zone	$ 2,708	$ 4,384	$ 9,103	$ 1,631	$ 17,826	$ 16,812
Remainder of Europe:						
United Kingdom	$ 820	$ 4,413	$ 9,794	$ 2,039	$ 17,066	$ 15,798
Switzerland	19	1,025	734	-	1,778	1,879
Sweden	199	321	126	-	646	582
Norway	392	43	121	-	556	549
Russian Federation	183	21	203	-	407	425
Other - Remainder of Europe	69	42	116	-	227	262
Total - Remainder of Europe	$ 1,682	$ 5,865	$ 11,094	$ 2,039	$ 20,680	$ 19,495
Total	$ 4,390	$ 10,249	$ 20,197	$ 3,670	$ 38,506	$ 36,307

Investments in Municipal Bonds

At December 31, 2020, the U.S. municipal bond portfolio was composed primarily of essential service revenue bonds and high-quality tax-exempt bonds with 92 percent of the portfolio rated A or higher.

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

(in millions)	December 31, 2020 State General Obligation	December 31, 2020 Local General Obligation	December 31, 2020 Revenue	December 31, 2020 Total Fair Value	December 31, 2019 Total Fair Value
State:					
California	$ 773	$ 410	$ 2,118	$ 3,301	$ 2,928
New York	7	309	2,819	3,135	3,059
Texas	98	545	910	1,553	1,512
Illinois	87	116	903	1,106	1,072
Massachusetts	445	2	353	800	745
Ohio	35	-	507	542	482
Georgia	108	71	315	494	459
Virginia	9	-	447	456	493
Florida	6	-	430	436	355
Washington	171	7	235	413	405
Pennsylvania	17	5	377	399	395
Washington, D.C.	12	-	316	328	316
Missouri	-	-	309	309	277
All other states[(a)]	369	246	2,237	2,852	2,820
Total[(b)(c)]	$ 2,137	$ 1,711	$ 12,276	$ 16,124	$ 15,318

(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 $527 million 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, 2020**	Fair Value at December 31, 2019
Financial institutions:		
Money center/Global bank groups	$ 10,512	$ 10,701
Regional banks – other	627	659
Life insurance	3,175	3,166
Securities firms and other finance companies	312	334
Insurance non-life	5,805	5,492
Regional banks – North America	7,505	6,825
Other financial institutions	15,581	13,608
Utilities	23,470	19,424
Communications	11,137	9,939
Consumer noncyclical	24,826	19,997
Capital goods	8,773	8,006
Energy	13,293	13,379
Consumer cyclical	13,213	10,989
Basic	5,894	5,617
Other	25,175	21,500
Total*	$ 169,298	$ 149,636

* At both December 31, 2020 and December 31, 2019, respectively, approximately 90 percent and 89 percent of these investments were rated investment grade.

Our investments in the energy category, as a percentage of total investments in available-for-sale fixed maturities, were 4.9 percent and 5.3 percent at December 31, 2020 and December 31, 2019, respectively. While the energy investments are primarily investment grade and are actively managed, the category continues to experience volatility that could adversely affect credit quality and fair value.

Investments in RMBS

The following table presents AIG's RMBS available for sale securities:

(in millions)	Fair Value at December 31, 2020	Fair Value at December 31, 2019
Agency RMBS	**$ 15,816**	$ 15,721
Alt-A RMBS	**7,278**	8,484
Subprime RMBS	**2,575**	2,654
Prime non-agency	**3,847**	4,451
Other housing related	**1,949**	1,495
Total RMBS[(a)(b)]	**$ 31,465**	$ 32,805

(a) Includes approximately $7.6 billion and $8.7 billion at December 31, 2020 and December 31, 2019, respectively, of certain RMBS that had experienced deterioration in credit quality since their origination. *For additional discussion on Purchased Credit Impaired Securities see Note 6 to the Consolidated Financial Statements*.

(b) The weighted average expected life was five years at December 31, 2020 and six years at December 31 2019.

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

Investments in CMBS

The following table presents our CMBS available for sale securities:

(in millions)	Fair Value at December 31, 2020	Fair Value at December 31, 2019
CMBS (traditional)	**$ 12,917**	$ 11,250
Agency	**2,078**	2,051
Other	**1,138**	1,129
Total	**$ 16,133**	$ 14,430

The fair value of CMBS holdings remained stable throughout 2020. The majority of our investments in CMBS are in tranches that contain substantial protection features through collateral subordination. The majority of CMBS holdings are traditional conduit transactions, broadly diversified across property types and geographical areas.

Investments in ABS/CDOs

The following table presents our ABS/CDO available for sale securities by collateral type:

(in millions)	Fair value at December 31, 2020	Fair value at December 31, 2019
Collateral Type:		
ABS	**$ 9,178**	$ 9,274
Bank loans (collateralized loan obligation)	**9,793**	9,330
Other	**34**	44
Total	**$ 19,005**	$ 18,648

Unrealized Losses of Fixed Maturity Securities

The following table shows the aging of the unrealized losses of fixed maturity securities, the extent to which the fair value is less than amortized cost or cost, and the number of respective items in each category:

December 31, 2020	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)]		Unrealized			Unrealized			Unrealized			Unrealized	
(dollars in millions)	Cost[(c)]	Loss	Items[(e)]	Cost[(c)]	Loss	Items[(e)]	Cost[(c)]	Loss	Items[(e)]	Cost[(c)]	Loss[(d)]	Items[(e)]
Investment grade bonds												
0-6 months	$ 13,409	$ 214	1,788	$ 15	$ 5	4	$ 2	$ 2	5	**$ 13,426**	**$ 221**	**1,797**
7-11 months	6,270	163	693	43	13	6	-	-	-	**6,313**	**176**	**699**
12 months or more	4,547	112	660	20	8	5	2	1	1	**4,569**	**121**	**666**
Total	$ 24,226	$ 489	3,141	$ 78	$ 26	15	$ 4	$ 3	6	**$ 24,308**	**$ 518**	**3,162**
Below investment grade bonds												
0-6 months	$ 1,390	$ 33	618	$ 10	$ 4	17	$ 22	$ 25	11	**$ 1,422**	**$ 62**	**646**
7-11 months	4,953	160	1,224	21	6	8	-	-	-	**4,974**	**166**	**1,232**
12 months or more	1,038	40	411	435	107	35	20	15	13	**1,493**	**162**	**459**
Total	$ 7,381	$ 233	2,253	$ 466	$ 117	60	$ 42	$ 40	24	**$ 7,889**	**$ 390**	**2,337**
Total bonds												
0-6 months	$ 14,799	$ 247	2,406	$ 25	$ 9	21	$ 24	$ 27	16	**$ 14,848**	**$ 283**	**2,443**
7-11 months	11,223	323	1,917	64	19	14	-	-	-	**11,287**	**342**	**1,931**
12 months or more	5,585	152	1,071	455	115	40	22	16	14	**6,062**	**283**	**1,125**
Total[(e)]	$ 31,607	$ 722	5,394	$ 544	$ 143	75	$ 46	$ 43	30	**$ 32,197**	**$ 908**	**5,499**

(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, 2020.

(c) For bonds, represents amortized cost net of allowance.

(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.

The allowance for credit losses was $14 million for investment grade bonds, and $172 million for below investment grade bonds as of December 31, 2020.

Change in Unrealized Gains and Losses on Investments

The change in net unrealized gains and losses on investments in 2020 was primarily attributable to increases in the fair value of fixed maturity securities. For 2020, net unrealized gains related to fixed maturity securities increased by $9.5 billion due primarily to lower rates partially offset by a widening of credit spreads.

The change in net unrealized gains and losses on investments in 2019 was primarily attributable to increases in the fair value of fixed maturity securities. For 2019, net unrealized gains related to fixed maturity securities increased by $14.2 billion due primarily to a decrease in rates and a narrowing of credit spreads.

For further discussion of our investment portfolio see also Note 6 to the Consolidated Financial Statements.

Commercial Mortgage Loans

At December 31, 2020, we had direct commercial mortgage loan exposure of $36.4 billion.

The following table presents the commercial mortgage loan exposure by location and class of loan based on amortized cost:

(dollars in millions)	Number of Loans	Class Apartments	Offices	Retail	Industrial	Hotel	Others	Total	Percent of Total
December 31, 2020									
State:									
New York	**107**	**$ 2,624**	**$ 5,237**	**$ 465**	**$ 393**	**$ 102**	**$ -**	**$ 8,821**	**24 %**
California	**66**	**842**	**1,343**	**247**	**532**	**775**	**32**	**3,771**	**10**
New Jersey	**47**	**1,756**	**31**	**420**	**92**	**12**	**33**	**2,344**	**6**
Texas	**51**	**605**	**1,165**	**170**	**100**	**144**	**-**	**2,184**	**6**
Florida	**69**	**421**	**153**	**497**	**216**	**217**	**-**	**1,504**	**4**
Massachusetts	**12**	**536**	**227**	**551**	**25**	**-**	**-**	**1,339**	**4**
Illinois	**20**	**504**	**574**	**10**	**18**	**-**	**22**	**1,128**	**3**
Washington, D.C.	**13**	**465**	**213**	**-**	**-**	**19**	**-**	**697**	**2**
Pennsylvania	**21**	**79**	**17**	**489**	**76**	**25**	**-**	**686**	**2**
Ohio	**23**	**170**	**10**	**183**	**261**	**-**	**-**	**624**	**2**
Other states	**187**	**1,992**	**722**	**1,192**	**731**	**399**	**-**	**5,036**	**14**
Foreign	**84**	**3,975**	**1,020**	**1,025**	**1,322**	**575**	**373**	**8,290**	**23**
Total*	**700**	**$ 13,969**	**$ 10,712**	**$ 5,249**	**$ 3,766**	**$ 2,268**	**$ 460**	**$ 36,424**	**100 %**
December 31, 2019									
State:									
New York	99	$ 2,377	$ 4,913	$ 457	$ 376	$ 98	$ -	$ 8,221	23 %
California	74	736	1,341	249	572	817	41	3,756	10
New Jersey	48	1,635	44	370	81	27	33	2,190	6
Texas	52	501	1,163	174	141	145	-	2,124	6
Florida	74	393	234	544	218	217	10	1,616	3
Massachusetts	13	540	245	549	25	-	-	1,359	4
Illinois	19	505	441	10	18	-	22	996	3
Washington, D.C.	13	447	302	-	-	18	-	767	2
Pennsylvania	23	81	20	528	46	25	-	700	2
Ohio	25	174	10	188	269	-	5	646	2
Other states	215	2,073	740	1,276	740	401	44	5,274	15
Foreign	85	4,237	1,189	987	1,177	564	367	8,521	24
Total*	740	$ 13,699	$ 10,642	$ 5,332	$ 3,663	$ 2,312	$ 522	$ 36,170	100 %

* Does not reflect allowance for credit losses.

For additional discussion on commercial mortgage loans see Note 7 to the Consolidated Financial Statements.

Net Realized Capital Gains and Losses

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

Years Ended December 31,	2020			2019	2018
(in millions)	Excluding Fortitude Re Funds Withheld Assets	Fortitude Re Funds Withheld Assets[c]	Total	Total	Total
Sales of fixed maturity securities	$ 307	$ 707	$ 1,014	$ 320	$ (145)
Sales of equity securities	-	-	-	-	16
Other-than-temporary impairments	-	-	-	(174)	(251)
Intent to sell[a]	(3)	-	(3)	-	-
Change in allowance for credit losses on fixed maturity securities	(270)	(10)	(280)	-	-
Change in allowance for credit losses on loans	(105)	2	(103)	(46)	(92)
Foreign exchange transactions	365	13	378	227	(182)
Variable annuity embedded derivatives, net of related hedges	166	-	166	(294)	304
All other derivatives and hedge accounting	(672)	(249)	(921)	(22)	417
Loss on sale of private equity funds	-	-	-	-	(321)
Other[b]	156	-	156	621	203
Net realized capital gains (losses) – excluding Fortitude Re funds withheld embedded derivative	(56)	463	407	632	(51)
Net realized capital gains (losses) on Fortitude Re funds withheld embedded derivative	-	(2,645)	(2,645)	-	-
Net realized capital gains (losses)	$ (56)	$ (2,182)	$ (2,238)	$ 632	$ (51)

(a) For 2019, Intent to sell was included in Other-than-temporary impairments.

(b) In 2019, includes $200 million from the sale and concurrent leaseback of our corporate headquarters and $300 million as a result of sales in investment real estate properties. In 2018, primarily includes $96 million and $49 million of realized gains on the sale of shares of OneMain Holdings, Inc. and an investment in Castle Holdings LLC's aircraft assets, respectively.

(c) Represents activity subsequent to the deconsolidation of Fortitude Re on June 2, 2020.

Net realized capital losses in 2020 compared to net realized capital gains in the prior year due primarily to higher derivative losses in the current period compared to the prior year.

Net realized capital gains in 2019 compared to net realized capital losses in 2018 due to gains on the sales of securities and foreign exchange compared to losses on sales of securities and foreign exchange in 2018, as well as lower impairments in 2019 and losses on private equity sales in 2018. Partially offsetting these gains were derivative losses in 2019 compared to gains in 2018.

Variable annuity embedded derivatives, net of related hedges, reflected gains in 2020 compared to losses in the prior year primarily due to changes in the non-performance or "own credit" risk adjustment used in the valuation of the variable annuities with guaranteed minimum withdrawal benefits (GMWB) embedded derivative, which are not hedged as part of our economic hedging program.

Net realized capital gains (losses) on Fortitude Re funds withheld assets primarily reflect increases in the valuation of the modified coinsurance and funds withheld assets. Increases in the valuation of these assets result in losses to AIG as the appreciation on the assets must under those reinsurance arrangements be transferred to Fortitude Re.

For additional discussion of market risk management related to these product features see Enterprise Risk Management – Insurance Risks – Life and Retirement Companies' Key Risks – Variable Annuity, Index Annuity and Universal Life Risk Management and Hedging Programs. For more information on the economic hedging target and the impact to pre-tax income of this program see Insurance Reserves – Life and Annuity Reserves and DAC – Variable Annuity Guaranteed Benefits and Hedging Results in this MD&A.

For further discussion of our investment portfolio see also Note 6 to the Consolidated Financial Statements.

Insurance Reserves

LIABILITY FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES (LOSS RESERVES)

The following table presents the components of our gross and net loss reserves by segment and major lines of business[(a)]:

At December 31,	2020			2019		
(in millions)	Net liability for unpaid losses and loss adjustment expenses	Reinsurance recoverable on unpaid losses and loss adjustment expenses	Gross liability for unpaid losses and loss adjustment expenses	Net liability for unpaid losses and loss adjustment expenses	Reinsurance recoverable on unpaid losses and loss adjustment expenses	Gross liability for unpaid losses and loss adjustment expenses
General Insurance:						
U.S. Workers' Compensation (net of discount)	$ 3,905	$ 5,653	$ 9,558	$ 4,330	$ 5,494	$ 9,824
U.S. Excess Casualty	3,746	4,584	8,330	4,285	5,073	9,358
U.S. Other Casualty	3,520	4,568	8,088	4,064	4,695	8,759
U.S. Financial Lines	4,838	2,193	7,031	5,154	2,221	7,375
U.S. Property and Special Risks	6,181	2,571	8,752	4,950	2,807	7,757
U.S. Personal Insurance	1,116	1,626	2,742	1,287	988	2,275
UK/Europe Casualty and Financial Lines	6,826	1,225	8,051	6,234	1,268	7,502
UK/Europe Property and Special Risks	2,679	1,215	3,894	2,573	1,191	3,764
UK/Europe and Japan Personal Insurance	2,219	505	2,724	1,962	519	2,481
Other product lines[(b)]	6,202	5,410	11,612	9,841	2,053	11,894
Unallocated loss adjustment expenses[(b)]	1,526	1,106	2,632	2,136	882	3,018
Total General Insurance	42,758	30,656	73,414	46,816	27,191	74,007
Other Operations Run-Off:						
U.S. Run-Off Long Tail Insurance Lines (net of discount)	205	3,500	3,705	166	3,587	3,753
Other run-off product lines	210	60	270	164	66	230
Blackboard	88	101	189	48	110	158
Unallocated loss adjustment expenses	28	114	142	65	115	180
Total Other Operations Run-Off	531	3,775	4,306	443	3,878	4,321
Total	$ 43,289	$ 34,431	$ 77,720	$ 47,259	$ 31,069	$ 78,328

(a) Includes net loss reserve discount of $725 million and $1.5 billion for the years ended December 31, 2020, and 2019, respectively. For discussion of loss reserve discount see Note 13 to the Consolidated Financial Statements.

(b) Other product lines and Unallocated loss adjustment expenses includes $3.8 billion within Gross liability for unpaid losses and loss adjustment expense and Reinsurance recoverable on unpaid losses and loss adjustment expense as of December 31, 2020, and $3.9 billion within the Gross liability for unpaid losses and loss adjustment expense as of December 31, 2019, for the Fortitude Re reinsurance.

Prior Year Development

The following table summarizes incurred (favorable) unfavorable prior year development net of reinsurance by segment:

(in millions)	2020	2019	2018
General Insurance:			
North America*	$ (157)	$ (136)	$ 473
International	81	(158)	(107)
Total General Insurance	$ (76)	$ (294)	$ 366
Other Operations Run-Off	2	-	(4)
Total prior year (favorable) unfavorable development	$ (74)	$ (294)	$ 362

* Includes the amortization attributed to the deferred gain at inception from the National Indemnity Company (NICO) adverse development reinsurance agreement of $211 million, $232 million and $233 million in the years ended December 31, 2020, 2019 and 2018, respectively. Consistent with our definition of APTI, the amount excludes the portion of (favorable)/unfavorable prior year reserve development for which we have ceded the risk under the NICO reinsurance agreements of $(228) million, $(278) million and $834 million for the years ended December 31, 2020, 2019 and 2018, respectively, and related changes in amortization of the deferred gain of $25 million, $(13) million and $162 million over those same periods.

Net Loss Development – 2020

During 2020, we recognized favorable prior year loss reserve development of $74 million. The development was primarily driven by:

North America

- Favorable development on U.S. Workers' Compensation business, both guaranteed cost business and large deductible, where we reacted to favorable loss trends in recent accident years;
- Favorable development from amortization of the deferred gain on the adverse development reinsurance agreement with NICO for accident years 2015 and prior;
- Favorable development across the combination of primary and excess casualty coverages;
- Favorable development in Property, Specialty and other miscellaneous coverages;
- Unfavorable development in U.S. Financial Lines, notably D&O, Employment Practices Liability (EPLI), Mergers and Acquisitions, Cyber and Non-Medical Professional Errors & Omissions business where we reacted to increasing frequency and severity in recent accident years;
- Unfavorable development in Personal Lines where we reacted to adverse development in Homeowners and Umbrella.

International

- Unfavorable development on Financial Lines driven by low frequency and high severity seen in D&O, especially in UK/Europe and Australia;
- Favorable development on Property and Special Risks globally driven by UK/Europe;
- Favorable development on Europe and Japan Personal Insurance driven by favorable frequency and severity trends.

Our analyses and conclusions about prior year reserves also help inform our judgments about the current accident year loss and loss adjustment expense ratios we selected.

For further details of prior year development by line of business, see Note 13 to the Consolidated Financial Statements. For a discussion of actuarial methods employed for major classes of business, see also Critical Accounting Estimates.

The following tables summarize incurred (favorable) unfavorable prior year development net of reinsurance, by segment and major lines of business, and by accident year groupings:

Years Ended December 31, 2020 *(in millions)*	Total	2019	2018 & Prior
General Insurance North America:			
U.S. Workers' Compensation	$ (396)	$ (18)	$ (378)
U.S. Excess casualty	96	6	90
U.S. Other casualty	(207)	4	(211)
U.S. Financial Lines	341	58	283
U.S. Property and Special Risks	(48)	(26)	(22)
U.S. Personal insurance	83	71	12
Other product lines	(26)	(33)	7
Total General Insurance North America	$ (157)	$ 62	$ (219)
General Insurance International:			
UK/Europe Casualty and Financial Lines	$ 258	$ 31	$ 227
UK/Europe Property and Special Risks	(155)	(61)	(94)
UK/Europe and Japan Personal Insurance	(39)	(39)	-
Other product lines	17	43	(26)
Total General Insurance International	$ 81	$ (26)	$ 107
Other Operations Run-Off	2	-	2
Total prior year (favorable) unfavorable development	$ (74)	$ 36	$ (110)

Net Loss Development – 2019

During 2019, we recognized favorable prior year loss reserve development of $294 million. The development was primarily driven by:

North America

- Favorable development on 2017 Hurricanes and 2017 California wildfires subrogation recoverables in Commercial Property and Personal Lines;
- Favorable development from amortization of the deferred gain on the adverse development reinsurance agreement with NICO for accident years 2015 and prior;
- Favorable development on U.S. Workers' Compensation business, both guaranteed cost business and large deductible and Defense Base Act business (covering government contractors serving at military bases overseas) where we reacted to favorable loss trends in recent accident years;
- Unfavorable development in U.S. Financial Lines, notably D&O, Employment Practices Liability (EPLI) and Non-Medical Professional Errors & Omissions business where we reacted to increasing frequency and severity in recent accident years; and
- Unfavorable development in Primary General Liability where we reacted to adverse frequency and severity trends especially in Construction.

International

- Favorable development on Europe Property and Special Risks, Europe and Japan Personal Insurance and Other product lines; and
- Unfavorable development on European Casualty & Financial Lines, notably Commercial Auto, Employers Liability, Directors & Officers, and Financial Institutions business.

Net Loss Development – 2018

During 2018, we recognized adverse prior year net loss reserve development of $362 million. This unfavorable development was primarily a result of the following:

- Unfavorable development in U.S. Excess Casualty, driven by the combination of construction defect and construction wrap claims from accident year 2015 and prior where we reacted to significant increases in severity and longer claim reporting patterns, as well as higher than expected loss severity in accident years 2016 and 2017, which led to an increase in estimates for these accident years;
- Unfavorable development in U.S. Financial Lines, primarily from D&O and EPLI policies covering Corporate and National Insureds as well as Private and Not-for-Profit insureds. This development was predominantly in accident years 2014-2017 and resulted largely from increases in severity as the frequency of class action lawsuits increased in those years.
- Favorable development in U.S. Commercial Property and Specialty Lines due to reductions in our estimates for 2017 Catastrophes and favorable development from the attritional losses in Commercial Property and Specialty.
- Unfavorable development in U.S. Personal Lines reflecting an increase in estimates in respect of the California wildfires and Hurricane Irma in 2017.
- Adverse development in Financial Lines in Europe and other areas across the world that have seen increases in the frequency and severity of large losses.

We note that for certain categories of claims (e.g., construction defect claims and environmental claims) and for reinsurance recoverable, losses may sometimes be reclassified to an earlier or later accident year as more information about the date of occurrence becomes available to us. These reclassifications are shown as development in the respective years in the tables above.

Significant Reinsurance Agreements

In the first quarter of 2017, we entered into an adverse development reinsurance agreement with NICO, under which we transferred to NICO 80 percent of the reserve risk on substantially all of our U.S. Commercial long-tail exposures for accident years 2015 and prior. Under this agreement, we ceded to NICO 80 percent of the losses on subject business paid on or after January 1, 2016 in excess of $25 billion of net paid losses, up to an aggregate limit of $25 billion. We account for this transaction as retroactive reinsurance. This transaction resulted in a gain, which under GAAP retroactive reinsurance accounting is deferred and amortized into income over the settlement period. NICO created a collateral trust account as security for their claim payment obligations to us, into which they deposited the consideration paid under the agreement, and Berkshire Hathaway Inc. has provided a parental guarantee to secure NICO's obligations under the agreement.

For a description of AIG's catastrophe reinsurance protection for 2020, see Enterprise Risk Management – Insurance Risks – General Insurance Companies' Key Risks – Natural Catastrophe Risk.

The table below shows the calculation of the deferred gain on the adverse development reinsurance agreement as of December 31, 2020, 2019 and 2018, showing the effect of discounting of loss reserves and amortization of the deferred gain.

(in millions)	December 31, 2020	December 31, 2019	December 31, 2018
Gross Covered Losses			
Covered reserves before discount	$ 16,534	$ 19,064	$ 23,033
Inception to date losses paid	25,198	22,954	19,331
Attachment point	(25,000)	(25,000)	(25,000)
Covered losses above attachment point	$ 16,732	$ 17,018	$ 17,364
Deferred Gain Development			
Covered losses above attachment ceded to NICO (80%)	$ 13,386	$ 13,614	$ 13,891
Consideration paid including interest	(10,188)	(10,188)	(10,188)
Pre-tax deferred gain before discount and amortization	3,198	3,426	3,703
Discount on ceded losses[(a)]	(911)	(1,251)	(1,719)
Pre-tax deferred gain before amortization	2,287	2,175	1,984
Inception to date amortization of deferred gain at inception	(904)	(693)	(461)
Inception to date amortization attributed to changes in deferred gain[(b)]	(86)	(101)	(141)
Deferred gain liability reflected in AIG's balance sheet	$ 1,297	$ 1,381	$ 1,382

a) For the period from inception to December 31, 2020, the accretion of discount and a reduction in effective interest rates was offset by changes in estimates of the amount and timing of future recoveries under the adverse development reinsurance agreement.

(b) Excluded from our definition of APTI.

The following table presents the rollforward of activity in the deferred gain from the adverse development reinsurance agreement:

Years Ended December 31, *(in millions)*	2020	2019	2018
Balance at beginning of year, net of discount	$ 1,381	$ 1,382	$ 1,167
(Favorable) unfavorable prior year reserve development ceded to NICO[(a)]	(228)	(277)	738
Amortization attributed to deferred gain at inception[(b)]	(211)	(232)	(233)
Amortization attributed to changes in deferred gain[(c)]	15	39	(110)
Changes in discount on ceded loss reserves	340	469	(180)
Balance at end of year, net of discount	$ 1,297	$ 1,381	$ 1,382

(a) Prior year reserve development ceded to NICO under the retroactive reinsurance agreement is deferred under GAAP.

(b) Represents amortization of the deferred gain recognized in APTI.

(c) Excluded from APTI and included in GAAP.

The lines of business subject to this agreement have been the source of the majority of the prior year adverse development charges over the past several years. The agreement has resulted in lower capital charges for reserve risks at our U.S. insurance subsidiaries. In addition, net investment income declined as a result of lower invested assets.

Fortitude Re was established during the first quarter of 2018 in a series of reinsurance transactions related to our Run-Off operations. Those reinsurance transactions were designed to consolidate most of our Insurance Run-Off Lines into a single legal entity. As of December 31, 2020, approximately $30.5 billion of reserves from our Life and Retirement Run-Off Lines and approximately $4.1 billion of reserves from our General Insurance Run-Off Lines related to business written by multiple wholly-owned AIG subsidiaries, had been ceded to Fortitude Re under these reinsurance transactions.

Of the Fortitude Re reinsurance agreements, the largest is the Amended and Restated Combination Coinsurance and Modified Coinsurance Agreement by and between our subsidiary AGL and Fortitude Re. Under this treaty, approximately $23.3 billion of AGL reserves as of December 31, 2020 were ceded to Fortitude Re representing a mix of life and annuity risks. Fortitude Re provides 100 percent reinsurance of the ceded risks. AGL continues to administer the policies, including handling claims, although it is anticipated that much of the administration will move to a Fortitude Re administrative subsidiary over time, subject to regulatory approvals being obtained and the satisfaction of other conditions. Until such time, Fortitude Re has certain rights to consult on and participate in such administration, and AGL retains the risk of collection of any third party reinsurance covering the ceded business. At effectiveness of the treaty, an amount equal to the aggregate ceded reserves was deposited by AGL into a modified coinsurance account of AGL to secure the obligations of Fortitude Re. Fortitude Re receives or makes quarterly payments that represent the net gain or loss under the treaty for the relevant quarter, including any net investment gain or loss on the assets in the modified coinsurance account. An AIG affiliate will serve as portfolio manager of assets in the modified coinsurance account for a minimum of three years after the June 2, 2020 closing of the Majority Interest Fortitude Sale.

For a summary of significant reinsurers see Enterprise Risk Management – Insurance Risks – Reinsurance Activities – Reinsurance Recoverable.

LIFE AND ANNUITY FUTURE POLICY BENEFITS, POLICYHOLDER CONTRACT DEPOSITS AND DAC

The following section provides discussion of life and annuity future policy benefits, policyholder contract deposits and deferred policy acquisition costs.

Update of Actuarial Assumptions

The life insurance companies review and update actuarial assumptions at least annually, generally in the third quarter. Assumption setting standards vary between investment-oriented products and traditional long-duration products.

Investment-oriented products

The life insurance companies review and update estimated gross profit assumptions used to amortize DAC and related items (which may include VOBA, SIA and unearned revenue reserves) as well as assessments used to accrue guaranteed benefit reserves for investment-oriented products at least annually. Estimated gross profit projections include assumptions for investment-related returns and spreads, product-related fees and expenses, mortality gains and losses, policyholder behavior and other factors. In estimating future gross profits, lapse assumptions require judgment and can have a material impact on DAC amortization. If the assumptions used for estimated gross profits change significantly, DAC and related reserves are recalculated using the new projections, and any resulting adjustment is included in income. Updating such projections may result in acceleration of amortization in some products and deceleration of amortization in other products.

The life insurance companies also review assumptions related to their respective GMWB living benefits that are accounted for as embedded derivatives and measured at fair value. The fair value of these embedded derivatives is based on actuarial assumptions, including policyholder behavior, as well as capital market assumptions.

Various assumptions were updated, including the following effective September 30, 2020:

- We decreased our reversion to the mean rates of return (gross of fees) to 3.12 percent from 3.62 percent for the variable annuity product line in Individual Retirement and to 2.87 percent from 3.29 percent for the variable annuity product line in Group Retirement primarily due to recent equity market movements. Our separate account long-term asset growth rate assumption related to equity market performance remained unchanged at 7.0 percent; and
- Ultimate projected yields on the vast majority of our invested assets were lowered on life and annuity deposits. Life deposit projected yields ranged from an increase of 9 basis points to a decrease of 14 basis points while annuity insurance deposits saw decreases of up to 24 basis points. Projected yields are graded from a weighted average net GAAP book yield of existing assets supporting the business based on the value of the assets to a weighted average yield based on the duration of the assets excluding assets that mature during the grading period. The grading period is three years for deferred annuity products and five years for life insurance products due to deferred annuities having a shorter duration than life products.

Traditional long-duration products

For long-duration traditional products discussed below, which include whole life insurance, term life insurance, accident and health insurance, long-term care insurance, and life-contingent single premium immediate annuities and structured settlements, a “lock-in” principle applies. The assumptions used to calculate the benefit liabilities and DAC are set when a policy is issued and do not change with changes in actual experience, unless a loss recognition event occurs. A loss recognition event occurs when current liabilities together with expected future premiums are not sufficient to provide for all future benefits, expenses, and DAC amortization, net of reinsurance. A loss recognition event is driven by observed changes in actual experience or estimates differing significantly from “locked-in” assumptions. Underlying assumptions, including interest rates, are reviewed periodically and updated as appropriate for loss recognition testing purposes. As a result of the Majority Interest Fortitude Sale, all business that is in loss recognition is fully reinsured by an unaffiliated entity.

The net increases (decreases) to pre-tax income and adjusted pre-tax income as a result of the update of actuarial assumptions for 2020, 2019 and 2018 are shown in the following tables.

The following table presents the decrease in pre-tax income resulting from the third quarter update of actuarial assumptions in the life insurance companies, by line item as reported in Results of Operations:

Years Ended December 31, (in millions)	2020	2019	2018
Policy fees	$ (106)	$ (32)	$ (237)
Interest credited to policyholder account balances	(6)	19	-
Amortization of deferred policy acquisition costs	225	203	273
Non deferrable insurance commissions	15	-	-
Policyholder benefits and losses incurred	(235)	(363)	(244)
Decrease in adjusted pre-tax income	(107)	(173)	(208)
Change in DAC related to net realized capital losses	(44)	(17)	35
Net realized capital gains	142	180	(55)
Decrease in pre-tax income	$ (9)	$ (10)	$ (228)

The following table presents the increase (decrease) in adjusted pre-tax income resulting from the third quarter update of actuarial assumptions for the life insurance companies, by segment and product line:

Years Ended December 31, (in millions)	2020	2019	2018
Life and Retirement:			
Individual Retirement			
Fixed annuities	$ (77)	$ 82	$ 40
Variable and indexed annuities	2	(145)	(92)
Total Individual Retirement	(75)	(63)	(52)
Group Retirement	68	(17)	17
Life Insurance	(101)	(64)	(67)
Institutional Markets	1	-	-
Total Life and Retirement	(107)	(144)	(102)
Other Operations Run-Off	-	(29)	(106)
Total decrease in adjusted pre-tax income from update of assumptions	$ (107)	$ (173)	$ (208)

In 2020, adjusted pre-tax income included a net unfavorable adjustment of $107 million, primarily in fixed annuities driven by changes to earned rates causing spread compression partially offset by favorable updates to full surrender assumptions, and in Life Insurance primarily due to mortality modeling enhancements.

In 2019, adjusted pre-tax income included a net unfavorable adjustment of $173 million, primarily in index annuities driven by an update to lapse assumptions, and in Life Insurance primarily due to methodology enhancements related to projected premium, certain riders and death benefit features, and reinsurance reserving. The unfavorable adjustments were partially offset by favorable updates to full surrender assumptions in Individual Retirement fixed annuities.

In 2018, adjusted pre-tax income included a net unfavorable adjustment of $208 million, primarily in variable annuities driven by reductions to the GMWB full surrender assumption, in Life Insurance primarily due to strengthening of reserves for certain riders and interest crediting model refinements, and in Legacy Accident & Health Insurance loss recognition. The unfavorable adjustments were partially offset by favorable adjustments in Life Insurance primarily due to lower lapse and mortality assumptions and a reduction in IBNR reserves and in Individual Retirement due to lower lapse assumptions in fixed annuities and refinements to partial withdrawal assumptions in variable annuities.

The adjustments related to the update of actuarial assumptions in each period are discussed by business segment below.

Update of Actuarial Assumptions by Business Segment

Individual Retirement

The update of actuarial assumptions resulted in net favorable (unfavorable) adjustments to adjusted pre-tax income of Individual Retirement of $(75) million, $(63) million and $(52) million in 2020, 2019 and 2018, respectively.

In fixed annuities, the update of estimated gross profit assumptions resulted in a net unfavorable adjustment of $(77) million, which reflected lower projected investment earnings, partially offset by lower assumed lapses. In 2019 and 2018, net favorable adjustments of $82 million and $40 million, respectively, reflected lower lapse assumptions including the economic impact to competitor rate on the interest sensitive lapse component, partially offset by lower interest spread assumptions.

In variable and index annuities, the update of estimated gross profit assumptions resulted in a net favorable adjustment of $2 million in 2020, driven by updated withdrawal benefit utilization assumptions. These adjustments were partially offset by lower projected investment earnings. In 2019, a net unfavorable adjustment of $145 million, primarily due to lapse updates in index annuities and updated general account earned rates on variable annuities. The unfavorable adjustments were partially offset by updated lapse assumptions in variable annuities. In 2018, a net unfavorable adjustment of $92 million primarily due to refinements to the guaranteed benefit partial withdrawal assumptions in variable annuities and the multi-year index strategy crediting parameters in index annuities. The unfavorable adjustments were partially offset by lower guaranteed benefit lapse assumptions in variable annuities.

Group Retirement

In Group Retirement, the update of estimated gross profit assumptions resulted in a favorable adjustment of $68 million in 2020, primarily in the variable annuities line from extending the DAC amortization projection period, partially offset by updates to expense and lapse assumptions. The DAC amortization projection period was extended to reflect business still in-force at the end of the previous projection period, resulting in an increase in modeled future profits and an increase in the current DAC balance. In 2019, Group Retirement recorded an unfavorable adjustment of $17 million, primarily due to lapse updates in index annuities and variable annuities. In 2018, a favorable adjustment of $17 million was primarily due to improved premium persistency assumptions.

Life Insurance

In Life Insurance, the update of actuarial assumptions resulted in a net unfavorable adjustment of $101 million in 2020, primarily driven by updates to Universal Life mortality assumptions. The mortality updates better align the assumptions with experience and reduce future profits which increases the reserves for affected products. The unfavorable adjustments were partially offset by refinements to reserve modeling. In 2019, a net unfavorable adjustment of $64 million was primarily due to methodology enhancements related to projected premium, certain riders and death benefit features, and reinsurance reserving. The unfavorable adjustments were partially offset by favorable adjustments driven by updates to mortality assumptions. In 2018, a net unfavorable adjustment of $67 million primarily due to additional reserves for certain riders, decreased lapses and interest crediting model refinements. The unfavorable adjustments were partially offset by favorable adjustments driven by updates to mortality assumptions and a reduction to IBNR reserves.

Other Operations

In Other Operations Run-Off, the update of actuarial assumptions resulted in a net unfavorable adjustment of $29 million in 2019, reflecting updates to loss recognition reserves and methodology enhancements for universal life insurance. In 2018, a net unfavorable adjustment of $106 million was primarily due to $105 million of loss recognition expense on accident and health business (other than long-term care) in the Life and Retirement Run-Off Lines resulting from assumption and model refinements. As of closing of the Majority Interest Fortitude Sale on June 2, 2020, the reinsurance transactions with Fortitude Re are no longer considered affiliated transactions, and, therefore the results are fully ceded to Fortitude Re.

Variable Annuity Guaranteed Benefits and Hedging Results

Our Individual Retirement and Group Retirement businesses offer variable annuity products with GMWB riders that provide guaranteed living benefit features. The liabilities for GMWB are accounted for as embedded derivatives measured at fair value. The fair value of the embedded derivatives may fluctuate significantly based on market interest rates, equity prices, credit spreads, market volatility, policyholder behavior and other factors.

In addition to risk-mitigating features in our variable annuity product design, we have an economic hedging program designed to manage market risk from GMWB, including exposures to changes in interest rates, equity prices, credit spreads and volatility. The hedging program utilizes derivative instruments, including but not limited to equity options, futures contracts and interest rate swap and swaption contracts, as well as fixed maturity securities with a fair value election.

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

Differences in Valuation of Embedded Derivatives and Economic Hedge Target

The variable annuity hedging program utilizes an economic hedge target, which represents an estimate of the underlying economic risks in our GMWB riders. The economic hedge target differs from the GAAP valuation of the GMWB embedded derivatives primarily due to the following:

- The economic hedge target includes 100 percent of rider fees in present value calculations; the GAAP valuation reflects only those fees attributed to the embedded derivative such that the initial value at contract issue equals zero;
- The economic hedge target uses best estimate actuarial assumptions and excludes explicit risk margins used for GAAP valuation, such as margins for policyholder behavior, mortality, and volatility; and
- The economic hedge target excludes the non-performance or "own credit" risk adjustment used in the GAAP valuation, which reflects a market participant's view of our claims-paying ability by incorporating a different spread (the NPA spread) to the curve used to discount projected benefit cash flows. Because the discount rate includes the NPA spread and other explicit risk margins, the GAAP valuation is generally less sensitive to movements in interest rates and other market factors, and to changes from actuarial assumption updates, than the economic hedge target. *For more information on our valuation methodology for embedded derivatives within policyholder contract deposits see Note 5 to the Consolidated Financial Statements.*

The market value of the hedge portfolio compared to the economic hedge target at any point in time may be different and is not expected to be fully offsetting. In addition to the derivatives held in conjunction with the variable annuity hedging program, the Life and Retirement companies have cash and invested assets available to cover future claims payable under these guarantees. The primary sources of difference between the change in the fair value of the hedging portfolio and the economic hedge target include:

- Basis risk due to the variance between expected and actual fund returns, which may be either positive or negative;
- Realized volatility versus implied volatility;
- Actual versus expected changes in the hedge target driven by assumptions not subject to hedging, particularly policyholder behavior; and
- Risk exposures that we have elected not to explicitly or fully hedge.

The following table presents a reconciliation between the fair value of the GAAP embedded derivatives and the value of our economic hedge target:

(in millions)	**December 31, 2020**	December 31, 2019
Reconciliation of embedded derivatives and economic hedge target:		
Embedded derivative liability	**$ 3,572**	$ 2,474
Exclude non-performance risk adjustment	**(2,958)**	(2,504)
Embedded derivative liability, excluding NPA	**6,530**	4,978
Adjustments for risk margins and differences in valuation	**(2,502)**	(2,394)
Economic hedge target liability	**$ 4,028**	$ 2,584

Impact on Pre-tax Income (Loss)

The impact on our pre-tax income (loss) of the variable annuity guaranteed living benefits and related hedging results includes changes in the fair value of the GMWB embedded derivatives, and changes in the fair value of related derivative hedging instruments, both of which are recorded in Other realized capital gains (losses). Realized capital gains (losses), as well as net investment income from changes in the fair value of fixed maturity securities used in the hedging program, are excluded from adjusted pre-tax income of Individual Retirement and Group Retirement.

The change in the fair value of the embedded derivatives and the change in the value of the hedging portfolio are not expected to be fully offsetting, primarily due to the differences in valuation between the economic hedge target, the GAAP embedded derivatives and the fair value of the hedging portfolio, as discussed above. When corporate credit spreads widen, the change in the NPA spread generally reduces the fair value of the embedded derivative liabilities, resulting in a gain, and when corporate credit spreads narrow or tighten, the change in the NPA spread generally increases the fair value of the embedded derivative liabilities, resulting in a loss. In addition to changes driven by credit market-related movements in the NPA spread, the NPA balance also reflects changes in business activity and in the net amount at risk from the underlying guaranteed living benefits.

The following table presents the net increase (decrease) to consolidated pre-tax income (loss) from changes in the fair value of the GMWB embedded derivatives and related hedges, excluding related DAC amortization:

Years Ended December 31, *(in millions)*	**2020**	2019	2018
Change in fair value of embedded derivatives, excluding update of actuarial assumptions and NPA	**$ (1,145)**	$ (156)	$ (244)
Change in fair value of variable annuity hedging portfolio:			
Fixed maturity securities*	**44**	194	(154)
Interest rate derivative contracts	**1,342**	1,029	(470)
Equity derivative contracts	**(679)**	(1,274)	312
Change in fair value of variable annuity hedging portfolio	**707**	(51)	(312)
Change in fair value of embedded derivatives excluding update of actuarial assumptions and NPA, net of hedging portfolio	**(438)**	(207)	(556)
Change in fair value of embedded derivatives due to NPA spread	**50**	(314)	388
Change in fair value of embedded derivatives due to change in NPA volume	**404**	202	280
Change in fair value of embedded derivatives due to update of actuarial assumptions	**194**	219	38
Total change due to update of actuarial assumptions and NPA	**648**	107	706
Net impact on pre-tax income (loss)	**$ 210**	$ (100)	$ 150
Impact to Consolidated Income Statement			
Net investment income, net of related interest credited to policyholder account balances	**$ 44**	$ 194	$ (154)
Net realized capital gains (losses)	**166**	(294)	304
Net impact on pre-tax income (loss)	**$ 210**	$ (100)	$ 150
Net change in value of economic hedge target and related hedges			
Net impact on economic gains (losses)	**$ 295**	$ 261	$ 334

* Beginning in July 2019, the fixed maturity securities portfolio used in the hedging program was rebalanced to reposition the portfolio from a duration, sector, and issuer perspective. As part of this rebalancing, fixed maturity securities where we elected the fair value option were sold. Later in the quarter, as new fixed maturity securities were purchased, they were classified as available for sale. The change in fair value of available-for-sale fixed maturity securities recognized as a component of other comprehensive income was $217 million and $57 million for 2020 and 2019, respectively.

The net impact on pre-tax income of $210 million from the GMWB embedded derivatives and related hedges in 2020 (excluding related DAC amortization) was driven by the widening of NPA credit spreads, impact of lower interest rates that resulted in NPA volume gains from higher expected GMWB payments, gains from higher equity markets, and gains from the review and update of actuarial assumptions, partially offset by the impact of lower interest rates on the change in the fair value of embedded derivatives excluding NPA, net of the hedging portfolio. In 2019, the net impact on pre-tax loss of $100 million was driven by tightening of credit spreads on the NPA spread, and impact of lower interest rates on the change in the fair value of embedded derivatives excluding NPA, net of the hedging portfolio, offset by impact of lower interest rates that resulted in NPA volume gains from higher expected GMWB payments, and gains from the review and update of actuarial assumptions. In 2018, the net impact on pre-tax income of $150 million was primarily driven by gains from the impact of widening credit spreads on the NPA spread, and the impact of higher interest rates on the change in fair value of embedded derivatives excluding NPA, and gains from the review and update of actuarial assumptions, partially offset by lower equity markets, net of the hedging portfolio.

The change in the fair value of the GMWB embedded derivatives, excluding NPA and update of actuarial assumptions, in 2020 reflected losses from decreases in interest rates, partially offset by gains from higher equity markets. In 2019, the change in the fair value of the GMWB embedded derivatives, excluding NPA and update of actuarial assumptions, reflected losses from decreases in interest rates, partially offset by gains from higher equity markets. In 2018, the change in the fair value of the GMWB embedded derivatives, excluding NPA and update of actuarial assumptions, reflected losses from lower equity markets and the impact of moving from an economic to a GAAP discount basis, offset by increases in interest rates.

Fair value gains or losses in the hedging portfolio are typically not fully offset by increases or decreases in liabilities on a GAAP basis, due to the NPA and other risk margins used for GAAP valuation that cause the embedded derivatives to be less sensitive to changes in market rates than the hedge portfolio. On an economic basis, the changes in the fair value of the hedge portfolio were partially offset by the increase in the economic hedge target, as discussed below. In 2020, we estimated a net mark to market gain of approximately $295 million from our hedging activities related to our economic hedge target primarily driven by gains from higher equity markets and gains from the review and update of actuarial assumptions offset by tightening credit spreads. In 2019, we estimated a net mark to market gain of approximately $261 million from our hedging activities related to our economic hedge target primarily driven by gains from the review and update of actuarial assumptions and modeling refinements, offset by tightening credit spreads. In 2018, we estimated a net mark to market gain of approximately $334 million from our hedging activities related to our economic hedge target primarily driven by gains from the widening of credit spreads.

Change in Economic Hedge Target

The increase in the economic hedge target liability in 2020 was primarily due to lower interest rates and tighter credit spreads, offset by benefits from the review and update of assumptions and higher equity markets. The decrease in the economic hedge target liability in 2019 was primarily due to higher equity markets and gains from the review and update of actuarial assumptions offset by lower interest rates and tighter credit spreads. The decrease in the economic hedge target liability in 2018 was primarily due to higher interest rates and wider credit spreads, offset by lower equity markets.

Change in Fair Value of the Hedging Portfolio

The changes in the fair value of the economic hedge target and, to a lesser extent, the embedded derivative valuation under GAAP, were offset in part by the following changes in the fair value of the variable annuity hedging portfolio:

- Changes in the fair value of interest rate derivative contracts, which included swaps, swaptions and futures, resulted in gains driven by lower interest rates in 2020 and 2019. The net losses in 2018 reflected the impact of increases in interest rates, and widening of credit spreads.
- Changes in the fair value of equity derivative contracts, which included futures and options, resulted in losses in 2020 and 2019 and gains in 2018, and varied based on the relative change in equity market returns in the respective periods.
- Changes in the fair value of fixed maturity securities, primarily corporate bonds, are used as a capital-efficient way to economically hedge interest rate and credit spread-related risk. Beginning in July 2019, the change in the fair value of available-for-sale hedging bonds is reported as a component of comprehensive income in the Condensed Consolidated Statements of Comprehensive Income (Loss). Prior to July 2019, the change in the fair value of the hedging bonds, which was excluded from the adjusted pre-tax income of the Individual Retirement and Group Retirement segments, was reported in net investment income on the Consolidated Statements of Income (Loss). The change in the fair value of the corporate bond hedging program in 2020 reflected gains due to decreases in interest rates, and tightening credit spreads. The gains in 2019 reflected the impact of decreases in interest rates, and tightening credit spreads. The losses in 2018 reflected the impact of increases in interest rates, and widening of credit spreads.

DAC

The following table summarizes the major components of the changes in DAC, including VOBA, within the Life and Retirement companies:

Years Ended December 31, (in millions)	2020	2019	2018
Balance, beginning of year	**$ 8,119**	$ 9,286	$ 7,846
Initial allowance upon CECL adoption	**15**	-	-
Acquisition costs deferred	**910**	1,180	1,128
Amortization expense:			
Update of assumptions included in adjusted pre-tax income	**225**	203	300
Related to realized capital gains and losses	**8**	51	5
All other operating amortization	**(856)**	(875)	(1,000)
Increase (decrease) in DAC due to foreign exchange	**18**	18	(23)
Change related to unrealized depreciation (appreciation) of investments	**(1,123)**	(1,744)	1,030
Balance, end of year, excluding Fortitude Re DAC[(a)]	**7,316**	8,119	9,286
DAC on business ceded to Fortitude Re[(b)]	**-**	456	523
Balance, end of year, including Fortitude Re DAC	**$ 7,316**	$ 8,575	$ 9,809

(a) DAC balance excluding the amount related to unrealized depreciation (appreciation) of investments was $10.5 billion, $10.1 billion and $9.6 billion at December 31, 2020, 2019 and 2018, respectively.

(b) As of closing of the Majority Interest Fortitude Sale on June 2, 2020, these DAC balances were deemed to be not recoverable and were written off.

The net adjustments to DAC amortization from the update of actuarial assumptions for estimated gross profits, including those reported within change in DAC related to net realized capital gains (losses), represented two percent, two percent and four percent of the DAC balance excluding the amount related to unrealized depreciation (appreciation) of investments as of December 31, 2020, 2019 and 2018, respectively.

Reversion to the Mean

The reversion to the mean rate is updated quarterly based on market returns and can change dramatically in periods where market returns move significantly. For December 31, 2020 compared to September 30, 2020, we decreased our reversion to the mean rates of return (gross of fees) to 1.66 percent from 3.12 percent for the variable annuity product line in Individual Retirement, and to 0.55 percent from 2.87 percent for the variable annuity product line in Group Retirement, primarily due to recent equity market movements. The five-year reversion to the mean period did not meet the criteria for adjustment in 2020 which would have otherwise required a reset of the start date used in the calculation of the average gross long-term return rate. The long-term growth assumption used in our reversion to the mean methodology remained unchanged at 7.0 percent in 2020, 2019 and 2018.

For additional discussion of assumptions related to our reversion to the mean methodology see Critical Accounting Estimates – Estimated Gross Profits for Investment-Oriented Products.

DAC and Reserves Related to Unrealized Appreciation of Investments

DAC and Reserves for universal life and investment-oriented products are adjusted at each balance sheet date to reflect the change in DAC, unearned revenue, and benefit reserves with an offset to Other comprehensive income (OCI) as if securities available for sale had been sold at their stated aggregate fair value and the proceeds reinvested at current yields (shadow Investment-Oriented Adjustments). Similarly, for long-duration traditional products, significant unrealized appreciation of investments in a sustained low interest rate environment may cause additional future policy benefit liabilities with an offset to OCI to be recorded.

Shadow adjustments to DAC and unearned revenue generally move in the opposite direction of the change in unrealized appreciation of the available for sale securities portfolio, reducing the reported DAC and unearned revenue balance when market interest rates decline. Conversely, shadow adjustments to benefit reserves generally move in the same direction as the change in unrealized appreciation of the available for sale securities portfolio, increasing reported future policy benefit liabilities balance when market interest rates decline.

Market conditions in 2020 drove an $8.7 billion increase in the unrealized appreciation of fixed maturity securities held to support businesses in the Life and Retirement companies at December 31, 2020 compared to December 31, 2019. At December 31, 2020, the shadow Investment-Oriented Adjustments reflected decreases in amortized balances including DAC and Unearned Revenue Reserves, while accrued liabilities such as policyholder benefit liabilities increased compared to December 31, 2019. Accrued shadow loss recognition reserves decreased from December 31, 2019, primarily due to the discontinuation of recognizing shadow loss recognition reserves related to Fortitude Re funds withheld assets. Although these assets remain on AIG's balance sheet, subsequent to the June 2, 2020 deconsolidation of Fortitude Re, AIG is no longer exposed to the returns on these assets and corresponding shadow adjustments because the assets economically belong to Fortitude Re as a result of the funds withheld arrangements with Fortitude Holdings.

For further discussion on the sale of Fortitude Holdings see Consolidated Results of Operation.

Reserves

The following table presents a rollforward of insurance reserves by operating segments for Life and Retirement, including future policy benefits, policyholder contract deposits, other policyholder funds, and separate account liabilities, as well as Retail Mutual Funds and Group Retirement mutual fund assets under administration:

Years Ended December 31, *(in millions)*	**2020**	2019	2018
Individual Retirement			
Balance at beginning of year, gross	**$ 144,753**	$ 132,529	$ 138,341
Premiums and deposits	**10,370**	14,899	15,621
Surrenders and withdrawals	**(12,023)**	(13,135)	(14,048)
Death and other contract benefits	**(3,075)**	(3,204)	(3,316)
Subtotal	**140,025**	131,089	136,598
Change in fair value of underlying assets and reserve accretion, net of policy fees	**7,285**	11,492	(5,302)
Cost of funds*	**1,675**	1,666	1,538
Other reserve changes	**(148)**	506	(305)
Balance at end of year	**148,837**	144,753	132,529
Reinsurance ceded	**(313)**	(308)	(318)
Total Individual Retirement insurance reserves and mutual fund assets	**$ 148,524**	$ 144,445	$ 132,211
Group Retirement			
Balance at beginning of year, gross	**$ 102,049**	$ 91,685	$ 97,306
Premiums and deposits	**7,496**	8,346	8,639
Surrenders and withdrawals	**(8,696)**	(10,317)	(10,652)
Death and other contract benefits	**(740)**	(675)	(606)
Subtotal	**100,109**	89,039	94,687
Change in fair value of underlying assets and reserve accretion, net of policy fees	**9,644**	11,939	(4,106)
Cost of funds*	**1,125**	1,128	1,106
Other reserve changes	**(227)**	(57)	(2)
Balance at end of year	**110,651**	102,049	91,685
Total Group Retirement insurance reserves and mutual fund assets	**$ 110,651**	$ 102,049	$ 91,685
Life Insurance			
Balance at beginning of year, gross	**$ 27,397**	$ 24,844	$ 24,569
Premiums and deposits	**4,046**	3,931	3,778
Surrenders and withdrawals	**(484)**	(663)	(1,068)
Death and other contract benefits	**(557)**	(663)	(653)
Subtotal	**30,402**	27,449	26,626
Change in fair value of underlying assets and reserve accretion, net of policy fees	**(1,133)**	(1,138)	(1,124)
Cost of funds*	**373**	374	381
Other reserve changes	**(1,644)**	712	(1,039)
Balance at end of year	**27,998**	27,397	24,844
Reinsurance ceded	**(1,437)**	(1,358)	(1,436)
Total Life Insurance reserves	**$ 26,561**	$ 26,039	$ 23,408

Institutional Markets			
Balance at beginning of year, gross	**$ 23,673**	$ 21,762	$ 20,645
Premiums and deposits	**4,846**	2,822	3,207
Surrenders and withdrawals	**(1,788)**	(984)	(2,034)
Death and other contract benefits	**(886)**	(1,102)	(655)
Subtotal	**25,845**	22,498	21,163
Change in fair value of underlying assets and reserve accretion, net of policy fees	**823**	788	139
Cost of funds*	**304**	356	342
Other reserve changes	**370**	31	118
Balance at end of year	**27,342**	23,673	21,762
Reinsurance ceded	**(45)**	(44)	(44)
Total Institutional Markets reserves	**$ 27,297**	$ 23,629	$ 21,718
Total insurance reserves and mutual fund assets			
Balance at beginning of year, gross	**$ 297,872**	$ 270,820	$ 280,861
Premiums and deposits	**26,758**	29,998	31,245
Surrenders and withdrawals	**(22,991)**	(25,099)	(27,802)
Death and other contract benefits	**(5,258)**	(5,644)	(5,230)
Subtotal	**296,381**	270,075	279,074
Change in fair value of underlying assets and reserve accretion, net of policy fees	**16,619**	23,081	(10,393)
Cost of funds*	**3,477**	3,524	3,367
Other reserve changes	**(1,649)**	1,192	(1,228)
Balance at end of year, excluding Fortitude Re reserves	**314,828**	297,872	270,820
Fortitude Re reserves	**28,505**	30,441	28,747
Balance at end of year, including Fortitude Re reserves	**343,333**	328,313	299,567
Fortitude Re reinsurance ceded	**(28,505)**	-	-
Reinsurance ceded	**(1,795)**	(1,710)	(1,798)
Total insurance reserves and mutual fund assets	**$ 313,033**	$ 326,603	$ 297,769

* Excludes amortization of deferred sales inducements.

Insurance reserves, as well as Retail Mutual Funds and Group Retirement mutual fund assets under administration, were comprised of the following balances:

(in millions)	**December 31, 2020**	December 31, 2019
Future policy benefits	**$ 48,864**	$ 48,388
Policyholder contract deposits	**160,450**	152,018
Other policyholder funds*	**957**	976
Separate account liabilities	**100,290**	93,272
Total insurance reserves	**310,561**	294,654
Mutual fund assets	**32,772**	33,659
Total insurance reserves and mutual fund assets	**$ 343,333**	$ 328,313

* Excludes unearned revenue liability.

Liquidity and Capital Resources

OVERVIEW

Liquidity refers to the ability to generate sufficient cash resources to meet our payment obligations. It is defined as cash and unencumbered assets that can be monetized in a short period of time at a reasonable cost. We endeavor to manage our liquidity prudently through various risk committees, policies and procedures, and a stress testing and liquidity risk framework established by our Treasury group with oversight by Enterprise Risk Management (ERM). Our liquidity risk framework is designed to manage liquidity at both AIG Parent and its subsidiaries to meet our financial obligations for a minimum of six months under a liquidity stress scenario.

See Enterprise Risk Management – Risk Appetite, Limits, Identification and Measurement and Enterprise Risk Management – Liquidity Risk Management below for additional information.

Capital refers to the long-term financial resources available to support the operation of our businesses, fund business growth, and cover financial and operational needs that arise from adverse circumstances. Our primary source of ongoing capital generation is derived from the profitability of our insurance subsidiaries. We must comply with numerous constraints on our minimum capital positions. These constraints drive the requirements for capital adequacy at AIG and the individual businesses and are based on internally-defined risk tolerances, regulatory requirements, rating agency and creditor expectations and business needs. Actual capital levels are monitored on a regular basis, and using ERM's stress testing methodology, we evaluate the capital impact of potential macroeconomic, financial and insurance stresses in relation to the relevant capital constraints of both AIG and our insurance subsidiaries.

We believe that we have sufficient liquidity and capital resources to satisfy future requirements and meet our obligations to policyholders, customers, creditors and debt-holders, including those arising from reasonably foreseeable contingencies or events.

Nevertheless, some circumstances may cause our cash or capital needs to exceed projected liquidity or readily deployable capital resources. Additional collateral calls, deterioration in investment portfolios or reserve strengthening affecting statutory surplus, higher surrenders of annuities and other policies, downgrades in credit ratings, catastrophic losses or fluctuations in the capital markets generally may result in significant additional cash or capital needs and loss of sources of liquidity and 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. In addition, regulatory and other legal restrictions could limit our ability to transfer funds freely, either to or from our subsidiaries.

For a discussion regarding risks associated with COVID-19, see Part I. Item 1A. – Risk Factors – COVID-19 is adversely affecting, and is expected to continue to adversely affect, our global business, financial condition and results of operations, and its ultimate impact will depend on future developments that are uncertain and cannot be predicted, including the scope, severity and duration of the crisis, and the governmental, legislative and regulatory actions taken and court decisions rendered in response thereto.

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, issuing preferred stock, paying dividends to our shareholders on the AIG Common Stock, paying dividends to the holders of our Series A Preferred Stock, and repurchases of AIG Common Stock.

LIQUIDITY AND CAPITAL RESOURCES HIGHLIGHTS

SOURCES[(a)]

AIG Parent Funding from Subsidiaries

During 2020, AIG Parent received $1.8 billion in dividends and $108 million in loan repayments from subsidiaries. Of this amount, $1.3 billion consisted of dividends in the form of cash and fixed maturity securities from our General Insurance companies and $473 million consisted of dividends and $108 million in loan repayments in the form of cash from our Life and Retirement companies.

AIG Parent also received a net amount of $1.7 billion in tax sharing payments in the form of cash from our insurance businesses in 2020, including $419 million of such payments in the fourth quarter of 2020. The tax sharing payments may be subject to further adjustment in future periods.

Revolving Credit Facility

On March 20, 2020, AIG Parent borrowed $1.3 billion under its $4.5 billion committed, revolving syndicated credit facility, which amount was repaid in full with interest on June 9, 2020.

Debt Issuance

In May 2020, we issued $1.5 billion aggregate principal amount of 2.500% Notes Due 2025; $1.6 billion aggregate principal amount of 3.400% Notes Due 2030; and $1.0 billion aggregate principal amount of 4.375% Notes Due 2050.

Other Cash Inflows

During 2020 we received other cash inflows of approximately $2.2 billion in connection with debt unrelated to AIG's general borrowings, including:

- $2.1 billion of debt of consolidated investment entities not guaranteed by AIG, which includes real estate investments, affordable housing partnerships and other securitization vehicles;
- $126 million of borrowings supported by assets, principally GIAs; and
- $5 million of subsidiary notes, bonds, loans and mortgages payable, not guaranteed by AIG.

Majority Interest Fortitude Sale

In June 2020, AIG completed the Majority Interest Fortitude Sale for $2.2 billion. AIG Parent contributed $700 million of the proceeds of the Majority Interest Fortitude Sale to certain of its General Insurance subsidiaries and $135 million of the proceeds of the Majority Interest Fortitude Sale to certain of its Life and Retirement subsidiaries.

USES

Debt Reduction[b]

During 2020, $1.7 billion of debt categorized as general borrowings matured, was repaid or redeemed as follows:

- Redemption of $350 million aggregate principal amount of our 4.35% Callable Notes Due 2045.
- Repayment of $638 million aggregate principal amount of our 3.375% Notes Due 2020 made on August 15, 2020.
- Repayment of $708 million aggregate principal amount of our 6.400% Notes Due 2020 made on December 15, 2020.

We made interest payments on our general borrowings totaling $1.0 billion during 2020.

Other Cash Outflows

During 2020 we made other repayments of approximately $3.1 billion in connection with debt unrelated to AIG's general borrowings, including:

- $2.8 billion on debt of consolidated investment entities not guaranteed by AIG, which includes real estate investments, affordable housing partnerships and other securitization vehicles;
- $265 million on borrowings supported by assets, principally GIAs; and
- $48 million on subsidiary notes, bonds, loans and mortgages payable, not guaranteed by AIG.

Revolving Credit Facility

On June 9, 2020, AIG Parent repaid in full with interest the $1.3 billion borrowed under its $4.5 billion committed, revolving syndicated credit facility.

Dividend

We paid a cash dividend of $365.625 per share on AIG's Series A Preferred Stock during each quarter of 2020 totaling $29 million.

We paid a cash dividend of $0.32 per share on AIG Common Stock during each quarter of 2020 totaling $1.1 billion.

Repurchase of Common Stock[a]

We repurchased approximately 12 million shares of AIG Common Stock during the first quarter of 2020, for an aggregate purchase price of $500 million, under an accelerated stock repurchase (ASR) agreement executed in February 2020.

Majority Interest Fortitude Sale

In June 2020, AIG completed the Majority Interest Fortitude Sale for $2.2 billion. AIG Parent contributed $700 million of the proceeds of the Majority Interest Fortitude Sale to certain of its General Insurance subsidiaries and $135 million of the proceeds of the Majority Interest Fortitude Sale to certain of its Life and Retirement subsidiaries.

IRS Tax Prepayment

In June 2020, AIG Parent made a prepayment of approximately $548 million to the U.S. Treasury in connection with certain settlement agreements described in Tax Matters below.

(a) In January 2021, we received aggregate proceeds of approximately $92 million in connection with warrant exercises that occurred prior to the expiration of warrants to purchase shares of AIG Common Stock on January 19, 2021. Pursuant to an Exchange Act Rule 10b5-1 repurchase plan, in January 2021, we repurchased approximately $92 million of shares of AIG Common Stock with proceeds received from warrant exercises. As of February 18, 2021, approximately $1.4 billion remained under our share repurchase authorization.

(b) On February 1, 2020, AIG redeemed all of its outstanding 3.300% Notes Due 2021 (the Notes), for a redemption price of 100 percent of the principal amount plus accrued and unpaid interest. As of December 31, 2020, $1.5 billion aggregate principal amount of the Notes were outstanding.

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)*	2020	2019	2018
Sources:			
Net cash provided by operating activities	$ 1,038	$ -	$ -
Net cash provided by other investing activities	-	-	5,494
Changes in policyholder contract balances	4,531	5,630	6,634
Issuance of long-term debt	4,196	734	2,657
Issuance of debt of consolidated investment entities	2,128	3,147	2,077
Issuance of preferred stock, net of issuance costs	-	485	-
Net cash provided by other financing activities	541	1,600	-
Total sources	12,434	11,596	16,862
Uses:			
Net cash used in operating activities	-	(1,807)	(394)
Acquisition of businesses, net of cash and restricted cash acquired	-	-	(5,717)
Net cash used in other investing activities	(6,202)	(5,475)	-
Repayments of long-term debt	(1,923)	(1,504)	(3,044)
Repayments of debt of consolidated investment entities	(2,783)	(1,698)	(628)
Purchase of common stock	(500)	-	(1,739)
Dividends paid on preferred stock	(29)	(22)	-
Dividends paid on common stock	(1,103)	(1,114)	(1,138)
Purchases of warrants	-	-	(11)
Net cash used in other financing activities	-	-	(3,559)
Total uses	(12,540)	(11,620)	(16,230)
Effect of exchange rate changes on cash and restricted cash	49	16	(11)
Increase (decrease) in cash and restricted cash	$ (57)	$ (8)	$ 621

The following table presents a summary of AIG's Consolidated Statements of Cash Flows:

Years Ended December 31, *(in millions)*	2020	2019	2018
Summary:			
Net cash provided by (used in) operating activities	$ 1,038	$ (1,807)	$ (394)
Net cash used in investing activities	(6,202)	(5,475)	(223)
Net cash provided by financing activities	5,058	7,258	1,249
Effect of exchange rate changes on cash and restricted cash	49	16	(11)
Net Increase (decrease) in cash and restricted cash	(57)	(8)	621
Cash and restricted cash at beginning of year	3,287	3,358	2,737
Change in cash of businesses held for sale	-	(63)	-
Cash and restricted cash at end of year	$ 3,230	$ 3,287	$ 3,358

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 $1.1 billion in 2020 compared to $1.3 billion in 2019 and $1.3 billion in 2018. Excluding interest payments, AIG had operating cash inflows of $2.1 billion in 2020 compared to operating cash outflows of $481 million in 2019 and operating cash inflows of $918 million in 2018.

Investing Cash Flow Activities

Net cash used in investing activities in 2020 was $6.2 billion compared to net cash used in investing activities of $5.5 billion in 2019 and $0.2 billion in 2018. Net cash used in investing activities in 2018 included our acquisition of Validus for approximately $5.5 billion in cash.

Financing Cash Flow Activities

Net cash provided by financing activities in 2020 reflected:

- approximately $1.1 billion in the aggregate to pay a dividend of $0.32 per share on AIG Common Stock in each quarter of 2020;
- approximately $29 million in the aggregate to pay a dividend of $365.625 per share on AIG's Series A Preferred Stock in each quarter of 2020;
- $500 million to repurchase approximately 12 million shares of AIG Common Stock;
- approximately $2.3 billion in net inflows from the issuance and repayment of long-term debt; and
- approximately $655 million in net outflows from the issuance and repayment of debt of consolidated investment entities.

Net cash provided by financing activities in 2019 reflected:

- approximately $1.1 billion in the aggregate to pay a dividend of $0.32 per share on AIG Common Stock in each quarter of 2019;
- approximately $22 million to pay a dividend of $369.6875 per share, $365.625 per share and $365.625 per share on AIG's Series A Preferred Stock in the second, third and fourth quarters of 2019, respectively;
- approximately $770 million in net outflows from the issuance and repayment of long-term debt;
- approximately $1.4 billion in net inflows from the issuance and repayment of debt of consolidated investment entities; and
- approximately $485 million inflow from the issuance of preferred stock.

Net cash used in financing activities in 2018 reflected:

- approximately $1.1 billion in the aggregate to pay a dividend of $0.32 per share on AIG Common Stock in each quarter of 2018;
- approximately $1.7 billion to repurchase approximately 36.5 million shares of AIG Common Stock;
- approximately $387 million in net outflows from the issuance and repayment of long-term debt; and
- approximately $1.4 billion in net inflows from the issuance and repayment of debt of consolidated investment entities.

LIQUIDITY AND CAPITAL RESOURCES OF AIG PARENT AND SUBSIDIARIES

AIG Parent

As of December 31, 2020, AIG Parent had approximately $15.0 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 and also include a committed, revolving syndicated credit facility. Fixed maturity securities primarily include U.S. government and government sponsored entity securities, U.S. agency mortgage-backed securities, corporate and municipal bonds and certain other highly rated securities. AIG Parent actively manages its assets and liabilities in terms of products, counterparties and duration. Based upon an assessment of funding needs, the liquidity sources can be readily monetized through sales or repurchase agreements or contributed as admitted assets to regulated insurance companies. AIG Parent liquidity is monitored through the use of various internal liquidity risk measures. AIG Parent's primary sources of liquidity are dividends, distributions, loans and other payments from subsidiaries and credit facilities. AIG Parent's primary uses of liquidity are for debt service, capital and liability management, and operating expenses.

We believe that we have sufficient liquidity and capital resources to satisfy our reasonably foreseeable future requirements and meet our obligations to our creditors, debt-holders and insurance company subsidiaries. We expect to access the debt and preferred equity 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 AIG Common Stock repurchase authorizations or deploy such capital towards liability management.

In the normal course, it is expected that a portion of the capital released by our insurance operations, by our other operations or through the utilization of AIG's deferred tax assets may be available to support our business strategies, for distribution to shareholders or for liability management.

In developing plans to distribute capital, AIG considers a number of factors, including, but not limited to: AIG's business and strategic plans, expectations for capital generation and utilization, AIG's funding capacity and capital resources in comparison to internal benchmarks, as well as rating agency expectations, regulatory standards and internal stress tests for capital.

The following table presents AIG Parent's liquidity sources:

(in millions)	**As of December 31, 2020**	As of December 31, 2019
Cash and short-term investments[(a)]	**$ 6,762**	$ 2,804
Unencumbered fixed maturity securities[(b)]	**3,711**	4,777
Total AIG Parent liquidity	**10,473**	7,581
Available capacity under committed, syndicated credit facility[(c)]	**4,500**	4,500
Total AIG Parent liquidity sources	**$ 14,973**	$ 12,081

(a) Cash and short-term investments include reverse repurchase agreements totaling $5.4 billion and $2.1 billion as of December 31, 2020 and 2019, 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 committed, syndicated credit facility see – Credit Facilities below.*

Insurance Companies

We expect that our insurance companies will be able to continue to satisfy reasonably foreseeable future liquidity requirements and meet their obligations, including those arising from reasonably foreseeable contingencies or events, through cash from operations and, to the extent necessary, monetization of invested assets. Our insurance companies' liquidity resources are primarily held in the form of cash, short-term investments and publicly traded, investment grade rated fixed maturity securities.

Each of our material insurance companies' liquidity is monitored through various internal liquidity risk measures. The primary sources of liquidity are premiums, fees, reinsurance recoverables and investment income and maturities. The primary uses of liquidity are paid losses, reinsurance payments, benefit claims, surrenders, withdrawals, interest payments, dividends, expenses, investment purchases and collateral requirements.

Our General Insurance companies may require additional funding to meet capital or liquidity needs under certain circumstances. Large catastrophes may require us to provide additional support to our affected operations. Downgrades in our credit ratings could put pressure on the insurer financial strength ratings of our subsidiaries, which could result in non-renewals or cancellations by policyholders and adversely affect a subsidiary's ability to meet its own obligations. Increases in market interest rates may adversely affect the financial strength ratings of our subsidiaries, as rating agency capital models may reduce the amount of available capital relative to required capital.

Management believes that because of the size and liquidity of our Life and Retirement companies' investment portfolios, normal deviations from projected claim or surrender experience would not create significant liquidity risk. Furthermore, our Life and Retirement companies' products contain certain features that mitigate surrender risk, including surrender charges. However, in times of extreme capital markets disruption or as a result of fluctuations in the capital markets generally, liquidity needs could outpace resources. As part of their risk management framework, our Life and Retirement companies continue to evaluate and, where appropriate, pursue strategies and programs to improve their liquidity position and facilitate their ability to maintain a fully invested asset portfolio.

Certain of our U.S. insurance companies are members of the FHLBs in their respective districts. Borrowings from FHLBs are used to supplement liquidity or for other uses deemed appropriate by management. Our U.S. General Insurance companies had no outstanding borrowings from FHLBs at both December 31, 2020 and 2019. Our U.S. Life and Retirement companies had $3.6 billion and $3.5 billion which were due to FHLBs in their respective districts at December 31, 2020 and 2019, respectively, under funding agreements issued through our Individual Retirement, Group Retirement and Institutional Markets operating segments, which were reported in Policyholder contract deposits. Proceeds from funding agreements are generally invested in fixed income securities and other investments intended to generate spread income. These investment contracts do not have mortality or morbidity risk and are similar to GICs. In addition, our U.S. Life and Retirement companies had no outstanding borrowings in the form of cash advances from FHLBs at both December 31, 2020 and 2019.

Certain of our U.S. Life and Retirement companies have programs, which began in 2012, that lend securities from their investment portfolio to supplement liquidity or for other uses as deemed appropriate by management. Under these programs, these U.S. Life and Retirement companies lend securities to financial institutions and receive cash as collateral equal to 102 percent of the fair value of the loaned securities. Cash collateral received is invested in short-term investments or partially used for short-term liquidity purposes. Additionally, the aggregate amount of securities that a Life and Retirement company is able to lend under its program at any time is limited to five percent of its general account statutory-basis admitted assets. Our U.S. Life and Retirement companies had $3.4 billion and $2.8 billion of securities subject to these agreements at December 31, 2020 and 2019, respectively, and $3.5 billion and $2.9 billion of liabilities to borrowers for collateral received at December 31, 2020 and 2019, respectively.

AIG generally manages capital between AIG Parent and our insurance companies through internal, Board-approved policies and limits, as well as management standards. In addition, AIG Parent has unconditional capital maintenance agreements (CMAs) in place with certain subsidiaries. Nevertheless, regulatory and other legal restrictions could limit our ability to transfer capital freely, either to or from our subsidiaries. In June 2020, upon closing of the Majority Interest Fortitude Sale, the CMA between AIG Parent and Fortitude Re was terminated.

AIG Parent and/or certain subsidiaries are parties to several letter of credit agreements with various financial institutions, which issue letters of credit from time to time in support of our insurance companies. These letters of credit are subject to reimbursement by AIG Parent and/or certain subsidiaries in the event of a drawdown by our insurance companies. Letters of credit issued in support of the General Insurance companies totaled approximately $4.6 billion at December 31, 2020. Letters of credit issued in support of the Life and Retirement companies totaled approximately $612 million at December 31, 2020. In June 2020, upon closing of the Majority Interest Fortitude Sale, the $550 million of letters of credit issued in support of Fortitude Re and subject to reimbursement by AIG in the event of a drawdown were terminated.

In 2020, our General Insurance companies collectively paid a total of approximately $1.3 billion in dividends in the form of cash and fixed maturity securities to AIG Parent. The fixed maturity securities primarily included U.S. treasuries and securities issued by other U.S. agencies. In June 2020, upon closing of the Majority Interest Fortitude Sale, AIG contributed $700 million of the proceeds of the Majority Interest Fortitude Sale to certain of its General Insurance subsidiaries.

In 2020, our Life and Retirement companies collectively paid a total of approximately $581 million in dividends and loan repayments in the form of cash to AIG Parent. In June 2020, upon closing of the Majority Interest Fortitude Sale, AIG contributed $135 million of the proceeds of the Majority Interest Fortitude Sale to certain of its Life and Retirement subsidiaries.

Tax Matters

In October 2020, the Southern District of New York dismissed the case for the 1997 tax year related to the disallowance of foreign tax credits associated with cross border financing transactions based upon the settlement reached between AIG and the government. The settlement concluded our ongoing dispute related to the disallowance of foreign tax credits associated with cross border financing transactions for all years and as a result of the settlement, we will be required to make a payment to the U.S. Treasury. The amount we currently expect to pay based on settlement terms is approximately $0.7 billion, including obligations of AIG Parent and subsidiaries. This amount is net of payments previously made with respect to cross border financing transactions from tax years 1997 through 2006 and other matters related to 2006 and prior, including a prepayment of approximately $548 million that AIG made to the U.S. Treasury in June 2020. The amount also includes interest that will become due after review of the interest calculations and will reflect benefits from the application of interest netting which AIG has requested. There remains uncertainty with regard to the amount and timing of any additional payments, which could be made during the first half of 2021.

For additional information regarding this matter see Note 22 to the Consolidated Financial Statements.

CREDIT FACILITIES

We maintain a committed, revolving syndicated credit facility (the Facility) as a potential source of liquidity for general corporate purposes. The Facility provides for aggregate commitments by the bank syndicate to provide unsecured revolving loans and/or standby letters of credit of up to $4.5 billion without any limits on the type of borrowings and is scheduled to expire in June 2022.

On March 20, 2020, we borrowed $1.3 billion under the Facility to further increase AIG Parent liquidity. On June 9, 2020, we repaid the $1.3 billion borrowed under the Facility in full with interest. As of December 31, 2020, a total of $4.5 billion remains available under the Facility. Our ability to utilize the Facility is not contingent on our credit ratings. However, our ability to utilize the Facility is conditioned on the satisfaction of certain legal, operating, administrative and financial covenants and other requirements contained in the Facility. These include covenants relating to our maintenance of a specified total consolidated net worth and total consolidated debt to total consolidated capitalization. Failure to satisfy these and other requirements contained in the Facility would restrict our access to the Facility and could have a material adverse effect on our financial condition, results of operations and liquidity. We expect to utilize the Facility from time to time, and may use the proceeds for general corporate purposes.

CONTRACTUAL OBLIGATIONS

The following table summarizes contractual obligations in total, and by remaining maturity:

December 31, 2020		Payments due by Period			
(in millions)	Total Payments	2021	2022 - 2023	2024 - 2025	Thereafter
Insurance operations					
Loss reserves[(a)]	**$ 79,356**	$ 22,220	$ 22,458	$ 11,586	$ 23,092
Insurance and investment contract liabilities	**293,158**	17,563	32,966	32,173	210,456
Borrowings	**1,356**	238	2	260	856
Interest payments on borrowings	**753**	50	99	99	505
Operating leases	**675**	183	233	121	138
Other long-term obligations	**2**	-	1	-	1
Total	**$ 375,300**	$ 40,254	$ 55,759	$ 44,239	$ 235,048
Other					
Borrowings	**$ 26,747**	$ 1,658	$ 3,400	$ 4,486	$ 17,203
Interest payments on borrowings	**14,841**	1,074	1,893	1,800	10,074
Operating leases	**960**	50	126	114	670
Other long-term obligations	**267**	104	123	27	13
Total	**$ 42,815**	$ 2,886	$ 5,542	$ 6,427	$ 27,960
Consolidated					
Loss reserves[(a)]	**$ 79,356**	$ 22,220	$ 22,458	$ 11,586	$ 23,092
Insurance and investment contract liabilities	**293,158**	17,563	32,966	32,173	210,456
Borrowings[(b)]	**28,103**	1,896	3,402	4,746	18,059
Interest payments on borrowings	**15,594**	1,124	1,992	1,899	10,579
Operating leases[(c)]	**1,635**	233	359	235	808
Other long-term obligations[(d)]	**269**	104	124	27	14
Total[(e)]	**$ 418,115**	$ 43,140	$ 61,301	$ 50,666	$ 263,008

(a) Represents loss reserves, undiscounted and gross of reinsurance.

(b) Does not reflect $9.4 billion of notes issued by consolidated investment entities, for which recourse is limited to the assets of the respective investment entities and for which there is no recourse to the general credit of AIG.

(c) The company also procured additional office space via operating lease contracts for which lease commencement will occur in 2021. Future undiscounted obligations stemming from those contracts total $389 million, which excludes the effect of renewal options.

(d) Primarily includes contracts to purchase future services and other capital expenditures.

(e) Does not reflect unrecognized tax benefits of $2.3 billion or the expected payment of $0.7 billion to be made to the U.S. Treasury associated with settlement agreements reached between AIG and the government. There remains uncertainty with regard to the amount and timing of the expected payment, which could be made during the first half of 2021. *See Note 22 to the Consolidated Financial Statements for additional information.*

Loss Reserves

Loss reserves relate to our General Insurance companies and represent estimates of future loss and loss adjustment expense payments based on historical loss development payment patterns. Due to the significance of the assumptions used, the payments by period presented above could be materially different from actual required payments. We believe that our General Insurance companies maintain adequate financial resources to meet the actual required payments under these obligations.

Insurance and Investment Contract Liabilities

Insurance and investment contract liabilities, including GIC liabilities, relate to our Life and Retirement companies. These liabilities include various investment-type products with contractually scheduled maturities, including periodic payments. These liabilities also include benefit and claim liabilities, of which a significant portion represents policies and contracts that do not have stated contractual maturity dates and may not result in any future payment obligations. For these policies and contracts (i) we are not currently making payments until the occurrence of an insurable event, such as death or disability, (ii) payments are conditional on survivorship or (iii) payment may occur due to a surrender or other non-scheduled event beyond our control.

We have made significant assumptions to determine the estimated undiscounted cash flows of these contractual policy benefits. These assumptions include mortality, morbidity, future lapse rates, expenses, investment returns and interest crediting rates, offset by expected future deposits and premiums on in-force policies. Due to the significance of the assumptions, the periodic amounts presented could be materially different from actual required payments. The amounts presented in this table are undiscounted and exceed the future policy benefits and policyholder contract deposits included in the Consolidated Balance Sheets.

We believe that our Life and Retirement companies have adequate financial resources to meet the payments actually required under these obligations. These subsidiaries have substantial liquidity in the form of cash and short-term investments. In addition, our Life and Retirement companies maintain significant levels of investment grade rated fixed maturity securities, including substantial holdings in government and corporate bonds, and could seek to monetize those holdings in the event operating cash flows are 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 or preferred stock 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, 2020		Amount of Commitment Expiring			
(in millions)	Total Amounts Committed	2021	2022 - 2023	2024 - 2025	Thereafter
Insurance operations					
Guarantees:					
Standby letters of credit	**$ 147**	$ 140	$ -	$ -	$ 7
Guarantees of indebtedness	**50**	50	-	-	-
All other guarantees[(a)]	**16**	16	-	-	-
Commitments:					
Investment commitments[(b)]	**7,217**	3,419	2,330	1,426	42
Commitments to extend credit	**5,062**	1,835	2,167	233	827
Letters of credit	**3**	3	-	-	-
Other commercial commitments	**8**	3	4	1	-
Total[(c)]	**$ 12,503**	$ 5,466	$ 4,501	$ 1,660	$ 876
Other					
Guarantees:					
Liquidity facilities[(d)]	**$ 74**	$ -	$ -	$ -	$ 74
Standby letters of credit	**78**	78	-	-	-
All other guarantees	**175**	175	-	-	-
Commitments:					
Investment commitments[(b)]	**88**	35	20	33	-
Commitments to extend credit	**-**	-	-	-	-
Letters of credit	**280**	10	-	270	-
Other commercial commitments	**-**	-	-	-	-
Total[(c)(e)]	**$ 695**	$ 298	$ 20	$ 303	$ 74
Consolidated					
Guarantees:					
Liquidity facilities[(d)]	**$ 74**	$ -	$ -	$ -	$ 74
Standby letters of credit	**225**	218	-	-	7
Guarantees of indebtedness	**50**	50	-	-	-
All other guarantees[(a)]	**191**	191	-	-	-
Commitments:					
Investment commitments[(b)]	**7,305**	3,454	2,350	1,459	42
Commitments to extend credit	**5,062**	1,835	2,167	233	827
Letters of credit	**283**	13	-	270	-
Other commercial commitments	**8**	3	4	1	-
Total[(c)(e)]	**$ 13,198**	$ 5,764	$ 4,521	$ 1,963	$ 950

(a) Excludes potential amounts for indemnification obligations included in asset sales agreements. *For further information on indemnification obligations see Note* 16 *to the Consolidated Financial Statements.*

(b) Includes commitments to invest in private equity funds, hedge funds and other funds and commitments to purchase and develop real estate in the United States and abroad. The commitments to invest in private equity funds, hedge funds and other funds are called at the discretion of each fund, as needed for funding new investments or expenses of the fund. The expiration of these commitments is estimated in the table above based on the expected life cycle of the related fund, consistent with past trends of requirements for funding. Investors under these commitments are primarily insurance and real estate subsidiaries.

(c) Does not include guarantees, CMAs or other support arrangements among AIG consolidated entities.

(d) Primarily represents liquidity facilities provided in connection with certain municipal swap transactions and collateralized bond obligations.

(e) Excludes commitments with respect to pension plans. The annual pension contribution for 2021 is expected to be approximately $68 million for U.S. and non-U.S. plans.

Arrangements with Variable Interest Entities

We enter into various arrangements with variable interest entities (VIEs) in the normal course of business, and we consolidate a VIE when we are the primary beneficiary of the entity.

For a further discussion of our involvement with VIEs see Note 10 to the Consolidated Financial Statements.

Indemnification Agreements

We are subject to financial guarantees and indemnity arrangements in connection with our sales of businesses. These arrangements may be triggered by declines in asset values, specified business contingencies, the realization of contingent liabilities, litigation developments, or breaches of representations, warranties or covenants provided by us. These arrangements are typically subject to time limitations, defined by contract or by operation of law, such as by prevailing statutes of limitation. Depending on the specific terms of the arrangements, the maximum potential obligation may or may not be subject to contractual limitations.

For additional information regarding our indemnification agreements see Note 16 to the Consolidated Financial Statements.

We have recorded liabilities for certain of these arrangements where it is possible to estimate them. These liabilities are not material in the aggregate. We are unable to develop a reasonable estimate of the maximum potential payout under some of these arrangements. Overall, we believe the likelihood that we will have to make any material payments under these arrangements is remote.

DEBT

The following table provides the rollforward of AIG's total debt outstanding:

Year Ended December 31, 2020 (in millions)	Balance at December 31, 2019	Issuances	Maturities and Repayments	Effect of Foreign Exchange	Other Changes	Balance at December 31, 2020
Debt issued or guaranteed by AIG:						
AIG general borrowings:						
Notes and bonds payable	$ 20,467	$ 4,065	$ (1,696)	$ 195	$ 37	**$ 23,068**
Junior subordinated debt	1,542	-	-	18	1	**1,561**
AIG Japan Holdings Kabushiki Kaisha	344	-	-	17	-	**361**
AIGLH notes and bonds payable	282	-	-	-	-	**282**
AIGLH junior subordinated debt	361	-	-	-	-	**361**
Validus notes and bonds payable	353	-	-	-	(5)	**348**
Total AIG general borrowings	23,349	4,065	(1,696)	230	33	**25,981**
AIG borrowings supported by assets:(a)						
Series AIGFP matched notes and bonds payable	21	-	-	-	-	**21**
GIAs, at fair value	2,003	125	(261)	-	166 (b)	**2,033**
Notes and bonds payable, at fair value	59	1	(4)	-	8 (b)	**64**
Total AIG borrowings supported by assets	2,083	126	(265)	-	174	**2,118**
Total debt issued or guaranteed by AIG	25,432	4,191	(1,961)	230	207	**28,099**
Other subsidiaries' notes, bonds, loans and mortgages payable - not guaranteed by AIG	47	5	(48)	-	-	**4**
Total long-term debt	25,479	4,196	(2,009)	230	207	**28,103**
Debt of consolidated investment entities - not guaranteed by AIG(c)	9,871	2,128	(2,783)	36	179 (d)	**9,431**
Total debt	$ 35,350	$ 6,324	$ (4,792)	$ 266	$ 386	**$ 37,534**

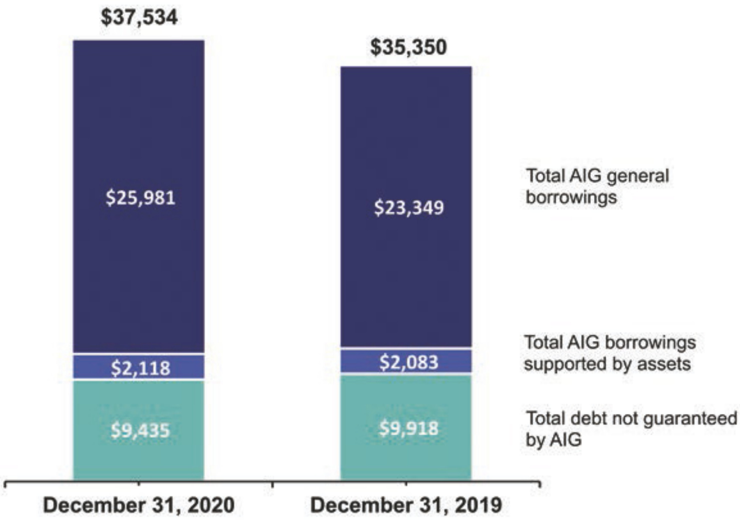
(a) AIG Parent guarantees all such debt, except for Series AIGFP matched notes and bonds payable, which are direct obligations of AIG Parent. Collateral posted to third parties was $1.4 billion and $1.5 billion at December 31, 2020 and December 31, 2019, respectively. This collateral primarily consists 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, 2020, includes debt of consolidated investment entities related to real estate investments of $3.1 billion, affordable housing partnership investments of $2.3 billion and other securitization vehicles of $4.0 billion. At December 31, 2019, includes debt of consolidated investment entities related to real estate investments of $3.2 billion, affordable housing partnership investments of $2.1 billion and other securitization vehicles of $4.6 billion.

(d) Includes the effect of consolidating previously unconsolidated partnerships.

TOTAL DEBT OUTSTANDING
(in millions)



Debt Maturities

The following table summarizes maturing long-term debt at December 31, 2020 of AIG for the next four quarters:

(in millions)	First Quarter 2021	Second Quarter 2021	Third Quarter 2021	Fourth Quarter 2021	Total
AIG general borrowings	$ 1,500	$ 236	$ -	$ -	**$ 1,736**
AIG borrowings supported by assets	1	68	53	36	**158**
Other subsidiaries' notes, bonds, loans and mortgages	-	1	-	1	**2**
Total	$ 1,501	$ 305	$ 53	$ 37	**$ 1,896**

See Note 15 to the Consolidated Financial Statements for additional details on debt outstanding.

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 the date of this filing. 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]
American International Group, Inc.	**P-2 (2nd of 3)**	**A-2 (2nd of 8)**	**Baa 1 (4th of 9)** ***On review for downgrade***	**BBB+ (4th of 9)** ***CreditWatch Negative***	**BBB+ (4th of 9)** ***Rating Watch Negative***
AIG Financial Products Corp.[d]	**P-2**	**A-2**	**Baa 1** ***On review for downgrade***	**BBB+** ***CreditWatch Negative***	

(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. *For a discussion of rating agency actions in response to AIG's announced intention to separate its Life and Retirement business from AIG, see Recent Rating Agency Actions below.*

We are party to some agreements that contain "ratings triggers." Depending on the ratings maintained by one or more rating agencies, these triggers could result in (i) the termination or limitation of credit availability or a requirement for accelerated repayment, (ii) the termination of business contracts or (iii) a requirement to post collateral for the benefit of counterparties.

In the event of a downgrade of AIG's long-term senior debt ratings, AIG Financial Products Corp. and related subsidiaries (collectively AIGFP) and certain other AIG entities would be required to post additional collateral under some derivative and other transactions, or certain of the counterparties of AIGFP or of such other AIG entities would be permitted to terminate such transactions early.

The actual amount of collateral that we would be required to post to counterparties in the event of such downgrades, or the aggregate amount of payments that we could be required to make, depends on market conditions, the fair value of outstanding affected transactions and other factors prevailing at the time of the downgrade.

For a discussion of the effects of downgrades in our credit ratings see Note 11 to the Consolidated Financial Statements and Part I, Item 1A. Risk Factors – Liquidity, Capital and Credit.

FINANCIAL STRENGTH RATINGS

Financial Strength ratings estimate an insurance company's ability to pay its obligations under an insurance policy. The following table presents the ratings of our significant insurance subsidiaries as of the date of this filing.

	A.M. Best	S&P	Fitch	Moody's
National Union Fire Insurance Company of Pittsburgh, Pa.	A	A+	A	A2
Lexington Insurance Company	A	A+	A	A2
American Home Assurance Company	A	A+	A	A2
American General Life Insurance Company	A	A+	A+	A2
The Variable Annuity Life Insurance Company	A	A+	A+	A2
United States Life Insurance Company in the City of New York	A	A+	A+	A2
AIG Europe S.A.	NR	A+	NR	A2
American International Group UK Ltd.	A	A+	NR	A2
AIG General Insurance Co. Ltd.	NR	A+	NR	NR
Validus Reinsurance, Ltd.	A	A	NR	A2

These financial strength ratings are current opinions of the rating agencies. They may be changed, suspended or withdrawn at any time by the rating agencies as a result of changes in, or unavailability of, information or based on other circumstances.

For a discussion of the effects of downgrades in our financial strength ratings see Note 11 to the Consolidated Financial Statements and Part I, Item 1A. Risk Factors – Liquidity, Capital and Credit.

RECENT RATING AGENCY ACTIONS

In response to the announcement by AIG on October 26, 2020 of its intention to separate its Life and Retirement business from AIG, the rating agencies in the tables above took the following actions:

- On October 27, 2020, A.M. Best issued a comment stating that its financial strength and issuer credit ratings on AIG and subsidiaries are unchanged as a result of the announcement.
- On October 28, 2020, Fitch placed the credit ratings of AIG on "Rating Watch Negative." Fitch also affirmed the financial strength ratings and outlooks on AIG's insurance subsidiaries.
- On October 28, 2020, Moody's placed the debt ratings of AIG on review for downgrade. Moody's also affirmed the financial strength ratings and outlooks on AIG's insurance subsidiaries.
- On October 27, 2020, S&P placed the credit ratings of AIG and the financial strength ratings of most of the General Insurance subsidiaries on CreditWatch with negative implications. S&P also placed the financial strength ratings of the Life and Retirement subsidiaries on CreditWatch with developing implications.

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 Part 1. Item 1. Business – Regulation and Item 1A. Risk Factors – Regulation.

DIVIDENDS

On February 12, 2020, our Board of Directors declared a cash dividend on AIG Common Stock of $0.32 per share, payable on March 30, 2020 to shareholders of record on March 16, 2020. On May 4, 2020, our Board of Directors declared a cash dividend on AIG Common Stock of $0.32 per share, payable on June 29, 2020 to shareholders of record on June 15, 2020. On August 3, 2020, our Board of Directors declared a cash dividend on AIG Common Stock of $0.32 per share, payable on September 30, 2020 to shareholders of record on September 17, 2020. On November 5, 2020, our Board of Directors declared a cash dividend on AIG Common Stock of $0.32 per share, payable on December 28, 2020 to shareholders of record on December 14, 2020.

On February 16, 2021, our Board of Directors declared a cash dividend on AIG Common Stock of $0.32 per share, payable on March 30, 2021 to shareholders of record on March 16, 2021.

On February 12, 2020, our Board of Directors declared a cash dividend on AIG's Series A Preferred Stock of $365.625 per share, payable on March 16, 2020 to holders of record on February 28, 2020. On May 4, 2020, our Board of Directors declared a cash dividend on AIG's Series A Preferred Stock of $365.625 per share, payable on June 15, 2020 to holders of record on May 29, 2020. On August 3, 2020, our Board of Directors declared a cash dividend on AIG's Series A Preferred Stock of $365.625 per share, payable on September 15, 2020 to holders of record on August 31, 2020. On November 5, 2020, our Board of Directors declared a cash dividend on AIG's Series A Preferred Stock of $365.625 per share, payable on December 15, 2020 to holders of record on November 30, 2020.

On February 16, 2021, our Board of Directors declared a cash dividend on AIG's Series A Preferred Stock of $365.625 per share, payable on March 15, 2021 to holders of record on February 26, 2021.

The payment of any future dividends will be at the discretion of our Board of Directors and will depend on various factors, as discussed further in Note 17 to the Consolidated Financial Statements.

REPURCHASES OF AIG COMMON STOCK

Our Board of Directors has authorized the repurchase of shares of AIG Common Stock through a series of actions. As of February 18, 2021, $1.4 billion remained under the authorization.

During the first quarter of 2020, we repurchased approximately 12 million shares of AIG Common Stock for an aggregate purchase price of $500 million under an ASR agreement executed in February 2020 with a third-party financial institution. We did not repurchase any shares of AIG Common Stock during the second, third or fourth quarters of 2020. In January 2021, we repurchased approximately $92 million of additional shares of AIG Common Stock pursuant to an Exchange Act Rule 10b5-1 repurchase plan.

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. Certain of our share repurchases have been and may from time to time be effected through the Exchange Act Rule 10b5-1 repurchase plans. The timing of any future share repurchases will depend on market conditions, our business and strategic plans, financial condition, results of operations, liquidity and other factors, as discussed further in Note 17 to the Consolidated Financial Statements.

DIVIDEND RESTRICTIONS

Payments of dividends to AIG by its insurance subsidiaries are subject to certain restrictions imposed by regulatory authorities.

For a discussion of restrictions on payments of dividends by our subsidiaries see Note 19 to the Consolidated Financial Statements.

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 Department supervises and integrates the risk management functions in each of our business units, providing senior management with a consolidated view of AIG's major risk positions. Within each business unit, senior leaders and executives approve targeted risk tolerances within the framework provided by ERM. ERM supports our businesses and management by embedding risk management in our key day-to-day business processes and in identifying, assessing, quantifying, monitoring, reporting, and mitigating the risks taken by our businesses and AIG overall. Nevertheless, our risk management efforts may not always be successful and material adverse effects on our business, results of operations, cash flows, liquidity or financial condition may occur.

AIG employs a Three Lines of Defense model. AIG's business leaders assume full accountability for the risks and controls in their operating units, and ERM performs a review, challenge and oversight function. The third line consists of our Internal Audit Group that provides independent assurance for AIG's Board.

RISK GOVERNANCE STRUCTURE

Our risk governance structure fosters the development and maintenance of a risk and control culture that encompasses all significant risk categories impacting our lines of business and functions. Accountability for the implementation 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 both our risks and risk-taking activities.

Our Board of Directors oversees the management of risk through its Risk and Capital Committee (RCC) and Audit Committee. These committees regularly interact with other committees of the Board of Directors which are further described below. Our Chief Risk Officer (CRO) reports to both the RCC and our President and Global Chief Operating Officer.

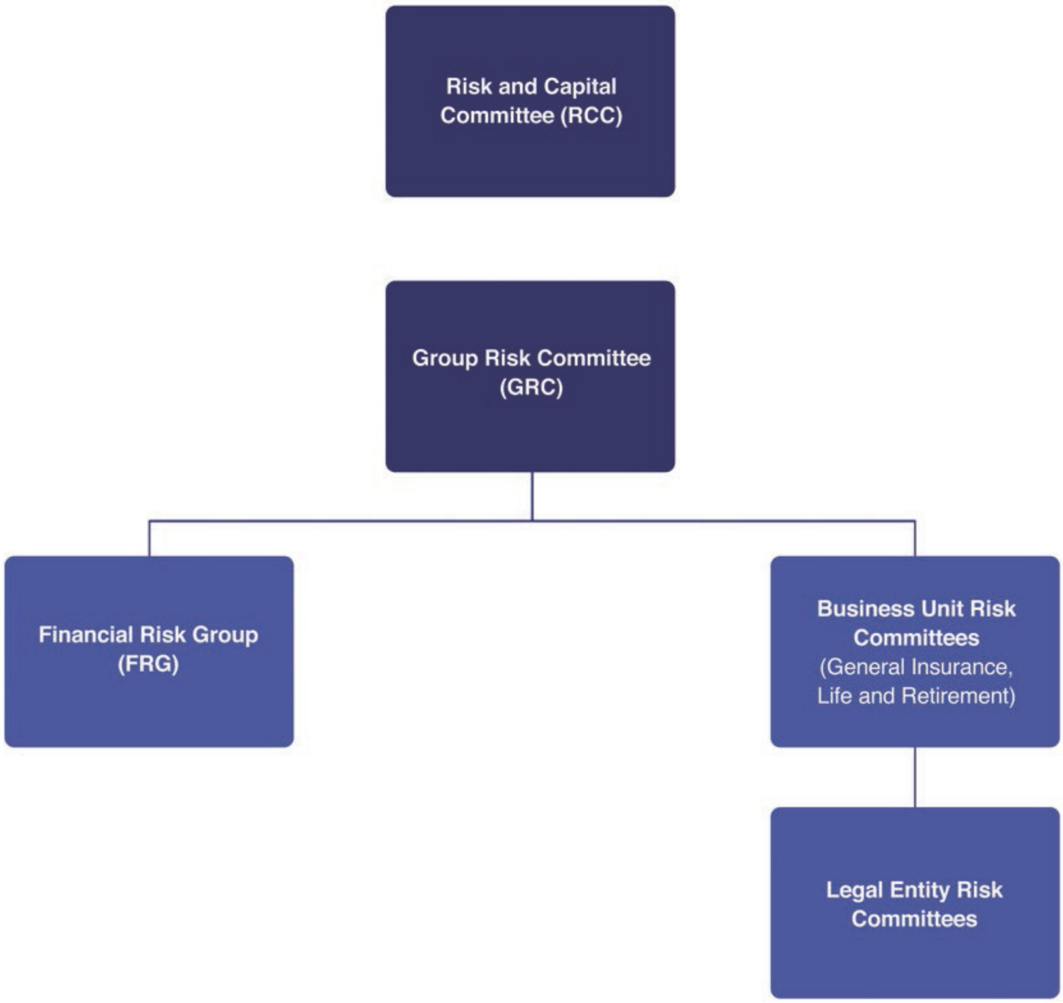
The Group Risk Committee (GRC): The GRC is the senior management group responsible for assessing all significant risk issues on a global basis to protect our financial strength and reputation. The GRC is chaired by our CRO and includes members of the Executive Leadership Team (ELT). Our CRO reports periodically on behalf of the GRC to both the RCC and the Audit Committee of the Board of Directors. Our CRO is also a member of the ELT providing ERM the opportunity to contribute to, review, monitor and consider the impact of changes in strategy.

Management committees that support the GRC are described below. These committees are comprised of senior executives and experienced business representatives from a range of functions and business units throughout AIG and its subsidiaries. These committees are charged with identifying, analyzing and reviewing specific risk matters within their respective mandates. In addition, various working groups (e.g. reputational risk, control agenda) are in place in support of the GRC to manage and monitor the various risks across the organization.

Financial Risk Group (FRG): The FRG is responsible for the oversight of financial risks taken by AIG and our subsidiaries. Its mandate includes overseeing our aggregate credit, market, interest rate, capital, liquidity and model risks, as well as asset-liability management, derivatives activity, and foreign exchange transactions. It provides the primary corporate-level review function for all proposed transactions and business practices that are significant in size, complex in scope, or that present heightened legal, reputational, accounting or regulatory risks. The FRG is chaired by our CRO. Membership of the FRG also includes our CFO, Chief Investment Officer and Treasurer.

Business Unit Risk Committees: Each of our major insurance businesses have 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 or limits, reviewing the capital allocation framework, insurance portfolio optimization, decisions with material impact on the risk profile and providing oversight of risk-adjusted metrics. In performing these responsibilities, the business unit risk committees may leverage input provided by other business unit committees and working groups.

In addition to the above, where needed and appropriate, there are risk committees at the legal entity level that support the Business Unit Risk Committees in executing their duties. These duties include ensuring policies are adhered to and transactions are within the AIG risk appetite and have appropriate operational controls or plans for establishing such controls within a reasonable amount of time, as well as ensuring appropriate risk governance at the legal entity level.



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 and a set of supporting tools, including risk tolerances, risk limits and policies, which we use to manage our risk profile and financial resources.

We articulate our aggregate risk-taking by setting risk tolerances and thresholds on capital and liquidity measures. These measures are set at the AIG Parent level as well as the legal entity level and cover consolidated and insurance company capital and liquidity ratios. We must comply with standards for capital adequacy and maintain sufficient liquidity to meet all our obligations as they come due in accordance with our capital management and liquidity management 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 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 tolerances and limits on the material risks identified for our core businesses and facilitates the monitoring and meeting of both internal and external stakeholder expectations. Framework objectives include:

- Establishing risk monitoring, providing early warning indicators, and ensuring timely oversight and enforceability of limits;
- Defining a consistent and transparent approach to limits governance; and
- Aligning our business activities with our risk appetite statement.

To support the monitoring and management of AIG's and its business units' material risks, ERM has an established limits framework that employs a three-tiered hierarchy:

- **Board-level risk tolerances** are AIG's aggregate consolidated capital and parent liquidity limits. They define the minimum level of consolidated capital and parent liquidity that we should maintain. These board-level risk tolerances are approved by the Board and monitored by the RCC.
- **AIG management level limits** are risk type specific limits at the AIG consolidated level. These limits are defined and calibrated to constrain our concentration in specific risk types, to protect against taking risks that exceed the amount of overall capital AIG has available, and to protect against excess earnings volatility. These limits are approved by our CRO with consultation from the GRC.
- **Business unit and legal entity level limits** are set to address key risks identified for the business unit and legal entities, protect capital and liquidity at legal entities and/or meet legal entity specific requirements of regulators and rating agencies. These limits are defined by the business unit and legal entity risk officers.

All limits are reviewed by the GRC or relevant business unit risk committees on a periodic basis and revisions, if applicable, are approved by those committees.

The business units are responsible for measuring and monitoring their risk exposures. ERM is responsible for monitoring compliance with limits and providing regular, timely reporting to our senior management and risk committees. Limit breaches are required to be reported in a timely manner and are documented and escalated in accordance with their level of severity or materiality.

Risk Identification and Measurement

We conduct risk identification through a number of processes at the business unit and corporate level focused on capturing our material risks. A key initiative is our integrated bottom-up risk identification and assessment process which is conducted down to the product-line level. In addition, we perform an annual top-down risk assessment to identify top risks and assign owners to ensure these risks are appropriately addressed and managed. These processes are used as a critical input to enhance and develop our analytics for measuring and assessing risks across the organization.

We employ various approaches to measure, monitor and manage risk exposures, including the utilization of a variety of metrics and early warning indicators. We use a proprietary internal capital and stress testing framework to measure our quantifiable risks.

The internal capital framework quantifies our aggregate economic risk at a given confidence interval, after taking into account diversification benefits between risk factors and business lines. We leverage the internal capital framework to help inform our consolidated risk consumption and profile as well as risk and capital allocation for our businesses.

The stress testing framework assesses our aggregate exposure to our most significant financial and insurance risks, including the risks in each of our key insurance company subsidiaries in relation to its capital needs under stress, risks inherent in our non-insurance company subsidiaries, and risks to AIG consolidated capital. The framework measures risk over multiple time horizons and under different levels of stress, and includes multi-factor stresses as well as single factor sensitivities that are designed to reflect AIG's risk characteristics. We use this information to support the assessment of resources needed at the AIG Parent level to support our subsidiaries and capital resources required to maintain consolidated company target capitalization levels.

We evaluate and manage risk in material topics as shown below. These topics are discussed in further detail in the following pages:

- Credit Risk Management
- Market Risk Management
- Liquidity Risk Management
- Operational Risk Management
- Insurance Risks
- Other Business 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 and retrocessional insurance recoverables, counterparty risk arising from derivatives activities, collateral extended to counterparties, insurance risk cessions to third parties, financial guarantees, letters of credit, and certain General Insurance businesses.

Governance

Our credit risks are managed by teams of credit professionals, subject to ERM oversight and various control processes. Their primary role is to ensure appropriate credit risk management in accordance with our credit policies and procedures relative to our credit risk parameters. Our Chief Credit Officer (CCO) and credit executives are primarily responsible for the development, implementation and maintenance of a risk management framework, which includes the following elements related to our credit risks:

- developing and implementing our company-wide credit policies and procedures;
- approving delegated credit authorities to our credit executives and qualified credit professionals;
- developing methodologies for quantification and assessment of credit risks, including the establishment and maintenance of our internal risk rating process;
- managing a system of credit and program limits, as well as the approval process for credit transactions, above limit exposures, and concentrations of risk that may exist or be incurred;
- evaluating, monitoring, reviewing and reporting of credit risks and concentrations regularly with senior management; and
- approving appropriate credit reserves, credit-related other-than-temporary impairments and corresponding methodologies for all credit portfolios.

We monitor and control our company-wide credit risk concentrations and attempt to avoid unwanted or excessive risk accumulations, whether funded or unfunded. To minimize the level of credit risk in some circumstances, we may require mitigants, such as third-party guarantees, reinsurance or collateral, including commercial bank-issued letters of credit and trust collateral accounts. We treat these guarantees, reinsurance recoverables, and letters of credit as credit exposure and include them in our risk concentration exposure data. We also closely monitor the quality of any trust collateral accounts.

For further information on our credit concentrations and credit exposures see Investments – Available-for-Sale Investments.

Our credit risk management framework incorporates the following elements:

Risk Identification	including the ongoing capture and monitoring of all existing, contingent, potential and emerging credit risk exposures, whether funded or unfunded
Risk Measurement	comprising risk ratings, default probabilities, loss given default and expected loss parameters, exposure calculations, stress testing and other risk analytics
Risk Limits	including, but not limited to, a system of single obligor or risk group-based AIG-wide house limits and sub-limits for corporates, financial institutions, sovereigns and sub-sovereigns when appropriate and a defined process for identifying, evaluating, documenting and approving, if appropriate, breaches of and exceptions to such limits
Risk Delegations	a comprehensive credit risk delegation framework from the CCO to authorized credit professionals throughout the company
Risk Evaluation, Monitoring and Reporting	including the ongoing analysis and assessment of credit risks, trending of those risks and reporting of other key risk metrics and limits to the CCO and senior management, as may be required
Credit Reserving	including but not limited to development of a proper framework, policies and procedures for establishing accurate identification of (i) reserves for credit losses and (ii) other-than-temporary impairments for securities portfolios

MARKET RISK MANAGEMENT

Overview

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 respective levels of volatility.

We are engaged in a variety of insurance, investment and other financial services businesses that expose us to market risk, directly and indirectly. We are exposed to market risks primarily within our insurance and capital markets activities, on both the asset and the liability sides of our balance sheet through on- and off-balance sheet exposures. Within each business, the risk officer is responsible for creating a framework for proper identification of market risks, and ensuring that the risks are appropriately measured, monitored and managed, and are in accordance with the risk governance framework established by the Chief Market Risk Officer (CMRO).

The scope and magnitude of our market risk exposures is managed under a robust framework that contains defined risk limits and minimum standards for managing market risk in a manner consistent with our risk appetite statement. Our market risk management framework focuses on quantifying the financial repercussions of changes in the above mentioned market risk drivers.

Many of our market risk exposures, including exposures to changes in levels of interest rates and equity prices, are associated with the asset and liability exposures of our Life and Retirement companies. These exposures are generally long-term in nature. Examples of liability-related exposures include interest rate sensitive surrenders in our fixed deferred annuity product portfolio. Also, we have equity market risk sensitive surrenders in our variable annuity product portfolio. These interactive asset-liability types of risk exposures are regularly monitored in accordance with the risk governance framework noted above.

Governance

Market risk is overseen at the corporate level within ERM through the CMRO. The CMRO is supported by a dedicated team of professionals within ERM. Market Risk is managed by our finance, treasury and investment management corporate functions, collectively, and in partnership with ERM. The CMRO is primarily responsible for the development and maintenance of a risk management framework that includes the following key components:

- written policies that define the rules for our market risk-taking activities and provide clear guidance regarding their execution and management;
- a limit framework that aligns with our Board-approved risk appetite statement;
- independent measurement, monitoring and reporting for line of business, business unit and enterprise-wide market risks; and
- clearly defined authorities for all individuals and committee roles and responsibilities related to market risk management.

These components facilitate the CMRO’s identification, measurement, monitoring, reporting and management of our market risks.

Risk Identification

Market risk focuses on quantifying the financial repercussions of changes in broad, external, predominantly market-observable variables. Financial repercussions can include an adverse impact on results of operations, financial condition, liquidity and capital of AIG.

Each of the following systemic risks is considered a market risk:

Equity prices	We are exposed to changes in equity market prices affecting a variety of instruments. Changes in equity prices can affect the valuation of publicly traded equity shares, investments in private equity, hedge funds, mutual funds, exchange-traded funds, alternative risk premia investment strategies, and other equity-linked capital market instruments as well as equity-linked insurance products, including but not limited to index annuities, variable annuities, indexed universal life insurance and variable universal life insurance.
Residential and commercial real estate values	Our investment portfolios are exposed to the risk of changing values in a variety of residential and commercial real estate investments. Changes in residential/commercial real estate prices can affect the valuation of residential/commercial mortgages, residential/commercial mortgage-backed securities and other structured securities with underlying assets that include residential/commercial mortgages, trusts that include residential/commercial real estate and/or mortgages, residential mortgage insurance and reinsurance contracts and commercial real estate investments.
Interest rates	Interest rate risk can arise from a mismatch in the interest rate exposure of assets versus liabilities. Lower interest rates generally result in lower investment income and make some of our product offerings less attractive to investors. Conversely, higher interest rates are typically beneficial for the opposite reasons. However, when rates rise quickly, there can be an asymmetric GAAP accounting effect where the existing securities lose market value, which is largely reported through Other comprehensive income, and the offsetting decrease in the value of certain liabilities may not be recognized. Changes in interest rates can affect the valuation of fixed maturity securities, financial liabilities, insurance contracts including but not limited to universal life, fixed rate annuities, variable annuities and derivative contracts. Additionally, for Variable Annuity, Index Annuity, and Equity Indexed Universal Life products, deviations in actual versus expected policyholder behavior can be driven by fluctuations in various market variables, including interest rates. Policies with guaranteed living benefit options or riders are also subject to the risk of actual benefit utilization being different than expected.
Credit spreads	Credit spreads measure an instrument's risk premium or yield relative to that of a comparable duration, default-free instrument. Changes in credit spreads can affect the valuation of fixed maturity securities, including but not limited to corporate bonds, asset backed securities, mortgage-backed securities, AIG-issued debt obligations, credit derivatives, derivative credit valuation adjustments and economic valuation of insurance liabilities. Much like higher interest rates, wider credit spreads paired with unchanged expectations about default losses imply higher 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 through Other comprehensive income. A precipitous widening of credit spreads may also signal a fundamental weakness in the credit worthiness of bond obligors, potentially resulting in default losses.
Foreign exchange (FX) rates	We are a globally diversified enterprise with income, assets and liabilities denominated in, and capital deployed in, a variety of currencies. Changes in FX rates can affect the valuation of a broad range of balance sheet and income statement items as well as the settlement of cash flows exchanged in specific transactions.
Commodity prices	Changes in commodity prices (the value of commodities) can affect the valuation of publicly-traded commodities, commodity indices, derivatives on commodities and commodity indices, and other commodity-linked investments and insurance contracts. 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.

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. The framework measures our overall exposure to change in each of the systemic market risk factors on an economic basis.

In addition, we monitor risks through multiple lenses that include economic, GAAP and statutory reporting frameworks at various levels of business consolidation. This process aims to establish a comprehensive coverage of potential implications from adverse market risk developments.

We use a number of approaches to measure our market risk exposure, including:

		Examples include:
Sensitivity analysis	measures the impact from a unit change in a market risk input	• 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	uses historical, hypothetical, or forward-looking macroeconomic scenarios to assess and report exposures	• 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	a special form of scenario analysis in which the scenarios are designed to lead to a material adverse outcome is tailored to single-factor exposure and comprehensive stress scenarios that cover multiple risk factors. Stress testing analysis includes evaluation of exposures to instantaneous market shocks as well as to adverse market developments over forward time horizons	• the stock market crash of October 1987 or the widening of yields or spreads of RMBS or CMBS during 2008.

Market Risk Sensitivities

The following table provides estimates of sensitivity to changes in yield curves, equity prices and foreign currency exchange rates on our financial instruments and excludes approximately $174.2 billion and $169.4 billion as of December 31, 2020 and December 31, 2019, respectively, of insurance liabilities. AIG believes that the interest rate sensitivities of these insurance and other liabilities serve as an offset to the net interest rate risk of the financial assets presented in the table below. In addition, the table excludes $39.9 billion of interest rate sensitive assets and $1.5 billion of equity and alternative investments supporting the Fortitude Re funds withheld arrangements as the contractual returns related to the assets are transferred to Fortitude Re, as well as $43.1 billion of related funds withheld payables.

	Balance Sheet Exposure		Economic Effect	
(dollars in millions)	**December 31, 2020**	December 31, 2019	**December 31, 2020**	December 31, 2019
Sensitivity factor			**100 bps parallel increase in all yield curves**	
Interest rate sensitive assets:				
Fixed maturity securities	**$ 239,694**	$ 255,743	**$ (15,325)**	$ (16,644)
Mortgage and other loans receivable[a]	**38,490**	43,441	**(1,973)**	(2,385)
Derivatives:				
Interest rate contracts	**201**	451	**(1,895)**	(1,530)
Equity contracts	**907**	630	**(392)**	(360)
Other contracts	**(125)**	(64)	**32**	28
Total interest rate sensitive assets	**$ 279,167** [b]	$ 300,201 [b]	**$ (19,553)**	$ (20,891)
Interest rate sensitive liabilities:				
Policyholder contract deposits:				
Investment-type contracts[a]	**$ (128,204)**	$ (126,137)	**$ 10,857**	$ 8,553
Variable annuity and other embedded derivatives	**(9,797)**	(6,909)	**2,675**	2,118
Long-term debt[a] [c]	**(26,747)**	(24,092)	**2,568**	2,127
Total interest rate sensitive liabilities	**$ (164,748)**	$ (157,138)	**$ 16,100**	$ 12,798
Sensitivity factor			**20% decline in stock prices and alternative investments**	
Derivatives:				
Equity contracts[d]	**$ 908**	$ 630	**$ 440**	$ 426
Equity and alternative investments:				
Real estate investments	**7,572**	8,491	**(1,514)**	(1,698)
Private equity	**6,294**	5,531	**(1,259)**	(1,106)
Hedge funds	**2,110**	3,314	**(422)**	(663)
Common equity	**1,042**	827	**(208)**	(165)
Other investments	**912**	913	**(182)**	(183)
Total derivatives, equity and alternative investments	**$ 18,838**	$ 19,706	**$ (3,145)**	$ (3,389)
Policyholder contract deposits:				
Variable annuity and other embedded derivatives[d]	**$ (9,797)**	$ (6,909)	**$ (59)**	$ (215)
Total liability	**$ (9,797)**	$ (6,909)	**$ (59)**	$ (215)
Sensitivity factor			**10% depreciation of all foreign currency exchange rates against the U.S. dollar**	
Foreign currency-denominated net asset position:				
Great Britain pound	**$ 1,281**	$ 1,812	**$ (128)**	$ (181)
Canada dollar	**762**	273	**(76)**	(27)
EURO	**567**	253	**(57)**	(25)
All other foreign currencies	**1,451**	1,591	**(145)**	(160)
Total foreign currency-denominated net asset position[e]	**$ 4,061**	$ 3,929	**$ (406)**	$ (393)

(a) The economic effect is the difference between the estimated fair value and the effect of a 100 bps parallel increase in all yield curves on the estimated fair value. The estimated fair values for Mortgage and other loans receivable, Policyholder contract deposits (Investment-type contracts) and Long-term debt were $45,146 million, $144,571 million and $31,175 million at December 31, 2020, respectively. The estimated fair values for Mortgage and other loans receivable, Policyholder contract deposits (Investment-type contracts) and Long-term debt were $43,783 million, $133,246 million and $26,427 million at December 31, 2019, respectively.

(b) At December 31, 2020, the analysis covered $279.2 billion of $324.0 billion interest-rate sensitive assets. As indicated above, excluded were $36.2 billion and $3.6 billion of fixed maturity securities and loans, respectively, supporting the Fortitude Re funds withheld arrangements. In addition, $3.4 billion of loans and $1.6 billion of assets across various asset categories were excluded due to modeling limitations. At December 31, 2019, the analysis covered $300.2 billion of $306.3 billion interest-rate sensitive assets. Excluded were $3.5 billion of loans. In addition, $2.6 billion of assets across various asset categories were excluded due to modeling limitations.

(c) At December 31, 2020, the analysis excluded $643 million of AIGLH borrowings, $348 million of Validus borrowings, $4 million of borrowings from Glatfelter and $361 million of AIG Japan Holdings loans. At December 31, 2019, the analysis excluded $643 million of AIGLH borrowings, $353 million of Validus borrowings, $47 million of borrowings from Glatfelter and $344 million of AIG Japan Holdings loans.

(d) The balance sheet exposures for equity contracts and variable annuity and other embedded derivatives are also reflected under “Interest rate sensitive liabilities” above, and are not additive.

(e) The majority of the foreign currency exposure is reported on a one quarter lag.

The sensitivity analysis is an estimate and should not be viewed as predictive of our future financial performance. We cannot ensure that actual financial impacts in any particular period will not exceed the amounts indicated above.

Interest rate sensitivity is defined as change in value with respect to a 100 basis point parallel shift up in the interest rate environment, calculated as: scenario value minus base value, where base value is the value under the yield curves as of the period end and scenario value is the value reflecting a 100 basis point parallel increase in all yield curves.

We evaluate our interest rate risk without considering effects of correlation of changes in levels of interest rate with other key market risks or other assumptions used for calculating the values of our financial assets and liabilities. This scenario does not measure changes in values resulting from non-parallel shifts in the yield curves, which could produce different results.

We evaluate our equity price risk without considering effects of correlation of changes in equity prices with other key market risks or other assumptions used for calculating the values of our financial assets and liabilities. The stress scenario does not reflect the impact of basis risk, such as projections about the future performance of the underlying contract holder funds and actual fund returns, which we use as a basis for developing our hedging strategy.

Foreign currency-denominated net asset position reflects our aggregated non-U.S. dollar assets less our aggregated non-U.S. dollar liabilities on a GAAP basis, with certain adjustments. We use a bottom-up approach in managing our foreign currency exchange rate exposures with the objective of protecting statutory surplus at the regulated insurance entity level. At the AIG consolidated level, we monitor our foreign currency exposures against single currency and aggregate currency portfolio limits.

Our foreign currency-denominated net asset position at December 31, 2020 increased by $0.1 billion compared to December 31, 2019. The increase was primarily due to an increase in our Canadian dollar position, due to exposure management actions in the US Pool, coupled with a decrease in our British pound position, primarily as a result of debt hedges unwind, as well as an increase in the Euro position, largely due to hedging activity.

For illustrative purposes, we modeled our sensitivities based on a 100 basis point parallel increase in yield curves, a 20 percent decline in equity prices and prices of 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.

Risk Monitoring and Limits

The risk monitoring responsibilities, owned by the business units, include ensuring compliance with market risk limits and escalation and remediation of limit breaches. Such activities must be reported to the ERM Market Risk team by the relevant business unit. This monitoring approach is aligned with our overall risk limits framework.

To control our exposure to market risk, we rely on a three-tiered hierarchy of limits that the CMRO closely monitors and reports to our CRO, senior management and risk committees.

For further information on our three-tiered hierarchy of limits see Risk Appetite, Limits, Identification and Measurement – Risk Limits.

LIQUIDITY RISK MANAGEMENT

Overview

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 as they come due. Failure to appropriately manage liquidity risk can result in insolvency, reduced operating flexibility, increased costs, reputational harm and regulatory action.

AIG and its legal entities seek to maintain sufficient liquidity both during the normal course of business and under defined liquidity stress scenarios to ensure that sufficient cash will be available to meet the obligations as they come due.

AIG Parent liquidity risk tolerance levels are designed to allow us to meet our financial obligations for a minimum of six months under a liquidity stress scenario. We maintain liquidity limits and minimum coverage ratios designed to ensure that funding needs are met under varying stress conditions. If we project that we could breach these tolerances, we 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.

Governance

Liquidity risk is overseen at the corporate level within ERM. The CRO has responsibility for the oversight of the Liquidity Risk Management Framework and delegates the day-to-day implementation of this framework to the AIG Treasurer. Our 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 liquidity and funding policies and monitoring tools to address AIG-specific, broader industry and market-related liquidity events.

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 may not be readily transformed into cash due to unfavorable market conditions. Market liquidity risk may limit our ability to sell assets at reasonable values or necessary volumes 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 may be required as the result of a trigger event. Event funding risk comes in many forms and may result from a downgrade in credit ratings, a market event, or some other event that creates a funding obligation or limits existing funding options.
Financing Risk	We may be unable to raise additional cash on a secured or unsecured basis due to unfavorable market conditions, AIG-specific issues, or any other issue that impedes access to additional funding.

Risk Measurement

Comprehensive cash flow projections under normal conditions are the primary component for identifying and measuring liquidity risk. We produce comprehensive liquidity projections over varying time horizons that incorporate all relevant liquidity sources and uses and include known and likely cash inflows and outflows. In addition, we perform stress testing by identifying liquidity stress scenarios and assessing the effects of these scenarios on our cash flow and liquidity.

We use a number of approaches to measure our liquidity risk exposure, including:

Minimum Liquidity Limits	Minimum Liquidity Limits specify the amount of asset liquidity required to be maintained in order to meet obligations as they arise over a specified time horizon under stressed liquidity conditions.
Coverage Ratios	Coverage Ratios measure the adequacy of available liquidity sources, including the ability to monetize assets to meet the forecasted cash flows over a specified time horizon. The portfolio of assets is selected based on our ability to convert those assets into cash under the assumed stressed conditions and within the specified time horizon.
Cash Flow Forecasts	Cash Flow Forecasts measure the liquidity needed for a specific legal entity over a specified time horizon.
Stress Testing	Asset liquidity and Coverage Ratios are re-measured under defined liquidity stress scenarios that will impact net cash flows, liquid assets and/or other funding sources.

Relevant liquidity reporting is produced and reported regularly to AIG Parent and business unit risk committees. The frequency, content, and nature of reporting will vary for each business unit and legal entity, based on its complexity, risk profile, activities and size.

OPERATIONAL RISK MANAGEMENT

Overview

Operational risk is defined as the risk of loss, or other adverse consequences, resulting from inadequate or failed internal processes, people, systems, or from external events. Operational risk includes legal, regulatory, technology, compliance, third-party and business continuity risks, but excludes business and strategy risks.

Operational risk is inherent in each of our business units and functions and can have many impacts, including but not limited to: unexpected economic losses or gains, reputational harm due to negative publicity, regulatory action from supervisory agencies and operational and business disruptions, and/or damage to customer relationships.

Governance

AIG and its consolidated subsidiaries establish and maintain operational risk and controls governance forums that include representatives from the relevant business units and functions to appropriately manage significant operational risk exposures.

Operational risk is overseen at the corporate level within ERM through the Head of Governance and Operational Controls. The Head of Governance and Operational Controls is responsible for the development and maintenance of the operational risk framework that includes policies, standards and deployment of systems.

Risk Identification, Measurement and Monitoring

The Operational Risk Management (ORM) function within ERM oversees adherence to the operational risk policy and risk and control framework, which includes risk identification, assessment, measurement, management and monitoring of operational risk exposures. ORM supports the Head of Governance and Operational Controls and has responsibility to provide an aggregate view of our operational risk profile. In line with the Three Lines of Defense Model, the ORM program includes, but is not limited to, several key components outlined below:

- Risk Event Capture – enables every employee to identify, document, and escalate operational risk events, with a view to enhancing processes, promoting lessons learned and embedding a culture of risk management.
- Risk Assessments – allows for the assessment, measurement and management of the key operational risks within our business units and helps inform on the efficacy of our control environment.
- Key Risk Indicators – enhances the ongoing monitoring and mitigation of operational risks and facilitate risk reporting.
- Issues Management – enables a consistent tracking of issues across the firm, including policy and process exceptions, control deficiencies and findings from risk and control assessment activities.
- Scenario Analyses – executed by first- and second-line professionals to identify potential risks that could result in financial losses to the firm and support the prioritization of operational risk treatment.

ORM, working together with other control and assurance functions (e.g., Compliance, Financial Controls Unit / Sarbanes Oxley, Global Business Continuity, and Internal Audit) through the risk and control framework, provides an independent view of operational risks for each business, and works with the business unit and corporate function CRO and Owner of the Control Agenda (OCA). The OCA's responsibilities include coordinating identification, assessment, control and mitigation of risks to the operating environment and promoting awareness to facilitate implementation of the above programs. This includes coverage of operational risks related to core insurance activities, corporate functions, investing, model risk, technology, third-party providers, as well as compliance and regulatory matters. Based on the results of the risk identification and assessment efforts above, business leaders are accountable for tracking and remediating identified issues in line with our risk-monitoring procedures. Governance committees support these efforts and promote transparency enabling improved management decision making.

The risk and control framework facilitates the identification and mitigation of operational risk issues and is designed to:

- ensure first line accountability and ownership of risks and controls;
- promote role clarity among the business and risk and control functions;
- enhance transparency, risk management governance and culture;
- foster greater consistency in identifying, measuring and ranking material risks;
- proactively address potential risk issues and assign clear ownership and accountability for risk treatment; and
- manage the development of technology solutions that support the objectives above.

Cybersecurity Risk

Cybersecurity risk is an important, constant, and evolving focus for AIG and the insurance and financial services industries in general. The goal of unauthorized parties, using a variety of attack methods, is to gain access to AIG's data and systems to obtain confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage. One such example, is the increased sophistication and activities of unauthorized parties using phishing in an attempt to access our and our service providers' systems, usually in an effort to obtain sensitive information, which is an ever-present and increasing attack vector against AIG and our service providers. Cybersecurity risks may also derive from unintentional human error or intentional malice on the part of AIG employees or third parties who have authorized access to AIG's systems or information.

ERM works closely with and supports the risk management practices of Information Technology, the Information Security Office and the business units and functions that form the lines of defense against the cybersecurity risks that we face. This includes the risks that emerge as a result of the execution of our business strategies and our corresponding exposure to new products, clients, service providers, industry segments and regions. AIG seeks to mitigate these risks through initiatives such as investments in technological infrastructure, education and training for employees and vendors, and monitoring of industry developments. As part of our overarching cybersecurity strategy, ERM monitors and assesses the programs designed to remediate our exposures and enhance our systems and applications security.

AIG's Board of Directors and its Technology Committee are regularly briefed by management on AIG's cybersecurity matters, including threats, policies, practices and ongoing efforts to improve security. As part of our disclosure controls and procedures, the Cyber Incident Management team, a cross functional group, is responsible for ensuring that the members of management responsible for disclosure controls are informed in a timely manner of known cybersecurity risks and incidents that may materially impact our operations so that timely notifications and public disclosures can be made as appropriate. There is no guarantee that the measures AIG takes and the resources AIG devotes to protect against cybersecurity risk will provide absolute security or recoverability of AIG's systems given the complexity and frequency of the risk which AIG may not always be able to anticipate or adequately address. For additional information regarding the data protection and cybersecurity regulations to which we are subject, *see Item 1. Business – Regulation – U.S. Regulation – Privacy, Data Protection and Cybersecurity and – International Regulation – Privacy, Data Protection and Cybersecurity. For additional discussion of cybersecurity risks, see Part I, Item 1A. Risk Factors – Business and Operations.*

INSURANCE RISKS

Overview

Insurance risk is defined as the risk of actual claims experience and/or policyholder behavior being materially different than initially expected at the inception of an insurance contract. Uncertainties related to insurance risk can lead to deviations in magnitude and/or timing of prospective cash flows associated with our liabilities compared to what we expected.

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 processes and procedures, including, but not limited to:

- pricing and risk selection models including regular monitoring;
- pricing approval processes;
- pre-launch approval of product design, development and distribution;
- underwriting approval processes and authorities;
- modeling and reporting of aggregations and limit concentrations at multiple levels (policy, line of business, product group, country, individual/group, correlation and catastrophic risk events);
- risk transfer tools such as reinsurance, both internal and third-party;
- review and challenge of reserves to ensure comprehensive analysis with established escalation procedures to provide appropriate transparency in reserving decisions and judgments made in the establishment of reserves;
- management of relationship between assets and liabilities, including hedging;
- model risk management and validation processes; and
- experience monitoring and assumption updates.

We closely manage insurance risk by monitoring and controlling the nature and geographic location of the risks in each underwritten line of business, concentrations in industries, the terms and conditions of the underwriting and the premiums we charge for taking on the risk. We analyze concentrations of risks using various modeling techniques, including both probability distributions (stochastic) and/or single-point estimates (deterministic) approaches.

Governance

Insurance risks are monitored at the business unit level and overseen by the business unit's chief risk officer. As part of our established governance practices, key decisions and considerations related to insurance risks can, and in certain instances, must be raised and deferred for discussion and consideration to the business unit's risk committees that are chaired by the business unit's chief risk officer. In addition, in some business units, pricing committees review insurance risk considerations associated with pricing of new insurance products. The insurance risk oversight framework includes the following key components:

- articulation of risk appetite by line of business that integrates strategy, financial objectives and capital resources;
- written policies that define the rules for our insurance risk-taking activities;
- a limit / threshold framework focused on key insurance risks that aligns with our Board-approved risk appetite statement;
- clearly defined authorities for all individuals and committee roles and responsibilities related to insurance risk management; and
- identification of client segments that meet our selection criteria and a focus on distribution channels that target these customers.

Risk Identification

- **General Insurance companies** – risks covered include property, casualty, fidelity/surety, accident and health, aviation, mortgage insurance, professional liability, cyber and management liability. We manage risks in the General Insurance business through aggregations and limitations of concentrations at multiple levels: policy, line of business, geography, industry and legal entity.
- **Life and Retirement companies** – risks include mortality and morbidity in the individual and group life insurance and health coverage products, longevity risk in the individual retirement, group retirement and institutional markets products, and policyholder behavior across all product lines. We manage risks through product design, sound medical and non-medical underwriting and at times hedging instruments in the market.

We purchase reinsurance for our insurance and reinsurance 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.

Risk Measurement, Monitoring and Limits

We use a number of approaches to measure our insurance risk exposure, including:

Sensitivity analysis. Deterministic analyses are used to measure statistical variances from best estimate assumptions on important risk factors, as well as different distributions risk categories.

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. In addition, stochastic methods are used to measure risks of impacts of policyholder behavior on values of options and guarantees offered across annuity and life insurance products.

Scenario analysis. Scenario or deterministic analysis is used to measure and monitor risks such as terrorism and pandemic or to estimate losses due to man-made catastrophic scenarios.

Experience studies. Ongoing assessment of mortality, longevity, morbidity and policyholder behavior experience relative to that assumed in pricing and valuation and that experienced in the general market.

Additionally, there are risk-specific assessment tools in place to better manage the variety of insurance risks to which we are exposed.

We monitor concentrations of exposure through insurance limits and thresholds 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 all business units 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.

For further information on our three-tiered hierarchy of limits see Risk Appetite, Limits, Identification and Measurement – Risk Limits.

General Insurance Companies' Key Risks

We manage our risks through risk review and selection processes, exposure limitations, exclusions, deductibles, self-insured retentions, coverage limits, attachment points, and reinsurance. This management is supported by sound underwriting practices, pricing procedures and the use of actuarial analysis to help determine overall adequacy of provisions for insurance. Underwriting practices and pricing procedures incorporate historical experience, changes in underlying exposure, current regulation and judicial decisions as well as proposed or anticipated regulatory changes or societal trends.

For General Insurance companies, risks primarily include the following:

- **Loss Reserves** – The potential inadequacy of the liabilities we establish for unpaid losses and loss adjustment expenses is a key risk faced by the General Insurance companies. There is significant uncertainty in factors that may drive the ultimate development of losses compared to our estimates of losses and loss adjustment expenses. We manage this uncertainty through internal controls and oversight of the loss reserve setting process, as well as reviews by external experts. *For further information see Critical Accounting Estimates – Insurance Liabilities – Loss Reserves.*
- **Underwriting** – The potential inadequacy of premiums charged for future risk periods on risks underwritten in our portfolios can impact the General Insurance companies' ability to achieve an underwriting profit. We develop pricing based on our estimates of losses and expenses, but factors such as market pressures and the inherent uncertainty and complexity in estimating losses may result in premiums that are inadequate to generate underwriting profit. This may be driven by adverse economic conditions, unanticipated emergence of risks or increase in frequency of claims, 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 the Chief Underwriting Officer through a combination of internal underwriting standards and external reinsurance. Furthermore, single risk loss exposure is managed and monitored on both a segregated and aggregated basis.
- **Reinsurance** – Since we use reinsurance to limit our losses, we are exposed to risks associated with reinsurance including the unrecoverability of expected payments from reinsurers due to either an inability or unwillingness to pay, contracts that do not respond properly to the event or actual reinsurance coverage that is different than anticipated. The inability or unwillingness to pay is considered credit risk and is monitored through our credit risk management framework.

Natural Catastrophe Risk

We manage catastrophe exposure with multiple approaches such as setting risk limits based on aggregate Probable Maximum Loss (PML) modeling, monitoring overall exposures and risk accumulations, modifying our gross underwriting standards, 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 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 inefficiencies, underwriting gaps, and improvement opportunities. Lessons learned from post-catastrophe event studies are incorporated into the modeling and underwriting processes of risk pricing and selection. The majority of policies exposed to catastrophic risks are one-year contracts that allow us to adjust our underwriting guidelines, pricing and exposure accumulation in a relatively short period.

We recognize that climate change has implications for insurance industry exposure to natural catastrophe risk. With multiple levels of risk management processes in place, we actively analyze the latest climate science and policies 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 provide insurance products and services to help our clients be proactive against the threat of climate change. Our internal product development, underwriting, and modeling, will continue to adapt to and evolve with the developing risk exposures attributed to climate change.

Our natural catastrophe exposure to primary modeled perils is principally driven by the U.S. and secondarily Japan, though our overall exposure is diversified across multiple countries and perils. For example, we have exposures to additional perils such as European windstorms and wildfire exposures across multiple countries. Within the U.S., we have significant hurricane exposure in Florida, the Gulf of Mexico, the Northeast U.S. and mid-Atlantic regions. Within the U.S., we have significant earthquake exposure in California and the Pacific Northwest regions. Earthquakes impacting the Pacific Northwest region may result in a higher share of industry losses than other regions primarily due to our relative share of exposure in these regions.

The table below details our modeled estimates of PML, net of reinsurance, on an annual aggregate basis. The 1-in-100 and 1-in-250 PMLs are the annual aggregate probable maximum losses with probability of 1 percent and 0.4 percent in a year, respectively. Estimates as of December 31, 2020 reflect our in-force portfolio for exposures as of October 1, 2020 and all inuring reinsurance covers as of December 31, 2020, except for the catastrophe reinsurance programs, which are as of January 1, 2021.

The following table presents an overview of annual aggregate modeled losses for world-wide all perils and exposures arising from our largest primarily modeled perils:

At December 31, 2020 (in millions)	Net of Reinsurance	Net of Reinsurance, After Tax[f]	Percent of Total Shareholder Equity
Exposures:			
World-wide all peril (1-in-250)[a]	$ 4,901	$ 3,872	5.8%
U.S. Hurricane (1-in-100)[b]	1,310	1,035	1.6
U.S. Earthquake (1-in-250)[c]	1,240	980	1.5
Japanese Typhoon (1-in-100)[d]	563	445	0.7
Japanese Earthquake (1-in-250)[e]	608	481	0.7

(a) The world-wide all peril loss estimate includes wildfire exposure.

(b) The U.S. hurricane loss estimate includes losses to Commercial and Personal Property from hurricane hazards of wind and storm surge.

(c) The U.S. earthquake loss estimates represent exposure to Commercial and Personal Property, Workers' Compensation (U.S.) and A&H business lines.

(d) Japan Typhoon loss estimate represents exposure to Commercial and Personal Property.

(e) Japan Earthquake loss estimate represents exposure to Commercial and Personal Property and A&H business lines.

(f) Taxed at the statutory tax rate of 21 percent for both the U.S. and Japanese modeled losses. The majority of Japan exposures are ceded to our U.S. Pool.

AIG, along with other property casualty insurance and reinsurance companies, uses industry-recognized catastrophe models and applies proprietary modeling processes and assumptions to arrive at loss estimates. The use of different methodologies and assumptions could materially change the projected losses. Since there is no industry standard for assumptions and preparation of insured data for use in these models, our modeled losses may not be comparable to estimates made by other companies.

Also, the modeled results are based on the assumption that all reinsurers fulfill their obligations to us under the terms of the reinsurance arrangements. However, reinsurance recoverables may not be fully collectible. Therefore, these estimates are inherently uncertain and may not accurately reflect our net exposure, inclusive of credit risk, to these events.

Our 2021 property catastrophe reinsurance program is a worldwide program providing both aggregate and per occurrence protection, with differing per occurrence and aggregate attachment points for North America, Japan, and Rest of World (for these purposes, Hawaii is included in Rest of World and Mexico and the Caribbean are included in North America). The program includes $2.05 billion of aggregate limit that is shared across the regional towers.

Our coverage for North America includes:

- $1.275 billion of per occurrence protection covering our U.S and Caribbean personal lines business, with varying attachment points in specific geographies ranging from $50 million to $150 million
- Per occurrence protection of up to $1 billion excess of $200 million (or excess $500 million for Southeast US and Gulf State Named Storm losses), primarily covering commercial exposures but also personal lines exposures not covered by the above personal lines protection
- Aggregate protection utilizing the $2.05 billion of shared limit attaching excess $500 million with per occurrence deductibles of $25 million, $50 million or $75 million, depending on region/event, primarily covering commercial exposures

Our coverage for exposure outside North America includes:

- Japan per occurrence coverage of $550 million excess of $200 million and includes both personal and commercial exposure
- Rest of World per occurrence coverage of $300 million excess of $100 million, including both personal and commercial exposure
- Rest of World and Japan $2.05 billion of aggregate shared limit attaching excess of $160 million and $250 million, respectively, with per occurrence deductibles of $20 million

Although the shared limit coverage for North America, Japan and Rest of World has varying retentions per region, the maximum aggregate retention globally, after the impact of the per occurrence deductibles, is $750 million for 2021.

We have also purchased property per risk covers that provide protection against large losses globally, which include those emanating from non-critical catastrophe events (all events except for named windstorm and earthquake) globally as well as critical catastrophe events (named windstorm and earthquake) outside North America.

For Validus Re, our catastrophe protection comes from a variety of reinsurance protections but is largely providing $475 million of limit excess $300 million of retention from world-wide exposure via an aggregate excess of loss cover with an additional $450 million of limit excess $700 million via the Tailwind Re Cat Bond for U.S., Puerto Rico and Canada named storm losses.

Actual results in any period are likely to vary, perhaps materially, from the modeled scenarios. The occurrence of one or more severe events could have a material adverse effect on our financial condition, results of operations and liquidity.

For additional information see also Item 1A. Risk Factors – Reserves and Exposures.

Terrorism Risk

We actively monitor terrorism risk and manage exposures to losses from terrorist attacks. We have set risk limits based on modeled losses from certain terrorism attack scenarios. Terrorism risks are modeled using a third-party vendor model for various terrorism attack modes and scenarios. Adjustments are made to account for vendor model gaps and the nature of the General Insurance companies' exposures. Examples of modeled scenarios are conventional bombs of different sizes, anthrax attacks and nuclear attacks.

Our largest terrorism concentrations 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 TRIPRA and reinsurance recoveries are estimated to be $1.7 billion based on the exposures as of October 1, 2020.

Our exposure to terrorism risk in the U.S. 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 2020, TRIPRA covers 80 percent of insured losses above a deductible. The current estimate of our deductible is approximately $1.8 billion for 2020.

We offer terrorism coverage in many other countries through various insurance products and participate in country terrorism pools when applicable. International terrorism exposure is estimated using scenario-based modeling and exposure concentration is monitored routinely. Targeted reinsurance purchases are made for some lines of business to cover potential losses due to terrorist attacks. We also rely on the government-sponsored and government-arranged terrorism reinsurance programs, including pools, in force in applicable non-U.S. jurisdictions.

Life and Retirement Companies' Key Risks

We manage risk through product design, experience monitoring, pricing and underwriting discipline, risk limits and thresholds, reinsurance and active monitoring and management of the alignment between risk and cash flow profiles of assets and liabilities, and hedging instruments.

For Life and Retirement companies, risks include the following:

- **Longevity risk** – represents the risk of an increase in liabilities associated with an insurance product, e.g. an annuity policy or a payout benefit as a result of actual mortality experience being lower than the expected mortality experience. This risk could arise from medical advancement and longer-term societal health changes. This risk exists in a number of our product lines but is most significant for our annuity products.
- **Morbidity risk** – represents the risk arising from actual morbidity (e.g. illness, disability or disease) incidence rate being higher than expected or the length of the claims extending longer than expected resulting in a higher overall benefit payout. This risk could arise from longer-term adverse societal health changes or from medical advances in detection and treatment for various diseases and medical conditions resulting in higher claims. This risk exists in a number of our product lines such as accident and health and long-term care businesses which for the most part are in run-off, and ceded to Fortitude Re and the U.S. group benefits which AIG has exited.
- **Mortality (including Pandemic) risk** – represents the risk of unexpected loss arising from current actual mortality experience being higher than expected mortality experience. This risk could arise from pandemics or other events, including longer-term societal changes or slower emergence of mortality improvements that cause higher-than-expected current mortality rates. This risk exists in a number of our product lines, but is most significant for our life insurance products.
- **Policyholder behavior risk (including full and partial surrender/lapses) –** represents the risk that actual policyholder behavior differs from expected behavior in a manner that has an adverse effect on our operating results. There are many related assumptions made when products are sold, including how long the contracts will persist and other assumptions which impact the expected utilization of contract benefits, options and guarantees. Actual experience can vary significantly from these assumptions. This risk is impacted by a number of factors including changes in market conditions, especially changes in the levels of yields, equity prices, tax law, regulations, competitive landscape and policyholder preferences. This risk exists in many of our product lines, but most notably within the individual annuity and life portfolio of business.

The emergence of significant adverse experience compared to the experience we expected and priced for could require an adjustment to benefit reserves and/or DAC, which could have a material adverse effect on our consolidated financial results of operations for a particular period.

For additional discussion of the impact of actual and expected experience on DAC and benefit reserves see Critical Accounting Estimates – Future Policy Benefits for Life and Accident and Health Insurance Contracts and Critical Accounting Estimates – Guaranteed Benefit Features of Variable Annuity Products. For additional discussion of business risks see Item 1A. Risk Factors – Business and Operations.

Variable Annuity, Index Annuity and Universal Life Risk Management and Hedging Programs

Our Individual and Group Retirement businesses offer variable and index annuity products with guaranteed living benefit (GLB) riders that guarantee a certain level of lifetime income. Variable and certain index annuity GLBs are accounted for as embedded derivatives measured at fair value, with changes in the fair value recorded in Other realized capital gains (losses). GLB features subject the Life and Retirement companies to market risk, including exposure to changes in levels of interest rates, equity prices, credit spreads and market volatility.

Product design is the first step in managing our exposure to these market risks. Risk mitigation features of our variable annuity product designs include GLB rider fees indexed to an equity market volatility index, which can provide additional fee assessments in periods of increased market volatility, required minimum allocations to fixed accounts to reduce overall equity exposure, and for some of the variable annuity products, the utilization of volatility control funds, which have an ability to adjust equity exposures in these funds in response to changes in market volatility, even under sudden or extreme market movements.

We utilize asset liability management and hedging programs to manage economic exposure to market risks that are not fully mitigated through product designs. Our hedging program is designed to offset certain changes in the economic value of embedded derivatives associated with our variable annuity, index annuity and index universal life liabilities, within established thresholds. The hedging program is designed to provide additional protection against large and combined movements in levels of interest rates, equity prices, credit spreads and market volatility under multiple scenarios.

Our hedging program utilizes an economic hedge target, which represents our estimate of the underlying economic risks in the embedded derivatives. For example, for variable annuity GLBs, the hedge targets are calculated as a difference between present value of the future expected benefit payments for the GLB and the present value of future GLB rider fees, with present values determined over numerous equally weighted 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 monitored to compare current assumptions to actual experience and, if appropriate, changes are made to the policyholder behavior assumptions. The risk of changes in policyholder behavior is not explicitly hedged, and such differences between expected and actual policyholder behaviors will result in hedge ineffectiveness.

Due to differences between the calculation of the value of the economic hedge target and the 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 value of the economic hedge target and the U.S. GAAP embedded derivative valuation will vary over time with changes in levels of equity markets, interest rates, credit spreads and volatility.

For information on the impact on our consolidated pre-tax income from the change in fair value of the embedded derivatives and the hedging portfolio, as well as additional discussion of differences between the economic hedge target and the valuation of the embedded derivatives see Insurance Reserves – Life and Annuity Reserves and DAC – Variable Annuity Guaranteed Benefits and Hedging Results.

In designing the hedging portfolio for our variable annuity hedging program, we make assumptions and projections about the future performance of the underlying mutual funds. We use these assumptions to project future policy level account value changes. We map the mutual 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 fund returns projected under these assumptions and actual fund returns, which may result in variances between changes in the value of the hedging portfolio and changes in the economic value of the hedge target. Net hedge results and the associated cost of hedging are also impacted by differences between realized volatility and implied volatility.

Our hedging programs associated with index annuity and index universal life products, are designed to manage market risk associated with the index crediting strategies offered on these product platforms. These hedging programs are designed to offset economic risk arising in conjunction with index returns, associated with the crediting strategies that will be occurring during the current crediting rate reset period. Similarly, as with the variable annuities, there are differences between the calculation of the value of the economic hedge target and the U.S. GAAP valuation of the index annuity and index life embedded derivatives, which can lead to variances in their relative movements.

To manage the capital market exposures embedded within the economic hedge target, we identify and hedge market sensitivities to changes in equity markets, interest rates, volatility and for variable annuities, credit spreads. Each hedge program purchases derivative instruments or securities having sensitivities that offset corresponding sensitivities in the associated economic hedge targets, within internally defined threshold limits. Since the relative movements of the hedging portfolio and the economic hedge target vary over time or with market changes, the net exposure can be outside the threshold limits, and adjustments to the hedging portfolio are made periodically to return the net exposure to within the threshold limits.

Our hedging programs utilize various derivative instruments, including but not limited to equity options, futures contracts, interest rate swaps and swaptions, as well as other hedging instruments. In addition, within the variable annuities hedging program, we purchase certain fixed income securities. To minimize counterparty credit risk, the majority of the derivative instruments utilized within the hedging programs are cleared through global exchanges. Over the counter derivatives utilized within the hedging programs are highly collateralized.

The hedging programs are monitored on a daily basis to ensure that the economic hedge targets and the associated derivative portfolios are within the threshold limits, pursuant to the approved hedging strategies. Daily risk monitoring verifies that the net risk exposures are within the approved net risk exposure threshold limits. In addition, monthly stress tests are performed to determine the program's effectiveness relative to the applicable limits, under an array of combined severe market stresses in equity prices, interest rates, volatility and credit spreads. Finally, hedging strategies are reviewed regularly to gauge their effectiveness and continued applicability in managing our market exposures in the context of our overall risk appetite.

Reinsurance Activities

Reinsurance is used primarily to manage overall capital adequacy and mitigate the insurance loss (Life and Non-Life) exposure related to certain events, such as natural and man-made catastrophes, death events, or single policy level events. Our subsidiaries operate worldwide primarily by underwriting and accepting risks for their direct account on a gross basis and reinsuring a portion of the exposure on either an individual risk or an aggregate basis to the extent those risks exceed the desired retention level. In addition, as a condition of certain direct underwriting transactions, we may be required by clients, agents or regulation to cede all or a portion of risks to specified reinsurance entities, such as captives, other insurers, local reinsurers and compulsory pools.

Reinsurance markets include:

- Traditional local and global reinsurance markets including those in the United States, Bermuda, London and Europe, accessed directly and through reinsurance intermediaries;
- Capital markets through insurance-linked securities and collateralized reinsurance transactions, such as catastrophe bonds, sidecars and similar vehicles; and
- Other insurers that engage in both direct and assumed reinsurance.

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

- proportional reinsurance, whereby we cede a specified percentage of premiums and losses to reinsurers;
- non-proportional or excess of loss reinsurance, whereby we cede all or a specified portion of losses in excess of a specified amount on a per risk, per occurrence (including catastrophe reinsurance) or aggregate basis; or
- facultative contracts that reinsure individual policies.

We continually evaluate the relative attractiveness of different forms of reinsurance contracts and different markets that may be used to achieve our risk and profitability objectives.

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

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

Reinsurance Recoverable

AIG's reinsurance recoverable assets are comprised of:

- Paid losses recoverable – balances due from reinsurers for losses and loss adjustment expenses paid by our subsidiaries and billed, but not yet collected.
- Ceded loss reserves – ultimate ceded reserves for losses and loss adjustment expenses, including reserves for claims reported but not yet paid and estimates for IBNR.
- Ceded reserves for unearned premiums.
- Life and Annuity reinsurance recoverables (ceded policy and claim reserves and policyholder contract deposits).

At December 31, 2020, total reinsurance recoverable assets were $73.5 billion. These assets include general reinsurance paid losses recoverable of $2.8 billion, ceded loss reserves of $34.5 billion including reserves for IBNR claims, and ceded reserves for unearned premiums of $4.1 billion, as well as life reinsurance recoverable of $32.1 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, 2020 reflects a reasonable estimate of the ultimate losses recoverable. Actual losses may, however, differ from the reserves currently ceded.

The Reinsurance Credit Department (RCD) conducts periodic detailed assessments of the financial strength and condition of current and potential reinsurers, both foreign and domestic. The RCD monitors both the financial condition of reinsurers as well as the total reinsurance recoverable ceded to reinsurers, and sets limits with regard to the amount and type of exposure we are willing to take with reinsurers. As part of these assessments, we attempt to identify whether a reinsurer is appropriately licensed, assess its financial capacity and liquidity, and evaluate the local economic and financial environment in which a foreign reinsurer operates. The RCD reviews the nature of the risks ceded and the need for measures, including collateral to mitigate credit risk. For example, in our treaty reinsurance contracts, we frequently include provisions that require a reinsurer to post collateral or use other measures to reduce exposure when a referenced event occurs. Furthermore, we limit our unsecured exposure to reinsurers through the use of credit triggers such as insurer financial strength rating downgrades, declines in regulatory capital, or relevant RBC ratios fall below certain levels. We also set maximum limits for reinsurance recoverable exposure, which in some cases is the recoverable amount plus an estimate of the maximum potential exposure from unexpected events for a reinsurer. In addition, credit executives within ERM review reinsurer exposures and credit limits and approve reinsurer credit limits above specified levels. Finally, even where we conclude that uncollateralized credit risk is acceptable, we require collateral from active reinsurance counterparties where it is necessary for our subsidiaries to recognize the reinsurance recoverable assets for statutory accounting purposes. At December 31, 2020, we held $79.4 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.

The following table presents information for each reinsurer representing in excess of five percent of our total reinsurance recoverable assets:

At December 31, 2020 (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:						
Fortitude Re	**NR**	**NR**	**$ 34,578**	**47.0 %**	**$ 34,578**	**$ -**
Berkshire Hathaway Group of Companies	**AA+**	**A++**	**$ 15,397** [(d)]	**20.9 %**	**$ 15,226**	**$ 171**
Swiss Reinsurance Group of Companies	**AA-**	**A+**	**$ 4,066**	**5.5 %**	**$ 1,592**	**$ 2,474**

(a) The financial strength ratings reflect the ratings of the various reinsurance subsidiaries of the companies listed as of January 20, 2021.

(b) Total reinsurance assets include both Property Casualty and Life and Retirement reinsurance recoverable.

(c) Excludes collateral held in excess of recoverable balances.

(d) Includes $13.8 billion recoverable under the 2011 retroactive asbestos reinsurance transaction and the 2017 adverse development reinsurance agreement.

At December 31, 2020, we had no significant reinsurance recoverable due from any individual reinsurer that was financially troubled. Reduced profitability associated with lower interest rates, market volatility and catastrophe losses (including COVID-19), could potentially result in reduced capacity or rating downgrades for some reinsurers. The RCD, in conjunction with the credit executives within ERM, reviews these developments, monitors compliance with credit triggers that may require the reinsurer to post collateral, and seeks to use other appropriate means to mitigate any material risks arising from these developments.

For further discussion of reinsurance recoverable see Critical Accounting Estimates – Reinsurance Recoverable.

OTHER BUSINESS RISKS

Derivative Transactions

We utilize derivatives principally to enable us to hedge exposure associated with changes in levels of interest rates, currencies, credit, commodities, equity prices 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 via an internal analysis that is 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 related to outstanding financial derivative transactions. We require credit enhancements in connection with specific transactions based on, among other things, the creditworthiness of the counterparties, and transaction size and maturity. Furthermore, we enter into certain agreements that have the benefit of set-off and close-out netting provisions, such as ISDA Master Agreements. These provisions provide that, in the case of an early termination of a transaction, we can set off receivables from a counterparty against payables to the same counterparty arising out of all covered transactions. As a result, where a legally enforceable netting agreement exists, the fair value of the transaction with the counterparty represents the net sum of estimated fair values.

The fair value of our interest rate, currency, credit, commodity and equity swaps, options, swaptions, and forward commitments, futures, and forward contracts reported as a component of Other assets, was approximately $0.8 billion at both December 31, 2020 and December 31, 2019. 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)*	2020	2019
Rating:		
AAA	**$ 8**	$ 45
AA	**12**	19
A	**130**	145
BBB	**601**	553
Below investment grade*	**23**	31
Total	**$ 774**	$ 793

* Below investment grade includes not rated.

For additional discussion related to derivative transactions see Note 11 to the Consolidated Financial Statements.

Glossary

Accident year The annual calendar accounting period in which loss events occurred, regardless of when the losses are actually reported, booked or paid.

Accident year combined ratio, as adjusted The combined ratio excluding catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting.

Accident year loss ratio, as adjusted The loss ratio excluding catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting.

Acquisition ratio Acquisition costs divided by net premiums earned. Acquisition costs are those costs incurred to acquire new and renewal insurance contracts and also include the amortization of VOBA and DAC. Acquisition costs vary with sales and include, but are not limited to, commissions, premium taxes, direct marketing costs and certain costs of personnel engaged in sales support activities such as underwriting.

Additional premium represents a premium on an insurance policy over and above the initial premium imposed at the beginning of the policy. An additional premium may be assessed if the insured's risk is found to have increased significantly.

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

Assets under administration include assets under management and Retail Mutual Funds and Group Retirement mutual fund assets that we sell or administer.

Assets under management include assets in the general and separate accounts of our subsidiaries that support liabilities and surplus related to our life and annuity insurance products and the notional value of stable value wrap contracts.

Attritional losses are losses recorded in the current accident year, which are not catastrophe losses.

Base Spread Net investment income excluding income from alternative investments and other enhancements, less interest credited excluding amortization of sales inducement assets.

Base Yield Net investment income excluding income from alternative investments and other enhancements, as a percentage of average base invested asset portfolio, which excludes alternative investments, other bond securities and certain other investments for which the fair value option has been elected.

Book value per common share, excluding accumulated other comprehensive income (AOCI) adjusted for the cumulative unrealized gains and losses related to Fortitude Re's Funds Withheld Assets and deferred tax assets (DTA) (Adjusted book value per common share) is a non-GAAP measure and is used to show the amount of our net worth on a per-common share basis. Adjusted book value per common share is derived by dividing total AIG common shareholders' equity, excluding AOCI adjusted for the cumulative unrealized gains and losses related to Fortitude Re's Funds Withheld Assets and DTA (Adjusted Common Shareholders' Equity), by total common shares outstanding.

Casualty insurance Insurance that is primarily associated with the losses caused by injuries to third persons, i.e., not the insured, and the legal liability imposed on the insured as a result.

Combined ratio Sum of the loss ratio and the acquisition and general operating expense ratios.

CSA *Credit Support Annex* A legal document generally associated with an ISDA Master Agreement that provides for collateral postings which could vary depending on ratings and threshold levels.

Credit Valuation Adjustment (CVA)/Non-Performance Risk Adjustment (NPA) The CVA/NPA adjusts the valuation of derivatives to account for nonperformance risk of our counterparty with respect to all net derivative assets positions. Also, the CVA/NPA reflects the fair value movement in AIGFP's asset portfolio that is attributable to credit movements only, without the impact of other market factors such as interest rates and foreign exchange rates. Finally, the CVA/NPA also accounts for our own credit risk in the fair value measurement of all derivative net liability positions and liabilities where AIG has elected the fair value option, when appropriate.

DAC *Deferred Policy Acquisition Costs* Deferred costs that are incremental and directly related to the successful acquisition of new business or renewal of existing business.

DAC Related to Unrealized Appreciation (Depreciation) of Investments An adjustment to DAC and Reserves for investment-oriented products, equal to the change in DAC and unearned revenue amortization that would have been recorded if fixed maturity securities available for sale and also, prior to 2018, equity securities at fair value had been sold at their stated aggregate fair value and the proceeds reinvested at current yields. An adjustment to benefit reserves for investment-oriented products is also recognized to reflect the application of the benefit ratio to the accumulated assessments that would have been recorded if fixed maturity securities available for sale and also, prior to 2018, equity securities at fair value had been sold at their stated aggregate fair value and the proceeds reinvested at current yields (collectively referred to as shadow Investment-Oriented Adjustments).

For long-duration traditional products, significant unrealized appreciation of investments in a sustained low interest rate environment may cause additional future policy benefit liabilities to be recorded (shadow loss reserves).

Deferred Gain on Retroactive Reinsurance Retroactive reinsurance is a reinsurance contract in which an assuming entity agrees to reimburse a ceding entity for liabilities incurred as a result of past insurable events. If the amount of premium paid by the ceding reinsurer is less than the related ceded loss reserves, the resulting gain is deferred and amortized over the settlement period of the reserves. Any related development on the ceded loss reserves recoverable under the contract would increase the deferred gain if unfavorable, or decrease the deferred gain if favorable.

Expense ratio Sum of acquisition expenses and general operating expenses, divided by net premiums earned.

General operating expense ratio General operating expenses divided by net premiums earned. General operating expenses are those costs that are generally attributed to the support infrastructure of the organization and include but are not limited to personnel costs, projects and bad debt expenses. General operating expenses exclude losses and loss adjustment expenses incurred, acquisition expenses, and investment expenses.

GIC/GIA *Guaranteed Investment Contract/Guaranteed Investment Agreement* A contract whereby the seller provides a guaranteed repayment of principal and a fixed or floating interest rate for a predetermined period of time.

IBNR *Incurred But Not Reported* Estimates of claims that have been incurred but not reported to us.

ISDA Master Agreement An agreement between two counterparties, which may have multiple derivative transactions with each other governed by such agreement, that generally provides for the net settlement of all or a specified group of these derivative transactions, as well as pledged collateral, through a single payment, in a single currency, in the event of a default on, or affecting any, one derivative transaction or a termination event affecting all, or a specified group of, derivative transactions.

LAE *Loss Adjustment Expenses* The expenses directly attributed to settling and paying claims of insureds and include, but are not limited to, legal fees, adjuster's fees and the portion of general expenses allocated to claim settlement costs.

Loan-to-Value Ratio Principal amount of loan amount divided by appraised value of collateral securing the loan.

Loss Ratio Losses and loss adjustment expenses incurred divided by net premiums earned.

Loss reserve development The increase or decrease in incurred losses and loss adjustment expenses related to prior years as a result of the re-estimation of loss reserves at successive valuation dates for a given group of claims.

Loss reserves Liability for unpaid losses and loss adjustment expenses. The estimated ultimate cost of settling claims relating to insured events that have occurred on or before the balance sheet date, whether or not reported to the insurer at that date.

Master netting agreement An agreement between two counterparties who have multiple derivative contracts with each other that provides for the net settlement of all contracts covered by such agreement, as well as pledged collateral, through a single payment, in a single currency, in the event of default on or upon termination of any one such contract.

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

Net premiums written represent the sales of an insurer, adjusted for reinsurance premiums assumed and ceded, during a given period. Net premiums earned are the revenue of an insurer for covering risk during a given period. Net premiums written are a measure of performance for a sales period, while net premiums earned are a measure of performance for a coverage period.

Noncontrolling interests The portion of equity ownership in a consolidated subsidiary not attributable to the controlling parent company.

Policy fees An amount added to a policy premium, or deducted from a policy cash value or contract holder account, to reflect the cost of issuing a policy, establishing the required records, sending premium notices and other related expenses.

Pool A reinsurance arrangement whereby all of the underwriting results of the pool members are combined and then shared by each member in accordance with its pool participation percentage.

Premiums and deposits – Life and Retirement 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, FHLB funding agreements and mutual funds.

Prior year development *See Loss reserve development*.

RBC *Risk-Based Capital* A formula designed to measure the adequacy of an insurer's statutory surplus compared to the risks inherent in its business.

Reinstatement premiums Additional premiums payable to reinsurers or receivable from insurers to restore coverage limits that have been reduced or exhausted as a result of reinsured losses under certain excess of loss reinsurance contracts.

Reinsurance The practice whereby one insurer, the reinsurer, in consideration of a premium paid to that insurer, agrees to indemnify another insurer, the ceding company, for part or all of the liability of the ceding company under one or more policies or contracts of insurance which it has issued.

Retroactive Reinsurance *See Deferred Gain on Retroactive Reinsurance*.

Return on common equity – Adjusted after-tax income excluding AOCI adjusted for the cumulative unrealized gains and losses related to Fortitude Re's Funds Withheld Assets and DTA (Adjusted return on common equity) is a non-GAAP measure and is used to show the rate of return on common shareholders' equity. Adjusted return on common equity is derived by dividing actual or annualized adjusted after-tax income attributable to AIG common shareholders by average Adjusted Common Shareholders' Equity.

Return premium represents amounts given back to the insured in the case of a cancellation, an adjustment to the rate or an overpayment of an advance premium.

SIA *Sales Inducement Asset* Represents enhanced crediting rates or bonus payments to contract holders on certain annuity and investment contract products that meet the criteria to be deferred and amortized over the life of the contract.

Solvency II Legislation in the European Union which reforms the insurance industry's solvency framework, including minimum capital and solvency requirements, governance requirements, risk management and public reporting standards. The Solvency II Directive (2009/138/EEC) was adopted on November 25, 2009 and became effective on January 1, 2016.

Subrogation The amount of recovery for claims we have paid our policyholders, generally from a negligent third party or such party's insurer.

Surrender charge A charge levied against an investor for the early withdrawal of funds from a life insurance or annuity contract, or for the cancellation of the agreement.

Surrender rate represents annualized surrenders and withdrawals as a percentage of average reserves and Group Retirement mutual fund assets under administration.

Unearned premium reserve Liabilities established by insurers and reinsurers to reflect unearned premiums, which are usually refundable to policyholders if an insurance or reinsurance contract is canceled prior to expiration of the contract term.

VOBA *Value of Business Acquired* Present value of projected future gross profits from in-force policies of acquired businesses.

Acronyms

A&H Accident and Health Insurance

ABS Asset-Backed Securities

APTI Adjusted pre-tax income

AUM Assets Under Management

CDO Collateralized Debt Obligations

CDS Credit Default Swap

CMA Capital Maintenance Agreement

CMBS Commercial Mortgage-Backed Securities

EGPs Estimated gross profits

FASB Financial Accounting Standards Board

FRBNY Federal Reserve Bank of New York

GAAP Accounting principles generally accepted in the United States of America

GMDB Guaranteed Minimum Death Benefits

GMWB Guaranteed Minimum Withdrawal Benefits

ISDA International Swaps and Derivatives Association, Inc.

Moody's Moody's Investors' Service Inc.

NAIC National Association of Insurance Commissioners

NM Not Meaningful

OTC Over-the-Counter

OTTI Other-Than-Temporary Impairment

RMBS Residential Mortgage-Backed Securities

S&P Standard & Poor's Financial Services LLC

SEC Securities and Exchange Commission

URR Unearned revenue reserve

VIE Variable Interest Entity

ITEM 7A | Quantitative and Qualitative Disclosures about Market Risk

The information required by this item is set forth in the Enterprise Risk Management section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and is incorporated herein by reference.

Part II

ITEM 8 | Financial Statements and Supplementary Data

AMERICAN INTERNATIONAL GROUP, INC.

REFERENCE TO FINANCIAL STATEMENTS AND SCHEDULES

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of American International Group, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of American International Group, Inc. and its subsidiaries (the Company) as of December 31, 2020 and 2019, and the related consolidated statements of income (loss), of comprehensive income (loss), of equity and of cash flows for each of the three years in the period ended December 31, 2020, including the related notes and financial statement schedules listed in the accompanying index (collectively referred to as the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Valuation of Certain Level 3 Fixed Maturity Securities

As described in Note 5 to the consolidated financial statements, as of December 31, 2020, the total fair value of the Company's level 3 fixed maturity securities, including bonds available for sale and other bond securities, was $29.6 billion, comprised of residential mortgage backed securities, commercial mortgage backed securities, collateralized debt obligations, other asset-backed securities, and fixed maturity securities issued by corporations (including private placements), municipalities, and other governmental agencies. As the volume or level of market activity for these securities is limited, management determines fair value either by requesting brokers who are knowledgeable about the particular security to provide a price quote, which according to management is generally non-binding, or by employing market accepted valuation models. In both cases, certain inputs used to determine fair value may not be observable in the market. For certain private placement securities, fair value is determined based on discounted cash flow models using discount rates based on credit spreads, yields or price levels of comparable securities, adjusted for illiquidity and structure. For other level 3 securities, such assumptions may include loan delinquencies and defaults, loss severity, and prepayments. As disclosed by management, fair value estimates are subject to management review to ensure valuation models and related inputs are reasonable.

The principal considerations for our determination that performing procedures relating to the valuation of certain level 3 fixed maturity securities is a critical audit matter are (i) the significant judgment by management to determine the fair value of these securities, which in turn led to a high degree of auditor subjectivity and judgment in performing the audit procedures relating to the aforementioned assumptions that are used to determine the fair value, (ii) the significant audit effort and judgment in evaluating the audit evidence related to the valuation, and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the valuation of level 3 fixed maturity securities, including controls related to (i) management's review over the pricing function and (ii) identifying and resolving pricing exceptions. These procedures also included, among others, obtaining independent third party vendor pricing, where available, and the involvement of professionals with specialized skill and knowledge to assist in developing an independent range of prices for a sample of securities. Developing the independent range of prices involved testing the completeness and accuracy of data used by management on a sample basis and evaluating management's assumptions noted above. The independent third party vendor pricing and the independently developed ranges were compared to management's recorded fair value estimates.

Valuation of Insurance Liabilities - Unpaid Losses and Loss Adjustment Expenses (Loss Reserves)

As described in Note 13 to the consolidated financial statements, loss reserves represent the accumulation of estimates of unpaid claims, including estimates for claims incurred but not reported and loss adjustment expenses, less applicable discount. As of December 31, 2020, the Company's total liability for unpaid losses and loss adjustment expenses was $77.7 billion, of which the net liability for unpaid losses and loss adjustment expenses was $43.3 billion, and reinsurance recoveries were $34.4 billion. As disclosed by management, the estimate of the loss reserves relies on several key judgments, including (i) actuarial methods, (ii) relative weights given to these methods by product line, (iii) underlying actuarial assumptions, and (iv) groupings of similar product lines. Actuarial assumptions include (i) expected loss ratios, (ii) loss development factors, and (iii) loss cost trend factors. During management's actuarial reviews, various factors are considered, including economic conditions; the legal, regulatory, judicial and social environment; medical cost trends; policy pricing, terms and conditions; changes in the claims handling process; and the impact of reinsurance. As described in Note 13 to the consolidated financial statements, management uses a combination of actuarial methods to project ultimate losses for both long-tail and short-tail exposures.

The principal considerations for our determination that performing procedures relating to the valuation of insurance liabilities - loss reserves is a critical audit matter are (i) the significant judgment by management when developing their estimate, which in turn led to a high degree of auditor subjectivity and judgment in performing the audit procedures related to the estimate, (ii) the significant audit effort and judgment in evaluating the audit evidence related to the actuarial methods, weights given to these methods by product line, groupings of similar product lines, and the aforementioned actuarial assumptions, and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the valuation of unpaid losses and loss adjustment expenses and reinsurance recoveries, including controls over the selection of actuarial methods and development of significant assumptions, as well as controls designed to identify and address management bias and contrary evidence. These procedures also included, among others, the involvement of professionals with specialized skill and knowledge to assist in performing one or a combination of procedures for a sample of product lines, including (i) independently estimating reserves using actual historical data and loss development patterns, as well as industry data and other benchmarks, and comparing management's actuarially determined reserves to these independent estimates and (ii) evaluating management's actuarial reserving methods and aforementioned factors, including actuarial assumptions and judgments impacting loss reserves and the consistency of management's approach period-over-period. Performing these procedures involved testing the completeness and accuracy of data used by management on a sample basis.

Valuation of Embedded Derivatives for Variable Annuity and Equity-Indexed Annuity Products and Valuation of Certain Guaranteed Benefit Features for Universal Life Products

As described in Notes 5 and 13 to the consolidated financial statements, certain variable annuity and equity-indexed annuity contracts contain embedded derivatives that are bifurcated from the host contracts and accounted for separately at fair value in policyholder contract deposits. As of December 31, 2020, the fair value of these embedded derivatives was $5.5 billion and $3.6 billion for equity-indexed annuity and variable annuities with guaranteed minimum withdrawal benefits, respectively. The fair value of embedded derivatives contained in certain variable annuity and equity-indexed annuity contracts is measured based on policyholder behavior and capital market assumptions related to projected cash flows over the expected lives of the contracts. The policyholder behavior assumptions for these liabilities include mortality, lapses, withdrawals, and benefit utilization, along with an explicit risk margin to reflect a market participant's estimates of projected cash flows. Estimates of future policyholder behavior assumptions are subjective and based primarily on the Company's historical experience. The capital market assumptions related to the embedded derivatives for variable annuity contracts involve judgments regarding expected market rates of return, market volatility, credit spreads, correlations of certain market variables, fund performance, and discount rates. Unobservable inputs used for valuing the embedded derivative include long-term equity volatilities which represent the volatility beyond the period for which observable equity volatilities are available. With respect to embedded derivatives for equity-indexed annuity contracts, option pricing models are used to estimate fair value, taking into account the capital market assumptions. Such models use option budget assumptions which estimate the expected long-term cost of options used to hedge exposures associated with equity price changes. The option budget determines the future costs of the options, which impacts the growth in account value and the valuation of embedded derivatives. Additional policyholder liabilities are also established for universal life policies with secondary guarantees. As of December 31, 2020, the liability for universal life secondary guarantees was $3.3 billion, which is included within policyholder contract deposits. The policyholder behavior assumptions for these liabilities include mortality, lapses and premium persistency. The capital market assumptions used for the liability for universal life secondary guarantees include discount rates and net earned rates.

The principal considerations for our determination that performing procedures relating to the valuation of embedded derivatives for variable annuity and equity-indexed annuity products and valuation of certain guaranteed benefit features for universal life products is a critical audit matter are (i) the significant judgment by management in developing the aforementioned policyholder behavior assumptions, as well as long-term equity volatilities and option budget assumptions, which in turn led to a high degree of auditor subjectivity and judgment in performing the audit procedures related to the significant assumptions used in the estimate, (ii) the significant audit effort and judgment in evaluating the audit evidence relating to the models and significant assumptions used by management in the valuation of the embedded derivatives and additional policyholder liabilities, and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the valuation of embedded derivatives for variable annuity and equity-indexed annuity products and valuation of certain guaranteed benefit features for universal life products, including controls over the development of models and assumptions. These procedures also included, among others, the involvement of professionals with specialized skill and knowledge to assist in performing an evaluation of the appropriateness of management's methodology and the reasonableness of management's judgments used in developing policyholder behavior, as well as long-term volatilities and option budget assumptions used in estimating the valuation of guaranteed benefit features. These procedures considered the consistency of the assumptions across products, in relation to prior periods, and in relation to management's historical experience or observed industry practice, and the continued appropriateness of unchanged assumptions. Procedures were performed to test the completeness and accuracy of data provided by management on a sample basis.

Valuation of Deferred Policy Acquisition Costs for Universal Life and Individual Retirement Variable Annuity Products

As described in Note 9 to the consolidated financial statements, as of December 31, 2020, a portion of the $5.1 billion deferred policy acquisition costs (DAC) for investment-oriented products are associated with universal life and individual retirement variable annuity products. Policy acquisition costs and policy issuance costs related to investment-oriented products are deferred and amortized, with interest, in relation to the incidence of estimated gross profits to be realized over the estimated lives of the contracts. Estimated gross profits are affected by a number of factors, including current and expected interest rates, net investment income and spreads, net realized capital gains and losses, fees, surrender rates, mortality experience, policyholder behavior experience, equity market returns, and volatility. If the assumptions used for estimated gross profits change, DAC is recalculated using the new assumptions, including actuarial assumptions related to mortality, lapse, benefit utilization, and premium persistency, and any resulting adjustment is included in income. DAC for investment-oriented products is reviewed by management for recoverability, which involves estimating the future profitability of the current business. If actual profitability is substantially lower than previously estimated profitability, DAC may be subject to an impairment charge.

The principal considerations for our determination that performing procedures relating to the valuation of DAC for universal life and individual retirement variable annuity products is a critical audit matter are (i) the significant judgment by management to determine the policyholder behavior assumptions related to mortality, lapse, benefit utilization, and premium persistency, which in turn led to a high degree of auditor subjectivity and judgment in performing the audit procedures related to the significant assumptions used in the estimate, (ii) the significant audit effort and judgment in evaluating the audit evidence relating to the estimated gross profit assumptions, and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the amortization and recoverability of DAC for universal life and individual retirement variable annuity products, including controls over the development of significant assumptions. These procedures also included, among others, the involvement of professionals with specialized skill and knowledge to assist in evaluating the appropriateness of management's methodology and the reasonableness of management's assumptions related to mortality, lapse, benefit utilization, and premium persistency, which are used in the calculation of estimated gross profits. The evaluation of the reasonableness of the assumptions included consideration of the consistency of the assumptions across products in relation to prior periods and in relation to management's historical experience or observed industry practice. Procedures were performed to test the completeness and accuracy of data used by management in developing the assumptions on a sample basis.

Recoverability of U.S. Federal Deferred Tax Asset

As described in Note 22 to the consolidated financial statements, as of December 31, 2020, the Company had a net U.S. federal deferred tax asset of $12.0 billion, $8.1 billion of which related to federal U.S. tax attributes with a limited carryforward period. Management evaluates the recoverability of the deferred tax asset and the need for a valuation allowance based on the weight of all positive and negative evidence to reach a conclusion of whether it is more likely than not that all or some portion of the deferred tax asset will not be realized. As disclosed by management, in assessing the recoverability of the deferred tax asset, management considers a number of factors, which include forecasts of future income for each of the businesses and actual and planned business and operational changes, using assumptions about future macroeconomic and company specific conditions and events. Management subjects the forecasts to changes in key assumptions and evaluates the effect on tax attribute utilization, including tax attribute carryforward periods. Management also applies changes to assumptions about the effectiveness of relevant prudent and feasible tax planning strategies. As of December 31, 2020, management determined that it is no longer more-likely-than-not that $150 million of the Company's deferred tax assets related to foreign tax credit carryforwards will be utilized prior to expiration.

The principal considerations for our determination that performing procedures relating to the recoverability of the U.S. federal deferred tax asset is a critical audit matter are (i) the significant judgment by management when developing their estimate of the recoverability, which in turn led to a high degree of auditor subjectivity and judgment in performing the audit procedures relating to the forecasts of future income for each of the businesses, assumptions about future macroeconomic and company specific conditions and events, tax attribute carryforward periods, and tax planning strategies, (ii) the significant audit effort and judgment in evaluating the audit evidence related to the recoverability of the U.S. federal deferred tax asset, and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the recoverability of the U.S. federal deferred tax asset, including controls over the accuracy of input data relevant to the analysis, such as cumulative loss measurement, reversal of temporary differences, adjustments to forecasted pre-tax income to calculate future taxable income, and enacted and effective tax law considerations. These procedures also included, among others, the involvement of professionals with specialized skill and knowledge to assist in (i) evaluating management's assessment of the recoverability of the U.S. federal deferred tax asset and the need for a valuation allowance, including the reasonableness of the application of tax law, (ii) testing management's process for forecasting future income for each of the businesses, which included evaluating the impact of actual and planned business and operational changes, the reasonableness of assumptions about future macroeconomic and company specific conditions and events, as well as considering whether management demonstrated their ability and intent in executing planned strategies, (iii) testing the tax attribute carryforward periods, and (iv) evaluating the prudence and feasibility of the implementation of available tax planning strategies that impact the recoverability of the U.S. federal deferred tax asset.

/s/ PricewaterhouseCoopers LLP

New York, New York

February 19, 2021

We have served as the Company's auditor since 1980.

American International Group, Inc.
Consolidated Balance Sheets

(in millions, except for share data)	December 31, 2020	December 31, 2019
Assets:		
Investments:		
Fixed maturity securities:		
Bonds available for sale, at fair value, net of allowance for credit losses of $186 in 2020 (amortized cost: 2020 - $244,337; 2019 - $233,230)*	$ 271,496	$ 251,086
Other bond securities, at fair value *(See Note 6)**	5,291	6,682
Equity securities, at fair value *(See Note 6)**	1,056	841
Mortgage and other loans receivable, net of allowance for credit losses of $814 in 2020 and $438 in 2019*	45,562	46,984
Other invested assets (portion measured at fair value: 2020 - $8,422; 2019 - $6,827)*	19,060	18,792
Short-term investments, including restricted cash of $180 in 2020 and $188 in 2019 (portion measured at fair value: 2020 - $5,968; 2019 - $5,343)*	18,203	13,230
Total investments	360,668	337,615
Cash*	2,827	2,856
Accrued investment income*	2,271	2,334
Premiums and other receivables, net of allowance for credit losses and disputes of $205 in 2020 and $178 in 2019	11,333	10,274
Reinsurance assets - Fortitude Re, net of allowance for credit losses and disputes of $0 in 2020	34,578	-
Reinsurance assets - other, net of allowance for credit losses and disputes of $326 in 2020 and $151 in 2019	38,963	37,977
Deferred income taxes	12,624	13,146
Deferred policy acquisition costs	9,805	11,207
Other assets, net of allowance for credit losses of $49 in 2020, including restricted cash of $223 in 2020 and $243 in 2019 (portion measured at fair value: 2020 - $887; 2019 - $3,151)*	13,122	16,383
Separate account assets, at fair value	100,290	93,272
Total assets	$ 586,481	$ 525,064
Liabilities:		
Liability for unpaid losses and loss adjustment expenses, including allowance for credit losses of $14 in 2020	$ 77,720	$ 78,328
Unearned premiums	18,660	18,269
Future policy benefits for life and accident and health insurance contracts	51,097	50,512
Policyholder contract deposits (portion measured at fair value: 2020 - $9,798; 2019 - $6,910)	160,251	151,869
Other policyholder funds	3,548	3,428
Fortitude Re funds withheld payable (portion measured at fair value: 2020 - $6,042)	43,060	-
Other liabilities (portion measured at fair value: 2020 - $570; 2019 - $1,100)*	27,122	26,609
Long-term debt (portion measured at fair value: 2020 - $2,097; 2019 - $2,062)*	28,103	25,479
Debt of consolidated investment entities*	9,431	9,871
Separate account liabilities	100,290	93,272
Total liabilities	519,282	457,637
Contingencies, commitments and guarantees *(See Note 16)*		
AIG shareholders' equity:		
Series A Non-cumulative preferred stock and additional paid in capital, $5.00 par value; 100,000,000 shares authorized; shares issued: 2020 - 20,000 and 2019 - 20,000; liquidation preference $500	485	485
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued: 2020 - 1,906,671,492 and 2019 - 1,906,671,492	4,766	4,766
Treasury stock, at cost; 2020 - 1,045,113,443 shares; 2019 - 1,036,672,461 shares of common stock	(49,322)	(48,987)
Additional paid-in capital	81,418	81,345
Retained earnings	15,504	23,084
Accumulated other comprehensive income	13,511	4,982
Total AIG shareholders' equity	66,362	65,675
Non-redeemable noncontrolling interests	837	1,752
Total equity	67,199	67,427
Total liabilities and equity	$ 586,481	$ 525,064

* See Note 10 for details of balances associated with variable interest entities.

See accompanying Notes to Consolidated Financial Statements.

American International Group, Inc.
Consolidated Statements of Income (Loss)

	Years Ended December 31,		
(dollars in millions, except per common share data)	**2020**	2019	2018
Revenues:			
Premiums	**$ 28,523**	$ 30,561	$ 30,614
Policy fees	**2,917**	3,015	2,791
Net investment income:			
Net investment income - excluding Fortitude Re funds withheld assets	**12,578**	14,619	13,086
Net investment income - Fortitude Re funds withheld assets*	**1,053**	-	-
Total net investment income	**13,631**	14,619	13,086
Net realized capital gains (losses):			
Net realized capital gains (losses) - excluding Fortitude Re funds withheld assets and embedded derivative	**(56)**	632	(51)
Net realized capital gains on Fortitude Re funds withheld assets*	**463**	-	-
Net realized capital losses on Fortitude Re funds withheld embedded derivative*	**(2,645)**	-	-
Total net realized capital gains (losses)	**(2,238)**	632	(51)
Other income	**903**	919	949
Total revenues	**43,736**	49,746	47,389
Benefits, losses and expenses:			
Policyholder benefits and losses incurred	**24,806**	25,402	27,412
Interest credited to policyholder account balances	**3,622**	3,832	3,754
Amortization of deferred policy acquisition costs	**4,211**	5,164	5,386
General operating and other expenses	**8,396**	8,537	9,302
Interest expense	**1,457**	1,417	1,309
Loss on extinguishment of debt	**12**	32	7
Net (gain) loss on sale of divested businesses	**8,525**	75	(38)
Total benefits, losses and expenses	**51,029**	44,459	47,132
Income (loss) from continuing operations before income tax expense (benefit)	**(7,293)**	5,287	257
Income tax expense (benefit):			
Current	**217**	545	336
Deferred	**(1,677)**	621	(182)
Income tax expense (benefit)	**(1,460)**	1,166	154
Income (loss) from continuing operations	**(5,833)**	4,121	103
Income (loss) from discontinued operations, net of income taxes	**4**	48	(42)
Net income (loss)	**(5,829)**	4,169	61
Less:			
Net income from continuing operations attributable to noncontrolling interests	**115**	821	67
Net income (loss) attributable to AIG	**(5,944)**	3,348	(6)
Less: Dividends on preferred stock	**29**	22	-
Net income (loss) attributable to AIG common shareholders	**$ (5,973)**	$ 3,326	$ (6)
Income (loss) per common share attributable to AIG common shareholders:			
Basic:			
Income (loss) from continuing operations	**$ (6.88)**	$ 3.74	$ 0.04
Income (loss) from discontinued operations	**$ -**	$ 0.05	$ (0.05)
Net income (loss) attributable to AIG common shareholders	**$ (6.88)**	$ 3.79	$ (0.01)
Diluted:			
Income (loss) from continuing operations	**$ (6.88)**	$ 3.69	$ 0.04
Income (loss) from discontinued operations	**$ -**	$ 0.05	$ (0.05)
Net income (loss) attributable to AIG common shareholders	**$ (6.88)**	$ 3.74	$ (0.01)
Weighted average shares outstanding:			
Basic	**869,309,458**	876,750,264	898,405,537
Diluted	**869,309,458**	889,511,946	910,141,242

* Represents activity subsequent to the deconsolidation of Fortitude Reinsurance Company Ltd. on June 2, 2020.

See accompanying Notes to Consolidated Financial Statements.

American International Group, Inc.
Consolidated Statements of Comprehensive Income (Loss)

	Years Ended December 31,		
(in millions)	**2020**	2019	2018
Net income (loss)	**$ (5,829)**	$ 4,169	$ 61
Other comprehensive income (loss), net of tax			
Change in unrealized depreciation of fixed maturity securities on which allowance for credit losses was taken	**(95)**	-	-
Change in unrealized appreciation (depreciation) of fixed maturity securities on which other-than-temporary credit impairments were taken	**-**	661	(1,000)
Change in unrealized appreciation (depreciation) of all other investments	**8,354**	5,689	(4,975)
Change in foreign currency translation adjustments	**359**	104	(349)
Change in retirement plan liabilities adjustment	**(106)**	(36)	28
Change in fair value of liabilities under fair value option attributable to changes in own credit risk	**1**	(3)	3
Other comprehensive income (loss)	**8,513**	6,415	(6,293)
Comprehensive income (loss)	**2,684**	10,584	(6,232)
Comprehensive income attributable to noncontrolling interests	**99**	841	76
Comprehensive income (loss) attributable to AIG	**$ 2,585**	$ 9,743	$ (6,308)

See accompanying Notes to Consolidated Financial Statements.

American International Group, Inc.
Consolidated Statements of Equity

(in millions)	Preferred Stock and Additional Paid-in Capital	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total AIG Share-holders' Equity	Non-redeemable Non-controlling Interests	Total Equity
Balance, January 1, 2018	$ -	$ 4,766	$ (47,595)	$ 81,078	$ 21,457	$ 5,465	$ 65,171	$ 537	$ 65,708
Cumulative effect of change in accounting principle, net of tax	-	-	-	-	568	(576)	(8)	-	(8)
Common stock issued under stock plans	-	-	189	(344)	-	-	(155)	-	(155)
Purchase of common stock	-	-	(1,739)	-	-	-	(1,739)	-	(1,739)
Net income (loss) attributable to AIG or noncontrolling interests	-	-	-	-	(6)	-	(6)	67	61
Dividends on common stock	-	-	-	-	(1,138)	-	(1,138)	-	(1,138)
Other comprehensive income (loss)	-	-	-	-	-	(6,302)	(6,302)	9	(6,293)
Net increase due to divestitures and acquisitions	-	-	-	-	-	-	-	63	63
Contributions from noncontrolling interests	-	-	-	-	-	-	-	373	373
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(96)	(96)
Other	-	-	1	534	3	-	538	(5)	533
Balance, December 31, 2018	$ -	$ 4,766	$ (49,144)	$ 81,268	$ 20,884	$ (1,413)	$ 56,361	$ 948	$ 57,309
Preferred stock issued	485	-	-	-	-	-	485	-	485
Common stock issued under stock plans	-	-	156	(236)	-	-	(80)	-	(80)
Purchase of common stock	-	-	-	-	-	-	-	-	-
Net income attributable to AIG or noncontrolling interests	-	-	-	-	3,348	-	3,348	821	4,169
Dividends on preferred stock	-	-	-	-	(22)	-	(22)	-	(22)
Dividends on common stock	-	-	-	-	(1,114)	-	(1,114)	-	(1,114)
Other comprehensive income	-	-	-	-	-	6,395	6,395	20	6,415
Net increase due to divestitures and acquisitions	-	-	-	-	-	-	-	65	65
Contributions from noncontrolling interests	-	-	-	-	-	-	-	19	19
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(131)	(131)
Other	-	-	1	313	(12)	-	302	10	312
Balance, December 31, 2019	$ 485	$ 4,766	$ (48,987)	$ 81,345	$ 23,084	$ 4,982	$ 65,675	$ 1,752	$ 67,427
Cumulative effect of change in accounting principle, net of tax	**-**	**-**	**-**	**-**	**(487)**	**-**	**(487)**	**-**	**(487)**
Preferred stock issued	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Common stock issued under stock plans	**-**	**-**	**172**	**(271)**	**-**	**-**	**(99)**	**-**	**(99)**
Purchase of common stock	**-**	**-**	**(500)**	**-**	**-**	**-**	**(500)**	**-**	**(500)**
Net income (loss) attributable to AIG or noncontrolling interests	**-**	**-**	**-**	**-**	**(5,944)**	**-**	**(5,944)**	**115**	**(5,829)**
Dividends on preferred stock	**-**	**-**	**-**	**-**	**(29)**	**-**	**(29)**	**-**	**(29)**
Dividends on common stock	**-**	**-**	**-**	**-**	**(1,103)**	**-**	**(1,103)**	**-**	**(1,103)**
Other comprehensive income (loss)	**-**	**-**	**-**	**-**	**-**	**8,529**	**8,529**	**(16)**	**8,513**
Net decrease due to divestitures and acquisitions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(958)**	**(958)**
Contributions from noncontrolling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**108**	**108**
Distributions to noncontrolling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(156)**	**(156)**
Other	**-**	**-**	**(7)**	**344**	**(17)**	**-**	**320**	**(8)**	**312**
Balance, December 31, 2020	**$ 485**	**$ 4,766**	**$ (49,322)**	**$ 81,418**	**$ 15,504**	**$ 13,511**	**$ 66,362**	**$ 837**	**$ 67,199**

See accompanying Notes to Consolidated Financial Statements.

American International Group, Inc.
Consolidated Statements of Cash Flows

	Years Ended December 31,		
(in millions)	**2020**	2019	2018
Cash flows from operating activities:			
Net income (loss)	**$ (5,829)**	$ 4,169	$ 61
(Income) loss from discontinued operations	**(4)**	(48)	42
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Noncash revenues, expenses, gains and losses included in income (loss):			
Net (gains) losses on sales of securities available for sale and other assets	**(1,179)**	(862)	98
Net (gain) loss on sale of divested businesses	**8,525**	75	(38)
Losses on extinguishment of debt	**12**	32	7
Unrealized gains in earnings - net	**(735)**	(1,306)	(186)
Equity in loss from equity method investments, net of dividends or distributions	**246**	260	363
Depreciation and other amortization	**4,120**	5,006	5,362
Impairments of assets	**98**	299	425
Changes in operating assets and liabilities:			
Insurance reserves	**461**	(4,590)	1,239
Premiums and other receivables and payables - net	**2,586**	437	887
Reinsurance assets and funds held under reinsurance treaties	**(693)**	217	(3,289)
Capitalization of deferred policy acquisition costs	**(4,292)**	(5,403)	(5,832)
Current and deferred income taxes - net	**(2,434)**	912	-
Other, net	**156**	(1,005)	467
Total adjustments	**6,871**	(5,928)	(497)
Net cash provided by (used in) operating activities	**1,038**	(1,807)	(394)
Cash flows from investing activities:			
Proceeds from (payments for)			
Sales or distributions of:			
Available for sale securities	**23,103**	22,145	25,143
Other securities	**2,533**	7,918	3,755
Other invested assets	**3,896**	4,185	4,365
Divested businesses, net	**2,173**	2	10
Maturities of fixed maturity securities available for sale	**27,620**	25,488	24,777
Principal payments received on and sales of mortgage and other loans receivable	**7,805**	5,826	4,272
Purchases of:			
Available for sale securities	**(58,284)**	(54,410)	(44,109)
Other securities	**(617)**	(1,638)	(1,318)
Other invested assets	**(3,522)**	(3,346)	(2,839)
Mortgage and other loans receivable	**(5,990)**	(9,515)	(10,286)
Acquisition of businesses, net of cash and restricted cash acquired	**-**	-	(5,717)
Net change in short-term investments	**(4,925)**	(3,633)	1,524
Other, net	**6**	1,503	200
Net cash used in investing activities	**(6,202)**	(5,475)	(223)
Cash flows from financing activities:			
Proceeds from (payments for)			
Policyholder contract deposits	**22,385**	25,453	27,320
Policyholder contract withdrawals	**(17,854)**	(19,823)	(20,686)
Issuance of long-term debt	**4,196**	734	2,657
Issuance of debt of consolidated investment entities	**2,128**	3,147	2,077
Repayments of long-term debt	**(1,923)**	(1,504)	(3,044)
Repayments of debt of consolidated investment entities	**(2,783)**	(1,698)	(628)
Issuance of preferred stock, net of issuance costs	**-**	485	-
Purchase of common stock	**(500)**	-	(1,739)
Dividends paid on preferred stock	**(29)**	(22)	-
Dividends paid on common stock	**(1,103)**	(1,114)	(1,138)
Other, net	**541**	1,600	(3,570)
Net cash provided by financing activities	**5,058**	7,258	1,249
Effect of exchange rate changes on cash and restricted cash	**49**	16	(11)
Net increase (decrease) in cash and restricted cash	**(57)**	(8)	621
Cash and restricted cash at beginning of year	**3,287**	3,358	2,737
Change in cash of businesses held for sale	**-**	(63)	-
Cash and restricted cash at end of year	**$ 3,230**	$ 3,287	$ 3,358

American International Group, Inc.
Consolidated Statements of Cash Flows *(continued)*

Supplementary Disclosure of Consolidated Cash Flow Information

	Years Ended December 31,		
(in millions)	**2020**	2019	2018
Cash	**$ 2,827**	$ 2,856	$ 2,873
Restricted cash included in Short-term investments*	**180**	188	142
Restricted cash included in Other assets*	**223**	243	343
Total cash and restricted cash shown in the Consolidated Statements of Cash Flows	**$ 3,230**	$ 3,287	$ 3,358
Cash paid during the period for:			
Interest	**$ 1,147**	$ 1,326	$ 1,312
Taxes	**$ 975**	$ 252	$ 154
Non-cash investing activities:			
Fixed maturity securities available for sale received in connection with pension risk transfer transactions	**$ 1,140**	$ 1,072	$ -
Fixed maturity securities received in connection with reinsurance transactions	**$ 362**	$ -	$ -
Fixed maturity securities transferred in connection with reinsurance transactions	**$ (266)**	$ -	$ -
Non-cash financing activities:			
Interest credited to policyholder contract deposits included in financing activities	**$ 3,734**	$ 3,792	$ 3,574
Fee income debited to policyholder contract deposits included in financing activities	**$ (1,710)**	$ (1,733)	$ (1,701)

* Includes funds held for tax sharing payments to AIG Parent, security deposits, replacement reserve deposits related to our affordable housing investments, and security deposits for certain leased aircraft and escrow funds related to our investment in Castle Holdings LLC's aircraft assets, which was sold in 2018.

See accompanying Notes to Consolidated Financial Statements.

1. Basis of Presentation

American International Group, Inc. (AIG) is a leading global insurance organization serving customers in approximately 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). 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.

The consolidated financial statements include the accounts of AIG Parent, our controlled subsidiaries (generally through a greater than 50 percent ownership of voting rights and voting interests), and variable interest entities (VIEs) of which we are the primary beneficiary. Equity investments in entities that we do not consolidate, including corporate entities in which we have significant influence and partnership and partnership-like entities in which we have more than minor influence over the operating and financial policies, are accounted for under the equity method unless we have elected the fair value option.

Certain of our foreign subsidiaries included in the Consolidated Financial Statements report on the basis of a fiscal period ending November 30. 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 Consolidated Financial Statements has been considered for adjustment and/or disclosure.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). All material intercompany accounts and transactions have been eliminated.

ACQUISITIONS OF BUSINESSES

Validus

On July 18, 2018, we completed the purchase of Validus Holdings, Ltd. (Validus), a leading provider of reinsurance, primary insurance, and asset management services, for $5.5 billion in cash. The results of Validus following the date of the acquisition are included in our General Insurance segment starting in the third quarter of 2018. Our North America results include the results of Validus Reinsurance, Ltd. and Western World Insurance Group, Inc., while our International results include the results of Talbot Holdings Ltd.

For additional information relating to the acquisition of Validus, see Note 4.

Glatfelter

On November 6, 2018 AIG completed the purchase of Glatfelter Insurance Group (Glatfelter), a full-service broker and insurance company providing services for specialty programs and retail operations.

Ellipse

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

SALES/DISPOSALS OF BUSINESSES

Fortitude Holdings

On June 2, 2020, we completed the sale of a majority of the interests in Fortitude Group Holdings, LLC (Fortitude Holdings) to Carlyle FRL, L.P. (Carlyle FRL), an investment fund advised by an affiliate of The Carlyle Group Inc. (Carlyle), and T&D United Capital Co., Ltd. (T&D), a subsidiary of T&D Holdings, Inc., under the terms of a membership interest purchase agreement entered into on November 25, 2019 by and among AIG, Fortitude Holdings, Carlyle FRL, Carlyle, T&D and T&D Holdings, Inc. (the Majority Interest Fortitude Sale). AIG established Fortitude Reinsurance Company Ltd. (Fortitude Re), a wholly-owned subsidiary of Fortitude Holdings, in 2018 in a series of reinsurance transactions related to AIG’s Run-Off operations. As of December 31, 2020, approximately $30.5 billion of reserves from AIG’s Life and Retirement Run-Off Lines and approximately $4.1 billion of reserves from AIG’s General Insurance Run-Off Lines, related to business written by multiple wholly-owned AIG subsidiaries, had been ceded to Fortitude Re under these reinsurance transactions. As of closing of the Majority Interest Fortitude Sale, these reinsurance transactions are no longer considered affiliated transactions and Fortitude Re is the reinsurer of the majority of AIG's Run-Off operations. As these reinsurance transactions are structured as modified coinsurance and loss portfolio transfers with funds withheld, following the closing of the Majority Interest Fortitude Sale, AIG continues to reflect the invested assets, which consist mostly of available for sale securities, supporting Fortitude Re's obligations, in AIG's financial statements.

AIG sold a 19.9 percent ownership interest in Fortitude Holdings to TC Group Cayman Investments Holdings, L.P. (TCG), an affiliate of Carlyle, in November 2018 (the 2018 Fortitude Sale). As a result of completion of the Majority Interest Fortitude Sale, Carlyle FRL purchased from AIG a 51.6 percent ownership interest in Fortitude Holdings and T&D purchased from AIG a 25 percent ownership interest in Fortitude Holdings; AIG retained a 3.5 percent ownership interest in Fortitude Holdings and one seat on its Board of Managers. The $2.2 billion of proceeds received by AIG at closing include (i) the $1.8 billion under the Majority Interest Fortitude Sale, which is subject to a post-closing purchase price adjustment pursuant to which AIG will pay Fortitude Re for certain adverse development in property casualty related reserves, based on an agreed methodology, that may occur on or prior to December 31, 2023, up to a maximum payment of $500 million; and (ii) a $383 million purchase price adjustment from Carlyle FRL and T&D, corresponding to their respective portions of a proposed $500 million non-pro rata distribution from Fortitude Holdings that was not received by AIG prior to the closing.

AIG recorded a total after-tax reduction to total AIG shareholders' equity of $4.3 billion related to the sale of the majority interest in and deconsolidation of Fortitude Holdings in the second quarter of 2020. The impact to equity was primarily due to a $6.7 billion after-tax loss partially offset by a $2.4 billion increase in accumulated other comprehensive income (AOCI) due to the release of shadow adjustments primarily related to future policy benefits. The $6.7 billion after-tax loss was comprised of (i) a $2.7 billion loss related to the write-off of prepaid insurance assets and DAC upon deconsolidation of Fortitude Holdings and (ii) $4.0 billion related to the loss on the sale primarily as a result of increases in Fortitude Holdings' equity principally related to mark to market movements from the December 31, 2018 date as of which Fortitude Holdings' equity was calculated for purposes of the purchase price determination, through the June 2, 2020 closing date.

In connection with the Majority Interest Fortitude Sale, AIG, Fortitude Holdings, and TCG agreed that, effective as of the closing, (i) AIG's investment commitment targets under the 2018 Fortitude Sale (whereby AIG had agreed to invest certain amounts into various Carlyle strategies and to make certain minimum investment management fee payments by November 2021) were assumed by Fortitude Holdings and AIG was released therefrom, (ii) the purchase price adjustment that AIG had agreed to provide TCG in the 2018 Fortitude Sale (whereby AIG had agreed to reimburse TCG for adverse development in property casualty related reserves, based on an agreed methodology, that may occur on or prior to December 31, 2023, up to the value of TCG's investment in Fortitude Holdings) has been terminated, and (iii) TCG remains obligated to pay AIG $115 million of deferred consideration upon settlement of the post-closing purchase price adjustment referred to above. This latter amount is composed of $95 million of deferred consideration contemplated as part of the 2018 Fortitude Sale, together with $19.9 million in respect of TCG's 19.9 percent share of the unpaid portion of the $500 million non-pro rata dividend to be paid to AIG under the 2018 Fortitude Sale (TCG paid $79.6 million to AIG on May 26, 2020). In addition, the 2018 capital maintenance agreement between AIG and Fortitude Re and the letters of credit issued in support of Fortitude Re and subject to reimbursement by AIG in the event of a drawdown were terminated as of the closing of the Majority Interest Fortitude Sale. Upon closing of the Majority Interest Fortitude Sale, AIG entered into a transition services agreement with Fortitude Holdings for the provision of transition services for a period after closing, and letter of credit agreements with certain financial institutions, which issued letters of credit in support of certain General Insurance subsidiaries that have reinsurance agreements in place with Fortitude Re in the amount of $600 million. These letters of credit are subject to reimbursement by AIG in the event of a drawdown by these insurance subsidiaries.

Following closing, in the second quarter of 2020, AIG contributed $700 million of the proceeds of the Majority Interest Fortitude Sale to certain of its General Insurance subsidiaries and $135 million of the proceeds of the Majority Interest Fortitude Sale to certain of its Life and Retirement subsidiaries.

For further details on this transaction see Note 8 to the Consolidated Financial Statements.

Blackboard

At the end of March 2020, Blackboard U.S. Holdings, Inc. (Blackboard), AIG's technology-driven subsidiary, was placed into run-off. As a result of this decision, during the three months ended March 31, 2020 and the year ended December 31, 2020, AIG recognized a pre-tax loss of $210 million, primarily consisting of asset impairment charges.

Life and Retirement

On October 26, 2020, AIG announced its intention to separate its Life and Retirement business from AIG.

USE OF 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. 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);
- valuation of future policy benefit liabilities and timing and extent of loss recognition;
- valuation of liabilities for guaranteed benefit features of variable annuity products;
- valuation of embedded derivatives for fixed index annuity and life products;
- estimated gross profits to value deferred policy acquisition costs for investment-oriented products;
- reinsurance assets, including the allowance for credit losses;
- goodwill impairment;
- allowances for credit losses primarily on loans and available for sale fixed maturity securities;
- liability for legal contingencies;
- fair value measurements of certain financial assets and liabilities; and
- income tax assets and liabilities, including recoverability of our net deferred tax asset and the predictability of future tax operating profitability of the character necessary to realize the net deferred tax asset and estimates associated with the Tax Cuts and Jobs Act (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.

OUT OF PERIOD ADJUSTMENTS

For the year ended December 31, 2018, our results include out of period adjustments relating to prior periods that decreased net income attributable to AIG by $77 million, and decreased Income from continuing operations before income taxes by $98 million. The out of period adjustments are primarily related to decreases in deferred policy acquisition costs and increases in policyholder contract deposits. We determined that these adjustments were not material to 2018 or to any previously reported annual financial statements.

REVISION OF PRIOR PERIOD FINANCIAL STATEMENTS

During the fourth quarter of 2020, we identified certain cash flows that had been incorrectly classified in our Consolidated Statements of Cash Flows. Specifically, misclassifications were identified related to policyholder contract deposits that impacted several line items within the previously issued Consolidated Statements of Cash Flows. While these items affect the cash flows from operating and financing activities, they had no impact on the net increase (decrease) in cash and restricted cash for the previously reported periods.

We assessed the materiality of the misclassification on prior period financial statements in accordance with SEC Staff Accounting Bulletin (SAB) Number 99, Materiality, as codified in ASC 250-10, Accounting Changes and Error Corrections. We have determined that these misclassifications were not material to the financial statements of any prior annual or interim period. Accordingly, the annual periods ended December 31, 2019 and 2018 have been corrected in the comparative Consolidated Statements of Cash Flows. Additionally, impacted prior interim periods will be revised within the Quarterly Report on Form 10-Q to be filed for the periods ending March 31, 2021, June 30, 2021, and September 30, 2021.

For the year ended December 31, 2019, the unrealized (gains) losses in earnings – net and Insurance reserves line items in the Consolidated Statements of Cash Flows were adjusted by $(1,513) million and $634 million, respectively. The total net cash provided by (used in) operating activities were adjusted by $(879) million. Additionally, the Policyholder contract deposits and Policyholder contract withdrawals line items in the Consolidated Statements of Cash Flows were adjusted by $3,146 million and $(2,267) million, respectively. The total net cash provided by financing activities was adjusted by $879 million.

For the year ended December 31, 2018, the unrealized (gains) losses in earnings – net and Insurance reserves line items in the Consolidated Statements of Cash Flows were adjusted by $(629) million and $174 million, respectively. The total net cash provided by (used in) operating activities were adjusted by $(455) million. Additionally, the policyholder contract deposits and policyholder contract withdrawals line items in the Consolidated Statements of Cash Flows were adjusted by $3,142 million and $(2,687) million, respectively. The total net cash provided by financing activities was adjusted by $455 million.

2. Summary of Significant Accounting Policies

The following table identifies our significant accounting policies presented in other Notes to these Consolidated Financial Statements, with a reference to the Note where a detailed description can be found:

Note 6. Investments
- Fixed maturity and equity securities
- Other invested assets
- Short-term investments
- Net investment income
- Net realized capital gains (losses)
- Allowance for credit losses/Other-than-temporary impairments

Note 7. Lending Activities
- Mortgage and other loans receivable – net of allowance

Note 8. Reinsurance
- Reinsurance assets – net of allowance
- Retroactive reinsurance

Note 9. Deferred Policy Acquisition Costs
- Deferred policy acquisition costs
- Amortization of deferred policy acquisition costs

Note 10. Variable Interest Entities
Note 11. Derivatives and Hedge Accounting
- Derivative assets and liabilities, at fair value

Note 12. Goodwill and Other Intangible Assets
Note 13. Insurance Liabilities
- Liability for unpaid losses and loss adjustment expenses
- Discounting of reserves
- Future policy benefits
- Policyholder contract deposits
- Other policyholder funds

Note 14. Variable Life and Annuity Contracts
Note 15. Debt
- Long-term debt
- Debt of consolidated investment entities

Note 16. Contingencies, Commitments and Guarantees
- Legal contingencies

Note 18. Earnings Per Common Share
Note 22. Income Taxes

OTHER SIGNIFICANT ACCOUNTING POLICIES

Premiums for short-duration contracts are recorded as written on the inception date of the policy. Premiums are earned primarily on a pro rata basis over the term of the related coverage. Sales of extended services contracts are reflected as premiums written and earned on a pro rata basis over the term of the related coverage. In addition, certain miscellaneous income is included as premiums written and earned. The reserve for unearned premiums includes the portion of premiums written relating to the unexpired terms of coverage. Reinsurance premiums are typically earned over the same period as the underlying policies or risks covered by the contract. As a result, the earnings pattern of a reinsurance contract may extend up to 24 months, reflecting the inception dates of the underlying policies throughout the year.

Reinsurance premiums ceded under prospective reinsurance agreements are recognized as a reduction in revenues over the period the reinsurance coverage is provided in proportion to the risks to which the premiums relate.

Reinsurance premiums for assumed business are estimated based on information received from brokers, ceding companies and reinsureds. Any subsequent differences that arise regarding such estimates are recorded in the periods in which they are determined.

Premiums for long-duration insurance products and life contingent annuities are recognized as revenues when due. Estimates for premiums due but not yet collected are accrued.

Policy fees represent fees recognized from universal life and investment-type products consisting of policy charges for the cost of insurance, policy administration charges, surrender charges and amortization of unearned revenue reserves. Policy fees are recognized as revenues in the period in which they are assessed against policyholders, unless the fees are designed to compensate AIG for services to be provided in the future. Fees deferred as unearned revenue are amortized in relation to the incidence of expected gross profits to be realized over the estimated lives of the contracts, similar to DAC.

Other income includes advisory fee income from the Life and Retirement broker dealer business.

Cash represents cash on hand and demand deposits.

Short-term investments Short-term investments include highly liquid securities and other investments with remaining maturities of one year or less, but greater than three months, at the time of purchase. Securities included within short-term investments are stated at estimated fair value, while other investments included within short-term investments are stated at amortized cost, which approximates estimated fair value.

Premiums and other receivables – net of allowance for credit losses and disputes include premium balances receivable, amounts due from agents and brokers and policyholders, trade receivables for the Direct Investment book (DIB) and Global Capital Markets (GCM) and other receivables. Trade receivables for GCM include cash collateral posted to derivative counterparties that is not eligible to be netted against derivative liabilities. The allowance for credit losses and disputes on premiums and other receivables was $205 million and $178 million at December 31, 2020 and 2019, respectively.

Deposit assets and liabilities: We have entered into certain insurance and reinsurance contracts, primarily in our General Insurance companies, that do not contain sufficient insurance risk to be accounted for as insurance or reinsurance. When we receive premiums on such contracts, the premiums received, after deduction for certain related expenses, are recorded as deposits within Other liabilities in the Consolidated Balance Sheets. Net proceeds of these deposits are invested and generate Net investment income. When we pay premiums on such contracts, the premiums paid are recorded as deposits within Other assets in the Consolidated Balance Sheets. The deposit asset or liability is adjusted as amounts are paid, consistent with the underlying contracts.

Other assets consist of sales inducement assets, prepaid expenses, deposits, other deferred charges, real estate, other fixed assets, capitalized software costs, goodwill, intangible assets other than goodwill, restricted cash, derivative assets and assets of businesses classified as held-for-sale.

We offer sales inducements which include enhanced crediting rates or bonus payments to contract holders (bonus interest) on certain annuity and investment contract products. Such amounts are deferred and amortized over the life of the contract using the same methodology and assumptions used to amortize DAC *(see Note 9 herein)*. To qualify for such accounting treatment, the bonus interest must be explicitly identified in the contract at inception. We must also demonstrate that such amounts are incremental to amounts we credit on similar contracts without bonus interest, and are higher than the contract's expected ongoing crediting rates for periods after the bonus period. The deferred bonus interest and other deferred sales inducement assets totaled $281 million and $430 million at December 31, 2020 and 2019, respectively. The amortization expense associated with these assets is reported within Interest credited to policyholder account balances in the Consolidated Statements of Income. Such amortization expense totaled $60 million, $79 million and $156 million for the years ended December 31, 2020, 2019 and 2018, respectively.

The cost of buildings and furniture and equipment is depreciated principally on the straight-line basis over their estimated useful lives (maximum of 40 years for buildings and 10 years for furniture and equipment). Expenditures for maintenance and repairs are charged to income as incurred and expenditures for improvements are capitalized and depreciated. We periodically assess the carrying amount of our real estate for purposes of determining any asset impairment. Capitalized software costs, which represent costs directly related to obtaining, developing or upgrading internal use software, are capitalized and amortized using the straight-line method over a period generally not exceeding ten years.

Separate accounts represent funds for which investment income and investment gains and losses accrue directly to the policyholders who bear the investment risk. Each account has specific investment objectives and the assets are carried at fair value. The assets of each account are legally segregated and are not subject to claims that arise from any of our other businesses. The liabilities for these accounts are equal to the account assets. Separate accounts may also include deposits for funds held under stable value wrap funding agreements, although the majority of stable value wrap sales are measured based on the notional amount included in assets under management and do not include the receipt of funds. *For a more detailed discussion of separate accounts see Note 14 herein*.

Other liabilities consist of other funds on deposit, other payables, securities sold under agreements to repurchase, securities sold but not yet purchased, derivative liabilities, deferred gains on retroactive reinsurance agreements and liabilities of businesses classified as held-for-sale. Also included in Other liabilities are trade payables for the DIB and GCM, which include balances due to clearing brokers and exchanges. Trade payables for GCM also include cash collateral received from derivative counterparties that contractually cannot be netted against derivative assets.

Securities sold but not yet purchased represent sales of securities not owned at the time of sale. The obligations arising from such transactions are recorded on a trade-date basis and carried at fair value. Fair values of securities sold but not yet purchased are based on current market prices.

Foreign currency: Financial statement accounts expressed in foreign currencies are translated into U.S. dollars. Functional currency assets and liabilities are translated into U.S. dollars generally using rates of exchange prevailing at the balance sheet date of each respective subsidiary and the related translation adjustments are recorded as a separate component of Accumulated other comprehensive income, net of any related taxes, in Total AIG shareholders' equity. Income statement accounts expressed in functional currencies are translated using average exchange rates during the period. Functional currencies are generally the currencies of the local operating environment. Financial statement accounts expressed in currencies other than the functional currency of a consolidated entity are remeasured into that entity's functional currency resulting in exchange gains or losses recorded in income. The adjustments resulting from translation of financial statements of foreign entities operating in highly inflationary economies are recorded in income.

Non-redeemable noncontrolling interest is the portion of equity (net assets) and net income (loss) in a subsidiary not attributable, directly or indirectly, to AIG.

ACCOUNTING STANDARDS ADOPTED DURING 2020

Financial Instruments – Credit Losses

In June 2016, the FASB issued an accounting standard that changed how entities account for current expected credit losses (CECL) for most financial assets, premiums receivable, trade receivables, off-balance sheet exposures and reinsurance receivables (the Financial Instruments Credit Losses Standard). The standard requires an allowance for credit losses based on the expectation of lifetime credit losses related to such 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 (PCD) securities, is subject to the new guidance and is measured in a similar manner, except that losses are recognized as allowances rather than reductions in the amortized cost of the securities. The standard allows for reversals of credit impairments in the event that the credit of an issuer improves. The standard also requires additional disclosures.

We adopted the standard on its effective date of January 1, 2020 using a modified retrospective method, which requires a cumulative effect adjustment to retained earnings. As of January 1, 2020, the impact of the adoption of the standard was a reduction in opening retained earnings of $487 million (after-tax) primarily driven by commercial mortgage loans, and, to a lesser extent, reinsurance receivables and recoverables.

The following table provides a rollforward of our allowance, including credit losses, in connection with the adoption of the Financial Instruments Credit Losses Standard as well as cross references to the applicable notes herein for additional information:

Year Ended December 31, 2020 (in millions)	Balance, Beginning of Year	Cumulative Effect Adjustment as of January 1, 2020	Purchased Credit Deteriorated Initial Allowance	Incremental Increase (Decrease) Recognized in Income	Write-offs and Other Changes in the Allowance[h]	Balance, End of Year
Securities available for sale[a]	$ -	$ -	$ 33	$ 280	$ (127)	$ 186
Mortgage and other loan receivables[b]	438	318	-	75	(17)	814
Reinsurance recoverables (inclusive of deposit accounted assets)[c]	151	224	-	9	(9)	375
Premiums and other receivables[d]	178	34	-	6	(13)	205
Contractual deductible recoverables[e]	-	14	-	-	-	14
Commercial mortgage loan commitments[f]	-	51	-	28	-	79
Total	$ 767	$ 641	$ 33	$ 398	$ (166)	$ 1,673
Secondary impacts to certain long-duration insurance contracts[g]		(27)				
Tax impact		(127)				
Total cumulative effect adjustment		$ 487				

(a) The allowance for credit losses is reported in Bonds available for sale in the Consolidated Balance Sheets. Changes in the allowance for credit losses are reported in Net realized capital gains (losses) in the Consolidated Statements of Income. *Refer to Note 6 for additional information.*

(b) The allowance for credit losses is reported in Mortgage and other loans receivable in the Consolidated Balance Sheets. Changes in the allowance for credit losses are reported in Net realized capital gains (losses) in the Consolidated Statements of Income. *Refer to Note 7 for additional information.*

(c) The allowance for credit losses and disputes is reported in Reinsurance assets – other and Reinsurance assets – Fortitude Re for reinsurance contracts that contain sufficient insurance risk, and the allowance for credit losses is reported in Other assets for insurance and reinsurance contracts that do not contain sufficient insurance risk in the Consolidated Balance Sheets. Changes in the allowance for credit losses are reported in Policyholder benefits and losses incurred for reinsurance contracts that do contain sufficient insurance risk and premiums for contracts that do not contain sufficient insurance risk in the Consolidated Statements of Income. *Refer to Note 8 for additional information.*

(d) The allowance for credit losses and disputes is reported in Premiums and other receivables in the Consolidated Balance Sheets. Changes in the allowance for credit losses and disputes are reported in General operating and other expenses in the Consolidated Statements of Income. *Refer to Note 2 for additional information.*

(e) The allowance for credit losses is reported in Liability for unpaid losses and loss adjustment expenses in the Consolidated Balance Sheets. Changes in the allowance for credit losses are reported in Policyholder benefits and losses incurred in the Consolidated Statements of Income. *Refer to Note 13 for additional information.*

(f) The allowance for credit losses is reported in Other liabilities in the Consolidated Balance Sheets. Changes in the allowance for credit losses are reported in Net realized capital gains (losses) in the Consolidated Statements of Income. *Refer to Note 7 for additional information.*

(g) This reflects adjustments to the amortization of DAC, unearned revenue reserve and sales inducement assets as well as impacts on the future policy benefits for certain universal life and variable annuity contracts.

(h) A write-off does not generally result in an incremental loss to AIG. Prior to a write-off occurring, the allowance for the credit loss is increased or decreased to reflect AIG's expectation of the credit loss to be incurred. Accordingly, when a write-off occurs, the allowance is reversed for the same amount, resulting in no incremental loss to AIG.

The following presents the impact of the adoption of the standard on premiums and other receivables.

Premiums and other receivables – Credit Losses

Premiums and other receivables, net of allowance for credit losses include premium balances receivable, amounts due from agents and brokers and policyholders, trade receivables for GCM and other receivables. Trade receivables for GCM include cash collateral posted to derivative counterparties that is not eligible to be netted against derivative liabilities. The allowance for credit losses and disputes for premiums and other receivables was $205 million at December 31, 2020. Our allowance for credit losses for premium receivables considers a combination of internal and external information relating to past events, current conditions and reasonable and supportable forecasts. Our allowance contemplates our contractual provisions. Upon default or delinquency of the policyholder we may be able to cease coverage for the remaining period. In certain jurisdictions we are unable to cancel coverage even in the event of delinquency or default by the policyholder. We consider premium and other receivable balances to be past due if the payment is not received after 90 days from the contractual obligation due date and record an allowance for disputes when there is reasonable uncertainty of the collectability of a disputed amount during the reporting period.

For further information regarding the impacts of the adoption of this standard see Notes 6, 7, 8 and 13 to the Consolidated Financial Statements.

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.

We adopted the standard on its effective date of January 1, 2020. The adoption of the standard did not have a material impact on our financial position, results of operations or cash flows.

Cloud Computing Arrangements

In August 2018, the FASB issued an accounting standard that aligns the requirements for capitalizing implementation costs incurred in a cloud computing (or hosting) arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). Capitalized implementation costs must be amortized over the term of the hosting arrangement. The accounting for the service element is not affected by the amendments in this update.

We adopted the standard prospectively on its effective date of January 1, 2020. The adoption of the standard did not have a material impact on our consolidated financial position, results of operations or cash flows.

Financial Disclosures About Guarantors and Issuers of Guaranteed Securities and Affiliates

In March 2020, the Securities and Exchange Commission (SEC) adopted amendments to simplify and streamline the disclosure requirements for guarantors and issuers of guaranteed securities registered or being registered, and issuers' affiliates whose securities collateralize securities registered or being registered. Currently, the SEC permits the omission of separate financial statements of subsidiary issuers and guarantors when certain conditions are met and the parent company provides summarized financial information of the subsidiary issuers and guarantors. The amendments, among other things, allow companies to cease providing summarized financial information if the subsidiary issuer's or guarantor's reporting obligation has been suspended.

The amendments are effective January 4, 2021, with early adoption permitted. Effective March 31, 2020, AIG early adopted the amendment and ceased providing the summarized information for the subsidiary issuers and guarantors because the subsidiaries issuer's reporting obligations have been suspended.

FUTURE APPLICATION OF ACCOUNTING STANDARDS

Targeted Improvements to the Accounting for Long-Duration Contracts

In August 2018, the FASB issued an accounting standard update with the objective of making targeted improvements to the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. The standard prescribes significant and comprehensive changes to recognition, measurement, presentation and disclosure as summarized below:

- Requires the review and if necessary update of future policy benefit assumptions at least annually for traditional and limited pay long duration contracts, with the recognition and separate presentation of any resulting re-measurement gain or loss (except for discount rate changes as noted below) in the income statement.
- Requires the discount rate assumption to be updated at the end of each reporting period using an upper medium grade (low-credit risk) fixed income instrument yield that maximizes the use of observable market inputs and recognizes the impact of changes to discount rates in other comprehensive income.
- Simplifies the amortization of DAC to a constant level basis over the expected term of the related contracts with adjustments for unexpected terminations, but no longer requires an impairment test.
- Requires the measurement of all market risk benefits associated with deposit (or account balance) contracts at fair value through the income statement with the exception of instrument-specific credit risk changes, which will be recognized in other comprehensive income.
- Increased disclosures of disaggregated rollforwards of policy benefits, account balances, market risk benefits, separate account liabilities and information about significant inputs, judgments and methods used in measurement and changes thereto and impact of those changes.

In November 2020, the FASB issued ASU 2020-11, which deferred the effective date of the standard for all entities. Our implementation efforts are underway for a January 1, 2023 effective date; we continue to evaluate the method of adoption and impact of the standard on our reported consolidated financial condition, results of operations, cash flows and required disclosures The adoption of this standard is expected to have a significant impact on our consolidated financial condition, results of operations, cash flows and required disclosures, as well as systems, processes and controls.

Income Tax

On December 18, 2019, the FASB issued an accounting standard that simplifies the accounting for income taxes by eliminating certain exceptions to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The amendments also simplified other areas including the accounting for franchise taxes and enacted tax laws or rates, and clarified the accounting for transactions that result in the step-up in the tax basis of goodwill. The standard is effective on January 1, 2021, with early adoption permitted. The impact is not material to our consolidated financial condition, results of operations and cash flows.

Reference Rate Reform

On March 12, 2020, the FASB issued an accounting standard that provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The standard allows us to account for certain contract modifications that result from the discontinuation of the London Inter-Bank Offered Rate (LIBOR) or another reference rate as a continuation of the existing contract without additional analysis.

This guidance is not expected to have a significant impact on our consolidated financial statements and notes to the consolidated financial statements. Where applicable, we would account for the change for the modification due to the discontinuation of LIBOR or another reference rate as a continuation of the existing contract. As part of our implementation efforts, we will continue to assess our operational readiness and current and alternative reference rates' merits, limitations, risks and suitability for our investment and insurance processes.

This standard may be elected and applied prospectively over time from March 12, 2020 through December 31, 2022 as reference rate reform activities occur. We are evaluating the method of adoption and impact of the standard on our reported consolidated financial condition, results of operations, cash flows and required disclosures.

Clarification of Accounting for Certain Equity Method Investments

On January 16, 2020, the FASB issued an accounting standard to clarify how a previously issued standard regarding a company's ability to measure the fair value of certain equity securities without a readily determinable fair value should interact with equity method investments standards. The previously issued standard provides that such equity securities could be measured at cost, minus impairment, if any, unless an observable transaction for an identical or similar security occurs (measurement alternative). The new standard clarifies that a company should consider observable transactions that require the company to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with the equity method immediately before applying or upon discontinuing the equity method.

The standard further clarifies that, when determining the accounting for certain forward contracts and purchased options a company should not consider, whether upon settlement or exercise, if the underlying securities would be accounted for under the equity method or fair value option.

The standard is effective for interim and annual reporting periods beginning after December 15, 2020. We do not expect the adoption of this standard to be material to our reported consolidated financial condition, results of operations, cash flows and required disclosures.

GOODWILL

Effective July 1, 2019, we changed the date of our annual goodwill impairment testing from December 31 to July 1. This change does not represent a material change to our method of applying current accounting guidance and is preferable as it better aligns with our strategic planning and forecasting process. This change did not delay, accelerate or avoid any impairment charge and was applied prospectively. We performed our annual goodwill impairment tests of all reporting units using a combination of both qualitative and quantitative assessments and concluded that our goodwill was not impaired. Our goodwill balance was $4.1 billion at December 31, 2020. *For further information on goodwill see Note 12 to the Consolidated Financial Statements.*

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.

Prior to the fourth quarter of 2020, we reported our results as follows:

- General Insurance included our North America and International operating segments;
- Life and Retirement included our Individual Retirement, Group Retirement, Life Insurance and Institutional Markets operating segments;
- Other operations consisted primarily of businesses and items not allocated to our operating segments, amortization of value of distribution network acquired (VODA) related to the Validus and Glatfelter acquisitions and Interest expense attributable to AIG; and long-term debt as well as debt associated with consolidated investment entities; and
- Legacy Portfolio included exited or discontinued product lines, policy forms or distribution channels.

In the fourth quarter of 2020, our chief operating decision makers modified their view of our businesses and how they allocate resources and assess performance. Prior periods' presentation has been revised to conform to our new structure. The new operating structure no longer includes a Legacy segment. We now report the results of our businesses as follows:

GENERAL INSURANCE

General Insurance business is presented as two operating segments:

- **North America** – consists of insurance businesses in the United States, Canada, Bermuda, and our global reinsurance business, AIG Re. The results of Validus Reinsurance, Ltd., Western World Insurance Group, Inc. and Glatfelter were included as of their respective acquisition dates.
- **International** – consists of regional insurance businesses in Japan, the United Kingdom, Europe, Middle East and Africa (EMEA region), Asia Pacific, Latin America and Caribbean, and China. International also includes the results of Talbot Holdings, Ltd (Talbot), as of its acquisition date, as well as AIG's global specialty business.

North America and International operating segments consist of the following products:

- Commercial Lines – consists of Liability, Financial Lines, Property and Global Specialty.
- Personal Insurance – consists of Personal Lines and Accident & 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 annuities, individual annuity and investment products, financial planning and advisory services, and plan administrative and compliance 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. Certain run-off life insurance portfolios previously reported in our Legacy segment have been realigned into the Life Insurance operating segment.
- **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). The run-off high net worth (private placement variable universal life and private placement variable annuity) and structured settlement portfolios previously reported in our Legacy segment have been realigned into the Institutional Markets operating segment.

On October 26, 2020, AIG announced its intention to separate its Life and Retirement business from AIG.

OTHER OPERATIONS

Other Operations primarily consists of income from assets held by AIG Parent and other corporate subsidiaries, deferred tax assets related to tax attributes, corporate expenses and intercompany eliminations, our institutional asset management business and results of our consolidated investment entities, General Insurance portfolios in run-off previously reported within Legacy as well as the historical results of our legacy insurance lines ceded to Fortitude Re.

The accounting policies of the segments are the same as those described in Note 2. 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. These items generally fall into one or more of the following broad categories: legacy matters having no relevance to our current businesses or operating performance; adjustments to enhance transparency to the underlying economics of transactions; and measures that we believe to be common to the industry. Legal entities are attributed to each segment based upon the predominance of activity in that legal entity. 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:

(in millions)	Adjusted Revenue	Net Investment Income	Underwriting Income (Loss)	Interest Expense	Amortization of DAC	Adjusted Pre-tax Income (Loss)
2020						
General Insurance						
North America	**$ 10,302**		**$ (1,301)**		**$ 1,365**	
International	**13,360**		**277**		**2,173**	
Net investment income	**2,925**	**$ 2,925**	**-**		**-**	
Total General Insurance	**$ 26,587**	**$ 2,925**	**$ (1,024)**	**$ -**	**$ 3,538**	**$ 1,901**
Life and Retirement						
Individual Retirement	**5,714**	**4,131**	**-**	**72**	**590**	**1,938**
Group Retirement	**2,970**	**2,236**	**-**	**42**	**7**	**1,013**
Life Insurance	**4,877**	**1,526**	**-**	**30**	**30**	**142**
Institutional Markets	**3,714**	**988**	**-**	**11**	**5**	**438**
Total Life and Retirement	**17,275**	**8,881**	**-**	**155**	**632**	**3,531**
Other Operations	**1,385**	**1,087**	**-**	**1,306**	**50**	**(1,963)**
AIG consolidation and eliminations	**(562)**	**(572)**	**-**	**(70)**	**-**	**(466)**
Total	**$ 44,685**	**$ 12,321**	**$ (1,024)**	**$ 1,391**	**$ 4,220**	**$ 3,003**
Reconciling items to pre-tax income (loss):						
Changes in fair value of securities used to hedge guaranteed living benefits	**56**	**56**	**-**	**-**	**-**	**41**
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses)	**-**	**-**	**-**	**-**	**(9)**	**12**
Changes in the fair value of equity securities	**200**	**200**	**-**	**-**	**-**	**200**
Other income (expense) - net	**49**	**99**	**-**	**99**	**-**	**-**
Loss on extinguishment of debt	**-**	**-**	**-**	**-**	**-**	**(12)**
Net investment income on Fortitude Re funds withheld assets[(a)]	**1,053**	**1,053**	**-**	**-**	**-**	**1,053**
Net realized capital gains (losses) on Fortitude Re funds withheld assets[(a)]	**463**	**-**	**-**	**-**	**-**	**463**
Net realized capital gains (losses) on Fortitude Re funds withheld embedded derivative[(a)]	**(2,645)**	**-**	**-**	**-**	**-**	**(2,645)**
Net realized capital gains (losses)[(b)]	**(148)**	**(98)**	**-**	**(33)**	**-**	**(97)**
Loss from divested businesses	**-**	**-**	**-**	**-**	**-**	**(8,525)**
Non-operating litigation reserves and settlements	**23**	**-**	**-**	**-**	**-**	**21**
Unfavorable prior year development and related amortization changes ceded under retroactive reinsurance agreements	**-**	**-**	**-**	**-**	**-**	**221**
Net loss reserve discount charge	**-**	**-**	**-**	**-**	**-**	**(516)**
Integration and transaction costs associated with acquiring or divesting businesses	**-**	**-**	**-**	**-**	**-**	**(12)**
Restructuring and other costs	**-**	**-**	**-**	**-**	**-**	**(435)**
Non-recurring costs related to regulatory or accounting changes	**-**	**-**	**-**	**-**	**-**	**(65)**
Revenues and pre-tax income (loss)	**$ 43,736**	**$ 13,631**	**$ (1,024)**	**$ 1,457**	**$ 4,211**	**$ (7,293)**
2019						
General Insurance						
North America	$ 12,136		$ (365)		$ 1,923	
International	14,302		454		2,559	
Net investment income	3,444	$ 3,444	-		-	
Total General Insurance	$ 29,882	$ 3,444	$ 89	$ -	$ 4,482	$ 3,533
Life and Retirement						
Individual Retirement	5,643	4,122	-	77	449	1,977
Group Retirement	2,947	2,240	-	44	81	937
Life Insurance	4,825	1,483	-	30	137	331
Institutional Markets	2,941	888	-	11	5	308
Total Life and Retirement	16,356	8,733	-	162	672	3,553
Other Operations	3,060	2,598	-	1,260	64	(1,312)
AIG consolidation and eliminations	(388)	(385)	-	(55)	-	(304)
Total	$ 48,910	$ 14,390	$ 89	$ 1,367	$ 5,218	$ 5,470

Reconciling items to pre-tax income:						
Changes in fair value of securities used to hedge guaranteed living benefits	228	228	-	-	-	194
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses)	-	-	-	-	(54)	56
Changes in the fair value of equity securities	158	158	-	-	-	158
Other income (expense) - net	46	85	-	87	-	-
Loss on extinguishment of debt	-	-	-	-	-	(32)
Net realized capital gains (losses)[b]	395	(242)	-	(37)	-	456
Loss from divested businesses	-	-	-	-	-	(75)
Non-operating litigation reserves and settlements	9	-	-	-	-	2
Favorable prior year development and related amortization changes ceded under retroactive reinsurance agreements	-	-	-	-	-	267
Net loss reserve discount charge	-	-	-	-	-	(955)
Integration and transaction costs associated with acquiring or divesting businesses	-	-	-	-	-	(24)
Restructuring and other costs	-	-	-	-	-	(218)
Non-recurring costs related to regulatory or accounting changes	-	-	-	-	-	(12)
Revenues and pre-tax income	$ 49,746	$ 14,619	$ 89	$ 1,417	$ 5,164	$ 5,287
2018						
General Insurance						
North America	$ 11,815		$ (2,430)		$ 1,744	
International	15,690		(707)		2,852	
Net investment income	2,843	$ 2,843	-		-	
Total General Insurance	$ 30,348	$ 2,843	(3,137)	$ -	4,596	$ (294)
Life and Retirement						
Individual Retirement	5,332	3,821	-	82	630	1,678
Group Retirement	2,894	2,175	-	42	95	936
Life Insurance	4,522	1,450	-	29	(30)	472
Institutional Markets	1,932	792	-	13	5	257
Total Life and Retirement	14,680	8,238	-	166	700	3,343
Other Operations	2,866	2,406	-	1,091	94	(1,489)
AIG consolidation and eliminations	103	114	-	83	-	39
Total	$ 47,997	$ 13,601	$ (3,137)	$ 1,340	$ 5,390	$ 1,599
Reconciling items to pre-tax income:						
Changes in fair value of securities used to hedge guaranteed living benefits	(128)	(128)	-	-	-	(154)
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses)	-	-	-	-	(4)	6
Changes in the fair value of equity securities	(184)	(184)	-	-	-	(184)
Other income (expense) - net	(53)	-	-	-	-	-
Loss on extinguishment of debt	-	-	-	-	-	(7)
Net realized capital losses[b]	(254)	(203)	-	(31)	-	(199)
Income from divested businesses	-	-	-	-	-	38
Non-operating litigation reserves and settlements	11	-	-	-	-	(19)
Unfavorable prior year development and related amortization changes ceded under retroactive reinsurance agreements	-	-	-	-	-	(675)
Net loss reserve discount benefit	-	-	-	-	-	371
Integration and transaction costs associated with acquiring or divesting businesses	-	-	-	-	-	(124)
Restructuring and other costs	-	-	-	-	-	(395)
Non-recurring costs related to regulatory or accounting changes	-	-	-	-	-	-
Revenues and pre-tax income	$ 47,389	$ 13,086	$ (3,137)	$ 1,309	$ 5,386	$ 257

(a) Represents activity subsequent to the deconsolidation of Fortitude Re on June 2, 2020.

(b) Includes all net realized capital gains and losses except earned income (periodic settlements and changes in settlement accruals) on derivative instruments used for non-qualifying (economic) hedging or for asset replication and net realized gains and losses on Fortitude Re funds withheld assets held by AIG in support of Fortitude Re's reinsurance obligations to AIG (Fortitude Re funds withheld assets).

The following table presents AIG's year-end identifiable assets and capital expenditures by segment:

	Year-End Identifiable Assets		Capital Expenditures	
(in millions)	**2020**	2019	**2020**	2019
General Insurance	**$ 156,590**	$ 156,358	**$ 156**	$ 105
Life and Retirement	**396,275**	371,742	**107**	104
Other Operations	**33,616**	(3,036)	**90**	95
Total Assets	**$ 586,481**	$ 525,064	**$ 353**	$ 304

The following table presents AIG's consolidated total revenues and real estate and other fixed assets, net of accumulated depreciation, by major geographic area:

	Total Revenues*			Real Estate and Other Fixed Assets, Net of Accumulated Depreciation		
(in millions)	**2020**	2019	2018	**2020**	2019	2018
North America	**$ 30,204**	$ 36,930	$ 31,376	**$ 1,230**	$ 1,333	$ 1,479
International	**13,532**	12,816	16,013	**610**	620	693
Consolidated	**$ 43,736**	$ 49,746	$ 47,389	**$ 1,840**	$ 1,953	$ 2,172

* Revenues are generally reported according to the geographic location of the segment. International revenues consists of revenues from our General Insurance International operating segment.

4. Business Combination

On July 18, 2018, we completed the purchase of a 100 percent voting interest in Validus, a leading provider of reinsurance, primary insurance, and asset management services, for $5.5 billion in cash.

The purchase was accounted for under the acquisition method. Accordingly, the total purchase price was allocated to the estimated fair values of assets acquired and liabilities assumed. This allocation resulted in the purchase price exceeding the fair value of net assets acquired, which results in a difference recorded as goodwill. Goodwill generated from the acquisition is attributable to expected synergies from future growth and potential future monetization opportunities. Goodwill related to the purchase of Validus assigned to our General Insurance operating segments was $1.8 billion for North America and $157 million for International.

In addition, Validus participates in the market for insurance-linked securities (ILS) primarily through AlphaCat Managers, Ltd (AlphaCat). AlphaCat is an asset manager primarily for third-party investors and in connection with the issuance of ILS invests in AlphaCat funds which are considered VIEs. ILS are financial instruments for which the values are determined based on insurance losses caused primarily by natural catastrophes such as major earthquakes and hurricanes. We report the investment in AlphaCat funds, which is approximately $118 million and $124 million at December 31, 2020 and December 31, 2019, respectively, in Other Invested Assets in the Consolidated Balance Sheets.

The following unaudited summarized pro forma consolidated income statement information assumes that the acquisition of Validus occurred as of January 1, 2017. The pro forma amounts are for comparative purposes only and may not necessarily reflect the results of operations that would have resulted had the acquisition been completed at the beginning of the applicable period and may not be indicative of the results that will be attained in the future.

Year Ended December 31,	
(dollars in millions, except per common share data)	2018*
Total revenues	$ 48,588
Net income	16
Net loss attributable to AIG common shareholders	(51)
Loss per common share attributable to AIG common shareholders:	
Basic:	
Net loss attributable to AIG common shareholders	(0.06)
Diluted:	
Net loss attributable to AIG common shareholders	(0.06)

* Pro forma adjustments were made to Validus' external reporting results prior to the acquisition date for the deconsolidation of certain asset management entities consistent with AIG's post acquisition accounting, which had no impact on Net income attributable to Validus.

5. Fair Value Measurements

FAIR VALUE MEASUREMENTS ON A RECURRING BASIS

We carry certain of our financial instruments at fair value. We define the fair value of a financial instrument as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We are responsible for the determination of the value of the investments carried at fair value and the supporting methodologies and assumptions.

The degree of judgment used in measuring the fair value of financial instruments generally inversely correlates with the level of observable valuation inputs. We maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, liquidity and general market conditions.

Fair Value Hierarchy

Assets and liabilities recorded at fair value in the 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.

The following is a description of the valuation methodologies used for instruments carried at fair value. These methodologies are applied to assets and liabilities across the levels discussed above, and it is the observability of the inputs used that determines the appropriate level in the fair value hierarchy for the respective asset or liability.

VALUATION METHODOLOGIES OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Incorporation of Credit Risk in Fair Value Measurements

- **Our Own Credit Risk.** Fair value measurements for certain liabilities incorporate our own credit risk by determining the explicit cost for each counterparty to protect against its net credit exposure to us at the balance sheet date by reference to observable AIG credit default swaps (CDS) or cash bond spreads. We calculate the effect of credit spread changes using discounted cash flow techniques that incorporate current market interest rates. A derivative counterparty’s net credit exposure to us is determined based on master netting agreements, when applicable, which take into consideration all derivative positions with us, as well as collateral we post with the counterparty at the balance sheet date. *For a description of how we incorporate our own credit risk in the valuation of embedded derivatives related to certain annuity and life insurance products see – Embedded Derivatives within Policyholder Contract Deposits below.*

- **Counterparty Credit Risk.** Fair value measurements for freestanding derivatives incorporate counterparty credit by determining the explicit cost for us to protect against our net credit exposure to each counterparty at the balance sheet date by reference to observable counterparty CDS spreads, when available. When not available, other directly or indirectly observable credit spreads will be used to derive the best estimates of the counterparty spreads. Our net credit exposure to a counterparty is determined based on master netting agreements, which take into consideration all derivative positions with the counterparty, as well as collateral posted by the counterparty at the balance sheet date.

Fair values for fixed maturity securities based on observable market prices for identical or similar instruments implicitly incorporate counterparty credit risk. Fair values for fixed maturity securities based on internal models incorporate counterparty credit risk by using discount rates that take into consideration cash issuance spreads for similar instruments or other observable information.

For fair values measured based on internal models, the cost of credit protection is determined under a discounted present value approach considering the market levels for single name CDS spreads for each specific counterparty, the mid-market value of the net exposure (reflecting the amount of protection required) and the weighted average life of the net exposure. CDS spreads are provided to us by an independent third party. We utilize an interest rate based on the benchmark LIBOR curve to derive our discount rates.

While this approach does not explicitly consider all potential future behavior of the derivative transactions or potential future changes in valuation inputs, we believe this approach provides a reasonable estimate of the fair value of the assets and liabilities, including consideration of the impact of non-performance risk.

Fixed Maturity Securities

Whenever available, we obtain quoted prices in active markets for identical assets at the balance sheet date to measure fixed maturity securities at fair value. Market price data is generally obtained from dealer markets.

We employ independent third-party valuation service providers to gather, analyze, and interpret market information to derive fair value estimates for individual investments, based upon market-accepted methodologies and assumptions. The methodologies used by these independent third-party valuation service providers are reviewed and understood by management, through periodic discussion with and information provided by the independent third-party valuation service providers. In addition, as discussed further below, control processes are applied to the fair values received from independent third-party valuation service providers to ensure the accuracy of these values.

Valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources and, through the use of market-accepted valuation methodologies, which may utilize matrix pricing, financial models, accompanying model inputs and various assumptions, provide a single fair value measurement for individual securities. The inputs used by the valuation service providers include, but are not limited to, market prices from completed transactions for identical securities and transactions for comparable securities, benchmark yields, interest rate yield curves, credit spreads, prepayment rates, default rates, recovery assumptions, currency rates, quoted prices for similar securities and other market-observable information, as applicable. If fair value is determined using financial models, these models generally take into account, among other things, market observable information as of the measurement date as well as the specific attributes of the security being valued, including its term, interest rate, credit rating, industry sector, and when applicable, collateral quality and other security or issuer-specific information. When market transactions or other market observable data is limited, the extent to which judgment is applied in determining fair value is greatly increased.

We have control processes designed to ensure that the fair values received from independent third-party valuation service providers are accurately recorded, that their data inputs and valuation techniques are appropriate and consistently applied and that the assumptions used appear reasonable and consistent with the objective of determining fair value. We assess the reasonableness of individual security values received from independent third-party valuation service providers through various analytical techniques, and have procedures to escalate related questions internally and to the independent third-party valuation service providers for resolution. To assess the degree of pricing consensus among various valuation service providers for specific asset types, we conduct comparisons of prices received from available sources. We use these comparisons to establish a hierarchy for the fair values received from independent third-party valuation service providers to be used for particular security classes. We also validate prices for selected securities through reviews by members of management who have relevant expertise and who are independent of those charged with executing investing transactions.

When our independent third-party valuation service providers are unable to obtain sufficient market observable information upon which to estimate the fair value for a particular security, fair value is determined either by requesting brokers who are knowledgeable about these securities to provide a price quote, which is generally non-binding, or by employing market accepted valuation models. Broker prices may be based on an income approach, which converts expected future cash flows to a single present value amount, with specific consideration of inputs relevant to particular security types. For structured securities, such inputs may include ratings, collateral types, geographic concentrations, underlying loan vintages, loan delinquencies and defaults, loss severity assumptions, prepayments, and weighted average coupons and maturities. When the volume or level of market activity for a security is limited, certain inputs used to determine fair value may not be observable in the market. Broker prices may also be based on a market approach that considers recent transactions involving identical or similar securities. Fair values provided by brokers are subject to similar control processes to those noted above for fair values from independent third-party valuation service providers, including management reviews. For those corporate debt instruments (for example, private placements) that are not traded in active markets or that are subject to transfer restrictions, valuations reflect illiquidity and non-transferability, based on available market evidence. When observable price quotations are not available, fair value is determined based on discounted cash flow models using discount rates based on credit spreads, yields or price levels of comparable securities, adjusted for illiquidity and structure. Fair values determined internally are also subject to management review to ensure that valuation models and related inputs are reasonable.

The methodology above is relevant for all fixed maturity securities including residential mortgage backed securities (RMBS), commercial mortgage backed securities (CMBS), collateralized debt obligations (CDO), other asset-backed securities (ABS) and fixed maturity securities issued by government sponsored entities and corporate entities.

Equity Securities Traded in Active Markets

Whenever available, we obtain quoted prices in active markets for identical assets at the balance sheet date to measure equity securities at fair value. Market price data is generally obtained from exchange or dealer markets.

Mortgage and Other Loans Receivable

We estimate the fair value of mortgage and other loans receivable that are measured at fair value by using dealer quotations, discounted cash flow analyses and/or internal valuation models. The determination of fair value considers inputs such as interest rate, maturity, the borrower’s creditworthiness, collateral, subordination, guarantees, past-due status, yield curves, credit curves, prepayment rates, market pricing for comparable loans and other relevant factors.

Other Invested Assets

We initially estimate the fair value of investments in certain hedge funds, private equity funds and other investment partnerships by reference to the transaction price. Subsequently, we generally obtain the fair value of these investments from net asset value information provided by the general partner or manager of the investments, the financial statements of which are generally audited annually. We consider observable market data and perform certain control procedures to validate the appropriateness of using the net asset value as a fair value measurement. The fair values of other investments carried at fair value, such as direct private equity holdings, are initially determined based on transaction price and are subsequently estimated based on available evidence such as market transactions in similar instruments, other financing transactions of the issuer and other available financial information for the issuer, with adjustments made to reflect illiquidity as appropriate.

Short-term Investments

For short-term investments that are measured at amortized cost, the carrying amounts of these assets approximate fair values because of the relatively short period of time between origination and expected realization, and their limited exposure to credit risk. Securities purchased under agreements to resell (reverse repurchase agreements) are generally treated as collateralized receivables. We report certain receivables arising from securities purchased under agreements to resell as Short-term investments in the Consolidated Balance Sheets. When these receivables are measured at fair value, we use market-observable interest rates to determine fair value.

Separate Account Assets

Separate account assets are composed primarily of registered and unregistered open-end mutual funds that generally trade daily and are measured at fair value in the manner discussed above for equity securities traded in active markets.

Freestanding Derivatives

Derivative assets and liabilities can be exchange-traded or traded over-the-counter (OTC). We generally value exchange-traded derivatives such as futures and options using quoted prices in active markets for identical derivatives at the balance sheet date.

OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of, and specific risks inherent in the instrument, as well as the availability of pricing information in the market. We generally use similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be corroborated by observable market data by correlation or other means, and model selection does not involve significant management judgment.

For certain OTC derivatives that trade in less liquid markets, where we generally do not have corroborating market evidence to support significant model inputs and cannot verify the model to market transactions, the transaction price may provide the best estimate of fair value. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so the model value at inception equals the transaction price. We will update valuation inputs in these models only when corroborated by evidence such as similar market transactions, independent third-party valuation service providers and/or broker or dealer quotations, or other empirical market data. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management’s best estimate is used.

We value our super senior credit default swap portfolio using prices obtained from vendors and/or counterparties. The valuation of the super senior credit derivatives is complex because of the limited availability of market observable information due to the lack of trading and price transparency in certain structured finance markets. Our valuation methodologies for the super senior CDS portfolio have evolved over time in response to market conditions and the availability of market observable information. We have sought to calibrate the methodologies to available market information and to review the assumptions of the methodologies on a regular basis.

Embedded Derivatives within Policyholder Contract Deposits

Certain variable annuity and equity-indexed annuity and life contracts contain embedded derivatives that we bifurcate from the host contracts and account for separately at fair value, with changes in fair value recognized in earnings. These embedded derivatives are classified within Policyholder contract deposits. We have concluded these contracts contain either (i) a written option that guarantees a minimum accumulation value at maturity, (ii) a written option that guarantees annual withdrawals regardless of underlying market performance for a specific period or for life, or (iii) equity-indexed written options that meet the criteria of derivatives and must be bifurcated.

The fair value of embedded derivatives contained in certain variable annuity and equity-indexed annuity and life contracts is measured based on policyholder behavior and capital market assumptions related to projected cash flows over the expected lives of the contracts. These discounted cash flow projections primarily include benefits and related fees assessed, when applicable. In some instances, the projected cash flows from fees may exceed projected cash flows related to benefit payments and therefore, at a point in time, the carrying value of the embedded derivative may be in a net asset position. The projected cash flows incorporate best estimate assumptions for policyholder behavior (including mortality, lapses, withdrawals and benefit utilization), along with an explicit risk margin to reflect a market participant’s estimates of projected cash flows and policyholder behavior. Estimates of future policyholder behavior assumptions are subjective and based primarily on our historical experience.

Because of the dynamic and complex nature of the projected cash flows with respect to embedded derivatives in our variable annuity contracts, risk neutral valuations are used, which are calibrated to observable interest rate and equity option prices. Estimating the underlying cash flows for these products involves judgments regarding the capital market assumptions related to expected market rates of return, market volatility, credit spreads, correlations of certain market variables, fund performance and discount rates. Additionally, estimating the underlying cash flows for these products also involves judgments regarding policyholder behavior. The portion of fees attributable to the fair value of expected benefit payments are included within the fair value measurement of these embedded derivatives, and related fees are classified in net realized gain/loss as earned, consistent with other changes in the fair value of these embedded policy derivatives. Any portion of the fees not attributed to the embedded derivatives are excluded from the fair value measurement and classified in policy fees as earned.

With respect to embedded derivatives in our equity-indexed annuity and life contracts, option pricing models are used to estimate fair value, taking into account the capital market assumptions for future equity index growth rates, volatility of the equity index, future interest rates, and our ability to adjust the participation rate and the cap on equity-indexed credited rates in light of market conditions and policyholder behavior assumptions.

Projected cash flows are discounted using the interest rate swap curve (swap curve), which is commonly viewed as being consistent with the credit spreads for highly-rated financial institutions (S&P AA-rated or above). A swap curve shows the fixed-rate leg of a non-complex swap against the floating rate (for example, LIBOR) leg of a related tenor. We also incorporate our own risk of non-performance in the valuation of the embedded derivatives associated with variable annuity and equity-indexed annuity and life contracts. The non-performance risk adjustment (NPA) reflects a market participant's view of our claims-paying ability by incorporating an additional spread to the swap curve used to discount projected benefit cash flows in the valuation of these embedded derivatives. The non-performance risk adjustment is calculated by constructing forward rates based on a weighted average of observable corporate credit indices to approximate the claims-paying ability rating of our Life and Retirement companies.

Fortitude Re funds withheld payable

The reinsurance transactions between AIG and Fortitude Re were structured as modified coinsurance (modco) and loss portfolio transfer arrangements with funds withheld (funds withheld). As a result of the deconsolidation resulting from the Majority Interest Fortitude Sale, AIG has established a funds withheld payable to Fortitude Re while simultaneously establishing a reinsurance asset representing reserves for the insurance coverage that Fortitude Re has assumed. The funds withheld payable contains an embedded derivative and changes in fair value of the embedded derivative related to the funds withheld payable are recognized in earnings through realized capital gains (losses). This embedded derivative is considered a total return swap with contractual returns that are attributable to various assets and liabilities associated with these reinsurance agreements. The fair value of the underlying assets is generally based on market observable inputs using industry standard valuation techniques. The valuation also requires certain significant inputs, which are generally not observable and accordingly, the valuation is considered Level 3 in the fair value hierarchy.

Long-Term Debt

The fair value of non-structured liabilities is generally determined by using market prices from exchange or dealer markets, when available, or discounting expected cash flows using the appropriate discount rate for the applicable maturity. We determine the fair value of structured liabilities and hybrid financial instruments (where performance is linked to structured interest rates, inflation or currency risks) using the appropriate derivative valuation methodology (described above) given the nature of the embedded risk profile. In addition, adjustments are made to the valuations of both non-structured and structured liabilities to reflect our own creditworthiness based on the methodology described under the caption "Incorporation of Credit Risk in Fair Value Measurements – Our Own Credit Risk" above.

Borrowings under obligations of guaranteed investment agreements (GIAs), which are guaranteed by us, are recorded at fair value using discounted cash flow calculations based on interest rates currently being offered for similar contracts and our current market observable implicit credit spread rates with maturities consistent with those remaining for the contracts being valued. Obligations may be called at various times prior to maturity at the option of the counterparty. Interest rates on these borrowings are primarily fixed, vary by maturity and range up to 7.15 percent.

Other Liabilities

Other liabilities measured at fair value include certain securities sold under agreements to repurchase and certain securities sold but not yet purchased. Liabilities arising from securities sold under agreements to repurchase are generally treated as collateralized borrowings. We estimate the fair value of liabilities arising under these agreements by using market-observable interest rates. This methodology considers such factors as the coupon rate, yield curves and other relevant factors. Fair values for securities sold but not yet purchased are based on current market prices.

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:

December 31, 2020 *(in millions)*	Level 1	Level 2	Level 3	Counterparty Netting[(a)]	Cash Collateral	Total
Assets:						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 73	$ 4,053	$ -	$ -	$ -	$ 4,126
Obligations of states, municipalities and political subdivisions	-	14,019	2,105	-	-	16,124
Non-U.S. governments	28	15,312	5	-	-	15,345
Corporate debt	-	166,949	2,349	-	-	169,298
RMBS	-	19,771	11,694	-	-	31,465
CMBS	-	15,211	922	-	-	16,133
CDO/ABS	-	9,191	9,814	-	-	19,005
Total bonds available for sale	101	244,506	26,889	-	-	271,496
Other bond securities:						
U.S. government and government sponsored entities	-	1,845	-	-	-	1,845
Non-U.S. governments	-	-	-	-	-	-
Corporate debt	-	12	-	-	-	12
RMBS	-	290	139	-	-	429
CMBS	-	273	47	-	-	320
CDO/ABS	-	173	2,512	-	-	2,685
Total other bond securities	-	2,593	2,698	-	-	5,291
Equity securities	929	76	51	-	-	1,056
Other invested assets[(b)]	-	102	1,827	-	-	1,929
Derivative assets:						
Interest rate contracts	-	4,637	-	-	-	4,637
Foreign exchange contracts	-	1,020	2	-	-	1,022
Equity contracts	9	923	198	-	-	1,130
Credit contracts	-	-	2	-	-	2
Other contracts	-	-	14	-	-	14
Counterparty netting and cash collateral	-	-	-	(3,812)	(2,219)	(6,031)
Total derivative assets	9	6,580	216	(3,812)	(2,219)	774
Short-term investments	2,379	3,589	-	-	-	5,968
Other assets	-	-	113	-	-	113
Separate account assets	96,560	3,730	-	-	-	100,290
Total	$ 99,978	$ 261,176	$ 31,794	$ (3,812)	$ (2,219)	$ 386,917
Liabilities:						
Policyholder contract deposits	$ -	$ -	$ 9,798	$ -	$ -	$ 9,798
Derivative liabilities:						
Interest rate contracts	1	4,435	-	-	-	4,436
Foreign exchange contracts	-	1,090	-	-	-	1,090
Equity contracts	14	162	47	-	-	223
Credit contracts	-	23	44	-	-	67
Other contracts	-	-	6	-	-	6
Counterparty netting and cash collateral	-	-	-	(3,812)	(1,441)	(5,253)
Total derivative liabilities	15	5,710	97	(3,812)	(1,441)	569
Fortitude Re funds withheld payable	-	-	6,042	-	-	6,042
Other liabilities	-	1	-	-	-	1
Long-term debt	-	2,097	-	-	-	2,097
Total	$ 15	$ 7,808	$ 15,937	$ (3,812)	$ (1,441)	$ 18,507

December 31, 2019 (in millions)	Level 1	Level 2	Level 3	Counterparty Netting[(a)]	Cash Collateral	Total
Assets:						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 135	$ 5,245	$ -	$ -	$ -	$ 5,380
Obligations of states, municipalities and political subdivisions	-	13,197	2,121	-	-	15,318
Non-U.S. governments	60	14,809	-	-	-	14,869
Corporate debt	-	147,973	1,663	-	-	149,636
RMBS	-	19,397	13,408	-	-	32,805
CMBS	-	13,377	1,053	-	-	14,430
CDO/ABS	-	10,962	7,686	-	-	18,648
Total bonds available for sale	195	224,960	25,931	-	-	251,086
Other bond securities:						
U.S. government and government sponsored entities	-	2,121	-	-	-	2,121
Non-U.S. governments	-	-	-	-	-	-
Corporate debt	-	18	-	-	-	18
RMBS	-	346	143	-	-	489
CMBS	-	272	50	-	-	322
CDO/ABS	-	187	3,545	-	-	3,732
Total other bond securities	-	2,944	3,738	-	-	6,682
Equity securities	756	77	8	-	-	841
Other invested assets[(b)]	-	86	1,192	-	-	1,278
Derivative assets:						
Interest rate contracts	1	3,199	-	-	-	3,200
Foreign exchange contracts	-	1,034	6	-	-	1,040
Equity contracts	5	593	171	-	-	769
Credit contracts	-	-	3	-	-	3
Other contracts	-	-	14	-	-	14
Counterparty netting and cash collateral	-	-	-	(2,427)	(1,806)	(4,233)
Total derivative assets	6	4,826	194	(2,427)	(1,806)	793
Short-term investments	2,299	3,044	-	-	-	5,343
Other assets	57	2,212	89	-	-	2,358
Separate account assets	89,069	4,203	-	-	-	93,272
Total	$ 92,382	$ 242,352	$ 31,152	$ (2,427)	$ (1,806)	$ 361,653
Liabilities:						
Policyholder contract deposits	$ -	$ -	$ 6,910	$ -	$ -	$ 6,910
Derivative liabilities:						
Interest rate contracts	4	2,745	-	-	-	2,749
Foreign exchange contracts	-	1,025	-	-	-	1,025
Equity contracts	8	111	20	-	-	139
Credit contracts	-	24	65	-	-	89
Other contracts	-	-	7	-	-	7
Counterparty netting and cash collateral	-	-	-	(2,427)	(527)	(2,954)
Total derivative liabilities	12	3,905	92	(2,427)	(527)	1,055
Other liabilities	-	45	-	-	-	45
Long-term debt	-	2,062	-	-	-	2,062
Total	$ 12	$ 6,012	$ 7,002	$ (2,427)	$ (527)	$ 10,072

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

(b) Excludes investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent), which totaled $6.5 billion and $5.5 billion as of December 31, 2020 and December 31, 2019, respectively.

CHANGES IN LEVEL 3 RECURRING FAIR VALUE MEASUREMENTS

The following tables present changes during the years ended December 31, 2020 and 2019 in Level 3 assets and liabilities measured at fair value on a recurring basis, and the realized and unrealized gains (losses) related to the Level 3 assets and liabilities in the Consolidated Balance Sheets at December 31, 2020 and 2019:

(in millions)	Fair Value Beginning of Year	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issuances and Settlements, Net	Gross Transfers In	Gross Transfers Out	Divested Businesses	Fair Value End of Year	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Year	Changes in Unrealized Gains (Losses) Included in Other Comprehensive Income (Loss) for Recurring Level 3 Instruments Held at End of Year
December 31, 2020										
Assets:										
Bonds available for sale:										
Obligations of states, municipalities and political subdivisions	$ 2,121	$ 7	$ 211	$ 123	$ 27	$ (384)	$ -	$ 2,105	$ -	$ 208
Non-U.S. governments	-	-	-	4	7	(6)	-	5	-	-
Corporate debt	1,663	(110)	65	11	1,482	(762)	-	2,349	-	79
RMBS	13,408	745	(337)	(1,200)	29	(951)	-	11,694	-	(172)
CMBS	1,053	18	60	(1)	23	(231)	-	922	-	55
CDO/ABS	7,686	35	123	359	2,531	(920)	-	9,814	-	106
Total bonds available for sale[(a)]	25,931	695	122	(704)	4,099	(3,254)	-	26,889	-	276
Other bond securities:										
RMBS	143	9	-	(13)	-	-	-	139	5	-
CMBS	50	-	-	(3)	-	-	-	47	(2)	-
CDO/ABS	3,545	293	-	(1,326)	-	-	-	2,512	17	-
Total other bond securities	3,738	302	-	(1,342)	-	-	-	2,698	20	-
Equity securities	8	(1)	6	35	40	(37)	-	51	-	-
Other invested assets	1,192	100	(3)	388	150	-	-	1,827	51	-
Other assets	89	-	-	62	-	-	(38)	113	-	-
Total	$ 30,958	$ 1,096	$ 125	$ (1,561)	$ 4,289	$ (3,291)	$ (38)	$ 31,578	$ 71	$ 276

(in millions)	Fair Value Beginning of Year	Net Realized and Unrealized (Gains) Losses Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issuances and Settlements, Net	Gross Transfers In	Gross Transfers Out	Divested Businesses	Fair Value End of Year	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Year	Changes in Unrealized Gains (Losses) Included in Other Comprehensive Income (Loss) for Recurring Level 3 Instruments Held at End of Year
Liabilities:										
Policyholder contract deposits	$ 6,910	$ 2,681	$ -	$ 207	$ -	$ -	$ -	$ 9,798	$ (1,515)	$ -
Derivative liabilities, net:										
Interest rate contracts	-	(1)	-	1	-	-	-	-	2	-
Foreign exchange contracts	(6)	3	-	1	-	-	-	(2)	1	-
Equity contracts	(151)	4	-	(8)	(1)	5	-	(151)	(33)	-
Credit contracts	62	(47)	-	27	-	-	-	42	8	-
Other contracts	(7)	(63)	-	62	-	-	-	(8)	62	-
Total derivative liabilities, net[(b)]	(102)	(104)	-	83	(1)	5	-	(119)	40	-
Fortitude Re funds withheld payable	-	2,645	-	(276)	-	-	3,673	6,042	(1,377)	-
Total	$ 6,808	$ 5,222	$ -	$ 14	$ (1)	$ 5	$ 3,673	$ 15,721	$ (2,852)	$ -

(in millions)	Fair Value Beginning of Year	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issuances and Settlements, Net	Gross Transfers In	Gross Transfers Out	Reclassification of Held for Sale[c]	Divested Businesses	Fair Value End of Year	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Year
December 31, 2019										
Assets:										
Bonds available for sale:										
Obligations of states, municipalities and political subdivisions	$ 2,000	$ (2)	$ 247	$ 282	$ 51	$ (457)	$ -	$ -	$ 2,121	$ -
Non-U.S. governments	11	5	1	(6)	5	(16)	-	-	-	-
Corporate debt	864	(7)	88	(540)	1,513	(255)	-	-	1,663	-
RMBS	14,199	782	55	(1,403)	83	(287)	(21)	-	13,408	-
CMBS	917	24	47	448	58	(441)	-	-	1,053	-
CDO/ABS	9,102	33	116	112	120	(1,780)	(17)	-	7,686	-
Total bonds available for sale	27,093	835	554	(1,107)	1,830	(3,236)	(38)	-	25,931	-
Other bond securities:										
RMBS	1,290	80	-	(1,227)	-	-	-	-	143	2
CMBS	77	5	-	(18)	-	(14)	-	-	50	6
CDO/ABS	4,478	361	-	(1,198)	-	(96)	-	-	3,545	149
Total other bond securities	5,845	446	-	(2,443)	-	(110)	-	-	3,738	157
Equity securities	27	-	-	(20)	2	(1)	-	-	8	1
Other invested assets	587	20	2	(33)	616	-	-	-	1,192	22
Other assets	58	-	-	(7)	-	-	38	-	89	-
Total	$ 33,610	$ 1,301	$ 556	$ (3,610)	$ 2,448	$ (3,347)	$ -	$ -	$ 30,958	$ 180

(in millions)	Fair Value Beginning of Year	Net Realized and Unrealized (Gains) Losses Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issuances and Settlements, Net	Gross Transfers In	Gross Transfers Out	Reclassification of Held for Sale[a]	Divested Businesses	Fair Value End of Year	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Year
Liabilities:										
Policyholder contract deposits	$ 4,116	$ 1,947	$ -	$ 847	$ -	$ -	$ -	$ -	$ 6,910	$ (1,307)
Derivative liabilities, net:										
Interest rate contracts	15	3	-	(18)	-	-	-	-	-	1
Foreign exchange contracts	(5)	(7)	-	6	-	-	-	-	(6)	3
Equity contracts	(75)	(43)	-	(33)	-	-	-	-	(151)	51
Credit contracts	227	(84)	-	(81)	-	-	-	-	62	46
Other contracts	(9)	(67)	-	69	-	-	-	-	(7)	66
Total derivative liabilities, net[b]	153	(198)	-	(57)	-	-	-	-	(102)	167
Total	$ 4,269	$ 1,749	$ -	$ 790	$ -	$ -	$ -	$ -	$ 6,808	$ (1,140)

(a) As a result of the adoption of the Financial Instruments Credit Losses Standard on January 1, 2020, credit losses are included in net realized and unrealized (gains) losses included in income.

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

(c) Reported in Other assets in the Consolidated Balance Sheet.

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

(in millions)	Net Investment Income	Net Realized Capital Gains (Losses)	Other Income	Total
December 31, 2020				
Assets:				
Bonds available for sale*	**$ 733**	**$ (38)**	**$ -**	**$ 695**
Other bond securities	**34**	**268**	**-**	**302**
Equity securities	**-**	**(1)**	**-**	**(1)**
Other invested assets	**98**	**2**	**-**	**100**
December 31, 2019				
Assets:				
Bonds available for sale	$ 862	$ (27)	$ -	$ 835
Other bond securities	226	220	-	446
Equity securities	-	-	-	-
Other invested assets	20	-	-	20

(in millions)	Net Investment Income	Net Realized Capital (Gains) Losses	Other Income	Total
December 31, 2020				
Liabilities:				
Policyholder contract deposits	**$ -**	**$ 2,681**	**$ -**	**$ 2,681**
Derivative liabilities, net	**-**	**(47)**	**(57)**	**(104)**
Fortitude Re funds withheld payable	**-**	**2,645**	**-**	**2,645**
December 31, 2019				
Liabilities:				
Policyholder contract deposits	$ -	$ 1,947	$ -	$ 1,947
Derivative liabilities, net	-	(134)	(64)	(198)

* As a result of the adoption of the Financial Instruments Credit Losses Standard on January 1, 2020, credit losses are included in net realized capital gains (losses).

The following table presents the gross components of purchases, sales, issuances and settlements, net, shown above, for years ended December 31, 2020 and 2019 related to Level 3 assets and liabilities in the Consolidated Balance Sheets:

(in millions)	Purchases	Sales	Issuances and Settlements[(a)]	Purchases, Sales, Issuances and Settlements, Net[(a)]
December 31, 2020				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 219	$ (20)	$ (76)	$ 123
Non-U.S. governments	7	(2)	(1)	4
Corporate debt	300	(24)	(265)	11
RMBS	1,118	(33)	(2,285)	(1,200)
CMBS	56	(17)	(40)	(1)
CDO/ABS	1,904	(408)	(1,137)	359
Total bonds available for sale	3,604	(504)	(3,804)	(704)
Other bond securities:				
RMBS	37	(16)	(34)	(13)
CMBS	-	-	(3)	(3)
CDO/ABS	35	(579)	(782)	(1,326)
Total other bond securities	72	(595)	(819)	(1,342)
Equity securities	40	(5)	-	35
Other invested assets	480	-	(92)	388
Other assets	55	-	7	62
Total assets	$ 4,251	$ (1,104)	$ (4,708)	$ (1,561)
Liabilities:				
Policyholder contract deposits	$ -	$ 713	$ (506)	$ 207
Derivative liabilities, net	(68)	8	143	83
Fortitude Re funds withheld payable	-	-	(276)	(276)
Total liabilities	$ (68)	$ 721	$ (639)	$ 14
December 31, 2019				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 362	$ (19)	$ (61)	$ 282
Non-U.S. governments	-	-	(6)	(6)
Corporate debt	172	(129)	(583)	(540)
RMBS	1,418	(27)	(2,794)	(1,403)
CMBS	539	-	(91)	448
CDO/ABS	2,145	(561)	(1,472)	112
Total bonds available for sale	4,636	(736)	(5,007)	(1,107)
Other bond securities:				
RMBS	-	(1,101)	(126)	(1,227)
CMBS	18	(33)	(3)	(18)
CDO/ABS	-	(386)	(812)	(1,198)
Total other bond securities	18	(1,520)	(941)	(2,443)
Equity securities	8	-	(28)	(20)
Other invested assets	97	-	(130)	(33)
Other assets	-	-	(7)	(7)
Total assets	$ 4,759	$ (2,256)	$ (6,113)	$ (3,610)
Liabilities:				
Policyholder contract deposits	$ -	$ 852	$ (5)	$ 847
Derivative liabilities, net	(44)	-	(13)	(57)
Total liabilities	$ (44)	$ 852	$ (18)	$ 790

(a) There were no issuances during the years ended December 31, 2020 and 2019.

Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3 in the tables above. As a result, the unrealized gains (losses) on instruments held at December 31, 2020 and 2019 may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable inputs (e.g., changes in unobservable long-dated volatilities).

Transfers of Level 3 Assets and Liabilities

The Net realized and unrealized gains (losses) included in income (loss) or Other comprehensive income (loss) as shown in the table above excludes $(183) million and $(46) million of net gains (losses) related to assets and liabilities transferred into Level 3 during 2020 and 2019, respectively, and includes $4 million and $30 million of net gains (losses) related to assets and liabilities transferred out of Level 3 during 2020 and 2019, respectively.

Transfers of Level 3 Assets

During the years ended December 31, 2020 and 2019, transfers into Level 3 assets primarily included certain investments in private placement corporate debt, RMBS, CMBS and CDO/ABS. Transfers of private placement corporate debt and certain ABS into Level 3 assets were primarily the result of limited market pricing information that required us to determine fair value for these securities based on inputs that are adjusted to better reflect our own assumptions regarding the characteristics of a specific security or associated market liquidity. The transfers of investments in RMBS, CMBS and CDO and certain ABS into Level 3 assets were due to diminished market transparency and liquidity for individual security types. Additionally, during 2019, a consolidated investment company acquired certain real estate investments.

During the years ended December 31, 2020 and 2019, transfers out of Level 3 assets primarily included private placement and other corporate debt, CMBS, RMBS, CDO/ABS and certain investments in municipal securities. Transfers of corporate debt, RMBS, CMBS, CDO/ABS and certain investments in municipal securities out of Level 3 assets were based on consideration of market liquidity as well as related transparency of pricing and associated observable inputs for these investments. Transfers of certain investments in private placement corporate debt and certain ABS out of Level 3 assets were primarily the result of using observable pricing information that reflects the fair value of those securities without the need for adjustment based on our own assumptions regarding the characteristics of a specific security or the current liquidity in the market.

Transfers of Level 3 Liabilities

There were no significant transfers of derivative or other liabilities into or out of Level 3 for the years ended December 31, 2020 and 2019.

Divested Businesses

The Level 3 liabilities for the year ended December 31, 2020 includes an embedded derivative associated with the funds withheld payable to Fortitude Re that was established as a result of the Majority Interest Fortitude Sale.

QUANTITATIVE INFORMATION ABOUT LEVEL 3 FAIR VALUE MEASUREMENTS

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

(in millions)	Fair Value at December 31, 2020	Valuation Technique	Unobservable Input[b]	Range (Weighted Average)[c]
Assets:				
Obligations of states, municipalities and political subdivisions	$ 1,670	Discounted cash flow	Yield	2.82% - 3.39% (3.11%)
Corporate debt	1,591	Discounted cash flow	Yield	2.13% - 7.82% (4.97%)
RMBS[a]	11,297	Discounted cash flow	Constant prepayment rate	3.90% - 11.99% (7.94%)
			Loss severity	30.08% - 78.49% (54.29%)
			Constant default rate	1.45% - 6.19% (3.82%)
			Yield	1.69% - 4.25% (2.97%)
CDO/ABS[a]	8,324	Discounted cash flow	Yield	1.93% - 4.85% (3.39%)
CMBS	541	Discounted cash flow	Yield	0.92% - 5.89% (3.40%)
Liabilities:[d]:				
Embedded derivatives within Policyholder contract deposits:				
Variable annuity guaranteed minimum withdrawal benefits (GMWB)	3,572	Discounted cash flow	Equity volatility	6.45% - 50.85%
			Base lapse rate	0.16% - 12.60%
			Dynamic lapse multiplier	50.00% - 143.00%
			Mortality multiplier[e]	38.00% - 147.00%
			Utilization	90.00% - 100.00%
			Equity / interest rate correlation	20.00% - 40.00%
			NPA[f]	0.06% - 1.48%
Index annuities including certain GMWB	5,538	Discounted cash flow	Lapse rate	0.38% - 50.00%
			Mortality multiplier[e]	24.00% - 180.00%
			Utilization[g]	80.00% - 100.00%
			Option budget	0.00% - 4.00%
			NPA[f]	0.06% - 1.48%
Indexed life	649	Discounted cash flow	Base lapse rate	0.00% - 37.97%
			Mortality rate	0.00% - 100.00%
			NPA[f]	0.06% - 1.48%

(in millions)	Fair Value at December 31, 2019	Valuation Technique	Unobservable Input[(b)]	Range (Weighted Average)[(c)]
Assets:				
Obligations of states, municipalities and political subdivisions	$ 1,633	Discounted cash flow	Yield	3.35% - 3.95% (3.65%)
Corporate debt	1,087	Discounted cash flow	Yield	3.48% - 6.22% (4.85%)
RMBS[(a)]	11,746	Discounted cash flow	Constant prepayment rate	4.00% - 12.89% (8.44%)
			Loss severity	33.68% - 76.91% (55.29%)
			Constant default rate	1.68% - 6.17% (3.93%)
			Yield	2.52% - 4.53% (3.52%)
CDO/ABS[(a)]	6,025	Discounted cash flow	Yield	2.92% - 4.91% (3.91%)
CMBS	476	Discounted cash flow	Yield	2.77% - 5.18% (3.97%)
Liabilities:				
Embedded derivatives within Policyholder contract deposits:				
GMWB	2,474	Discounted cash flow	Equity volatility	6.15% - 48.85%
			Base lapse rate	0.16% - 12.60%
			Dynamic lapse multiplier	50.00% - 143.00%
			Mortality multiplier[(e)]	38.00% - 147.00%
			Utilization	90.00% - 100.00%
			Equity / interest rate correlation	20.00% - 40.00%
			NPA[(f)]	0.12% - 1.53%
Index annuities	3,895	Discounted cash flow	Lapse rate	0.31% - 50.00%
			Mortality multiplier[(e)]	24.00% - 180.00%
			Option budget	1.00% - 4.00%
			NPA[(f)]	0.12% - 1.53%
Indexed life	510	Discounted cash flow	Base lapse rate	0.00% - 37.97%
			Mortality rate	0.00% - 100.00%
			NPA[(f)]	0.12% - 1.53%

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

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

(c) The weighted averaging for fixed maturity securities is based on the estimated fair value of the securities. Because the valuation methodology for embedded derivatives within Policyholder contract deposits uses a range of inputs that vary at the contract level over the cash flow projection period, management believes that presenting a range, rather than weighted average, is a more meaningful representation of the unobservable inputs used in the valuation.

(d) The Fortitude Re funds withheld payable has been excluded from the above table. As discussed in Note 8, the Fortitude Re funds withheld payable is created through modco and funds withheld reinsurance arrangements where the investments supporting the reinsurance agreements are withheld by, and continue to reside on AIG's balance sheet. This embedded derivative is valued as a total return swap with reference to the fair value of the invested assets held by AIG. Accordingly, the unobservable inputs utilized in the valuation of the embedded derivative are a component of the invested assets supporting the reinsurance agreements that are held on AIG's balance sheet.

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

(f) The non-performance risk adjustment (NPA) applied as a spread over risk-free curve for discounting.

(g) The partial withdrawal utilization unobservable input range shown applies only to policies with guaranteed minimum withdrawal benefit riders that are accounted for as an embedded derivative. The total embedded derivative liability at December 31, 2020 is approximately $726 million. The remaining guaranteed minimum riders on the index annuities are valued under the accounting guidance for certain nontraditional long-duration contracts.

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

Interrelationships between Unobservable Inputs

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

Fixed Maturity Securities

The significant unobservable input used in the fair value measurement of fixed maturity securities is yield. The yield is affected by the market movements in credit spreads and U.S. Treasury yields. The yield may be affected by other factors including constant prepayment rates, loss severity, and constant default rates. In general, increases in the yield would decrease the fair value of investments, and conversely, decreases in the yield would increase the fair value of investments.

Embedded derivatives within Policyholder contract deposits

Embedded derivatives reported within Policyholder contract deposits include interest crediting rates based on market indices within index annuities, indexed life, and GICs as well as GMWB within variable annuity and certain index annuity products. For any given contract, assumptions for unobservable inputs vary throughout the period over which cash flows are projected for purposes of valuing the embedded derivative. The following unobservable inputs are used for valuing embedded derivatives measured at fair value:

- Long-term equity volatilities represent equity volatility beyond the period for which observable equity volatilities are available. Increases in assumed volatility will generally increase the fair value of both the projected cash flows from rider fees as well as the projected cash flows related to benefit payments. Therefore, the net change in the fair value of the liability may be either a decrease or an increase, depending on the relative changes in projected rider fees and projected benefit payments.
- Equity / interest rate correlation estimates the relationship between changes in equity returns and interest rates in the economic scenario generator used to value our GMWB embedded derivatives. In general, a higher positive correlation assumes that equity markets and interest rates move in a more correlated fashion, which generally increases the fair value of the liability.
- Base lapse rate assumptions are determined by company experience and are adjusted at the contract level using a dynamic lapse function, which reduces the base lapse rate when the contract is in-the-money (when the contract holder’s guaranteed value, as estimated by the company, is worth more than their underlying account value). Lapse rates are also generally assumed to be lower in periods when a surrender charge applies. Increases in assumed lapse rates will generally decrease the fair value of the liability, as fewer policyholders would persist to collect guaranteed withdrawal amounts.
- Mortality rate assumptions, which vary by age and gender, are based on company experience and include a mortality improvement assumption. Increases in assumed mortality rates will decrease the fair value of the liability, while lower mortality rate assumptions will generally increase the fair value of the liability, because guaranteed payments will be made for a longer period of time.
- Utilization assumptions estimate the timing when policyholders with a GMWB will elect to utilize their benefit and begin taking withdrawals. The assumptions may vary by the type of guarantee, tax-qualified status, the contract’s withdrawal history and the age of the policyholder. Utilization assumptions are based on company experience, which includes partial withdrawal behavior. Increases in assumed utilization rates will generally increase the fair value of the liability.
- Option budget estimates the expected long-term cost of options used to hedge exposures associated with equity price changes. The level of option budgets determines future costs of the options, which impacts the growth in account value and the valuation of embedded derivatives.

Embedded derivatives within reinsurance contracts

The fair value of embedded derivatives associated with funds withheld reinsurance contracts is determined based upon a total return swap technique with reference to the fair value of the investments held by AIG related to AIG’s funds withheld payable. The fair value of the underlying assets is generally based on market observable inputs using industry standard valuation techniques. The valuation also requires certain significant inputs, which are generally not observable and accordingly, the valuation is considered Level 3 in the fair value hierarchy.

INVESTMENTS IN CERTAIN ENTITIES CARRIED AT FAIR VALUE USING NET ASSET VALUE PER SHARE

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

		December 31, 2020		December 31, 2019	
(in millions)	Investment Category Includes	Fair Value Using NAV Per Share (or its equivalent)	Unfunded Commitments	Fair Value Using NAV Per Share (or its equivalent)	Unfunded Commitments
Investment Category					
Private equity funds:					
Leveraged buyout	Debt and/or equity investments made as part of a transaction in which assets of mature companies are acquired from the current shareholders, typically with the use of financial leverage	$ 1,752	$ 1,960	$ 1,189	$ 1,543
Real assets	Investments in real estate properties, agricultural and infrastructure assets, including power plants and other energy producing assets	908	445	400	290
Venture capital	Early-stage, high-potential, growth companies expected to generate a return through an eventual realization event, such as an initial public offering or sale of the company	167	171	111	155
Growth equity	Funds that make investments in established companies for the purpose of growing their businesses	703	55	422	57
Mezzanine	Funds that make investments in the junior debt and equity securities of leveraged companies	400	155	325	414
Other	Includes distressed funds that invest in securities of companies that are in default or under bankruptcy protection, as well as funds that have multi-strategy, and other strategies	683	365	773	206
Total private equity funds		4,613	3,151	3,220	2,665
Hedge funds:					
Event-driven	Securities of companies undergoing material structural changes, including mergers, acquisitions and other reorganizations	411	-	727	-
Long-short	Securities that the manager believes are undervalued, with corresponding short positions to hedge market risk	361	-	539	-
Macro	Investments that take long and short positions in financial instruments based on a top-down view of certain economic and capital market conditions	807	-	894	-
Other	Includes investments held in funds that are less liquid, as well as other strategies which allow for broader allocation between public and private investments	301	1	169	1
Total hedge funds		1,880	1	2,329	1
Total		$ 6,493	$ 3,152	$ 5,549	$ 2,666

Private equity fund investments included above are not redeemable, because distributions from the funds will be received when underlying investments of the funds are liquidated. Private equity funds are generally expected to have 10-year lives at their inception, but these lives may be extended at the fund manager's discretion, typically in one or two-year increments.

The hedge fund investments included above, which are carried at fair value, are generally redeemable subject to the redemption notices period. The majority of our hedge fund investments are redeemable monthly or quarterly.

FAIR VALUE OPTION

Under the fair value option, we may elect to measure at fair value financial assets and financial liabilities that are not otherwise required to be carried at fair value. Subsequent changes in fair value for designated items are reported in earnings. We elect the fair value option for certain hybrid securities given the complexity of bifurcating the economic components associated with the embedded derivatives.

For additional information related to embedded derivatives refer to Note 11 herein.

Additionally, we elect the fair value option for certain alternative investments when such investments are eligible for this election. We believe this measurement basis is consistent with the applicable accounting guidance used by the respective investment company funds themselves.

For additional information on securities and other invested assets for which we have elected the fair value option refer to Note 6 herein.

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

Years Ended December 31,	Gain (Loss)		
(in millions)	**2020**	2019	2018
Assets:			
Bond and equity securities	**$ 552**	$ 1,046	$ 343
Alternative investments[(a)]	**685**	591	213
Liabilities:			
Long-term debt[(b)]	**(176)**	(181)	(1)
Total gain	**$ 1,061**	$ 1,456	$ 555

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

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

Interest income and dividend income on assets measured under the fair value option are recognized and included in Net investment income in the Consolidated Statements of Income. Interest expense on liabilities measured under the fair value option is reported in Other Income in the Consolidated Statements of Income.

For additional information about our policies for recognition, measurement, and disclosure of interest and dividend income see Note 6 herein.

As a result of the adoption of the Financial Instruments Recognition and Measurement Standard on January 1, 2018, we are required to record unrealized gains and losses attributable to the observable effect of changes in credit spreads on our liabilities for which the fair value option was elected in Other Comprehensive Income. We calculate the effect of these credit spread changes using discounted cash flow techniques that incorporate current market interest rates, our observable credit spreads on these liabilities and other factors that mitigate the risk of nonperformance such as cash collateral posted.

The following table presents the difference between fair value and the aggregate contractual principal amount of long-term debt for which the fair value option was elected:

	December 31, 2020			December 31, 2019		
(in millions)	Fair Value	Outstanding Principal Amount	Difference	Fair Value	Outstanding Principal Amount	Difference
Liabilities:						
Long-term debt*	**$ 2,097**	**$ 1,479**	**$ 618**	$ 2,062	$ 1,502	$ 560

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

FAIR VALUE MEASUREMENTS ON A NON-RECURRING BASIS

We measure the fair value of certain assets on a non-recurring basis, generally quarterly, annually or when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. These assets include cost and equity-method investments, commercial mortgage loans and commercial loans, investments in real estate and other fixed assets, goodwill and other intangible assets.

For additional information about how we test various asset classes for impairment see Notes 6 and 7 herein.

Information regarding the estimation of fair value for financial instruments measured at fair value on a non-recurring basis is discussed below.

Impairments for Other investments primarily relate to real estate investments as well as commercial loans and commercial mortgage loans, the fair value determination for which is discussed above under the heading Valuation Methodologies of Financial Instruments Measured at Fair Value.

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

	Assets at Fair Value Non-Recurring Basis				Impairment Charges December 31,		
(in millions)	Level 1	Level 2	Level 3	Total	**2020**	2019	2018
December 31, 2020							
Other investments	**$ -**	**$ -**	**$ 376**	**$ 376**	**$ 77**	$ 76	$ 97
Other assets	**-**	**-**	**28**	**28**	**14**	74	64
Total	**$ -**	**$ -**	**$ 404**	**$ 404**	**$ 91**	$ 150	$ 161
December 31, 2019							
Other investments	$ -	$ -	$ 329	$ 329			
Other assets	-	-	1	1			
Total	$ -	$ -	$ 330	$ 330			

FAIR VALUE INFORMATION ABOUT FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

Information regarding the estimation of fair value for financial instruments not carried at fair value (excluding insurance contracts and lease contracts) is discussed below:

- **Mortgage and other loans receivable:** Fair values of loans on commercial real estate and other loans receivable are estimated for disclosure purposes using discounted cash flow calculations based on discount rates that we believe market participants would use in determining the price that they would pay for such assets. For certain loans, our current incremental lending rates for similar types of loans are used as the discount rates, because we believe this rate approximates the rates market participants would use. Fair values of residential mortgage loans are generally determined based on market prices, using market based adjustments for credit and servicing as appropriate. The fair values of policy loans are generally estimated based on unpaid principal amount as of each reporting date. No consideration is given to credit risk because policy loans are effectively collateralized by the cash surrender value of the policies.
- **Other invested assets:** The majority of the Other invested assets that are not measured at fair value represent time deposits with the original maturity at purchase greater than one year. The fair value of long-term time deposits is determined using the expected discounted future cash flow.
- **Cash and short-term investments:** The carrying amounts of these assets approximate fair values because of the relatively short period of time between origination and expected realization, and their limited exposure to credit risk.
- **Policyholder contract deposits associated with investment-type contracts:** Fair values for policyholder contract deposits associated with investment-type contracts not accounted for at fair value are estimated using discounted cash flow calculations based on interest rates currently being offered for similar contracts with maturities consistent with those of the contracts being valued. When no similar contracts are being offered, the discount rate is the appropriate swap rate (if available) or current risk-free interest rate consistent with the currency in which the cash flows are denominated. To determine fair value, other factors include current policyholder account values and related surrender charges and other assumptions include expectations about policyholder behavior and an appropriate risk margin.
- **Other liabilities:** The majority of Other liabilities that are financial instruments not measured at fair value represent secured financing arrangements, including repurchase agreements. The carrying amounts of these liabilities approximate fair value, because the financing arrangements are short-term and are secured by cash or other liquid collateral.

- **Fortitude Re funds withheld payable:** The funds withheld payable contains an embedded derivative and the changes in its fair value are recognized in earnings each period. The difference between the total Fortitude Re funds withheld payable and the embedded derivative represents the host contract.
- **Long-term debt and debt of consolidated investment entities:** Fair values of these obligations were determined by reference to quoted market prices, when available and appropriate, or discounted cash flow calculations based upon our current market-observable implicit-credit-spread rates for similar types of borrowings with maturities consistent with those remaining for the debt being valued.
- **Separate Account Liabilities – Investment Contracts:** Only the portion of separate account liabilities related to products that are investment contracts are reflected in the table below. Separate account liabilities are recorded at the amount credited to the contract holder, which reflects the change in fair value of the corresponding separate account assets including contract holder deposits less withdrawals and fees; therefore, carrying value approximates fair value.

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

	Estimated Fair Value				Carrying
(in millions)	Level 1	Level 2	Level 3	Total	Value
December 31, 2020					
Assets:					
Mortgage and other loans receivable	**$ -**	**$ 95**	**$ 48,541**	**$ 48,636**	**$ 45,562**
Other invested assets	**-**	**837**	**6**	**843**	**843**
Short-term investments	**-**	**12,235**	**-**	**12,235**	**12,235**
Cash	**2,827**	**-**	**-**	**2,827**	**2,827**
Other assets	**209**	**14**	**-**	**223**	**223**
Liabilities:					
Policyholder contract deposits associated with investment-type contracts	**-**	**214**	**144,357**	**144,571**	**130,435**
Fortitude Re funds withheld payable	**-**	**-**	**37,018**	**37,018**	**37,018**
Other liabilities	**-**	**3,695**	**-**	**3,695**	**3,695**
Long-term debt and debt of consolidated investment entities	**-**	**32,056**	**8,330**	**40,386**	**35,437**
Separate account liabilities - investment contracts	**-**	**95,610**	**-**	**95,610**	**95,610**
December 31, 2019					
Assets:					
Mortgage and other loans receivable	$ -	$ 101	$ 48,904	$ 49,005	$ 46,984
Other invested assets	-	735	6	741	742
Short-term investments	-	7,887	-	7,887	7,887
Cash	2,856	-	-	2,856	2,856
Other assets	291	20	-	311	311
Liabilities:					
Policyholder contract deposits associated with investment-type contracts	-	255	132,991	133,246	126,137
Other liabilities	15	3,048	-	3,063	3,063
Long-term debt and debt of consolidated investment entities	-	27,024	8,883	35,907	33,288
Separate account liabilities - investment contracts	-	88,770	-	88,770	88,770

6. Investments

FIXED MATURITY SECURITIES

Subsequent to the adoption of the Financial Instruments Credit Losses Standard on January 1, 2020

Bonds held to maturity are carried at amortized cost when we have the ability and positive intent to hold these securities until maturity. When we do not have the ability or positive intent to hold bonds until maturity, these securities are classified as available for sale or are measured at fair value at our election. None of our fixed maturity securities met the criteria for held to maturity classification at December 31, 2020 or 2019.

Unrealized gains and losses from available for sale investments in fixed maturity securities carried at fair value were reported as a separate component of AOCI, net of policy related amounts and deferred income taxes, in shareholders' equity. Realized and unrealized gains and losses from fixed maturity securities measured at fair value at our election are reflected in Net investment income. Investments in fixed maturity securities are recorded on a trade-date basis.

Interest income is recognized using the effective yield method and reflects amortization of premium and accretion of discount. Premiums and discounts arising from the purchase of bonds classified as available for sale are treated as yield adjustments over their estimated holding periods, until maturity, or call date, if applicable. For investments in certain structured securities, recognized yields are updated based on current information regarding the timing and amount of expected undiscounted future cash flows. For high credit quality structured securities, effective yields are recalculated based on actual payments received and updated prepayment expectations, and the amortized cost is adjusted to the amount that would have existed had the new effective yield been applied since acquisition with a corresponding charge or credit to net investment income. For structured securities that are not high credit quality, the structured securities yields are based on expected cash flows which take into account both expected credit losses and prepayments.

An allowance for credit losses is not established upon initial recognition of the asset (unless the security is determined to be a PCD asset which is discussed in more detail below). Subsequently, differences between actual and expected cash flows and changes in expected cash flows are recognized as adjustments to the allowance for credit losses. Changes that cannot be reflected as adjustments to the allowance for credit losses are accounted for as prospective adjustments to yield.

Prior to the adoption of the Financial Instruments Credit Losses Standard on January 1, 2020

Premiums and discounts arising from the purchase of bonds classified as available for sale are treated as yield adjustments over their estimated holding periods, until maturity, or call date, if applicable. For investments in certain RMBS, CMBS and CDO/ABS, (collectively, structured securities), recognized yields are updated based on current information regarding the timing and amount of expected undiscounted future cash flows. For high credit quality structured securities, effective yields are recalculated based on actual payments received and updated prepayment expectations, and the amortized cost is adjusted to the amount that would have existed had the new effective yield been applied since acquisition with a corresponding charge or credit to net investment income. For structured securities that are not high credit quality, effective yields are recalculated and adjusted prospectively based on changes in expected undiscounted future cash flows. For purchased credit impaired (PCI) securities, at acquisition, the difference between the undiscounted expected future cash flows and the recorded investment in the securities represents the initial accretable yield, which is to be accreted into net investment income over the securities' remaining lives on an effective level-yield basis. Subsequently, effective yields recognized on PCI securities are recalculated and adjusted prospectively to reflect changes in the contractual benchmark interest rates on variable rate securities and any significant increases in undiscounted expected future cash flows arising due to reasons other than interest rate changes.

SECURITIES AVAILABLE FOR SALE

The following table presents the amortized cost or cost and fair value of our available for sale securities:

December 31, 2020 *(in millions)*	Amortized Cost or Cost	Allowance for Credit Losses[(a)]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Bonds available for sale:					
U.S. government and government sponsored entities	**$ 3,640**	**$ -**	**$ 503**	**$ (17)**	**$ 4,126**
Obligations of states, municipalities and political subdivisions	**13,915**	**-**	**2,216**	**(7)**	**16,124**
Non-U.S. governments	**14,231**	**(4)**	**1,181**	**(63)**	**15,345**
Corporate debt	**150,111**	**(164)**	**19,905**	**(554)**	**169,298**
Mortgage-backed, asset-backed and collateralized:					
RMBS	**28,551**	**(16)**	**3,000**	**(70)**	**31,465**
CMBS	**15,182**	**(1)**	**1,023**	**(71)**	**16,133**
CDO/ABS	**18,707**	**(1)**	**425**	**(126)**	**19,005**
Total mortgage-backed, asset-backed and collateralized	**62,440**	**(18)**	**4,448**	**(267)**	**66,603**
Total bonds available for sale[(b)]	**$ 244,337**	**$ (186)**	**$ 28,253**	**$ (908)**	**$ 271,496**

December 31, 2019 *(in millions)*	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than-Temporary Impairments in AOCI[(c)]
Bonds available for sale:					
U.S. government and government sponsored entities	$ 5,108	$ 316	$ (44)	$ 5,380	$ -
Obligations of states, municipalities and political subdivisions	13,960	1,390	(32)	15,318	-
Non-U.S. governments	14,042	884	(57)	14,869	(18)
Corporate debt	138,046	12,090	(500)	149,636	7
Mortgage-backed, asset-backed and collateralized:					
RMBS	29,802	3,067	(64)	32,805	1,149
CMBS	13,879	576	(25)	14,430	34
CDO/ABS	18,393	348	(93)	18,648	14
Total mortgage-backed, asset-backed and collateralized	62,074	3,991	(182)	65,883	1,197
Total bonds available for sale[(b)]	$ 233,230	$ 18,671	$ (815)	$ 251,086	$ 1,186

(a) Represents the allowance for credit losses that has been recognized. Changes in the allowance for credit losses are recorded through Net Realized Capital Gains and Losses and are not recognized in other comprehensive income.

(b) At December 31, 2020 and 2019, bonds available for sale held by us that were below investment grade or not rated totaled $28.2 billion and $27.8 billion, respectively.

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

Securities Available for Sale in a Loss Position for Which No Allowance for Credit Loss Has Been Recorded

The following table summarizes the fair value and gross unrealized losses on our available for sale securities, aggregated by major investment category and length of time that individual securities have been in a continuous unrealized loss position for which no allowance for credit loss has been recorded:

	Less than 12 Months		12 Months or More		Total	
(in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2020						
Bonds available for sale:						
U.S. government and government sponsored entities	**$ 649**	**$ 17**	**$ -**	**$ -**	**$ 649**	**$ 17**
Obligations of states, municipalities and political subdivisions	**267**	**4**	**78**	**3**	**345**	**7**
Non-U.S. governments	**1,287**	**28**	**262**	**33**	**1,549**	**61**
Corporate debt	**11,715**	**348**	**1,283**	**81**	**12,998**	**429**
RMBS	**3,486**	**40**	**282**	**18**	**3,768**	**58**
CMBS	**1,644**	**58**	**346**	**12**	**1,990**	**70**
CDO/ABS	**5,456**	**81**	**3,063**	**45**	**8,519**	**126**
Total bonds available for sale	**$ 24,504**	**$ 576**	**$ 5,314**	**$ 192**	**$ 29,818**	**$ 768**

Securities Available for Sale in a Loss Position

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

	Less than 12 Months		12 Months or More		Total	
(in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2019						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 1,461	$ 44	$ 63	$ -	$ 1,524	$ 44
Obligations of states, municipalities and political subdivisions	672	21	246	11	918	32
Non-U.S. governments	1,105	12	343	45	1,448	57
Corporate debt	11,868	319	2,405	181	14,273	500
RMBS	3,428	28	1,367	36	4,795	64
CMBS	1,877	16	367	9	2,244	25
CDO/ABS	3,920	53	2,571	40	6,491	93
Total bonds available for sale	$ 24,331	$ 493	$ 7,362	$ 322	$ 31,693	$ 815

At December 31, 2020, we held 5,105 individual fixed maturity securities that were in an unrealized loss position and for which no allowance for credit losses has been recorded (including 949 individual fixed maturity securities that were in a continuous unrealized loss position for 12 months or more). At December 31, 2019, we held 5,695 individual fixed maturity securities that were in an unrealized loss position, of which 1,254 individual fixed maturity securities were in a continuous unrealized loss position for 12 months or more. We did not recognize the unrealized losses in earnings on these fixed maturity securities at December 31, 2020 because it was determined that such losses were due to non-credit factors. Additionally, we neither intend to sell the securities nor do we believe that it is more likely than not that we will be required to sell these securities before recovery of their amortized cost basis. For fixed maturity securities with significant declines, we performed fundamental credit analyses on a security-by-security basis, which included consideration of credit enhancements, liquidity position, expected defaults, industry and sector analysis, forecasts and available market data.

Contractual Maturities of Fixed Maturity Securities Available for Sale

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

	Total Fixed Maturity Securities Available for Sale	
(in millions)	Amortized Cost, Net of Allowance	Fair Value
December 31, 2020		
Due in one year or less	**$ 10,619**	**$ 10,734**
Due after one year through five years	**43,405**	**45,248**
Due after five years through ten years	**40,927**	**45,241**
Due after ten years	**86,778**	**103,670**
Mortgage-backed, asset-backed and collateralized	**62,422**	**66,603**
Total	**$ 244,151**	**$ 271,496**

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

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

	Years Ended December 31,					
	2020		2019		2018	
(in millions)	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses
Fixed maturity securities	**$ 1,824**	**$ 810**	$ 650	$ 330	$ 331	$ 476
Equity securities	**-**	**-**	-	-	16	-
Total	**$ 1,824**	**$ 810**	$ 650	$ 330	$ 347	$ 476

For the year ended December 31, 2020, the aggregate fair value of available for sale securities sold was $23.0 billion, which resulted in net realized capital gains (losses) of $1.0 billion. Included within the net realized capital gains (losses) is $707 million of realized capital gains for the year ended December 31, 2020, which relate to the Fortitude Re funds withheld assets held by AIG in support of Fortitude Re's reinsurance obligations to AIG (Fortitude Re funds withheld assets) for the period after deconsolidation of Fortitude Re. These realized capital gains are included in Net realized capital gains (losses) on Fortitude Re funds withheld assets.

For the years ended December 31, 2019 and 2018, the aggregate fair value of available for sale securities sold was $22.0 billion and $25.1 billion, respectively, which resulted in net realized capital gains (losses) of $320 million and $(129) million, respectively.

OTHER SECURITIES MEASURED AT FAIR VALUE

The following table presents the fair value of fixed maturity securities measured at fair value based on our election of the fair value option, which are reported in the other bond securities caption in the financial statements, and equity securities measured at fair value:

	December 31, 2020		December 31, 2019	
(in millions)	Fair Value	Percent of Total	Fair Value	Percent of Total
Fixed maturity securities:				
U.S. government and government sponsored entities	$ 1,845	29 %	$ 2,121	28 %
Corporate debt	12	-	18	-
Mortgage-backed, asset-backed and collateralized:				
RMBS	429	7	489	7
CMBS	320	5	322	4
CDO/ABS and other collateralized	2,685	42	3,732	50
Total mortgage-backed, asset-backed and collateralized	3,434	54	4,543	61
Total fixed maturity securities	5,291	83	6,682	89
Equity securities	1,056	17	841	11
Total	$ 6,347	100 %	$ 7,523	100 %

OTHER INVESTED ASSETS

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

(in millions)	December 31, 2020	December 31, 2019
Alternative investments[(a) (b)]	$ 9,572	$ 8,845
Investment real estate[(c)]	7,930	8,491
All other investments[(d)]	1,558	1,456
Total	$ 19,060	$ 18,792

(a) At December 31, 2020, included hedge funds of $2.3 billion, private equity funds of $7.0 billion, and affordable housing partnerships of $257 million. At December 31, 2019, included hedge funds of $3.3 billion, private equity funds of $5.2 billion, and affordable housing partnerships of $331 million.

(b) At December 31, 2020, approximately 68 percent of our hedge fund portfolio is available for redemption in 2021. The remaining 32 percent will be available for redemption between 2022 and 2027.

(c) Net of accumulated depreciation of $756 million and $703 million in 2020 and 2019, respectively.

(d) Includes AIG's 3.5 percent ownership interest in Fortitude Holdings which is recorded using the measurement alternative for equity securities and is carried at cost, which was $100 million as of December 31, 2020.

Other Invested Assets Carried at Fair Value

Certain hedge funds, private equity funds, and other investment partnerships for which we have elected the fair value option are reported at fair value with changes in fair value recognized in Net investment income.

Other Invested Assets – Equity Method Investments

We account for hedge funds, private equity funds, affordable housing partnerships and other investment partnerships using the equity method of accounting unless our interest is so minor that we may have virtually no influence over partnership operating and financial policies, or we have elected the fair value option. Under the equity method of accounting, our carrying amount generally is our share of the net asset value of the funds or the partnerships, and changes in our share of the net asset values are recorded in Net investment income. In applying the equity method of accounting, we consistently use the most recently available financial information provided by the general partner or manager of each of these investments. Hedge funds are reported as of the balance sheet date. Private equity funds are generally reported on a one-quarter lag. The financial statements of these investees are generally audited annually.

Summarized Financial Information of Equity Method Investees

The following is the aggregated summarized financial information of our equity method investees, including those for which the fair value option has been elected:

Years Ended December 31, *(in millions)*	2020	2019	2018
Operating results:			
Total revenues	$ 13,090	$ 8,045	$ 15,310
Total expenses	(2,897)	(3,115)	(3,200)
Net income	$ 10,193	$ 4,930	$ 12,110

At December 31, *(in millions)*	2020	2019
Balance sheet:		
Total assets	$ 85,083	$ 93,773
Total liabilities	$ (10,462)	$ (14,218)

The following table presents the carrying amount and ownership percentage of equity method investments at December 31, 2020 and 2019:

	2020		2019	
(in millions)	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Equity method investments	$ 4,548	Various	$ 5,911	Various

Summarized financial information for these equity method investees may be presented on a lag, due to the unavailability of information for the investees at our respective balance sheet dates, and is included for the periods in which we held an equity method ownership interest.

Other Investments

Also included in Other invested assets are real estate held for investment. These investments are reported at cost, less depreciation and are subject to impairment review, as discussed below.

NET INVESTMENT INCOME

Net investment income represents income primarily from the following sources:

- Interest income and related expenses, including amortization of premiums and accretion of discounts with changes in the timing and the amount of expected principal and interest cash flows reflected in yield, as applicable.
- Dividend income from common and preferred stocks.
- Realized and unrealized gains and losses from investments in other securities and investments for which we elected the fair value option.
- Earnings from alternative investments.
- Prepayment premiums.

The following table presents the components of Net investment income:

Years Ended December 31,	2020			2019	2018
(in millions)	Excluding Fortitude Re Funds Withheld Assets	Fortitude Re Funds Withheld Assets[(d)]	Total	Total	Total
Available for sale fixed maturity securities, including short-term investments	$ 9,508	$ 851	$ 10,359	$ 10,768	$ 10,494
Other fixed maturity securities[(a)]	540	13	553	1,015	437
Equity securities	200	-	200	159	(170)
Interest on mortgage and other loans	1,883	106	1,989	2,030	1,883
Alternative investments[(b)]	913	99	1,012	1,088	655
Real estate	195	-	195	304	307
Other investments[(c)]	(120)	1	(119)	(220)	(27)
Total investment income	13,119	1,070	14,189	15,144	13,579
Investment expenses	541	17	558	525	493
Net investment income	$ 12,578	$ 1,053	$ 13,631	$ 14,619	$ 13,086

(a) Included in the years ended December 31, 2020, 2019 and 2018 was income of $195 million, $177 million and $19 million, respectively, related to fixed maturity securities measured at fair value that economically hedge liabilities described in (c) below.

(b) Included income from hedge funds, private equity funds and affordable housing partnerships. Hedge funds are recorded as of the balance sheet date. Private equity funds are generally reported on a one-quarter lag.

(c) Included in the years ended December 31, 2020, 2019 and 2018 were losses of $162 million, $161 million and $21 million, respectively, related to liabilities measured at fair value that are economically hedged with fixed maturity securities as described in (a) above.

(d) Represents activity subsequent to the deconsolidation of Fortitude Re on June 2, 2020.

NET REALIZED CAPITAL GAINS AND LOSSES

Net realized capital gains and losses are determined by specific identification. The net realized capital gains and losses are generated primarily from the following sources:

- Sales of available for sale fixed maturity securities, real estate and other alternative investments.
- Reductions to the amortized cost basis of available for sale fixed maturity securities that have been written down due to our intent to sell them or it being more likely than not that we will be required to sell them.
- Changes in the allowance for credit losses on bonds available for sale, mortgage and other loans receivable, and loans commitments.
- Changes in fair value of free standing and embedded derivatives, including changes in the non-performance adjustment, except for those instruments that are designated as hedging instruments when the change in the fair value of the hedged item is not reported in Net realized capital gains (losses).
- Foreign exchange gains and losses resulting from foreign currency transactions.
- Changes in fair value of the embedded derivative related to the Fortitude Re funds withheld assets.

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

Years Ended December 31,	2020			2019	2018
(in millions)	Excluding Fortitude Re Funds Withheld Assets	Fortitude Re Funds Withheld Assets[c]	Total	Total	Total
Sales of fixed maturity securities	$ 307	$ 707	$ 1,014	$ 320	$ (145)
Sales of equity securities	-	-	-	-	16
Other-than-temporary impairments	-	-	-	(174)	(251)
Intent to sell[a]	(3)	-	(3)	-	-
Change in allowance for credit losses on fixed maturity securities	(270)	(10)	(280)	-	-
Change in allowance for credit losses on loans	(105)	2	(103)	(46)	(92)
Foreign exchange transactions	365	13	378	227	(182)
Variable annuity embedded derivatives, net of related hedges	166	-	166	(294)	304
All other derivatives and hedge accounting	(672)	(249)	(921)	(22)	417
Loss on sale of private equity funds	-	-	-	-	(321)
Other[b]	156	-	156	621	203
Net realized capital gains (losses) – excluding Fortitude Re funds withheld embedded derivative	(56)	463	407	632	(51)
Net realized capital gains (losses) on Fortitude Re funds withheld embedded derivative	-	(2,645)	(2,645)	-	-
Net realized capital gains (losses)	$ (56)	$ (2,182)	$ (2,238)	$ 632	$ (51)

(a) In 2019 and 2018, Intent to sell was included in Other-than-temporary impairments.

(b) In 2019, includes $200 million from the sale and concurrent leaseback of our corporate headquarters and $300 million as a result of sales in investment real estate properties. In 2018, primarily includes $96 million and $49 million of realized gains on the sale of shares of OneMain Holdings, Inc. and an investment in Castle Holdings LLC's aircraft assets, respectively.

(c) Represents activity subsequent to the deconsolidation of Fortitude Re on June 2, 2020.

CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION) OF INVESTMENTS

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

	Years Ended December 31,	
(in millions)	2020	2019
Increase (decrease) in unrealized appreciation (depreciation) of investments:		
Fixed maturity securities	$ 9,489	$ 14,245
Other investments	2	(70)
Total increase (decrease) in unrealized appreciation (depreciation) of investments*	$ 9,491	$ 14,175

* Excludes net unrealized gains and losses attributable to businesses held for sale at December 31, 2019.

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

Years Ended December 31,	2020			2019		
(in millions)	Equities	Other Invested Assets	Total	Equities	Other Invested Assets	Total
Net gains and losses recognized during the year on equity securities	$ 200	$ 832	$ 1,032	$ 159	$ 744	$ 903
Less: Net gains and losses recognized during the year on equity securities sold during the year	(23)	46	23	39	159	198
Unrealized gains and losses recognized during the reporting period on equity securities still held at the reporting date	$ 223	$ 786	$ 1,009	$ 120	$ 585	$ 705

EVALUATING INVESTMENTS FOR AN ALLOWANCE FOR CREDIT LOSSES/OTHER-THAN-TEMPORARY IMPAIRMENTS

Fixed Maturity Securities

Subsequent to the adoption of the Financial Instruments Credit Losses Standard on January 1, 2020

If we intend to sell a fixed maturity security or it is more likely than not that we will be required to sell a fixed maturity security before recovery of its amortized cost basis and the fair value of the security is below amortized cost, an impairment has occurred and the amortized cost is written down to current fair value, with a corresponding charge to realized capital losses. No allowance is established in these situations and any previously recorded allowance is reversed. The new cost basis is not adjusted for subsequent increases in estimated fair value. When assessing our intent to sell a fixed maturity security, or whether it is more likely than not that we will be required to sell a fixed maturity security before recovery of its amortized cost basis, management evaluates relevant facts and circumstances including, but not limited to, decisions to reposition our investment portfolio, sales of securities to meet cash flow needs and sales of securities to take advantage of favorable pricing.

For fixed maturity securities for which a decline in the fair value below the amortized cost is due to credit related factors, an allowance is established for the difference between the estimated recoverable value and amortized cost with a corresponding charge to realized capital losses. The allowance for credit losses is limited to the difference between amortized cost and fair value. The estimated recoverable value is the present value of cash flows expected to be collected, as determined by management. The difference between fair value and amortized cost that is not associated with credit related factors is presented in unrealized appreciation (depreciation) of fixed maturity securities on which an allowance for credit losses was previously recognized (a separate component of accumulated other comprehensive income). Accrued interest is excluded from the measurement of the allowance for credit losses.

When estimating future cash flows for structured fixed maturity securities (e.g., RMBS, CMBS, CDO, ABS) management considers the historical performance of underlying assets and available market information as well as bond-specific structural considerations, such as credit enhancement and the priority of payment structure of the security. In addition, the process of estimating future cash flows includes, but is not limited to, the following critical inputs, which vary by asset class:

- Current delinquency rates;
- Expected default rates and the timing of such defaults;
- Loss severity and the timing of any recovery; and
- Expected prepayment speeds.

When estimating future cash flows for corporate, municipal and sovereign fixed maturity securities determined to be credit impaired, management considers:

- Expected default rates and the timing of such defaults;
- Loss severity and the timing of any recovery; and
- Scenarios specific to the issuer and the security, which may also include estimates of outcomes of corporate restructurings, political and macroeconomic factors, stability and financial strength of the issuer, the value of any secondary sources of repayment and the disposition of assets.

We consider severe price declines in our assessment of potential credit impairments. We may also modify our model inputs when we determine that price movements in certain sectors are indicative of factors not captured by the cash flow models.

Credit losses are reassessed each period. The allowance for credit losses and the corresponding charge to realized capital losses can be reversed if conditions change, however, the allowance for credit losses will never be reduced below zero. When we determine that all or a portion of a fixed maturity security is uncollectable, the uncollectable amortized cost amount is written off with a corresponding reduction to the allowance for credit losses. If we collect cash flows that were previously written off the recovery is recognized by decreasing realized capital losses.

Prior to the adoption of the Financial Instruments Credit Losses Standard on January 1, 2020

If we intend to sell a fixed maturity security or it is more likely than not that we will be required to sell a fixed maturity security before recovery of its amortized cost basis and the fair value of the security is below amortized cost, an other-than-temporary impairment has occurred and the amortized cost is written down to current fair value, with a corresponding charge to realized capital losses. When assessing our intent to sell a fixed maturity security, or whether it is more likely than not that we will be required to sell a fixed maturity security before recovery of its amortized cost basis, management evaluates relevant facts and circumstances including, but not limited to, decisions to reposition our investment portfolio, sales of securities to meet cash flow needs and sales of securities to take advantage of favorable pricing.

For fixed maturity securities for which a credit impairment has occurred, the amortized cost is written down to the estimated recoverable value with a corresponding charge to realized capital losses. The estimated recoverable value is the present value of cash flows expected to be collected, as determined by management. The difference between fair value and amortized cost that is not related to a credit impairment is presented in unrealized appreciation (depreciation) of fixed maturity securities on which other-than-temporary credit impairments were recognized (a separate component of accumulated other comprehensive income).

We consider severe price declines in our assessment of potential credit impairments. We may also modify our model inputs when we determine that price movements in certain sectors are indicative of factors not captured by the cash flow models.

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 prospectively accrete into earnings the difference between the new amortized cost and the expected undiscounted recoverable value over the remaining expected holding period of the security.

Credit Impairments

The following table presents a rollforward of the changes in allowance for credit losses on available for sale fixed maturity securities by major investment category:

Year Ended December 31,	2020		
(in millions)	Structured	Non-Structured	Total
Balance, beginning of year*	$ 7	$ -	**$ 7**
Additions:			
Securities for which allowance for credit losses were not previously recorded	38	290	**328**
Purchases of available for sale debt securities accounted for as purchased credit deteriorated assets	26	-	**26**
Accretion of available for sale debt securities accounted for as purchased credit deteriorated assets	1	-	**1**
Reductions:			
Securities sold during the period	(5)	(26)	**(31)**
Intent to sell security or more likely than not will be required to sell the security before recovery of its amortized cost basis	-	-	**-**
Additional net increases or decreases to the allowance for credit losses on securities that had an allowance recorded in a previous period, for which there was no intent to sell before recovery amortized cost basis	(50)	33	**(17)**
Write-offs charged against the allowance	-	(128)	**(128)**
Recoveries of amounts previously written off	-	-	**-**
Other	-	-	**-**
Balance, end of year	$ 17	$ 169	**$ 186**

* The beginning balance incorporates the Day 1 gross up on PCD assets held as of January 1, 2020.

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

Years Ended December 31, *(in millions)*	2019	2018
Balance, beginning of year	$ -	$ 526
Increases due to:		
Credit impairments on new securities subject to impairment losses	136	59
Additional credit impairments on previously impaired securities	17	90
Reductions due to:		
Credit impaired securities fully disposed for which there was no prior intent or requirement to sell	(64)	(145)
Accretion on securities previously impaired due to credit*	(20)	(530)
Balance, end of year	$ 69	$ -

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

Other Invested Assets

Our equity method investments in private equity funds, hedge funds and other entities are evaluated for impairment each reporting period. Such evaluation considers market conditions, events and volatility that may impact the recoverability of the underlying investments within these private equity funds and hedge funds and is based on the nature of the underlying investments and specific inherent risks. Such risks may evolve based on the nature of the underlying investments.

Our investments in aircraft assets and real estate are periodically evaluated for recoverability whenever changes in circumstances indicate the carrying amount of an asset may be impaired. When impairment indicators are present, we compare expected investment cash flows to carrying amount. When the expected cash flows are less than the carrying amount, the investments are written down to fair value with a corresponding charge to earnings. We sold the remaining portion of our aircraft assets in 2018.

Purchased Credit Deteriorated/Impaired Securities

Subsequent to the adoption of the Financial Instruments Credit Losses Standard on January 1, 2020

We purchase certain RMBS securities that have experienced more-than-insignificant deterioration in credit quality since origination. Subsequent to the adoption of the Financial Instruments Credit Losses Standard these are referred to as PCD assets. At the time of purchase an allowance is recognized for these PCD assets by adding it to the purchase price to arrive at the initial amortized cost. There is no credit loss expense recognized upon acquisition of a PCD asset. When determining the initial allowance for credit losses, management considers the historical performance of underlying assets and available market information as well as bond-specific structural considerations, such as credit enhancement and the priority of payment structure of the security. In addition, the process of estimating future cash flows includes, but is not limited to, the following critical inputs:

- Current delinquency rates;
- Expected default rates and the timing of such defaults;
- Loss severity and the timing of any recovery; and
- Expected prepayment speeds.

Subsequent to the acquisition date, the PCD assets follow the same accounting as other structured securities that are not high credit quality.

During the twelve-month period ended December 31, 2020, we purchased certain securities which had more than insignificant credit deterioration since their origination. These PCD securities are held in the portfolio of bonds available for sale in their natural classes at December 31, 2020.

The following table presents a reconciliation of the purchase price to the unpaid principal balance at the acquisition date of the PCD securities that were purchased with credit deterioration during the twelve-month period ended December 31, 2020:

(in millions)	December 31, 2020
Unpaid principal balance	$ 644
Allowance for expected credit losses at acquisition	(26)
Purchase (discount) premium	(149)
Purchase price	$ 469

Prior to the adoption of the Financial Instruments Credit Losses Standard on January 1, 2020

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

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

The following tables present information on our PCI securities, which are included in bonds available for sale as of December 31, 2019:

(in millions)	**At Date of Acquisition**
Contractually required payments (principal and interest)	$ 35,139
Cash flows expected to be collected*	28,720
Recorded investment in acquired securities	19,382

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

(in millions)	December 31, 2019
Outstanding principal balance	$ 10,476
Amortized cost	6,970
Fair value	8,664

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

Years Ended December 31, *(in millions)*	2019
Balance, beginning of year	$ 7,210
Newly purchased PCI securities	17
Accretion	(624)
Effect of changes in interest rate indices	(541)
Net reclassification from (to) non-accretable difference, including effects of prepayments	(350)
Activities related to businesses reclassified to held for sale	(7)
Balance, end of year	$ 5,705

PLEDGED INVESTMENTS

Secured Financing and Similar Arrangements

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

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

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

(in millions)	**December 31, 2020**	December 31, 2019
Fixed maturity securities available for sale	**$ 3,636**	$ 3,030

At December 31, 2020 and 2019, amounts borrowed under repurchase and securities lending agreements totaled $3.7 billion and $3.1 billion, respectively.

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

	Remaining Contractual Maturity of the Agreements					
(in millions)	Overnight and Continuous	up to 30 days	31 - 90 days	91 - 364 days	365 days or greater	Total
December 31, 2020						
Bonds available for sale:						
Non-U.S. governments	**$ 63**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 63**
Corporate debt	**96**	**97**	**-**	**-**	**-**	**193**
Total	**$ 159**	**$ 97**	**$ -**	**$ -**	**$ -**	**$ 256**
December 31, 2019						
Bonds available for sale:						
Non-U.S. governments	$ 2	$ 71	$ -	$ -	$ -	$ 73
Corporate debt	22	55	82	-	-	159
Total	$ 24	$ 126	$ 82	$ -	$ -	$ 232

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

	Remaining Contractual Maturity of the Agreements					
(in millions)	Overnight and Continuous	up to 30 days	31 - 90 days	91 - 364 days	365 days or greater	Total
December 31, 2020						
Bonds available for sale:						
Obligations of states, municipalities and political subdivisions	**$ -**	**$ -**	**$ 103**	**$ -**	**$ -**	**$ 103**
Corporate debt	**-**	**982**	**2,295**	**-**	**-**	**3,277**
RMBS	**-**	**-**	**-**	**-**	**-**	**-**
Total	**$ -**	**$ 982**	**$ 2,398**	**$ -**	**$ -**	**$ 3,380**
December 31, 2019						
Bonds available for sale:						
Obligations of states, municipalities and political subdivisions	$ -	$ -	$ 386	$ -	$ -	$ 386
Corporate debt	-	1,071	947	-	-	2,018
RMBS	-	-	-	394	-	394
Total	$ -	$ 1,071	$ 1,333	$ 394	$ -	$ 2,798

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

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

(in millions)	**December 31, 2020**	December 31, 2019
Securities collateral pledged to us	**$ 5,359**	$ 2,567
Amount sold or repledged by us	**-**	121

At December 31, 2020 and December 31, 2019, amounts loaned under reverse repurchase agreements totaled $5.4 billion and $2.6 billion, respectively.

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

Insurance – Statutory and Other Deposits

The total carrying value of cash and securities deposited by our insurance subsidiaries under requirements of regulatory authorities or other insurance-related arrangements, including certain annuity-related obligations and certain reinsurance contracts, was $11.2 billion and $8.7 billion at December 31, 2020 and 2019, respectively.

Other Pledges and Restrictions

Certain of our subsidiaries are members of Federal Home Loan Banks (FHLBs) and such membership requires the members to own stock in these FHLBs. We owned an aggregate of $191 million and $194 million of stock in FHLBs at December 31, 2020 and 2019, respectively. In addition, our subsidiaries have pledged securities available for sale and residential loans associated with borrowings and funding agreements from FHLBs, with a fair value of $5.7 billion and $1.2 billion, respectively, at December 31, 2020 and $4.3 billion and $1.8 billion, respectively, at December 31, 2019.

Certain GIAs have provisions that require collateral to be posted or payments to be made by us upon a downgrade of our long-term debt ratings. The actual amount of collateral required to be posted to the counterparties in the event of such downgrades, and the aggregate amount of payments that we could be required to make, depend on market conditions, the fair value of outstanding affected transactions and other factors prevailing at and after the time of the downgrade. The fair value of securities pledged as collateral with respect to these obligations was approximately $1.5 billion at both December 31, 2020 and 2019. This collateral primarily consists of securities of the U.S. government and government-sponsored entities and generally cannot be repledged or resold by the counterparties.

Investments held in escrow accounts or otherwise subject to restriction as to their use were $494 million and $330 million, comprised of bonds available for sale and short-term investments at December 31, 2020 and 2019, respectively.

Reinsurance transactions between AIG and Fortitude Re were structured as modco and loss portfolio transfer arrangements with funds withheld. Following closing of the Majority Interest Fortitude Sale, a portion of the proceeds were contributed to AIG subsidiaries.

For further discussion on the sale of Fortitude Holdings see Note 1 and Note 8 to the Consolidated Financial Statements.

7. Lending Activities

Mortgage and other loans receivable include commercial mortgages, residential mortgages, life insurance policy loans, commercial loans, and other loans and notes receivable. Commercial mortgages, residential mortgages, commercial loans, and other loans and notes receivable are carried at unpaid principal balances less allowance for credit losses and plus or minus adjustments for the accretion or amortization of discount or premium. Interest income on such loans is accrued as earned.

Direct costs of originating commercial mortgages, commercial loans, and other loans and notes receivable, net of nonrefundable points and fees, are deferred and included in the carrying amount of the related receivables. The amount deferred is amortized to income as an adjustment to earnings using the interest method. Premiums and discounts on purchased residential mortgages are also amortized to income as an adjustment to earnings using the interest method.

Life insurance policy loans are carried at unpaid principal balances. There is no allowance for policy loans because these loans serve to reduce the death benefit paid when the death claim is made and the balances are effectively collateralized by the cash surrender value of the policy.

Interest income is not accrued when payment of contractual principal and interest is not expected. Any cash received on impaired loans is generally recorded as a reduction of the current carrying amount of the loan. Accrual of interest income is generally resumed when delinquent contractual principal and interest is repaid or when a portion of the delinquent contractual payments are made and the ongoing required contractual payments have been made for an appropriate period. As of December 31, 2020, $14 million and $238 million of residential mortgage loans and commercial mortgage loans, respectively, were placed on nonaccrual status.

Accrued interest is presented separately and is included in Other assets on the Consolidated Balance Sheets. As of December 31, 2020, accrued interest receivable was $14 million and $129 million associated with residential mortgage loans and commercial mortgage loans, respectively.

A significant majority of commercial mortgages in the portfolio are non-recourse loans and, accordingly, the only guarantees are for specific items that are exceptions to the non-recourse provisions. It is therefore extremely rare for us to have cause to enforce the provisions of a guarantee on a commercial real estate or mortgage loan.

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

(in millions)	December 31, 2020	December 31, 2019
Commercial mortgages[(a)]	$ 36,424	$ 36,170
Residential mortgages	4,645	6,683
Life insurance policy loans	1,986	2,065
Commercial loans, other loans and notes receivable	3,321	2,504
Total mortgage and other loans receivable	46,376	47,422
Allowance for credit losses[(b)]	(814)	(438)
Mortgage and other loans receivable, net	$ 45,562	$ 46,984

(a) Commercial mortgages primarily represent loans for apartments, offices and retail properties, with exposures in New York and California representing the largest geographic concentrations (aggregating approximately 24 percent and 10 percent, respectively, at December 31, 2020, and 23 percent and 10 percent, respectively, at December 31, 2019).

(b) Does not include $79 million of expected credit loss liability at December 31, 2020 in relation to off-balance-sheet commitments to fund commercial mortgage loans, which is recorded in Other liabilities.

Nonperforming loans are generally those loans where payment of contractual principal or interest is more than 90 days past due. Nonperforming loans were not significant for any of the periods presented.

CREDIT QUALITY OF COMMERCIAL MORTGAGES

The following table presents debt service coverage ratios[(a)] for commercial mortgages by year of vintage:

December 31, 2020 (in millions)	2020	2019	2018	2017	2016	Prior	Total
>1.2X	$ 1,914	$ 5,596	$ 5,649	$ 3,941	$ 4,592	$ 10,730	$ 32,422
1.00 - 1.20X	770	467	456	144	161	1,106	3,104
<1.00X	4	86	343	87	96	282	898
Total commercial mortgages	$ 2,688	$ 6,149	$ 6,448	$ 4,172	$ 4,849	$ 12,118	$ 36,424

The following table presents loan-to-value ratios[(b)] for commercial mortgages by year of vintage:

December 31, 2020 (in millions)	2020	2019	2018	2017	2016	Prior	Total
Less than 65%	$ 2,382	$ 3,755	$ 3,855	$ 2,565	$ 2,852	$ 8,145	$ 23,554
65% to 75%	274	2,330	2,363	1,306	1,200	2,551	10,024
76% to 80%	28	45	30	-	70	515	688
Greater than 80%	4	19	200	301	727	907	2,158
Total commercial mortgages	$ 2,688	$ 6,149	$ 6,448	$ 4,172	$ 4,849	$ 12,118	$ 36,424

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

December 31, 2019	Debt Service Coverage Ratios[(a)]			
(in millions)	>1.20X	1.00X - 1.20X	<1.00X	Total
Loan-to-Value Ratios[(b)]				
Less than 65%	$ 23,013	$ 2,440	$ 245	$ 25,698
65% to 75%	9,007	899	40	9,946
76% to 80%	200	6	-	206
Greater than 80%	184	2	134	320
Total commercial mortgages	$ 32,404	$ 3,347	$ 419	$ 36,170

(a) The debt service coverage ratio compares a property's net operating income to its debt service payments, including principal and interest. Our weighted average debt service coverage ratio was 2.2X and 2.0X at December 31, 2020 and 2019, respectively. The debt service coverage ratios have been updated within the last three months.

(b) The loan-to-value ratio compares the current unpaid principal balance of the loan to the estimated fair value of the underlying property collateralizing the loan. Our weighted average loan-to-value ratio was 60 percent and 56 percent at December 31, 2020, and 2019, respectively. The loan-to-value ratios have been updated within the last three to nine months.

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

(dollars in millions)	Number of Loans	Class: Apartments	Offices	Retail	Industrial	Hotel	Others	Total[(c)]	Percent of Total $
December 31, 2020									
Credit Quality Performance Indicator:									
In good standing	**688**	**$ 13,969**	**$ 10,506**	**$ 5,144**	**$ 3,766**	**$ 2,064**	**$ 460**	**$ 35,909**	**99 %**
Restructured[(a)]	**5**	**-**	**52**	**50**	**-**	**4**	**-**	**106**	**-**
90 days or less delinquent	**3**	**-**	**87**	**-**	**-**	**114**	**-**	**201**	**-**
>90 days delinquent or in process of foreclosure	**4**	**-**	**67**	**55**	**-**	**86**	**-**	**208**	**1**
Total[(b)]	**700**	**$ 13,969**	**$ 10,712**	**$ 5,249**	**$ 3,766**	**$ 2,268**	**$ 460**	**$ 36,424**	**100 %**
Allowance for credit losses		**$ 145**	**$ 267**	**$ 145**	**$ 53**	**$ 65**	**$ 10**	**$ 685**	**2 %**
December 31, 2019									
Credit Quality Performance Indicator:									
In good standing	736	$ 13,698	$ 10,553	$ 5,332	$ 3,663	$ 2,211	$ 522	$ 35,979	99 %
Restructured[(a)]	3	-	89	-	-	101	-	190	1
90 days or less delinquent	1	1	-	-	-	-	-	1	-
>90 days delinquent or in process of foreclosure	-	-	-	-	-	-	-	-	-
Total[(b)]	740	$ 13,699	$ 10,642	$ 5,332	$ 3,663	$ 2,312	$ 522	$ 36,170	100 %
Allowance for credit losses:									
Specific		$ -	$ 2	$ 1	$ -	$ 6	$ -	$ 9	- %
General		81	153	44	30	14	5	327	1
Total allowance for credit losses		$ 81	$ 155	$ 45	$ 30	$ 20	$ 5	$ 336	1 %

(a) Loans that have been modified in troubled debt restructurings and are performing according to their restructured terms. *For additional discussion of troubled debt restructurings see below.*

(b) Does not reflect allowance for credit losses.

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

The following table presents credit quality performance indicators for residential mortgages by year of vintage:

December 31, 2020 (in millions)	2020	2019	2018	2017	2016	Prior	Total
FICO*:							
780 and greater	$ 522	$ 619	$ 283	$ 469	$ 539	$ 484	**$ 2,916**
720 - 779	478	349	103	155	180	156	**1,421**
660 - 719	19	61	28	42	51	58	**259**
600 - 659	1	5	6	7	4	12	**35**
Less than 600	-	-	1	2	2	9	**14**
Total residential mortgages	$ 1,020	$ 1,034	$ 421	$ 675	$ 776	$ 719	**$ 4,645**

* Fair Isaac Corporation (FICO) is the credit quality indicator used to evaluate consumer credit risk for residential mortgage loan borrowers and have been updated within the last three months.

METHODOLOGY USED TO ESTIMATE THE ALLOWANCE FOR CREDIT LOSSES

Subsequent to the adoption of the Financial Instruments Credit Losses Standard on January 1, 2020

At the time of origination or purchase, an allowance for credit losses is established for mortgage and other loan receivables and is updated each reporting period. Changes in the allowance for credit losses are recorded in realized capital losses. This allowance reflects the risk of loss, even when that risk is remote, and reflects losses expected over the remaining contractual life of the loan. The allowance for credit losses considers available relevant information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts of future economic conditions. We revert to historical information when we determine that we can no longer reliably forecast future economic assumptions.

The allowances for the commercial mortgage loans and residential mortgage loans are estimated utilizing a probability of default and loss given default model. Loss rate factors are determined based on historical data and adjusted for current and forecasted information. The loss rates are applied based on individual loan attributes and considering such data points as loan-to-value ratios, FICO scores, and debt service coverage.

The estimate of credit losses also reflects management's assumptions on certain macroeconomic factors that include, but are not limited to, gross domestic product growth, employment, inflation, housing price index, interest rates and credit spreads.

Accrued interest is excluded from the measurement of the allowance for credit losses and accrued interest is reversed through interest income once a loan is placed on nonaccrual.

When all or a portion of a loan is deemed uncollectible, the uncollectible portion of the carrying amount of the loan is charged off against the allowance.

We also have off-balance sheet commitments related to our commercial mortgage loans. The liability for expected credit losses related to these commercial mortgage loan commitments is reported in Other liabilities in the Consolidated Balance Sheets. When a commitment is funded, we record a loan receivable and reclassify the liability for expected credit losses related to the commitment into loan allowance for expected credit losses. Other changes in the liability for expected credit losses on loan commitments are recorded in Net realized capital gains (losses) in the Consolidated Statements of Income.

Prior to the adoption of the Financial Instruments Credit Losses Standard on January 1, 2020

Mortgage and other loans receivable are considered impaired when collection of all amounts due under contractual terms is not probable. Impairment is measured using either i) the present value of expected future cash flows discounted at the loan's effective interest rate, ii) the loan's observable market price, if available, or iii) the fair value of the collateral if the loan is collateral dependent. Impairment of commercial mortgages is typically determined using the fair value of collateral while impairment of other loans is typically determined using the present value of cash flows or the loan's observable market price. An allowance is typically established for the difference between the impaired value of the loan and its current carrying amount. Additional allowance amounts are established for incurred but not specifically identified impairments, based on statistical models primarily driven by past-due status, debt service coverage, loan-to-value ratio, property type and location, loan term, profile of the borrower and of the major property tenants, and loan seasoning. When all or a portion of a loan is deemed uncollectable, the uncollectable portion of the carrying amount of the loan is charged off against the allowance.

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

Years Ended December 31,	2020			2019			2018		
(in millions)	Commercial Mortgages	Other Loans	Total	Commercial Mortgages	Other Loans	Total	Commercial Mortgages	Other Loans	Total
Allowance, beginning of year	**$ 336**	**$ 102**	**$ 438**	$ 318	$ 79	$ 397	$ 247	$ 75	$ 322
Initial allowance upon CECL adoption	**311**	**7**	**318**	-	-	-	-	-	-
Loans charged off	**(12)**	**(5)**	**(17)**	(2)	(3)	(5)	(17)	(2)	(19)
Recoveries of loans previously charged off	**-**	**-**	**-**	-	-	-	-	1	1
Net charge-offs	**(12)**	**(5)**	**(17)**	(2)	(3)	(5)	(17)	(1)	(18)
Provision for loan losses	**50**	**25**	**75**	20	26	46	88	5	93
Allowance, end of year	**$ 685**	**$ 129**	**$ 814**	$ 336 [(b)]	$ 102	$ 438	$ 318 [(b)]	$ 79	$ 397

(a) Does not include $79 million of expected credit loss liability at December 31, 2020 in relation to off-balance-sheet commitments to fund commercial mortgage loans, which is recorded in Other liabilities.

(b) The December 31, 2019 and 2018 total allowance was calculated prior to the adoption of ASC 326 on January 1, 2020. Of the total allowance, $10 million and $3 million relates to individually assessed credit losses on $148 million and $54 million of commercial mortgages at December 31, 2019 and 2018, respectively.

As a result of the COVID-19 crisis, including the significant global economic slowdown and general market decline, our expectations and models used to estimate the allowance for losses on commercial and residential mortgage loans have been updated to reflect the current economic environment. The full impact of COVID-19 on real estate valuations remains uncertain and we will continue to review our valuations as further information becomes available.

TROUBLED DEBT RESTRUCTURINGS

We modify loans to optimize their returns and improve their collectability, among other things. When we undertake such a modification with a borrower that is experiencing financial difficulty and the modification involves us granting a concession to the troubled debtor, the modification is a troubled debt restructuring (TDR). We assess whether a borrower is experiencing financial difficulty based on a variety of factors, including the borrower's current default on any of its outstanding debt, the probability of a default on any of its debt in the foreseeable future without the modification, the insufficiency of the borrower's forecasted cash flows to service any of its outstanding debt (including both principal and interest), and the borrower's inability to access alternative third-party financing at an interest rate that would be reflective of current market conditions for a non-troubled debtor. Concessions granted may include extended maturity dates, interest rate changes, principal or interest forgiveness, payment deferrals and easing of loan covenants.

In response to the COVID-19 pandemic, there was an increase in the volume of loan modifications in our commercial mortgage, residential mortgage and leveraged loan portfolios. The COVID-19 related modifications were primarily in the form of short-term payment deferrals (one to six months). Short-term payment deferrals are not considered a concession and therefore these modifications are not considered a TDR.

During the years ended December 31, 2020 and 2019, loans with a carrying value of $106 million and $86 million, respectively, were modified in TDRs.

8. Reinsurance

In the ordinary course of business, our insurance companies may use both treaty and facultative reinsurance to minimize their net loss exposure to any single catastrophic loss event or to an accumulation of losses from a number of smaller events or to provide greater diversification of our businesses. In addition, our General Insurance subsidiaries assume reinsurance from other insurance companies. We determine the portion of the incurred but not reported (IBNR) loss that will be recoverable under our reinsurance contracts by reference to the terms of the reinsurance protection purchased. This determination is necessarily based on the estimate of IBNR and accordingly, is subject to the same uncertainties as the estimate of IBNR. Reinsurance assets include the balances due from reinsurance and insurance companies under the terms of our reinsurance agreements for paid and unpaid losses and loss adjustment expenses incurred, ceded unearned premiums and ceded future policy benefits for life and accident and health insurance contracts and benefits paid and unpaid. Amounts related to paid and unpaid losses and benefits and loss expenses with respect to these reinsurance agreements are substantially collateralized. We remain liable to the extent that our reinsurers do not meet their obligation under the reinsurance contracts, and as such, we regularly evaluate the financial condition of our reinsurers and monitor concentration of our credit risk. The estimation of the allowance for credit losses and disputes requires judgment for which key inputs typically include historical trends regarding uncollectible balances, disputes and credit events as well as specific reviews of balances in dispute or subject to credit impairment. The allowance for credit losses and disputes on reinsurance assets was $326 million and $151 million at December 31, 2020 and 2019, respectively. Changes in the allowance for credit losses and disputes on reinsurance assets are reflected in Policyholder benefits and losses incurred within the Consolidated Statements of Income.

The following table provides supplemental information for loss and benefit reserves, gross and net of ceded reinsurance:

At December 31,	2020		2019	
(in millions)	As Reported	Net of Reinsurance	As Reported	Net of Reinsurance
Liability for unpaid losses and loss adjustment expenses	$ (77,720)	$ (43,154)	$ (78,328)	$ (47,259)
Future policy benefits for life and accident and health insurance contracts	(51,097)	(25,121)	(50,512)	(49,670)
Policyholder contract deposits	(160,251)	(155,072)	(151,869)	(150,944)
Reserve for unearned premiums	(18,660)	(14,606)	(18,269)	(15,067)
Other policyholder funds	(3,548)	(2,933)	(3,428)	(3,420)
Reinsurance assets[(a)]	70,390		36,046	

(a) Reinsurance assets excludes (i) allowance for credit losses and disputes of $326 million (of which $135 million pertains to CECL reserve for Liability for unpaid losses and loss adjustment expenses) and $151 million for the years ended December 31, 2020 and 2019, respectively, (ii) paid loss recoveries of $3,157 million and $1,970 million for the years ended December 31, 2020 and 2019, respectively, and (iii) policy and contract claims recoverable of $320 million and $112 million for the years ended December 31, 2020 and 2019, respectively.

SHORT-DURATION REINSURANCE

Short-duration reinsurance is effected under reinsurance treaties and by negotiation on individual risks. Certain of these reinsurance arrangements consist of excess of loss contracts that protect us against losses above stipulated amounts. Ceded premiums are considered prepaid reinsurance premiums and are recognized as a reduction of premiums earned over the contract period in proportion to the protection received. Amounts recoverable from reinsurers on short-duration contracts are estimated in a manner consistent with the claims liabilities associated with the reinsurance and presented as a component of Reinsurance assets. Reinsurance premiums for assumed business are estimated based on information received from brokers, ceding companies and reinsurers. Any subsequent differences arising on such estimates are recorded in the periods in which they are determined. Assumed reinsurance premiums are earned primarily on a pro-rata basis over the terms of the reinsurance contracts and the portion of premiums relating to the unexpired terms of coverage is included in the reserve for unearned premiums. Reinsurance premiums for assumed business are estimated based on information received from brokers, ceding companies and reinsureds. Any subsequent differences arising on such estimates are recorded in the periods in which they are determined. For both ceded and assumed reinsurance, risk transfer requirements must be met for reinsurance accounting to apply. If risk transfer requirements are not met, the contract is accounted for as a deposit, resulting in the recognition of cash flows under the contract through a deposit asset or liability and not as revenue or expense. To meet risk transfer requirements, a reinsurance contract must include both insurance risk, consisting of both underwriting and timing risk, and a reasonable possibility of a significant loss for the assuming entity. Similar risk transfer criteria are used to determine whether directly written insurance contracts should be accounted for as insurance or as a deposit.

The following table presents short-duration insurance premiums written and earned:

	Years Ended December 31,		
(in millions)	**2020**	2019	2018
Premiums written:			
Direct	**$ 28,521**	$ 29,338	$ 30,368
Assumed	**5,947**	5,808	4,186
Ceded	**(11,012)**	(9,692)	(7,757)
Net	**$ 23,456**	$ 25,454	$ 26,797
Premiums earned:			
Direct	**$ 28,596**	$ 30,017	$ 31,450
Assumed	**5,984**	6,395	4,638
Ceded	**(10,435)**	(9,526)	(8,164)
Net	**$ 24,145**	$ 26,886	$ 27,924

For the years ended December 31, 2020, 2019 and 2018, reinsurance recoveries, which reduced losses and loss adjustment expenses incurred, amounted to $7.7 billion, $4.7 billion and $9.8 billion, respectively.

Retroactive reinsurance agreements are reinsurance agreements under which our reinsurer agrees to reimburse us as a result of past insurable events. For these agreements, the excess of the amounts ultimately collectible under the agreement over the consideration paid is recognized as a deferred gain liability and amortized into income over the settlement period of the ceded reserves. The amount of the deferral is recalculated each period based on loss payments and updated estimates. If the consideration paid exceeds the ultimate losses collectible under the agreement, the net loss on the agreement is recognized in income immediately. Ceded loss reserves under retroactive agreements were $18.9 billion and $13.9 billion, and the deferred gain liability was $1.7 billion and $1.8 billion, as of December 31, 2020 and 2019, respectively. The effect on income from amortization of the deferred gain was $237 million, $219 million and $394 million for the years ended December 31, 2020, 2019 and 2018, respectively.

In the first quarter of 2017, we entered into an adverse development reinsurance agreement with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc., under which we transferred to NICO 80 percent of the reserve risk on substantially all of our U.S. Commercial long-tail exposures for accident years 2015 and prior. Under this agreement, we ceded to NICO 80 percent of the losses on subject business paid on or after January 1, 2016 in excess of $25 billion of net paid losses, up to an aggregate limit of $25 billion. We account for this transaction as retroactive reinsurance. This transaction resulted in a gain, which under U.S. GAAP retroactive reinsurance accounting is deferred and amortized into income over the settlement period. NICO created a collateral trust account as security for their claim payment obligations to us, into which they deposited the consideration paid under the agreement, and Berkshire Hathaway Inc. has provided a parental guarantee to secure NICO's obligations under the agreement.

LONG-DURATION REINSURANCE

Long-duration reinsurance is effected principally under yearly renewable term (YRT) treaties, along with a large modco treaty with a former affiliate, Fortitude Re, that was deconsolidated following the Majority Interest Fortitude Sale. This modco treaty reinsures the majority of our long-duration run-off business. The premiums with respect to YRT treaties are earned over the contract period in proportion to the protection provided, while ceded premiums related to modco treaties are recognized when due. Amounts recoverable on YRT treaties are recognized when claims are incurred on the reinsured policies and are presented as a component of reinsurance assets. Amounts recoverable on the modco treaty are estimated in a manner consistent with the assumptions used for the underlying policy benefits and are presented as a separate reinsurance asset.

The following table presents premiums earned and policy fees for our long-duration life insurance and annuity operations:

Years Ended December 31, (in millions)	2020	2019	2018
Premiums			
Direct	$ 4,381	$ 4,363	$ 3,489
Assumed	1,058	228	56
Ceded	(1,061)	(916)	(855)
Net	$ 4,378	$ 3,675	$ 2,690
Policy Fees			
Direct	$ 2,957	$ 3,016	$ 2,792
Assumed	-	-	-
Ceded	(40)	(1)	(1)
Net	$ 2,917	$ 3,015	$ 2,791

Long-duration reinsurance recoveries, which reduced Policyholder benefits and losses incurred, was approximately $1.1 billion, $1.0 billion and $778 million for the years ended December 31, 2020, 2019 and 2018, respectively.

The following table presents long-duration insurance in-force ceded to other insurance companies:

At December 31, (in millions)	2020	2019	2018
Long-duration insurance in force ceded	$ 292,517	$ 264,732	$ 228,846

Long-duration insurance in-force assumed as a percentage of gross long-duration insurance in-force was 0.02 percent, 0.02 percent, and 0.03 percent at December 31, 2020, 2019 and 2018, respectively; and premiums assumed represented 19.5 percent, 5 percent and 1.6 percent of gross premiums for the years ended December 31, 2020, 2019 and 2018, respectively.

The U.S. Life and Retirement companies manage the capital impact of their statutory reserve requirements, including those resulting from the National Association of Insurance Commissioners (NAIC) Model Regulation “Valuation of Life Insurance Policies” (Regulation XXX) and NAIC Actuarial Guideline 38 (Guideline AXXX), through unaffiliated and affiliated reinsurance transactions. Effective July 1, 2016, one of the U.S. Life and Retirement companies entered into an agreement to cede approximately $5 billion of statutory reserves for certain whole life and universal life policies to an unaffiliated reinsurer. Effective December 31, 2016, the same life insurance subsidiary recaptured term and universal life reserves subject to Regulation XXX and Guideline AXXX, previously ceded to an affiliate, and ceded approximately $14 billion of such statutory reserves to an unaffiliated reinsurer under an amendment to the December 31, 2016 agreement. Under U.S. GAAP, these unaffiliated reinsurance transactions use deposit accounting with a reinsurance risk charge recorded in income, whereas such affiliated transactions are eliminated in consolidation. Under one affiliated reinsurance arrangement, one of the U.S. Life and Retirement companies obtains letters of credit to support statutory recognition of the ceded reinsurance. As of December 31, 2020, this subsidiary had a bilateral letter of credit totaling $250 million, which was issued on February 7, 2014 and expires on February 7, 2024. The letter of credit is subject to reimbursement by AIG Parent in the event of a drawdown.

In addition, a domestic life insurance subsidiary domiciled in Texas further manages the capital impact of statutory reserve requirements related to fixed index annuities with guaranteed living benefits through two unaffiliated excess of loss reinsurance agreements effective December 31, 2019 and 2020, respectively. Pursuant to a permitted statutory accounting practice, the subsidiary recognizes an admitted asset of approximately $0.6 billion related to the notional value of coverage defined in the excess of loss reinsurance agreements, net of specified amounts. Under U.S. GAAP, an asset will only be recognized if claims accumulate in an amount in excess of the attachment point specified in the agreements.

For additional information on the use of affiliated reinsurance for Regulation XXX and Guideline AXXX reserves see Note 19.

SALE OF FORTITUDE HOLDINGS

On June 2, 2020, we completed the Majority Interest Fortitude Sale. AIG established Fortitude Re, a wholly-owned subsidiary of Fortitude Holdings, in 2018 in a series of reinsurance transactions related to AIG's Run-Off operations. As of December 31, 2020, approximately $30.5 billion of reserves from AIG's Life and Retirement Run-Off Lines and approximately $4.1 billion of reserves from AIG's General Insurance Run-Off Lines, related to business written by multiple wholly-owned AIG subsidiaries, had been ceded to Fortitude Re under these reinsurance transactions. As of closing of the Majority Interest Fortitude Sale, these reinsurance transactions are no longer considered affiliated transactions and Fortitude Re is the reinsurer of the majority of AIG's Run-Off operations.

These reinsurance transactions between AIG and Fortitude Re were structured as modco and loss portfolio transfer arrangements with funds withheld (funds withheld). In modco and funds withheld arrangements, the investments supporting the reinsurance agreements, and which reflect the majority of the consideration that would be paid to the reinsurer for entering into the transaction, are withheld by, and therefore continue to reside on the balance sheet of, the ceding company (i.e., AIG) thereby creating an obligation for the ceding company to pay the reinsurer (i.e., Fortitude Re) at a later date. Additionally, as AIG maintains ownership of these investments, AIG will maintain its existing accounting for these assets (e.g., the changes in fair value of available for sale securities will be recognized within other comprehensive income). As a result of the deconsolidation resulting from the Majority Interest Fortitude Sale, AIG has established a funds withheld payable to Fortitude Re while simultaneously establishing a reinsurance asset representing reserves for the insurance coverage that Fortitude Re has assumed. The funds withheld payable contains an embedded derivative and changes in fair value of the embedded derivative related to the funds withheld payable are recognized in earnings through realized capital gains (losses). This embedded derivative is considered a total return swap with contractual returns that are attributable to various assets and liabilities associated with these reinsurance agreements.

There is a diverse pool of assets supporting the funds withheld arrangements with Fortitude Re. The following summarizes the composition of the pool of assets as of December 31, 2020:

December 31, 2020 *(in millions)*	Carrying Value	Fair Value	Corresponding Accounting Policy
Fixed maturity securities - available for sale[(a)]	$ 36,047	$ 36,047	Fair value through other comprehensive income
Fixed maturity securities - fair value option	200	200	Fair value through net investment income
Commercial mortgage loans	3,679	4,010	Amortized cost
Real estate investments	358	585	Amortized cost
Private equity funds / hedge funds	1,168	1,168	Fair value through net investment income
Policy loans	413	413	Amortized cost
Short-term Investments	34	34	Fair value through net investment income
Funds withheld investment assets	41,899	42,457	
Derivative assets, net[(b)]	(1)	(1)	Fair value through realized capital gains (losses)
Other[(c)]	604	604	Amortized cost
Total	$ 42,502	$ 43,060	

(a) The change in the net unrealized gains (losses) on available for sale securities related to the Fortitude Re funds withheld assets was $1.0 billion ($812 million after-tax) during the post deconsolidation period (June 2, 2020-December 31, 2020).

(b) The derivative assets have been presented net of collateral. The derivative assets supporting the Fortitude Re funds withheld arrangements had a fair market value of $357 million as of December 31, 2020. These derivative assets are fully collateralized.

(c) Primarily comprised of Cash and Accrued investment income.

The impact of the funds withheld arrangements with Fortitude Re for the period post June 2, 2020 deconsolidation was as follows:

(in millions)	Twelve Months Ended December 31, 2020
Net underwriting income	$ -
Net investment income - Fortitude Re funds withheld assets	1,053
Net realized capital losses on Fortitude Re funds withheld assets:	
Net realized capital gains - Fortitude Re funds withheld assets	463
Net realized capital losses - Fortitude Re embedded derivatives	(2,645)
Net realized capital losses on Fortitude Re funds withheld assets	(2,182)
Loss from continuing operations before income tax benefit	**(1,129)**
Income tax benefit[(a)]	(237)
Net loss	**(892)**
Change in unrealized appreciation of all other investments[(a)]	812
Comprehensive loss	**$ (80)**

(a) The income tax expense (benefit) and the tax impact in accumulated other comprehensive income was computed using AIG's U.S. statutory tax rate of 21 percent.

Various assets supporting the Fortitude Re funds withheld arrangements are reported at amortized cost, and as such, changes in the fair value of these assets are not reflected in the financial statements. However, changes in the fair value of these assets are included in the embedded derivative in the Fortitude Re funds withheld arrangement and the appreciation of these assets is the primary driver of the comprehensive loss reflected above.

REINSURANCE SECURITY

Our third-party reinsurance arrangements do not relieve us from our direct obligations to our beneficiaries. Thus, a credit exposure exists with respect to both short-duration and long-duration reinsurance ceded to the extent that any reinsurer fails to meet the obligations assumed under any reinsurance agreement. We hold substantial collateral as security under related reinsurance agreements in the form of funds, securities, and/or letters of credit. A provision has been recorded for estimated unrecoverable reinsurance. In light of collateral held, we believe that no exposure to a single reinsurer represents an inappropriate concentration of credit risk to AIG. Gross reinsurance assets due from reinsurers exceeding 5 percent of our total reinsurance assets were approximately $54.0 billion and $19.0 billion at December 31, 2020 and 2019, respectively, of which approximately $2.6 billion and $2.8 billion at December 31, 2020 and 2019, respectively, was not secured by collateral.

REINSURANCE – CREDIT LOSSES

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

We assess the collectability of reinsurance recoverable balances in each reporting period, through either historical trends of disputes and credit events or financial analysis of the credit quality of the reinsurer. We record adjustments to reflect the results of these assessments through an allowance for credit losses and disputes on uncollectable reinsurance that reduces the carrying amount of reinsurance and other assets on the consolidated balance sheets (collectively, the reinsurance recoverable balances). This estimate requires significant judgment for which key considerations include:

- paid and unpaid amounts recoverable;
- whether the balance is in dispute or subject to legal collection;
- the relative financial health of the reinsurer as determined by the Obligor Risk Ratings (ORRs) we assign to each reinsurer based upon our financial reviews; insurers that are financially troubled (i.e., in run-off, have voluntarily or involuntarily been placed in receivership, are insolvent, are in the process of liquidation or otherwise subject to formal or informal regulatory restriction) are assigned ORRs that will generate a significant allowance; and
- whether collateral and collateral arrangements exist.

An estimate of the reinsurance recoverable's lifetime expected credit losses is established utilizing a probability of default and loss given default method, which reflects the reinsurer's ORR rating. The allowance for credit losses excludes disputed amounts. An allowance for disputes is established for a reinsurance recoverable using the losses incurred model for contingencies.

The total reinsurance recoverables as of December 31, 2020 were $75.8 billion. As of that date, utilizing AIG's ORRs, (i) approximately 92 percent of the reinsurance recoverables were investment grade, of which 52 percent related to General Insurance and 40 percent related to Life and Retirement; (ii) approximately 7 percent of the reinsurance recoverables were non-investment grade, the majority of which related to General Insurance; (iii) less than one percent of the non-investment grade reinsurance recoverables related to Life and Retirement and (iv) approximately one percent of the reinsurance recoverables related to entities that were not rated by AIG.

As of December 31, 2020, approximately 64 percent of our non-investment grade reinsurance exposure related to captive insurers. These arrangements are typically collateralized by letters of credit, funds withheld or trust agreements.

Reinsurance Recoverable Allowance

The following table presents a rollforward of the reinsurance recoverable allowance:

Year Ended December 31, 2020 *(in millions)*	General Insurance	Life and Retirement	Total
Balance, beginning of period	$ 111	$ 40	**$ 151**
Initial allowance upon CECL adoption	202	22	**224**
Current period provision for expected credit losses and disputes	(12)	21	**9**
Write-offs charged against the allowance for credit losses and disputes	(9)	-	**(9)**
Balance, end of year	$ 292	$ 83	**$ 375**

There were no material recoveries of credit losses previously written off for the year ended December 31, 2020.

Past-Due Status

We consider a reinsurance asset to be past due when it is 90 days past due. The allowance for credit losses is estimated excluding disputed amounts. An allowance for disputes is established using the losses incurred method for contingencies. Past due balances on claims that are not in dispute were not material for any of the periods presented.

9. Deferred Policy Acquisition Costs

Deferred policy acquisition costs (DAC) represent those costs that are incremental and directly related to the successful acquisition of new or renewal of existing insurance contracts. We defer incremental costs that result directly from, and are essential to, the acquisition or renewal of an insurance contract. Such deferred policy acquisition costs generally include agent or broker commissions and bonuses, premium taxes, and medical and inspection fees that would not have been incurred if the insurance contract had not been acquired or renewed. Each cost is analyzed to assess whether it is fully deferrable. We partially defer costs, including certain commissions, when we do not believe that the entire cost is directly related to the acquisition or renewal of insurance contracts.

We also defer a portion of employee total compensation and payroll-related fringe benefits directly related to time spent performing specific acquisition or renewal activities, including costs associated with the time spent on underwriting, policy issuance and processing, and sales force contract selling. The amounts deferred are derived based on successful efforts for each distribution channel and/or cost center from which the cost originates.

Short-duration insurance contracts: Policy acquisition costs are deferred and amortized over the period in which the related premiums written are earned, generally 12 months. DAC is grouped consistent with the manner in which the insurance contracts are acquired, serviced and measured for profitability and is reviewed for recoverability based on the profitability of the underlying insurance contracts. Investment income is anticipated in assessing the recoverability of DAC. We assess the recoverability of DAC on an annual basis or more frequently if circumstances indicate an impairment may have occurred. This assessment is performed by comparing recorded net unearned premiums and anticipated investment income on in-force business to the sum of expected losses and loss adjustment expenses incurred, unamortized DAC and maintenance costs. If the sum of these costs exceeds the amount of recorded net unearned premiums and anticipated investment income, the excess is recognized as an offset against the asset established for DAC. This offset is referred to as a premium deficiency charge. Increases in expected losses and loss adjustment expenses incurred can have a significant impact on the likelihood and amount of a premium deficiency charge.

Long-duration insurance contracts: Policy acquisition costs for participating life, traditional life and accident and health insurance products are generally deferred and amortized, with interest, over the premium paying period. The assumptions used to calculate the benefit liabilities and DAC for these traditional products are set when a policy is issued and do not change with changes in actual experience, unless a loss recognition event occurs. These “locked-in” assumptions include mortality, morbidity, persistency, maintenance expenses and investment returns, and include margins for adverse deviation to reflect uncertainty given that actual experience might deviate from these assumptions. A loss recognition event occurs when there is a shortfall between the carrying amount of future policy benefit liabilities, net of DAC, and what the future policy benefit liabilities, net of DAC, would be when applying updated current assumptions. When we determine a loss recognition event has occurred, we first reduce any DAC related to that block of business through amortization of acquisition expense, and after DAC is depleted, we record additional liabilities through a charge to Policyholder benefits and losses incurred. Groupings for loss recognition testing are consistent with our manner of acquiring, servicing and measuring the profitability of the business and applied by product groupings. We perform separate loss recognition tests for traditional life products, payout annuities and long-term care products. Once loss recognition has been recorded for a block of business, the old assumption set is replaced and the assumption set used for the loss recognition would then be subject to the lock-in principle.

Investment-oriented contracts: Certain policy acquisition costs and policy issuance costs related to universal life and investment-type products (collectively, investment-oriented products) are deferred and amortized, with interest, in relation to the incidence of estimated gross profits to be realized over the estimated lives of the contracts. DAC on investment-oriented contracts were approximately $5.1 billion and $6.1 billion at December 31, 2020 and 2019, respectively. Estimated gross profits are affected by a number of factors, including levels of current and expected interest rates, net investment income and spreads, net realized capital gains and losses, fees, surrender rates, mortality experience, policyholder behavior experience and equity market returns and volatility. In each reporting period, current period amortization expense is adjusted to reflect actual gross profits. If the assumptions used for estimating gross profit change significantly, DAC is recalculated using the new assumptions, including actuarial assumptions such as mortality, lapse, benefit utilization, and premium persistency, and any resulting adjustment is included in income. If the new assumptions indicate that future estimated gross profits are higher than previously estimated, DAC will be increased resulting in a decrease in amortization expense and increase in income in the current period; if future estimated gross profits are lower than previously estimated, DAC will be decreased resulting in an increase in amortization expense and decrease in income in the current period. Updating such assumptions may result in acceleration of amortization in some products and deceleration of amortization in other products. DAC is grouped consistent with the manner in which the insurance contracts are acquired, serviced and measured for profitability and is reviewed for recoverability based on the current and projected future profitability of the underlying insurance contracts.

To estimate future estimated gross profits for variable annuity products, a long-term annual asset growth assumption is applied to determine the future growth in assets and related asset-based fees. In determining the asset growth rate, the effect of short-term fluctuations in the equity markets is partially mitigated through the use of a “reversion to the mean” methodology whereby short-term asset growth above or below long-term annual rate assumptions impacts the growth assumption applied to the five-year period subsequent to the current balance sheet date. The reversion to the mean methodology allows us to maintain our long-term growth assumptions, while also giving consideration to the effect of actual investment performance. When actual performance significantly deviates from the annual long-term growth assumption, as evidenced by growth assumptions in the five-year reversion to the mean period falling below a certain rate (floor) or rising above a certain rate (cap) for a sustained period, judgment may be applied to revise or “unlock” the growth rate assumptions to be used for both the five-year reversion to the mean period as well as the long-term annual growth assumption applied to subsequent periods.

Shadow DAC and Shadow Loss Recognition: DAC related to investment-oriented products is also adjusted to reflect the effect of unrealized gains or losses on fixed maturity securities available for sale, with related changes recognized through Other comprehensive income (shadow DAC). The adjustment is made at each balance sheet date, as if the securities had been sold at their stated aggregate fair value and the proceeds reinvested at current yields. Similarly, for long-duration traditional insurance contracts, if the assets supporting the liabilities are in a net unrealized gain position at the balance sheet date, loss recognition testing assumptions are updated to exclude such gains from future cash flows by reflecting the impact of reinvestment rates on future yields. If a future loss is anticipated under this basis, any additional shortfall indicated by loss recognition tests is recognized as a reduction in accumulated other comprehensive income (shadow loss recognition). Similar to other loss recognition on long-duration insurance contracts, such shortfall is first reflected as a reduction in DAC and secondly as an increase in liabilities for future policy benefits. The change in these adjustments, net of tax, is included with the change in net unrealized appreciation of investments that is credited or charged directly to Other comprehensive income.

Internal Replacements of Long-duration and Investment-oriented Products: For some products, policyholders can elect to modify product benefits, features, rights or coverages by exchanging a contract for a new contract or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. These transactions are known as internal replacements. If the modification does not substantially change the contract, we do not change the accounting and amortization of existing DAC and related actuarial balances. If an internal replacement represents a substantial change, the original contract is considered to be extinguished and any related DAC or other policy balances are charged or credited to income, and any new deferrable costs associated with the replacement contract are deferred.

Value of Business Acquired (VOBA) is determined at the time of acquisition and is reported in the Consolidated Balance Sheets with DAC. This value is based on the present value of future pre-tax profits discounted at yields applicable at the time of purchase. For participating life, traditional life and accident and health insurance products, VOBA is amortized over the life of the business in a manner similar to that for DAC based on the assumptions at purchase. For investment-oriented products, VOBA is amortized in relation to estimated gross profits and adjusted for the effect of unrealized gains or losses on fixed maturity securities available for sale and prior to 2018, equity securities at fair value in a manner similar to DAC.

The following table presents a rollforward of DAC and VOBA:

Years Ended December 31, *(in millions)*	2020	2019	2018
Balance, beginning of year	**$ 11,207**	$ 12,694	$ 10,994
Acquisitions	**-**	-	298
Dispositions	**(467)**	-	-
Acquisition costs deferred	**4,292**	5,403	5,832
Amortization expense	**(4,211)**	(5,164)	(5,386)
Change related to unrealized appreciation (depreciation) of investments	**(1,096)**	(1,768)	1,063
Other, including foreign exchange	**80**	42	(107)
Balance, end of year[(a)]	**$ 9,805**	$ 11,207	$ 12,694
Supplemental Information:			
VOBA amortization expense included in DAC amortization[(b)]	**$ 192**	$ 171	$ 243
VOBA, end of year included in DAC balance[(c)]	**126**	317	438

(a) Net of reductions in DAC of $1.0 billion, $1.8 billion and $1.0 billion at December 31, 2020, 2019 and 2018, respectively, related to shadow DAC.

(b) In connection with the Majority Interest Fortitude Sale, and the subsequent deconsolidation of Fortitude Re, AIG wrote off $169 million of VOBA.

(c) Includes $101 million of VOBA from the acquisition of Validus in 2018, the majority of which was amortized in 2019 with the remainder fully amortized in 2020.

The percentage of the unamortized balance of VOBA at December 31, 2020 expected to be amortized in 2021 through 2025 by year is: 11.2 percent, 10.4 percent, 10.4 percent, 8.8 percent and 8.8 percent, respectively, with 50.4 percent being amortized after five years. These projections are based on current estimates for investment income and spreads, persistency, mortality and morbidity assumptions.

DAC, VOBA and SIA for insurance-oriented and investment-oriented products are reviewed for recoverability, which involves estimating the future profitability of current business. This review involves significant management judgment. If actual profitability is substantially lower than estimated, AIG's DAC, VOBA and SIA may be subject to an impairment charge and AIG's results of operations could be significantly affected in the period the impairment charge is recognized and in future periods. VOBA is reported with the DAC balance and SIAs are included in Other assets.

10. Variable Interest Entities

A variable interest entity (VIE) is a legal entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support or is structured such that equity investors lack the ability to make significant decisions relating to the entity's operations through voting rights or do not substantively participate in the gains and losses of the entity. Consolidation of a VIE by its primary beneficiary is not based on majority voting interest, but is based on other criteria discussed below.

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

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

BALANCE SHEET CLASSIFICATION AND EXPOSURE TO LOSS

Creditors or beneficial interest holders of VIEs for which the Company is the primary beneficiary generally have recourse only to the assets and cash flows of the VIEs and do not have recourse to the Company, except in limited circumstances when the Company has provided a guarantee to the VIE's interest holders. The following table presents the total assets and total liabilities associated with our variable interests in consolidated VIEs, as classified in the Consolidated Balance Sheets:

(in millions)	Real Estate and Investment Entities[(d)]	Securitization Vehicles[(e)]	Affordable Housing Partnerships	Other	Total
December 31, 2020					
Assets:					
Bonds available for sale	**$ -**	**$ 6,089**	**$ -**	**$ -**	**$ 6,089**
Other bond securities	**-**	**2,367**	**-**	**-**	**2,367**
Equity securities	**507**	**-**	**-**	**-**	**507**
Mortgage and other loans receivable	**-**	**3,135**	**-**	**-**	**3,135**
Other invested assets					
Alternative investments[(a)]	**2,689**	**-**	**-**	**-**	**2,689**
Investment Real Estate	**3,378**	**-**	**3,558**	**-**	**6,936**
Short-term investments	**365**	**1,534**	**-**	**27**	**1,926**
Accrued investment income	**-**	**38**	**-**	**-**	**38**
Cash	**129**	**-**	**203**	**-**	**332**
Other assets	**166**	**120**	**243**	**-**	**529**
Other	**3**	**-**	**-**	**2**	**5**
Total assets[(b)]	**$ 7,237**	**$ 13,283**	**$ 4,004**	**$ 29**	**$ 24,553**
Liabilities:					
Debt of consolidated investment entities	**$ 2,559**	**$ 3,961**	**$ 2,287**	**$ 2**	**$ 8,809**
Other[(c)]	**180**	**187**	**187**	**10**	**564**
Total liabilities	**$ 2,739**	**$ 4,148**	**$ 2,474**	**$ 12**	**$ 9,373**
December 31, 2019					
Assets:					
Bonds available for sale	$ -	$ 7,416	$ -	$ -	$ 7,416
Other bond securities	-	3,324	-	1	3,325
Mortgage and other loans receivable	-	3,860	-	-	3,860
Other invested assets					
Alternative investments[(a)]	1,436	-	-	17	1,453
Investment Real Estate	3,795	-	3,464	25	7,284
Short-term investments	315	1,861	-	26	2,202
Accrued investment income	-	83	-		83
Cash	132	-	234	7	373
Other assets	161	56	235	2	454
Other	3	-	-	7	10
Total assets[(b)]	$ 5,842	$ 16,600	$ 3,933	$ 85	$ 26,460
Liabilities:					
Debt of consolidated investment entities	$ 2,691	$ 4,475	$ 2,074	$ 4	$ 9,244
Other[(c)]	216	379	195	24	814
Total liabilities	$ 2,907	$ 4,854	$ 2,269	$ 28	$ 10,058

(a) Comprised primarily of investments in real estate joint ventures at December 31, 2020 and 2019.

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

(c) Comprised primarily of Other liabilities at December 31, 2020 and 2019.

(d) At December 31, 2020 and 2019, off-balance sheet exposure primarily consisting of commitments to real estate and investment entities was $1.8 billion and $2.6 billion, respectively.

(e) At December 31, 2020 and 2019, the company had contributed total assets of $12.5 billion and $15.6 billion, respectively, into consolidated securitization vehicles.

We calculate our maximum exposure to loss to be (i) the amount invested in the debt or equity of the VIE, (ii) the notional amount of VIE assets or liabilities where we have also provided credit protection to the VIE with the VIE as the referenced obligation, and (iii) other commitments and guarantees to the VIE.

Under the terms of six transactions entered into between 2012 and 2014 securitizing portfolios of certain debt securities previously owned by AIG and its affiliates, an indirectly wholly-owned subsidiary of AIG is obligated to make certain capital contributions to such a securitization VIE in the event that the VIE is unable to redeem any rated notes it has in issue on the relevant redemption date. AIG has provided a guarantee to the six securitization VIEs of the obligations of its indirectly wholly-owned subsidiary to make such capital contributions when due. At December 31, 2020, in aggregate, $175 million of rated notes issued by such VIEs were outstanding and held by investors other than AIG and its consolidated affiliates.

SunAmerica Affordable Housing Partners, Inc. (SAAHP) provides a Base Internal Rate of Return (IRR) guarantee to its third party investors, so that on a specified date if the Investor has not received distributions of cash and allocations of certain tax benefits required to achieve their Base IRR as provided for in the Partnership Agreement, SAAHP shall distribute cash to effectively generate the Base IRR to the investor. In addition, SAAHP has from time to time guaranteed certain debt issued by third parties related to its business activities. As of December 31, 2020, the off balance sheet amount of that guarantee was approximately $4 million.

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

		Maximum Exposure to Loss		
(in millions)	Total VIE Assets	On-Balance Sheet[(b)]	Off-Balance Sheet	Total
December 31, 2020				
Real estate and investment entities[(a)]	**$ 321,716**	**$ 6,420**	**$ 3,273** [(c)]	**$ 9,693**
Affordable housing partnerships	**2,801**	**368**	**4**	**372**
Other	**1,733**	**195**	**546** [(d)]	**741**
Total	**$ 326,250**	**$ 6,983**	**$ 3,823**	**$ 10,806**
December 31, 2019				
Real estate and investment entities[(a)]	$ 283,349	$ 6,519	$ 3,286 [(c)]	$ 9,805
Affordable housing partnerships	3,351	453	-	453
Other	5,320	310	561 [(d)]	871
Total	$ 292,020	$ 7,282	$ 3,847	$ 11,129

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

(b) At December 31, 2020 and 2019, $6.8 billion and $7.0 billion, respectively, of our total unconsolidated VIE assets were recorded as Other invested assets.

(c) These amounts represent our unfunded commitments to invest in private equity funds and hedge funds.

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

REAL ESTATE AND INVESTMENT ENTITIES

Through our insurance operations and AIG Global Real Estate Investment Corp., we are an investor in various real estate investment entities, some of which are VIEs. These investments are typically with unaffiliated third-party developers via a partnership or limited liability company structure. The VIEs' activities consist of the development or redevelopment of commercial, industrial and residential real estate. Our involvement varies from being a passive equity investor or finance provider to actively managing the activities of the VIEs.

Our insurance operations participate as passive investors in the equity issued by certain third-party-managed hedge and private equity funds that are VIEs. Our insurance operations typically are not involved in the design or establishment of these VIEs, nor do they actively participate in the management of the VIEs.

SECURITIZATION VEHICLES

We created certain VIEs that hold investments, primarily in investment-grade debt securities and loans, and issued beneficial interests in these investments. Some of these VIEs were created to facilitate our purchase of asset-backed securities. In these situations, all of the beneficial interests are owned by our insurance operations and are consolidated by AIG. In other instances, we have created VIEs that are securitizations of residential mortgage loans or other forms of collateralized loan obligations. Our insurance subsidiaries own some of the beneficial interests, and we maintain the power to direct the activities of the VIEs that most significantly impact their economic performance. Accordingly, we consolidate these entities and those beneficial interests issued to third parties are reported as debt of consolidated investment entities. This debt is non-recourse to AIG.

AFFORDABLE HOUSING PARTNERSHIPS

SAAHP organized and invested in limited partnerships that develop and operate affordable housing qualifying for federal, state, and historic tax credits, in addition to a few market rate properties across the United States. The operating partnerships are VIEs, whose debt is generally non-recourse in nature, and the general partners of which are mostly unaffiliated third-party developers. We account for our investments in operating partnerships using the equity method of accounting, unless they are required to be consolidated. We consolidate an operating partnership if the general partner is an affiliated entity or we otherwise have the power to direct activities that most significantly impact the entities' economic performance. The pre-tax income of SAAHP is reported as a component of the Life and Retirement segment.

RMBS, CMBS, OTHER ABS AND CDOS

Primarily through our insurance operations, we are a passive investor in RMBS, CMBS, other ABS and CDOs, the majority of which are issued by domestic special purpose entities. We generally do not sponsor or transfer assets to, or act as the servicer to these asset-backed structures, and were not involved in the design of these entities.

Our maximum exposure in these types of structures is limited to our investment in securities issued by these entities. Based on the nature of our investments and our passive involvement in these types of structures, we have determined that we are not the primary beneficiary of these entities. We have not included these entities in the above tables; however, the fair values of our investments in these structures are reported in Notes 5 and 6 herein.

11. Derivatives and Hedge Accounting

We use derivatives and other financial instruments as part of our financial risk management programs and as part of our investment operations. Interest rate derivatives (such as interest rate swaps) are used to manage interest rate risk associated with embedded derivatives contained in insurance contract liabilities, fixed maturity securities, outstanding medium- and long-term notes as well as other interest rate sensitive assets and liabilities. Foreign exchange derivatives (principally foreign exchange forwards and swaps) are used to economically mitigate risk associated with non-U.S. dollar denominated debt, net capital exposures, foreign currency transactions, and foreign denominated investments. Equity derivatives are used to mitigate financial risk embedded in certain insurance liabilities and economically hedge certain investments. We use credit derivatives to manage our credit exposures. The derivatives are effective economic hedges of the exposures that they are meant to offset. In addition to hedging activities, we also enter into derivative instruments with respect to investment operations, which may include, among other things, credit default swaps (CDSs), total return swaps and purchases of investments with embedded derivatives, such as equity-linked notes and convertible bonds.

Interest rate, currency, equity and commodity swaps, credit contracts, swaptions, options and forward transactions are accounted for as derivatives, recorded on a trade-date basis and carried at fair value. Unrealized gains and losses are reflected in income, when appropriate. Aggregate asset or liability positions are netted on the Consolidated Balance Sheets only to the extent permitted by qualifying master netting arrangements in place with each respective counterparty. Cash collateral posted with counterparties in conjunction with transactions supported by qualifying master netting arrangements is reported as a reduction of the corresponding net derivative liability, while cash collateral received in conjunction with transactions supported by qualifying master netting arrangements is reported as a reduction of the corresponding net derivative asset.

Derivatives, with the exception of embedded derivatives, are reported at fair value in the Consolidated Balance Sheets in Other assets and Other liabilities. Embedded derivatives are generally presented with the host contract in the Consolidated Balance Sheets. A bifurcated embedded derivative is measured at fair value and accounted for in the same manner as a free standing derivative contract. The corresponding host contract is accounted for according to the accounting guidance applicable for that instrument.

For additional information on embedded derivatives see Notes 5 and 14.

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

	December 31, 2020				December 31, 2019			
	Gross Derivative Assets		Gross Derivative Liabilities		Gross Derivative Assets		Gross Derivative Liabilities	
(in millions)	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
Derivatives designated as hedging instruments:[(a)]								
Interest rate contracts	$ 815	$ 16	$ 356	$ 11	$ 495	$ 3	$ 410	$ 7
Foreign exchange contracts	3,468	256	7,424	379	4,328	342	5,230	162
Derivatives not designated as hedging instruments:[(a)]								
Interest rate contracts	62,259	4,621	48,732	4,425	52,437	3,197	35,231	2,742
Foreign exchange contracts	9,518	766	12,860	711	8,133	698	12,093	863
Equity contracts	22,924	1,130	7,076	223	18,533	769	7,539	139
Credit contracts[(b)]	5,797	2	969	67	8,457	3	923	89
Other contracts[(c)]	43,441	14	54	6	40,582	14	56	7
Total derivatives, gross	$ 148,222	$ 6,805	$ 77,471	$ 5,822	$ 132,965	$ 5,026	$ 61,482	$ 4,009
Counterparty netting[(d)]		(3,812)		(3,812)		(2,427)		(2,427)
Cash collateral[(e)]		(2,219)		(1,441)		(1,806)		(527)
Total derivatives on consolidated balance sheets[(f)]		$ 774		$ 569		$ 793		$ 1,055

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

(b) As of December 31, 2020 and 2019, included CDSs on super senior multi-sector CDOs with a net notional amount of $137 million and $152 million (fair value liability of $44 million and $48 million), respectively. The net notional amount represents the maximum exposure to loss on the portfolio.

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

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

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

(f) Freestanding derivatives only, excludes embedded derivatives. Derivative instrument assets and liabilities are recorded in Other assets and Other liabilities, respectively. Fair value of assets related to bifurcated embedded derivatives was zero at both December 31, 2020 and December 31, 2019. Fair value of liabilities related to bifurcated embedded derivatives was $15.8 billion and $6.9 billion, respectively, at December 31, 2020 and December 31, 2019. A bifurcated embedded derivative is generally presented with the host contract in the Consolidated Balance Sheets. Embedded derivatives are primarily related to guarantee features in variable annuity products, which include equity and interest rate components, and the funds withheld arrangement with Fortitude Re. *For additional information see Note 8 to the Consolidated Financial Statements*.

COLLATERAL

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

Collateral posted by us to third parties for derivative transactions was $3.0 billion and $2.2 billion at December 31, 2020 and 2019, respectively. In the case of collateral posted under derivative transactions that are not subject to clearing, this collateral can generally be repledged or resold by the counterparties. Collateral provided to us from third parties for derivative transactions was $2.3 billion and $2.2 billion at December 31, 2020 and 2019, respectively. In the case of collateral provided to us under derivative transactions that are not subject to clearing, we generally can repledge or resell collateral.

OFFSETTING

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

HEDGE ACCOUNTING

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

We use foreign currency denominated debt and cross-currency swaps as hedging instruments in net investment hedge relationships to mitigate the foreign exchange risk associated with our non-U.S. dollar functional currency foreign subsidiaries. For net investment hedge relationships where issued debt is used as a hedging instrument, we assess the hedge effectiveness and measure the amount of ineffectiveness based on changes in spot rates. For net investment hedge relationships that use derivatives as hedging instruments, we assess hedge effectiveness and measure hedge ineffectiveness using changes in forward rates. For the years ended December 31, 2020, 2019 and 2018, we recognized gains (losses) of $(128) million, $116 million and $34 million, respectively, included in Change in foreign currency translation adjustment in Other comprehensive income related to the net investment hedge relationships.

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

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

	Gains/(Losses) Recognized in Earnings for:			
(in millions)	Hedging Derivatives[(a)]	Excluded Components[(b)]	Hedged Items	Net Impact
Year ended December 31, 2020				
Interest rate contracts:				
Realized capital gains/(losses)	**$ -**	**$ -**	**$ -**	**$ -**
Interest credited to policyholder account balances	**14**	**-**	**(14)**	**-**
Net investment income	**(6)**	**-**	**5**	**(1)**
Foreign exchange contracts:				
Realized capital gains/(losses)	**(422)**	**49**	**422**	**49**
Year ended December 31, 2019				
Interest rate contracts:				
Realized capital gains/(losses)	$ -	$ -	$ -	$ -
Interest credited to policyholder account balances	16	-	(16)	-
Net investment income	(1)	-	1	-
Foreign exchange contracts:				
Realized capital gains/(losses)	(31)	91	31	91
Year ended December 31, 2018				
Interest rate contracts:				
Realized capital gains/(losses)	$ (2)	$ -	$ 2	$ -
Interest credited to policyholder account balances	-	-	-	-
Net investment income	-	-	-	-
Foreign exchange contracts:				
Realized capital gains/(losses)	365	106	(365)	106

(a) Gains and losses on derivative instruments designated and qualifying in fair value hedges that are included in the assessment of hedge effectiveness.

(b) Gains and losses on derivative instruments designated and qualifying in fair value hedges that are excluded from the assessment of hedge effectiveness and recognized in earnings on a mark-to-market basis.

DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS

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

Years Ended December 31,	Gains (Losses) Recognized in Earnings		
(in millions)	**2020**	2019	2018
By Derivative Type:			
Interest rate contracts	**$ 1,451**	$ 1,319	$ (509)
Foreign exchange contracts	**(389)**	(25)	543
Equity contracts	**211**	(316)	(56)
Credit contracts	**52**	61	32
Other contracts	**61**	64	65
Embedded derivatives	**(4,722)**	(1,464)	629
Total	**$ (3,336)**	$ (361)	$ 704
By Classification:			
Policy fees	**$ 62**	$ 68	$ 67
Net investment income	**(8)**	(125)	(3)
Net realized capital gains (losses) - excluding Fortitude Re funds withheld assets	**(508)**	(316)	642
Net realized capital gains (losses) on Fortitude Re funds withheld assets	**(2,894)**	-	-
Policyholder benefits and claims incurred	**12**	12	(2)
Total	**$ (3,336)**	$ (361)	$ 704

CREDIT RISK-RELATED CONTINGENT FEATURES

We estimate that at December 31, 2020, based on our outstanding financial derivative transactions, a downgrade of our long-term senior debt ratings to BBB or BBB– by Standard & Poor's Financial Services LLC, a subsidiary of S&P Global Inc., and/or a downgrade to Baa2 or Baa3 by Moody's Investors' Service, Inc. would permit counterparties to make additional collateral calls and permit certain counterparties to elect early termination of contracts, resulting in corresponding collateral postings and termination payments in the total amount of up to approximately $47 million. The aggregate fair value of our derivatives that were in a net liability position and that contain such credit risk-related contingencies which can be triggered below our long-term senior debt ratings of BBB+ or Baa1 was approximately $257 million and $336 million at December 31, 2020 and 2019, respectively. The aggregate fair value of assets posted as collateral under these contracts at December 31, 2020 and 2019, was approximately $306 million and $381 million, respectively.

HYBRID SECURITIES WITH EMBEDDED CREDIT DERIVATIVES

We invest in hybrid securities (such as credit-linked notes) with the intent of generating income, and not specifically to acquire exposure to embedded derivative risk. As is the case with our other investments in RMBS, CMBS, CDOs and ABS, our investments in these hybrid securities are exposed to losses only up to the amount of our initial investment in the hybrid security. Other than our initial investment in the hybrid securities, we have no further obligation to make payments on the embedded credit derivatives in the related hybrid securities.

We elect to account for our investments in these hybrid securities with embedded written credit derivatives at fair value, with changes in fair value recognized in Net investment income and Other income. Our investments in these hybrid securities are reported as Other bond securities in the Consolidated Balance Sheets. The fair values of these hybrid securities were $2.4 billion and $3.3 billion at December 31, 2020 and 2019, respectively. These securities have par amounts of $5.0 billion and $7.4 billion at December 31, 2020 and 2019, respectively, and have remaining stated maturity dates that extend to 2052.

12. Goodwill and Other Intangible Assets

Goodwill represents the future economic benefits arising from assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is tested for impairment annually or more frequently if circumstances indicate an impairment may have occurred. At December 31, 2020, as a result of the 2020 segment changes, goodwill is reported within our General Insurance business – North America and International operating segments, our Life and Retirement business – Life Insurance operating segment and our Other Operations segment. When a business is transferred from one reporting unit to another, as occurred as part of the 2020 segment changes, goodwill from the original operating segment is allocated among reporting units based on the fair value of business transferred, relative to business retained by a reporting unit.

The impairment assessment involves an option to first assess qualitative factors to determine whether events or circumstances exist that lead to a determination that it is more likely than not that the fair value of an operating segment is less than its carrying amount. If the qualitative assessment is not performed, or after assessing the totality of the events or circumstances, we determine it is more likely than not that the fair value of an operating segment is less than its carrying amount, a quantitative assessment for potential impairment is performed.

If the qualitative test is not performed or if the test indicates a potential impairment is present, we estimate the fair value of each operating segment and compare the estimated fair value with the carrying amount of the operating segment, including allocated goodwill. The estimate of an operating segment's fair value involves management judgment and is based on one or a combination of approaches including discounted expected future cash flows, market-based earnings multiples of the unit's peer companies, external appraisals or, in the case of reporting units being considered for sale, third-party indications of fair value, if available. We consider one or more of these estimates when determining the fair value of an operating segment to be used in the impairment test.

If the estimated fair value of an operating segment exceeds its carrying amount, goodwill is not impaired. If the carrying value of an operating segment exceeds its estimated fair value, goodwill associated with that operating segment potentially is impaired. The amount of impairment, if any, is measured as 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 and recognized in earnings.

The date of our annual goodwill Impairment testing is July 1. We performed our annual goodwill impairment tests of all reporting units and reassessed goodwill as a result of the aforementioned segment change using a combination of both qualitative and quantitative assessments and concluded that our goodwill was not impaired.

The following table presents the changes in goodwill by operating segment:

	General Insurance				
(in millions)	North America	International	Life Insurance	Other Operations	Total
Balance at January 1, 2018:					
Goodwill - gross	$ 1,473	$ 3,269	$ 270	$ 59	$ 5,071
Accumulated impairments	(1,145)	(2,255)	(67)	(10)	(3,477)
Net goodwill	328	1,014	203	49	1,594
Increase (decrease) due to:					
Acquisitions[(a)]	2,332	157	46	9	2,544
Other	(12)	(48)	(5)	9	(56)
Balance at December 31, 2018:					
Goodwill - gross	3,793	3,378	311	77	7,559
Accumulated impairments	(1,145)	(2,255)	(67)	(10)	(3,477)
Net goodwill	2,648	1,123	244	67	4,082
Increase (decrease) due to:					
Acquisitions	-	20	-	-	20
Other[(b)]	-	26	(77)	(13)	(64)
Balance at December 31, 2019:					
Goodwill - gross	3,793	3,424	234	64	7,515
Accumulated impairments	(1,145)	(2,255)	(67)	(10)	(3,477)
Net goodwill	2,648	1,169	167	54	4,038
Increase (decrease) due to:					
Dispositions	(2)	-	-	(4)	(6)
Other	-	32	10	-	42
Balance at December 31, 2020:					
Goodwill - gross	**3,791**	**3,456**	**244**	**60**	**7,551**
Accumulated impairments	**(1,145)**	**(2,255)**	**(67)**	**(10)**	**(3,477)**
Net goodwill	**$ 2,646**	**$ 1,201**	**$ 177**	**$ 50**	**$ 4,074**

(a) Includes goodwill of $2.0 billion, $492 million and $46 million relating to the acquisitions of Validus, Glatfelter and Ellipse, respectively.

(b) Reflects $98 million of goodwill that has been reclassified to assets held for sale.

Indefinite lived intangible assets are not subject to amortization. Indefinite lived intangible assets primarily include Lloyd's syndicate capacity and brand names. Finite lived intangible assets are amortized over their useful lives. Finite lived intangible assets primarily include distribution networks and are recorded net of accumulated amortization. The Company tests intangible assets for impairment on an annual basis or whenever events or circumstances suggest that the carrying value of an intangible asset may exceed the sum of the undiscounted cash flows expected to result from its use and eventual disposition. If this condition exists and the carrying value of an intangible asset exceeds its fair value, the excess is recognized as an impairment and is recorded as a charge against net income.

The Other intangible assets and VODA resulted primarily from the acquisition of Validus.

The following table presents the changes in other intangible assets and the VODA by operating segment:

	General Insurance				
(in millions)	North America	International	Life Insurance	Other Operations	Total
Other intangible assets					
Balance at January 1, 2018	$ 27	$ 8	$ 34	$ 37	$ 106
Increase (decrease) due to:					
Acquisitions	61	207	16	-	284
Amortization	(2)	(3)	(4)	(2)	(11)
Other	-	-	-	(19)	(19)
Balance at December 31, 2018	$ 86	$ 212	$ 46	$ 16	$ 360
Increase (decrease) due to:					
Acquisitions	-	-	-	-	-
Amortization	(1)	(1)	(4)	(2)	(8)
Other	(3)	-	(18)	2	(19)
Balance at December 31, 2019	$ 82	$ 211	$ 24	$ 16	$ 333
Increase (decrease) due to:					
Acquisitions	-	-	-	-	-
Dispositions	-	-	-	(4)	(4)
Amortization	(2)	(1)	(4)	(2)	(9)
Other	(1)	-	2	(2)	(1)
Balance at December 31, 2020	**$ 79**	**$ 210**	**$ 22**	**$ 8**	**$ 319**
Value of distribution network acquired					
Balance at January 1, 2018	$ -	$ -	$ -	$ -	$ -
Increase (decrease) due to:					
Acquisitions	-	-	-	582	582
Amortization	-	-	-	(15)	(15)
Other	-	-	-	2	2
Balance at December 31, 2018	$ -	$ -	$ -	$ 569	$ 569
Increase (decrease) due to:					
Acquisitions	-	-	-	-	-
Amortization	-	-	-	(39)	(39)
Other	-	-	-	6	6
Balance at December 31, 2019	$ -	$ -	$ -	$ 536	$ 536
Increase (decrease) due to:					
Acquisitions	-	-	-	-	-
Amortization	-	-	-	(40)	(40)
Other	-	-	-	1	1
Balance at December 31, 2020	**$ -**	**$ -**	**$ -**	**$ 497**	**$ 497**

The percentage of the unamortized balance of Other intangible assets and VODA at December 31, 2020 expected to be amortized in 2021 through 2025 by year is 9.2 percent, 9.3 percent, 9.5 percent, 8.4 percent and 8.2 percent, respectively, with 55.4 percent being amortized after five years.

13. Insurance Liabilities

LIABILITY FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES (LOSS RESERVES)

Loss reserves represent the accumulation of estimates of unpaid claims, including estimates for claims incurred but not reported and loss adjustment expenses, less applicable discount. We regularly review and update the methods used to determine loss reserve estimates. Any adjustments resulting from this review are reflected currently in pre-tax income, except to the extent such adjustment impacts a deferred gain under a retroactive reinsurance agreement, in which case the ceded portion would be amortized into pre-tax income in subsequent periods. Because these estimates are subject to the outcome of future events, changes in estimates are common given that loss trends vary and time is often required for changes in trends to be recognized and confirmed. Given the uncertainties around the impact from the COVID-19 crisis, including the significant global economic slowdown and general market decline, the full impact of COVID-19 and how it may ultimately impact the results of our insurance operations remains uncertain. In addition, in response to the crisis, new governmental, legislative and regulatory initiatives have been put in place and continue to be developed that could result in additional restrictions and requirements relating to our policies that may have a negative impact on our business operations. However, we have recorded our estimate of the ultimate liability for claims that have occurred as of the balance sheet date associated with COVID-19 which reflects our expectations given the current facts and circumstances. We will continue to monitor and review the impact. Reserve changes that increase previous estimates of ultimate cost are referred to as unfavorable or adverse development or reserve strengthening. Reserve changes that decrease previous estimates of ultimate cost are referred to as favorable development.

Our gross loss reserves before reinsurance and discount are net of contractual deductible recoverable amounts due from policyholders of approximately $12.6 billion and $12.2 billion at December 31, 2020 and 2019, respectively. These recoverable amounts are related to certain policies with high deductibles (in excess of high dollar amounts retained by the insured through self-insured retentions, deductibles, retrospective programs, or captive arrangements, each referred to generically as “deductibles”), primarily for U.S. Commercial casualty business. With respect to the deductible portion of the claim, we manage and pay the entire claim on behalf of the insured and are reimbursed by the insured for the deductible portion of the claim. Thus, these recoverable amounts represent a credit exposure to us. At December 31, 2020 and 2019, we held collateral of approximately $9.2 billion and $8.9 billion, respectively, for these deductible recoverable amounts, consisting primarily of letters of credit and funded trust agreements. Allowance for credit losses for the unsecured portion of these recoverable amounts was $14 million at December 31, 2020.

The following table presents the rollforward of activity in Loss Reserves:

Years Ended December 31, (in millions)	2020	2019	2018
Liability for unpaid loss and loss adjustment expenses, beginning of year	$ 78,328	$ 83,639	$ 78,393
Reinsurance recoverable	(31,069)	(31,690)	(26,708)
Initial allowance upon CECL adoption	164	-	-
Net Liability for unpaid loss and loss adjustment expenses, beginning of year	47,423	51,949	51,685
Losses and loss adjustment expenses incurred:			
Current year	16,928	17,596	20,534
Prior years, excluding discount and amortization of deferred gain	(90)	(340)	1,429
Prior years, discount charge (benefit)	587	1,063	(252)
Prior years, amortization of deferred gain on retroactive reinsurance[(a)]	(237)	(219)	(395)
Total losses and loss adjustment expenses incurred	17,188	18,100	21,316
Losses and loss adjustment expenses paid:			
Current year	(4,062)	(4,894)	(5,754)
Prior years	(14,603)	(18,020)	(17,768)
Total losses and loss adjustment expenses paid	(18,665)	(22,914)	(23,522)
Other changes:			
Foreign exchange effect	815	(6)	(677)
Allowance for credit losses	(15)	-	-
Acquisitions[(b)]	-	-	3,284
Retroactive reinsurance adjustment (net of discount)[(c)]	361	130	(137)
Fortitude sale[(d)]	(3,818)	-	-
Total other changes	(2,657)	124	2,470
Liability for unpaid loss and loss adjustment expenses, end of year:			
Net liability for unpaid losses and loss adjustment expenses	43,289	47,259	51,949
Reinsurance recoverable	34,431	31,069	31,690
Total	$ 77,720	$ 78,328	$ 83,639

(a) Includes $41 million, $27 million and $51 million for the retroactive reinsurance agreement with NICO covering U.S. asbestos exposures for the year ended December 31, 2020, 2019 and 2018, respectively.

(b) Includes amounts related to the acquisition of Glatfelter in October 2018 and Validus in July 2018.

(c) Includes benefit (charge) from change in discount on retroactive reinsurance in the amount of $340 million, $469 million and $(180) million for the periods ended December 31, 2020, 2019 and 2018, respectively.

(d) On June 2, 2020, AIG completed the Majority Interest Fortitude Sale. Concurrent with the Majority Interest Fortitude Sale, AIG established a reinsurance recoverable. *Refer to Note 1 for additional information.*

Prior Year Development

During 2020, we recognized favorable prior year loss reserve development of $90 million excluding discount and amortization of deferred gain. The development was primarily driven by:

- Favorable development on U.S. Workers' Compensation business, both guaranteed cost business and large deductible, where we reacted to favorable loss trends in recent accident years;
- Favorable development across the combination of primary and excess casualty coverages;
- Favorable development in Property, Specialty, and other miscellaneous coverages;
- Unfavorable development in U.S. Financial Lines, notably D&O, Employment Practices Liability (EPLI), Mergers and Acquisitions, Cyber and Non-Medical Professional Errors & Omissions business where we reacted to increasing frequency and severity in recent accident years;
- Unfavorable development in Personal Lines where we reacted to adverse development in Homeowners and Umbrella;
- Unfavorable development on Financial Lines driven by low frequency and high severity seen in D&O, especially in UK/Europe and Australia;
- Favorable development on Property and Special Risks globally driven by UK/Europe;
- Favorable development on Europe and Japan Personal Insurance driven by favorable frequency and severity trends.

Our analyses and conclusions about prior year reserves also help inform our judgments about the current accident year loss and loss adjustment expense ratios we selected.

During 2019, we recognized favorable prior year loss reserve development of $340 million excluding discount and amortization of deferred gain. The development was primarily driven by:

- Favorable development on U.S. Workers' Compensation business, both guaranteed cost business and large deductible and Defense Base Act business (covering government contractors serving at military bases overseas) where we reacted to favorable loss trends in recent accident years;
- Favorable development on 2017 Hurricanes (Harvey, Irma and Maria) and favorable development due to 2017 California wildfire subrogation recoverables in Commercial Property and Personal Lines.
- Unfavorable development in Primary General Liability where we reacted to adverse frequency and severity trends especially in Construction Wrap business in recent accident years.
- Unfavorable development in U.S. Financial Lines, notably D&O, EPLI and Non-Medical Professional Errors & Omissions business where we reacted to increasing frequency and severity in recent accident years.
- Unfavorable development on European Casualty & Financial Lines, notably Commercial Auto, Employers Liability, Directors & Officers, and Financial Institutions business; and
- Favorable development on Europe Property and Special Risks, Europe and Japan Personal Insurance and Other product lines.

Our analyses and conclusions about prior year reserves also help inform our judgments about the current accident year loss and loss adjustment expense ratios we selected.

During 2018, we recognized adverse prior year loss reserve development of $1.4 billion before impact of the Adverse Development Cover and the asbestos cession to NICO. The key components of this development were as follows:

- Unfavorable development in U.S. Excess Casualty, driven by the combination of construction defect and construction wrap claims from accident year 2015 and prior where we reacted to significant increases in severity and longer claim reporting patterns, as well as higher than expected loss severity in accident years 2016 and 2017, which led to an increase in estimates for these accident years;
- Unfavorable development in U.S. Financial Lines, primarily from D&O and EPLI policies covering Corporate and National Insureds as well as Private and Not-for-Profit insureds. This development was predominantly in accident years 2014-2017 and resulted largely from increases in severity associated with an increase in frequency of class action lawsuits from those years.
- Favorable development in U.S. Commercial Property and Specialty Lines due to reductions in our estimates for 2017 Catastrophes, favorable attritional losses in Commercial Property and favorable Specialty emergence.
- Unfavorable development in U.S. Personal Lines reflecting the adverse development on the 2017 California wildfires and Hurricane Irma in 2017.
- Unfavorable development in International Financial Lines driven by increased large loss activity in recent accident years, particularly related to directors and officers class action suits against insureds with global exposure.

Our analyses and conclusions about prior year reserves also help inform our judgments about the current accident year loss and loss adjustment expense ratios we selected.

The table below presents the reconciliation of the net liability for unpaid losses and loss adjustment expenses in the following tables to Loss Reserves in the Consolidated Balance Sheets for the year ended December 31, 2020:

(in millions)	Net liability for unpaid losses and loss adjustment expenses as presented in the disaggregated tables below	Reinsurance recoverable on unpaid losses and loss adjustment expenses included in the disaggregated tables below	Gross liability for unpaid losses and loss adjustment expenses
U.S. Workers' Compensation (before discount)	$ 4,630	$ 6,564	$ 11,194
U.S. Excess Casualty	3,746	4,584	8,330
U.S. Other Casualty	3,520	4,568	8,088
U.S. Financial Lines	4,838	2,193	7,031
U.S. Property and Special Risks	6,181	2,571	8,752
U.S. Personal Insurance	1,116	1,626	2,742
UK/Europe Casualty and Financial lines	6,826	1,225	8,051
UK/Europe Property and Special Risks	2,679	1,215	3,894
UK/Europe and Japan Personal Insurance	2,219	505	2,724
Total	**$ 35,755**	**$ 25,051**	**$ 60,806**
Reconciling Items			
Discount on workers' compensation lines			(1,636)
Other product lines*			15,776
Unallocated loss adjustment expenses			2,774
Total Loss Reserves			**$ 77,720**

* Reinsurance recoverable for other product lines of $9.1 billion resulted in a net liability for unpaid losses and loss adjustment expenses of $6.7 billion for the year ended December 31, 2020.

Loss Development Information

The following is information about incurred and paid loss developments as of December 31, 2020, net of reinsurance. The cumulative number of reported claims, the total of IBNR liabilities and expected development on reported loss included within the net incurred loss amounts are presented in the following section.

Reserving Methodology

We use a combination of methods to project ultimate losses for both long-tail and short-tail exposures, which include:

- **Paid Development method:** The Paid Development method estimates ultimate losses by reviewing paid loss patterns and selecting paid ultimate loss development factors. These factors are then applied to paid losses by applying them to accident years, with further expected changes in paid loss. Since the method does not rely on case reserves, it is not directly influenced by changes in the adequacy of case reserves.
- **Incurred Development method:** The Incurred Development method is similar to the Paid Development method, but it uses case incurred losses instead of paid losses. Since this method uses more data (case reserves in addition to paid losses) than the Paid Development method, the incurred development patterns may be less variable than paid development patterns.
- **Expected Loss Ratio method:** The Expected Loss Ratio method multiplies premiums by an expected loss ratio to produce ultimate loss estimates for each accident year. This method may be useful if loss development patterns are inconsistent, losses emerge very slowly, or there is relatively little loss history from which to estimate future losses.
- **Bornhuetter-Ferguson method:** The Bornhuetter-Ferguson method using premiums and paid losses is a combination of the Paid Development method and the Expected Loss Ratio method where the weight given to each method is the reciprocal of the loss development factor. This method normally determines expected loss ratios similar to the method used for the Expected Loss Ratio method. The Bornhuetter-Ferguson method using premiums and incurred losses is similar to the Bornhuetter-Ferguson method using premiums and paid losses except that it uses case-incurred losses.
- **Cape Cod method:** The Cape Cod method is mechanically similar to the Bornhuetter-Ferguson method with the difference being that the Expected Loss Ratio estimates are determined based on a weighting of the loss estimates that come from the Paid/Incurred Development Methods. This method may be more responsive to recent loss trends than the Bornhuetter-Ferguson method.

- **Average Loss method:** The Average Loss method multiplies a projected number of ultimate claims by an estimated ultimate severity average loss for each accident year to produce ultimate loss estimates. Since projections of the ultimate number of claims are often less variable than projections of ultimate loss, this method can provide more reliable results for reserve categories where loss development patterns are inconsistent or too variable to be relied on exclusively.

In updating our loss reserve estimates, 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 product line. Our analyses produce a range of indications from various methods, from which we select our best estimate.

In determining the actual carried loss reserves, we consider both the internal actuarial best estimate and numerous other internal and external factors, including:

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

The following factors are relevant to the loss development information included in the tables below:

- **Table organization:** The tables are organized by accident year and include policies written on an occurrence and claims- made basis. We note that for certain categories of claims (e.g., construction defect claims and environmental claims) and for reinsurance recoverable, losses may sometimes be reclassified to an earlier or later accident year as more information about the date of occurrence becomes available to us. These reclassifications are shown as development in the respective years in the tables below. Financial Lines business is primarily written on a claims-made basis, while the majority of the workers' compensation, excess casualty, other casualty, and run-off property and casualty lines of business are written on an occurrence basis. Primarily, all short-tail lines in Property and Special Risks and Personal Insurance are written on an occurrence basis.
- **Groupings:** We believe our groupings have homogenous risk characteristics with similar development patterns and would generally be subject to similar trends and reflect our reportable segments. The incurred losses and loss adjustment expenses and paid losses in the following tables for the current reporting year are allocated to the line of business and accident years based on how the business is coded by profit center and line of business.
- **Reinsurance:** Our reinsurance program varies by exposure type. Historically we have leveraged facultative and treaty reinsurance, both on a pro-rata and excess of loss basis. Our reinsurance program may change from year to year, which may affect the comparability of the data presented in our tables.

- **Adverse Development Reinsurance Agreement:** We have provided the impact of the adverse development reinsurance agreement (ADC) in an additional table below our Incurred Losses and Allocated Loss Adjustment Expenses (ALAE) tables. The impact of the ADC is shown beginning in 2016 given the retroactive date of the contract and coincides with the effective date of the contract. For the lines of business covered by the agreement (U.S. Workers' Compensation, U.S. Excess Casualty, U.S. Other Casualty, U.S. Financial Lines, U.S. Property and Special Risks and U.S. Personal Insurance or collectively, the Covered Lines), an attribution of the loss recoveries to the line of business by calendar year and accident year is performed based on the underlying distribution of the losses subject to the agreement. Specifically, the future claim payments for all subject incurred losses were projected into future years based on the same actuarial assumptions underlying the related reserves. The additional table presented after discussion of prior year development by line of business reconciles the changes in net ultimates to our overall prior year development and provides the reattribution of loss recoveries for the Covered Lines. The reinsurance terms of the ADC were then used to identify the future claims payments for which 80% will be reimbursed by NICO. At each reporting period, the attribution of the ADC recoveries is performed. The factors that could cause the attribution to lines of business and accident year to change include changes in underlying actuarial assumptions as to timing and amount of future claim payments.
- **Incurred but not reported liabilities (IBNR):** We include development from past reported losses in IBNR.
- **Data excluded from tables:** Information with respect to accident years older than ten years is excluded from the development tables. Unallocated loss adjustment expenses are also excluded.
- **Foreign exchange:** The loss development for operations outside of the U.S. is presented for all accident years using the current exchange rate at December 31, 2020. Although this approach requires restating all prior accident year information, the changes in exchange rates do not impact incurred and paid loss development trends.
- **Acquisitions:** We include acquisitions from all accident years presented in the tables. For purposes of this disclosure, we have applied the retrospective method for the acquired reserves, including incurred and paid claim development histories throughout the relevant tables. It should be noted that historical reserves for the acquired businesses were established by the acquired companies using methods, assumptions and procedures then in effect which may differ from our current reserving bases. Accordingly, it may not be appropriate to extrapolate future redundancies or deficiencies based on the aggregated historical results shown in the triangles.
- **Dispositions:** We exclude dispositions from all accident years presented in the tables.
- **Claim counts:** We consider a reported claim to be one claim for each claimant or feature for each loss occurrence. Claims relating to losses that are 100 percent reinsured are excluded from the reported claims in the tables below. Reported claims for losses from assumed reinsurance contracts are not available and hence not included in the reported claims.
- There are limitations that should be considered on the reported claim count data in the tables below, including:
  - Claim counts are presented only on a reported (not an ultimate) basis;
  - The tables below include lines of business and geographies at a certain aggregated level which may indicate different frequency and severity trends and characteristics, and may not be as meaningful as the claim count information related to the individual products within those lines of business and geographies;
  - Certain lines of business are more likely to be subject to occurrences involving multiple claimants and features, which can distort measures based on the reported claim counts in the table below; and
  - Reported claim counts are not adjusted for ceded reinsurance, which may distort the measure of frequency or severity.

Supplemental Information: The information about incurred and paid loss development for all periods preceding year ended December 31, 2020 and the related historical claims payout percentage disclosure is unaudited and is presented as supplementary information.

The following tables present undiscounted, incurred and paid losses and allocated loss adjustment expenses by accident year, on a net basis after reinsurance, with a separate presentation of the Adverse Development Reinsurance Agreement excluding the related amortization of the deferred gain:

U.S. Workers' Compensation

During 2020, we recognized $367 million of favorable prior year development, net of external reinsurance but before ADC cessions.

During 2019, we recognized $699 million of favorable prior year development, net of external reinsurance but before ADC cessions.

Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance

	Years Ended December 31, *(in millions)*											December 31, 2020					
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2020 Prior Year Development Excluding the Impact of Adverse Development Reinsurance Agreement	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims	Incurred Impact of Adverse Development Reinsurance Agreement	IBNR Impact of Adverse Development Reinsurance Agreement	2020 (Net of Impact of Adverse Development Reinsurance Agreement)	Total of IBNR Liabilities Net of Impact of Adverse Development Reinsurance Agreement
	Unaudited																
2011	$ 2,901	$ 2,953	$ 3,091	$ 3,158	$ 3,113	$ 3,152	$ 3,156	$ 3,177	$ 3,141	$ 3,105	$ (36)	$ 299	125,646	$ (439)	$ (269)	$ 2,666	$ 30
2012		2,382	2,194	2,286	2,260	2,334	2,308	2,259	2,247	2,224	(23)	260	71,570	(398)	(236)	1,826	24
2013			1,932	1,880	1,950	2,060	2,032	1,974	1,916	1,886	(30)	226	47,620	(366)	(196)	1,520	30
2014				1,729	1,764	1,866	1,862	1,794	1,709	1,679	(30)	323	40,430	(456)	(276)	1,223	47
2015					1,708	1,864	1,866	1,814	1,722	1,675	(47)	479	36,231	(570)	(380)	1,105	99
2016						1,299	1,346	1,318	1,140	1,090	(50)	329	31,104	-	-	1,090	329
2017							789	850	776	763	(13)	306	26,914	-	-	763	306
2018								998	1,021	961	(60)	514	21,481	-	-	961	514
2019									887	873	(14)	478	16,094	-	-	873	478
2020										597		409	11,493	-	-	597	409
Total										$ 14,853	$ (303)			$ (2,229)		$ 12,624	
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below										(9,268)	-			14		(9,254)	
Liabilities for losses and loss adjustment expenses and prior year development before accident year 2011, net of reinsurance										4,714	(87)			(3,454)		1,260	
Unallocated loss adjustment expense prior year development											23						
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance										$ 10,299	$ (367)			$ (5,669)		$ 4,630	

Incurred Losses and Loss Adjustment Expenses, Undiscounted, Net of Reinsurance (including impact of ADC)

Accident Year	2016	2017	2018	2019	2020	Change in Incurred Loss and ALAE
	Calendar Years Ended December 31, *(in millions)*					
	Unaudited					
2011	$ 2,676	$ 2,677	$ 2,682	$ 2,683	**$ 2,666**	**$ (17)**
2012	1,819	1,814	1,793	1,804	**1,826**	**22**
2013	1,500	1,494	1,481	1,458	**1,520**	**62**
2014	1,311	1,310	1,309	1,329	**1,223**	**(106)**
2015	1,279	1,279	1,318	1,134	**1,105**	**(29)**
2016	1,299	1,346	1,318	1,140	**1,090**	**(50)**
2017	-	789	850	776	**763**	**(13)**
2018	-	-	998	1,021	**961**	**(60)**
2019	-	-	-	887	**873**	**(14)**
2020	-	-	-	-	**597**	**-**
Total	$ 9,884	$ 10,709	$ 11,749	$ 12,232	**$ 12,624**	**$ (205)**
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below					**(9,254)**	**-**
Liabilities for losses and allocated loss adjustment expenses before 2011, net of reinsurance					**1,260**	**(137)**
Unallocated loss adjustment expense prior year development					**-**	**20**
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance					**$ 4,630**	**$ (322)**

The following table provides our attribution of our reinsurance recoverable for the ADC only (included in the table above):

Accident Year	2016	2017	2018	2019	2020	Change in Incurred Loss and ALAE
	Calendar Years Ended December 31, *(in millions)*					
	Unaudited					
2011	$ (476)	$ (479)	$ (495)	$ (458)	**$ (439)**	**$ 19**
2012	(515)	(494)	(466)	(443)	**(398)**	**45**
2013	(560)	(538)	(493)	(458)	**(366)**	**92**
2014	(555)	(552)	(485)	(380)	**(456)**	**(76)**
2015	(585)	(587)	(496)	(588)	**(570)**	**18**
2016	-	-	-	-	**-**	**-**
2017	-	-	-	-	**-**	**-**
2018	-	-	-	-	**-**	**-**
2019	-	-	-	-	**-**	**-**
2020	-	-	-	-	**-**	**-**
Total	$ (2,692)	$ (2,650)	$ (2,435)	$ (2,327)	**$ (2,229)**	**$ 98**
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below					**14**	**-**
Liabilities for losses and allocated loss adjustment expenses before 2011, net of reinsurance					**(3,454)**	**(46)**
Unallocated loss adjustment expense prior year development						**(3)**
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance					**$ (5,669)**	**$ 49**

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	Years Ended December 31, *(in millions)*										
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Paid Impact of Adverse Development Reinsurance Agreement
	Unaudited										
2011	$ 519	$ 1,129	$ 1,561	$ 1,884	$ 2,129	$ 2,285	$ 2,388	$ 2,451	$ 2,496	**$ 2,519**	**$ (2)**
2012		415	804	1,089	1,272	1,440	1,563	1,632	1,669	**1,719**	**(3)**
2013			282	619	879	1,067	1,214	1,287	1,335	**1,372**	**(3)**
2014				231	558	786	930	1,030	1,096	**1,137**	**(3)**
2015					234	524	725	854	925	**979**	**(3)**
2016						147	378	521	584	**630**	**-**
2017							93	224	294	**333**	**-**
2018								85	215	**296**	**-**
2019									93	**219**	**-**
2020										**64**	**-**
Total										**$ 9,268**	**$ (14)**

Reserving Process and Methodology

U.S. Workers' Compensation is an extremely long-tail line of business, with loss emergence extending for decades. We generally use a combination of loss development, frequency/severity and expected loss ratio methods for workers' compensation.

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. We group guaranteed cost and excess of deductible business separately and then further by state and industry subset to the extent that meaningful differences are determined to exist. We also separately analyze certain subsets of the portfolio that have unique characteristics (e.g., U.S. government sub-contractor accounts and construction wrap-up business). For excess of deductible business, we also segment by size of deductible and whether the claim is handled by AIG or an outside third-party administrator (TPA). The proportion of large deductible business has increased over time, which has slowed the reporting pattern of claims.

For guaranteed cost business, expected loss ratio methods generally are given significant weight only in the most recent accident year. Workers' compensation claims are generally characterized by high frequency, low severity, and relatively consistent loss development from one accident year to the next. We historically have been a leading writer of workers' compensation, and thus have sufficient volume of claims experience to use development methods. We generally segregate California (CA) and New York (NY) businesses from the other states to reflect their different development patterns and changing percentage of the mix by state. The claims development tables above are impacted by two other significant initiatives, which offset each other. In recent years, we instituted claims strategy changes and loss mitigation efforts to accelerate settlements, which we believe results in an overall reduction in claim costs. This strategy resulted in an increase in paid losses along the latest diagonals relative to prior years. In addition, we have been reducing premium volume in recent years and shifting a greater proportion of business to insured risk retention structures such as high deductible policies. These mix and volume changes slowed paid and incurred development since excess of deductible claims will typically take longer to emerge and settle.

Expected loss ratio methods for business written in excess of a deductible may be given significant weight in the most recent five accident years. In the 2016 analysis, we increased our tail factor estimates for states other than NY and CA for guaranteed cost business in recognition of longer medical development patterns that we have been seeing in recent years. We reflected increases in legal costs we have seen across the portfolio, particularly in California.

Additionally, over the years we have written a number of very large accounts which include workers' compensation coverage. These accounts are generally individually priced by our actuaries, and to the extent appropriate, the indicated losses based on the pricing analysis may be used to record the initial estimated loss reserves for these accounts.

Prior Year Development

During 2020, we recognized $367 million of favorable prior year development in U.S. Workers Compensation business due to continued favorable frequency and severity trends seen across the diagonals for many subsets of US Workers Compensation especially for recent accident years.

During 2019, we recognized $699 million of favorable prior year development in U.S. Workers Compensation business due to favorable frequency and severity trends seen across the diagonals across many subsets of U.S. Workers Compensation especially in the recent accident years.

During 2018, we recognized $51 million of adverse prior year development in U.S. Workers Compensation business with higher claim development factors at older ages (tail factors) for non-California, non-New York and loss sensitive business in older accident years being offset by favorable emergence in recent years. Accident year 2017 was adversely impacted by a change in ceded reinsurance estimates. For our Defense Base Act business, adverse development in recent years was offset by an expansion of the definition of reimbursable War Hazard claims by the U.S. Government.

U.S. Excess Casualty

During 2020, we recognized $149 million of favorable prior year development in Excess Casualty, net of external reinsurance but before ADC cessions, driven by favorable emergence on older accident years offset by severity increases in recent accident years.

During 2019, we recognized $76 million of unfavorable prior year development in Excess Casualty, net of external reinsurance but before ADC cessions, driven by higher than expected loss emergence for construction wrap claims and increasing loss severity in more recent accident years.

Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance

	Years Ended December 31, *(in millions)*											December 31, 2020					
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2020 Prior Year Development Excluding the Impact of Adverse Development Reinsurance Agreement	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims	Incurred Impact of Adverse Development Reinsurance Agreement	IBNR Impact of Adverse Development Reinsurance Agreement	2020 (Net of Impact of Adverse Development Reinsurance Agreement)	Total of IBNR Liabilities Net of Impact of Adverse Development Reinsurance Agreement
	Unaudited																
2011	$ 1,787	$ 1,827	$ 1,597	$ 1,429	$ 1,529	$ 1,611	$ 1,627	$ 1,726	$ 1,758	$ 1,713	$ (45)	$ 312	3,816	$ (279)	$ (163)	$ 1,434	$ 149
2012		1,607	1,403	1,242	1,488	1,537	1,486	1,558	1,502	1,390	(112)	236	3,783	(253)	(146)	1,137	90
2013			1,123	1,035	1,169	1,308	1,241	1,282	1,292	1,316	24	283	3,171	(346)	(197)	970	86
2014				938	1,069	1,275	1,260	1,339	1,283	1,248	(35)	348	2,669	(336)	(187)	912	161
2015					989	1,463	1,440	1,603	1,656	1,694	38	423	2,672	(483)	(270)	1,211	153
2016						898	1,146	1,162	1,171	1,274	103	526	2,172	-	-	1,274	526
2017							856	1,002	1,097	1,153	56	491	1,465	-	-	1,153	491
2018								648	646	721	75	368	865	-	-	721	368
2019									577	583	6	477	615	-	-	583	477
2020										406		399	320	-	-	406	399
Total										$ 11,498	$ 110			$ (1,697)		$ 9,801	
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below										(6,459)	-			20		(6,439)	
Liabilities for losses and loss adjustment expenses and prior year development before accident year 2011, net of reinsurance										2,110	(237)			(1,726)		384	
Unallocated loss adjustment expense prior year development											(22)						
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance										$ 7,149	$ (149)			$ (3,403)		$ 3,746	

Incurred Losses and Loss Adjustment Expenses, Undiscounted, Net of Reinsurance (including impact of ADC)

	Calendar Years Ended December 31, *(in millions)*					
Accident Year	2016	2017	2018	2019	**2020**	**Change in Incurred Loss and ALAE**
	Unaudited					
2011	$ 1,369	$ 1,371	$ 1,436	$ 1,416	**$ 1,434**	**$ 18**
2012	1,175	1,163	1,254	1,214	**1,137**	**(77)**
2013	935	932	981	1,032	**970**	**(62)**
2014	902	905	915	844	**912**	**68**
2015	1,027	1,015	1,139	1,163	**1,211**	**48**
2016	898	1,146	1,162	1,171	**1,274**	**103**
2017	-	856	1,002	1,097	**1,153**	**56**
2018	-	-	648	646	**721**	**75**
2019	-	-	-	577	**583**	**6**
2020	-	-	-	-	**406**	**-**
Total	$ 6,306	$ 7,388	$ 8,537	$ 9,160	**$ 9,801**	**$ 235**
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below					**(6,439)**	**-**
Liabilities for losses and allocated loss adjustment expenses before 2011, net of reinsurance					**384**	**4**
Unallocated loss adjustment expense prior year development					**-**	**(33)**
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance					**$ 3,746**	**$ 206**

The following table provides our attribution of our reinsurance recoverable for the ADC only (included in the table above):

Accident Year	Calendar Years Ended December 31, *(in millions)* 2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2020	Change in Incurred Loss and ALAE
2011	$ (242)	$ (256)	$ (290)	$ (342)	**$ (279)**	**$ 63**
2012	(362)	(323)	(304)	(288)	**(253)**	**35**
2013	(373)	(309)	(301)	(260)	**(346)**	**(86)**
2014	(373)	(355)	(424)	(439)	**(336)**	**103**
2015	(436)	(425)	(464)	(493)	**(483)**	**10**
2016	-	-	-	-	**-**	**-**
2017	-	-	-	-	**-**	**-**
2018	-	-	-	-	**-**	**-**
2019	-	-	-	-	**-**	**-**
2020	-	-	-	-	**-**	**-**
Total	$ (1,786)	$ (1,668)	$ (1,783)	$ (1,822)	**$ (1,697)**	**$ 125**
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below					**20**	**-**
Liabilities for losses and allocated loss adjustment expenses before 2011, net of reinsurance					**(1,726)**	**231**
Unallocated loss adjustment expense prior year development						**(11)**
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance					**$ (3,403)**	**$ 345**

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Years Ended December 31, *(in millions)* 2011 (Unaudited)	2012 (Unaudited)	2013 (Unaudited)	2014 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2020	Paid Impact of Adverse Development Reinsurance Agreement
2011	$ 5	$ 63	$ 225	$ 387	$ 716	$ 921	$ 1,069	$ 1,214	$ 1,257	**$ 1,330**	**$ (3)**
2012		3	106	288	495	649	887	1,022	1,121	**1,090**	**-**
2013			15	105	207	387	578	705	819	**882**	**(4)**
2014				3	77	240	444	590	703	**815**	**(6)**
2015					9	210	391	718	935	**1,061**	**(7)**
2016						28	80	204	388	**502**	**-**
2017							1	45	156	**505**	**-**
2018								1	125	**227**	**-**
2019									7	**43**	**-**
2020										**4**	**-**
Total										**$ 6,459**	**$ (20)**

Reserving Process and Methodology

U.S. Excess Casualty policies tend to attach at a high layer above underlying policies, which causes the loss development pattern to be lagged significantly. Many of the claims notified to the excess layers are closed without payment because the claims never reach our layer as a result of high deductibles and other underlying coverages, while the claims that reach our layer and close with payment can be large and highly variable in terms of reported timing and amount. For a portion of this business, the underlying primary policies are issued by other insurance companies, which can limit our access to relevant information to help inform our judgments as the loss events evolve and mature.

We generally use a combination of loss development methods and expected loss ratio methods for excess casualty product lines. We segment our analysis between automobile-related claims and non-automobile claims, due to the shorter-tail nature of the automobile claims. We then further segment the non-automobile claims for certain latent exposures such as construction defects and mass torts where losses have unique emergence patterns. Mass tort claims in particular may develop over an extended period of time and impact multiple accident years when they emerge. The more standard types of claims are then separately analyzed based on attachment point bands, to recognize that the impact of the level of the attachment point can significantly impact the delay in loss reporting and development. In our analyses, losses capped at $10 million were first analyzed using traditional loss development and expected loss ratio methods and then this estimate was used to derive the expected loss estimate for losses above $10 million reflecting the expected relationships between the layers, reflecting the attachment point and limit.

Expected loss ratio methods are generally used for at least the three latest accident years, due to the relatively low credibility of the reported losses. The loss experience is generally reviewed separately by attachment point. The expected loss ratios used for recent accident years are based on the projected ultimate loss ratios for older years adjusted for rate changes and loss trend.

Prior Year Development

During 2020, we recognized $149 million of favorable development driven by favorable emergence on the older years offset by higher severity claim emergence in recent accident years across various excess casualty classes. Auto liability deteriorated slightly in the more recent accident years.

During 2019, we recognized $76 million of unfavorable development driven by higher severity claim emergence in non-admitted construction defect claims in older accident years and auto liability and general liability claims in recent accident years.

During 2018, we recognized $1.3 billion of adverse development driven largely by construction defect and construction wrap claims where actual emergence was significantly worse than expected and our updated analysis significantly increased the severity assumptions and lengthened the claim reporting pattern to recognize the significant deterioration seen in recent calendar periods. We also increased the expected loss ratio assumptions in recent accident years to reflect the high initial reported loss ratios for those years and the incidence of several unusually large claims.

U.S. Other Casualty

U.S Other Casualty includes general liability, commercial auto, medical malpractice, and various other casualty lines of business.

In 2020, we recognized $141 million of favorable prior year development in Other Casualty, net of external reinsurance but before ADC cessions.

In 2019, we recognized $168 million of unfavorable prior year development in Other Casualty, net of external reinsurance but before ADC cessions, primarily as a result of unfavorable loss emergence in recent accident years.

Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance

	Years Ended December 31, *(in millions)*											December 31, 2020					
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	**2020**	**2020 Prior Year Development Excluding the Impact of Adverse Development Reinsurance Agreement**	**Total of IBNR Liabilities Plus Expected Development on Reported Losses**	**Cumulative Number of Reported Claims**	**Incurred Impact of Adverse Development Reinsurance Agreement**	**IBNR Impact of Adverse Development Reinsurance Agreement**	**2020 (Net of Impact of Adverse Development Reinsurance Agreement)**	**Total of IBNR Liabilities Net of Impact of Adverse Development Reinsurance Agreement**
	Unaudited																
2011	$ 2,033	$ 2,202	$ 2,302	$ 2,439	$ 2,585	$ 2,620	$ 2,582	$ 2,517	$ 2,515	**$ 2,524**	**$ 9**	**$ 94**	**75,604**	**$ (138)**	**$ (92)**	**$ 2,386**	**$ 2**
2012		1,986	2,139	2,193	2,203	2,352	2,407	2,343	2,328	**2,321**	**(7)**	**135**	**44,071**	**(186)**	**(131)**	**2,135**	**4**
2013			1,653	1,729	1,912	2,148	2,185	2,164	2,211	**2,196**	**(15)**	**217**	**39,140**	**(276)**	**(208)**	**1,920**	**9**
2014				1,751	1,721	1,963	2,009	1,910	1,916	**1,946**	**30**	**181**	**37,598**	**(245)**	**(164)**	**1,701**	**17**
2015					1,329	1,762	1,829	1,736	1,794	**1,834**	**40**	**171**	**34,918**	**(281)**	**(155)**	**1,553**	**16**
2016						1,339	1,343	1,321	1,391	**1,340**	**(51)**	**327**	**28,356**	**-**	**-**	**1,340**	**327**
2017							602	629	738	**674**	**(64)**	**211**	**20,389**	**-**	**-**	**674**	**211**
2018								802	845	**837**	**(8)**	**426**	**15,626**	**-**	**-**	**837**	**426**
2019									1,059	**1,058**	**(1)**	**799**	**18,716**	**-**	**-**	**1,058**	**799**
2020										**524**		**457**	**7,552**	**-**	**-**	**524**	**457**
Total										**$ 15,254**	**$ (67)**			**$ (1,126)**		**$ 14,128**	
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below										**(11,056)**	**-**			**24**		**(11,032)**	
Liabilities for losses and loss adjustment expenses and prior year development before accident year 2011, net of reinsurance										**1,476**	**(40)**			**(1,052)**		**424**	
Unallocated loss adjustment expense prior year development											**(34)**						
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance										**$ 5,674**	**$ (141)**			**$ (2,154)**		**$ 3,520**	

Incurred Losses and Loss Adjustment Expenses, Undiscounted, Net of Reinsurance (including impact of ADC)

	Calendar Years Ended December 31, *(in millions)*					Change in Incurred Loss and ALAE
Accident Year	2016	2017	2018	2019	**2020**	
	Unaudited					
2011	$ 2,398	$ 2,395	$ 2,414	$ 2,376	**$ 2,386**	**$ 10**
2012	2,189	2,197	2,175	2,159	**2,135**	**(24)**
2013	1,948	1,960	1,929	1,948	**1,920**	**(28)**
2014	1,667	1,678	1,634	1,694	**1,701**	**7**
2015	1,361	1,373	1,423	1,493	**1,553**	**60**
2016	1,339	1,343	1,321	1,391	**1,340**	**(51)**
2017	-	602	629	738	**674**	**(64)**
2018	-	-	802	845	**837**	**(8)**
2019	-	-	-	1,059	**1,058**	**(1)**
2020	-	-	-	-	**524**	**-**
Total	$ 10,902	$ 11,548	$ 12,327	$ 13,703	**$ 14,128**	**$ (99)**
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below					**(11,032)**	**-**
Liabilities for losses and allocated loss adjustment expenses before 2011, net of reinsurance					**424**	**(24)**
Unallocated loss adjustment expense prior year development					**-**	**(32)**
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance					**$ 3,520**	**$ (155)**

The following table provides our attribution of our reinsurance recoverable for the ADC only (included in the table above):

Accident Year	Calendar Years Ended December 31, *(in millions)* 2016	2017	2018	2019	2020	Change in Incurred Loss and ALAE
	Unaudited					
2011	$ (222)	$ (187)	$ (103)	$ (139)	**$ (138)**	**$ 1**
2012	(163)	(210)	(168)	(169)	**(186)**	**(17)**
2013	(200)	(225)	(235)	(263)	**(276)**	**(13)**
2014	(296)	(331)	(276)	(222)	**(245)**	**(23)**
2015	(401)	(456)	(313)	(301)	**(281)**	**20**
2016	-	-	-	-	**-**	**-**
2017	-	-	-	-	**-**	**-**
2018	-	-	-	-	**-**	**-**
2019	-	-	-	-	**-**	**-**
2020	-	-	-	-	**-**	**-**
Total	$ (1,282)	$ (1,409)	$ (1,095)	$ (1,094)	**$ (1,126)**	**$ (32)**
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below					**24**	**-**
Liabilities for losses and allocated loss adjustment expenses before 2011, net of reinsurance					**(1,052)**	**30**
Unallocated loss adjustment expense prior year development						**2**
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance					**$ (2,154)**	**$ -**

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Years Ended December 31, *(in millions)* 2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Paid Impact of Adverse Development Reinsurance Agreement
	Unaudited										
2011	$ 235	$ 722	$ 1,102	$ 1,481	$ 1,814	$ 2,039	$ 2,210	$ 2,289	$ 2,339	**$ 2,381**	**$ (4)**
2012		411	739	1,042	1,385	1,677	1,869	2,009	2,053	**2,101**	**(3)**
2013			169	594	962	1,248	1,485	1,688	1,809	**1,885**	**(4)**
2014				210	620	868	1,150	1,392	1,572	**1,653**	**(5)**
2015					105	309	769	1,087	1,351	**1,485**	**(8)**
2016						77	298	489	703	**846**	**-**
2017							51	111	216	**314**	**-**
2018								43	122	**227**	**-**
2019									53	**138**	**-**
2020										**26**	**-**
Total										**$ 11,056**	**$ (24)**

Reserving Process and Methodology

U.S. Other Casualty includes general liability, automobile liability, environmental, medical malpractice, and other casualty lines of business. These lines of business are all long-tail in nature and while somewhat diverse in terms of exposures, these lines are often subject to similar trends. These lines are often significantly impacted by the underwriting cycle and external judicial trends. Many of our 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.

We generally use a combination of loss development methods, frequency/severity and expected loss ratio methods for primary general liability or products liability product lines. We also supplement the standard actuarial techniques by using evaluations of the ultimate losses on unusual claims or claim accumulations by external specialists on those subsets of claims. The segmentation of the data reflects state differences, industry groups, deductible/non-deductible programs and type of claim.

We segment our analysis by line of business and key coverage structures (claims-made vs. occurrence, large deductible policies, retrospective-rated policies, captives, etc.). Additionally, certain subsets, such as construction defect for general liability, auto liability policies for trucking business, hospital policies for medical malpractice and underground storage tanks for environmental are generally reviewed separately from business in other subsets. We continually refine our loss reserving techniques for the domestic primary casualty product lines and adopt further segmentations based on our analysis of the differing emerging loss patterns for certain subsets of insureds. Due to the long-tail nature of general liability business, and the many subsets that are reviewed individually, there is less credibility given to the reported losses and increased reliance on expected loss ratio methods for recent accident years.

For certain product lines with sufficient loss volume, loss development methods may be given significant weight for all but the most recent one or two accident years. For smaller or more volatile subsets of business and excess of a large deductible business, loss development methods may be given limited weight for the five or more recent accident years. Expected loss ratio methods are used for the more recent accident years for these subsets. The loss experience for primary general liability business is generally reviewed at a level that is believed to provide the most appropriate data for reserve analysis. For other subsets, such as environmental, we utilize a combination of claim analysts' loss projections and actuarial methods to estimate ultimate losses.

Expected loss ratio methods are generally given significant weight only in the most recent accident year, except for excess of large deductible business, in which expected loss ratio methods may receive weight for several of the most recent accident years. In recent years, the impact of the increase in the frequency of severe claims was projected in the accident years where it was most prevalent. The resulting increase in ultimate loss projections and loss ratios for those years impacted subsequent years through loss development factors and prior expected loss ratio assumptions.

Prior Year Development

Primary General Liability

In 2020, we recognized unfavorable development of $65 million largely driven by non-admitted casualty claims emerging in the last seven accident years.

In 2019, we recognized unfavorable development of $220 million largely driven by construction defect and construction wrap policies where we observed significant increases in severity in recent accident years.

In 2018, we increased our ultimate loss estimates for prior accident years by $214 million mainly due to Construction Casualty business, particularly construction defect (CD) claims. Our updated analyses for the construction casualty business reacted to increased severity of claims for both CD and non-CD claims and lengthened the claim reporting pattern for CD claims.

Primary Commercial Auto Liability

In 2020, we experienced unfavorable development of approximately $11 million mainly due to continued emergence of high severity claims in recent accident years.

In 2019, we experienced unfavorable development of approximately $23 million mainly due to deterioration in severity in the recent accident years in the large deductible business.

In 2018, we reduced our ultimate loss estimates for prior accident years by $142 million mainly due to favorable emergence in recent accident years. Our updated analyses for the auto business reacted to this experience in older years as loss trends have stabilized in the more recent years.

Medical Malpractice

During 2020, we recognized $26 million of favorable development largely driven by favorable trends in large claim emergence.

During 2019, we recognized $30 million of unfavorable development largely driven by a few large cases.

During 2018, we recognized favorable loss development of approximately $158 million as loss emergence was less than expected in older years due to several large cases settling for less than we expected. Severity in recent years continues to be higher than historical norms.

Other Lines

During 2020, we recognized favorable development of $191 million largely driven by favorable development on extra-contractual obligations, environmental impairment business and loss sensitive casualty business.

During 2019, we recognized favorable development of $105 million largely driven by extra contractual obligations, favorable development on loss sensitive casualty business and business internally reinsured from other business units.

During 2018, we recognized favorable loss development of approximately $41 million largely due to our environmental impairment liability business where loss activity was better than expected.

U.S. Financial Lines

During 2020, we recognized $479 million of unfavorable prior year development in U.S. Financial Lines, net of external reinsurance but before ADC cessions, due to adverse experience driven by severity.

During 2019, we recognized $463 million of unfavorable prior year development in U.S. Financial Lines, net of external reinsurance but before ADC cessions, due to adverse experience in the D&O subset of business.

The mix of business has been changing in recent years as we write more cyber and mergers and acquisitions business, which generally report claims faster.

Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance

	Years Ended December 31, *(in millions)*											December 31, 2020					
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	**2020**	2020 Prior Year Development Excluding the Impact of Adverse Development Reinsurance Agreement	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims	Incurred Impact of Adverse Development Reinsurance Agreement	IBNR Impact of Adverse Development Reinsurance Agreement	2020 (Net of Impact of Adverse Development Reinsurance Agreement)	Total of IBNR Liabilities Net of Impact of Adverse Development Reinsurance Agreement
	Unaudited																
2011	$ 1,844	$ 1,765	$ 1,934	$ 1,925	$ 1,960	$ 1,991	$ 2,023	$ 2,015	$ 2,012	$ 2,004	$ (8)	$ 31	20,074	$ (59)	$ (29)	$ 1,945	$ 2
2012		1,592	1,763	1,800	1,907	1,988	1,990	2,015	2,077	2,082	5	86	20,086	(134)	(75)	1,948	11
2013			1,790	1,719	1,670	1,613	1,555	1,497	1,509	1,550	41	87	19,003	(148)	(83)	1,402	4
2014				1,812	1,777	1,892	1,927	1,960	1,981	2,000	19	203	17,280	(241)	(140)	1,759	63
2015					1,737	1,762	1,743	1,788	1,830	1,874	44	192	15,857	(324)	(176)	1,550	16
2016						1,605	1,855	1,993	2,064	2,139	75	263	15,778	-	-	2,139	263
2017							1,564	1,675	1,756	1,846	90	418	14,950	-	-	1,846	418
2018								1,640	1,766	1,882	116	760	14,357	-	-	1,882	760
2019									1,503	1,536	33	915	12,663	-	-	1,536	915
2020										1,213		1,016	9,220	-	-	1,213	1,016
Total										$ 18,126	$ 415			$ (906)		$ 17,220	
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below										(12,399)	-			27		(12,372)	
Liabilities for losses and loss adjustment expenses and prior year development before accident year 2011, net of reinsurance										203	25			(213)		(10)	
Unallocated loss adjustment expense prior year development											39						
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance										$ 5,930	$ 479			$ (1,092)		$ 4,838	

Incurred Losses and Loss Adjustment Expenses, Undiscounted, Net of Reinsurance (including impact of ADC)

	Calendar Years Ended December 31, *(in millions)*					Change in Incurred Loss and ALAE
Accident Year	2016	2017	2018	2019	**2020**	
	Unaudited					
2011	$ 1,966	$ 1,973	$ 1,989	$ 1,958	**$ 1,945**	**$ (13)**
2012	1,906	1,907	1,925	1,962	**1,948**	**(14)**
2013	1,442	1,429	1,408	1,409	**1,402**	**(7)**
2014	1,733	1,729	1,753	1,741	**1,759**	**18**
2015	1,429	1,430	1,462	1,552	**1,550**	**(2)**
2016	1,605	1,855	1,993	2,064	**2,139**	**75**
2017	-	1,564	1,675	1,756	**1,846**	**90**
2018	-	-	1,640	1,766	**1,882**	**116**
2019	-	-	-	1,503	**1,536**	**33**
2020	-	-	-	-	**1,213**	**-**
Total	$ 10,081	$ 11,887	$ 13,845	$ 15,711	**$ 17,220**	**$ 296**
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below					**(12,372)**	**-**
Liabilities for losses and allocated loss adjustment expenses before 2011, net of reinsurance					**(10)**	**(25)**
Unallocated loss adjustment expense prior year development					**-**	**47**
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance					**$ 4,838**	**$ 318**

The following table provides our attribution of our reinsurance recoverable for the ADC only (included in the table above):

Accident Year	Calendar Years Ended December 31, *(in millions)* 2016	2017	2018	2019	2020	Change in Incurred Loss and ALAE
	Unaudited					
2011	$ (25)	$ (50)	$ (26)	$ (54)	**$ (59)**	**$ (5)**
2012	(82)	(83)	(90)	(115)	**(134)**	**(19)**
2013	(171)	(126)	(89)	(100)	**(148)**	**(48)**
2014	(159)	(198)	(207)	(240)	**(241)**	**(1)**
2015	(333)	(313)	(326)	(278)	**(324)**	**(46)**
2016	-	-	-	-	**-**	**-**
2017	-	-	-	-	**-**	**-**
2018	-	-	-	-	**-**	**-**
2019	-	-	-	-	**-**	**-**
2020	-	-	-	-	**-**	**-**
Total	$ (770)	$ (770)	$ (738)	$ (787)	**$ (906)**	**$ (119)**
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below					**27**	**-**
Liabilities for losses and allocated loss adjustment expenses before 2011, net of reinsurance					**(213)**	**(23)**
Unallocated loss adjustment expense prior year development						**8**
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance					**$ (1,092)**	**$ (134)**

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Years Ended December 31, *(in millions)* 2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Paid Impact of Adverse Development Reinsurance Agreement
	Unaudited										
2011	$ 165	$ 494	$ 886	$ 1,210	$ 1,529	$ 1,752	$ 1,885	$ 1,912	$ 1,918	**$ 1,924**	**$ (1)**
2012		73	403	812	1,250	1,494	1,622	1,687	1,859	**1,904**	**(3)**
2013			41	327	682	945	1,139	1,235	1,314	**1,362**	**(3)**
2014				66	366	849	1,158	1,387	1,573	**1,658**	**(6)**
2015					63	390	791	1,055	1,282	**1,488**	**(14)**
2016						73	499	1,002	1,358	**1,659**	**-**
2017							64	391	761	**1,118**	**-**
2018								86	486	**835**	**-**
2019									94	**367**	**-**
2020										**84**	**-**
Total										**$ 12,399**	**$ (27)**

Reserving Process and Methodology

U.S. Financial Lines business includes D&O, Errors and Omissions (E&O), EPLI policies and various professional liability subsets of business, as well as the fidelity book of business. This includes cyber coverage and mergers and acquisitions coverage, which have been a growing and evolving portion of this portfolio. These product lines are predominantly claims-made in nature, losses are characterized by low frequency and high severity, and results are often significantly impacted by external economic conditions.

Our analysis is segmented by major coverages, such as D&O, E&O, etc. and then further segmented by major industry groups (e.g. corporate accounts, national accounts, financial institutions, private/not-for-profit, etc.). We also separately review primary business from excess business for certain product lines.

We use a combination of loss development, expected loss ratio, and frequency/severity methods for D&O, E&O, EPLI, and professional liability. These product lines generally are offered on a claims-made basis and losses are characterized by low frequency and high severity. In general, expected loss ratio methods are given more weight in the more recent accident years and loss development methods are given more weight in more mature accident years. The loss development factors for the different segments differ significantly in some cases, based on specific coverage characteristics and other factors such as industry group, attachment points, and limits offered. Individual claims projections for certain claims from accident years ended over eighteen months prior are also used in the analysis.

Frequency/severity methods are generally not used in isolation for these product lines as the overall losses are driven by large losses more than by claim frequency. For commercial D&O segments though, we reflect claims dismissal rates in our frequency estimates as claims severity varies directly with claims jurisprudence. Severity trends have varied significantly from accident year to accident year and care is required in analyzing these trends by claim type. In view of the changing severity profile of the book, we use a capped and excess layer approach on many segments to better reflect the potential impact of large claims on the results by accident year.

We generally use loss development methods for fidelity exposures for all but the latest accident year. For mergers and acquisitions exposure, given the unique profile of each transaction, we use claim department estimates of the ultimate value of each reported claim to supplement and inform the standard actuarial approaches and some weight is given to this method in the more recent accident years.

For surety exposures, we generally use the same method as for short-tail classes whereby frequency/severity methods, loss development methods, and IBNR factor methods are used alone or in combination to set reserves.

Expected loss ratio methods are also given weight for the more recent accident years. IBNR factor methods are used, when the nature of losses is low frequency/high severity. The IBNR factors, when applied to earned premium, generate the ultimate expected losses (or other exposure measure) yet to be reported. The factors are determined based on prior accident quarters' loss costs adjusted to reflect current cost levels and the historical emergence of those loss costs. The factors are continually reevaluated to reflect emerging claim experience, rate changes or other factors that could affect the adequacy of the IBNR factor being employed.

Prior Year Development

During 2020, we recognized $479 million of unfavorable development driven by loss severity emergence in recent accident years in our D&O business especially National and Private and Not For Profit segments, adverse loss emergence and loss trends in EPLI and adverse claim activity in E&O (including Architects and Engineers), Cyber and Mergers and Acquisitions segments.

During 2019, we recognized $463 million of unfavorable development particularly across accident years 2015-2018 driven by increasing severity across most D&O and EPLI classes and M&A policies. We also experienced unfavorable development in E&O due to adverse frequency and severity trends.

During 2018, we recognized $298 million of unfavorable prior year development particularly across accident years 2014-2017. The largest share of the unfavorable development came from D&O and EPLI for Corporate and National accounts and resulted largely from increases in severity as the costs of security class actions increased. Excess D&O also contributed adverse development due to similar causes.

U.S. Property and Special Risks

During 2020, we recognized $80 million of favorable prior year development in U.S. Property and Special Risks, net of external reinsurance but before ADC cessions.

During 2019, we recognized $204 million of favorable prior year development in U.S. Property and Special Risks, net of external reinsurance but before ADC cessions, mainly due to favorable development from the 2017 Catastrophes.

Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance

	Years Ended December 31, *(in millions)*											December 31, 2020					
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2020 Prior Year Development Excluding the Impact of Adverse Development Reinsurance Agreement	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims	Incurred Impact of Adverse Development Reinsurance Agreement	IBNR Impact of Adverse Development Reinsurance Agreement	2020 (Net of Impact of Adverse Development Reinsurance Agreement)	Total of IBNR Liabilities Net of Impact of Adverse Development Reinsurance Agreement
	Unaudited																
2011	$ 3,854	$ 3,725	$ 3,658	$ 3,653	$ 3,638	$ 3,676	$ 3,683	$ 3,676	$ 3,674	$ 3,670	$ (4)	$ 29	49,179	$ (22)	$ (12)	$ 3,648	$ 17
2012		4,168	4,279	4,261	4,219	4,331	4,322	4,304	4,288	4,284	(4)	59	48,424	(23)	(13)	4,261	46
2013			2,531	2,536	2,393	2,438	2,450	2,453	2,444	2,436	(8)	38	49,780	(36)	(20)	2,400	18
2014				2,946	2,715	2,787	2,773	2,792	2,772	2,752	(20)	77	60,227	(78)	(43)	2,674	34
2015					3,104	2,984	2,914	2,903	2,868	2,862	(6)	77	58,745	(99)	(54)	2,763	23
2016						3,152	3,189	3,103	3,089	3,094	5	100	53,912	-	-	3,094	100
2017							5,374	4,907	4,746	4,753	7	226	78,450	-	-	4,753	226
2018								3,734	3,800	3,777	(23)	338	67,915	-	-	3,777	338
2019									2,841	2,836	(5)	247	76,438	-	-	2,836	247
2020										4,492		2,426	59,238	-	-	4,492	2,426
Total										$ 34,956	$ (58)			$ (258)		34,698	
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below										(28,705)	-			8		(28,697)	
Liabilities for losses and loss adjustment expenses and prior year development before accident year 2011, net of reinsurance										311	(6)			(131)		180	
Unallocated loss adjustment expense prior year development											(16)						
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance										$ 6,562	$ (80)			$ (381)		6,181	

Incurred Losses and Loss Adjustment Expenses, Undiscounted, Net of Reinsurance (including impact of ADC)

	Calendar Years Ended December 31, *(in millions)*					
Accident Year	2016	2017	2018	2019	**2020**	**Change in Incurred Loss and ALAE**
	Unaudited					
2011	$ 3,656	$ 3,664	$ 3,661	$ 3,651	**$ 3,648**	**$ (3)**
2012	4,304	4,297	4,285	4,262	**4,261**	**(1)**
2013	2,411	2,412	2,426	2,406	**2,400**	**(6)**
2014	2,720	2,712	2,728	2,696	**2,674**	**(22)**
2015	2,843	2,816	2,816	2,774	**2,763**	**(11)**
2016	3,152	3,189	3,103	3,089	**3,094**	**5**
2017	-	5,374	4,907	4,746	**4,753**	**7**
2018	-	-	3,734	3,800	**3,777**	**(23)**
2019	-	-	-	2,841	**2,836**	**(5)**
2020	-	-	-	-	**4,492**	**-**
Total	$ 19,086	$ 24,464	$ 27,660	$ 30,265	**$ 34,698**	**$ (59)**
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below					**(28,697)**	**-**
Liabilities for losses and allocated loss adjustment expenses before 2011, net of reinsurance					**180**	**13**
Unallocated loss adjustment expense prior year development					**-**	**(15)**
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance					**$ 6,181**	**$ (61)**

The following table provides our attribution of our reinsurance recoverable for the ADC only (included in the table above):

Accident Year	Calendar Years Ended December 31, *(in millions)* 2016	2017	2018	2019	2020	Change in Incurred Loss and ALAE
	Unaudited					
2011	$ (20)	$ (19)	$ (15)	$ (23)	**$ (22)**	**$ 1**
2012	(27)	(25)	(19)	(26)	**(23)**	**3**
2013	(27)	(38)	(27)	(38)	**(36)**	**2**
2014	(67)	(61)	(64)	(76)	**(78)**	**(2)**
2015	(141)	(98)	(87)	(94)	**(99)**	**(5)**
2016	-	-	-	-	**-**	**-**
2017	-	-	-	-	**-**	**-**
2018	-	-	-	-	**-**	**-**
2019	-	-	-	-	**-**	**-**
2020	-	-	-	-	**-**	**-**
Total	$ (282)	$ (241)	$ (212)	$ (257)	**$ (258)**	**$ (1)**
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below					**8**	**-**
Liabilities for losses and allocated loss adjustment expenses before 2011, net of reinsurance					**(131)**	**7**
Unallocated loss adjustment expense prior year development						**1**
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance					**$ (381)**	**$ 7**

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Years Ended December 31, *(in millions)* 2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Paid Impact of Adverse Development Reinsurance Agreement
	Unaudited										
2011	$ 1,025	$ 2,346	$ 2,935	$ 3,204	$ 3,407	$ 3,504	$ 3,560	$ 3,591	$ 3,607	**$ 3,616**	**$ -**
2012		841	2,712	3,407	3,772	3,989	4,117	4,149	4,183	**4,199**	**-**
2013			735	1,573	1,852	2,045	2,193	2,305	2,330	**2,348**	**(1)**
2014				914	1,763	2,115	2,329	2,469	2,561	**2,600**	**(3)**
2015					1,037	1,872	2,239	2,494	2,620	**2,690**	**(4)**
2016						1,000	2,029	2,365	2,616	**2,801**	**-**
2017							1,359	3,070	3,793	**4,145**	**-**
2018								1,060	2,678	**3,079**	**-**
2019									1,138	**2,046**	**-**
2020										**1,181**	**-**
Total										**$ 28,705**	**$ (8)**

Reserving Process and Methodology

U.S. Property products include commercial, industrial and energy-related property insurance products and services that cover exposures to manmade and natural disasters, including business interruption. U.S. Special Risk products include aerospace, environmental, political risk, trade credit, surety and marine insurance, and program business for various small and medium sized enterprises insurance lines. The program segments include both property and casualty exposures.

We primarily segment our analysis by line of business. Additionally, we separately review various subsets, including hull, cargo, and liability for marine business, aviation and satellite for aerospace business, and various other specific programs and product lines.

Frequency/severity methods, loss development methods, and IBNR factor methods are used alone or in combination to set reserves for short-tail classes such as U.S. Property.

IBNR factor methods are used when the nature of losses is low frequency/high severity. The IBNR factors, when applied to earned premium, generate the ultimate expected losses (or other exposure measure) yet to be reported. The factors are determined based on prior accident quarters' loss costs adjusted to reflect current cost levels and the historical emergence of those loss costs. The factors are continually reevaluated to reflect emerging claim experience, rate changes or other factors that could affect the adequacy of the IBNR factor being employed.

We generally use a combination of loss development methods and expected loss ratio methods for aviation exposures. Aviation claims are not very long-tail in nature; however, they are driven by claim severity. Thus a combination of both development and expected loss ratio methods is used for all but the latest accident year to determine the loss reserves. Frequency/severity methods are not employed due to the high severity nature of the claims and different mix of claims from year to year.

We generally use loss development methods for fidelity exposures for all but the latest accident year. We also use claim department projections of the ultimate value of each reported claim to supplement and inform the standard actuarial approaches and some weight is given to this method in the more recent accident years. The claims staff also provides specific estimates to assist in the setting of reserves for natural catastrophe losses.

For program business, we use methods which vary by line of business. For property classes, we use methods similar to those noted above. For liability classes, we use methods similar to those described in the casualty sections detailed above.

Expected loss ratio methods are used to determine the loss reserves for the latest accident year. We also use ground-up claim projections provided by our claims staff to assist in developing the appropriate reserve.

Prior Year Development

During 2020, we recognized $80 million of favorable prior year development in U.S. Property and Special Risks driven largely by attritional property and favorable emergence on specialty losses coming in better than expected.

During 2019, we recognized $204 million of favorable prior year development in U.S. Property and Special Risks driven largely by favorable development on the 2017 Hurricanes (Harvey, Irma, Maria) as well as subrogation recoverable on the 2017 California wildfires and by favorable emergence on non-Catastrophe Commercial Property, Program and Specialty classes.

During 2018, we recognized $497 million of favorable prior year development in U.S. Property and Special Risks driven largely by favorable development on the 2017 Catastrophes as well as favorable emergence on non-Catastrophe Commercial Property, and Program and Specialty classes.

U.S. Personal Insurance

During 2020, we recognized $94 million of unfavorable prior year development in U.S. Personal Insurance, net of external reinsurance but before ADC cessions, mainly due to large losses in Homeowners and Umbrella.

During 2019, we recognized $96 million of favorable prior year development in U.S. Personal Insurance, net of external reinsurance but before ADC cessions, mainly due favorable development from the 2017 Catastrophes.

Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance

	Years Ended December 31, *(in millions)*											December 31, 2020					
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2020 Prior Year Development Excluding the Impact of Adverse Development Reinsurance Agreement	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims	Incurred Impact of Adverse Development Reinsurance Agreement	IBNR Impact of Adverse Development Reinsurance Agreement	2020 (Net of Impact of Adverse Development Reinsurance Agreement)	Total of IBNR Liabilities Net of Impact of Adverse Development Reinsurance Agreement
	Unaudited																
2011	$ 1,886	$ 1,908	$ 1,896	$ 1,891	$ 1,890	$ 1,886	$ 1,881	$ 1,879	$ 1,878	$ 1,879	$ 1	$ 1	413,231	$ (1)	$ (1)	$ 1,878	$ -
2012		2,208	2,128	2,109	2,083	2,077	2,094	2,095	2,099	2,101	2	2	403,986	(1)	(1)	2,100	1
2013			1,887	1,816	1,803	1,782	1,780	1,776	1,777	1,778	1	1	335,278	(2)	(1)	1,776	-
2014				1,552	1,562	1,572	1,572	1,583	1,584	1,588	4	5	274,913	(4)	(2)	1,584	3
2015					1,511	1,498	1,494	1,483	1,482	1,485	3	9	260,773	(5)	(2)	1,480	7
2016						1,536	1,533	1,533	1,540	1,542	2	13	246,867	-	-	1,542	13
2017							1,878	2,137	2,011	2,057	46	187	218,879	-	-	2,057	187
2018								2,188	2,193	2,154	(39)	156	100,658	-	-	2,154	156
2019									1,593	1,664	71	255	88,410	-	-	1,664	255
2020										954		272	41,698	-	-	954	272
Total										$ 17,202	$ 91			$ (13)		17,189	
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below										(16,002)	-			2		(16,000)	
Liabilities for losses and loss adjustment expenses and prior year development before accident year 2011, net of reinsurance										(67)	3			(6)		(73)	
Unallocated loss adjustment expense prior year development											-						
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance										$ 1,133	$ 94			$ (17)		1,116	

Incurred Losses and Loss Adjustment Expenses, Undiscounted, Net of Reinsurance (including impact of ADC)

	Calendar Years Ended December 31, *(in millions)*					
Accident Year	2016	2017	2018	2019	**2020**	Change in Incurred Loss and ALAE
	Unaudited					
2011	$ 1,881	$ 1,880	$ 1,878	$ 1,877	$ **1,878**	$ 1
2012	2,088	2,091	2,093	2,098	**2,100**	2
2013	1,774	1,774	1,774	1,776	**1,776**	-
2014	1,564	1,564	1,571	1,580	**1,584**	4
2015	1,476	1,475	1,472	1,476	**1,480**	4
2016	1,536	1,533	1,533	1,540	**1,542**	2
2017	-	1,878	2,137	2,011	**2,057**	46
2018	-	-	2,188	2,193	**2,154**	(39)
2019	-	-	-	1,593	**1,664**	71
2020	-	-	-	-	**954**	-
Total	$ 10,319	$ 12,195	$ 14,646	$ 16,144	$ **17,189**	$ 91
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below					(16,000)	-
Liabilities for losses and allocated loss adjustment expenses before 2011, net of reinsurance					(73)	3
Unallocated loss adjustment expense prior year development					-	-
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance					$ 1,116	$ 94

The following table provides our attribution of our reinsurance recoverable for the ADC only (included in the table above):

Accident Year	Calendar Years Ended December 31, *(in millions)* 2016	2017	2018	2019	2020	Change in Incurred Loss and ALAE
	Unaudited					
2011	$ (5)	$ (1)	$ (1)	$ (1)	**$ (1)**	**$ -**
2012	11	(3)	(2)	(1)	**(1)**	**-**
2013	(8)	(6)	(2)	(1)	**(2)**	**(1)**
2014	(8)	(8)	(12)	(4)	**(4)**	**-**
2015	(22)	(19)	(11)	(6)	**(5)**	**1**
2016	-	-	-	-	**-**	**-**
2017	-	-	-	-	**-**	**-**
2018	-	-	-	-	**-**	**-**
2019	-	-	-	-	**-**	**-**
2020	-	-	-	-	**-**	**-**
Total	$ (32)	$ (37)	$ (28)	$ (13)	**$ (13)**	**$ -**
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below					**2**	**-**
Liabilities for losses and allocated loss adjustment expenses before 2011, net of reinsurance					**(6)**	**1**
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance					**$ (17)**	**$ 1**

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Years Ended December 31, *(in millions)* 2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Paid Impact of Adverse Development Reinsurance Agreement
	Unaudited										
2011	$ 1,204	$ 1,752	$ 1,814	$ 1,840	$ 1,860	$ 1,869	$ 1,873	$ 1,874	$ 1,875	**$ 1,876**	**$ -**
2012		1,238	1,936	1,996	2,035	2,065	2,079	2,085	2,095	**2,098**	**-**
2013			1,109	1,634	1,705	1,744	1,759	1,766	1,772	**1,774**	**-**
2014				959	1,380	1,463	1,507	1,536	1,555	**1,568**	**(1)**
2015					931	1,320	1,411	1,439	1,455	**1,461**	**(1)**
2016						857	1,344	1,422	1,460	**1,501**	**-**
2017							941	1,672	1,896	**1,789**	**-**
2018								1,227	1,939	**1,973**	**-**
2019									884	**1,295**	**-**
2020										**667**	**-**
Total										**$ 16,002**	**$ (2)**

Reserving Process and Methodology

U.S. Personal Insurance consists of accident and health and personal lines. 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. Personal lines include automobile and homeowners' insurance, extended warranty, and consumer specialty products, such as identity theft and credit card protection. Personal lines also provides insurance for high net worth individuals offered through AIG Private Client Group, including auto, homeowners, umbrella, yacht, fine art and collections insurance. Personal lines are generally short-tail in nature.

We primarily segment our analysis by line of business and may separately review various sub-segments, such as specific accident and health products and property damage versus liability for personal lines products.

Frequency/severity methods, loss development methods, and IBNR factor methods are used alone or in combination to set reserves for short-tail product lines such as personal property.

Frequency/severity and loss development methods are utilized for domestic personal auto product lines.

For these classes of business, reliance is placed on frequency/severity methods as claim counts emerge quickly for personal auto. Frequency/severity methods allow for more immediate analysis of resulting loss trends and comparisons to industry and other diagnostic metrics.

In general, development for U.S. Personal Insurance classes has been very stable, with only modest changes in the initial selected loss ratios for this business.

Prior Year Development

During 2020, we recognized $94 million of unfavorable prior year development in U.S. Personal Insurance driven largely by large severity claims in Homeowners and Umbrella books of business.

During 2019, we recognized $96 million of favorable prior year development in U.S. Personal Insurance driven largely by subrogation recoverable on the 2017 California wildfires and favorable development from Hurricanes Harvey, Irma and Maria.

During 2018, we recognized $255 million of adverse prior year development in U.S. Personal Insurance driven largely by development on the California wildfires and Hurricane Irma in 2017.

UK/Europe Casualty and Financial Lines

During 2020, we recognized $258 million of unfavorable prior year development in Europe Casualty and Financial Lines driven by higher severity in losses reported.

During 2019, we recognized $161 million of unfavorable prior year development in Europe Casualty and Financial Lines driven by greater frequency of large losses than expected.

Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance*

	Years Ended December 31, *(in millions)*											December 31, 2020	
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2020 Prior Year Development	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims
	Unaudited												
2011	$ 1,332	$ 1,284	$ 1,365	$ 1,415	$ 1,509	$ 1,515	$ 1,560	$ 1,539	$ 1,539	$ 1,528	$ (11)	$ 45	236,387
2012		1,153	1,128	1,090	1,176	1,239	1,214	1,272	1,258	1,273	15	57	178,428
2013			1,104	1,149	1,128	1,106	1,146	1,180	1,227	1,250	23	73	150,978
2014				1,104	1,075	1,100	1,106	1,100	1,188	1,131	(57)	85	149,799
2015					1,165	1,314	1,351	1,244	1,315	1,300	(15)	136	155,761
2016						1,403	1,543	1,581	1,587	1,681	94	243	175,940
2017							1,433	1,405	1,334	1,418	84	358	184,069
2018								1,463	1,502	1,590	88	551	191,493
2019									1,380	1,411	31	680	175,315
2020										1,382		1,086	101,348
Total										$ 13,964	$ 252		
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below										(7,925)	-		
Liabilities for losses and loss adjustment expenses and prior year development before accident year 2011, net of reinsurance										787	6		
Unallocated loss adjustment expense prior year development											-		
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance										$ 6,826	$ 258		

* The losses reported in the table are not covered by the Adverse Development Reinsurance Agreement.

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance*

	Years Ended December 31, *(in millions)*									
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Unaudited									
2011	$ 132	$ 365	$ 551	$ 798	$ 948	$ 1,075	$ 1,189	$ 1,257	$ 1,314	$ 1,338
2012		111	321	469	660	797	890	997	1,052	1,082
2013			95	357	514	662	783	904	981	1,033
2014				76	273	434	560	667	736	803
2015					74	253	456	599	724	905
2016						126	402	620	818	980
2017							103	298	476	637
2018								120	380	603
2019									94	410
2020										134
Total										$ 7,925

* The losses reported in the table are not covered by the Adverse Development Reinsurance Agreement.

Reserving Process and Methodology

UK/Europe is our largest non-U.S. region for Liability and Financial Lines. UK/Europe Casualty and Financial Lines is composed of third-party coverages including general liability, auto liability, D&O, professional liability and various other lines of business throughout both the UK and Continental Europe. These lines of business are all long-tail in nature and while somewhat diverse in terms of exposures, these lines are often subject to similar trends. These lines are impacted by the underwriting cycle and external judicial trends. The largest share of business is in the UK, but significant business is also written in other European countries such as Germany, France, and Italy.

We primarily segment our analysis by country and line of business. Additionally, we separately review various product lines, including excess versus primary casualty, commercial versus financial institutions management liability, and other specific programs and subsets of business. We maintain a database of detailed historical premium and loss transactions in original currency for business written outside of the U.S. which allows our actuaries to determine loss reserves without foreign exchange distorting development.

We generally use a combination of loss development methods and expected loss ratio methods. For countries and lines of business with sufficient loss volume, loss development methods may be given significant weight for all but the most recent accident years. For smaller countries and more volatile product lines, loss development methods are typically given limited weight for recent accident years. Further, we may rely on larger data subsets in determining the loss development factors and *a priori* loss ratio assumptions.

In general, the loss development for long-tail lines in UK/Europe has been more stable than the development in U.S. long-tail lines, although some underlying drivers have affected the results in a similar manner (e.g. the impact of the financial crisis in accident years 2008 and 2009).

Prior Year Development

During 2020, we recognized $258 million of unfavorable prior year development in UK and Europe Casualty and Financial Lines driven by Financial Lines in the UK and Europe and Excess Casualty in Europe as we continue to see increased severity of large losses in these classes.

During 2019, we recognized $161 million of unfavorable prior year development in UK and Europe Casualty and Financial Lines driven by increased large loss activity in recent accident years, particularly related to UK directors and officers class action suits against insureds with global exposure, and increased frequency and severity in European casualty for auto liability and employers liability. This was slightly offset by a benefit from an increase in the Ogden rates in the UK used to value long duration claims.

During 2018 we recognized $58 million of unfavorable prior year development in UK/Europe Casualty and Financial Lines driven by increased large loss activity in recent accident years, particularly related to directors and officers class action suits against insureds with global exposure; and increased severity in excess casualty.

UK/Europe Property and Special Risks

During 2020, we recognized $155 million of favorable prior year development in the UK/Europe Property and Special Risks segment, net of external reinsurance.

During 2019, we recognized $108 million of favorable prior year development in the UK/Europe Property and Special Risks segment, net of external reinsurance.

Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance*

	Years Ended December 31, *(in millions)*											December 31, 2020	
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2020 Prior Year Development	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims
	Unaudited												
2011	$ 1,461	$ 1,388	$ 1,263	$ 1,226	$ 1,194	$ 1,183	$ 1,181	$ 1,170	$ 1,166	$ 1,152	$ (14)	$ (1)	44,583
2012		1,390	1,256	1,184	1,167	1,147	1,152	1,135	1,115	1,121	6	12	40,133
2013			1,475	1,464	1,349	1,330	1,312	1,300	1,281	1,273	(8)	-	40,004
2014				1,519	1,546	1,523	1,514	1,522	1,496	1,458	(38)	(3)	48,374
2015					1,654	1,598	1,580	1,541	1,515	1,509	(6)	16	53,754
2016						1,619	1,768	1,760	1,761	1,757	(4)	24	56,625
2017							1,735	1,685	1,677	1,676	(1)	40	52,864
2018								1,700	1,643	1,614	(29)	101	43,078
2019									1,238	1,177	(61)	160	30,713
2020										1,489		662	17,731
Total										$ 14,226	$ (155)		
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below										(11,590)	-		
Liabilities for losses and loss adjustment expenses and prior year development before accident year 2011, net of reinsurance										43	-		
Unallocated loss adjustment expense prior year development											-		
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance										$ 2,679	$ (155)		

* The losses reported in the table are not covered by the Adverse Development Reinsurance Agreement.

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance*

	Years Ended December 31, *(in millions)*									
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Unaudited									
2011	$ 349	$ 800	$ 998	$ 1,074	$ 1,098	$ 1,117	$ 1,125	$ 1,132	$ 1,136	$ 1,138
2012		288	745	940	1,009	1,055	1,082	1,092	1,099	1,099
2013			344	843	1,075	1,153	1,203	1,225	1,235	1,242
2014				329	959	1,250	1,321	1,361	1,388	1,399
2015					360	966	1,256	1,370	1,393	1,418
2016						479	1,167	1,427	1,571	1,618
2017							366	999	1,273	1,419
2018								329	1,021	1,219
2019									293	719
2020										319
Total										$ 11,590

* The losses reported in the table are not covered by the Adverse Development Reinsurance Agreement.

Reserving Process and Methodology

UK/Europe Property products include commercial, industrial and energy-related property insurance products and services that cover exposures to manmade and natural disasters, including business interruption. UK/Europe Special Risk products include aerospace, environmental, political risk, trade credit, surety and marine insurance, and various small and medium sized enterprises insurance lines.

We primarily segment our analysis by line of business. Additionally, we separately review various subsets, including hull, cargo, and liability for marine business, aviation and satellite for aerospace business, and various other specific programs and product lines.

Frequency/severity methods, loss development methods, and IBNR factor methods are used alone or in combination to set reserves for short-tail classes such as UK/Europe Property.

IBNR factor methods are used when the nature of losses is low frequency/high severity. The IBNR factors, when applied to earned premium, generate the ultimate expected losses (or other exposure measure) yet to be reported. The factors are determined based on prior accident quarters' loss costs adjusted to reflect current cost levels and the historical emergence of those loss costs. The factors are continually reevaluated to reflect emerging claim experience, rate changes or other factors that could affect the adequacy of the IBNR factor being employed.

We generally use a combination of loss development methods and expected loss ratio methods for aviation exposures. Aviation claims are not very long-tail in nature; however, they are driven by claim severity. Thus a combination of both development and expected loss ratio methods is used for all but the latest accident year to determine the loss reserves. Frequency/severity methods are not employed due to the high severity nature of the claims and different mix of claims from year to year.

We generally use loss development methods for fidelity exposures for all but the latest accident year. We also use claim department projections of the ultimate value of each reported claim to supplement and inform the standard actuarial approaches and some weight is given to this method in the more recent accident years. The claims staff also provides specific estimates to assist in the setting of reserves for natural catastrophe losses.

Expected loss ratio methods are used to determine the loss reserves for the latest accident year. We also use ground-up claim projections provided by our claims staff to assist in developing the appropriate reserve.

Prior Year Development

During 2020, we recognized $155 million of favorable prior year development in the Europe Property and Special Risks segment driven by lower Property attritional loss activity and favorable emergence across several Specialty classes.

During 2019, we recognized $108 million of favorable prior year development in the Europe Property and Special Risks segment driven by favorable development in Commercial Property and Specialty classes including aviation and marine.

During 2018, we recognized $22 million of favorable prior year development in the Europe Property and Special Risks segment driven by favorable development across most accident years with some adverse development in accident years 2014 and 2016.

UK/Europe and Japan Personal Insurance

During 2020, we recognized $39 million of favorable prior year development in UK/Europe and Japan Personal Insurance, net of external reinsurance.

During 2019, we recognized $119 million of favorable prior year development in UK/Europe and Japan Personal Insurance, net of external reinsurance.

Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance*

	Years Ended December 31, *(in millions)*											December 31, 2020	
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2020 Prior Year Development	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims
	Unaudited												
2011	$ 3,503	$ 3,567	$ 3,531	$ 3,533	$ 3,522	$ 3,525	$ 3,516	$ 3,515	$ 3,514	**$ 3,515**	**$ 1**	**$ 3**	**1,758,202**
2012		3,086	3,067	3,046	3,030	3,040	3,029	3,026	3,025	**3,025**	**-**	**3**	**1,737,969**
2013			2,925	2,925	2,889	2,889	2,884	2,879	2,875	**2,875**	**-**	**5**	**1,738,818**
2014				2,884	2,893	2,874	2,872	2,863	2,863	**2,863**	**-**	**6**	**1,789,156**
2015					2,958	2,932	2,933	2,921	2,919	**2,920**	**1**	**12**	**1,773,689**
2016						2,904	2,898	2,882	2,873	**2,869**	**(4)**	**18**	**1,800,392**
2017							2,841	2,752	2,732	**2,728**	**(4)**	**30**	**1,721,690**
2018								3,389	3,306	**3,309**	**3**	**101**	**1,898,738**
2019									2,727	**2,688**	**(39)**	**152**	**1,694,072**
2020										**2,454**		**542**	**1,264,520**
Total										**$ 29,246**	**$ (42)**		
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below										**(27,077)**	**-**		
Liabilities for losses and loss adjustment expenses and prior year development before accident year 2011, net of reinsurance										**50**	**3**		
Unallocated loss adjustment expense prior year development											**-**		
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance										**$ 2,219**	**$ (39)**		

* The losses reported in the table are not covered by the Adverse Development Reinsurance Agreement.

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance*

	Years Ended December 31, *(in millions)*									
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	**2020**
	Unaudited									
2011	$ 2,132	$ 2,991	$ 3,243	$ 3,363	$ 3,430	$ 3,462	$ 3,479	$ 3,489	$ 3,494	**$ 3,497**
2012		1,726	2,526	2,769	2,884	2,944	2,977	2,994	3,003	**3,007**
2013			1,606	2,398	2,630	2,744	2,804	2,837	2,850	**2,858**
2014				1,576	2,372	2,609	2,728	2,788	2,814	**2,829**
2015					1,597	2,414	2,653	2,780	2,826	**2,859**
2016						1,598	2,376	2,608	2,721	**2,779**
2017							1,562	2,327	2,531	**2,620**
2018								1,994	2,795	**3,018**
2019									1,561	**2,277**
2020										**1,333**
Total										**$ 27,077**

* The losses reported in the table are not covered by the Adverse Development Reinsurance Agreement.

Reserving Process and Methodology

UK/Europe and Japan Personal Insurance lines consist of accident and health and personal lines. 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. Personal lines include automobile and homeowners' insurance, extended warranty, and consumer specialty products, such as identity theft and credit card protection. Personal lines are generally short-tail in nature.

We primarily segment our analysis by line of business (and by country for UK/Europe and Japan business) and may separately review various sub-segments, such as specific accident and health products and property damage versus liability for other personal lines products.

Frequency/severity methods, loss development methods, and IBNR factor methods are used alone or in combination to set reserves for short-tail product lines such as personal property.

Frequency/severity and loss development methods are utilized for domestic personal auto product lines.

For these classes of business, reliance is placed on frequency/severity methods as claim counts emerge quickly for personal auto. Frequency/severity methods allow for more immediate analysis of resulting loss trends and comparisons to industry and other diagnostic metrics.

In general, development for UK/Europe and Japan Personal Insurance classes has been very stable, with only modest changes in the initial selected loss ratios for this business.

Prior Year Development

During 2020, we recognized $39 million of favorable prior year development in UK/Europe and Japan Personal Insurance due to favorable frequency and severity trends.

During 2019, we recognized $119 million of favorable prior year development in UK/Europe and Japan Personal Insurance due to favorable loss trends in personal auto and accident and health business.

During 2018, we recognized $116 million of favorable prior year development in UK/Europe and Japan Personal Insurance due to favorable emergence on catastrophes, accident and health business, and personal auto business.

The table below presents the reconciliation of change in net ultimates from tables above to prior year development for the year ended December 31, 2020:

(in millions)	Change in Loss and Loss Adjustment Expenses Net Ultimate[(a)]	Re-Attribution of ADC Recovery[(b)]	Amortization of Deferred Gain at Inception	Prior Year Development
U.S. Workers' Compensation	$ (322)	$ (9)	$ (65)	$ (396)
U.S. Excess Casualty	206	(60)	(50)	96
U.S. Other Casualty	(155)	(4)	(48)	(207)
U.S. Financial Lines	318	57	(34)	341
U.S. Property and Special Risks	(61)	25	(12)	(48)
U.S. Personal Insurance	94	(9)	(2)	83
UK/Europe Casualty and Financial lines	258	-	-	258
UK/Europe Property and Special Risks	(155)	-	-	(155)
UK/Europe and Japan Personal Insurance	(39)	-	-	(39)
Other Operations Run-Off	2	-	-	2
Other product lines	(9)	-	-	(9)
Subtotal, adjusted pre-tax basis	**$ 137**	**$ -**	**$ (211)**	**$ (74)**
Remove impact of Retroactive Reinsurance				
Amortization of deferred gain at inception				211
Prior year development ceded under the Asbestos LPT				1
Prior year development ceded under the ADC				(228)
Total, prior years, excluding discount and amortization of deferred gain				**$ (90)**

(a) Change in net ultimate loss and LAE excludes the portion of prior year development for which we have ceded to the Asbestos Loss Portfolio Transfer (LPT) and the ADC, both of which are provided by NICO and are considered retroactive reinsurance under U.S. GAAP.

(b) Reattribution of the ADC recovery takes place annually as we model the future payments on the subject reserves covered by the ADC to determine when the aggregate payments will exceed the attachment. ADC recoverables are then reallocated by line based on payments expected to be made after attachment point is exceeded.

Development on earlier Accident Years

The following table summarizes (favorable) unfavorable development, of incurred losses and loss adjustment expenses on accident years beyond the 10 years shown in the previous section's development triangles by operating segment and major class of business:

Years Ended December 31, *(in millions)*	2020	2019	2018
U.S. Workers' compensation (before discount)	$ (87)	$ (210)	$ 153
U.S. Excess casualty	(237)	54	537
U.S. Other casualty	(40)	(170)	129
U.S. Financial Lines	25	11	(1)
U.S. Property and Special Risks	(6)	(3)	39
U.S. Personal Insurance	3	1	2
UK/Europe Casualty and Financial Lines	6	9	1
UK/Europe Property and Special Risks	-	(28)	3
UK/Europe and Japan Personal Insurance	3	-	9
Other Operations Run-Off	4	(46)	154
All Other including unallocated loss adjustment expenses	(128)	116	137
Total prior year (favorable) unfavorable development	$ (457)	$ (266)	$ 1,163

Claims Payout Patterns

The following table presents the historical average annual percentage claims payout on an accident year basis at the same level of disaggregation as presented in the claims development table.

Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance (Unaudited)

Year	1	2	3	4	5	6	7	8	9	10
U.S. Workers' compensation	13.4 %	17.6 %	12.1 %	8.0 %	6.3 %	4.3 %	2.9 %	1.9 %	1.9 %	0.8 %
U.S. Excess casualty	0.7	7.4	10.9	16.9	13.0	11.0	9.0	6.8	0.2	4.2
U.S. Other casualty	8.0	14.2	15.6	15.0	12.3	8.6	5.6	2.8	2.0	1.6
U.S. Financial Lines	4.6	17.8	21.2	17.1	13.0	8.7	4.8	4.2	1.2	0.3
U.S. Property and Special Risks	30.2	35.3	13.3	8.0	5.4	3.2	1.2	0.8	0.4	0.2
U.S. Personal Insurance	59.0	29.9	4.9	1.0	1.5	0.6	0.4	0.2	0.1	-
UK/Europe Casualty and Financial Lines	7.6	17.0	13.2	12.6	9.8	9.1	7.0	4.3	3.0	1.6
UK/Europe Property and Special Risks	24.5	39.8	16.9	6.9	2.8	1.9	0.8	0.6	0.2	0.2
UK/Europe and Japan Personal Insurance	56.9	26.7	7.8	3.8	1.9	1.0	0.5	0.3	0.1	0.1

DISCOUNTING OF LOSS RESERVES

At December 31, 2020 and 2019, the loss reserves reflect a net loss reserve discount of $725 million and $1.5 billion, respectively, including tabular and non-tabular calculations based upon the following assumptions:

The non-tabular workers' compensation discount is calculated separately for companies domiciled in New York, Pennsylvania and Delaware, and follows the statutory regulations (prescribed or permitted) for each state.

For New York companies, the discount is based on a 5 percent interest rate and the companies' own payout patterns. The Pennsylvania and Delaware regulators approved use of a consistent discount rate (U.S. Treasury rate plus a liquidity premium) to all of our workers' compensation reserves in or Pennsylvania domiciled and Delaware domiciled companies, as well as our use of updated payout patterns specific to our primary and excess workers compensation portfolios. In 2020, the regulators also approved that the discount rate will be updated on an annual basis.

The tabular workers' compensation discount is calculated based on the mortality rate used in the 2007 U.S. Life table and interest rates prescribed or permitted by each state (i.e. New York is based on 5 percent interest rate and Pennsylvania and Delaware are based on US treasury plus liquidity rate).

The discount for asbestos reserves has been fully accreted.

The discount consists of $285 million and $582 million of tabular discount, and $440 million and $967 million of non-tabular discount for workers' compensation at December 31, 2020 and 2019, respectively. During the years ended December 31, 2020, 2019, and 2018 the benefit/(charge) from changes in discount of $(516) million, $(955) million and $371 million, respectively, were recorded as part of the policyholder benefits and losses incurred in the Consolidated Statement of Income.

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

(in millions)	**December 31, 2020** North America Commercial Insurance	Other Operations Run-Off[b]	Total	December 31, 2019 North America Commercial Insurance	Other Operations Run-Off	Total
U.S. workers' compensation	**$ 1,636**	**$ -**	**$ 1,636**	$ 2,134	$ 666	$ 2,800
Retroactive reinsurance	**(911)**	**-**	**(911)**	(1,251)	-	(1,251)
Total reserve discount[a]	**$ 725**	**$ -**	**$ 725**	$ 883	$ 666	$ 1,549

(a) Excludes $151 million and $172 million of discount related to certain long tail liabilities in the UK at December 31, 2020 and 2019, respectively.

(b) Excludes $493 million of discount which was 100 percent ceded to Fortitude Re at December 31, 2020. On June 2, 2020, we completed the Majority Interest Fortitude Sale. *Refer to Note 1 for additional information.*

The following table presents the net loss reserve discount benefit (charge):

Years Ended December 31,	**2020**			2019			2018		
(in millions)	North America Commercial Insurance	Other Operations Run-Off[b]	Total	North America Commercial Insurance	Other Operations Run-Off	Total	North America Commercial Insurance	Other Operations Run-Off	Total
Current accident year	**$ 71**	**$ -**	**$ 71**	$ 108	$ -	$ 108	$ 119	$ -	$ 119
Accretion and other adjustments to prior year discount	**(162)**	**(18)**	**(180)**	(229)	(87)	(316)	(108)	(58)	(166)
Effect of interest rate changes	**(407)**	**-**	**(407)**	(527)	(220)	(747)	305	113	418
Net reserve discount benefit (charge)	**(498)**	**(18)**	**(516)**	(648)	(307)	(955)	316	55	371
Change in discount on loss reserves ceded under retroactive reinsurance	**340**	**-**	**340**	469	-	469	(180)	-	(180)
Net change in total reserve discount[a]	**$ (158)**	**$ (18)**	**$ (176)**	$ (179)	$ (307)	$ (486)	$ 136	$ 55	$ 191

(a) Excludes $(20) million, $9 million, and $(9) million of discount related to certain long tail liabilities in the UK at December 31, 2020, 2019, and 2018, respectively.

(b) On June 2, 2020, we completed the Majority Interest Fortitude Sale. *Refer to Note 1 for additional information*. Change in discount prior to the sale is included in the above at December 31, 2020. Following the sale, 100 percent of the discount is ceded to Fortitude Re.

During 2020, effective interest rates declined due to a decrease in the forward yield curve component of the discount rates reflecting a decline in U.S. Treasury rates along with changes in payout pattern assumptions. This resulted in a decrease in the loss reserve discount by $407 million in 2020.

During 2019, effective interest rates declined due to a decrease in the forward yield curve component of the discount rates reflecting a decline in U.S. Treasury rates along with changes in payout pattern assumptions. This resulted in a decrease in the loss reserve discount by $747 million in 2019.

During 2018, effective interest rates increased due to an increase in the forward yield curve component of the discount rates reflecting an incline in U.S. Treasury rates along with the changes in payout pattern assumptions. This resulted in an increase in the loss reserve discount by $418 million in 2018.

FUTURE POLICY BENEFITS

Future policy benefits primarily include reserves for traditional life and annuity payout contracts, which represent an estimate of the present value of future benefits less the present value of future net premiums. Included in Future policy benefits are liabilities for annuities issued in structured settlement arrangements whereby a claimant has agreed to settle a general insurance claim in exchange for fixed payments over a fixed determinable period of time with a life contingency feature. In addition, reserves for contracts in loss recognition are adjusted to reflect the effect of unrealized gains on fixed maturity securities available for sale.

Future policy benefits also include certain guaranteed benefits of variable annuity products that are not considered embedded derivatives, primarily guaranteed minimum death benefits.

For additional information on guaranteed minimum death benefits see Note 14.

The liability for long-duration future policy benefits has been established including assumptions for interest rates which vary by year of issuance and product, and range from approximately 0.1 percent to 14.6 percent. Mortality and surrender rate assumptions are generally based on actual experience when the liability is established.

POLICYHOLDER CONTRACT DEPOSITS

The liability for Policyholder contract deposits is primarily recorded at accumulated value (deposits received and net transfers from separate accounts, plus accrued interest credited at rates ranging from 0 percent to 9.0 percent at December 31, 2020, less withdrawals and assessed fees). Deposits collected on investment-oriented products are not reflected as revenues, because they are recorded directly to Policyholder contract deposits upon receipt. Amounts assessed against the contract holders for mortality, administrative, and other services are included in revenues.

In addition to liabilities for universal life, fixed annuities, fixed options within variable annuities, annuities without life contingencies, funding agreements and GICs, policyholder contract deposits also include our liability for (i) certain guaranteed benefits and indexed features accounted for as embedded derivatives at fair value, (ii) annuities issued in a structured settlement arrangement with no life contingency and (iii) certain contracts we have elected to account for at fair value.

For additional information on guaranteed benefits accounted for as embedded derivatives see Note 14.

For universal life policies with secondary guarantees, we recognize certain liabilities in addition to policyholder account balances. For universal life policies with secondary guarantees, as well as other universal life policies for which profits followed by losses are expected at contract inception, a liability is recognized based on a benefit ratio of (a) the present value of total expected payments, in excess of the account value, over the life of the contract, divided by (b) the present value of total expected assessments over the life of the contract. For universal life policies without secondary guarantees, for which profits followed by losses are first expected after contract inception, we establish a liability, in addition to policyholder account balances, so that expected future losses are recognized in proportion to the emergence of profits in the earlier (profitable) years. Universal life account balances as well as these additional liabilities related to universal life products are reported within Policyholder contract deposits in the Consolidated Balance Sheet. These additional liabilities are also adjusted to reflect the effect of unrealized gains or losses on fixed maturity securities available for sale and prior to 2018, equity securities at fair value on accumulated assessments, with related changes recognized through Other comprehensive income. The policyholder behavior assumptions for these liabilities include mortality, lapses and premium persistency. The capital market assumptions used for the liability for universal life secondary guarantees include discount rates and net earned rates.

Under a funding agreement-backed notes issuance program, an unaffiliated, non-consolidated statutory trust issues medium-term notes to investors, which are secured by GICs issued to the trust by one of our Life and Retirement companies through our Institutional Markets business.

The following table presents universal life policies with secondary guarantees and similar features (excluding base policy liabilities and embedded derivatives):

	Years Ended December 31,		
(in millions)	**2020**	2019	2018
Balance, beginning of year	**$ 2,685**	$ 2,640	$ 2,351
Incurred guaranteed benefits*	**1,041**	514	758
Paid guaranteed benefits	**(470)**	(469)	(469)
Balance, end of year	**$ 3,256**	$ 2,685	$ 2,640

* Incurred guaranteed benefits include the portion of assessments established as additions to reserves as well as changes in estimates (assumption unlockings) affecting these reserves.

The following table presents details concerning our Universal life policies with secondary guarantees and similar features, by benefit type:

At December 31,		
(dollars in millions)	**2020**	2019
Account value	**$ 3,078**	$ 2,850
Net amount at risk	**63,721**	59,924
Average attained age of contract holders	**53**	54

The following table presents Policyholder contract deposits by product line:

At December 31,		
(in millions)	**2020**	2019
Policyholder contract deposits:		
Fixed annuities	**$ 49,206**	$ 50,446
Group Retirement	**43,893**	42,207
Life Insurance	**15,407**	14,403
Variable annuities	**10,964**	10,008
Index annuities	**25,220**	20,698
Institutional Markets	**11,361**	9,965
Fortitude Re	**4,200**	4,142
Total Policyholder contract deposits	**$ 160,251**	$ 151,869

OTHER POLICYHOLDER FUNDS

Other policyholder funds include unearned revenue reserves (URR). URR consist of front-end loads on investment-oriented contracts, representing those policy loads that are non-level and typically higher in initial policy years than in later policy years. URR for investment-oriented contracts are generally deferred and amortized, with interest, in relation to the incidence of estimated gross profits (EGPs) to be realized over the estimated lives of the contracts and are subject to the same adjustments due to changes in the assumptions underlying EGPs as DAC. Amortization of URR is recorded in Policy fees. Similar to shadow DAC, URR related to investment-oriented products is also adjusted to reflect the effect of unrealized gains or losses on fixed maturity securities available for sale and also, prior to 2018, equity securities at fair value on estimated gross profits, with related changes recognized through Other comprehensive income (shadow URR).

Other policyholder funds also include provisions for future dividends to participating policyholders, accrued in accordance with all applicable regulatory or contractual provisions. Participating life business represented approximately 1.4 percent of gross insurance in force at December 31, 2020 and 1.9 percent of gross domestic premiums and other considerations in 2020. The amount of annual dividends to be paid is approved locally by the boards of directors of the Life and Retirement companies. Provisions for future dividend payments are computed by jurisdiction, reflecting local regulations. The portions of current and prior net income and of current unrealized appreciation of investments that can inure to our benefit are restricted in some cases by the insurance contracts and by the local insurance regulations of the jurisdictions in which the policies are in force.

Certain products are subject to experience adjustments. These include group life and group medical products, credit life contracts, accident and health insurance contracts/riders attached to life policies and, to a limited extent, reinsurance agreements with other direct insurers. Ultimate premiums from these contracts are estimated and recognized as revenue with the unearned portions of the premiums recorded as liabilities in Other policyholder funds. Experience adjustments vary according to the type of contract and the territory in which the policy is in force and are subject to local regulatory guidance.

14. Variable Life and Annuity Contracts

We report variable contracts within the separate accounts when investment income and investment gains and losses accrue directly to, and investment risk is borne by, the contract holder and the separate account meets additional accounting criteria to qualify for separate account treatment. The assets supporting the variable portion of variable annuity and variable universal life contracts that qualify for separate account treatment are carried at fair value and reported as Separate account assets, with an equivalent summary total reported as Separate account liabilities.

Policy values for variable products and investment contracts are expressed in terms of investment units. Each unit is linked to an asset portfolio. The value of a unit increases or decreases based on the value of the linked asset portfolio. The current liability at any time is the sum of the current unit value of all investment units in the separate accounts, plus any liabilities for guaranteed minimum death benefits (GMDB) or guaranteed minimum withdrawal benefits (GMWB) included in Future policy benefits or Policyholder contract deposits, respectively.

Amounts assessed against the contract holders for mortality, administrative and other services are included in revenue. Net investment income, net investment gains and losses, changes in fair value of assets, and policyholder account deposits and withdrawals related to separate accounts are excluded from the Consolidated Statements of Income, Comprehensive Income (Loss) and Cash Flows.

Variable annuity contracts may include certain contractually guaranteed benefits to the contract holder. These guaranteed features include GMDB that are payable in the event of death, and living benefits that are payable in the event of annuitization, or, in other instances, at specified dates during the accumulation period. Living benefits primarily include GMWB. A variable annuity contract may include more than one type of guaranteed benefit feature; for example, it may have both a GMDB and a GMWB. However, a policyholder can only receive payout from one guaranteed feature on a contract containing a death benefit and a living benefit, i.e. the features are mutually exclusive (except a surviving spouse who has a rider to potentially collect both a GMDB upon their spouse's death and a GMWB during their lifetime). A policyholder cannot purchase more than one living benefit on one contract. The net amount at risk for each feature is calculated irrespective of the existence of other features; as a result, the net amount at risk for each feature is not additive to that of other features.

Account balances of variable annuity contracts with guarantees were invested in separate account investment options as follows:

At December 31, *(in millions)*	2020	2019
Equity funds	**$ 56,868**	$ 51,383
Bond funds	**8,534**	7,881
Balanced funds	**27,441**	26,659
Money market funds	**1,124**	765
Total	**$ 93,967**	$ 86,688

GMDB

Depending on the contract, the GMDB feature may provide a death benefit of either (a) total deposits made to the contract less any partial withdrawals plus a minimum return (and in rare instances, no minimum return) or (b) the highest contract value attained, typically on any anniversary date minus any subsequent withdrawals following the contract anniversary. GMDB is our most widely offered benefit.

The liability for GMDB, which is recorded in Future policy benefits, represents the expected value of benefits in excess of the projected account value, with the excess recognized ratably over the accumulation period based on total expected assessments, through Policyholder benefits and losses incurred. The net amount at risk for GMDB represents the amount of benefits in excess of account value if death claims were filed on all contracts on the balance sheet date.

The following table presents details concerning our GMDB exposures, by benefit type:

At December 31,	2020		2019	
(dollars in millions)	Net Deposits Plus a Minimum Return	Highest Contract Value Attained	Net Deposits Plus a Minimum Return	Highest Contract Value Attained
Account value	**$ 105,010**	**$ 16,667**	$ 98,386	$ 15,796
Net amount at risk	**490**	**276**	689	301
Average attained age of contract holders by product	**65**	**72**	65	71
Range of guaranteed minimum return rates	**0-4.5%**		0-4.5%	

The following summarizes GMDB liability related to variable annuity contracts, excluding assumed reinsurance:

Years Ended December 31, *(in millions)*	2020	2019	2018
Balance, beginning of year	**$ 407**	$ 397	$ 352
Reserve increase (decrease)	**41**	35	93
Benefits paid	**(43)**	(40)	(43)
Changes in reserves related to unrealized appreciation of investments	**16**	15	(5)
Balance, end of year	**$ 421**	$ 407	$ 397

Assumptions used to determine the GMDB liability include interest rates, which vary by year of issuance and products; mortality rates, which are based upon actual experience modified to allow for variations in policy form; lapse rates, which are based upon actual experience modified to allow for variations in policy form; investment returns, based on stochastically generated scenarios; and asset growth assumptions, which include a reversion to the mean methodology, similar to that applied for DAC. We regularly evaluate estimates used to determine the GMDB liability and adjust the additional liability balance, with a related charge or credit to Policyholder benefits and losses incurred, if actual experience or other evidence suggests that earlier assumptions should be revised.

GMWB

Certain of our variable annuity contracts contain optional GMWB benefits and, to a lesser extent, guaranteed minimum accumulation benefits, which are not currently offered. With a GMWB, the contract holder can monetize the excess of the guaranteed amount over the account value of the contract only through a series of withdrawals that do not exceed a specific percentage per year of the guaranteed amount. If, after the series of withdrawals, the account value is exhausted, the contract holder will receive a series of annuity payments equal to the remaining guaranteed amount, and, for lifetime GMWB products, the annuity payments continue as long as the covered person(s) is living.

The liabilities for GMWB, which are recorded in Policyholder contract deposits, are accounted for as embedded derivatives measured at fair value, with changes in the fair value of the liabilities recorded in Net realized capital gains (losses). The fair value of these embedded derivatives was a net liability of $3.6 billion and $2.5 billion at December 31, 2020 and 2019, respectively.

For discussion of the fair value measurement of guaranteed benefits that are accounted for as embedded derivatives see Note 5.

We had account values subject to GMWB that totaled $48 billion and $45 billion at December 31, 2020 and 2019, respectively. The net amount at risk for GMWB represents the present value of minimum guaranteed withdrawal payments, in accordance with contract terms, in excess of account value, assuming no lapses. The net amount at risk related to the GMWB guarantees was $1.1 billion and $328 million at December 31, 2020 and 2019, respectively. We use derivative instruments and other financial instruments to mitigate a portion of our exposure that arises from GMWB benefits.

15. Debt

Our long-term debt is denominated in various currencies, with both fixed and variable interest rates. Long-term debt is carried at the principal amount borrowed, including unamortized discounts, hedge accounting valuation adjustments and fair value adjustments, when applicable.

The following table lists our total debt outstanding at December 31, 2020 and 2019. The interest rates presented in the following table are the range of contractual rates in effect at December 31, 2020, including fixed and variable-rates:

At December 31, 2020 *(in millions)*	Range of Interest Rate(s)	Maturity Date(s)	Balance at December 31, 2020	Balance at December 31, 2019
Debt issued or guaranteed by AIG:				
AIG general borrowings:				
Notes and bonds payable	0% - 8.13%	2021 - 2097	$ 23,068	$ 20,467
Junior subordinated debt	4.88% - 8.63%	2037 - 2058	1,561	1,542
AIG Japan Holdings Kabushiki Kaisha	0.28% - 0.35%	2021 - 2025	361	344
AIGLH notes and bonds payable	6.63% - 7.50%	2025 - 2029	282	282
AIGLH junior subordinated debt	7.57% - 8.50%	2030 - 2046	361	361
Validus notes and bonds payable	8.88%	2040	348	353
Total AIG general borrowings			25,981	23,349
AIG borrowings supported by assets:(a)				
Series AIGFP matched notes and bonds payable	0.23% - 0.23%	2046 - 2047	21	21
GIAs, at fair value	0.00% - 7.15%	2021 - 2047	2,033	2,003
Notes and bonds payable, at fair value	0.50% - 10.37%	2030 - 2049	64	59
Total AIG borrowings supported by assets			2,118	2,083
Total debt issued or guaranteed by AIG			28,099	25,432
Other subsidiaries notes, bonds, loans and mortgages payable - not guaranteed by AIG	2.76%	2022 - 2023	4	47
Total long-term debt			28,103	25,479
Debt of consolidated investment entities - not guaranteed by AIG(b)	0% - 9.31%	2021 - 2062	9,431	9,871
Total debt			$ 37,534	$ 35,350

(a) AIG Parent guarantees all such debt, except for Series AIGFP matched notes and bonds payable, which are direct obligations of AIG Parent. Collateral posted to third parties was $1.4 billion and $1.5 billion at December 31, 2020 and December 31, 2019, 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) At December 31, 2020, includes debt of consolidated investment entities related to real estate investments of $3.1 billion, affordable housing partnership investments of $2.3 billion and other securitization vehicles of $4.0 billion. At December 31, 2019, includes debt of consolidated investment entities related to real estate investments of $3.2 billion, affordable housing partnership investments of $2.1 billion and other securitization vehicles of $4.6 billion.

The following table presents maturities of long-term debt (including unamortized original issue discount, hedge accounting valuation adjustments and fair value adjustments, when applicable):

December 31, 2020		Year Ending					
(in millions)	Total	2021	2022	2023	2024	2025	Thereafter
Debt issued or guaranteed by AIG:							
AIG general borrowings:							
Notes and bonds payable	$ 23,068	$ 1,500	$ 1,515	$ 1,705	$ 998	$ 2,751	$ 14,599
Junior subordinated debt	1,561	-	-	-	-	-	1,561
AIG Japan Holdings Kabushiki Kaisha	361	236	-	-	-	125	-
AIGLH notes and bonds payable	282	-	-	-	-	135	147
AIGLH junior subordinated debt	361	-	-	-	-	-	361
Validus notes and bonds payable	348	-	-	-	-	-	348
Total AIG general borrowings	**25,981**	**1,736**	**1,515**	**1,705**	**998**	**3,011**	**17,016**
AIG borrowings supported by assets:							
Series AIGFP matched notes and bonds payable	21	-	-	-	-	-	21
GIAs, at fair value	2,033	158	53	127	149	588	958
Notes and bonds payable, at fair value	64	-	-	-	-	-	64
Total AIG borrowings supported by assets	**2,118**	**158**	**53**	**127**	**149**	**588**	**1,043**
Total debt issued or guaranteed by AIG	**28,099**	**1,894**	**1,568**	**1,832**	**1,147**	**3,599**	**18,059**
Debt not guaranteed by AIG:							
Other subsidiaries notes, bonds, loans and mortgages payable	4	2	1	1	-	-	-
Total debt not guaranteed by AIG	4	2	1	1	-	-	-
Total*	**$ 28,103**	**$ 1,896**	**$ 1,569**	**$ 1,833**	**$ 1,147**	**$ 3,599**	**$ 18,059**

* Does not reflect $9.4 billion of notes issued by consolidated investment entities for which recourse is limited to the assets of the respective investment entities and for which there is no recourse to the general credit of AIG.

Uncollateralized and collateralized notes, bonds, loans and mortgages payable consisted of the following:

At December 31, 2020 *(in millions)*	Uncollateralized Notes/Bonds/Loans Payable	Collateralized Loans and Mortgages Payable	Total
AIG general borrowings	**$ 361**	**$ -**	**$ 361**
Other subsidiaries notes, bonds, loans and mortgages payable*	**-**	**4**	**4**
Total	**$ 361**	**$ 4**	**$ 365**

* AIG does not guarantee any of these borrowings.

AIGLH JUNIOR SUBORDINATED DEBENTURES

In connection with our acquisition of AIG Life Holdings, Inc. (AIGLH) in 2001, we entered into arrangements with AIGLH with respect to outstanding AIGLH capital securities. In 1996, AIGLH issued capital securities through a trust to institutional investors and funded the trust with AIGLH junior subordinated debentures issued to the trust with the same terms as the capital securities.

On July 11, 2013, the AIGLH junior subordinated debentures were distributed to holders of the capital securities, the capital securities were cancelled and the trusts were dissolved. At December 31, 2020, the junior subordinated debentures outstanding consisted of $113 million of 8.5 percent junior subordinated debentures due July 2030, $211 million of 8.125 percent junior subordinated debentures due March 2046 and $37 million of 7.57 percent junior subordinated debentures due December 2045, each guaranteed by AIG Parent.

CREDIT FACILITIES

We maintain a committed, revolving syndicated credit facility (the Facility) as a potential source of liquidity for general corporate purposes. The Facility provides for aggregate commitments by the bank syndicate to provide unsecured revolving loans and/or standby letters of credit of up to $4.5 billion without any limits on the type of borrowings and is scheduled to expire in June 2022.

At December 31, 2020 *(in millions)*	Size	Available Amount	Expiration	Effective Date
Syndicated Credit Facility	**$ 4,500**	**$ 4,500**	June 2022	6/27/2017

We also maintain revolving credit facilities that can exclusively be utilized by certain consolidated investment entities to acquire assets related to securitizations. Draws under those credit facilities cannot be utilized for general corporate purposes. Prior to the pricing of the related securitizations, these credit facilities have combined limits of up to $390 million. Subsequent to pricing of the related securitizations, the combined limits are expected to increase to up to approximately $610 million. As of December 31, 2020, we have drawn $84 million under the credit facilities. These credit facilities have maturity dates ranging from one to ten years.

16. Contingencies, Commitments and Guarantees

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

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

LEGAL CONTINGENCIES

Overview

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

Additionally, from time to time, various regulatory and governmental agencies review the transactions and practices of AIG and our subsidiaries in connection with industry-wide and other inquiries or examinations into, among other matters, the business practices of current and former operating insurance subsidiaries. Such investigations, inquiries or examinations could develop into administrative, civil or criminal proceedings or enforcement actions, in which remedies could include fines, penalties, restitution or alterations in our business practices, and could result in additional expenses, limitations on certain business activities and reputational damage. On July 28, 2020, VALIC Financial Advisors, Inc. (VFA), an indirect subsidiary of AIG, agreed to settle two separate proceedings brought by the SEC without admitting or denying the findings. VFA agreed as part of these settlements to pay disgorgement, prejudgment interest, and civil monetary penalties, as well as to comply with certain undertakings.

Tax Litigation

We were party to tax litigation before the Southern District of New York (Southern District), which was dismissed by the Southern District in October 2020 based upon the settlement reached between AIG and the government. *For additional information see Note 22 to the Consolidated Financial Statements.*

LEASE COMMITMENTS

We lease office space and equipment in various locations across jurisdictions in which the Company operates. The majority of the resulting obligation arising from these contracts is generated by our real estate portfolio, which only includes contracts classified as operating leases. As of December 31, 2020, the lease liability and corresponding right of use asset reflected in Other liabilities and Other assets were $1.0 billion and $906 million, respectively, and we made cash payments of $252 million in 2020 in connection with these leases. The liability includes non-lease components, such as property taxes and insurance for our gross leases. Some of these leases contain options to renew after a specified period of time at the prevailing market rate; however, renewal options that have not been exercised as of December 31, 2020 are excluded until management attains a reasonable level of certainty. Some leases also include termination options at specified times and term; however, termination options are not reflected in the lease asset and liability balances until they have been exercised.

The weighted average discount rate and lease term assumptions used in determining the liability are 2.50 percent and 8.8 years, respectively. The primary assumption used to determine the discount rate is the cost of funding for the Company, which is based on the secured borrowing rate for terms similar to the lease term, and for the major financial markets in which AIG operates.

Rent expense was $258 million, $232 million and $283 million for the years ended December 31, 2020, 2019 and 2018, respectively.

The following table presents the future undiscounted cash flows under operating leases at December 31, 2020:

(in millions)		
2021	**$**	**233**
2022		**177**
2023		**138**
2024		**111**
2025		**81**
Remaining years after 2025		**506**
Total undiscounted lease payments	**$**	**1,246**
Less: Present value adjustment		**202**
Net lease liabilities		**1,044**

During 2019, we recognized a pretax net gain of $200 million from the sale and concurrent leaseback of our corporate headquarters. We also procured additional office space via operating lease contracts for which lease commencement will occur in 2021. Future undiscounted obligations stemming from those contracts total $389 million, which excludes the effect of renewal options.

OTHER COMMITMENTS

In the normal course of business, we enter into commitments to invest in limited partnerships, private equity funds and hedge funds and to purchase and develop real estate in the U.S. and abroad. These commitments totaled $7.3 billion at December 31, 2020.

GUARANTEES

Subsidiaries

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

In connection with AIGFP's business activities, AIGFP has issued, in a limited number of transactions, standby letters of credit or similar facilities to equity investors of structured leasing transactions in an amount equal to the termination value owing to the equity investor by the lessee in the event of a lessee default (the equity termination value). The total amount outstanding at December 31, 2020 was $78 million. In those transactions, AIGFP has agreed to pay such amount if the lessee fails to pay. The amount payable by AIGFP is, in certain cases, partially offset by amounts payable under other instruments typically equal to the present value of scheduled payments to be made by AIGFP. In the event that AIGFP is required to make a payment to the equity investor, the lessee is unconditionally obligated to reimburse AIGFP. To the extent that the equity investor is paid the equity termination value from the standby letter of credit and/or other sources, including payments by the lessee, AIGFP takes an assignment of the equity investor's rights under the lease of the underlying property. Because the obligations of the lessee under the lease transactions are generally economically defeased, lessee bankruptcy is the most likely circumstance in which AIGFP would be required to pay without reimbursement.

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

Asset Dispositions

We are subject to financial guarantees and indemnity arrangements in connection with the completed sales of businesses. The various arrangements may be triggered by, among other things, declines in asset values, the occurrence of specified business contingencies, the realization of contingent liabilities, developments in litigation or breaches of representations, warranties or covenants provided by us. These arrangements are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential obligation is subject to contractual limitations, while in other cases such limitations are not specified or are not applicable. The Majority Interest Fortitude Sale is subject to a post-closing purchase price adjustment pursuant to which AIG will pay Fortitude Re for certain adverse development in property casualty related reserves, based on an agreed methodology, that may occur on or prior to December 31, 2023, up to a maximum of $500 million.

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

For additional discussion on the Fortitude Re transaction, see Note 1 to the Consolidated Financial Statements.

Other

- *For additional discussion on commitments and guarantees associated with VIEs see Note 10 to the Consolidated Financial Statements.*
- *For additional disclosures about derivatives see Note 11 to the Consolidated Financial Statements.*

17. Equity

SHARES OUTSTANDING

Preferred Stock

On March 14, 2019, we issued 20,000 shares of Series A 5.85% Non-Cumulative Perpetual Preferred Stock (Series A Preferred Stock) (equivalent to 20,000,000 Depositary Shares, each representing a 1/1,000th interest in a share of Series A Preferred Stock), $5.00 par value and $25,000 liquidation preference per share (equivalent to $25 per Depositary Share). After underwriting discounts and expenses, we received net proceeds of approximately $485 million.

We may redeem the Series A Preferred Stock at our option, (a) in whole, but not in part, at any time prior to March 15, 2024, within 90 days after the occurrence of a “Rating Agency Event,” at a redemption price equal to $25,500 per share of the Series A Preferred Stock (equivalent to $25.50 per Depositary Share), plus an amount equal to any dividends per share that have been declared but not paid prior to the redemption date (but no amount due in respect of any dividends that have not been declared prior to such date), or (b) (i) in whole, but not in part, at any time prior to March 15, 2024, within 90 days after the occurrence of a “Regulatory Capital Event,” or (ii) in whole or in part, from time to time, on or after March 15, 2024, in each case, at a redemption price equal to $25,000 per share of the Series A Preferred Stock (equivalent to $25.00 per Depositary Share), plus an amount equal to any dividends per share that have been declared but not paid prior to the redemption date (but no amount due in respect of any dividends that have not been declared prior to such date).

A “Rating Agency Event” is generally defined to mean that any nationally recognized statistical rating organization within the meaning of Section 3(a)(62) of the Securities Exchange Act of 1934, as amended (the Exchange Act) that then publishes a rating for us amends, clarifies or changes the criteria it uses to assign equity credit to securities such as the Series A Preferred Stock, which amendment, clarification or change results in the shortening of the length of time the Series A Preferred Stock is assigned a particular level of equity credit by that rating agency as compared to the length of time it would have been assigned that level of equity credit by that rating agency or its predecessor on the initial issuance of the Series A Preferred Stock, or the lowering of the equity credit (including up to a lesser amount) assigned to the Series A Preferred Stock by that rating agency as compared to the equity credit assigned by that rating agency or its predecessor on the initial issuance of the Series A Preferred Stock. A “Regulatory Capital Event” is generally defined to mean our good faith determination that as a result of a change in law, rule or regulation, or a proposed change or an official judicial or administrative pronouncement, there is more than an insubstantial risk that the full liquidation preference of the Series A Preferred Stock would not qualify as capital (or a substantially similar concept) for purposes of any group capital standard to which we are or will be subject.

Holders of the Series A Preferred Stock will be entitled to receive dividend payments only when, as and if declared by our board of directors (or a duly authorized committee of the board). Dividends will be payable from the original date of issue at a rate of 5.85% per annum, payable quarterly, in arrears, on the fifteenth day of March, June, September and December of each year, beginning on June 15, 2019. Dividends on the Series A Preferred Stock will be non-cumulative.

In the event of any liquidation, dissolution or winding-up of the affairs of AIG, whether voluntary or involuntary, before any distribution or payment out of our assets may be made to or set aside for the holders of any junior stock, holders of the Series A Preferred Stock will be entitled to receive out of our assets legally available for distribution to our stockholders, an amount equal to $25,000 per share of Series A Preferred Stock (equivalent to $25.00 per Depositary Share), together with an amount equal to all declared and unpaid dividends (if any), but no amount in respect of any undeclared dividends prior to such payment date. Distributions will be made only to the extent of our assets that are available for distribution to stockholders (i.e., after satisfaction of all our liabilities to creditors, if any).

The Series A Preferred Stock does not have voting rights, except in limited circumstances, including in the case of certain dividend non-payments.

The following table presents declaration date, record date, payment date and dividends paid per preferred share and per depository share on the Series A Preferred Stock in the twelve months ended December 31, 2020 and 2019:

			Dividends Paid	
Declaration Date	Record Date	Payment Date	Per Preferred Share	Per Depositary Share
November 5, 2020	November 30, 2020	December 15, 2020	**$ 365.625**	**$ 0.365625**
August 3, 2020	August 31, 2020	September 15, 2020	**365.625**	**0.365625**
May 4, 2020	May 29, 2020	June 15, 2020	**365.625**	**0.365625**
February 12, 2020	February 28, 2020	March 16, 2020	**365.625**	**0.365625**
October 31, 2019	November 29, 2019	December 16, 2019	$ 365.625	$ 0.365625
August 7, 2019	August 30, 2019	September 16, 2019	365.625	0.365625
May 21, 2019	May 31, 2019	June 17, 2019	369.6875	0.3696875

Common Stock

The following table presents a rollforward of outstanding shares:

	Common Stock Issued	Treasury Stock	Common Stock Outstanding
Year Ended December 31, 2018			
Shares, beginning of year	1,906,671,492	(1,007,626,835)	899,044,657
Shares issued	-	4,091,922	4,091,922
Shares repurchased	-	(36,527,150)	(36,527,150)
Shares, end of year	1,906,671,492	(1,040,062,063)	866,609,429
Year Ended December 31, 2019			
Shares, beginning of year	1,906,671,492	(1,040,062,063)	866,609,429
Shares issued	-	3,389,602	3,389,602
Shares repurchased	-	-	-
Shares, end of year	1,906,671,492	(1,036,672,461)	869,999,031
Year Ended December 31, 2020			
Shares, beginning of year	**1,906,671,492**	**(1,036,672,461)**	**869,999,031**
Shares issued	**-**	**3,719,970**	**3,719,970**
Shares repurchased	**-**	**(12,160,952)**	**(12,160,952)**
Shares, end of year	**1,906,671,492**	**(1,045,113,443)**	**861,558,049**

DIVIDENDS

Dividends are payable on AIG Common Stock only when, as and if declared by our Board of Directors in its discretion, from funds legally available for this purpose. In considering whether to pay a dividend on or purchase shares of AIG Common Stock, our Board of Directors considers a number of factors, including, but not limited to: the capital resources available to support our insurance operations and business strategies, AIG's funding capacity and capital resources in comparison to internal benchmarks, expectations for capital generation, rating agency expectations for capital, regulatory standards for capital and capital distributions, and such other factors as our Board of Directors may deem relevant. The payment of dividends is also subject to the terms of AIG's outstanding Series A Preferred Stock, pursuant to which no dividends may be declared or paid on any AIG Common Stock unless the full dividends for the latest completed dividend period on all outstanding shares of Series A Preferred Stock have been declared and paid or provided for.

The following table presents declaration date, record date, payment date and dividends paid per common share on AIG Common Stock in the twelve months ended December 31, 2020, 2019 and 2018:

Declaration Date	Record Date	Payment Date	Dividends Paid Per Common Share
November 5, 2020	December 14, 2020	December 28, 2020	**$ 0.32**
August 3, 2020	September 17, 2020	September 30, 2020	**0.32**
May 4, 2020	June 15, 2020	June 29, 2020	**0.32**
February 12, 2020	March 16, 2020	March 30, 2020	**0.32**
October 31, 2019	December 12, 2019	December 26, 2019	$ 0.32
August 7, 2019	September 17, 2019	September 30, 2019	0.32
May 6, 2019	June 14, 2019	June 28, 2019	0.32
February 13, 2019	March 15, 2019	March 29, 2019	0.32
October 31, 2018	December 12, 2018	December 26, 2018	$ 0.32
August 2, 2018	September 17, 2018	September 28, 2018	0.32
May 2, 2018	June 14, 2018	June 28, 2018	0.32
February 8, 2018	March 15, 2018	March 29, 2018	0.32

REPURCHASE OF AIG COMMON STOCK

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

Years Ended December 31, *(in millions)*	**2020**	2019	2018
Aggregate repurchases of common stock	**$ 500**	$ -	$ 1,739
Total number of common shares repurchased	**12**	-	37
Aggregate repurchases of warrants	**$ -**	$ -	$ 11
Total number of warrants repurchased	**-**	-	1

Our Board of Directors has authorized the repurchase of shares of AIG Common Stock and warrants to purchase shares of AIG Common Stock through a series of actions. On February 13, 2019, our Board of Directors authorized an additional increase of approximately $1.5 billion to its previous share repurchase authorization. As of December 31, 2020, approximately $1.5 billion remained under our share repurchase authorization. Shares may be repurchased from time to time in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise (including through the purchase of warrants). Certain of our share repurchases have been and may from time to time be effected through Exchange Act Rule 10b5-1 repurchase plans.

In February 2020, we executed an accelerated stock repurchase (ASR) agreement with a third-party financial institution. The total number of shares of AIG Common Stock repurchased in the year ended December 31, 2020, and the aggregate purchase price of those shares, reflect our payment of $500 million in the aggregate under the ASR agreement and the receipt of approximately 12 million shares of AIG Common Stock in the aggregate.

The timing of any future repurchases will depend on market conditions, our business and strategic plans, financial condition, results of operations, liquidity and other factors. The repurchase of AIG Common Stock is also subject to the terms of AIG's outstanding Series A Preferred Stock, pursuant to which AIG may not (other than in limited circumstances) purchase, redeem or otherwise acquire AIG Common Stock unless the full dividends for the latest completed dividend period on all outstanding shares of Series A Preferred Stock have been declared and paid or provided for.

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

(in millions)	Unrealized Appreciation (Depreciation) of Fixed Maturity Securities on Which Other-Than-Temporary Credit Impairments Were Taken	Unrealized Appreciation (Depreciation) of All Other Investments	Foreign Currency Translation Adjustments	Retirement Plan Liabilities Adjustment	Fair Value of Liabilities Under Fair Value Option Attributable to Changes in Own Credit Risk	Total
Balance, January 1, 2018, net of tax	$ 793	7,693	(2,090)	(931)	-	$ 5,465
Cumulative effect of change in accounting principles	169	(285)	(284)	(183)	7	(576)
Change in unrealized depreciation of investments	(1,320)	(8,688)	-	-	-	(10,008)
Change in deferred policy acquisition costs adjustment and other	(57)	1,300	-	-	-	1,243
Change in future policy benefits	-	1,711	-	-	-	1,711
Change in foreign currency translation adjustments	-	-	(314)	-	-	(314)
Change in net actuarial loss	-	-	-	(23)	-	(23)
Change in prior service credit	-	-	-	(4)	-	(4)
Change in deferred tax asset (liability)	377	702	(35)	55	-	1,099
Change in fair value of liabilities under fair value option attributable to changes in own credit risk	-	-	-	-	3	3
Total other comprehensive income (loss)	(1,000)	(4,975)	(349)	28	3	(6,293)
Noncontrolling interests	-	7	2	-	-	9
Balance, December 31, 2018, net of tax	$ (38)	$ 2,426	$ (2,725)	$ (1,086)	$ 10	$ (1,413)
Cumulative effect of change in accounting principles						-
Change in unrealized appreciation of investments	842	13,333	-	-	-	14,175
Change in deferred policy acquisition costs adjustment and other*	15	(1,871)	-	-	-	(1,856)
Change in future policy benefits	-	(4,462)	-	-	-	(4,462)
Change in foreign currency translation adjustments	-	-	135	-	-	135
Change in net actuarial loss	-	-	-	(58)	-	(58)
Change in prior service credit	-	-	-	(2)	-	(2)
Change in deferred tax asset (liability)	(196)	(1,311)	(31)	24	-	(1,514)
Change in fair value of liabilities under fair value option attributable to changes in own credit risk	-	-	-	-	(3)	(3)
Total other comprehensive income (loss)	661	5,689	104	(36)	(3)	6,415
Noncontrolling interests	-	16	4	-	-	20
Balance, December 31, 2019, net of tax	**$ 623**	**$ 8,099**	**$ (2,625)**	**$ (1,122)**	**$ 7**	**$ 4,982**

(in millions)	Unrealized Appreciation (Depreciation) of Fixed Maturity Securities on Which Allowance for Credit Losses Was Taken	Unrealized Appreciation (Depreciation) of All Other Investments	Foreign Currency Translation Adjustments	Retirement Plan Liabilities Adjustment	Fair Value of Liabilities Under Fair Value Option Attributable to Changes in Own Credit Risk	Total
Balance, January 1, 2020, net of tax	**$ -**	**8,722**	**(2,625)**	**(1,122)**	**7**	**$ 4,982**
Cumulative effect of change in accounting principles	**-**	**-**	**-**	**-**	**-**	**-**
Change in unrealized appreciation (depreciation) of investments	**(133)**	**9,624**	**-**	**-**	**-**	**9,491**
Change in deferred policy acquisition costs adjustment and other	**11**	**(1,327)**	**-**	**-**	**-**	**(1,316)**
Change in future policy benefits	**-**	**2,408**	**-**	**-**	**-**	**2,408**
Change in foreign currency translation adjustments	**-**	**-**	**303**	**-**	**-**	**303**
Change in net actuarial loss	**-**	**-**	**-**	**(67)**	**-**	**(67)**
Change in prior service credit	**-**	**-**	**-**	**(18)**	**-**	**(18)**
Change in deferred tax asset (liability)	**27**	**(2,351)**	**56**	**(21)**	**-**	**(2,289)**
Change in fair value of liabilities under fair value option attributable to changes in own credit risk	**-**	**-**	**-**	**-**	**1**	**1**
Total other comprehensive income (loss)	**(95)**	**8,354**	**359**	**(106)**	**1**	**8,513**
Noncontrolling interests	**-**	**(17)**	**1**	**-**	**-**	**(16)**
Balance, December 31, 2020, net of tax	**$ (95)**	**$ 17,093**	**$ (2,267)**	**$ (1,228)**	**$ 8**	**$ 13,511**

* Includes net unrealized gains and losses attributable to businesses held for sale at December 31, 2019.

The following table presents the other comprehensive income (loss) reclassification adjustments for the years ended December 31, 2020, 2019 and 2018:

(in millions)	Unrealized Appreciation (Depreciation) of Fixed Maturity Securities on Which Other-Than-Temporary Credit Impairments Were Taken	Unrealized Appreciation (Depreciation) of All Other Investments	Foreign Currency Translation Adjustments	Retirement Plan Liabilities Adjustment	Fair Value of Liabilities Under Fair Value Option Attributable to Changes in Own Credit Risk	Total
December 31, 2018						
Unrealized change arising during period	$ (1,372)	(5,811)	(314)	(61)	3	$ (7,555)
Less: Reclassification adjustments included in net income	5	(134)	-	(34)	-	(163)
Total other comprehensive income (loss), before income tax expense (benefit)	(1,377)	(5,677)	(314)	(27)	3	(7,392)
Less: Income tax expense (benefit)	(377)	(702)	35	(55)	-	(1,099)
Total other comprehensive income (loss), net of income tax expense (benefit)	$ (1,000)	$ (4,975)	$ (349)	$ 28	$ 3	$ (6,293)
December 31, 2019						
Unrealized change arising during period	$ 853	7,324	135	(97)	(3)	$ 8,212
Less: Reclassification adjustments included in net income	(4)	324	-	(37)	-	283
Total other comprehensive income (loss), before income tax expense (benefit)	857	7,000	135	(60)	(3)	7,929
Less: Income tax expense (benefit)	196	1,311	31	(24)	-	1,514
Total other comprehensive income (loss), net of income tax expense (benefit)	$ 661	$ 5,689	$ 104	$ (36)	$ (3)	$ 6,415

(in millions)	Unrealized Appreciation (Depreciation) of Fixed Maturity Securities on Which Allowance for Credit Losses Was Taken	Unrealized Appreciation (Depreciation) of All Other Investments	Foreign Currency Translation Adjustments	Retirement Plan Liabilities Adjustment	Fair Value of Liabilities Under Fair Value Option Attributable to Changes in Own Credit Risk	Total
December 31, 2020						
Unrealized change arising during period	**$ (161)**	**$ 11,758**	**$ 303**	**$ (130)**	**$ 1**	**$ 11,771**
Less: Reclassification adjustments included in net income	**(39)**	**1,053**	**-**	**(45)**	**-**	**969**
Total other comprehensive income (loss), before income tax expense (benefit)	**(122)**	**10,705**	**303**	**(85)**	**1**	**10,802**
Less: Income tax expense (benefit)	**(27)**	**2,351**	**(56)**	**21**	**-**	**2,289**
Total other comprehensive income (loss), net of income tax expense (benefit)	**$ (95)**	**$ 8,354**	**$ 359**	**$ (106)**	**$ 1**	**$ 8,513**

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

Years Ended December 31, *(in millions)*	Amount Reclassified from Accumulated Other Comprehensive Income 2020	2019	2018	Affected Line Item in the Consolidated Statements of Income
Unrealized appreciation (depreciation) of fixed maturity securities on which allowance for credit losses was taken				
Investments	**$ (39)**	$ -	$ -	Other realized capital gains
Total	**(39)**	-	-	
Unrealized appreciation (depreciation) of fixed maturity securities on which other-than-temporary credit impairments were taken				
Investments	**$ -**	$ (4)	$ 5	Other realized capital gains
Total	**-**	(4)	5	
Unrealized appreciation (depreciation) of all other investments				
Investments	**1,053**	324	(134)	Other realized capital gains
Total	**1,053**	324	(134)	
Change in retirement plan liabilities adjustment				
Prior-service credit	**(1)**	-	1	*
Actuarial losses	**(44)**	(37)	(35)	*
Total	**(45)**	(37)	(34)	
Total reclassifications for the year	**$ 969**	$ 283	$ (163)	

* These Accumulated other comprehensive income components are included in the computation of net periodic pension cost. *For additional information see Note 21.*

18. Earnings Per Common Share (EPS)

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

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

Years Ended December 31, *(dollars in millions, except per common share data)*	2020	2019	2018
Numerator for EPS:			
Income (loss) from continuing operations	$ (5,833)	$ 4,121	$ 103
Less: Net income from continuing operations attributable to noncontrolling interests	115	821	67
Less: Preferred stock dividends	29	22	-
Income (loss) attributable to AIG common shareholders from continuing operations	(5,977)	3,278	36
Income (loss) from discontinued operations, net of income tax expense	4	48	(42)
Net income (loss) attributable to AIG common shareholders	$ (5,973)	$ 3,326	$ (6)
Denominator for EPS:			
Weighted average common shares outstanding – basic	869,309,458	876,750,264	898,405,537
Dilutive common shares	-	12,761,682	11,735,705
Weighted average common shares outstanding – diluted[(a)(b)]	869,309,458	889,511,946	910,141,242
Income (loss) per common share attributable to AIG common shareholders:			
Basic:			
Income (loss) from continuing operations	$ (6.88)	$ 3.74	$ 0.04
Income (loss) from discontinued operations	$ -	$ 0.05	$ (0.05)
Income (loss) attributable to AIG common shareholders	$ (6.88)	$ 3.79	$ (0.01)
Diluted:			
Income (loss) from continuing operations	$ (6.88)	$ 3.69	$ 0.04
Income (loss) from discontinued operations	$ -	$ 0.05	$ (0.05)
Income (loss) attributable to AIG common shareholders	$ (6.88)	$ 3.74	$ (0.01)

(a) For the year ended December 31, 2020, because we reported a net loss attributable to AIG common shareholders, all common stock equivalents are anti-dilutive and are therefore excluded from the calculation of diluted shares and diluted per share amounts. The number of common shares excluded from the calculation was 5,401,597 shares.

(b) Dilutive common shares included our share-based employee compensation plans, and a weighted average portion of the 10-year warrants issued to AIG shareholders as part of AIG's recapitalization in January 2011, which expired in January 2021. The number of common shares excluded from diluted shares outstanding was 68.7 million, 20.0 million and 19.6 million for the years ended December 31, 2020, 2019 and 2018, respectively, because the effect of including those common shares in the calculation would have been anti-dilutive.

For information about our repurchases of AIG Common Stock see Note 17 to the Consolidated Financial Statements.

19. Statutory Financial Data and Restrictions

The following table presents statutory net income (loss) and capital and surplus for our General Insurance companies and our Life and Retirement companies in accordance with statutory accounting practices:

(in millions)	2020	2019	2018
Years Ended December 31,			
Statutory net income (loss)[a][b]:			
General Insurance companies:			
Domestic	$ 915	$ 1,481	$ (1,030)
Foreign	949	1,384	558
Total General Insurance companies	$ 1,864	$ 2,865	$ (472)
Life and Retirement companies:			
Domestic	$ 680	$ 325	$ 671
Foreign	14	3,336	(553)
Total Life and Retirement companies	$ 694	$ 3,661	$ 118
At December 31,			
Statutory capital and surplus[a][b]:			
General Insurance companies:			
Domestic	$ 17,926	$ 17,418	
Foreign	15,592	16,409	
Total General Insurance companies	$ 33,518	$ 33,827	
Life and Retirement companies:			
Domestic	$ 10,960	$ 9,228	
Foreign	671	5,231	
Total Life and Retirement companies	$ 11,631	$ 14,459	
Aggregate minimum required statutory capital and surplus:			
General Insurance companies:			
Domestic	$ 3,817	$ 4,177	
Foreign	7,303	8,080	
Total General Insurance companies	$ 11,120	$ 12,257	
Life and Retirement companies:			
Domestic	$ 3,574	$ 3,357	
Foreign	207	1,137	
Total Life and Retirement companies	$ 3,781	$ 4,494	

(a) Excludes discontinued operations and other divested businesses. Statutory capital and surplus and net income (loss) with respect to foreign operations are as of November 30.

(b) The 2020 amounts reflect our best estimate of the statutory net income, capital and surplus as of the date of AIG's Form 10-K filing. In aggregate, the 2019 General Insurance companies and Life and Retirement companies statutory net income decreased by $4 million and the 2019 General Insurance companies and Life and Retirement companies statutory capital and surplus increased by $132 million, compared to the amounts previously reported in our Annual Report on Form 10-K for the year ended December 31, 2019, due to finalization of statutory filings and revision of prior period numbers.

Our insurance subsidiaries file financial statements prepared in accordance with statutory accounting practices prescribed or permitted by domestic and foreign insurance regulatory authorities. The principal differences between statutory financial statements and financial statements prepared in accordance with U.S. GAAP for domestic companies are that statutory financial statements do not reflect DAC, some bond portfolios may be carried at amortized cost, investment impairments are determined in accordance with statutory accounting practices, assets and liabilities are presented net of reinsurance, policyholder liabilities are generally valued using more conservative assumptions and certain assets are non-admitted.

For domestic insurance subsidiaries, aggregate minimum required statutory capital and surplus is based on the greater of the RBC level that would trigger regulatory action or minimum requirements per state insurance regulation. Capital and surplus requirements of our foreign subsidiaries differ from those prescribed in the U.S., and can vary significantly by jurisdiction. At both December 31, 2020 and 2019, all domestic and foreign insurance subsidiaries individually exceeded the minimum required statutory capital and surplus requirements and all domestic insurance subsidiaries individually exceeded RBC minimum required levels.

At December 31, 2020 and 2019, our domestic insurance subsidiaries used the following permitted practices that resulted in reported statutory surplus or risk-based capital that is significantly different from the statutory surplus or risk based capital that would have been reported had NAIC statutory accounting practices or the prescribed regulatory accounting practices of their respective state regulator been followed in all respects:

- Effective December 31, 2019 and subsequent reporting periods through September 30, 2020, a domestic life insurance subsidiary domiciled in Texas adopted a permitted statutory accounting practice to recognize an admitted asset related to the notional value of coverage defined in an excess of loss reinsurance agreement, net of specified amounts. This reinsurance agreement has a 20-year term and provides coverage to the subsidiary for aggregate claims incurred during the agreement term associated with guaranteed minimum withdrawal benefits on certain fixed index annuities generally issued prior to April 2019 (Block 1) exceeding an attachment point defined in the treaty.
- Effective October 1, 2020 and subsequent reporting periods through September 30, 2023, this permitted practice was expanded to similarly recognize an additional admitted asset related to the notional value of coverage defined in a separate excess of loss reinsurance agreement, net of specified amounts. This additional reinsurance agreement has a 25-year term and provides coverage to the subsidiary for aggregate excess of loss claims associated with guaranteed minimum withdrawal benefits on a block of fixed index annuities generally issued in April 2019 or later, including new business issued after the effective date (Block 2). In addition, effective December 31, 2020, this expanded permitted practice also extended the term of the permitted practice for Block 1 from September 30, 2020 to September 30, 2023. The reinsurance agreement covering contracts in Block 1 was also amended to conform certain provisions to be consistent with the Block 2 reinsurance agreement. The permitted practice allows the subsidiary to manage its reserves in a manner more in line with anticipated principle-based reserving requirements once they have been developed. This permitted practice resulted in an increase in the statutory surplus of this subsidiary of approximately $614 million and $285 million at December 31, 2020 and 2019, respectively. The subsidiary may seek continuation of the permitted practice beyond September 30, 2023, subject to the approval of its domiciliary regulator.
- As described in Note 13, our domestic property and casualty insurance subsidiaries domiciled in New York, Pennsylvania and Delaware discount non-tabular workers' compensation reserves based on applicable prescribed or approved regulations, or in the case of our Delaware subsidiary, based on a permitted practice. This practice did not have a material impact on our statutory surplus, statutory net income (loss) or risk-based capital.

Regulation XXX requires U.S. life insurers to establish additional statutory reserves for term life insurance policies with long-term premium guarantees and universal life policies with secondary guarantees (ULSGs). In addition, Guideline AXXX clarifies the application of Regulation XXX as to these guarantees, including certain ULSGs.

Our domestic life insurance subsidiaries manage the capital impact of statutory reserve requirements under Regulation XXX and Guideline AXXX through unaffiliated and affiliated reinsurance transactions. The affiliated life insurers providing reinsurance capacity for such transactions are fully licensed insurance companies and are not formed under captive insurance laws.

Under the other intercompany reinsurance arrangement, certain Regulation XXX and Guideline AXXX reserves related to a closed block of in-force business are ceded to an affiliated off-shore life insurer, which is licensed as a class E insurer under Bermuda law. This reinsurance arrangement does not meet the criteria for reinsurance accounting under U.S. GAAP; therefore, deposit accounting is applied by the assuming off-shore life insurer. Letters of credit are used to support the credit for reinsurance provided by the affiliated off-shore life insurer.

For additional information regarding these letters of credit see Note 8.

SUBSIDIARY DIVIDEND RESTRICTIONS

Payments of dividends to us by our insurance subsidiaries are subject to certain restrictions imposed by regulatory authorities. With respect to our domestic insurance subsidiaries, the payment of any dividend requires formal notice to the insurance department in which the particular insurance subsidiary is domiciled. For example, unless permitted by the Superintendent of Financial Services, property casualty companies domiciled in New York generally may not pay dividends to shareholders that, in any 12-month period, exceed the lesser of 10 percent of such company's statutory policyholders' surplus or 100 percent of its "adjusted net investment income," for the previous year, as defined. Generally, less severe restrictions applicable to both property casualty and life insurance companies exist in most of the other states in which our insurance subsidiaries are domiciled. Under the laws of many states, an insurer may pay a dividend without prior approval of the insurance regulator when the amount of the dividend is below certain regulatory thresholds. Other foreign jurisdictions may restrict the ability of our foreign insurance subsidiaries to pay dividends. Various other regulatory restrictions also limit cash loans and advances to us by our subsidiaries.

Largely as a result of these restrictions, approximately $41.6 billion of the statutory capital and surplus of our consolidated insurance subsidiaries were restricted from transfer to AIG Parent without prior approval of state insurance regulators at December 31, 2020.

To our knowledge, no AIG insurance company is currently on any regulatory or similar “watch list” with regard to solvency.

PARENT COMPANY DIVIDEND RESTRICTIONS

At December 31, 2020, our ability to pay dividends is not subject to any significant contractual restrictions, but remains subject to regulatory restrictions.

For additional information about our ability to pay dividends to our shareholders see Note 17.

20. Share-Based Compensation Plans

The following table presents our total share-based compensation expense:

Years Ended December 31, *(in millions)*	**2020**	2019	2018
Share-based compensation expense - pre-tax[(a)]	**$ 274**	$ 314	$ 337
Share-based compensation expense - after tax[(b)]	**216**	248	266

(a) As a result of accelerated vesting events, such as retirement eligibility in the year of grant and involuntary terminations, we recognized $63 million, $82 million and $104 million in 2020, 2019 and 2018, respectively, prior to the end of the specified vesting periods. It is our policy to reverse compensation expense for forfeited awards when they occur.

(b) We also recognized $25 million of additional tax expense due to share settlements occurring in 2020.

EMPLOYEE PLANS

The Company sponsors several stock compensation programs under the AIG Long Term Incentive Plan (as amended) and its predecessor plan, the AIG 2013 Long Term Incentive Plan (each as applicable, the LTIP), which are governed by the AIG 2013 Omnibus Incentive Plan (Omnibus Plan). Our share-settled awards are settled with previously acquired shares held in AIG’s treasury.

AIG 2013 Omnibus Incentive Plan

The Omnibus Plan, which replaced the AIG 2010 Stock Incentive Plan (2010 Plan), was adopted at the 2013 Annual Meeting of Shareholders and provides for the grants of share-based awards to our employees and non-employee directors. The total number of shares that may be granted under the Omnibus Plan (the reserve) is the sum of 1) 45 million shares of AIG Common Stock, plus 2) the number of authorized shares that remained available for issuance under the 2010 Plan when the Omnibus Plan became effective, plus 3) the number of shares of AIG Common Stock relating to outstanding awards under the 2010 Plan at the time the Omnibus Plan became effective that subsequently are forfeited, expired, terminated or otherwise lapse or are settled in cash. Each share-based unit granted under the Omnibus Plan reduces the number of shares available for future grants by one share. However, shares with respect to awards that are forfeited, expired or settled for cash, and shares withheld for taxes on awards (other than options and stock appreciation rights awards) are returned to the reserve.

During 2020, performance share units (PSUs), restricted stock units (RSUs), stock options and deferred stock units (DSUs) (collectively, units) were granted under the Omnibus Plan and 21,892,781 shares are available for future grants as of December 31, 2020. Units are issued to employees as part of our long-term incentive program, generally in March of any given year, and are also issued for off-cycle grants, which are made from time to time during the year generally as sign-on awards to new hires or as a result of a change in employee status.

AIG Long Term Incentive Plan

Long-Term Incentive (LTI) Awards

The LTIP provides for an annual award to certain employees, including our senior executive officers and other highly compensated employees that may be comprised of a combination of one or more of the following units: PSUs, RSUs or stock options.

The number of PSUs issued on the grant date (the target) provides the opportunity for LTIP participants (usually senior management) to receive shares of AIG Common Stock based on AIG achieving specified performance goals at the end of a three-year performance period. These performance goals are pre-established by AIG’s Compensation and Management Resources Committee (CMRC) for each annual grant and may differ from year to year. The actual number of PSUs earned can vary from zero to 200 percent of the target for the 2020, 2019 and 2018 awards, depending on AIG’s performance relative to a specified peer group and/or the outcome of pre-established financial goals, as applicable.

RSUs and stock options are earned based solely on continued service by the participant.

Vesting occurs on January 1 of the year immediately following the end of the three-year performance period. For awards granted prior to 2017, vesting occurs in three equal installments beginning on January 1 of the year immediately following the end of a performance period and January 1 of each of the next two years. Recipients must be employed at each vesting date to be entitled to share delivery, except upon the occurrence of an accelerated vesting event, such as an involuntary termination without cause, disability, retirement eligibility or death during the vesting period.

LTI awards accrue dividend equivalent units (DEUs) in the form of additional PSUs and/or RSUs whenever a cash dividend is declared on shares of AIG Common Stock; the DEUs are subject to the same vesting terms and conditions as the underlying unit.

Unit Valuation

The fair value of time-vesting RSUs as well as PSUs that are earned based on certain company-specific metrics was based on the closing price of AIG Common Stock on the grant date; while the fair value of PSUs that are earned based on AIG's relative total shareholder return (TSR) was determined on the grant date using a Monte Carlo simulation.

The following table presents the assumptions used to estimate the fair value of PSUs that vest based on AIG's TSR:

	2020
Expected dividend yield[(a)]	- %
Expected volatility[(b)]	46.43 %
Risk-free interest rate[(c)]	0.18 %

(a) The award agreement provides that TSR for AIG and each member of the Peer Group will be calculated assuming dividends distributed are reinvested on the ex-dividend date.

(b) We used the historical volatility over the most recent 2.50-year period for AIG and the members of the Peer Group, commensurate with the remaining Performance Period as of the Valuation Date.

(c) We converted the semi-annual zero-coupon U.S. Treasury rates as of the Valuation Date to continuously compounded rates. We then chose the continuously compounded risk-free rate that is commensurate with the length of the remaining performance period as of the valuation date and interpolated between the yields of the two-year and the three-year continuously compounded rates to determine the yield.

Modification of LTI awards

During the third quarter of 2019, we added a modifier to the 2019 performance share units awarded to certain senior executives to cap payout at 100 percent of target if our total shareholder return for the three-year performance period is below peer median. We did not recognize any incremental compensation expense as a result of this modification.

During the third quarter of 2020, we reduced the performance goals from three to two metrics for the 2018 LTI and 2019 LTI awards for certain PSU recipients, which resulted in a net credit of $4 million pre-tax to compensation expense. The modification did not apply to the Company's senior executives.

The following table summarizes outstanding share-settled LTI awards[(a)]:

As of or for the Year	Number of Units				Weighted Average Grant-Date Fair Value			
Ended December 31, 2020[(b)]	2020 LTI	2019 LTI	2018 LTI	2016 LTI	2020 LTI	2019 LTI	2018 LTI	2016 LTI
Unvested, beginning of year	**-**	**4,523,898**	**2,656,994**	**223,364**	**$ -**	**$ 44.98**	**$ 55.21**	**$ 62.14**
Granted	7,281,247	109,479	79,294	-	31.37	28.16	28.16	-
Vested[(c)]	(1,788,974)	(599,606)	(2,338,209)	(203,533)	31.46	45.14	55.35	62.14
Forfeited[(d)]	(143,617)	(536,352)	(398,079)	(19,831)	32.00	44.55	54.92	62.13
Unvested, end of year[(e)]	**5,348,656**	**3,497,419**	**-**	**-**	**$ 31.33**	**$ 44.79**	**$ -**	**$ -**

(a) Excludes stock options, other RSUs and DSUs, which are discussed under Stock Options, Other RSU Grants and Non-Employee Plan, respectively. The 2017 LTI was fully vested in 2019 as a result of the three-year cliff vesting schedule.

(b) Except for the 2016 LTI awards, PSUs represent target amount granted, and does not reflect potential increases or decreases that could result from the final outcome of the performance goals for the respective awards, which is determined by the CMRC in the quarter after the applicable performance period ends.

(c) Also reflects units that vest as a result of an accelerated vesting event that occurred prior to the specified vesting date.

(d) Includes PSUs for which the performance metric was not met at the end of the performance period.

(e) At December 31, 2020, the total unrecognized compensation cost for outstanding RSUs and PSUs was $178 million and the weighted-average and expected period of years over which that cost is expected to be recognized are 0.94 year and 2 years.

Stock Options

Stock options were issued as part of the 2020, 2019 and 2018 LTI awards, and to certain newly hired senior executives in 2017 and 2018. Option awards are generally granted with an exercise price equal to the market price of the company's stock on the grant date. The fair value of the options was estimated on the grant date using the Black-Scholes model for the time-vesting options, and a Monte Carlo simulation for the hurdle-vesting options using the assumptions noted in the following table.

The following weighted-average assumptions were used for stock options granted:

	2020	2019	2018
Expected annual dividend yield[(a)]	**3.97 %**	2.86 %	2.32 %
Expected volatility[(b)]	**42.03 %**	23.17 %	23.29 %
Risk-free interest rate[(c)]	**0.57 %**	2.47 %	2.83 %
Expected term[(d)]	**6.39 years**	6.38 years	4.50 - 6.47 years

(a) The dividend yield is the projected annualized AIG dividend yield estimated by Bloomberg Professional service as of the valuation date.

(b) The expected volatility is based on the implied volatility of 24 months stock option estimated by the Bloomberg Professional service as of the valuation date.

(c) The risk-free interest rate is the continuously compounded interest rate for the term between the valuation date and the expiration date that is assumed to be constant and equal to the interpolated value between the closet data points on the U.S. dollar LIBOR-swap curve as of the valuation date.

(d) The contractual terms are 7 and 10 years from the date of grant.

The following table provides a rollforward of stock option activity:

As of or for the Year Ended December 31, 2020	Units	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Values (in millions)
Outstanding, beginning of year	**8,365,891**	**$ 53.66**	**7.65**	
Granted	**3,303,587**	**32.25**		
Exercised	**(74,740)**	**40.76**		
Forfeited or expired	**(165,247)**	**45.42**		
Outstanding, end of year	**11,429,491**	**$ 47.67**	**7.59**	**$ 18**
Exercisable, end of year	**3,988,609**	**$ 54.46**	**6.86**	**$ 1**

The weighted average grant-date fair value of stock options granted during 2020, 2019 and 2018 was $9.61, $10.01 and $11.08, respectively. As of December 31, 2020, we recognized $28.1 million of expense, while $21 million was unrecognized and is expected to be amortized up to 2.00 years.

Other RSU Grants

The Company may issue time-vesting RSUs for various reasons including, as a sign-on bonus, retention grant or replacement award in an acquisition. Vesting for these awards generally ranges from 1 to 3 years and is contingent on continuous service.

The following table summarizes outstanding share-settled RSU grants.

As of or for the Year	Number of Units			Weighted Average Grant-Date Fair Value		
Ended December 31,	2020	2019	2018	2020	2019	2018
Unvested, beginning of year	**1,231,185**	**1,634,610**	**595,250**	**$ 54.17**	**$ 56.11**	**$ 62.93**
Granted	583,068	399,779	1,385,929	35.54	52.40	54.07
Vested	(535,220)	(774,350)	(342,481)	50.89	57.32	59.68
Forfeited	(127,653)	(28,854)	(4,088)	54.90	55.23	60.31
Unvested, end of year	**1,151,380**	**1,231,185**	**1,634,610**	**$ 46.18**	**$ 54.17**	**$ 56.11**

We recognized $23.7 million of expense related to these RSU grants in 2020. Total unrecognized compensation cost related to these grants was $25 million and the weighted-average and expected period of years over which that cost is expected to be recognized are 1.36 years and 5.00 years at December 31, 2020.

NON-EMPLOYEE PLAN

Our non-employee directors, who serve on our Board of Directors, receive share-based compensation in the form of fully vested DSUs with delivery deferred until retirement from the Board. DSUs granted in 2020, 2019 and 2018 accrue DEUs equal to the amount of any regular quarterly dividend that would have been paid by AIG if the shares of AIG Common Stock underlying the DSUs had been outstanding. In 2020, 2019 and 2018, we granted to non-employee directors 94,062, 49,706 and 39,092 DSUs, respectively, under the 2013 Plan, and recognized expense of $2.4 million, $2.6 million and $2.1 million, respectively.

21. Employee Benefits

PENSION PLANS

We offer various defined benefit plans to eligible employees. Effective January 1, 2016, the U.S. defined benefit pension plans were frozen. Consequently, these plans are closed to new participants and current participants no longer earn benefits.

The U.S. AIG Retirement Plan (the qualified plan) is a noncontributory defined benefit plan subject to the provisions of ERISA. In 2012, the qualified plan was converted to a cash balance formula comprised of pay credits based on six percent of a plan participant's annual compensation (subject to IRS limitations) and annual interest credits. Although benefits are frozen, these interest credits continue to accrue on the cash balance accounts of active participants, who also accrue years of service for purposes of early retirement eligibility and subsidies. Employees can take their vested benefits when they leave AIG as a lump sum or an annuity option.

Employees satisfying certain age and service requirements (i.e., grandfathered employees) remain covered under the average pay formula that was in effect prior to the conversion. The final average pay formula is based upon a percentage of final average compensation multiplied by years of credited service, up to 44 years. Grandfathered employees will receive the higher of the benefit under the cash balance formula or the final average pay formula at retirement.

In the U.S. we also sponsor non-qualified unfunded defined benefit plans, such as the AIG Non-Qualified Retirement Income Plan (AIG NQRIP) for certain employees, including key executives, designed to supplement pension benefits provided by the qualified plan. The AIG NQRIP provides a benefit equal to the reduction in benefits under the qualified plan as a result of federal tax limitations on compensation and benefits payable.

Non-U.S. defined benefit plans generally are either based on the employee's years of credited service and compensation in the years preceding retirement or on points accumulated based on the employee's job grade and other factors during each year of service.

POSTRETIREMENT PLANS

U.S. postretirement medical and life insurance benefits are based upon the employee attaining the age of 55 and having a minimum of ten years of service, which was reduced to 5 years in 2019 for medical coverage only. Eligible employees who have medical coverage can enroll in retiree medical upon termination of employment. Medical benefits are contributory, while the life insurance benefits, which are closed to new employees, are generally non-contributory. Retiree medical contributions vary from none for pre-1989 retirees to actual premium payments reduced by certain subsidies for post-1992 retirees. These retiree contributions are subject to annual adjustments. Other cost sharing features of the medical plan include deductibles, coinsurance, Medicare coordination, and an employer subsidy for grandfathered employees only.

Postretirement benefits are offered in certain non-U.S. countries and vary by geographic location.

The following table presents the funded status of the plans reconciled to the amount reported in the Consolidated Balance Sheets. The measurement date for most of the non-U.S. defined benefit pension and postretirement plans is November 30, consistent with the fiscal year end of the sponsoring companies. For all other plans, measurement occurs as of December 31.

As of or for the Years Ended	Pension				Postretirement			
December 31,	U.S. Plans[(a)]		Non-U.S. Plans[(a)]		U.S. Plans		Non-U.S. Plans	
(in millions)	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Change in projected benefit obligation:								
Benefit obligation, beginning of year	**$ 4,972**	$ 4,553	**$ 1,174**	$ 1,138	**$ 181**	$ 172	**$ 61**	$ 50
Service cost	**5**	5	**21**	21	**1**	1	**1**	1
Interest cost	**134**	176	**10**	15	**5**	6	**2**	2
Actuarial loss	**612**	536	**1**	91	**17**	15	**8**	8
Benefits paid:								
AIG assets	**(17)**	(18)	**(9)**	(8)	**(13)**	(13)	**(1)**	(1)
Plan assets	**(294)**	(279)	**(21)**	(33)	**-**	-	**-**	-
Plan amendment	**-**	-	**18**	-	**-**	-	**-**	-
Curtailments	**-**	-	**-**	(2)	**-**	-	**-**	-
Settlements	**-**	-	**(24)**	(67)	**-**	-	**-**	-
Foreign exchange effect	**-**	-	**60**	18	**-**	-	**-**	1
Other	**(2)**	(1)	**1**	1	**-**	-	**-**	-
Projected benefit obligation, end of year	**$ 5,410**	$ 4,972	**$ 1,231**	$ 1,174	**$ 191**	$ 181	**$ 71**	$ 61
Change in plan assets:								
Fair value of plan assets, beginning of year	**$ 4,465**	$ 3,840	**$ 899**	$ 861	**$ -**	$ -	**$ -**	$ -
Actual return on plan assets, net of expenses	**760**	744	**37**	64	**-**	-	**-**	-
AIG contributions	**17**	178	**49**	63	**13**	13	**1**	1
Benefits paid:								
AIG assets	**(17)**	(18)	**(9)**	(8)	**(13)**	(13)	**(1)**	(1)
Plan assets	**(294)**	(279)	**(21)**	(33)	**-**	-	**-**	-
Settlements	**-**	-	**(24)**	(67)	**-**	-	**-**	-
Foreign exchange effect	**-**	-	**46**	19	**-**	-	**-**	-
Fair value of plan assets, end of year	**$ 4,931**	$ 4,465	**$ 977**	$ 899	**$ -**	$ -	**$ -**	$ -
Funded status, end of year	**$ (479)**	$ (507)	**$ (254)**	$ (275)	**$ (191)**	$ (181)	**$ (71)**	$ (61)
Amounts recognized in the balance sheet:								
Assets	**$ -**	$ -	**$ 73**	$ 65	**$ -**	$ -	**$ -**	$ -
Liabilities	**(479)**	(507)	**(327)**	(340)	**(191)**	(181)	**(71)**	(61)
Total amounts recognized	**$ (479)**	$ (507)	**$ (254)**	$ (275)	**$ (191)**	$ (181)	**$ (71)**	$ (61)
Pre-tax amounts recognized in Accumulated other comprehensive income (loss):								
Net gain (loss)	**$ (1,493)**	$ (1,436)	**$ (178)**	$ (195)	**$ (7)**	$ 10	**$ (14)**	$ (6)
Prior service (cost) credit	**-**	-	**(40)**	(22)	**-**	-	**-**	1
Total amounts recognized	**$ (1,493)**	$ (1,436)	**$ (218)**	$ (217)	**$ (7)**	$ 10	**$ (14)**	$ (5)

(a) Includes non-qualified unfunded plans of which the aggregate projected benefit obligation was $282 million and $261 million for the U.S. at December 31, 2020 and 2019, respectively, and $243 million and $225 million for the non-U.S. at December 31, 2020 and 2019, respectively.

The following table presents the accumulated benefit obligations for U.S. and non-U.S. pension benefit plans:

At December 31, *(in millions)*	2020	2019
U.S. pension benefit plans	$ 5,410	$ 4,972
Non-U.S. pension benefit plans	$ 1,213	$ 1,159

Defined benefit plan obligations in which the projected benefit obligation (PBO) was in excess of the related plan assets and the accumulated benefit obligation (ABO) was in excess of the related plan assets were as follows:

At December 31,	PBO Exceeds Fair Value of Plan Assets				ABO Exceeds Fair Value of Plan Assets			
	U.S. Plans		Non-U.S. Plans		U.S. Plans		Non-U.S. Plans	
(in millions)	2020	2019	2020	2019	2020	2019	2020	2019
Projected benefit obligation	$ 5,410	$ 4,972	$ 1,019	$ 1,005	$ -	$ -	$ -	$ -
Accumulated benefit obligation	-	-	-	-	5,410	4,972	931	931
Fair value of plan assets	4,931	4,465	620	605	4,931	4,465	620	605

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

Years Ended December 31,	Pension						Postretirement					
	U.S. Plans			Non-U.S. Plans			U.S. Plans			Non-U.S. Plans		
(in millions)	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018
Components of net periodic benefit cost:												
Service cost*	$ 5	$ 5	$ 5	$ 21	$ 21	$ 22	$ 1	$ 1	$ 1	$ 1	$ 1	$ 1
Interest cost	134	176	162	10	15	16	5	6	6	2	2	2
Expected return on assets	(239)	(229)	(283)	(21)	(21)	(25)	-	-	-	-	-	-
Amortization of prior service cost (credit)	-	-	-	2	2	2	-	-	(1)	(1)	(2)	(2)
Amortization of net (gain) loss	33	35	28	8	5	7	-	(1)	-	-	-	1
Net periodic benefit cost (credit)	(67)	(13)	(88)	20	22 -	22	6	6	6	2	1	2
Settlement (credit) charges	-	-	-	3	(2)	-	-	-	-	-	-	-
Net benefit cost (credit)	$ (67)	$ (13)	$ (88)	$ 23	$ 20	$ 22	$ 6	$ 6	$ 6	$ 2	$ 1	$ 2
Total recognized in Accumulated other comprehensive income (loss)	$ (57)	$ 14	$ (77)	$ (1)	$ (45)	$ 20	$ (17)	$ (17)	$ 9	$ (9)	$ (10)	$ 12
Total recognized in net periodic benefit cost and other comprehensive income (loss)	$ 10	$ 27	$ 11	$ (24)	$ (65)	$ (2)	$ (23)	$ (23)	$ 3	$ (11)	$ (11)	$ 10

* Reflects administrative fees for the U.S. pension plans.

Interest cost for pension and postretirement benefits for our U.S. plans and largest non-U.S. plans is measured using the spot rate approach, which applies specific spot rates along the yield curve to a plan's corresponding discounted cash flows that comprise the obligation. This method provides a more precise measurement of interest cost by aligning the timing of the plans' discounted cash flows to the corresponding spot rates on the yield curve. For certain non-U.S. plans, interest cost is measured utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligations.

A 100 basis point increase in the expected long-term rate of return would decrease the 2021 pension expense by approximately $57 million with all other items remaining the same. A 100 basis point increase in the discount rate would increase the 2021 pension expense by approximately $1 million. This is because the increase in the interest cost due to the higher discount rate is larger than the decrease in the amortization of the net loss, offset by the decrease in the projected settlement charge of the U.S. qualified plan. Conversely, a 100 basis point decrease in the discount rate would decrease the 2021 pension expense by approximately $4 million, while a 100 basis point decrease in the expected long-term rate of return would increase the 2021 pension expense by approximately $57 million, with all other items remaining the same.

ASSUMPTIONS

The following table summarizes the weighted average assumptions used to determine the benefit obligations:

	Pension		Postretirement	
	U.S. Plans	Non-U.S. Plans[(a)]	U.S. Plans	Non-U.S. Plans[(a)]
December 31, 2020				
Discount rate	**2.28%**	**1.00%**	**2.25%**	**2.33%**
Interest crediting rate	**1.57%**	**0.72%**[(b)]	**N/A**	**N/A**
Rate of compensation increase	**N/A**[(c)]	**2.28%**	**N/A**	**N/A%**
December 31, 2019				
Discount rate	3.16 %	1.09 %	3.14 %	3.18 %
Interest crediting rate	2.19 %	0.44 %[(b)]	N/A	N/A
Rate of compensation increase	N/A[(c)]	2.22 %	N/A	3.00 %

(a) The non-U.S. plans reflect those assumptions that were most appropriate for the local economic environments of each of the subsidiaries providing such benefits.

(b) Represents the weighted average interest crediting rate of non-U.S. cash balance plans primarily in Japan and Switzerland.

(c) Compensation increases are no longer applicable as the plan is frozen effective January 1, 2016.

The following table summarizes assumed health care cost trend rates for the U.S. plans:

At December 31,	2020	2019
Following year:		
Medical (before age 65)	**5.55%**	5.74%
Medical (age 65 and older)	**5.00%**	5.00%
Ultimate rate to which cost increase is assumed to decline	**4.50%**	4.50%
Year in which the ultimate trend rate is reached:		
Medical (before age 65)	**2038**	2038
Medical (age 65 and older)	**2038**	2038

The following table presents the weighted average assumptions used to determine the net periodic benefit costs:

	Pension		Postretirement	
	U.S. Plans	Non-U.S. Plans[(a)]	U.S. Plans	Non-U.S. Plans[(a)]
For the Year Ended December 31, 2020				
Discount rate	**3.16%**	**1.09%**	**3.14%**	**3.18%**
Interest crediting rate	**2.19%**	**0.44%**[(b)]	**N/A**	**N/A**
Rate of compensation increase	**N/A**	**2.22%**	**N/A**	**3.00%**
Expected return on assets	**5.55%**	**2.32%**	**N/A**	**N/A**
For the Year Ended December 31, 2019				
Discount rate	4.22 %	1.71 %	4.17 %	4.12 %
Interest crediting rate	3.34 %	0.74 %[(b)]	N/A	N/A
Rate of compensation increase	N/A	2.27 %	N/A	3.00 %
Expected return on assets	6.20 %	2.51 %	N/A	N/A
For the Year Ended December 31, 2018				
Discount rate	3.61 %	1.60 %	3.53 %	3.59 %
Interest crediting rate	2.88 %	0.70 %[(b)]	N/A	N/A
Rate of compensation increase	N/A	2.27 %	N/A	3.00 %
Expected return on assets	6.75 %	2.78 %	N/A	N/A

(a) The non-U.S. plans reflect those assumptions that were most appropriate for the local economic environments of each of the subsidiaries providing such benefits.

(b) Represents the weighted average interest crediting rate of non-U.S. cash balance plans primarily in Japan and Switzerland.

Discount Rate Methodology

The projected benefit cash flows under the U.S. AIG Retirement Plan were discounted using the spot rates derived from the Mercer U.S. Pension Discount Yield Curve (Mercer Yield Curve) at December 31, 2020 and 2019, which resulted in a single discount rate that would produce the same liability at the respective measurement dates. The discount rates were 2.28 percent at December 31, 2020 and 3.16 percent at December 31, 2019. The methodology was consistently applied for the respective years in determining the discount rates for the other U.S. pension plans.

In general, the discount rates for the non-U.S. plans were developed using a similar methodology to the U.S. AIG Retirement plan, by using country-specific Mercer Yield Curves.

The projected benefit obligation for AIG's Japan pension plans represents approximately 51 percent and 53 percent of the total projected benefit obligations for our non-U.S. pension plans at December 31, 2020 and 2019, respectively. The weighted average discount rate of 0.56 percent and 0.42 percent at December 31, 2020 and 2019, respectively, was selected by reference to the Mercer Yield Curve for Japan.

Plan Assets

The investment strategy with respect to assets relating to our U.S. and non-U.S. pension plans is designed to achieve investment returns that will provide for the benefit obligations of the plans over the long term, limit the risk of short-term funding shortfalls and maintain liquidity sufficient to address cash needs. Accordingly, the asset allocation strategy is designed to maximize the investment rate of return while managing various risk factors, including, but not limited to, volatility relative to the benefit obligations, liquidity, diversification and concentration, and incorporates the risk/return profile applicable to each asset class.

There were no shares of AIG Common Stock included in the U.S. and non-U.S. pension plans assets at December 31, 2020 or 2019.

U.S. Pension Plan

The assets of the qualified plan are monitored by the AIG U.S. Investment Committee and actively managed by the investment managers, which involves allocating the plan's assets among approved asset classes within ranges as permitted by the strategic allocation. The long-term strategic asset allocation historically has been reviewed and revised approximately every three years. The investment strategy is focused on de-risking the qualified plan via regular monitoring through liability driven investing and the glide path approach, where the glide path defines the target allocation for the "Return-Seeking" portion of the portfolio (i.e., growth assets) based on the funded ratio and level of interest rates. Under this approach, the allocation to growth assets is reduced and the allocation to liability-hedging assets is increased as the Plan's funded ratio increases in accordance with the defined glide path.

The following table presents the asset allocation percentage by major asset class for the U.S. qualified plan and the target allocation for 2021 based on the plan's funded status at December 31, 2020:

At December 31,	Target 2021	Actual **2020**	Actual 2019
Asset class:			
Equity securities	27 %	**25 %**	25 %
Fixed maturity securities	61 %	**57 %**	59 %
Other investments	12 %	**18 %**	16 %
Total	100 %	**100 %**	100 %

The expected weighted average long-term rate of return for the plan was 5.55 percent and 6.20 percent for 2020 and 2019, respectively. The expected weighted average rate of return is an aggregation of expected returns within each asset class category, weighted for the investment mix of the assets. The combination of the expected asset return and any contributions made by us are expected to maintain the plan's ability to meet all required benefit obligations. The expected asset return for each asset class was developed based on an approach that considers key fundamental drivers of the asset class returns in addition to historical returns, current market conditions, asset volatility and the expectations for future market returns.

Non-U.S. Pension Plans

The assets of the non-U.S. pension plans are held in various trusts in multiple countries and are invested primarily in equities and fixed maturity securities to maximize the long-term return on assets for a given level of risk.

The following table presents the asset allocation percentage by major asset class for non-U.S. pension plans and the target allocation:

At December 31,	Target 2021	Actual 2020	Actual 2019
Asset class:			
Equity securities	26 %	**22 %**	23 %
Fixed maturity securities	50 %	**45 %**	43 %
Other investments	21 %	**24 %**	24 %
Cash and cash equivalents	3 %	**9 %**	10 %
Total	100 %	**100 %**	100 %

The assets of AIG's Japan pension plans represent approximately 61 percent of total non-U.S. assets at December 31, 2020 and 2019. The expected long term rate of return was 1.84 percent and 1.82 percent, for 2020 and 2019, respectively, and is evaluated by the Japanese Pension Investment Committee on a quarterly and annual basis along with various investment managers, and is revised to achieve the optimal allocation to meet targeted funding levels if necessary. In addition, the funding policy is revised in accordance with local regulation every five years.

The expected weighted average long-term rate of return for all our non-U.S. pension plans was 2.32 percent and 2.51 percent for the years ended December 31, 2020 and 2019, respectively. It is an aggregation of expected returns within each asset class that was generally developed based on the building block approach that considers historical returns, current market conditions, asset volatility and the expectations for future market returns.

ASSETS MEASURED AT FAIR VALUE

The following table presents information about our plan assets and indicates the level of the fair value measurement based on the observability of the inputs used. The inputs and methodology used in determining the fair value of these assets are consistent with those used to measure our assets as discussed in Note 5 herein.

	U.S. Plans				Non-U.S. Plans			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
At December 31, 2020								
Assets:								
Cash and cash equivalents	**$ 247**	**$ -**	**$ -**	**$ 247**	**$ 83**	**$ -**	**$ -**	**$ 83**
Equity securities:								
U.S.[(a)]	**459**	**-**	**-**	**459**	**-**	**-**	**-**	**-**
International[(b)]	**183**	**-**	**-**	**183**	**155**	**58**	**-**	**213**
Fixed maturity securities:								
U.S. investment grade[(c)]	**-**	**2,217**	**10**	**2,227**	**-**	**-**	**-**	**-**
International investment grade[(c)]	**-**	**237**	**-**	**237**	**-**	**174**	**-**	**174**
U.S. and international high yield[(d)]	**-**	**282**	**-**	**282**	**-**	**269**	**-**	**269**
Mortgage and other asset-backed securities	**-**	**49**	**-**	**49**	**-**	**-**	**-**	**-**
Other investment types[(e)]:								
Futures	**3**	**(7)**	**-**	**(4)**	**-**	**-**	**-**	**-**
Direct private equity[(f)]	**-**	**-**	**6**	**6**	**-**	**-**	**-**	**-**
Insurance contracts	**-**	**13**	**-**	**13**	**-**	**-**	**179**	**179**
Mutual funds[(g)]	**-**	**-**	**-**	**-**	**-**	**59**	**-**	**59**
Total	**$ 892**	**$ 2,791**	**$ 16**	**$ 3,699**	**$ 238**	**$ 560**	**$ 179**	**$ 977**
At December 31, 2019								
Assets:								
Cash and cash equivalents	$ 133	$ -	$ -	$ 133	$ 90	$ -	$ -	$ 90
Equity securities:								
U.S.[(a)]	278	-	-	278	-	-	-	-
International[(b)]	161	25	-	186	156	49	-	205
Fixed maturity securities:								
U.S. investment grade[(c)]	-	2,200	9	2,209	-	-	-	-
International investment grade[(c)]	-	203	-	203	-	158	-	158
U.S. and international high yield[(d)]	-	106	-	106	-	229	-	229
Mortgage and other asset-backed								

securities	-	48	-	48	-	-	-	-
Other investment types[e]:								
Futures	(17)	-	-	(17)	-	-	-	-
Direct private equity[f]	-	-	11	11	-	-	-	-
Insurance contracts	-	14	-	14	-	-	160	160
Mutual funds[g]	-	-	-	-	-	57	-	57
Total	$ 555	$ 2,596	$ 20	$ 3,171	$ 246	$ 493	$ 160	$ 899

(a) Includes passive and active U.S. equity strategies.

(b) Includes passive and active international equity strategies.

(c) Includes investments in U.S. and non-U.S. government issued bonds, U.S. government agency or sponsored agency bonds, and investment grade corporate bonds.

(d) Consists primarily of investments in securities or debt obligations that have a rating below investment grade.

(e) Excludes investments that are measured at fair value using the NAV per share (or its equivalent), which totaled $1,232 million and $1,294 million at December 31, 2020 and 2019, respectively.

(f) Comprised of private capital financing including private debt and private equity securities.

(g) Comprised of mutual fund investing in variety of equity, derivatives, and bonds.

The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in these securities. Based on our investment strategy, we had no significant concentrations of risks at December 31, 2020.

Changes in Level 3 Fair Value Measurements

The following table presents changes in our U.S. and non-U.S. Level 3 plan assets measured at fair value:

At December 31, 2020 *(in millions)*	Balance Beginning of Year	Net Realized and Unrealized Gains (Losses)	Purchases	Sales	Issuances	Settlements	Transfers In	Transfers Out	Balance at End of Year	Changes in Unrealized Gains (Losses) on Instruments Held at End of Year	Changes in Unrealized Gains (Losses) Included in Other Comprehensive Income (Loss) for Recurring Level 3 Instruments Held at End of Year
U.S. Plan Assets:											
Fixed maturity securities											
U.S. investment grade	**$ 9**	**$ 1**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 10**	**$ -**	**$ -**
Direct private equity	**11**	**(3)**	**-**	**(2)**	**-**	**-**	**-**	**-**	**6**	**(3)**	**-**
Total	**$ 20**	**$ (2)**	**$ -**	**$ (2)**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 16**	**$ (3)**	**$ -**
Non-U.S. Plan Assets:											
Insurance contracts	**$ 160**	**$ 18**	**$ 1**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 179**	**$ -**	**$ -**
Total	**$ 160**	**$ 18**	**$ 1**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 179**	**$ -**	**$ -**

At December 31, 2019 *(in millions)*	Balance Beginning of year	Net Realized and Unrealized Gains (Losses)	Purchases	Sales	Issuances	Settlements	Transfers In	Transfers Out	Balance at End of year	Changes in Unrealized Gains (Losses) on Instruments Held at End of year
U.S. Plan Assets:										
Fixed maturity securities										
U.S. investment grade	$ 13	$ 3	$ -	$ (3)	$ -	$ -	$ -	$ (4)	$ 9	$ 3
Direct private equity	14	(3)	2	(2)	-	-	-	-	11	2
Total	$ 27	$ -	$ 2	$ (5)	$ -	$ -	$ -	$ (4)	$ 20	$ 5
Non-U.S. Plan Assets:										
Insurance contracts	$ 145	$ 16	$ (1)	$ -	$ -	$ -	$ -	$ -	$ 160	$ -
Total	$ 145	$ 16	$ (1)	$ -	$ -	$ -	$ -	$ -	$ 160	$ -

EXPECTED CASH FLOWS

Funding for the qualified plan ranges from the minimum amount required by ERISA to the maximum amount that would be deductible for U.S. tax purposes. Contributed amounts in excess of the minimum amounts are deemed voluntary. Amounts in excess of the maximum amount would be subject to an excise tax and may not be deductible under the Internal Revenue Code. There are no minimum required cash contributions in 2020 for the U.S. AIG Retirement Plan. The non-qualified and postretirement plans' benefit payments are deductible when paid to participants.

Our annual pension contribution in 2021 is expected to be approximately $68 million for our U.S. and non-U.S. pension plans. This estimate is subject to change, since contribution decisions are affected by various factors including our liquidity, market performance and management's discretion.

The expected future benefit payments, net of participants' contributions, with respect to the defined benefit pension plans and other postretirement benefit plans, are as follows:

	Pension		Postretirement	
(in millions)	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
2021	$ 338	$ 44	$ 13	$ 1
2022	334	45	12	2
2023	332	46	12	2
2024	334	53	12	2
2025	317	54	11	2
2026-2030	1,485	298	47	11

DEFINED CONTRIBUTION PLANS

We sponsor several defined contribution plans for U.S. employees that provide for pre-tax salary reduction contributions by employees. The most significant plan is the AIG Incentive Savings Plan, for which the matching contribution is 100 percent of the first six percent of a participant's contributions, subject to the IRS-imposed limitations. Effective January 1, 2016, participants in the AIG Incentive Savings Plan receive an additional fully vested, non-elective, non-discretionary contribution equal to three percent of the participant's eligible compensation for the plan year, paid each pay period regardless of whether the participant currently contributes to the plan, and subject to the IRS-imposed limitations. Our pre-tax expenses associated with these plans were $188 million, $195 million and $210 million in 2020, 2019 and 2018, respectively.

22. Income Taxes

U.S. TAX LAW CHANGES

On December 22, 2017, the U.S. enacted Public Law 115-97, known informally as the Tax Cuts and Jobs Act (the Tax Act). The Tax Act includes provisions for Global Intangible Low-Taxed Income (GILTI) under which taxes are imposed on the excess of a deemed return on tangible assets of certain foreign subsidiaries and for Base Erosion and Anti-Abuse Tax (BEAT) under which taxes are imposed on certain base eroding payments to affiliated foreign companies. While the U.S. tax authorities issued formal guidance, including recently issued regulations for BEAT and other provisions of the Tax Act, there are still certain aspects of the Tax Act that remain unclear and subject to substantial uncertainties. Additional guidance is expected in future periods. Such guidance may result in changes to the interpretations and assumptions we made and actions we may take, which may impact amounts recorded with respect to international provisions of the Tax Act, possibly materially. Consistent with accounting guidance, we treat BEAT as a period tax charge in the period the tax is incurred and have made an accounting policy election to treat GILTI taxes in a similar manner.

On March 27, 2020, the U.S. enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act to mitigate the economic impacts of the COVID-19 crisis. The tax provisions of the CARES Act have not had and are currently not expected to have a material impact on AIG's U.S. federal tax liabilities.

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 AOCI that arise due to the enactment of the Tax Act to retained earnings. We elected to early adopt the standard for the three-month period ended March 31, 2018. As a result of adopting this standard, we reclassified $248 million from AOCI to retained earnings. The amount reclassified included stranded effects related to the change in the U.S. federal corporate income tax rate on the gross temporary differences and related valuation allowances.

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

EFFECTIVE TAX RATE

The following table presents income (loss) from continuing operations before income tax expense (benefit) by U.S. and foreign location in which such pre-tax income (loss) was earned or incurred:

Years Ended December 31, *(in millions)*	2020	2019	2018
U.S.	$ (8,396)	$ 3,825	$ (12)
Foreign	1,103	1,462	269
Total	$ (7,293)	$ 5,287	$ 257

The following table presents the income tax expense (benefit) attributable to pre-tax income (loss) from continuing operations:

Years Ended December 31, *(in millions)*	2020	2019	2018
Foreign and U.S. components of actual income tax expense (benefit):			
U.S.:			
Current	$ (57)	$ 278	$ 134
Deferred	(1,676)	633	(175)
Foreign:			
Current	274	267	202
Deferred	(1)	(12)	(7)
Total	$ (1,460)	$ 1,166	$ 154

Our actual income tax expense (benefit) differs from the statutory U.S. federal amount computed by applying the federal income tax rate due to the following:

Years Ended December 31,	2020			2019			2018		
(dollars in millions)	Pre-Tax Income (Loss)	Tax Expense/ (Benefit)	Percent of Pre-Tax Income (Loss)	Pre-Tax Income (Loss)	Tax Expense/ (Benefit)	Percent of Pre-Tax Income (Loss)	Pre-Tax Income	Tax Expense/ (Benefit)	Percent of Pre-Tax Income
U.S. federal income tax at statutory rate	**$ (7,288)**	**$ (1,531)**	**21.0 %**	$ 5,336	$ 1,120	21.0 %	$ 255	$ 54	21.0 %
Adjustments:									
Tax exempt interest		**(19)**	**0.3**		(25)	(0.5)		(37)	(14.5)
Uncertain tax positions*		**165**	**(2.3)**		258	4.8		176	69.0
Reclassifications from accumulated other comprehensive income		**(101)**	**1.4**		(113)	(2.1)		(72)	(28.2)
Dispositions of subsidiaries		**180**	**(2.5)**		21	0.4		-	-
Non-controlling interest		**(12)**	**0.2**		(5)	(0.1)		(1)	(0.4)
Non-deductible transfer pricing charges		**11**	**(0.2)**		15	0.3		29	11.4
Dividends received deduction		**(39)**	**0.5**		(40)	(0.7)		(38)	(14.8)
Effect of foreign operations		**76**	**(1.0)**		82	1.5		65	25.5
Share-based compensation payments excess tax effect		**35**	**(0.5)**		27	0.5		(13)	(5.1)
State income taxes		**15**	**(0.2)**		13	0.2		10	3.9
Impact of Tax Act		**-**	**-**		-	-		62	24.3
Expiration of tax attribute carryforwards		**221**	**(3.0)**		-	-		-	-
Tax audit resolution		**(379)**	**5.2**		-	-		-	-
Other*		**(16)**	**0.2**		(134)	(2.5)		(102)	(40.0)
Effect of discontinued operations		**-**	**-**		(8)	(0.1)		40	15.7
Valuation allowance:									
Continuing operations		**(65)**	**0.9**		(44)	(0.8)		21	8.2
Consolidated total amounts	**(7,288)**	**(1,459)**	**20.0**	5,336	1,167	21.9	255	194	76.0
Amounts attributable to discontinued operations	**5**	**1**	**20.0**	49	1	2.0	(2)	40	NM
Amounts attributable to continuing operations	**$ (7,293)**	**$ (1,460)**	**20.0 %**	$ 5,287	$ 1,166	22.1 %	$ 257	$ 154	59.9 %

* 2020 includes a net charge of $67 million related to the accrual of IRS interest, of which $139 million tax expense is reported in Uncertain tax positions and $72 million tax benefit is reported in Other. 2019 includes a net charge of $96 million related to the accrual of IRS interest, of which $207 million tax expense is reported in Uncertain tax positions and $(111) million tax benefit is reported in Other. 2018 includes a net charge of $83 million related to the accrual of IRS interest, of which $189 million tax expense is reported in Uncertain tax positions and $(106) million tax expense is reported in Other.

For the year ended December 31, 2020, the effective tax rate on loss from continuing operations was 20.0 percent. The effective tax rate on loss from continuing operations differs from the statutory tax rate of 21 percent primarily due to $186 million related to tax effects of the Majority Interest Fortitude Sale, tax charge of $150 million associated with the establishment of U.S. federal valuation allowance related to certain tax attribute carryforwards, a $165 million net charge associated with changes in uncertain tax positions primarily driven by the accrual of IRS interest, $76 million associated with the effect of foreign operations, and $35 million of excess tax charges related to share-based compensation payments recorded through the income statement. These tax charges were partially offset by tax benefits of $379 million associated with the remeasurement of tax liabilities, penalties and interest primarily related to the IRS audit settlement for tax years 1991-2006, $101 million of reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities, and $58 million associated with tax exempt income. We also recognized a $221 million tax charge associated with reduction of net operating loss deferred tax assets in certain foreign jurisdictions, with a corresponding decrease in the related deferred tax asset valuation allowance. Effect of foreign operations is primarily related to income and losses in our foreign operations taxed at statutory tax rates different than 21 percent, and foreign income subject to U.S. taxation. As discussed further below, AIG and the IRS entered into a binding settlement agreement related to tax years 1991-2006. The impact of receiving the final settlement agreement resulted in a remeasurement of tax principal, penalties and interest based on agreed upon settlement amounts.

For the year ended December 31, 2019, the effective tax rate on income from continuing operations was 22.1 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 21 percent primarily due to a $96 million net charge principally related to the accrual of IRS interest (including interest related to uncertain tax positions), $82 million associated with the effect of foreign operations, $37 million of tax charges and related interest associated with increases in uncertain tax positions primarily related to open tax issues and audits in state and local jurisdictions, $27 million of excess tax charges related to share-based compensation payments recorded through the income statement, and $15 million of non-deductible transfer pricing charges, partially offset by tax benefits of $113 million of reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities, $65 million associated with tax exempt income, and $44 million of valuation allowance activity related to certain foreign subsidiaries and state jurisdictions. Effect of foreign operations is primarily related to income and losses in our foreign operations taxed at statutory tax rates different than 21 percent, and foreign income subject to U.S. taxation.

For the year ended December 31, 2018, the effective tax rate on income from continuing operations was 59.9 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 21 percent primarily due to a $83 million net charge primarily related to the accrual of IRS interest (including interest related to uncertain tax positions), $62 million measurement period adjustment related to the deemed repatriation tax, $65 million associated with the effect of foreign operations, $29 million of non-deductible transfer pricing charges, and $21 million of valuation allowance activity related to certain foreign subsidiaries and state jurisdictions, partially offset by tax benefits of $75 million associated with tax exempt income, and $72 million of reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities. Effect of foreign operations is primarily related to income and losses in our foreign operations taxed at statutory tax rates different than 21 percent and foreign income subject to U.S. taxation.

For the year ended December 31, 2020, we consider earnings of certain operations in Canada, South Africa, the Far East, Latin America, Bermuda as well as the European, Asia Pacific and Middle East regions to be indefinitely reinvested. These earnings relate to ongoing operations and have been reinvested in active business operations. While, following the enactment of the Tax Act, distributions from foreign affiliates are, generally, not subject to U.S. income tax, such distributions may be subject to non-U.S. withholding taxes. A deferred tax liability of approximately $100 million related to such withholding taxes has not been recorded for those foreign subsidiaries whose earnings are considered to be indefinitely reinvested. Additionally, as of December 31, 2020, we do not project any significant potential U.S. tax with respect to foreign currency gains or losses accumulated on previously taxed unremitted foreign earnings and therefore no deferred tax has been recorded. Deferred taxes, if necessary, have been provided on earnings of non-U.S. affiliates whose earnings are not indefinitely reinvested. Given the uncertainties around the impact from the COVID-19 crisis, including the significant global economic slowdown and general market decline, we continue to monitor and review its impact on our reinvestment considerations, including regulatory oversight in the relevant jurisdictions.

The following table presents the components of the net deferred tax assets (liabilities):

December 31, *(in millions)*	2020	2019
Deferred tax assets:		
Losses and tax credit carryforwards	$ 9,257	$ 10,541
Basis differences on investments	4,911	2,673
Life policy reserves	2,396	1,766
Accruals not currently deductible, and other	632	743
Investments in foreign subsidiaries	146	148
Loss reserve discount	423	471
Loan loss and other reserves	560	58
Unearned premium reserve reduction	326	382
Fixed assets and intangible assets	1,077	963
Other	-	319
Employee benefits	567	617
Total deferred tax assets	20,295	18,681
Deferred tax liabilities:		
Deferred policy acquisition costs	(2,026)	(2,200)
Unrealized gains related to available for sale debt securities	(4,328)	(2,123)
Other	(221)	-
Total deferred tax liabilities	(6,575)	(4,323)
Net deferred tax assets before valuation allowance	13,720	14,358
Valuation allowance	(1,330)	(1,427)
Net deferred tax assets (liabilities)	$ 12,390	$ 12,931

The following table presents our U.S. consolidated income tax group tax losses and credits carryforwards as of December 31, 2020.

December 31, 2020 (in millions)	Gross	Tax Effected	Carryforward Period Ending Tax Year[b] 2021	2022	2023	2024	2025	2026	Unlimited Carryforward Period and Carryforward Periods[b] 2027 - After
Net operating loss carryforwards	$ 31,648	$ 6,646	$ -	$ -	$ -	$ -	$ -	$ -	$ 6,646
Capital loss carryforwards	$ -	-	-	-	-	-	-	-	-
Foreign tax credit carryforwards		1,419	24	683	711	-	-	-	-
Other carryforwards		-	-	-	-	-	-	-	-
Total AIG U.S. consolidated income tax group tax losses and credits carryforwards on a U.S. GAAP basis[a]		$ 8,065	$ 24	$ 683	$ 711	$ -	$ -	$ -	$ 6,646

(a) Financial reporting basis is net of unrecognized tax benefits of $442 million for those tax years in which tax attributes are available for use when settlement occurs.

(b) Carryforward periods are based on U.S. tax laws governing utilization of tax attributes. Expiration periods are based on the year the carryforward was generated.

ASSESSMENT OF DEFERRED TAX ASSET VALUATION ALLOWANCE

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

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

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

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

Recent events, including the COVID-19 crisis, multiple reductions in target interest rates by the Board of Governors of the Federal Reserve System, and significant market volatility, continue to impact actual and projected results of our business operations as well as our views on potential effectiveness of certain prudent and feasible tax planning strategies. In order to demonstrate the predictability and sufficiency of future taxable income necessary to support the realizability of the net operating losses and foreign tax credit carryforwards, we have considered forecasts of future income for each of our businesses, including assumptions about future macro-economic and AIG-specific conditions and events, and any impact these conditions and events may have on our prudent and feasible tax planning strategies. We also subjected the forecasts to a variety of stresses of key assumptions and evaluated the effect on tax attribute utilization.

The carryforward periods of our foreign tax credit carryforwards range from tax years 2021 through 2023. Carryforward periods for our net operating losses extend from 2028 forward. However, utilization of a portion of our net operating losses is limited under separate return limitation year rules. Based on 2020 events and our analysis of their potential impact on utilization of our tax attributes, we concluded that a valuation allowance of $150 million should be established on a portion of our foreign tax credit carryforwards that are no longer more-likely-than-not to be realized.

Estimates of future taxable income, including income generated from prudent and feasible actions and tax planning strategies, impact of settlements with taxing authorities, and any changes to interpretations and assumptions related to the impact of the Tax Act could change in the near term, perhaps materially, which may require us to consider any potential impact to our assessment of the recoverability of the deferred tax asset. Additionally, estimates of future taxable income, including prudent and feasible tax planning strategies, may be further impacted by market developments arising from the COVID-19 crisis and uncertainty regarding its outcome. Such potential impact could be material to our consolidated financial condition or results of operations for an individual reporting period.

For the year ended December 31, 2020, recent changes in market conditions, including the COVID-19 crisis and interest rate fluctuations, impacted the unrealized tax gains and losses in the U.S. Life Insurance companies' available for sale securities portfolio, resulting in a deferred tax liability related to net unrealized tax capital gains. As of December 31, 2020, based on all available evidence, we concluded that no valuation allowance is necessary in the U.S. Life Insurance companies' available for sale securities portfolio.

For the year ended December 31, 2020, recent changes in market conditions, including interest rate fluctuations, impacted the unrealized tax gains and losses in the U.S. non-life companies' available for sale securities portfolio, resulting in a deferred tax liability related to net unrealized tax capital gains. As of December 31, 2020, based on all available evidence, we concluded that no valuation allowance is necessary in the U.S. non-life companies' available for sale securities portfolio.

For the year ended December 31, 2020, we recognized a net $215 million decrease in deferred tax asset valuation allowance associated with certain foreign jurisdictions, primarily attributable to a corresponding reduction in foreign net operating loss deferred tax assets as a result of restructuring of our European business and the expiration of a portion of net operating losses prior to utilization in Japan.

The following table presents the net deferred tax assets (liabilities) at December 31, 2020 and 2019 on a U.S. GAAP basis:

December 31, *(in millions)*	2020	2019
Net U.S. consolidated return group deferred tax assets	$ 16,502	$ 14,622
Net deferred tax assets (liabilities) in accumulated other comprehensive income	(4,259)	(2,055)
Valuation allowance	(237)	(90)
Subtotal	12,006	12,477
Net foreign, state and local deferred tax assets	1,711	2,006
Valuation allowance	(1,093)	(1,337)
Subtotal	618	669
Subtotal - Net U.S., foreign, state and local deferred tax assets	12,624	13,146
Net foreign, state and local deferred tax liabilities	(234)	(215)
Total AIG net deferred tax assets (liabilities)	$ 12,390	$ 12,931

DEFERRED TAX ASSET VALUATION ALLOWANCE OF U.S. CONSOLIDATED FEDERAL INCOME TAX GROUP

At December 31, 2020 and 2019, our U.S. consolidated income tax group had net deferred tax assets after valuation allowance of $12.0 billion and 12.5 billion, respectively. At December 31, 2020 and 2019, our U.S. consolidated income tax group had valuation allowances of $237 million and $90 million, respectively.

DEFERRED TAX ASSET – FOREIGN, STATE AND LOCAL

At December 31, 2020 and 2019, we had net deferred tax assets (liabilities) of $384 million and $454 million, respectively, related to foreign subsidiaries, state and local tax jurisdictions, and certain domestic subsidiaries that file separate tax returns.

At December 31, 2020 and 2019, we had deferred tax asset valuation allowances of $1.1 billion and $1.3 billion, respectively, related to foreign subsidiaries, state and local tax jurisdictions, and certain domestic subsidiaries that file separate tax returns. We maintained these valuation allowances following our conclusion that we could not demonstrate that it was more likely than not that the related deferred tax assets will be realized. This was primarily due to factors such as cumulative losses in recent years and the inability to demonstrate profits within the specific jurisdictions over the relevant carryforward periods.

TAX EXAMINATIONS AND LITIGATION

We file a consolidated U.S. federal income tax return with our eligible U.S. subsidiaries. Income earned by subsidiaries operating outside the U.S. is taxed, and income tax expense is recorded, based on applicable U.S. and foreign law.

We are currently under examination for the tax years 2007 through 2013.

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

In January 2018, the parties reached non-binding agreements in principle on issues presented in the dispute. In 2019, we agreed with the IRS to execute an agreement for the tax years at issue in which AIG would waive restrictions on the assessment of additional tax related to the settlement of the underlying issues in those tax years. The litigation was stayed pending the outcome of the review process.

During the fourth quarter of 2020, the parties concluded the review process and executed a binding settlement agreement on the underlying issues in those tax years. On October 22, 2020, the Southern District dismissed the case based upon the settlement reached between AIG and the government. The parties continue to review the related interest calculations based on the settlement agreement, which will become due upon the IRS' issuance of a Notice and Demand for Payment.

In September 2020, we received the IRS Revenue Agent Report containing agreed and disagreed issues for the audit of tax years 2007-2010. In October 2020, we filed a protest of the disagreed issues with IRS Appeals.

ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

The following table presents a reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits:

Years Ended December 31, *(in millions)*	**2020**	2019	2018
Gross unrecognized tax benefits, beginning of year	**$ 4,762**	$ 4,709	$ 4,707
Increases in tax positions for prior years	**45**	51	14
Decreases in tax positions for prior years	**(131)**	(1)	(6)
Increases in tax positions for current year	**13**	4	-
Settlements	**(2,346)**	(1)	(6)
Gross unrecognized tax benefits, end of year	**$ 2,343**	$ 4,762	$ 4,709

At December 31, 2020, 2019 and 2018, our unrecognized tax benefits, excluding interest and penalties, were $2.3 billion, $4.8 billion and $4.7 billion, respectively. The activity for the year ended December 31, 2020 includes the impact of the binding settlement agreement with the IRS for tax years 1991-2006 with respect to cross border financing transactions. After remeasurement based on the settlement terms, the remaining balances of the unrecognized tax benefits, penalties and interest related to the 1991-2006 tax years are no longer presented as uncertain tax positions and were reclassified as prior year current tax payable. The activity for the year ended December 31, 2019 includes increases primarily related to open tax issues and audits in state and local jurisdictions. The activity for the year ended 2018 is not material.

At December 31, 2020, 2019 and 2018, our unrecognized tax benefits related to tax positions that, if recognized, would not affect the effective tax rate because they relate to such factors as the timing, rather than the permissibility, of the deduction were $44 million, $43 million and $38 million, respectively. Accordingly, at December 31, 2020, 2019 and 2018, the amounts of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate were $2.3 billion, $4.7 billion and $4.7 billion, respectively.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense. At December 31, 2020, 2019, and 2018, we had accrued liabilities of $286 million, $2.4 billion, and $2.2 billion, respectively, for the payment of interest (net of the federal benefit) and penalties. For the years ended December 31, 2020, 2019, and 2018, we accrued expense of $128 million, $236 million and $190 million, respectively, for the payment of interest and penalties. The activity in the fourth quarter of 2020 also includes a net decrease of $2.2 billion, which is attributable to decreases and settlements of interest and penalties associated with the completion of the IRS examination for tax years 1991-2006. During the fourth quarter of 2020, interest accrued was re-computed factoring in principal tax and penalty adjustments based on the final IRS settlement agreement, including estimated impact of interest netting which we have already formally requested.

We believe it is reasonably possible that our unrecognized tax benefits could decrease within the next 12 months by as much as $1.2 billion, principally as a result of potential resolutions or settlements of prior years' tax items. The prior years' tax items include unrecognized tax benefits related to the deductibility of certain expenses.

Listed below are the tax years that remain subject to examination by major tax jurisdictions:

At December 31, 2020	Open Tax Years
Major Tax Jurisdiction	
United States	2007-2019
Australia	2016-2019
Canada	2013-2019
France	2018-2019
Japan	2014-2019
Korea	2015-2019
Singapore	2016-2019
United Kingdom	2019-2019

23. Subsequent Events

DIVIDENDS DECLARED

On February 16, 2021, our Board of Directors declared a cash dividend on AIG Common Stock of $0.32 per share, payable on March 30, 2021 to shareholders of record on March 16, 2021. On February 16, 2021, our Board of Directors declared a cash dividend on AIG's Series A Preferred Stock of $365.625 per share, payable on March 15, 2021 to holders of record on February 26, 2021.

DEBT REDEMPTION

On February 1, 2021, we redeemed all of our outstanding 3.300% Notes Due 2021 (the Notes), for a redemption price of 100 percent of the principal amount plus accrued and unpaid interest. As of December 31, 2020, $1.5 billion aggregate principal amount of the Notes were outstanding.

REPURCHASE OF COMMON STOCK

Pursuant to an Exchange Act Rule 10b5-1 repurchase plan, in January 2021, we repurchased approximately $92 million of additional shares of AIG Common Stock, with proceeds received from warrant exercises that occurred prior to the expiration of warrants to purchase shares of AIG Common Stock on January 19, 2021. As of February 18, 2021, approximately $1.4 billion remained under our share repurchase authorization.

SALE OF CERTAIN AIG LIFE AND RETIREMENT RETAIL MUTUAL FUNDS BUSINESS

On February 8, 2021, we announced we entered into a definitive agreement with Touchstone Investments, an indirect wholly-owned subsidiary of Western & Southern Financial Group, to sell certain assets of AIG Life and Retirement's Retail Mutual Funds business. AIG's Life and Retirement Retail Mutual Funds business manages $7.8 billion in assets across eighteen funds as of December 31, 2020, of which twelve funds with $7.5 billion in assets would be proposed to be merged into Touchstone funds in the transaction. The closing is subject to customary approvals and is targeted for mid-2021.

Part II

ITEM 9 | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A | Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. In connection with the preparation of this Annual Report on Form 10-K, an evaluation was carried out by AIG management, with the participation of AIG's Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15l and 15d-15(e) under the Exchange Act), as of December 31, 2020. Based on this evaluation, AIG's Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2020.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of AIG is responsible for establishing and maintaining adequate internal control over financial reporting. AIG's internal control over financial reporting is a process, under the supervision of AIG's Chief Executive Officer and Chief Financial Officer, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of AIG's financial statements for external purposes in accordance with U.S. GAAP.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

AIG management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2020 based on the criteria established in the 2013 *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

AIG management has concluded that, as of December 31, 2020, our internal control over financial reporting was effective based on the criteria articulated in the 2013 *Internal Control – Integrated Framework* issued by the COSO. The effectiveness of our internal control over financial reporting as of December 31, 2020 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included in this Annual Report on Form 10-K.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting that have occurred during the quarter ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B | Other Information

On February 16, 2021, the Compensation and Management Resources Committee of the Board of Directors approved the amendment and restatement of each of the AIG 2012 Executive Severance Plan, effective February 16, 2021 (the ESP), the AIG Long-Term Incentive Plan (as amended and restated February 16, 2021) (the LTIP) and the AIG Amended and Restated Non-Qualified Retirement Income Plan (as amended and restated February 16, 2021) (the NQRIP).

With respect to the ESP, the amendments provide for (i) no adverse amendments or termination of the ESP for 24 months following a Change in Control (as defined in the ESP), along with other ongoing procedural enforcement and reimbursement protections and (ii) in the event of a participant's involuntary termination without cause or resignation for Good Reason within 24 months following a Change in Control, (a) an expanded definition of a Good Reason resignation in the event of certain changes to the terms and conditions of a participant's employment; (b) a best net cutback provision for participants eligible to receive payments under the ESP that could be subject to certain excise taxes; (c) a revised cash severance calculation to include in the formula the better of a participant's target short-term incentive award for the year of termination or the average short-term incentive award paid over the preceding 3-year period; and (d) with respect to the short-term incentive amount payable in the year of termination, an enhanced proration formula, as well as an adjustment to the calculation of the payment amount equal to the greater of actual performance and target. With respect to a termination other than in connection with a Change in Control, the amendments also reflect that business unit performance for purposes of the current year short-term incentive award calculation will be determined by the Chief Executive Officer, provided, however that the Compensation Committee will continue to calculate business unit performance with respect to the Chief Executive Officer's leadership team. Finally, the amendments include updates to the model release in Exhibit A of the ESP to reflect recent changes in employment law.

With respect to the LTIP, the amendments provide for (i) no adverse amendments or termination of the LTIP for 24 months following a Change in Control (as defined in the LTIP), along with other ongoing procedural enforcement and reimbursement protections (ii) the addition of a Good Reason resignation trigger in the event of certain changes to the terms and conditions of a participant's employment within 24 months following a Change in Control; and (iii) in the event of a participant's involuntary termination without cause or resignation for Good Reason within 24 months following a Change in Control or a participant's voluntary retirement not in connection with a Change in Control, an extension of stock option exercisability for the remaining life of the option.

With respect to the NQRIP, the amendments provide that upon a upon a Change in Control (as defined in the NQRIP) (i) all accrued benefits of participants under the NQRIP will immediately vest and (ii) an irrevocable Rabbi Trust, a grantor trust within the meaning of subpart E, part I, subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended, will be fully funded covering all obligations under the NQRIP.

The foregoing summary is qualified in its entirety by reference to copies of the ESP, the LTIP, and the NQRIP, which are attached to this Annual Report on Form 10-K as Exhibits 10.35, 10.36 and 10.37, respectively.

Part III

ITEM 10 | Directors, Executive Officers and Corporate Governance

All information required by Items 10, 11, 12, 13 and 14 of this Form 10-K is incorporated by reference from the definitive proxy statement for AIG's 2021 Annual Meeting of Shareholders, which will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to Regulation 14A.

ITEM 11 | Executive Compensation

See Item 10 herein.

ITEM 12 | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

See Item 10 herein.

ITEM 13 | Certain Relationships and Related Transactions, and Director Independence

See Item 10 herein.

ITEM 14 | Principal Accounting Fees and Services

See Item 10 herein.

Part IV

ITEM 15 | Exhibits, Financial Statement Schedules

(a) Financial Statements and Schedules. *See accompanying Index to Financial Statements.*

Exhibit Index

Exhibit Number	Description	Location
2	Plan of acquisition, reorganization, arrangement, liquidation or succession	
	(1) Stock Purchase Agreement dated as of August 15, 2016 between American International Group, Inc. and Arch Capital Group Ltd.	Incorporated by reference to Exhibit 2.1 to AIG's Current Report on Form 8-K filed with the SEC on August 16, 2016 (File No. 1-8787).
	(2) First Amendment to Stock Purchase Agreement, dated as of December 29, 2016 between American International Group, Inc. and Arch Capital Group Ltd.	Incorporated by reference to Exhibit 10.51 to AIG's Annual Report on Form 10-K for the year ended December 31, 2016 (File No. 1-8787).
	(3) Agreement and Plan of Merger, by and among AIG, Venus Holdings Limited and Validus Holdings, Ltd., dated January 21, 2018	Incorporated by reference to Exhibit 2.1 to AIG's Current Report on Form 8-K filed with the SEC on January 22, 2018 (File No. 1-8787).
	(4) Membership Interest Purchase Agreement, by and among AIG, Fortitude Group Holdings, LLC, Carlyle FRL, L.P., The Carlyle Group L.P., T&D United Capital Co., LTD. And T&D Holdings, Inc., dated as of November 25, 2019	Incorporated by reference to Exhibit 2.1 to AIG's Current Report on Form 8-K filed with the SEC on November 25, 2019 (File No. 1-8787).
3	Articles of incorporation and by-laws	
3(i)	Amended and Restated Certificate of Incorporation of AIG, amended and restated May 14, 2020	Incorporated by reference to Exhibit 3.1 to AIG's Current Report on Form 8-K filed with the SEC on May 15, 2020 (File No. 1-8787).
3(ii)	AIG By-laws, amended and restated December 9, 2020	Incorporated by reference to Exhibit 3.1 to AIG's Current Report on Form 8-K filed with the SEC on December 9, 2020 (File No. 1-8787).
4	Instruments defining the rights of security holders, including indentures	Certain instruments defining the rights of holders of long-term debt securities of AIG and its subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. AIG hereby undertakes to furnish to the Commission, upon request, copies of any such instruments.
	(1) Warrant Agreement (including Form of Warrant), dated as of January 6, 2011, between AIG and Wells Fargo Bank, N.A., as Warrant Agent	Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on January 7, 2011 (File No. 1-8787).
	(2) Tax Asset Protection Plan, dated as of March 9, 2011, between AIG and Wells Fargo Bank, N.A., as Rights Agent, including as Exhibit A the forms of Rights Certificate and of Election to Exercise	Incorporated by reference to Exhibit 4.1 to AIG's Current Report on Form 8-K filed with the SEC on March 9, 2011 (File No. 1-8787).
	(3) Amendment No. 1, dated as of January 8, 2014, to Tax Asset Protection Plan, between AIG and Wells Fargo Bank, National Association, as Rights Agent	Incorporated by reference to Exhibit 4.1 to AIG's Current Report on Form 8-K filed with the SEC on January 8, 2014 (File No. 1-8787).
	(4) Amendment No. 2, dated as of December 14, 2016, to Tax Asset Protection Plan, between AIG and Wells Fargo Bank, National Association, as Rights Agent	Incorporated by reference to Exhibit 4.1 to AIG's Current Report on Form 8-K filed with the SEC on December 14, 2016 (File No. 1-8787).
	(5) Amendment No. 3, dated as of December 11, 2019, to Tax Asset Protection Plan, between Equiniti Trust Company, as successor to Wells Fargo Shareowner Services, a former division of Wells Fargo Bank, as Rights Agent	Incorporated by reference to Exhibit 4.1 to AIG's Current Report on Form 8-K filed with the SEC on December 11, 2019 (File No. 1-8787).
	(6) Description of Registrant's Securities	Filed herewith.
	(7) Deposit Agreement, dated March 14, 2019, among AIG, Equiniti Trust Company, as depositary, and the holders from time to time of the depositary receipts described therein	Incorporated by reference to Exhibit 4.2 to AIG's Current Report on Form 8-K filed with the SEC on March 14, 2019 (File No. 1-8787).

	(8) Form of depositary receipt representing the Depository Shares (included in Exhibit A to Exhibit 4.7)	
9	Voting Trust Agreement	None.
10	Material contracts	
	(1) AIG Amended and Restated Form of Non-Employee Director Deferred Stock Units Award Agreement*	Incorporated by reference to Exhibit 10.69 to AIG's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-8787).
	(2) Fourth Amended and Restated Credit Agreement, dated as of June 27, 2017, among AIG, the subsidiary borrowers party thereto, the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and each Several L/C Agent party thereto	Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on June 27, 2017 (File No. 1-8787).
	(3) American International Group, Inc. 2010 Stock Incentive Plan*	Incorporated by reference to AIG's Definitive Proxy Statement, dated April 12, 2010 (Filed No. 1-8787).
	(4) AIG Amended Form of 2010 Stock Incentive Plan DSU Award Agreement*	Incorporated by reference to Exhibit 10.14 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (File No. 1-8787).
	(5) Letter Agreement, dated August 14, 2013, between AIG and Kevin Hogan*	Incorporated by reference to Exhibit 10.2 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (File No. 1-8787).
	(6) Non-Solicitation and Non-Disclosure Agreement, dated August 14, 2013, between AIG and Kevin Hogan*	Incorporated by reference to Exhibit 10.3 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (File No. 1-8787).
	(7) Introductory Bonus Agreement, dated August 14, 2013, between AIG and Kevin Hogan*	Incorporated by reference to Exhibit 10.4 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (File No. 1-8787).
	(8) Executive Officer Form of Release and Restrictive Covenant Agreement*	Incorporated by reference to Exhibit 10.5 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 (File No. 1-8787).
	(9) Master Transaction Agreement, dated as of April 19, 2011, by and among American Home Assurance Company, Chartis Casualty Company (f/k/a American International South Insurance Company), Chartis Property Casualty Company (f/k/a AIG Casualty Company), Commerce and Industry Insurance Company, Granite State Insurance Company, Illinois National Insurance Co., National Union Fire Insurance Company of Pittsburgh, Pa., New Hampshire Insurance Company, The Insurance Company of the State of Pennsylvania, Chartis Select Insurance Company (f/k/a AIG Excess Liability Insurance Company Ltd.), Chartis Specialty Insurance Company (f/k/a American International Specialty Lines Insurance Company), Landmark Insurance Company, Lexington Insurance Company, AIU Insurance Company, American International Reinsurance Company, Ltd. and American Home Assurance Company, National Union Fire Insurance Company of Pittsburgh, Pa., New Hampshire Insurance Company and Chartis Overseas Limited acting as members of the Chartis Overseas Association as respects business written or assumed by or from affiliated companies of Chartis Inc. (collectively, the Reinsureds), Eaglestone Reinsurance Company and National Indemnity Company	Incorporated by reference to Exhibit 10.6 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (File No. 1-8787).
	(10) AIG 2013 Long-Term Incentive Plan (as amended September 2015)*	Incorporated by reference to Exhibit 10.35 to AIG's Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 1-8787).
	(11) Form of 2015 Performance Share Units Award Agreement*	Incorporated by reference to Exhibit 10.5 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (File No. 1-8787).
	(12) AIG Clawback Policy*	Incorporated by reference to Exhibit 10.3 to AIG's Current Report on Form 8-K filed with the SEC on March 27, 2013 (File No. 1-8787).

	(13) AIG Annual Short-Term Incentive Plan (as amended and restated effective March 1, 2016)*	Incorporated by reference to Exhibit 10.43 on AIG's Annual Report on Form 10-K for the year ended December 31, 2016 (File No. 1-8787).
	(14) AIG 2013 Omnibus Incentive Plan*	Incorporated by reference to Appendix B in AIG's Definitive Proxy Statement on Schedule 14A, dated April 4, 2013 (File No. 1-8787).
	(15) Form of AIG 2013 Omnibus Incentive Plan Non-Employee Director DSU Award Agreement*	Incorporated by reference to Exhibit 10.52 to AIG's Annual Report on Form 10-K for the year ended December 31, 2016 (File No. 1-8787).
	(16) Aggregate Excess of Loss Reinsurance Agreement, dated January 20, 2017, by and between AIG Assurance Company, AIG Property Casualty Company, AIG Specialty Insurance Company, AIU Insurance Company, American Home Assurance Company, Commerce and Industry Insurance Company, Granite State Insurance Company, Illinois National Insurance Co., Lexington Insurance Company, National Union Fire Insurance Company of Pittsburgh, Pa., New Hampshire Insurance Company and The Insurance Company Of The State Of Pennsylvania and National Indemnity Company (portions of this exhibit have been redacted pursuant to a request for confidential treatment).	Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on February 14, 2017 (File No. 1-8787).
	(17) Trust Agreement, dated January 20, 2017, by and among National Union Fire Insurance Company of Pittsburgh, Pa., National Indemnity Company, and Wells Fargo Bank, National Association (portions of this exhibit have been redacted pursuant to a request for confidential treatment).	Incorporated by reference to Exhibit 10.2 to AIG's Current Report on Form 8-K filed with the SEC on February 14, 2017 (File No. 1-8787).
	(18) Parental Guarantee Agreement, dated January 20, 2017, by Berkshire Hathaway Inc. in favor of National Union Fire Insurance Company of Pittsburgh, Pa.	Incorporated by reference to Exhibit 10.3 to AIG's Current Report on Form 8-K filed with the SEC on February 14, 2017 (File No. 1-8787).
	(19) Form of AIG Long Term Incentive Award Agreement (as of March 2017)*	Incorporated by reference to Exhibit 10.2 to AIG's Current Report on Form 8-K filed with the SEC on March 17, 2017 (File No. 1-8787).
	(20) Letter Agreement, dated July 22, 2015, between AIG and Douglas A. Dachille*	Incorporated by reference to Exhibit 10.9 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (File No. 1-8787).
	(21) Non-Solicitation and Non-Disclosure Agreement, dated July 22, 2015, between AIG and Douglas A. Dachille*	Incorporated by reference to Exhibit 10.10 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (File No. 1-8787).
	(22) Form of Stock Option Award Agreement, between American International Group, Inc. and Brian Duperreault*	Incorporated by reference to Exhibit 10.2 to AIG's Current Report on Form 8-K filed with the SEC on May 15, 2017 (File No. 1-8787).
	(23) Non-Solicitation and Non-Disclosure Agreement, dated July 5, 2017, between American International Group, Inc. and Peter Zaffino*	Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on July 6, 2017 (File No. 1-8787).
	(24) Form of Stock Option Award Agreement, between American International Group, Inc. and Peter Zaffino*	Incorporated by reference to Exhibit 10.2 to AIG's Current Report on Form 8-K filed with the SEC on July 6, 2017 (File No. 1-8787).
	(25) Form of Long Term Incentive Stock Option Award Agreement*	Incorporated by reference to Exhibit 10.60 to AIG's Annual Report on Form 10-K for the year ended December 31, 2017 (File No. 1-8787).
	(26) AIG Long Term Incentive Plan (as amended March 2018)*	Incorporated by reference to Exhibit 10.2 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 (File No. 1-8787).
	(27) Description of Non-Management Director Compensation*	Incorporated by reference to "Compensation of Directors" in AIG's Definitive Proxy Statement on Schedule 14A, dated March 27, 2018 (File No. 1-8787).

	(28) Letter Agreement, dated May 10, 2018, between AIG and Mark Lyons*	Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K/A, Amendment No. 1, filed with the SEC on December 14, 2018 (File No. 1-8787).
	(29) Non-Solicitation and Non-Disclosure Agreement, dated May 13, 2018, between AIG and Mark Lyons*	Incorporated by reference to Exhibit 10.2 to AIG's Current Report on Form 8-K/A, Amendment No. 1, filed with the SEC on December 14, 2018 (File No. 1-8787).
	(30) Form of AIG Long Term Incentive Award Agreement (as of April 2019)*	Incorporated by reference to Exhibit 10.1 to AIG's Quarterly Report on Form 10-Q, filed with the SEC on May 7, 2019 (File No. 1-8787).
	(31) Form of AIG Long Term Incentive Award Agreement (as of January 2020)*	Incorporated by reference to Exhibit 10.49 to AIG's Annual Report on Form 10-K, filed with the SEC on February 21, 2020 (File No. 1-8787).
	(32) Amended and Restated Combination Coinsurance and Modified Coinsurance Agreement by and between American General Life Insurance Company and Fortitude Reinsurance Company, Ltd., effective as of June 1, 2020	Incorporated by reference to Exhibit 10.1 to AIG's Quarterly Report on Form 10-Q, filed with the SEC on August 4, 2020 (File No. 1-8787).
	(33) Amended and Restated Non-Qualified Pension Plan (as amended July 2020)	Incorporated by reference to Exhibit 10.2 to AIG's Quarterly Report on Form 10-Q, filed with the SEC on August 4, 2020 (File No. 1-8787).
	(34) Amendment to Fourth Amended and Restated Credit Agreement, dated November 23, 2020	Filed herewith.
	(35) AIG 2012 Executive Severance Plan (as amended and restated February 2021)*	Filed herewith.
	(36) AIG Long Term Incentive Plan (as amended and restated February 2021)*	Filed herewith.
	(37) AIG Non-Qualified Retirement Income Plan (as amended and restated February 2021)*	Filed herewith.
	(38) Letter Agreement, dated February 11, 2021, between AIG and Peter S. Zaffino*	Filed herewith.
	(39) Letter Agreement, dated February 11, 2021, between AIG and Brian Duperreault*	Filed herewith.
21	Subsidiaries of Registrant	Filed herewith.
22	Guaranteed Securities	None.
23	Consent of Independent Registered Public Accounting Firm	Filed herewith.
24	Powers of attorney	Included on signature page and filed herewith.
31	Rule 13a-14(a)/15d-14(a) Certifications	Filed herewith.
32	Section 1350 Certifications**	Filed herewith.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of December 31, 2020 and December 31, 2019, (ii) the Consolidated Statements of Income for the three years ended December 31, 2020, (iii) the Consolidated Statements of Equity for the three years ended December 31, 2020, (iv) the Consolidated Statements of Cash Flows for the three years ended December 31, 2020, (v) the Consolidated Statements of Comprehensive Income (Loss) for the three years ended December 31, 2020 and (vi) the Notes to the Consolidated Financial Statements.	Filed herewith.

* This exhibit is a management contract or a compensatory plan or arrangement.

** This information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

ITEM 16 | Form 10-K Summary

None.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on the 19th of February, 2021.

AMERICAN INTERNATIONAL GROUP, INC.

By /S/ BRIAN DUPERREAULT

(Brian Duperreault, Chief Executive Officer)

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Brian Duperreault and Mark D. Lyons, and each of them severally, his or her true and lawful attorney-in-fact, with full power of substitution and resubstitution, to sign in his or her name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the U.S. Securities and Exchange Commission in connection with this Annual Report on Form 10-K and any and all amendments hereto, as fully for all intents and purposes as he or she might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 19th of February, 2021.

SIGNATURE	TITLE
/S/ BRIAN DUPERREAULT (Brian Duperreault)	**Chief Executive Officer and Director (Principal Executive Officer)**
/S/ PETER S. ZAFFINO (Peter S. Zaffino)	**President and Global Chief Operating Officer and Director**
/S/ MARK D. LYONS (Mark D. Lyons)	**Executive Vice President and Chief Financial Officer (Principal Financial Officer)**
/S/ ELIAS F. HABAYEB (Elias F. Habayeb)	**Senior Vice President, Deputy Chief Financial Officer and Chief Accounting Officer, AIG and Chief Financial Officer, General Insurance (Principal Accounting Officer)**
/S/ W. DON CORNWELL (W. Don Cornwell)	**Director**
/S/ JOHN H. FITZPATRICK (John H. Fitzpatrick)	**Director**
/S/ WILLIAM G. JURGENSEN (William G. Jurgensen)	**Director**
/S/ CHRISTOPHER S. LYNCH (Christopher S. Lynch)	**Director**
/S/ HENRY S. MILLER (Henry S. Miller)	**Director**
/S/ LINDA A. MILLS (Linda A. Mills)	**Director**
/S/ THOMAS F. MOTAMED (Thomas F. Motamed)	**Director**
/S/ PETER R. PORRINO (Peter R. Porrino)	**Director**
/S/ AMY L. SCHIOLDAGER (Amy L. Schioldager)	**Director**
/S/ DOUGLAS M. STEENLAND (Douglas M. Steenland)	**Director**
/S/ THERESE M. VAUGHAN (Therese M. Vaughan)	**Director**

Summary of Investments – Other than Investments in Related Parties

Schedule I

At December 31, 2020 *(in millions)*	Cost[(a)]	Fair Value	Amount at which shown in the Balance Sheet
Fixed maturities:			
U.S. government and government sponsored entities	$ 5,485	$ 5,971	$ 5,971
Obligations of states, municipalities and political subdivisions	13,915	16,124	16,124
Non-U.S. governments	14,231	15,345	15,345
Public utilities	20,567	23,420	23,420
All other corporate debt securities	129,556	145,890	145,890
Mortgage-backed, asset-backed and collateralized	65,874	70,037	70,037
Total fixed maturity securities	**249,628**	**276,787**	**276,787**
Equity securities and mutual funds:			
Common stock:			
Public utilities	1	1	1
Banks, trust and insurance companies	187	187	187
Industrial, miscellaneous and all other	579	579	579
Total common stock	**767**	**767**	**767**
Preferred stock	13	13	13
Mutual funds	276	276	276
Total equity securities and mutual funds	**1,056**	**1,056**	**1,056**
Mortgage and other loans receivable, net of allowance	45,562	48,636	45,562
Other invested assets	19,816	19,060	19,060
Short-term investments, at cost (approximates fair value)	18,203	18,203	18,203
Derivative assets[(b)]	774	774	774
Total investments	**$ 335,039**	**$ 364,516**	**$ 361,442**

(a) Original cost of fixed maturities is reduced by repayments and adjusted for amortization of premiums or accretion of discounts.

(b) The balance is reported in Other assets.

Condensed Financial Information of Registrant
Balance Sheets – Parent Company Only

Schedule II

December 31, *(in millions)*	2020	2019
Assets:		
Short-term investments[(a)]	$ 6,918	$ 3,329
Other investments	4,227	4,804
Total investments	11,145	8,133
Cash	3	2
Loans to subsidiaries[(b)]	36,981	35,352
Due from affiliates - net[(b)]	1,531	1,504
Intercompany tax receivable[(b)]	978	3,121
Deferred income taxes	8,525	9,426
Investment in consolidated subsidiaries[(b)]	41,294	39,921
Other assets[(c)]	313	340
Total assets	$ 100,770	$ 97,799
Liabilities:		
Due to affiliate[(b)]	$ 3,224	$ 3,231
Intercompany tax payable[(b)]	2,669	2,700
Notes and bonds payable	23,068	20,467
Junior subordinated debt	1,561	1,542
Series AIGFP matched notes and bonds payable	21	21
Loans from subsidiaries[(b)]	735	715
Other liabilities (includes intercompany derivative liabilities of $0 in 2020 and $33 in 2019)	3,130	3,448
Total liabilities	34,408	32,124
AIG Shareholders' equity:		
Preferred stock	485	485
Common stock	4,766	4,766
Treasury stock	(49,322)	(48,987)
Additional paid-in capital	81,418	81,345
Retained earnings	15,504	23,084
Accumulated other comprehensive income	13,511	4,982
Total AIG shareholders' equity	66,362	65,675
Total liabilities and equity	$ 100,770	$ 97,799

(a) At December 31, 2020 and 2019, included restricted cash of $0 million and $102 million, respectively.

(b) Eliminated in consolidation.

(c) At December 31, 2020 and 2019, included restricted cash of $1 million and $1 million, respectively.

See accompanying Notes to Condensed Financial Information of Registrant.

Condensed Financial Information of Registrant (Continued)
Statements of Income – Parent Company Only

Schedule II

Years Ended December 31, *(in millions)*	2020	2019	2018
Revenues:			
Equity in undistributed net income (loss) of consolidated subsidiaries[(a)]	$ (2,569)	$ 44	$ (5,160)
Dividend income from consolidated subsidiaries[(a)]	1,797	3,819	4,580
Interest income[(b)]	348	1,034	961
Net realized capital losses	(149)	(3)	(49)
Other income	(1)	125	26
Expenses:			
Interest expense	1,043	985	954
Net loss on extinguishment of debt	2	-	-
Net loss on sale of divested businesses	4,010	1	3
Other expenses	980	728	800
Income (loss) from continuing operations before income tax benefit	(6,609)	3,305	(1,399)
Income tax benefit	(667)	(45)	(1,433)
Net income (loss)	(5,942)	3,350	34
Loss from discontinued operations	(2)	(2)	(40)
Net income (loss) attributable to AIG Parent Company	$ (5,944)	$ 3,348	$ (6)

(a) Eliminated in consolidation.

(b) Includes interest income on intercompany borrowings of $295 million, $904 million and $840 million on December 31, 2020, 2019 and 2018, respectively, eliminated in consolidation.

See accompanying Notes to Condensed Financial Information of Registrant.

Condensed Financial Information of Registrant (Continued)
Statements of Comprehensive Income – Parent Company Only

Schedule II

Years Ended December 31, *(in millions)*	2020	2019	2018
Net income (loss)	$ (5,944)	$ 3,348	$ (6)
Other comprehensive income (loss)	8,529	6,395	(6,302)
Total comprehensive income (loss) attributable to AIG	$ 2,585	$ 9,743	$ (6,308)

See accompanying Notes to Condensed Financial Information of Registrant.

Condensed Financial Information of Registrant (Continued)
Statements of Cash Flows – Parent Company Only

Schedule II

Years Ended December 31, *(in millions)*	2020	2019	2018
Net cash provided by (used in) operating activities	$ (30)	$ 3,484	$ 1,256
Cash flows from investing activities:			
Sales and maturities of investments	5,181	2,313	5,587
Sales of divested businesses	2,225	-	-
Purchase of investments	(3,250)	(2,957)	(1,980)
Net change in short-term investments	(3,559)	(2,170)	1,533
Contributions from (to) subsidiaries - net	(964)	(237)	1
Acquisition of businesses	-	-	(5,475)
Loans to subsidiaries - net	(22)	513	868
Other, net	(402)	67	(73)
Net cash provided by (used in) investing activities	(791)	(2,471)	461
Cash flows from financing activities:			
Issuance of long-term debt	4,065	595	2,470
Repayments of long-term debt	(1,696)	(1,006)	(1,493)
Issuance of preferred stock	-	485	-
Cash dividends paid on preferred stock	(29)	(22)	-
Cash dividends paid on common stock	(1,103)	(1,114)	(1,138)
Loans from subsidiaries - net	16	93	90
Purchase of common stock	(500)	-	(1,739)
Other, net	(33)	(66)	212
Net cash provided by (used in) financing activities	720	(1,035)	(1,598)
Change in cash and restricted cash	(101)	(22)	119
Cash and restricted cash at beginning of year	105	127	8
Cash and restricted cash at end of year	$ 4	$ 105	$ 127

Supplementary disclosure of cash flow information:

	Years Ended December 31,		
(in millions)	2020	2019	2018
Cash	$ 3	$ 2	$ 2
Restricted cash included in Short-term investments	-	102	124
Restricted cash included in Other assets	1	1	1
Total cash and restricted cash shown in Statements of Cash Flows – Parent Company Only	$ 4	$ 105	$ 127
Cash (paid) received during the period for:			
Interest:			
Third party	$ (1,014)	$ (941)	$ (914)
Intercompany	-	(3)	1
Taxes:			
Income tax authorities	(466)	(11)	(32)
Intercompany	1,592	1,179	895
Intercompany non-cash financing and investing activities:			
Capital contributions	333	15	2,369
Return of capital	-	15	2,706
Dividends received in the form of securities	879	702	745

See accompanying Notes to Condensed Financial Information of Registrant.

NOTES TO CONDENSED FINANCIAL INFORMATION OF REGISTRANT

American International Group, Inc.'s (the Registrant) investments in consolidated subsidiaries are stated at cost plus equity in undistributed income of consolidated subsidiaries. The accompanying condensed financial statements of the Registrant should be read in conjunction with the consolidated financial statements and notes thereto of American International Group, Inc. and subsidiaries included in the Registrant's 2020 Annual Report on Form 10-K for the year ended December 31, 2020 (Annual Report on Form 10-K) filed with the Securities and Exchange Commission on February 19, 2021.

The Registrant includes in its Statement of Income dividends from its subsidiaries and equity in undistributed income (loss) of consolidated subsidiaries, which represents the net income (loss) of each of its wholly-owned subsidiaries.

The five-year debt maturity schedule is incorporated by reference from Note 15 to Consolidated Financial Statements.

The Registrant files a consolidated federal income tax return with certain subsidiaries and acts as an agent for the consolidated tax group when making payments to the Internal Revenue Service. The Registrant and its subsidiaries have adopted, pursuant to a written agreement, a method of allocating consolidated Federal income taxes. Amounts allocated to the subsidiaries under the written agreement are included in Due from affiliates in the accompanying Condensed Balance Sheets.

Income taxes in the accompanying Condensed Balance Sheets are composed of the Registrant's current and deferred tax assets, the consolidated group's current income tax receivable and deferred taxes related to tax attribute carryforwards of AIG's U.S. consolidated income tax group.

For additional information see Note 22 to the Consolidated Financial Statements.

The consolidated U.S. deferred tax asset for net operating loss and tax credit carryforwards are recorded by the Parent Company, which files the consolidated U.S. Federal income tax return, and are not allocated to its subsidiaries. Generally, as, and if, the consolidated net operating losses and other tax attribute carryforwards are utilized, the intercompany tax balance will be settled with the subsidiaries.

Supplementary Insurance Information

Schedule III

At December 31, 2020 and 2019

Segment *(in millions)*		Deferred Policy Acquisition Costs		Liability for Unpaid Losses and Loss Adjustment Expenses, Future Policy Benefits		Unearned Premiums		Policy and Contract Claims
2020								
General Insurance	**$**	**2,489**	**$**	**74,315**	**$**	**18,595**	**$**	**-**
Life and Retirement		**7,316**		**48,864**		**57**		**1,336**
Other Operations[(a)]		**-**		**5,638**		**8**		**42**
	$	**9,805**	**$**	**128,817**	**$**	**18,660**	**$**	**1,378**
2019								
General Insurance	$	2,632	$	74,821	$	18,237	$	-
Life and Retirement		8,575		48,388		-		963
Other Operations[(a)]		-		5,631		32		30
	$	11,207	$	128,840	$	18,269	$	993

For the years ended December 31, 2020, 2019 and 2018

Segment *(in millions)*		Premiums and Policy Fees		Net Investment Income		Losses and Loss Expenses Incurred, Benefits		Amortization of Deferred Policy Acquisition Costs		Other Operating Expenses		Net Premiums Written[(b)]
2020												
General Insurance	**$**	**23,662**	**$**	**2,925**	**$**	**16,803**	**$**	**3,538**	**$**	**4,345**	**$**	**22,959**
Life and Retirement		**7,498**		**8,881**		**10,435**		**632**		**2,522**		**-**
Other Operations[(a)]		**280**		**1,825**		**1,190**		**41**		**1,529**		**497**
	$	**31,440**	**$**	**13,631**	**$**	**28,428**	**$**	**4,211**	**$**	**8,396**	**$**	**23,456**
2019												
General Insurance	$	26,438	$	3,444	$	17,246	$	4,482	$	4,621	$	25,092
Life and Retirement		6,712		8,733		9,427		672		2,542		-
Other Operations[(a)]		426		2,442		2,561		10		1,374		362
	$	33,576	$	14,619	$	29,234	$	5,164	$	8,537	$	25,454
2018												
General Insurance	$	27,505	$	2,843	$	20,824	$	4,596	$	5,222	$	26,407
Life and Retirement		5,489		8,238		7,993		700		2,478		-
Other Operations[(a)]		411		2,005		2,349		90		1,602		390
	$	33,405	$	13,086	$	31,166	$	5,386	$	9,302	$	26,797

(a) Includes consolidation and elimination entries and reconciling items from adjusted pre-tax income to pre-tax income. See Note 3 to the Consolidated Financial Statements.

(b) Balances reflect the segment changes discussed in Note 3 to the Consolidated Financial Statements.

Reinsurance

Schedule IV

At December 31, 2020, 2019 and 2018 and for the years then ended

(in millions)	Gross Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percent of Amount Assumed to Net
2020					
Long-duration insurance in force	**$ 1,243,389**	**$ 292,517**	**$ 225**	**$ 951,097**	**- %**
Premiums Earned:					
General Insurance companies	**$ 28,596**	**$ 10,435**	**$ 5,984**	**$ 24,145**	**24.8 %**
Life and Retirement companies	**4,381**	**1,061**	**1,058**	**4,378**	**24.2**
Total	**$ 32,977**	**$ 11,496**	**$ 7,042**	**$ 28,523**	**24.7 %**
2019					
Long-duration insurance in force	$ 1,185,771	$ 264,732	$ 279	$ 921,318	- %
Premiums Earned:					
General Insurance companies	$ 30,017	$ 9,526	$ 6,395	$ 26,886	23.8 %
Life and Retirement companies	4,363	916	228	3,675	6.2
Total	$ 34,380	$ 10,442	$ 6,623	$ 30,561	21.7 %
2018					
Long-duration insurance in force	$ 1,094,774	$ 228,846	$ 300	$ 866,228	- %
Premiums Earned:					
General Insurance companies	$ 31,450	$ 8,164	$ 4,638	$ 27,924	16.6 %
Life and Retirement companies	3,489	855	56	2,690	2.1
Total	$ 34,939	$ 9,019	$ 4,694	$ 30,614	15.3 %

Valuation and Qualifying Accounts

Schedule V

For the years ended December 31, 2020, 2019 and 2018

(in millions)	Balance, Beginning of year	Initial Allowance Upon CECL Adoption	Charged to Costs and Expenses	Charge Offs	Acquisitions	Other Changes*	Balance, End of year
2020							
Allowance for mortgage and other loans receivable	**$ 438**	**$ 318**	**$ 75**	**$ (17)**	**$ -**	**$ -**	**$ 814**
Allowance for premiums and insurances balances receivable	**178**	**34**	**6**	**(12)**	**-**	**(1)**	**205**
Allowance for reinsurance assets	**151**	**172**	**12**	**(9)**	**-**	**-**	**326**
Federal and foreign valuation allowance for deferred tax assets	**1,425**	**-**	**(65)**	**-**	**-**	**(30)**	**1,330**
2019							
Allowance for mortgage and other loans receivable	$ 397	$ -	$ 46	$ (5)	$ -	$ -	$ 438
Allowance for premiums and insurances balances receivable	216	-	(25)	(23)	-	10	178
Allowance for reinsurance assets	140	-	20	(11)	-	2	151
Federal and foreign valuation allowance for deferred tax assets	1,779	-	(44)	-	-	(310)	1,425
2018							
Allowance for mortgage and other loans receivable	$ 322	$ -	$ 93	$ (19)	$ -	$ 1	$ 397
Allowance for premiums and insurances balances receivable	236	-	2	(20)	-	(2)	216
Allowance for reinsurance assets	187	-	(8)	(45)	8	(2)	140
Federal and foreign valuation allowance for deferred tax assets	1,374	-	21	-	82	302	1,779

* Includes recoveries of amounts previously charged off and reclassifications to/from other accounts.

Subsidiaries of Registrant

Exhibit 21

As of December 31, 2020	Jurisdiction of Incorporation or Organization	Percentage of Voting Securities held by Immediate Parent	(1)
American International Group, Inc.	Delaware	0	(2)
AIG Capital Corporation	Delaware	100	
AIG Global Asset Management Holdings Corp.	Delaware	100	
AIG Asset Management (Europe) Limited	England and Wales	100	
AIG Asset Management (U.S.), LLC	Delaware	100	
AIG Global Real Estate Investment Corp.	Delaware	100	
AIGGRE Europe Real Estate Fund I GP S.a r.l.	Luxembourg	100	
AIGGRE U.S. Real Estate Fund I GP, LLC	Delaware	100	
AIGGRE U.S. Real Estate Fund I, LP	Delaware	100	
AIGGRE U.S. Real Estate Fund II GP, LLC	Delaware	100	
AIG Employee Services, Inc.	Delaware	100	
AIG Federal Savings Bank	The United States	100	
AIG Financial Products Corp.	Delaware	100	
AIG Matched Funding Corp.	Delaware	100	
AIG-FP Pinestead Holdings Corp.	Delaware	100	
AIG Markets, Inc.	Delaware	100	
AIG Property Casualty Inc.	Delaware	100	
AIG Claims, Inc.	Delaware	100	
AIG PC Global Services, Inc.	Delaware	100	
AIG Property Casualty International, LLC	Delaware	100	
AIG Insurance Management Services, Inc.	Vermont	100	
Grand Isle SAC Limited	Bermuda	100	
AIG International Holdings GmbH	Switzerland	100	
AIG APAC HOLDINGS PTE. LTD.	Singapore	100	
AIG Asia Pacific Insurance Pte. Ltd.	Singapore	100	
AIG Australia Limited	Australia	100	
AIG Insurance Hong Kong Limited	Hong Kong	100	
AIG Insurance New Zealand Limited	New Zealand	100	
AIG Korea Inc.	Korea, Republic of	100	
AIG Malaysia Insurance Berhad	Malaysia	100	
AIG Philippines Insurance, Inc.	Philippines	100	
AIG Re-Takaful (L) Berhad	Malaysia	100	
AIG Vietnam Insurance Company Limited	Vietnam	100	
PT AIG Insurance Indonesia	Indonesia	100	
Thai CIT Holding Company Limited	Thailand	49	
AIG Insurance (Thailand) Public Company Limited	Thailand	51	(3)
AIG Canada Holdings Inc.	Canada	100	
AIG Insurance Company of Canada	Canada	100	
AIG Europe Holdings S.a.r.l	Luxembourg	100	
AIG Europe S.A.	Luxembourg	100	
AIG Global Reinsurance Operations	Belgium	100	
AIG Holdings Europe Limited	England and Wales	100	
AIG Israel Insurance Company Ltd	Israel	100	
AIG Life Limited	England	100	
American International Group UK Limited	England	100	
Laya Healthcare Limited	Ireland	100	
AIG Investments UK Limited	England and Wales	100	
Talbot Holdings Ltd.	Bermuda	100	
Talbot Underwriting Holdings Ltd.	England and Wales	100	
Talbot Underwriting Ltd.	England and Wales	100	
AIG Japan Holdings Kabushiki Kaisha	Japan	100	
AIG General Insurance Co., Ltd.	Japan	100	
American Home Assurance Co., Ltd.	Japan	100	
AIG Latin America Investments, S.L.	Spain	100	
Inversiones Segucasai, C.A.	Venezuela	100	
C.A. de Seguros American International	Venezuela	93.72	
AIG Brazil Holding I, LLC	Delaware	100	
AIG Seguros Brasil S.A.	Brazil	90.56	(4)
AIG Resseguros Brasil S.A.	Brazil	100	
AIG Insurance Company-Puerto Rico	Puerto Rico	100	
AIG Latin America I.I.	Puerto Rico	100	

As of December 31, 2020	Jurisdiction of Incorporation or Organization	Percentage of Voting Securities held by Immediate Parent	(1)
AIG Seguros Mexico, S.A. de C.V.	Mexico	100	
American International Overseas Limited	Spain	100	
American International Underwriters del Ecuador-Holding S.A.	Ecuador	100	
AIG-Metropolitana Cia. de Seguros y Reaseguros S.A.	Ecuador	32.06	(5)
AIG MEA Holdings Limited	United Arab Emirates	100	
AIG Egypt Insurance Company S.A.E.	Egypt	95.08	
AIG CIS Investments, LLC	Russian Federation	99.99	
AIG Insurance Company, JSC	Russian Federation	100	
AIG Lebanon SAL	Lebanon	100	
AIG MEA Limited	United Arab Emirates	100	
AIG Kenya Insurance Company Limited	Kenya	66.67	
AIG Uganda Limited	Uganda	100	
Johannesburg Insurance Holdings (Proprietary) Limited	South Africa	100	
AIG Life South Africa Limited	South Africa	100	
AIG South Africa Limited	South Africa	100	
AIG Travel, Inc.	Delaware	100	
AIG Travel Assist, Inc.	Delaware	100	
AIG Travel Asia Pacific Pte. Ltd.	Singapore	100	
AIG Travel Assist Malaysia Sdn. Bhd.	Malaysia	100	
AIG Travel EMEA Limited	England and Wales	100	
Travel Guard Group Canada, Inc./Groupe Garde Voyage du Canada, Inc.	Canada	100	
Travel Guard Group, Inc.	Wisconsin	100	
American International Reinsurance Company, Ltd.	Bermuda	100	
Validus Holdings, Ltd.	Bermuda	100	
Validus Reinsurance, Ltd.	Bermuda	100	
Validus Holdings (UK) Ltd.	England and Wales	100	
Validus Reinsurance (Switzerland) Ltd	Switzerland	100	
Validus Ventures Ltd.	Bermuda	100	
AlphaCat Managers Ltd.	Bermuda	100	
PCG 2019 Corporate Member Limited	England and Wales	100	
AIG Property Casualty U.S., Inc.	Delaware	100	
AIG Aerospace Insurance Services, Inc.	Georgia	100	
AIG Assurance Company	Pennsylvania	100	
AIG Property Casualty Company	Pennsylvania	100	
AIG Specialty Insurance Company	Illinois	100	
AIG WarrantyGuard, Inc.	Delaware	100	
AIU Insurance Company	New York	100	
American Home Assurance Company	New York	100	
AIGGRE EOLA LLC	Delaware	100	
AIG Insurance Company China Limited	China	100	
Commerce and Industry Insurance Company	New York	100	
Eaglestone Reinsurance Company	Pennsylvania	100	
Arthur J. Glatfelter Agency, Inc.	Pennsylvania	100	
Glatfelter Underwriting Services, Inc.	Pennsylvania	100	
Volunteer Firemen's Insurance Services, Inc.	Pennsylvania	100	
Granite State Insurance Company	Illinois	100	
Illinois National Insurance Co.	Illinois	100	
Lexington Insurance Company	Delaware	100	
Pine Street Real Estate Holdings Corp.	New Hampshire	100	
National Union Fire Insurance Company of Pittsburgh, Pa.	Pennsylvania	100	
American International Realty Corp.	Delaware	100	
National Union Fire Insurance Company of Vermont	Vermont	100	
New Hampshire Insurance Company	Pennsylvania	100	
Risk Specialists Companies Insurance Agency, Inc.	Massachusetts	100	
Service Net Warranty, LLC	Delaware	100	
The Insurance Company of the State of Pennsylvania	Pennsylvania	100	
Crop Risk Services, Inc.	Illinois	100	
Western World Insurance Company	New Hampshire	100	
Stratford Insurance Company	New Hampshire	100	
Tudor Insurance Company	New Hampshire	100	
Lexington Specialty Insurance Agency, Inc.	Delaware	100	
AIG Technologies, Inc.	New Hampshire	100	
AIG Shared Services Corporation	New York	100	
AM Holdings LLC	Delaware	100	
Blackboard U.S. Holdings, Inc.	Delaware	100	

As of December 31, 2020	Jurisdiction of Incorporation or Organization	Percentage of Voting Securities held by Immediate Parent (1)
Blackboard Services, LLC	Delaware	100
Blackboard Specialty Insurance Company	Delaware	100
Blackboard Insurance Company	Delaware	100
SAFG Retirement Services, Inc.	Delaware	100
AIG Life Holdings, Inc.	Texas	100
AGC Life Insurance Company	Missouri	100
AIG Life of Bermuda, Ltd.	Bermuda	100
American General Life Insurance Company	Texas	100
SA Affordable Housing, LLC	Delaware	100
SunAmerica Affordable Housing Partners, Inc.	California	100
SunAmerica Asset Management, LLC	Delaware	100
AIG Capital Services, Inc.	Delaware	100
The United States Life Insurance Company in the City of New York	New York	100
The Variable Annuity Life Insurance Company	Texas	100
VALIC Financial Advisors, Inc.	Texas	100
Valic Retirement Services Company	Texas	100

(1) Percentages include directors' qualifying shares.

(2) Substantially all subsidiaries listed are consolidated in the accompanying financial statements. Certain subsidiaries have been omitted from the tabulation. The omitted subsidiaries, when considered in the aggregate, do not constitute a significant subsidiary.

(3) Also owned 48.99 percent by AIG Asia Pacific Insurance Pte. Ltd.

(4) Also owned 9.44 percent by AIG Brazil Holding II, LLC.

(5) Also owned 19.72 percent by AIG Latin America Investments, S.L.

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No.333-223282) and Form S-8 (No.333-31346, No.333-101640, No.333-168679, No.333-188634 and No.333-219180) of American International Group, Inc. of our report dated February 19, 2021 relating to the financial statements, financial statement schedules and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

New York, New York
February 19, 2021

CERTIFICATIONS

I, Brian Duperreault, certify that:

1. I have reviewed this Annual Report on Form 10-K of American International Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 19, 2021

/S/ BRIAN DUPERREAULT

Brian Duperreault

Chief Executive Officer

CERTIFICATIONS

I, Mark D. Lyons, certify that:

1. I have reviewed this Annual Report on Form 10-K of American International Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

> (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
>
> (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
>
> (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
>
> (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

> (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
>
> (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 19, 2021

/S/ MARK D. LYONS

Mark D. Lyons

Executive Vice President and

Chief Financial Officer

CERTIFICATION

In connection with this Annual Report on Form 10-K of American International Group, Inc. (the “Company”) for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Brian Duperreault, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 19, 2021

/S/ BRIAN DUPERREAULT
Brian Duperreault
Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

CERTIFICATION

In connection with this Annual Report on Form 10-K of American International Group, Inc. (the “Company”) for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Mark D. Lyons, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 19, 2021

/S/ MARK D. LYONS

Mark D. Lyons

Executive Vice President and

Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

Comment on Regulation G

Throughout this Annual Report, AIG presents its financial condition and results of operations in the way it believes will be most meaningful and representative of its business results. Some of the measurements AIG uses are “non-GAAP financial measures” under Securities and Exchange Commission rules and regulations. GAAP is the acronym for generally accepted accounting principles in the United States. The non-GAAP financial measures AIG presents may not be comparable to similarly-named measures reported by other companies. The reconciliations of such measures to the most comparable GAAP measures in accordance with Regulation G are included within this Annual Report, AIG’s Annual Report on Form 10-K for the fiscal year ended December 31, 2020 or in the Fourth Quarter 2020 Financial Supplement available in the Investors section of AIG’s website, **www.aig.com**.

General Insurance Global Commercial Lines Accident Year Combined Ratio, as adjusted excludes catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting. Natural catastrophe losses are generally weather or seismic events having a net impact on AIG in excess of $10 million each and man-made catastrophe losses, such as terrorism and civil disorders that exceed the $10 million threshold. We believe that as adjusted ratios are meaningful measures of our underwriting results on an ongoing basis as they exclude catastrophes and the impact of reserve discounting which are outside of management’s control. We also exclude prior year development to provide transparency related to current accident year results.

Life and Retirement Adjusted Segment Common Equity is based on segment equity adjusted for the attribution of debt and preferred stock (Segment Common Equity) and is consistent with AIG’s Adjusted Common Shareholders’ Equity definition.

Life and Retirement Return on Adjusted Segment Common Equity – Adjusted After-tax Income (Return on Adjusted Segment Common Equity) is used to show the rate of return on Adjusted Segment Common Equity. Return on Adjusted Segment Common Equity is derived by dividing actual or annualized Adjusted After-tax Income by Average Adjusted Segment Common Equity.

Adjusted After-tax Income Attributable to Life and Retirement is derived by subtracting attributed interest expense, income tax expense and attributed dividends on preferred stock from APTI. Attributed debt and the related interest expense and dividends on preferred stock are calculated based on our internal allocation model. Tax expense or benefit is calculated based on an internal attribution methodology that considers among other things the taxing jurisdiction in which the segments conduct business, as well as the deductibility of expenses in those jurisdictions.

Non-GAAP Reconciliation

Reconciliation of General Insurance Global Commercial Lines Accident Year Combined Ratio, As Adjusted		
	Twelve Months Ended December 31,	
	2020	2019
Loss ratio	77.1	71.9
Acquisition ratio	16.8	17.1
General operating expense ratio	11.9	12.2
Expense ratio	28.7	29.3
Combined ratio	105.8	101.2
Adjustments for accident year loss ratio, as adjusted and accident year combined ratio, as adjusted:		
Catastrophe losses and reinstatement premiums	(13.1)	(5.0)
Prior year development, net of (additional) return premium on loss sensitive business	0.5	0.3
Adjustment for ceded premiums under reinsurance contracts related to prior accident years and other	-	0.1
Accident year loss ratio, as adjusted	64.5	67.3
Accident year combined ratio, as adjusted	93.2	96.6

Reconciliation of Life and Retirement Return on Adjusted Segment Common Equity		
Life and Retirement (in millions)	**Twelve Months Ended December 31,**	
	2020	**2019**
Adjusted pre-tax income	**$ 3,531**	**$ 3,553**
Interest expense on attributed financial debt	285	266
Adjusted pre-tax income including attributed interest expense	3,246	3,287
Income tax expense	640	653
Adjusted after-tax income	**$ 2,606**	**$ 2,634**
Dividends declared on preferred stock	8	6
Adjusted after-tax income attributable to common shareholders (a)	**$ 2,598**	**$ 2,628**
Ending adjusted segment common equity	$ 19,172	17,799
Average adjusted segment common equity (b)	19,128	18,076
Return on adjusted segment common equity (a÷b)	13.6 %	14.5 %

Cautionary Statement Regarding Forward-Looking Information

This Annual Report and other publicly available documents may include, and officers and representatives of AIG may from time to time make and discuss, projections, goals, assumptions and statements that may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These projections, goals, assumptions and statements are not historical facts but instead represent only a belief regarding future events, many of which, by their nature, are inherently uncertain and outside AIG's control. These projections, goals, assumptions and statements include statements preceded by, followed by or including words such as "will," "believe," "anticipate," "expect," "intend," "plan," "focused on achieving," "view," "target," "goal" or "estimate." These projections, goals, assumptions and statements may relate to future actions, prospective services or products, future performance or results of current and anticipated services or products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, anticipated organizational, business or regulatory changes, the effect of catastrophes, such as the COVID-19 crisis, and macroeconomic events, anticipated dispositions, monetization and/or acquisitions of businesses or assets, or successful integration of acquired businesses, management succession and retention plans, exposure to risk, trends in operations and financial results.

It is possible that AIG's 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 AIG's actual results to differ, possibly materially, from those in the specific projections, goals, assumptions and statements include:

- the adverse impact of COVID-19, including with respect to AIG's business, financial condition and results of operations;
- changes in market and industry conditions, including the significant global economic downturn, volatility in financial and capital markets, prolonged economic recovery and disruptions to AIG's operations driven by COVID-19 and responses thereto, including new or changed governmental policy and regulatory actions;
- the occurrence of catastrophic events, both natural and man-made, including COVID-19, other pandemics, civil unrest and the effects of climate change;
- AIG's ability to successfully dispose of, monetize and/or acquire businesses or assets or successfully integrate acquired businesses, including any separation of the Life and Retirement business from AIG and the impact any separation may have on AIG, its businesses, employees, contracts and customers;
- AIG's ability to effectively execute on AIG 200 transformational programs designed to achieve underwriting excellence, modernization of AIG's operating infrastructure, enhanced user and customer experiences and unification of AIG;

- the impact of potential information technology, cybersecurity or data security breaches, including as a result of cyber-attacks or security vulnerabilities, the likelihood of which may increase due to extended remote business operations as a result of COVID-19;
- disruptions in the availability of AIG’s electronic data systems or those of third parties;
- availability and affordability of reinsurance;
- the effectiveness of our risk management policies and procedures, including with respect to our business continuity and disaster recovery plans;
- nonperformance or defaults by counterparties, including Fortitude Re;
- changes in judgments concerning potential cost-saving opportunities;
- concentrations in AIG’s investment portfolios;
- changes to the valuation of AIG’s investments;
- changes to our sources of or access to liquidity;
- actions by rating agencies with respect to our credit and financial strength ratings;
- changes in judgments or assumptions concerning insurance underwriting and insurance liabilities;
- the effectiveness of strategies to recruit and retain key personnel and to implement effective succession plans;
- the requirements, which may change from time to time, of the global regulatory framework to which AIG is subject;
- significant legal, regulatory or governmental proceedings;
- changes in judgments concerning the recognition of deferred tax assets and the impairment of goodwill; and
- such other factors discussed in Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations and Part I, Item 1A. Risk Factors in AIG’s Annual Report on Form 10-K for the year ended December 31, 2020.

AIG is not under any obligation (and expressly disclaims 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.

Shareholder Information

Requests for copies of the 2020 Annual Report should be directed to AIG Investor Relations. Shareholders may eliminate duplicate mailings of AIG's proxy materials by contacting AIG's transfer agent. Contact details can be found at **www.aig.com/investor-relations**.

American International Group, Inc.

www.aig.com