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

FORM 10-Q

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

For the quarterly period ended March 31, 2021

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

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

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

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

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of May 3, 2021, there were 858,140,647 shares outstanding of the registrant's common stock.

AMERICAN INTERNATIONAL GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2021

TABLE OF CONTENTS

FORM 10-Q

Part I – Financial Information

Item 1. | Financial Statements

American International Group, Inc.
Condensed Consolidated Balance Sheets *(unaudited)*

(in millions, except for share data)		March 31, 2021		December 31, 2020
Assets:				
Investments:				
Fixed maturity securities:				
Bonds available for sale, at fair value, net of allowance for credit losses of $122 in 2021 and $186 in 2020 (amortized cost: 2021 - $247,438; 2020 - $244,337)*	$	263,012	$	271,496
Other bond securities, at fair value (*See Note 5*)*		4,973		5,291
Equity securities, at fair value *(See Note 5)**		1,160		1,056
Mortgage and other loans receivable, net of allowance for credit losses of $787 in 2021 and $814 in 2020*		45,468		45,562
Other invested assets (portion measured at fair value: 2021 - $8,713; 2020 - $8,422)*		19,390		19,060
Short-term investments, including restricted cash of $210 in 2021 and $180 in 2020 (portion measured at fair value: 2021 - $4,426; 2020 - $5,968)*		14,454		18,203
Total investments		348,457		360,668
Cash*		2,796		2,827
Accrued investment income*		2,309		2,271
Premiums and other receivables, net of allowance for credit losses and disputes of $203 in 2021 and $205 in 2020		13,808		11,333
Reinsurance assets - Fortitude Re, net of allowance for credit losses and disputes of $0 in 2021 and $0 in 2020		34,342		34,578
Reinsurance assets - other, net of allowance for credit losses and disputes of $329 in 2021 and $326 in 2020		41,932		38,963
Deferred income taxes		13,690		12,624
Deferred policy acquisition costs		11,144		9,805
Other assets, net of allowance for credit losses of $49 in 2021 and $49 in 2020, including restricted cash of $238 in 2021 and $223 in 2020 (portion measured at fair value: 2021 - $1,006; 2020 - $887)*		13,223		13,122
Separate account assets, at fair value		102,689		100,290
Total assets	$	584,390	$	586,481
Liabilities:				
Liability for unpaid losses and loss adjustment expenses, including allowance for credit losses of $14 in 2021 and $14 in 2020	$	78,832	$	77,720
Unearned premiums		21,012		18,660
Future policy benefits for life and accident and health insurance contracts		50,709		51,097
Policyholder contract deposits (portion measured at fair value: 2021 - $7,617; 2020 - $9,798)		157,741		160,251
Other policyholder funds		3,564		3,548
Fortitude Re funds withheld payable (portion measured at fair value: 2021 - $3,487; 2020 - $6,042)		40,181		43,060
Other liabilities (portion measured at fair value: 2021 - $703; 2020 - $570)*		30,454		27,122
Long-term debt (portion measured at fair value: 2021 - $2,015; 2020 - $2,097)		26,432		28,103
Debt of consolidated investment entities*		9,216		9,431
Separate account liabilities		102,689		100,290
Total liabilities		520,830		519,282
Contingencies, commitments and guarantees (*See Note 11*)				
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: 2021 - 20,000 and 2020 - 20,000; liquidation preference $500		485		485
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued: 2021 - 1,906,671,492 and 2020 - 1,906,671,492		4,766		4,766
Treasury stock, at cost; 2021 - 1,047,288,039 shares; 2020 - 1,045,113,443 shares of common stock		(49,412)		(49,322)
Additional paid-in capital		81,253		81,418
Retained earnings		19,121		15,504
Accumulated other comprehensive income		6,466		13,511
Total AIG shareholders' equity		62,679		66,362
Non-redeemable noncontrolling interests		881		837
Total equity		63,560		67,199
Total liabilities and equity	$	584,390	$	586,481

* See Note 8 for details of balances associated with variable interest entities.

See accompanying Notes to Condensed Consolidated Financial Statements.

American International Group, Inc.
Condensed Consolidated Statements of Income *(unaudited)*

(dollars in millions, except per common share data)	Three Months Ended March 31, 2021	2020
Revenues:		
Premiums	$ 6,507	$ 7,443
Policy fees	784	755
Net investment income:		
Net investment income - excluding Fortitude Re funds withheld assets	3,171	2,508
Net investment income - Fortitude Re funds withheld assets	486	-
Total net investment income	3,657	2,508
Net realized capital gains:		
Net realized capital gains - excluding Fortitude Re funds withheld assets and embedded derivative	695	3,519
Net realized capital gains on Fortitude Re funds withheld assets	173	-
Net realized capital gains on Fortitude Re funds withheld embedded derivative	2,382	-
Total net realized capital gains	3,250	3,519
Other income	256	218
Total revenues	14,454	14,443
Benefits, losses and expenses:		
Policyholder benefits and losses incurred	5,139	6,325
Interest credited to policyholder account balances	868	957
Amortization of deferred policy acquisition costs	1,304	1,862
General operating and other expenses	2,088	2,153
Interest expense	342	355
(Gain) loss on extinguishment of debt	(8)	17
Net (gain) loss on sale or disposal of divested businesses	(7)	216
Total benefits, losses and expenses	9,726	11,885
Income from continuing operations before income tax expense	4,728	2,558
Income tax expense	798	904
Income from continuing operations	3,930	1,654
Income (loss) from discontinued operations, net of income taxes	-	-
Net income	3,930	1,654
Less:		
Net income (loss) from continuing operations attributable to noncontrolling interests	54	(95)
Net income attributable to AIG	3,876	1,749
Less: Dividends on preferred stock	7	7
Net income attributable to AIG common shareholders	$ 3,869	$ 1,742
Income per common share attributable to AIG common shareholders:		
Basic:		
Income from continuing operations	$ 4.45	$ 1.99
Income from discontinued operations	$ -	$ -
Net income attributable to AIG common shareholders	$ 4.45	$ 1.99
Diluted:		
Income from continuing operations	$ 4.41	$ 1.98
Income from discontinued operations	$ -	$ -
Net income attributable to AIG common shareholders	$ 4.41	$ 1.98
Weighted average shares outstanding:		
Basic	868,105,069	874,213,630
Diluted	876,269,924	878,866,213

See accompanying Notes to Condensed Consolidated Financial Statements.

American International Group, Inc.
Condensed Consolidated Statements of Comprehensive Loss *(unaudited)*

(in millions)	Three Months Ended March 31, 2021	2020
Net income	**$ 3,930**	$ 1,654
Other comprehensive loss, net of tax		
Change in unrealized appreciation (depreciation) of fixed maturity securities on which allowance for credit losses was taken	**33**	(359)
Change in unrealized depreciation of all other investments	**(7,199)**	(5,542)
Change in foreign currency translation adjustments	**125**	(85)
Change in retirement plan liabilities adjustment	**(3)**	(7)
Change in fair value of liabilities under fair value option attributable to changes in own credit risk	**(1)**	3
Other comprehensive loss	**(7,045)**	(5,990)
Comprehensive loss	**(3,115)**	(4,336)
Comprehensive income (loss) attributable to noncontrolling interests	**54**	(109)
Comprehensive loss attributable to AIG	**$ (3,169)**	$ (4,227)

See accompanying Notes to Condensed Consolidated Financial Statements.

American International Group, Inc.
Condensed Consolidated Statements of Equity *(unaudited)*

(in millions)	Preferred Stock and Additional Paid-in Capital	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total AIG Share-holders' Equity	Non-redeemable Non-controlling Interests	Total Equity
Three Months Ended March 31, 2021									
Balance, beginning of year	**$ 485**	**$ 4,766**	**$ (49,322)**	**$ 81,418**	**$ 15,504**	**$ 13,511**	**$ 66,362**	**$ 837**	**$ 67,199**
Cumulative effect of change in accounting principle, net of tax	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Common stock issued under stock plans	**-**	**-**	**171**	**(255)**	**-**	**-**	**(84)**	**-**	**(84)**
Purchase of common stock	**-**	**-**	**(362)**	**-**	**-**	**-**	**(362)**	**-**	**(362)**
Net income attributable to AIG or noncontrolling interests	**-**	**-**	**-**	**-**	**3,876**	**-**	**3,876**	**54**	**3,930**
Dividends on preferred stock	**-**	**-**	**-**	**-**	**(7)**	**-**	**(7)**	**-**	**(7)**
Dividends on common stock	**-**	**-**	**-**	**-**	**(276)**	**-**	**(276)**	**-**	**(276)**
Other comprehensive income (loss)	**-**	**-**	**-**	**-**	**-**	**(7,045)**	**(7,045)**	**-**	**(7,045)**
Net increase due to divestitures and acquisitions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**75**	**75**
Contributions from noncontrolling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5**	**5**
Distributions to noncontrolling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(90)**	**(90)**
Other	**-**	**-**	**101**	**90**	**24**	**-**	**215**	**-**	**215**
Balance, end of period	**$ 485**	**$ 4,766**	**$ (49,412)**	**$ 81,253**	**$ 19,121**	**$ 6,466**	**$ 62,679**	**$ 881**	**$ 63,560**
Three Months Ended March 31, 2020									
Balance, beginning of year	$ 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)
Common stock issued under stock plans	-	-	160	(255)	-	-	(95)	-	(95)
Purchase of common stock	-	-	(500)	-	-	-	(500)	-	(500)
Net income (loss) attributable to AIG or noncontrolling interests	-	-	-	-	1,749	-	1,749	(95)	1,654
Dividends on preferred stock	-	-	-	-	(7)	-	(7)	-	(7)
Dividends on common stock	-	-	-	-	(276)	-	(276)	-	(276)
Other comprehensive loss	-	-	-	-	-	(5,976)	(5,976)	(14)	(5,990)
Net increase due to divestitures and acquisitions	-	-	-	-	-	-	-	48	48
Contributions from noncontrolling interests	-	-	-	-	-	-	-	1	1
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(22)	(22)
Other	-	-	(7)	98	(1)	-	90	-	90
Balance, end of period	$ 485	$ 4,766	$ (49,334)	$ 81,188	$ 24,062	$ (994)	$ 60,173	$ 1,670	$ 61,843

See accompanying Notes to Condensed Consolidated Financial Statements.

American International Group, Inc.
Condensed Consolidated Statements of Cash Flows *(unaudited)*

	Three Months Ended March 31,	
(in millions)	**2021**	2020
Cash flows from operating activities:		
Net income	**$ 3,930**	$ 1,654
(Income) loss from discontinued operations	**-**	-
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Noncash revenues, expenses, gains and losses included in income:		
Net gains on sales of securities available for sale and other assets	**(417)**	(265)
Net (gains) losses on sale or disposal of divested businesses	**(7)**	216
(Gains) losses on extinguishment of debt	**(8)**	17
Unrealized gains in earnings - net	**(853)**	(3,197)
Equity in loss from equity method investments, net of dividends or distributions	**3**	167
Depreciation and other amortization	**1,423**	1,878
Impairments of assets	**6**	25
Changes in operating assets and liabilities:		
Insurance reserves	**3,628**	1,727
Premiums and other receivables and payables - net	**(2,863)**	(62)
Reinsurance assets and funds held under reinsurance contracts	**(2,879)**	(2,131)
Capitalization of deferred policy acquisition costs	**(1,422)**	(1,379)
Current and deferred income taxes - net	**756**	842
Other, net	**(657)**	(78)
Total adjustments	**(3,290)**	(2,240)
Net cash provided by (used in) operating activities	**640**	(586)
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales or distributions of:		
Available for sale securities	**6,200**	7,040
Other securities	**248**	1,577
Other invested assets	**1,147**	1,447
Maturities of fixed maturity securities available for sale	**7,823**	6,768
Principal payments received on and sales of mortgage and other loans receivable	**2,009**	1,014
Purchases of:		
Available for sale securities	**(15,329)**	(15,121)
Other securities	**(64)**	(317)
Other invested assets	**(649)**	(717)
Mortgage and other loans receivable	**(1,997)**	(1,733)
Net change in short-term investments	**4,067**	(6,023)
Other, net	**(1,950)**	5,432
Net cash provided by (used in) investing activities	**1,505**	(633)
Cash flows from financing activities:		
Proceeds from (payments for)		
Policyholder contract deposits	**5,716**	5,761
Policyholder contract withdrawals	**(5,190)**	(4,547)
Issuance of long-term debt	**27**	38
Issuance of debt of consolidated investment entities	**495**	635
Repayments of long-term debt	**(1,515)**	(363)
Repayments of debt of consolidated investment entities	**(900)**	(521)
Borrowings under syndicated credit facility	**-**	1,300
Issuance of common stock	**-**	-
Purchase of common stock	**(362)**	(500)
Dividends paid on preferred stock	**(7)**	(7)
Dividends paid on common stock	**(276)**	(276)
Other, net	**(102)**	(288)
Net cash provided by (used in) financing activities	**(2,114)**	1,232
Effect of exchange rate changes on cash and restricted cash	**(17)**	10
Net increase in cash and restricted cash	**14**	23
Cash and restricted cash at beginning of year	**3,230**	3,287
Change in cash of businesses held for sale	**-**	9
Cash and restricted cash at end of period	**$ 3,244**	$ 3,319

American International Group, Inc.
Condensed Consolidated Statements of Cash Flows *(unaudited)(continued)*

Supplementary Disclosure of Condensed Consolidated Cash Flow Information

	Three Months Ended March 31,	
(in millions)	**2021**	2020
Cash	**$ 2,796**	$ 2,738
Restricted cash included in Short-term investments*	**210**	324
Restricted cash included in Other assets*	**238**	257
Total cash and restricted cash shown in the Condensed Consolidated Statements of Cash Flows	**$ 3,244**	$ 3,319
Cash paid during the period for:		
Interest	**$ 255**	$ 323
Taxes	**$ 42**	$ 62
Non-cash investing activities:		
Fixed maturity securities available for sale received in connection with pension risk transfer transactions	**$ -**	$ 553
Fixed maturity securities received in connection with reinsurance transactions	**$ 161**	$ -
Fixed maturity securities transferred in connection with reinsurance transactions	**$ (194)**	$ -
Non-cash financing activities:		
Interest credited to policyholder contract deposits included in financing activities	**$ 860**	$ 991
Fee income debited to policyholder contract deposits included in financing activities	**$ (423)**	$ (423)

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

See accompanying Notes to Condensed 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.

These unaudited Condensed Consolidated Financial Statements do not include all disclosures that are normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) and should be read in conjunction with the audited Consolidated Financial Statements and the related notes included in our Annual Report on Form 10-K for the year ended December 31, 2020 (the 2020 Annual Report). The condensed consolidated financial information as of December 31, 2020 included herein has been derived from the audited Consolidated Financial Statements in the 2020 Annual Report.

Certain of our foreign subsidiaries included in the Condensed 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 Condensed Consolidated Financial Statements has been considered for adjustment and/or disclosure. In the opinion of management, these Condensed Consolidated Financial Statements contain normal recurring adjustments, including eliminations of material intercompany accounts and transactions, necessary for a fair statement of the results presented herein. Operating results for the three months ended March 31, 2021, are not necessarily indicative of the results that may be expected for the year ending December 31, 2021, especially when considering the risks and uncertainties associated with COVID-19 and the impact it may have on our business, results of operations and financial condition.

We evaluated the need to recognize or disclose events that occurred subsequent to March 31, 2021 and prior to the issuance of these Condensed Consolidated Financial Statements.

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 March 31, 2021, approximately $30.3 billion of reserves from AIG’s Life and Retirement Run-Off Lines and approximately $4.0 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 deferred policy acquisition costs (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 discussion on the sale of Fortitude Holdings see Note 7 to the Condensed 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, 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. 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 Securities and Exchange Commission (SEC). While we currently believe an initial public offering represents an optimal path, 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 Certain AIG Life and Retirement Retail Mutual Funds Business

On February 8, 2021, we announced we entered into a definitive agreement with Touchstone Investments (Touchstone), an indirect wholly-owned subsidiary of Western & Southern Financial Group, to sell certain assets of AIG Life and Retirement's Retail Mutual Funds business. As of March 31, 2021, AIG Life and Retirement's Retail Mutual Funds business managed $7.6 billion in assets across eighteen funds. Pursuant to the definitive agreement, twelve retail mutual funds with $7.4 billion in assets will be reorganized into Touchstone funds. The transaction closing is subject to customary regulatory and fund shareholder approvals and is targeted for mid-2021. Six retail mutual funds with $0.2 billion in assets, excluding fund of funds, managed by AIG Life and Retirement and not included in the transaction will be wound down and liquidated. AIG Life and Retirement will retain its fund management platform and capabilities dedicated to its variable insurance products.

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, for example universal life, variable and fixed annuities, and fixed indexed annuities;
- 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.

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 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 three-month period ended March 31, 2020 has been corrected in the comparative Condensed Consolidated Statements of Cash Flows. Additionally, impacted prior interim periods will be revised within the Quarterly Reports on Form 10-Q to be filed for the periods ending June 30, 2021 and September 30, 2021.

For the three months ended March 31, 2020, the unrealized (gains) losses in earnings – net and Insurance reserves line items in the Consolidated Statements of Cash Flows were adjusted by $(648) million and $76 million, respectively. The total net cash provided by (used in) operating activities was adjusted by $(572) million. Additionally, the Policyholder contract deposits and Policyholder contract withdrawals line items in the Consolidated Statements of Cash Flows were adjusted by $782 million and $(210) million, respectively. The total net cash provided by financing activities was adjusted by $572 million.

2. Summary of Significant Accounting Policies

ACCOUNTING STANDARDS ADOPTED DURING 2021

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 incremental 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. We adopted the standard on its effective date of January 1, 2021. The impact of adoption was not material to our consolidated financial condition, results of operations and cash flows.

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.

We adopted the standard prospectively on its effective date of January 1, 2021. The adoption of the standard did not have a material impact on our consolidated financial condition, results of operations or cash flows.

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 roll-forwards 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 the standard's revised effective date of January 1, 2023; 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.

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.

Where permitted by the guidance, we would account 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. The adoption of the standard is not expected to have a material impact on our reported consolidated financial condition, results of operations, cash flows and required disclosures.

3. Segment Information

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

GENERAL INSURANCE

General Insurance business is presented as two operating segments:

- **North America** – consists of insurance businesses in the United States, Canada and Bermuda, and our global reinsurance business, AIG Re. This also includes the results of Western World Insurance Group, Inc. and Glatfelter Insurance Group.
- **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. 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.
- **Institutional Markets** – consists of stable value wrap products, structured settlement and pension risk transfer annuities, corporate- and bank-owned life insurance, high net worth products and guaranteed investment contracts (GICs).

On October 26, 2020, AIG announced its intention to separate its Life and Retirement business from AIG. On February 8, 2021, we announced we entered into a definitive agreement with Touchstone, an indirect wholly-owned subsidiary of Western & Southern Financial Group, to sell certain assets of AIG Life and Retirement's Retail Mutual Funds business. *For further discussion on these transactions, see Note 1 to the Condensed Consolidated Financial Statements.*

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 as well as the historical results of our legacy insurance lines ceded to Fortitude Re.

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:

Three Months Ended March 31,	2021		2020	
(in millions)	Adjusted Revenues	Adjusted Pre-tax Income (Loss)	Adjusted Revenues	Adjusted Pre-tax Income (Loss)
General Insurance				
North America	$ 2,388	$ (202)[(a)]	$ 2,731	$ (103)[(a)]
International	3,478	275 [(a)]	3,348	16 [(a)]
Net investment income	772	772	588	588
Total General Insurance	6,638	845	6,667	501
Life and Retirement				
Individual Retirement	1,477	532	1,368	305
Group Retirement	806	307	694	143
Life Insurance	1,333	(40)	1,200	78
Institutional Markets	364	142	1,024	75
Total Life and Retirement	3,980	941	4,286	601
Other Operations				
Other Operations before consolidation and eliminations	324	(354)	315	(835)
AIG consolidation and eliminations	(180)	(176)	(141)	(87)
Total Other Operations	144	(530)	174	(922)
Total	10,762	1,256	11,127	180
Reconciling items to pre-tax income:				
Changes in fair value of securities used to hedge guaranteed living benefits	18	22	14	(7)
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains	-	(203)	-	(538)
Changes in the fair value of equity securities	22	22	(191)	(191)
Other income (expense) - net	(6)	-	10	-
Gain (loss) on extinguishment of debt	-	8	-	(17)
Net investment income on Fortitude Re funds withheld assets	486	486	-	-
Net realized capital gains on Fortitude Re funds withheld assets	173	173	-	-
Net realized capital gains on Fortitude Re funds withheld embedded derivative	2,382	2,382	-	-
Net realized capital gains[(b)]	617	627	3,477	3,494
Income (loss) from divested businesses	-	7	-	(216)
Non-operating litigation reserves and settlements	-	-	6	6
Favorable prior year development and related amortization changes ceded under retroactive reinsurance agreements	-	19	-	8
Net loss reserve discount benefit (charge)	-	32	-	(56)
Integration and transaction costs associated with acquiring or divesting businesses	-	(9)	-	(2)
Restructuring and other costs	-	(74)	-	(90)
Non-recurring costs related to regulatory or accounting changes	-	(20)	-	(13)
Revenues and pre-tax income	$ 14,454	$ 4,728	$ 14,443	$ 2,558

(a) General Insurance North America's and General Insurance International's Adjusted pre-tax income does not include Net investment income as the investment portfolio results are managed at the General Insurance level. Net investment income is shown separately as a component of General Insurance's total Adjusted pre-tax income results.

(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).

4. Fair Value Measurements

FAIR VALUE MEASUREMENTS ON A RECURRING BASIS

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

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

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

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

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

March 31, 2021 (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	$ 32	$ 3,945	$ -	$ -	$ -	$ 3,977
Obligations of states, municipalities and political subdivisions	-	13,243	1,896	-	-	15,139
Non-U.S. governments	115	15,066	6	-	-	15,187
Corporate debt	-	162,314	2,570	-	-	164,884
RMBS	-	18,644	11,464	-	-	30,108
CMBS	-	14,045	1,104	-	-	15,149
CDO/ABS	-	8,966	9,602	-	-	18,568
Total bonds available for sale	147	236,223	26,642	-	-	263,012
Other bond securities:						
U.S. government and government sponsored entities	-	1,751	-	-	-	1,751
Non-U.S. governments	-	-	-	-	-	-
Corporate debt	-	12	-	-	-	12
RMBS	-	256	126	-	-	382
CMBS	-	268	46	-	-	314
CDO/ABS	-	168	2,346	-	-	2,514
Total other bond securities	-	2,455	2,518	-	-	4,973
Equity securities	1,012	20	128	-	-	1,160
Other invested assets[(b)]	-	101	1,897	-	-	1,998
Derivative assets[(c)]:						
Interest rate contracts	2	3,622	-	-	-	3,624
Foreign exchange contracts	-	1,068	1	-	-	1,069
Equity contracts	2	341	237	-	-	580
Credit contracts	-	-	1	-	-	1
Other contracts	-	-	13	-	-	13
Counterparty netting and cash collateral	-	-	-	(3,080)	(1,314)	(4,394)
Total derivative assets	4	5,031	252	(3,080)	(1,314)	893
Short-term investments	2,029	2,397	-	-	-	4,426
Other assets	-	-	113	-	-	113
Separate account assets	98,876	3,813	-	-	-	102,689
Total	$ 102,068	$ 250,040	$ 31,550	$ (3,080)	$ (1,314)	$ 379,264
Liabilities:						
Policyholder contract deposits	$ -	$ -	$ 7,617	$ -	$ -	$ 7,617
Derivative liabilities[(c)]:						
Interest rate contracts	-	4,904	-	-	-	4,904
Foreign exchange contracts	-	853	1	-	-	854
Equity contracts	13	57	15	-	-	85
Credit contracts	-	20	45	-	-	65
Other contracts	-	-	4	-	-	4
Counterparty netting and cash collateral	-	-	-	(3,080)	(2,129)	(5,209)
Total derivative liabilities	13	5,834	65	(3,080)	(2,129)	703
Fortitude Re funds withheld payable	-	-	3,487	-	-	3,487
Other liabilities	-	-	-	-	-	-
Long-term debt	-	2,015	-	-	-	2,015
Total	$ 13	$ 7,849	$ 11,169	$ (3,080)	$ (2,129)	$ 13,822

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[(c)]**:**						
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[(c)]**:**						
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

(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 $6.7 billion and $6.5 billion as of March 31, 2021 and December 31, 2020, respectively.

(c) Presented as part of Other assets and Other liabilities on the Condensed Consolidated Balance Sheets.

CHANGES IN LEVEL 3 RECURRING FAIR VALUE MEASUREMENTS

The following tables present changes during the three-month periods ended March 31, 2021 and 2020 in Level 3 assets and liabilities measured at fair value on a recurring basis, and the realized and unrealized gains (losses) related to the Level 3 assets and liabilities in the Condensed Consolidated Balance Sheets at March 31, 2021 and 2020:

(in millions)	Fair Value Beginning of Period	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	Fair Value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period	Changes in Unrealized Gains (Losses) Included in Other Comprehensive Income (Loss) for Recurring Level 3 Instruments Held at End of Period
Three Months Ended March 31, 2021										
Assets:										
Bonds available for sale:										
Obligations of states, municipalities and political subdivisions	$ 2,105	$ 3	$ (159)	$ (53)	$ -	$ -	$ -	$ 1,896	$ -	$ (10)
Non-U.S. governments	5	-	-	-	1	-	-	6	-	-
Corporate debt	2,349	(1)	(10)	177	187	(132)	-	2,570	-	(159)
RMBS	11,694	167	64	(431)	-	(30)	-	11,464	-	(14)
CMBS	922	9	(56)	173	56	-	-	1,104	-	(56)
CDO/ABS	9,814	16	(14)	(164)	454	(504)	-	9,602	-	64
Total bonds available for sale	26,889	194	(175)	(298)	698	(666)	-	26,642	-	(175)
Other bond securities:										
RMBS	139	3	-	(16)	-	-	-	126	(98)	-
CMBS	47	(1)	-	(6)	6	-	-	46	(2)	-
CDO/ABS	2,512	(11)	-	(155)	-	-	-	2,346	2	-
Total other bond securities	2,698	(9)	-	(177)	6	-	-	2,518	(98)	-
Equity securities	51	11	3	(11)	75	(1)	-	128	3	-
Other invested assets	1,827	142	(6)	(66)	-	-	-	1,897	123	-
Other assets	113	-	-	-	-	-	-	113	-	-
Total	$ 31,578	$ 338	$ (178)	$ (552)	$ 779	$ (667)	$ -	$ 31,298	$ 28	$ (175)

(in millions)	Fair Value Beginning of Period	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	Fair Value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period	Changes in Unrealized Gains (Losses) Included in Other Comprehensive Income (Loss) for Recurring Level 3 Instruments Held at End of Period
Liabilities:										
Policyholder contract deposits	$ 9,798	$ (2,260)	$ -	$ 79	$ -	$ -	$ -	$ 7,617	$ 2,570	$ -
Derivative liabilities, net:										
Interest rate contracts	-	-	-	-	-	-	-	-	-	-
Foreign exchange contracts	(2)	1	-	1	-	-	-	-	(1)	-
Equity contracts	(151)	(26)	-	(85)	-	40	-	(222)	(118)	-
Credit contracts	42	5	-	(3)	-	-	-	44	(3)	-
Other contracts	(8)	(17)	-	16	-	-	-	(9)	16	-
Total derivative liabilities, net[(a)]	(119)	(37)	-	(71)	-	40	-	(187)	(106)	-
Fortitude Re funds withheld payable	6,042	(2,382)	-	(173)	-	-	-	3,487	2,955	-
Total	$ 15,721	$ (4,679)	$ -	$ (165)	$ -	$ 40	$ -	$ 10,917	$ 5,419	$ -

(in millions)	Fair Value Beginning of Period	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	Fair Value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period	Changes in Unrealized Gains (Losses) Included in Other Comprehensive Income (Loss) for Recurring Level 3 Instruments Held at End of Period
Three Months Ended March 31, 2020										
Assets:										
Bonds available for sale:										
Obligations of states, municipalities and political subdivisions	$ 2,121	$ 5	$ (55)	$ 137	$ 27	$ (133)	$ -	$ 2,102	$ -	$ (51)
Non-U.S. governments	-	-	-	-	6	-	-	6	-	-
Corporate debt	1,663	(67)	(81)	7	103	(410)	-	1,215	-	(29)
RMBS	13,408	132	(1,623)	(223)	19	(26)	-	11,687	-	(1,505)
CMBS	1,053	7	19	44	23	-	-	1,146	-	21
CDO/ABS	7,686	17	(557)	47	1,603	(28)	-	8,768	-	(536)
Total bonds available for sale	25,931	94	(2,297)	12	1,781	(597)	-	24,924	-	(2,100)
Other bond securities:										
RMBS	143	(14)	-	20	-	-	-	149	(14)	-
CMBS	50	(7)	-	(1)	-	-	-	42	(8)	-
CDO/ABS	3,545	(173)	-	(994)	-	-	-	2,378	(262)	-
Total other bond securities	3,738	(194)	-	(975)	-	-	-	2,569	(284)	-
Equity securities	8	(1)	1	10	1	-	-	19	-	-
Other invested assets	1,192	(4)	-	129	150	-	-	1,467	14	-
Other assets	89	-	-	5	-	-	(3)	91	-	-
Total	$ 30,958	$ (105)	$ (2,296)	$ (819)	$ 1,932	$ (597)	$ (3)	$ 29,070	$ (270)	$ (2,100)

(in millions)	Fair Value Beginning of Period	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	Fair Value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period	Changes in Unrealized Gains (Losses) Included in Other Comprehensive Income (Loss) for Recurring Level 3 Instruments Held at End of Period
Liabilities:										
Policyholder contract deposits	$ 6,910	$ 1,171	$ -	$ 72	$ -	$ -	$ -	$ 8,153	$ (884)	$ -
Derivative liabilities, net:										
Interest rate contracts	-	-	-	-	-	-	-	-	-	-
Foreign exchange contracts	(6)	3	-	6	-	-	-	3	1	-
Equity contracts	(151)	(26)	-	34	-	-	-	(143)	(14)	-
Credit contracts	62	(124)	-	(14)	-	-	-	(76)	118	-
Other contracts	(7)	(10)	-	15	-	-	-	(2)	10	-
Total derivative liabilities, net[(a)]	(102)	(157)	-	41	-	-	-	(218)	115	-
Total	$ 6,808	$ 1,014	$ -	$ 113	$ -	$ -	$ -	$ 7,935	$ (769)	$ -

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

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

(in millions)		Net Investment Income		Net Realized Capital Gains (Losses)		Other Income		Total
Three Months Ended March 31, 2021								
Assets:								
Bonds available for sale	**$**	**185**	**$**	**9**	**$**	**-**	**$**	**194**
Other bond securities		**(31)**		**22**		**-**		**(9)**
Equity securities		**11**		**-**		**-**		**11**
Other invested assets		**142**		**-**		**-**		**142**
Three Months Ended March 31, 2020								
Assets:								
Bonds available for sale	$	198	$	(104)	$	-	$	94
Other bond securities		(462)		268		-		(194)
Equity securities		-		(1)		-		(1)
Other invested assets		(4)		-		-		(4)

(in millions)		Net Investment Income		Net Realized Capital (Gains) Losses		Other Income		Total
Three Months Ended March 31, 2021								
Liabilities:								
Policyholder contract deposits*	**$**	**-**	**$**	**(2,260)**	**$**	**-**	**$**	**(2,260)**
Derivative liabilities, net		**-**		**(23)**		**(14)**		**(37)**
Fortitude Re funds withheld payable		**-**		**(2,382)**		**-**		**(2,382)**
Three Months Ended March 31, 2020								
Liabilities:								
Policyholder contract deposits*	$	-	$	1,171	$	-	$	1,171
Derivative liabilities, net		-		(143)		(14)		(157)

* Primarily embedded derivatives.

The following table presents the gross components of purchases, sales, issuances and settlements, net, shown above, for the three-month periods ended March 31, 2021 and 2020 related to Level 3 assets and liabilities in the Condensed Consolidated Balance Sheets:

(in millions)	Purchases	Sales	Issuances and Settlements[(a)]	Purchases, Sales, Issuances and Settlements, Net[(a)]
Three Months Ended March 31, 2021				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	**$ 8**	**$ (20)**	**$ (41)**	**$ (53)**
Non-U.S. governments	**-**	**-**	**-**	**-**
Corporate debt	**741**	**(1)**	**(563)**	**177**
RMBS	**164**	**-**	**(595)**	**(431)**
CMBS	**193**	**-**	**(20)**	**173**
CDO/ABS	**376**	**(49)**	**(491)**	**(164)**
Total bonds available for sale	**1,482**	**(70)**	**(1,710)**	**(298)**
Other bond securities:				
RMBS	**-**	**-**	**(16)**	**(16)**
CMBS	**-**	**(6)**	**-**	**(6)**
CDO/ABS	**-**	**(39)**	**(116)**	**(155)**
Total other bond securities	**-**	**(45)**	**(132)**	**(177)**
Equity securities	**-**	**-**	**(11)**	**(11)**
Other invested assets	**198**	**-**	**(264)**	**(66)**
Other assets	**-**	**-**	**-**	**-**
Total assets	**$ 1,680**	**$ (115)**	**$ (2,117)**	**$ (552)**
Liabilities:				
Policyholder contract deposits	**$ -**	**$ 191**	**$ (112)**	**$ 79**
Derivative liabilities, net	**(52)**	**1**	**(20)**	**(71)**
Fortitude Re funds withheld payable	**-**	**-**	**(173)**	**(173)**
Total liabilities	**$ (52)**	**$ 192**	**$ (305)**	**$ (165)**
Three Months Ended March 31, 2020				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 145	$ (2)	$ (6)	$ 137
Non-U.S. governments	-	-	-	-
Corporate debt	112	(5)	(100)	7
RMBS	336	-	(559)	(223)
CMBS	53	(2)	(7)	44
CDO/ABS	225	(22)	(156)	47
Total bonds available for sale	871	(31)	(828)	12
Other bond securities:				
RMBS	25	-	(5)	20
CMBS	-	-	(1)	(1)
CDO/ABS	35	(579)	(450)	(994)
Total other bond securities	60	(579)	(456)	(975)
Equity securities	10	-	-	10
Other invested assets	174	-	(45)	129
Other assets	-	-	5	5
Total assets	$ 1,115	$ (610)	$ (1,324)	$ (819)
Liabilities:				
Policyholder contract deposits	$ -	$ 222	$ (150)	$ 72
Derivative liabilities, net	(15)	8	48	41
Total liabilities	$ (15)	$ 230	$ (102)	$ 113

(a) There were no issuances during the three-month periods ended March 31, 2021 and 2020.

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 March 31, 2021 and 2020 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 $19 million and $(156) million of net gains (losses) related to assets and liabilities transferred into Level 3 during the three-month periods ended March 31, 2021 and 2020, respectively, and includes $(4) million and $(55) million of net gains (losses) related to assets and liabilities transferred out of Level 3 during the three-month periods ended March 31, 2021 and 2020, respectively.

Transfers of Level 3 Assets

During the three-month periods ended March 31, 2021 and 2020, 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.

During the three-month periods ended March 31, 2021 and 2020, 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 three-month periods ended March 31, 2021 and 2020.

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. 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 March 31, 2021	Valuation Technique	Unobservable Input[b]	Range (Weighted Average)[c]
Assets:				
Obligations of states, municipalities and political subdivisions	$ 1,504	Discounted cash flow	Yield	3.22% - 3.82% (3.52%)
Corporate debt	1,682	Discounted cash flow	Yield	2.29% - 7.33% (4.81%)
RMBS[a]	10,933	Discounted cash flow	Constant prepayment rate	3.75% - 14.76% (9.26%)
			Loss severity	28.90% - 75.98% (52.44%)
			Constant default rate	1.19% - 7.62% (4.41%)
			Yield	1.73% - 4.13% (2.93%)
CDO/ABS[a]	8,361	Discounted cash flow	Yield	1.95% - 4.82% (3.38%)
CMBS	556	Discounted cash flow	Yield	1.44% - 6.30% (3.83%)
Liabilities[d]:				
Embedded derivatives within				
Policyholder contract deposits:				
Variable annuity guaranteed minimum withdrawal benefits (GMWB)	1,884	Discounted cash flow	Equity volatility	6.35% - 50.15%
			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]	0.10% - 1.38%
Index annuities including certain GMWB	5,076	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]	0.10% - 1.38%
Indexed life	614	Discounted cash flow	Base lapse rate	0.00% - 37.97%
			Mortality rate	0.00% - 100.00%
			NPA[f]	0.10% - 1.38%

(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:					
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%

(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 7, the Fortitude Re funds withheld payable is created through modified coinsurance (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 March 31, 2021 and December 31, 2020 was approximately $694 million and $726 million, respectively. 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.

		March 31, 2021		December 31, 2020	
(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	$ 1,950	$ 1,869	$ 1,752	$ 1,960
Real assets	Investments in real estate properties, agricultural and infrastructure assets, including power plants and other energy producing assets	927	540	908	445
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	213	201	167	171
Growth equity	Funds that make investments in established companies for the purpose of growing their businesses	782	59	703	55
Mezzanine	Funds that make investments in the junior debt and equity securities of leveraged companies	393	184	400	155
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	733	378	683	365
Total private equity funds		4,998	3,231	4,613	3,151
Hedge funds:					
Event-driven	Securities of companies undergoing material structural changes, including mergers, acquisitions and other reorganizations	429	-	411	-
Long-short	Securities that the manager believes are undervalued, with corresponding short positions to hedge market risk	325	-	361	-
Macro	Investments that take long and short positions in financial instruments based on a top-down view of certain economic and capital market conditions	653	-	807	-
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	310	1	301	1
Total hedge funds		1,717	1	1,880	1
Total		$ 6,715	$ 3,232	$ 6,493	$ 3,152

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

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

Three Months Ended March 31,	Gain (Loss)	
(in millions)	**2021**	2020
Assets:		
Bond and equity securities	**$ (99)**	$ (60)
Alternative investments[(a)]	**417**	(139)
Liabilities:		
Long-term debt[(b)]	**71**	(203)
Total gain (loss)	**$ 389**	$ (402)

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

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

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:

	March 31, 2021			December 31, 2020		
(in millions)	Fair Value	Outstanding Principal Amount	Difference	Fair Value	Outstanding Principal Amount	Difference
Liabilities:						
Long-term debt*	**$ 2,015**	**$ 1,452**	**$ 563**	$ 2,097	$ 1,479	$ 618

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

FAIR VALUE MEASUREMENTS ON A NON-RECURRING BASIS

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

	Assets at Fair Value Non-Recurring Basis				Impairment Charges Three Months Ended March 31,	
(in millions)	Level 1	Level 2	Level 3	Total	**2021**	2020
March 31, 2021						
Other investments	**$ -**	**$ -**	**$ 89**	**$ 89**	**$ 6**	$ 11
Other assets	**-**	**-**	**-**	**-**	**-**	12
Total	**$ -**	**$ -**	**$ 89**	**$ 89**	**$ 6**	$ 23
December 31, 2020						
Other investments	$ -	$ -	$ 376	$ 376		
Other assets	-	-	28	28		
Total	$ -	$ -	$ 404	$ 404		

FAIR VALUE INFORMATION ABOUT FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

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

	Estimated Fair Value				Carrying
(in millions)	Level 1	Level 2	Level 3	Total	Value
March 31, 2021					
Assets:					
Mortgage and other loans receivable	**$ -**	**$ 91**	**$ 47,635**	**$ 47,726**	**$ 45,468**
Other invested assets	**-**	**830**	**6**	**836**	**836**
Short-term investments	**-**	**10,028**	**-**	**10,028**	**10,028**
Cash	**2,796**	**-**	**-**	**2,796**	**2,796**
Other assets	**223**	**15**	**-**	**238**	**238**
Liabilities:					
Policyholder contract deposits associated with investment-type contracts	**-**	**202**	**142,655**	**142,857**	**130,953**
Fortitude Re funds withheld payable	**-**	**-**	**36,694**	**36,694**	**36,694**
Other liabilities	**-**	**3,683**	**-**	**3,683**	**3,683**
Long-term debt	**-**	**27,015**	**357**	**27,372**	**24,417**
Debt of consolidated investment entities	**-**	**1,917**	**7,480**	**9,397**	**9,216**
Separate account liabilities - investment contracts	**-**	**97,926**	**-**	**97,926**	**97,926**
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	-	30,310	365	30,675	26,006
Debt of consolidated investment entities	-	1,746	7,965	9,711	9,431
Separate account liabilities - investment contracts	-	95,610	-	95,610	95,610

5. Investments

SECURITIES AVAILABLE FOR SALE

The following table presents the amortized cost or cost and fair value of our available for sale securities:

(in millions)	Amortized Cost or Cost	Allowance for Credit Losses[a]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2021					
Bonds available for sale:					
U.S. government and government sponsored entities	$ 3,810	$ -	$ 216	$ (49)	$ 3,977
Obligations of states, municipalities and political subdivisions	13,617	-	1,570	(48)	15,139
Non-U.S. governments	14,728	(4)	707	(244)	15,187
Corporate debt	155,051	(103)	12,143	(2,207)	164,884
Mortgage-backed, asset-backed and collateralized:					
RMBS	27,417	(14)	2,799	(94)	30,108
CMBS	14,556	(1)	687	(93)	15,149
CDO/ABS	18,259	-	377	(68)	18,568
Total mortgage-backed, asset-backed and collateralized	60,232	(15)	3,863	(255)	63,825
Total bonds available for sale[b]	$ 247,438	$ (122)	$ 18,499	$ (2,803)	$ 263,012
December 31, 2020					
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

(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 March 31, 2021 and December 31, 2020, bonds available for sale held by us that were below investment grade or not rated totaled $27.9 billion and $28.2 billion, respectively.

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
March 31, 2021						
Bonds available for sale:						
U.S. government and government sponsored entities	**$ 1,111**	**$ 38**	**$ 28**	**$ 11**	**$ 1,139**	**$ 49**
Obligations of states, municipalities and political subdivisions	**1,107**	**43**	**102**	**5**	**1,209**	**48**
Non-U.S. governments	**4,091**	**192**	**307**	**46**	**4,398**	**238**
Corporate debt	**34,646**	**1,874**	**5,054**	**252**	**39,700**	**2,126**
RMBS	**4,772**	**71**	**457**	**16**	**5,229**	**87**
CMBS	**2,240**	**64**	**543**	**28**	**2,783**	**92**
CDO/ABS	**4,908**	**45**	**1,531**	**23**	**6,439**	**68**
Total bonds available for sale	**$ 52,875**	**$ 2,327**	**$ 8,022**	**$ 381**	**$ 60,897**	**$ 2,708**
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

At March 31, 2021, we held 10,610 individual fixed maturity securities that were in an unrealized loss position and for which no allowance for credit losses has been recorded (including 1,617 individual fixed maturity securities that were in a continuous unrealized loss position for 12 months or more). 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). We did not recognize the unrealized losses in earnings on these fixed maturity securities at March 31, 2021 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
March 31, 2021		
Due in one year or less	**$ 9,296**	**$ 9,388**
Due after one year through five years	**43,463**	**44,991**
Due after five years through ten years	**43,447**	**46,215**
Due after ten years	**90,893**	**98,593**
Mortgage-backed, asset-backed and collateralized	**60,217**	**63,825**
Total	**$ 247,316**	**$ 263,012**

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:

Three Months Ended March 31,	**2021**		2020	
(in millions)	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses
Fixed maturity securities	**$ 460**	**$ 71**	$ 380	$ 166

For the three-month period ended March 31, 2021, the aggregate fair value of available for sale securities sold was $6.4 billion, which resulted in net realized capital gains of $389 million. Included within the net realized capital gains are $295 million of realized capital gains for the three-month period ended March 31, 2021, which relate to Fortitude Re funds withheld assets. These realized capital gains are included in Net realized capital gains (losses) on Fortitude Re funds withheld assets.

For the three-month period ended March 31, 2020, the aggregate fair value of available for sale securities sold was $7.2 billion, which resulted in net realized capital gains of $214 million.

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:

	March 31, 2021		December 31, 2020	
(in millions)	Fair Value	Percent of Total	Fair Value	Percent of Total
Fixed maturity securities:				
U.S. government and government sponsored entities	**$ 1,751**	**29 %**	$ 1,845	29 %
Corporate debt	**12**	**-**	12	-
Mortgage-backed, asset-backed and collateralized:				
RMBS	**382**	**6**	429	7
CMBS	**314**	**5**	320	5
CDO/ABS and other collateralized	**2,514**	**41**	2,685	42
Total mortgage-backed, asset-backed and collateralized	**3,210**	**52**	3,434	54
Total fixed maturity securities	**4,973**	**81**	5,291	83
Equity securities	**1,160**	**19**	1,056	17
Total	**$ 6,133**	**100 %**	$ 6,347	100 %

OTHER INVESTED ASSETS

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

(in millions)	March 31, 2021	December 31, 2020
Alternative investments[(a)] [(b)]	$ 9,589	$ 9,572
Investment real estate[(c)]	8,172	7,930
All other investments[(d)]	1,629	1,558
Total	$ 19,390	$ 19,060

(a) At March 31, 2021, included hedge funds of $2.0 billion, private equity funds of $7.4 billion and affordable housing partnerships of $202 million. 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.

(b) At March 31, 2021, approximately 65 percent of our hedge fund portfolio is available for redemption in 2021. The remaining 35 percent will be available for redemption between 2022 and 2027.

(c) Net of accumulated depreciation of $775 million and $756 million at March 31, 2021 and December 31, 2020, 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 March 31, 2021 and December 31, 2020.

NET INVESTMENT INCOME

The following table presents the components of Net investment income:

Three Months Ended March 31,	2021			2020
(in millions)	Excluding Fortitude Re Funds Withheld Assets	Fortitude Re Funds Withheld Assets	Total	
Available for sale fixed maturity securities, including short-term investments	$ 2,178	$ 377	$ 2,555	$ 2,609
Other fixed maturity securities[(a)]	(102)	-	(102)	(60)
Equity securities	22	-	22	(191)
Interest on mortgage and other loans	414	47	461	513
Alternative investments[(b)]	572	69	641	(59)
Real estate	59	-	59	59
Other investments[(c)]	140	1	141	(215)
Total investment income	3,283	494	3,777	2,656
Investment expenses	112	8	120	148
Net investment income	$ 3,171	$ 486	$ 3,657	$ 2,508

(a) Included in the three-month periods ended March 31, 2021 and 2020 were losses of $81 million and income of $169 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 three-month periods ended March 31, 2021 and 2020 were income of $83 million and losses of $202 million, respectively, related to liabilities measured at fair value that are economically hedged with fixed maturity securities as described in (a) above.

NET REALIZED CAPITAL GAINS AND LOSSES

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

Three Months Ended March 31,	2021			2020
(in millions)	Excluding Fortitude Re Funds Withheld Assets	Fortitude Re Funds Withheld Assets	Total	
Sales of fixed maturity securities	$ 94	$ 295	$ 389	$ 214
Intent to sell	-	-	-	-
Change in allowance for credit losses on fixed maturity securities	51	2	53	(198)
Change in allowance for credit losses on loans	41	(5)	36	(38)
Foreign exchange transactions	(49)	(6)	(55)	(254)
Variable annuity embedded derivatives, net of related hedges	89	-	89	2,192
All other derivatives and hedge accounting	351	(117)	234	1,559
Other	118	4	122	44
Net realized capital gains – excluding Fortitude Re funds withheld embedded derivative	695	173	868	3,519
Net realized capital gains (losses) on Fortitude Re funds withheld embedded derivative	-	2,382	2,382	-
Net realized capital gains	$ 695	$ 2,555	$ 3,250	$ 3,519

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:

Three Months Ended March 31, *(in millions)*	2021	2020
Increase (decrease) in unrealized appreciation (depreciation) of investments:		
Fixed maturity securities	$ (11,649)	$ (10,455)
Total increase (decrease) in unrealized appreciation (depreciation) of investments	$ (11,649)	$ (10,455)

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:

(in millions)	Equities	Other Invested Assets	Total
Three Months Ended March 31, 2021			
Net gains recognized during the period on equity securities	$ 22	$ 470	$ 492
Less: Net gains (losses) recognized during the period on equity securities sold during the period	(21)	24	3
Unrealized gains recognized during the reporting period on equity securities still held at the reporting date	$ 43	$ 446	$ 489
Three Months Ended March 31, 2020			
Net losses recognized during the period on equity securities	$ (191)	$ (129)	$ (320)
Less: Net gains recognized during the period on equity securities sold during the period	12	2	14
Unrealized losses recognized during the reporting period on equity securities still held at the reporting date	$ (203)	$ (131)	$ (334)

EVALUATING INVESTMENTS FOR AN ALLOWANCE FOR CREDIT LOSSES

Fixed Maturity 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 if 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 AOCI). 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.

Under the current expected credit loss (CECL) model, 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.

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:

Three Months Ended March 31,	2021			2020		
(in millions)	Structured	Non-Structured	Total	Structured	Non-Structured	Total
Balance, beginning of year *	$ 17	$ 169	**$ 186**	$ 7	$ -	$ 7
Additions:						
Securities for which allowance for credit losses were not previously recorded	2	13	**15**	24	174	198
Purchases of available for sale debt securities accounted for as purchased credit deteriorated assets	-	-	**-**	6	-	6
Accretion of available for sale debt securities accounted for as purchased credit deteriorated assets	-	-	**-**	-	-	-
Reductions:						
Securities sold during the period	(1)	(4)	**(5)**	-	-	-
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	(4)	(64)	**(68)**	-	-	-
Write-offs charged against the allowance	-	(6)	**(6)**	-	-	-
Recoveries of amounts previously written off	-	-	**-**	-	-	-
Other	-	-	**-**	-	-	-
Balance, end of period	$ 14	$ 108	**$ 122**	$ 37	$ 174	$ 211

* The beginning balance incorporates the Day 1 gross up on purchased credit deteriorated (PCD) assets held as of January 1, 2020.

Purchased Credit Deteriorated Securities

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.

We did not purchase securities with more than insignificant credit deterioration since their origination during the three-month period ended March 31, 2021.

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)	**March 31, 2021**	December 31, 2020
Fixed maturity securities available for sale	**$ 3,552**	$ 3,636

At both March 31, 2021 and December 31, 2020, amounts borrowed under repurchase and securities lending agreements totaled $3.7 billion.

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
March 31, 2021						
Bonds available for sale:						
Non-U.S. governments	**$ 67**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 67**
Corporate debt	**95**	**86**	**-**	**-**	**-**	**181**
Total	**$ 162**	**$ 86**	**$ -**	**$ -**	**$ -**	**$ 248**
December 31, 2020						
Bonds available for sale:						
Non-U.S. governments	$ 63	$ -	$ -	$ -	$ -	$ 63
Corporate debt	96	97	-	-	-	193
Total	$ 159	$ 97	$ -	$ -	$ -	$ 256

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
March 31, 2021						
Bonds available for sale:						
Obligations of states, municipalities and political subdivisions	**$ -**	**$ 104**	**$ -**	**$ -**	**$ -**	**$ 104**
Non-U.S. governments	**-**	**-**	**32**	**85**	**-**	**117**
Corporate debt	**-**	**835**	**2,009**	**239**	**-**	**3,083**
Total	**$ -**	**$ 939**	**$ 2,041**	**$ 324**	**$ -**	**$ 3,304**

December 31, 2020						
Bonds available for sale:						
Obligations of states, municipalities and political subdivisions	$ -	$ -	$ 103	$ -	$ -	$ 103
Non-U.S. governments	-	-	-	-	-	-
Corporate debt	-	982	2,295	-	-	3,277
Total	$ -	$ 982	$ 2,398	$ -	$ -	$ 3,380

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)	**March 31, 2021**	December 31, 2020
Securities collateral pledged to us	**$ 3,407**	$ 5,359

At March 31, 2021 and December 31, 2020, amounts pledged to us under reverse repurchase agreements totaled $3.4 billion and $5.4 billion, respectively.

We do not currently offset any secured financing transactions. All such transactions are collateralized and margined on a daily basis 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 $11.0 billion and $11.2 billion at March 31, 2021 and December 31, 2020, 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 $209 million and $191 million of stock in FHLBs at March 31, 2021 and December 31, 2020, 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 $6.0 billion and $1.1 billion, respectively, at March 31, 2021 and $5.7 billion and $1.2 billion, respectively, at December 31, 2020.

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 March 31, 2021 and December 31, 2020. 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 $516 million and $494 million, comprised of bonds available for sale and short-term investments at March 31, 2021 and December 31, 2020, 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 7 to the Condensed Consolidated Financial Statements.

6. Lending Activities

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

(in millions)	March 31, 2021	December 31, 2020
Commercial mortgages[(a)]	$ 36,418	$ 36,424
Residential mortgages	4,159	4,645
Life insurance policy loans	1,949	1,986
Commercial loans, other loans and notes receivable	3,729	3,321
Total mortgage and other loans receivable	46,255	46,376
Allowance for credit losses[(b)]	(787)	(814)
Mortgage and other loans receivable, net	$ 45,468	$ 45,562

(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 March 31, 2021 and 24 percent and 10 percent, respectively, at December 31, 2020).

(b) Does not include allowance for credit losses of $70 million and $79 million, respectively, at March 31, 2021 and December 31, 2020, in relation to off-balance-sheet commitments to fund commercial mortgage loans, which is recorded in Other liabilities.

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 March 31, 2021, $8 million and $356 million of residential mortgage loans and commercial mortgage loans, respectively, were placed on nonaccrual status. 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 Condensed Consolidated Balance Sheets. As of March 31, 2021, accrued interest receivable was $12 million and $134 million associated with residential mortgage loans and commercial mortgage loans, respectively. 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.

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:

March 31, 2021 *(in millions)*	2021	2020	2019	2018	2017	Prior	Total
>1.2X	$ 514	$ 1,958	$ 5,346	$ 5,391	$ 3,861	$ 14,846	**$ 31,916**
1.00 - 1.20X	-	871	769	610	182	1,261	**3,693**
<1.00X	91	-	-	339	88	291	**809**
Total commercial mortgages	$ 605	$ 2,829	$ 6,115	$ 6,340	$ 4,131	$ 16,398	**$ 36,418**

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:

March 31, 2021 *(in millions)*	2021	2020	2019	2018	2017	Prior	Total
Less than 65%	$ 51	$ 2,637	$ 3,552	$ 4,182	$ 2,671	$ 10,324	**$ 23,417**
65% to 75%	218	192	2,499	1,958	1,015	4,172	**10,054**
76% to 80%	-	-	45	-	-	861	**906**
Greater than 80%	336	-	19	200	445	1,041	**2,041**
Total commercial mortgages	$ 605	$ 2,829	$ 6,115	$ 6,340	$ 4,131	$ 16,398	**$ 36,418**

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

(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 2.1X at March 31, 2021 and 2.2X at December 31, 2020. 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 59 percent at March 31, 2021 and was 60 percent at December 31, 2020. 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
March 31, 2021									
Credit Quality Performance Indicator:									
In good standing	**678**	**$ 14,141**	**$ 10,433**	**$ 5,096**	**$ 3,708**	**$ 2,011**	**$ 462**	**$ 35,851**	**98 %**
Restructured[(a)]	**9**	**-**	**141**	**50**	**-**	**136**	**-**	**327**	**1**
90 days or less delinquent	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
>90 days delinquent or in process of foreclosure	**4**	**-**	**68**	**57**	**-**	**115**	**-**	**240**	**1**
Total[(b)]	**691**	**$ 14,141**	**$ 10,642**	**$ 5,203**	**$ 3,708**	**$ 2,262**	**$ 462**	**$ 36,418**	**100 %**
Allowance for credit losses		**$ 135**	**$ 270**	**$ 140**	**$ 48**	**$ 56**	**$ 13**	**$ 662**	**2 %**
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 %

(a) Loans that have been modified in troubled debt restructurings and are performing according to their restructured terms. *For additional discussion of troubled debt restructurings see Note 7 to the Consolidated Financial Statements in the 2020 Annual Report.*

(b) Does not reflect allowance for credit losses.

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

The following table presents credit quality performance indicators for residential mortgages by year of vintage:

March 31, 2021 (in millions)	2021	2020	2019	2018	2017	Prior	Total
FICO*:							
780 and greater	$ 111	$ 873	$ 568	$ 217	$ 357	$ 836	**$ 2,962**
720 - 779	74	280	163	79	111	250	**957**
660 - 719	2	47	37	14	30	71	**201**
600 - 659	-	1	3	3	2	17	**26**
Less than 600	-	-	1	1	2	9	**13**
Total residential mortgages	$ 187	$ 1,201	$ 772	$ 314	$ 502	$ 1,183	**$ 4,159**

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

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 Condensed 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 Condensed Consolidated Statements of Income.

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

Three Months Ended March 31,	2021			2020		
(in millions)	Commercial Mortgages	Other Loans	Total	Commercial Mortgages	Other Loans	Total
Allowance, beginning of year	**$ 685**	**$ 129**	**$ 814**	$ 336	$ 102	$ 438
Initial allowance upon CECL adoption	-	-	-	311	7	318
Loans charged off	-	-	-	-	-	-
Recoveries of loans previously charged off	-	-	-	-	-	-
Net charge-offs	-	-	-	-	-	-
Provision for (release of) loan losses	(23)	(4)	(27)	42	(11)	31
Allowance, end of period	**$ 662**	**$ 125**	**$ 787**	$ 689	$ 98	$ 787

(a) Does not include allowance for credit losses of $70 million and $58 million, respectively, at March 31, 2021 and 2020 in relation to off-balance-sheet commitments to fund commercial mortgage loans, which is recorded in Other liabilities.

As a result of the COVID-19 crisis, including the significant global economic slowdown, 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 in 2020. 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. As of March 31, 2021, the number of loans in deferral or in the process of being modified are returning to pre-COVID-19 levels.

During the three-month periods ended March 31, 2021 and 2020, loans with a carrying value of $46 million and $25 million, respectively, were modified in TDRs.

7. Reinsurance

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 March 31, 2021, approximately $30.3 billion of reserves from AIG's Life and Retirement Run-Off Lines and approximately $4.0 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:

	March 31, 2021		December 31, 2020		
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value	Corresponding Accounting Policy
Fixed maturity securities - available for sale[(a)]	$ 33,280	$ 33,280	$ 36,047	$ 36,047	Fair value through other comprehensive income
Fixed maturity securities - fair value option	185	185	200	200	Fair value through net investment income
Commercial mortgage loans	3,713	3,957	3,679	4,010	Amortized cost
Real estate investments	326	559	358	585	Amortized cost
Private equity funds / hedge funds	1,216	1,216	1,168	1,168	Fair value through net investment income
Policy loans	404	404	413	413	Amortized cost
Short-term Investments	48	48	34	34	Fair value through net investment income
Funds withheld investment assets	39,172	39,649	41,899	42,457	
Derivative assets, net[(b)]	-	-	(1)	(1)	Fair value through realized capital gains (losses)
Other[(c)]	532	532	604	604	Amortized cost
Total	$ 39,704	$ 40,181	$ 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 $(2.9) billion ($(2.3) billion after-tax) for the three months ended March 31, 2021.

(b) The derivative assets and liabilities have been presented net of collateral. The derivative assets and liabilities supporting the Fortitude Re funds withheld arrangements had a fair market value of $287 million and $12 million, respectively, as of March 31, 2021. 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 and liabilities are fully collateralized.

(c) Primarily comprised of Cash and Accrued investment income.

The impact of the funds withheld arrangements with Fortitude Re was as follows:

(in millions)	Three Months Ended March 31, 2021
Net underwriting income	$ -
Net investment income - Fortitude Re funds withheld assets	486
Net realized capital gains on Fortitude Re funds withheld assets:	
Net realized capital gains - Fortitude Re funds withheld assets	173
Net realized capital gains - Fortitude Re embedded derivatives	2,382
Net realized capital gains on Fortitude Re funds withheld assets	2,555
Income from continuing operations before income tax benefit	**3,041**
Income tax expense[(a)]	639
Net income	**2,402**
Change in unrealized appreciation of all other investments[(a)]	(2,340)
Comprehensive income	**$ 62**

(a) The income tax expense (benefit) and the tax impact in AOCI 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 arrangements and the appreciation of these assets is the primary driver of the comprehensive income reflected above.

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 March 31, 2021 were $78.2 billion. As of that date, utilizing AIG's ORRs, (i) approximately 93 percent of the reinsurance recoverables were investment grade, of which 52 percent related to General Insurance and 41 percent related to Life and Retirement; (ii) approximately 6 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 March 31, 2021, approximately 73 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:

Three Months Ended March 31,	2021			2020		
(in millions)	General Insurance	Life and Retirement	Total	General Insurance	Life and Retirement	Total
Balance, beginning of year	**$ 292**	**$ 83**	**$ 375**	$ 111	$ 40	$ 151
Initial allowance upon CECL adoption	**-**	**-**	**-**	202	22	224
Current period provision for expected credit losses and disputes	**1**	**4**	**5**	(4)	2	(2)
Write-offs charged against the allowance for credit losses and disputes	**(4)**	**-**	**(4)**	(3)	(4)	(7)
Other changes	**2**	**-**	**2**	(4)	-	(4)
Balance, end of period	**$ 291**	**$ 87**	**$ 378**	$ 302	$ 60	$ 362

There were no material recoveries of credit losses previously written off for the three-month period ended March 31, 2021. There were no recoveries of credit losses previously written off for the three-month period ended March 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.

8. Variable Interest Entities

We enter into various arrangements with variable interest entities (VIEs) in the normal course of business and consolidate the VIEs when we determine we are the primary beneficiary. This analysis includes a review of the VIE's capital structure, related contractual relationships and terms, nature of the VIE's operations and purpose, nature of the VIE's interests issued and our involvement with the entity. When assessing the need to consolidate a VIE, we evaluate the design of the VIE as well as the related risks 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 AIG is the primary beneficiary generally have recourse only to the assets and cash flows of the VIEs and do not have recourse to AIG, except in limited circumstances when AIG 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 Condensed Consolidated Balance Sheets:

(in millions)	Real Estate and Investment Entities[d]	Securitization Vehicles[e]	Affordable Housing Partnerships	Other	Total
March 31, 2021					
Assets:					
Bonds available for sale	$ -	$ 5,728	$ -	$ -	$ 5,728
Other bond securities	-	2,226	-	-	2,226
Equity securities	558	-	-	-	558
Mortgage and other loans receivable	-	2,422	-	-	2,422
Other invested assets					
Alternative investments[a]	2,860	-	-	-	2,860
Investment real estate	3,304	-	3,879	-	7,183
Short-term investments	174	1,071	-	20	1,265
Cash	129	-	249	-	378
Accrued investment income	-	33	-	-	33
Other assets	129	41	260	-	430
Other	26	-	-	2	28
Total assets[b]	$ 7,180	$ 11,521	$ 4,388	$ 22	$ 23,111
Liabilities:					
Debt of consolidated investment entities	$ 2,529	$ 3,548	$ 2,515	$ -	$ 8,592
Other[c]	169	397	198	9	773
Total liabilities	$ 2,698	$ 3,945	$ 2,713	$ 9	$ 9,365
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
Cash	129	-	203	-	332
Accrued investment income	-	38	-	-	38
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

(a) Comprised primarily of investments in real estate joint ventures at March 31, 2021 and December 31, 2020.

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

(c) Comprised primarily of Other liabilities at March 31, 2021 and December 31, 2020.

(d) At March 31, 2021 and December 31, 2020, off-balance sheet exposure primarily consisting of our insurance companies' commitments to real estate and investment entities were $2.2 billion and $2.4 billion, respectively, of which commitments to external parties were $0.6 billion and $0.7 billion, respectively.

(e) At March 31, 2021 and December 31, 2020, AIG had contributed total assets of $10.8 billion and $12.5 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. During the first quarter of 2021, we terminated two of these transactions. There were no amounts paid related to the guarantees provided. The termination of these two transactions resulted in a reduction of debt of consolidated investments entities of $50 million. At March 31, 2021, in aggregate, $125 million of rated notes issued by the four remaining VIEs were outstanding and held by investors other than AIG and its consolidated affiliates.

For additional information on subsequent terminations of such transactions see Note 16 to the Condensed Consolidated Financial Statements.

SunAmerica Affordable Housing Partners, Inc. (SAAHP) provides a Base Internal Rate of Return (Base 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 March 31, 2021, the off-balance sheet amount of that guarantee was approximately $1 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
March 31, 2021				
Real estate and investment entities[a]	**$ 335,307**	**$ 6,482**	**$ 3,378** [c]	**$ 9,860**
Affordable housing partnerships	**2,429**	**300**	**1**	**301**
Other	**1,726**	**203**	**528** [d]	**731**
Total	**$ 339,462**	**$ 6,985**	**$ 3,907**	**$ 10,892**
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

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

(b) At March 31, 2021 and December 31, 2020, $6.8 billion and $6.8 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.

For additional information on VIEs see Note 10 to the Consolidated Financial Statements in the 2020 Annual Report.

9. 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 contracts 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.

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

	March 31, 2021				December 31, 2020			
	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	$ 877	$ 16	$ 295	$ 6	$ 815	$ 16	$ 356	$ 11
Foreign exchange contracts	6,232	380	4,135	293	3,468	256	7,424	379
Derivatives not designated as hedging instruments:[(a)]								
Interest rate contracts	49,790	3,608	47,401	4,898	62,259	4,621	48,732	4,425
Foreign exchange contracts	13,476	689	7,258	561	9,518	766	12,860	711
Equity contracts	23,163	580	7,830	85	22,924	1,130	7,076	223
Credit contracts[(b)]	4,796	1	958	65	5,797	2	969	67
Other contracts[(c)]	43,030	13	55	4	43,441	14	54	6
Total derivatives, gross	$ 141,364	$ 5,287	$ 67,932	$ 5,912	$ 148,222	$ 6,805	$ 77,471	$ 5,822
Counterparty netting[(d)]		(3,080)		(3,080)		(3,812)		(3,812)
Cash collateral[(e)]		(1,314)		(2,129)		(2,219)		(1,441)
Total derivatives on Condensed Consolidated Balance Sheets[(f)]		$ 893		$ 703		$ 774		$ 569

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

(b) As of March 31, 2021 and December 31, 2020, included CDSs on super senior multi-sector CDOs with a net notional amount of $125 million and $137 million (fair value liability of $44 million and $44 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 March 31, 2021 and December 31, 2020. Fair value of liabilities related to bifurcated embedded derivatives was $11.1 billion and $15.8 billion, respectively, at March 31, 2021 and December 31, 2020. A bifurcated embedded derivative is generally presented with the host contract in the Condensed Consolidated Balance Sheets. Embedded derivatives are primarily related to guarantee features in variable annuity products, which include equity and interest rate components, and the funds withheld arrangement with Fortitude Re. *For additional information see Note 7 to the Condensed 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 $3.6 billion at March 31, 2021 and $3.0 billion at December 31, 2020. In the case of collateral posted under derivative transactions that are not subject to clearing, this collateral can generally be repledged or resold by the counterparties. Collateral provided to us from third parties for derivative transactions was $1.7 billion and $2.3 billion at March 31, 2021 and December 31, 2020, respectively. In the case of collateral provided to us under derivative transactions that are not subject to clearing, we generally can repledge or resell collateral.

OFFSETTING

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

HEDGE ACCOUNTING

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

We use foreign currency denominated debt and cross-currency swaps as hedging instruments in net investment hedge relationships to mitigate the foreign exchange risk associated with our non-U.S. dollar functional currency foreign subsidiaries. For net investment hedge relationships where issued debt is used as a hedging instrument, we assess the hedge effectiveness and measure the amount of ineffectiveness based on changes in spot rates. For net investment hedge relationships that use derivatives as hedging instruments, we assess hedge effectiveness and measure hedge ineffectiveness using changes in forward rates. For the three-month periods ended March 31, 2021 and 2020, we recognized gains of $101 million and $99 million, respectively, included in Change in foreign currency translation adjustments 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 Condensed Consolidated Statements of Income:

	Gains/(Losses) Recognized in Earnings for:			
(in millions)	Hedging Derivatives[(a)]	Excluded Components[(b)]	Hedged Items	Net Impact
Three Months Ended March 31, 2021				
Interest rate contracts:				
Interest credited to policyholder account balances	**$ (4)**	**$ -**	**$ 6**	**$ 2**
Net investment income (loss)	**8**	**-**	**(7)**	**1**
Foreign exchange contracts:				
Realized capital gains/(losses)	**32**	**(29)**	**(32)**	**(29)**
Three Months Ended March 31, 2020				
Interest rate contracts:				
Interest credited to policyholder account balances	$ 17	$ -	$ (17)	$ -
Net investment income (loss)	(3)	-	3	-
Foreign exchange contracts:				
Realized capital gains/(losses)	305	281	(305)	281

(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 Condensed Consolidated Statements of Income:

Three Months Ended March 31,	Gains (Losses) Recognized in Earnings	
(in millions)	**2021**	2020
By Derivative Type:		
Interest rate contracts	**$ (1,545)**	$ 2,573
Foreign exchange contracts	**(87)**	1,025
Equity contracts	**(519)**	1,103
Credit contracts	**(5)**	122
Other contracts	**15**	10
Embedded derivatives	**4,839**	(1,052)
Total	**$ 2,698**	$ 3,781
By Classification:		
Policy fees	**$ 15**	$ 15
Net investment income	**(12)**	(2)
Net realized capital gains - excluding Fortitude Re funds withheld assets	**440**	3,752
Net realized capital gains on Fortitude Re funds withheld assets	**2,265**	-
Policyholder benefits and claims incurred	**(10)**	16
Total	**$ 2,698**	$ 3,781

CREDIT RISK-RELATED CONTINGENT FEATURES

We estimate that at March 31, 2021, 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 $40 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 $216 million and $257 million at March 31, 2021 and December 31, 2020, respectively. The aggregate fair value of assets posted as collateral under these contracts at March 31, 2021 and December 31, 2020, was approximately $256 million and $306 million, respectively.

HYBRID SECURITIES WITH EMBEDDED CREDIT DERIVATIVES

We invest in hybrid securities (such as credit-linked notes) with the intent of generating income and not specifically to acquire exposure to embedded derivative risk. As is the case with our other investments in RMBS, CMBS, CDOs and ABS, our investments in these hybrid securities are exposed to losses only up to the amount of our initial investment in the hybrid security. Other than our initial investment in the hybrid securities, we have no further obligation to make payments on the embedded credit derivatives in the related hybrid securities.

We elect to account for our investments in these hybrid securities with embedded written credit derivatives at fair value, with changes in fair value recognized in Net investment income and Other income. Our investments in these hybrid securities are reported as Other bond securities in the Condensed Consolidated Balance Sheets. The fair values of these hybrid securities were $2.3 billion and $2.4 billion at March 31, 2021 and December 31, 2020, respectively. These securities have par amounts of $4.9 billion and $5.0 billion at March 31, 2021 and December 31, 2020, respectively, and have remaining stated maturity dates that extend to 2052.

10. 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, 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 $12.5 billion and $12.6 billion at March 31, 2021 and December 31, 2020, 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 both March 31, 2021 and December 31, 2020, we held collateral of approximately $9.2 billion, 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 both March 31, 2021 and December 31, 2020.

The following table presents the rollforward of activity in Loss Reserves:

	Three Months Ended March 31,	
(in millions)	**2021**	2020
Liability for unpaid loss and loss adjustment expenses, beginning of period	**$ 77,720**	$ 78,328
Reinsurance recoverable	**(34,431)**	(31,069)
Initial allowance upon CECL adoption	**-**	164
Net Liability for unpaid loss and loss adjustment expenses, beginning of period	**43,289**	47,423
Losses and loss adjustment expenses incurred:		
Current year	**3,925**	4,111
Prior years, excluding discount and amortization of deferred gain	**16**	(1)
Prior years, discount charge (benefit)	**(18)**	76
Prior years, amortization of deferred gain on retroactive reinsurance[(a)]	**(72)**	(75)
Total losses and loss adjustment expenses incurred	**3,851**	4,111
Losses and loss adjustment expenses paid:		
Current year	**(328)**	(342)
Prior years	**(3,584)**	(4,351)
Total losses and loss adjustment expenses paid	**(3,912)**	(4,693)
Other changes:		
Foreign exchange effect	**244**	(230)
Allowance for credit losses	**-**	-
Retroactive reinsurance adjustment (net of discount)[(b)]	**89**	22
Total other changes	**333**	(208)
Liability for unpaid loss and loss adjustment expenses, end of period:		
Net liability for unpaid losses and loss adjustment expenses	**43,561**	46,633
Reinsurance recoverable	**35,271**	31,114
Total	**$ 78,832**	$ 77,747

(a) Includes $17 million and $8 million for the retroactive reinsurance agreement with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc. (Berkshire), covering U.S. asbestos exposures for the three-month periods ended March 31, 2021 and 2020, respectively.

(b) Includes benefit (charge) from change in discount on retroactive reinsurance in the amount of $39 million and $72 million for the three-month periods ended March 31, 2021 and 2020, respectively.

On January 20, 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 paid losses on subject business paid on or after January 1, 2016 in excess of $25 billion of net paid losses, up to an aggregate limit of $25 billion. At NICO's 80 percent share, NICO's limit of liability under the contract is $20 billion. We account for this transaction as retroactive reinsurance. We paid total consideration, including interest, of $10.2 billion. The consideration was placed into a collateral trust account as security for NICO's claim payment obligations, and Berkshire has provided a parental guarantee to secure the obligations of NICO under the agreement.

Discounting of Loss Reserves

At March 31, 2021 and December 31, 2020, the loss reserves reflect a net loss reserve discount of $796 million and $725 million, 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 our 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 U.S. Treasury plus liquidity rate).

The discount for asbestos reserves has been fully accreted.

At March 31, 2021 and December 31, 2020, the discount consists of $311 million and $285 million of tabular discount, respectively, and $485 million and $440 million of non-tabular discount for workers' compensation, respectively. During the three-month periods ended March 31, 2021 and 2020, the benefit / (charge) from changes in discount of $32 million and $(56) million, respectively, were recorded as part of the policyholder benefits and losses incurred in the Condensed Consolidated Statements of Income.

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

	March 31, 2021			December 31, 2020		
(in millions)	North America Commercial Insurance	Other Operations Run-Off[b]	Total	North America Commercial Insurance	Other Operations Run-Off[b]	Total
U.S. workers' compensation	$ 1,668	$ -	$ 1,668	$ 1,636	$ -	$ 1,636
Retroactive reinsurance	(872)	-	(872)	(911)	-	(911)
Total reserve discount[a]	$ 796	$ -	$ 796	$ 725	$ -	$ 725

(a) Excludes $158 million and $151 million of discount related to certain long tail liabilities in the UK at March 31, 2021 and December 31, 2020, respectively.

(b) Excludes $513 million and $493 million, respectively, of discount which was 100 percent ceded to Fortitude Re at March 31, 2021 and December 31, 2020. On June 2, 2020, we completed the Majority Interest Fortitude Sale. *For additional information see Note 1 to the Condensed Consolidated Financial Statements.*

The following table presents the net loss reserve discount benefit (charge):

Three Months Ended March 31,	2021			2020		
(in millions)	North America Commercial Insurance	Other Operations Run-Off	Total	North America Commercial Insurance	Other Operations Run-Off	Total
Current accident year	$ 14	$ -	$ 14	$ 20	$ -	$ 20
Accretion and other adjustments to prior year discount	18	-	18	(67)	(9)	(76)
Effect of interest rate changes	-	-	-	-	-	-
Net reserve discount benefit (charge)	32	-	32	(47)	(9)	(56)
Change in discount on loss reserves ceded under retroactive reinsurance	39	-	39	72	-	72
Net change in total reserve discount*	$ 71	$ -	$ 71	$ 25	$ (9)	$ 16

* Excludes $7 million and $(2) million discount related to certain long tail liabilities in the UK for the three-month periods ended March 31, 2021 and 2020, respectively.

11. 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.

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 15 to the Condensed Consolidated Financial Statements.*

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 $6.7 billion at March 31, 2021.

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. arising from transactions entered into by AIG Markets, Inc.

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 March 31, 2021 was $75 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 Condensed Consolidated Balance Sheets.

For additional discussion on the Fortitude Re transaction, see Note 1 to the Condensed Consolidated Financial Statements.

Other

- *For additional discussion on commitments and guarantees associated with VIEs, see Note 8 to the Condensed Consolidated Financial Statements.*
- *For additional disclosures about derivatives, see Note 9 to the Condensed Consolidated Financial Statements.*

12. 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.

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 three months ended March 31, 2021 and 2020:

			Dividends Paid	
Declaration Date	Record Date	Payment Date	Per Preferred Share	Per Depositary Share
February 16, 2021	February 26, 2021	March 15, 2021	**$ 365.625**	**$ 0.365625**
February 12, 2020	February 28, 2020	March 16, 2020	$ 365.625	$ 0.365625

Common Stock

The following table presents a rollforward of outstanding shares:

Three Months Ended March 31, 2021	Common Stock Issued	Treasury Stock	Common Stock Outstanding
Shares, beginning of year	**1,906,671,492**	**(1,045,113,443)**	**861,558,049**
Shares issued	-	5,857,575	5,857,575
Shares repurchased	-	(8,032,171)	(8,032,171)
Shares, end of period	**1,906,671,492**	**(1,047,288,039)**	**859,383,453**

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 three months ended March 31, 2021 and 2020:

Declaration Date	Record Date	Payment Date	Dividends Paid Per Common Share
February 16, 2021	March 16, 2021	March 30, 2021	**0.32**
February 12, 2020	March 16, 2020	March 30, 2020	0.32

For a discussion of restrictions on payments of dividends to AIG Parent by its subsidiaries see Note 19 to the Consolidated Financial Statements in the 2020 Annual Report.

Repurchase of AIG Common Stock

The following table presents repurchases of AIG Common Stock:

Three Months Ended March 31, (in millions)	2021	2020
Aggregate repurchases of common stock	$ 362	$ 500
Total number of common shares repurchased	8	12
Aggregate repurchases of warrants	$ -	$ -
Total number of warrants repurchased	-	-

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 March 31, 2021, approximately $1.1 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. Our warrants to purchase shares of AIG Common Stock expired on January 19, 2021.

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 three months ended March 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. During the first quarter of 2021, we repurchased approximately 8 million shares of AIG Common Stock for an aggregate purchase price of approximately $362 million pursuant to Exchange Act Rule 10b5-1 repurchase plans. Approximately $92 million of these share repurchases were funded 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.

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 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, December 31, 2020, net of tax	**$ (95)**	**$ 17,093**	**$ (2,267)**	**$ (1,228)**	**$ 8**	**$ 13,511**
Change in unrealized appreciation (depreciation) of investments	**41**	**(11,690)**	**-**	**-**	**-**	**(11,649)**
Change in deferred policy acquisition costs adjustment and other	**(2)**	**1,393**	**-**	**-**	**-**	**1,391**
Change in future policy benefits	**-**	**1,145**	**-**	**-**	**-**	**1,145**
Change in foreign currency translation adjustments	**-**	**-**	**170**	**-**	**-**	**170**
Change in net actuarial gain	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Change in prior service cost	**-**	**-**	**-**	**2**	**-**	**2**
Change in deferred tax asset (liability)	**(6)**	**1,953**	**(45)**	**(4)**	**-**	**1,898**
Change in fair value of liabilities under fair value option attributable to changes in own credit risk	**-**	**-**	**-**	**-**	**(1)**	**(1)**
Total other comprehensive income (loss)	**33**	**(7,199)**	**125**	**(3)**	**(1)**	**(7,045)**
Noncontrolling interests	**-**	**-**	**-**	**-**	**-**	**-**
Balance, March 31, 2021, net of tax	**$ (62)**	**$ 9,894**	**$ (2,142)**	**$ (1,231)**	**$ 7**	**$ 6,466**

(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, December 31, 2019, net of tax	$ -	$ 8,722	$ (2,625)	$ (1,122)	$ 7	$ 4,982
Change in unrealized depreciation of investments	(484)	(9,971)	-	-	-	(10,455)
Change in deferred policy acquisition costs adjustment and other[(a)]	30	1,377	-	-	-	1,407
Change in future policy benefits	-	1,672	-	-	-	1,672
Change in foreign currency translation adjustments	-	-	(69)	-	-	(69)
Change in net actuarial loss	-	-	-	4	-	4
Change in prior service credit	-	-	-	(1)	-	(1)
Change in deferred tax asset (liability)	95	1,380	(16)	(10)	-	1,449
Change in fair value of liabilities under fair value option attributable to changes in own credit risk	-	-	-	-	3	3
Total other comprehensive loss	(359)	(5,542)	(85)	(7)	3	(5,990)
Noncontrolling interests	-	(10)	(4)	-	-	(14)
Balance, March 31, 2020, net of tax	$ (359)	$ 3,190	$ (2,706)	$ (1,129)	$ 10	$ (994)

(a) Includes net unrealized gains and losses attributable to businesses held for sale at March 31, 2020.

The following table presents the other comprehensive income (loss) reclassification adjustments for the three-month periods ended March 31, 2021 and 2020, respectively:

(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
March 31, 2021						
Unrealized change arising during period	**$ 37**	**$ (8,761)**	**$ 170**	**$ (11)**	**$ (1)**	**$ (8,566)**
Less: Reclassification adjustments included in net income	**(2)**	**391**	**-**	**(12)**	**-**	**377**
Total other comprehensive income (loss), before income tax expense (benefit)	**39**	**(9,152)**	**170**	**1**	**(1)**	**(8,943)**
Less: Income tax expense (benefit)	**6**	**(1,953)**	**45**	**4**	**-**	**(1,898)**
Total other comprehensive income (loss), net of income tax expense (benefit)	**$ 33**	**$ (7,199)**	**$ 125**	**$ (3)**	**$ (1)**	**$ (7,045)**

(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
March 31, 2020						
Unrealized change arising during period	$ (454)	$ (6,708)	$ (69)	$ (7)	$ 3	$ (7,235)
Less: Reclassification adjustments included in net income	-	214	-	(10)	-	204
Total other comprehensive income (loss), before income tax expense (benefit)	(454)	(6,922)	(69)	3	3	(7,439)
Less: Income tax expense (benefit)	(95)	(1,380)	16	10	-	(1,449)
Total other comprehensive income (loss), net of income tax expense (benefit)	$ (359)	$ (5,542)	$ (85)	$ (7)	$ 3	$ (5,990)

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

(in millions)	Amount Reclassified from AOCI Three Months Ended March 31, 2021	2020	Affected Line Item in the Condensed Consolidated Statements of Income
Unrealized appreciation (depreciation) of fixed maturity securities on which allowance for credit losses was taken			
Investments	**$ (2)**	$ -	Other realized capital gains
Total	**(2)**	-	
Unrealized appreciation (depreciation) of all other investments			
Investments	**391**	214	Other realized capital gains
Total	**391**	214	
Change in retirement plan liabilities adjustment			
Prior-service credit	**(1)**	-	*
Actuarial losses	**(11)**	(10)	*
Total	**(12)**	(10)	
Total reclassifications for the period	**$ 377**	$ 204	

* These AOCI components are included in the computation of net periodic pension cost. *For additional information see Note 14 to the Condensed Consolidated Financial Statements.*

13. 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:

Three Months Ended March 31, *(dollars in millions, except per common share data)*		2021		2020
Numerator for EPS:				
Income from continuing operations	$	3,930	$	1,654
Less: Net income (loss) from continuing operations attributable to noncontrolling interests		54		(95)
Less: Preferred stock dividends		7		7
Income attributable to AIG common shareholders from continuing operations		3,869		1,742
Income from discontinued operations, net of income tax expense		-		-
Net income attributable to AIG common shareholders	$	3,869	$	1,742
Denominator for EPS:				
Weighted average common shares outstanding - basic		868,105,069		874,213,630
Dilutive common shares		8,164,855		4,652,583
Weighted average common shares outstanding - diluted(a)		876,269,924		878,866,213
Income per common share attributable to AIG common shareholders:				
Basic:				
Income from continuing operations	$	4.45	$	1.99
Income from discontinued operations	$	-	$	-
Income attributable to AIG common shareholders	$	4.45	$	1.99
Diluted:				
Income from continuing operations	$	4.41	$	1.98
Income from discontinued operations	$	-	$	-
Income attributable to AIG common shareholders	$	4.41	$	1.98

(a) Dilutive common shares include 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 9.2 million and 67.2 million for the three-month periods ended March 31, 2021 and 2020, 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 12 to the Condensed Consolidated Financial Statements.

14. Employee Benefits

We sponsor various defined benefit plans for eligible employees and retirees in the U.S. and certain non-U.S. countries.

The following table presents the components of net periodic benefit cost (credit) with respect to pension benefits:

	Pension		
(in millions)	U.S. Plans	Non-U.S. Plans	Total
Three Months Ended March 31, 2021			
Components of net periodic benefit cost:			
Service cost	**$ 1**	**$ 5**	**$ 6**
Interest cost	**22**	**3**	**25**
Expected return on assets	**(61)**	**(6)**	**(67)**
Amortization of prior service cost	**-**	**1**	**1**
Amortization of net loss	**9**	**2**	**11**
Net periodic benefit cost (credit)	**$ (29)**	**$ 5**	**$ (24)**
Three Months Ended March 31, 2020			
Components of net periodic benefit cost:			
Service cost	$ 1	$ 5	$ 6
Interest cost	34	3	37
Expected return on assets	(60)	(5)	(65)
Amortization of net loss	8	2	10
Net periodic benefit cost (credit)	$ (17)	$ 5	$ (12)

The service cost for our U.S. defined benefit plans only reflects administrative fees as the plans are frozen and no longer accrue benefits. We recognized net expense of $2 million for our U.S. and non-U.S. postretirement benefit plans for both three-month periods ended March 31, 2021 and 2020.

15. Income Taxes

U.S. TAX LAW CHANGES

On December 22, 2017, the U.S. enacted 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

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

INTERIM TAX CALCULATION METHOD

We use the estimated annual effective tax rate method in computing our interim tax provision. Certain items, including those deemed to be unusual, infrequent or that cannot be reliably estimated, are excluded from the estimated annual effective tax rate. In these cases, the actual tax expense or benefit is reported in the same period as the related item. Certain tax effects are also not reflected in the estimated annual effective tax rate, primarily certain changes in uncertain tax positions and realizability of deferred tax assets, and are recorded in the period in which the change occurs. While certain impacts of the Tax Act are included in our annual effective tax rate, we continue to refine our calculations as additional information becomes available, which may result in changes to the estimated annual effective tax rate. As of March 31, 2021, the annual effective tax rate includes the tax effects of actual and projected COVID-19 related losses and market developments.

INTERIM TAX EXPENSE (BENEFIT)

For the three-month period ended March 31, 2021, the effective tax rate on income from continuing operations was 16.9 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 21 percent primarily due to tax benefits associated with the release of reserves for uncertain tax positions, penalties and interest related to the recent completion of audit activity by the IRS, tax exempt income, and reclassifications from AOCI to income from continuing operations related to the disposal of available for sale securities. These tax benefits were partially offset by tax charges associated with the establishment of U.S. federal valuation allowance related to certain tax attribute carryforwards, the effect of foreign operations, excess tax charges related to share based compensation payments recorded through the income statement, state and local income taxes, and non-deductible transfer pricing charges. The effect of foreign operations is primarily related to income of our foreign operations taxed at statutory tax rates higher than 21 percent, other foreign taxes, and foreign income subject to U.S. taxation.

For the three-month period ended March 31, 2020, the effective tax rate on income from continuing operations was 35.3 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 21 percent primarily due to tax charges associated with the establishment of U.S. federal valuation allowance related to certain tax attribute carryforwards, accrual of interest associated with IRS and other tax authority matters, the effect of foreign operations, state and local income taxes, excess tax charges related to share based compensation payments recorded through the income statement, and non-deductible transfer pricing charges, partially offset by tax benefits associated with tax exempt income, and reclassifications from AOCI to income from continuing operations related to the disposal of available for sale securities. The effect of foreign operations is primarily related to income in our foreign operations taxed at statutory tax rates higher than 21 percent, other foreign taxes, and foreign income subject to U.S. taxation.

For the three-month period ended March 31, 2021, 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. Given the uncertainties around the impact from the COVID-19 crisis, including the significant global economic slowdown, we continue to monitor and review its impact on our reinvestment considerations, including regulatory oversight in the relevant jurisdictions.

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 impact of the recent completion of audit activity by the IRS, the COVID-19 crisis, changes 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. The recent completion of audit activity by the IRS and subsequent release of certain reserves for uncertain tax positions resulted in an initial recognition of additional net operating loss and foreign tax credit carryforwards arising in prior years. Taking into account this initial recognition of additional carryforwards as well as other first quarter 2021 events and our analysis of their potential impact on utilization of our tax attributes, we recorded an increase of $700 million in valuation allowance related to a portion of our net operating loss carryforwards that are no longer more-likely-than-not to be realized.

To the extent that the valuation allowance is attributed to changes in forecast of current year taxable income, the impact is included in our estimated annualized effective tax rate. The valuation allowance related to changes in forecasts of income in future periods as well as other items not related to the current year was recorded discretely in the three-month period ended March 31, 2021.

As of March 31, 2021, we have recorded valuation allowance of $850 million related to a portion of our foreign tax credit and net operating loss 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 three-month period ended March 31, 2021, 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 reduction in the deferred tax liability related to net unrealized tax capital gains. As of March 31, 2021, 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 three-month period ended March 31, 2021, 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 reduction to the deferred tax liability related to net unrealized tax capital gains. As of March 31, 2021, 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 three-month period ended March 31, 2021, we recognized a net increase (decrease) of $(14) million, in deferred tax asset valuation allowance associated with certain foreign and state jurisdictions, primarily attributable to current year activity.

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 laws.

We are currently under examination by the IRS for the tax years 2011 through 2013.

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 the IRS Independent Office of Appeals (IRS Appeals). In March 2021, the IRS audit team issued their rebuttal to the protest of disagreed issues to IRS Appeals. We have also received notification that the disagreed issues were accepted for review by IRS Appeals.

In 2009, after paying amounts due on a statutory notice of deficiency related to the disallowance of foreign tax credits associated with cross border financing transactions, we filed a refund lawsuit in the Southern District of New York (Southern District) with respect to tax year 1997. In January 2018, the parties reached non-binding agreements in principle on issues presented in the dispute with respect to other relevant tax years. 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 with respect to the underlying issues. 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.

ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

At March 31, 2021 and December 31, 2020, our unrecognized tax benefits, excluding interest and penalties, were $1.2 billion and $2.3 billion, respectively. At March 31, 2021 and December 31, 2020, 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 $20 million and $44 million, respectively. Accordingly, at March 31, 2021 and December 31, 2020, the amounts of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate were $1.1 billion and $2.3 billion, respectively. The decrease in the first quarter of 2021 is primarily attributable to the recent completion of audit activity by the IRS.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense. At March 31, 2021 and December 31, 2020, we had accrued liabilities of $103 million and $286 million, respectively, for the payment of interest (net of the federal benefit) and penalties. For the three-month periods ended March 31, 2021 and 2020, we accrued expense (benefit) of ($183) million and $49 million, respectively, for the payment of interest and penalties. The activity in the first quarter of 2021 is primarily related to the recent completion of audit activity by the IRS.

We believe it is reasonably possible that our unrecognized tax benefits could decrease within the next 12 months by as much as $56 million, 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.

16. Subsequent Events

DIVIDENDS DECLARED

On May 6, 2021, our Board of Directors declared a cash dividend on AIG Common Stock of $0.32 per share, payable on June 29, 2021 to shareholders of record on June 15, 2021. On May 6, 2021, our Board of Directors declared a cash dividend on AIG's Series A Preferred Stock of $365.625 per share, payable on June 15, 2021 to holders of record on May 31, 2021.

REPURCHASE OF COMMON STOCK

Pursuant to an Exchange Act Rule 10b5-1 repurchase plan, from April 1, 2021 to May 6, 2021, we repurchased approximately one million shares of AIG Common Stock for an aggregate purchase price of approximately $65 million. As of May 6, 2021, approximately $1.1 billion remained under our share repurchase authorization.

CONSOLIDATED INVESTMENT ENTITIES

Subsequent to March 31, 2021, we terminated an additional three consolidated investment entities relating to securitized portfolios of certain debt securities (*see Note 8 to the Condensed Consolidated Financial Statements for a discussion of securitized portfolios of certain debt securities*). As of March 31, 2021, the senior notes issued by these securitizations and held by investors other than AIG and its consolidated affiliates had a carrying value of $100 million. There were no payments made related to the guarantees that AIG provided. After these terminations, there remains one consolidated investment entity relating to securitized portfolios of certain debt securities, and its senior notes had a carrying value of $25 million as of March 31, 2021.

ITEM 2 | Management's Discussion and Analysis of Financial Condition and Results of Operations

Glossary and Acronyms of Selected Insurance Terms and References

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

American International Group, Inc. (AIG) has incorporated into this discussion a number of cross-references to additional information included throughout this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2020 (the 2020 Annual Report) to assist readers seeking additional information related to a particular subject.

In this Quarterly Report on Form 10-Q, unless otherwise mentioned or unless the context indicates otherwise, we use the terms "AIG," "we," "us" and "our" to refer to American International Group, Inc., a Delaware corporation, and its consolidated subsidiaries. We use the term "AIG Parent" to refer solely to American International Group, Inc., and not to any of its consolidated subsidiaries.

Cautionary Statement Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q and other publicly available documents may include, and officers and representatives of AIG may from time to time make and discuss, projections, goals, assumptions and statements that may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These projections, goals, assumptions and statements are not historical facts but instead represent only a belief regarding future events, many of which, by their nature, are inherently uncertain and outside 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:

- changes in market and industry conditions, including the significant global economic downturn, volatility in financial and capital markets, fluctuations in interest rates, 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;
- the adverse impact of COVID-19, including with respect to AIG's business, financial condition and results of operations;
- 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;
- changes to the valuation of AIG's investments;
- changes in judgments concerning the recognition of deferred tax assets and the impairment of goodwill;
- 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 Reinsurance Company Ltd. (Fortitude Re);
- changes in judgments concerning potential cost-saving opportunities;
- concentrations in AIG's investment portfolios;
- 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; and
- such other factors discussed in:
  - Part I, Item 2. MD&A of this Quarterly Report on Form 10-Q; and
  - Part I, Item 1A. Risk Factors and Part II, Item 7. MD&A of the 2020 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 2

Use of Non-GAAP Measures

Throughout this MD&A, we present our financial condition and results of operations in the way we believe will be most meaningful and representative of our business results. Some of the measurements we use are “non-GAAP financial measures” under Securities and Exchange Commission (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 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 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 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 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 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 Cuts and Jobs Act (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. 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 held by AIG in support of Fortitude Re's reinsurance obligations to AIG post deconsolidation of Fortitude Re (Fortitude Re funds withheld assets);
- following deconsolidation of Fortitude Re, net realized capital gains and losses on 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 accident year combined ratios, as adjusted:** both the accident year loss and accident year 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, for example universal life, variable and fixed annuities, and fixed indexed annuities;
- 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.

For a complete discussion of our critical accounting estimates, see Part II, Item 7. MD&A – Critical Accounting Estimates in the 2020 Annual Report.

Executive Summary

OVERVIEW

This overview of the MD&A highlights selected information and may not contain all of the information that is important to current or potential investors in our securities. You should read this Quarterly Report on Form 10-Q, together with the 2020 Annual Report, in their entirety for a more detailed description of events, trends, uncertainties, risks and critical accounting estimates affecting us.

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 (Touchstone), an indirect wholly-owned subsidiary of Western & Southern Financial Group, to sell certain assets of AIG Life and Retirement's Retail Mutual Funds business. As of March 31, 2021, AIG Life and Retirement's Retail Mutual Funds business managed $7.6 billion in assets across eighteen funds. Pursuant to the definitive agreement, twelve retail mutual funds with $7.4 billion in assets will be reorganized into Touchstone funds. The transaction closing is subject to customary regulatory and fund shareholder approvals and is targeted for mid-2021. Six retail mutual funds with $0.2 billion in assets, excluding fund of funds, managed by AIG Life and Retirement and not included in the transaction will be wound down and liquidated. AIG Life and Retirement will retain its fund management platform and capabilities dedicated to its variable insurance products.

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. 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. While we currently believe an initial public offering represents an optimal path, 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 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 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 March 31, 2021, approximately $30.3 billion of reserves from AIG's Life and Retirement Run-Off Lines and approximately $4.0 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., an affiliate of Carlyle, in November 2018. 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 7 to the Condensed Consolidated Financial Statements.

AIG'S OPERATING STRUCTURE

AIG reports the results of its businesses through three segments – 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.

Consistent with how we manage our business, our General Insurance North America operating segment primarily includes insurance businesses in the United States, Canada and 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 Note 3 to the Condensed 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.

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.

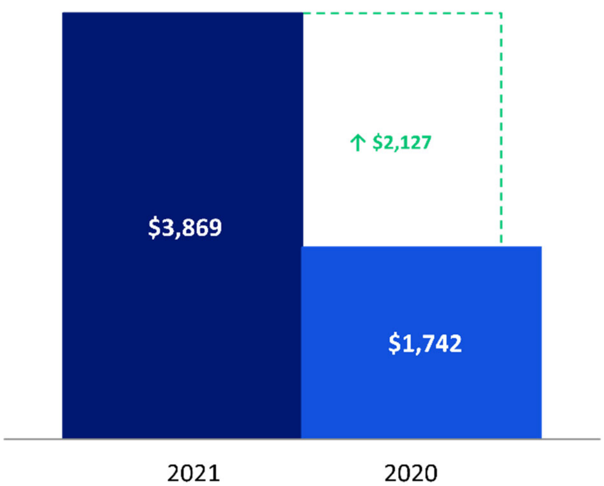
Life and Retirement includes the following major operating companies: American General Life Insurance Company (AGL); The Variable Annuity Life Insurance Company (VALIC); The United States Life Insurance Company in the City of New York (U.S. Life); Laya Healthcare Limited and AIG Life Limited.

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 as well as the historical results of our legacy insurance lines ceded to Fortitude Re.

FINANCIAL PERFORMANCE SUMMARY

Net Income (Loss) Attributable to AIG Common Shareholders
Three Months Ended March 31,
(in millions)



2021 and 2020 Comparison

Net income attributable to AIG Common Shareholders increased due to:

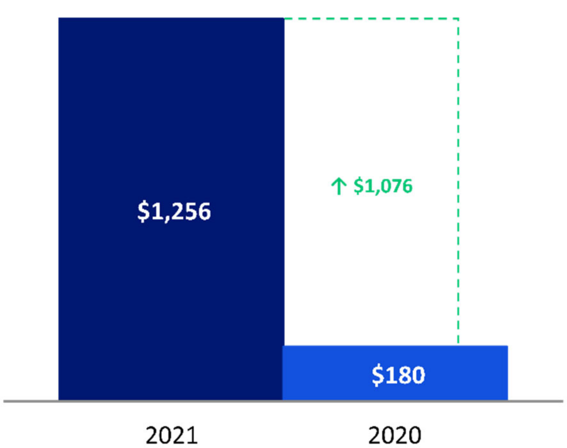
- higher returns in our investment portfolio due primarily to higher income on our alternative investments and fair value option equity securities, which was driven primarily by positive equity market performance. This compares to the prior year where we experienced losses on our alternative investments and fair value option equity securities, which were driven by the equity market downturn associated with the onset of the COVID-19 pandemic;
- General Insurance having a lower accident year loss ratio, as adjusted due to underwriting discipline and strong premium rate increases, as well as changes in business mix; and
- Life & Retirement having lower variable annuity DAC and SIA amortization and reserves due to stronger equity market performance, partially offset by higher mortality driven by COVID-19.

This increase was partially offset by:

- lower net realized capital gains.

For further discussion see Consolidated Results of Operations.

Adjusted Pre-Tax Income*
Three Months Ended March 31,
(in millions)



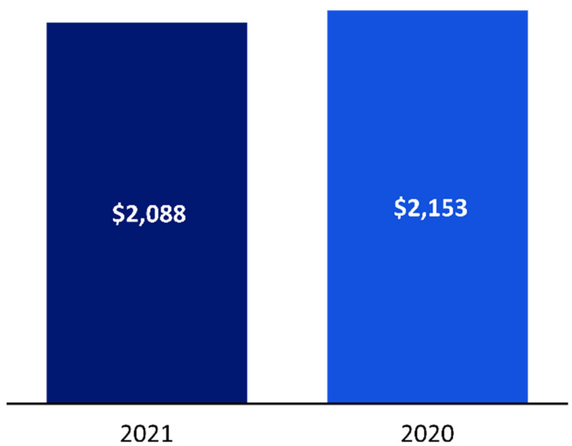
2021 and 2020 Comparison

Adjusted pre-tax income increased primarily due to:

- higher returns in our investment portfolio due primarily to higher income on our alternative investments, which was driven by positive equity market performance. This compares to the prior year where we experienced losses on our alternative investments due to the equity market downturn associated with the onset of the COVID-19 pandemic;
- General Insurance having a lower accident year loss ratio, as adjusted due to underwriting discipline and strong premium rate increases, as well as changes in business mix; and
- Life & Retirement having lower variable annuity DAC and SIA amortization and reserves due to stronger equity market performance, partially offset by higher mortality driven by COVID-19.

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

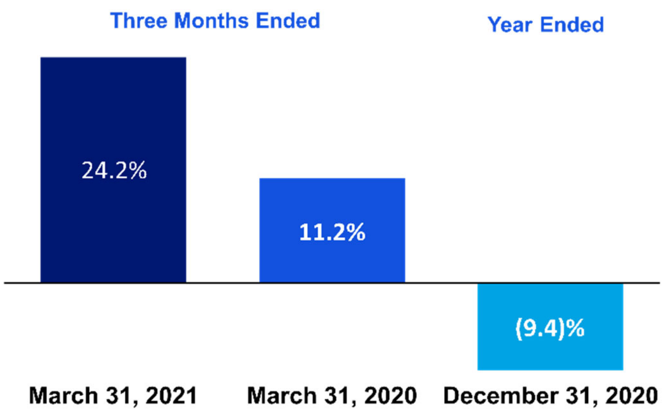
General Operating and Other Expenses
Three Months Ended March 31,
(in millions)



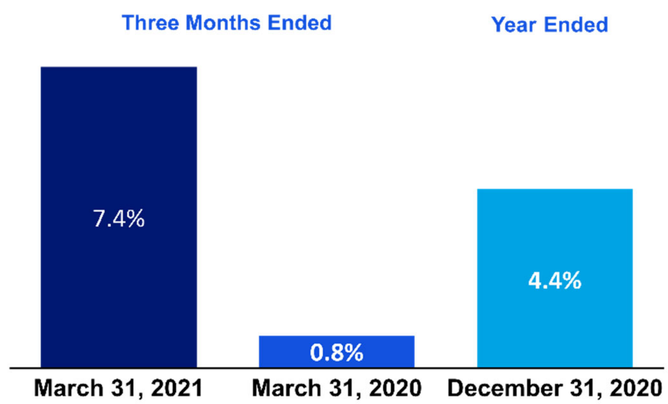
2021 and 2020 Comparison

General operating and other expenses decreased 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 in the three-month periods ended March 31, 2021 and 2020 included approximately $74 million and $90 million of pre-tax restructuring and other costs, respectively, which were primarily comprised of employee severance charges and other costs related to organizational simplification, operational efficiency, and business rationalization.

Return on Common Equity

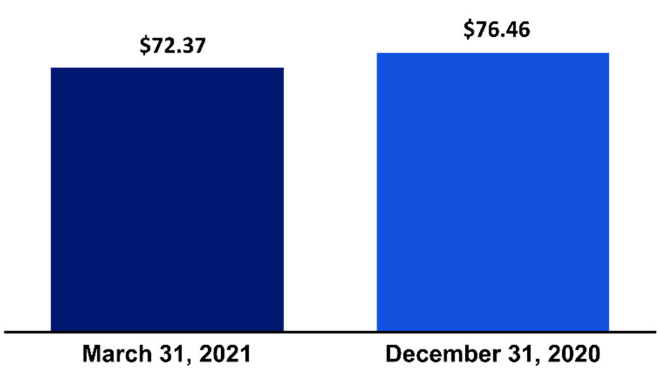


Adjusted Return on Common Equity*

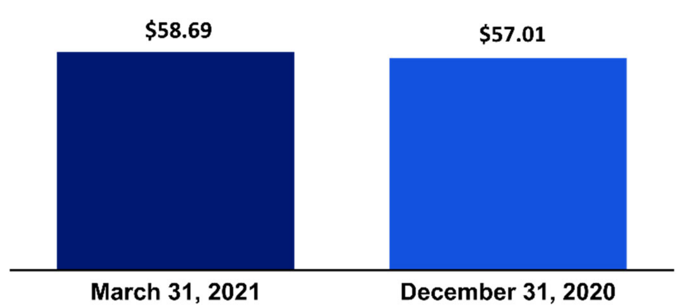


* Non-GAAP measure – *for reconciliation of Non-GAAP to GAAP measures see Consolidated Results of Operations.*

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 the first quarter of 2021, characterized by factors such as the impact of COVID-19 and the related governmental and societal responses, 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. 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. While we currently believe an initial public offering represents an optimal path, 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 the 2020 Annual Report, 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. 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. 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 the 2020 Annual Report, Part I, Item 1A. Risk Factors – 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.

Impact of Changes in the Interest Rate Environment

While key benchmark rates rose in the U.S. in the first quarter of 2021, they still remain near 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 recent increased confidence in an economic recovery has also led to tighter credit spreads which have offset some of the rise in interest rates. If rates continue to 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. We may not be able to fully mitigate our interest rate risk by matching exposure of our assets relative to our liabilities. A low interest rate environment could also impair our ability to earn the returns assumed in the pricing and the reserving of our products at the time they were sold and issued.

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 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, for example universal life, and variable, fixed and fixed indexed annuities, 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 interest rates begin to rise again, we may need to raise crediting rates on in-force business for competitive and other reasons, potentially offsetting a portion of the additional investment income resulting from investing in a higher interest rate environment.

Of the aggregate fixed account values of our Individual Retirement and Group Retirement annuity products, 68 percent were crediting at the contractual minimum guaranteed interest rate at March 31, 2021. The percentage of fixed account values of our annuity products that are currently crediting at rates above one percent was 59 percent at both March 31, 2021 and December 31, 2020. 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 universal life products in our Life Insurance business, 68 percent of the account values were crediting at the contractual minimum guaranteed interest rate at March 31, 2021.

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			
March 31, 2021 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%	$ 9,026	$ 2,059	$ 18,244	$ 29,329
> 1% - 2%	4,899	29	1,695	6,623
> 2% - 3%	10,865	1	18	10,884
> 3% - 4%	8,519	41	6	8,566
> 4% - 5%	489	-	4	493
> 5% - 5.5%	34	-	5	39
Total Individual Retirement	$ 33,832	$ 2,130	$ 19,972	$ 55,934
Group Retirement*				
1%	$ 1,941	$ 3,148	$ 4,523	$ 9,612
> 1% - 2%	5,986	707	108	6,801
> 2% - 3%	14,900	-	-	14,900
> 3% - 4%	748	-	-	748
> 4% - 5%	7,046	-	-	7,046
> 5% - 5.5%	166	-	-	166
Total Group Retirement	$ 30,787	$ 3,855	$ 4,631	$ 39,273
Universal life insurance				
1%	$ -	$ -	$ -	$ -
> 1% - 2%	100	25	361	486
> 2% - 3%	264	541	1,197	2,002
> 3% - 4%	1,453	184	202	1,839
> 4% - 5%	3,162	2	-	3,164
> 5% - 5.5%	244	-	-	244
Total universal life insurance	$ 5,223	$ 752	$ 1,760	$ 7,735
Total	$ 69,842	$ 6,737	$ 26,363	$ 102,942
Percentage of total	68 %	6 %	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 be disciplined in pricing 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 in the 2020 Annual Report*. Changes in standard of care requirements or new standards issued by governmental authorities, such as the Department of Labor, the SEC, the National Association of Insurance Commissioners (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 European Union (EU), and such fluctuations will affect net premiums written growth trends reported in U.S. dollars, as well as financial statement line item comparability.

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

Three Months Ended March 31, Rate for 1 USD	**2021**	2020	Percentage Change
Currency:			
GBP	**0.73**	0.77	(5)%
EUR	**0.82**	0.91	(10)%
JPY	**104.29**	109.45	(5)%

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.

Consolidated Results of Operations

The following section provides a comparative discussion of our consolidated results of operations on a reported basis for the three-month periods ended March 31, 2021 and 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 in this MD&A and Part II, Item 7. MD&A – Critical Accounting Estimates in the 2020 Annual Report.

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

Three Months Ended March 31, (in millions)	2021	2020	Percentage Change
Revenues:			
Premiums	$ 6,507	$ 7,443	(13)%
Policy fees	784	755	4
Net investment income:			
Net investment income - excluding Fortitude Re funds withheld assets	3,171	2,508	26
Net investment income - Fortitude Re funds withheld assets	486	-	NM
Total net investment income	3,657	2,508	46
Net realized capital gains:			
Net realized capital gains - excluding Fortitude Re funds withheld assets and embedded derivative	695	3,519	(80)
Net realized capital gains on Fortitude Re funds withheld assets	173	-	NM
Net realized capital gains on Fortitude Re funds withheld embedded derivative	2,382	-	NM
Total net realized capital gains	3,250	3,519	(8)
Other income	256	218	17
Total revenues	14,454	14,443	-
Benefits, losses and expenses:			
Policyholder benefits and losses incurred	5,139	6,325	(19)
Interest credited to policyholder account balances	868	957	(9)
Amortization of deferred policy acquisition costs	1,304	1,862	(30)
General operating and other expenses	2,088	2,153	(3)
Interest expense	342	355	(4)
(Gain) loss on extinguishment of debt	(8)	17	NM
Net (gain) loss on sale or disposal of divested businesses	(7)	216	NM
Total benefits, losses and expenses	9,726	11,885	(18)
Income from continuing operations before income tax expense	4,728	2,558	85
Income tax expense	798	904	(12)
Income from continuing operations	3,930	1,654	138
Income (loss) from discontinued operations, net of income taxes	-	-	NM
Net income	3,930	1,654	138
Less: Net income (loss) attributable to noncontrolling interest	54	(95)	NM
Net income attributable to AIG	3,876	1,749	122
Less: Dividends on preferred stock	7	7	-
Net income attributable to AIG common shareholders	$ 3,869	$ 1,742	122 %

(in millions, except per common share data)	March 31, 2021	December 31, 2020
Balance sheet data:		
Total assets	$ 584,390	$ 586,481
Long-term debt	26,432	28,103
Debt of consolidated investment entities	9,216	9,431
Total AIG shareholders' equity	62,679	66,362
Book value per common share	72.37	76.46
Adjusted book value per common share	58.69	57.01

The following table presents a reconciliation of Book value per common share to Adjusted book value per common share, which is a non-GAAP measure. ***For additional information see Use of Non-GAAP Measures.***

(in millions, except per common share data)		At March 31, 2021	At December 31, 2020
Total AIG shareholders' equity	$	62,679	$ 66,362
Preferred equity		485	485
Total AIG common shareholders' equity		62,194	65,877
Less: Accumulated other comprehensive income (loss)		6,466	13,511
Add: Cumulative unrealized gains and losses related to Fortitude Re Funds Withheld Assets		2,246	4,657
Less: Deferred tax assets		7,539	7,907
Adjusted common shareholders' equity	$	50,435	$ 49,116
Total common shares outstanding		859,383,453	861,558,049
Book value per common share	$	72.37	$ 76.46
Adjusted book value per common share		58.69	57.01

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.***

(dollars in millions)	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Year Ended December 31, 2020
Actual or annualized net income (loss) attributable to AIG common shareholders	$ 15,476	$ 6,968	$ (5,973)
Actual or annualized adjusted after-tax income (loss) attributable to AIG common shareholders	3,692	420	2,201
Average AIG common shareholders' equity	$ 64,036	$ 62,439	$ 63,225
Less: Average AOCI	9,989	1,994	7,529
Add: Average cumulative unrealized gains and losses related to Fortitude Re Funds Withheld Assets	3,452	-	2,653
Less: Average DTA	7,723	8,756	8,437
Average adjusted AIG common shareholders' equity	$ 49,776	$ 51,689	$ 49,912
Return on common equity	24.2 %	11.2 %	(9.4)%
Adjusted return on common equity	7.4 %	0.8 %	4.4 %

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

Three Months Ended March 31,	2021				2020			
(in millions, except per common share data)	Pre-tax	Total Tax (Benefit) Charge	Non-controlling Interests[(d)]	After Tax	Pre-tax	Total Tax (Benefit) Charge	Non-controlling Interests[(d)]	After Tax
Pre-tax income/net income, including noncontrolling interests	$ 4,728	$ 798	$ -	$ 3,930	$ 2,558	$ 904	$ -	1,654
Noncontrolling interests			(54)	(54)			95	95
Pre-tax income/net income attributable to AIG	$ 4,728	$ 798	$ (54)	$ 3,876	$ 2,558	$ 904	$ 95	$ 1,749
Dividends on preferred stock				7				7
Net income attributable to AIG common shareholders				$ 3,869				$ 1,742
Changes in uncertain tax positions and other tax adjustments[(a)]		901	-	(901)		(5)	-	5
Deferred income tax valuation allowance charges[(b)]		(686)	-	686		(283)	-	283
Changes in fair value of securities used to hedge guaranteed living benefits	(22)	(5)	-	(17)	7	2	-	5
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains	203	43	-	160	538	113	-	425
Changes in the fair value of equity securities	(22)	(5)	-	(17)	191	40	-	151
(Gain) loss on extinguishment of debt	(8)	(2)	-	(6)	17	4	-	13
Net investment income on Fortitude Re funds \withheld assets	(486)	(102)	-	(384)	-	-	-	-
Net realized capital (gains) losses on Fortitude Re funds withheld assets	(173)	(36)	-	(137)	-	-	-	-
Net realized capital (gains) losses on Fortitude Re funds withheld embedded derivative	(2,382)	(499)	-	(1,883)	-	-	-	-
Net realized capital (gains) losses[(c)]	(627)	(145)	-	(482)	(3,494)	(765)	-	(2,729)
(Income) loss from divested businesses	(7)	(1)	-	(6)	216	45	-	171
Non-operating litigation reserves and settlements	-	-	-	-	(6)	(1)	-	(5)
Favorable prior year development and related amortization changes ceded under retroactive reinsurance agreements	(19)	(4)	-	(15)	(8)	(2)	-	(6)
Net loss reserve discount (benefit) charge	(32)	(7)	-	(25)	56	12	-	44
Integration and transaction costs associated with acquiring or divesting businesses	9	2	-	7	2	-	-	2
Restructuring and other costs	74	16	-	58	90	19	-	71
Non-recurring costs related to regulatory or accounting changes	20	4	-	16	13	3	-	10
Noncontrolling interests primarily related to net realized capital gains (losses) of Fortitude Holdings' standalone results[(d)]			-	-			(77)	(77)
Adjusted pre-tax income/Adjusted after-tax income attributable to AIG common shareholders	$ 1,256	$ 272	$ (54)	$ 923	$ 180	$ 86	$ 18	$ 105
Weighted average diluted shares outstanding				876.3				878.9
Income (loss) per common share attributable to AIG common shareholders (diluted)				$ 4.41				$ 1.98
Adjusted after-tax income per common share attributable to AIG common shareholders (diluted)				$ 1.05				$ 0.12

(a) Three months ended March 31, 2021 includes the recent completion of audit activity by the IRS.

(b) Three months ended March 31, 2021 includes an increase in the valuation allowance against a portion of certain tax attribute carryforwards of AIG's U.S. federal consolidated income tax group, as well as net valuation allowance release in certain foreign jurisdictions.

(c) 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.

(d) 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 March 31, 2021.

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

Three Months Ended March 31,	2020	
(in millions)	Fortitude Holdings	AIG Noncontrolling Interest
Revenues	$ 230	$ 46
Expenses	458	91
Adjusted pre-tax income (loss)	(228)	(45)
Taxes (benefit) expense	(48)	(10)
Adjusted after-tax income (loss)	(180)	(35)
Net realized capital gains and other charges	(489)	(97)
Taxes on realized capital gains and other charges	(103)	(20)
Net realized capital gains and other charges - after-tax	(386)	(77)
Net income	$ (566)	$ (112)

FIRST QUARTER PRE-TAX INCOME (LOSS) COMPARISON FOR 2021 AND 2020

Pre-tax income increased in the first quarter of 2021 compared to the first quarter of 2020 primarily due to:

- higher returns in our investment portfolio due primarily to higher income on our alternative investments and fair value option equity securities, which was driven primarily by positive equity market performance. This compares to the prior year where we experienced losses on our alternative investments and fair value option equity securities, which were driven by the equity market downturn associated with the onset of the COVID-19 pandemic;
- General Insurance having a lower accident year loss ratio, as adjusted due to underwriting discipline and strong premium rate increases, as well as changes in business mix; and
- Life & Retirement having lower variable annuity DAC and SIA amortization and reserves due to stronger equity market performance, partially offset by higher mortality driven by COVID-19.

This increase was partially offset by:

- lower net realized capital gains due to:
  - Life and Retirement guaranteed living benefits, net of hedges, reflecting lower net realized capital gains in 2021 compared to the same period in the prior year, 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 Future Policy Benefits, Policyholder Contract Deposits and DAC – Variable Annuity Guaranteed Benefits and Hedging Results)*;
  - Partially offset by fair value gains on embedded derivative related to the Fortitude Re funds withheld assets.

U.S. TAX LAW CHANGES

On December 22, 2017, the U.S. enacted 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.

Repatriation Assumptions

For 2021, 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.

INTERIM TAX CALCULATION METHOD

We use the estimated annual effective tax rate method in computing our interim tax provision. Certain items, including those deemed to be unusual, infrequent or that cannot be reliably estimated, are excluded from the estimated annual effective tax rate. In these cases, the actual tax expense or benefit is reported in the same period as the related item. Certain tax effects are also not reflected in the estimated annual effective tax rate, primarily certain changes in uncertain tax positions and realizability of deferred tax assets, and are recorded in the period in which the change occurs. While certain impacts of the Tax Act are included in our annual effective tax rate, we continue to refine our calculations as additional information becomes available, which may result in changes to the estimated annual effective tax rate. As of March 31, 2021, the annual effective tax rate includes the tax effects of actual and projected COVID-19 related losses and market developments.

INCOME TAX EXPENSE ANALYSIS

For the three-month period ended March 31, 2021, the effective tax rate on income from continuing operations was 16.9 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 21 percent primarily due to tax benefits associated with the release of reserves for uncertain tax positions, penalties and interest related to the recent completion of audit activity by the IRS, tax exempt income, and reclassifications from AOCI to income from continuing operations related to the disposal of available for sale securities. These tax benefits were partially offset by tax charges associated with the establishment of U.S. federal valuation allowance related to certain tax attribute carryforwards, the effect of foreign operations, excess tax charges related to share based compensation payments recorded through the income statement, state and local income taxes, and non-deductible transfer pricing charges. The effect of foreign operations is primarily related to income of our foreign operations taxed at statutory tax rates higher than 21 percent, other foreign taxes, and foreign income subject to U.S. taxation.

For the three-month period ended March 31, 2020, the effective tax rate on income from continuing operations was 35.3 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 21 percent primarily due to tax charges associated with the establishment of U.S. federal valuation allowance related to a portion of our foreign tax credit and separate return limitation year net operating loss carryforwards, accrual of interest associated with the IRS and other tax authority matters, the effect of foreign operations, state and local income taxes, excess tax charges related to share based compensation payments recorded through the income statement, and non-deductible transfer pricing charges, partially offset by tax benefits associated with tax exempt income, and reclassifications from AOCI to income from continuing operations related to the disposal of available for sale securities. The effect of foreign operations is primarily related to income in our foreign operations taxed at statutory tax rates higher than 21 percent, other foreign taxes, and foreign income subject to U.S. taxation.

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.

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

Three Months Ended March 31, *(in millions)*	**2021**	2020
General Insurance		
North America - Underwriting loss	**$ (202)**	$ (103)
International - Underwriting income	**275**	16
Net investment income	**772**	588
General Insurance	**$ 845**	$ 501
Life and Retirement		
Individual Retirement	**532**	305
Group Retirement	**307**	143
Life Insurance	**(40)**	78
Institutional Markets	**142**	75
Life and Retirement	**941**	601
Other Operations		
Other Operations before consolidation and eliminations	**(354)**	(835)
Consolidation and eliminations	**(176)**	(87)
Other Operations	**(530)**	(922)
Adjusted pre-tax income	**$ 1,256**	$ 180

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

North America

International

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 global platform enables writing multi-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, while taking a disciplined approach in reducing exposure where terms and conditions do not meet our risk/return appetite. Look to inorganic growth opportunities in profitable markets and segments to expand our capabilities and footprint.

Reinsurance Optimization: Strategically partner with reinsurers to effectively manage exposure to losses arising from frequency of large catastrophic events and 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 against 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 handling expertise, 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 worldwide health and economic impact of COVID-19 continues to evolve, influenced by the scope, severity and duration of the crisis as well as the actions of governments, judiciaries, legislative bodies, regulators and other third parties in response, all of which are subject to continuing uncertainty. Demand for certain lines of business continues to remain below pre-COVID-19 levels, particularly Leisure Travel and Business Travel portfolios. However, the overall results of General Insurance for the three months ended March 31, 2021 reflect continued strong performance from our Commercial Lines portfolio. Across our North America and International Commercial lines of business we have seen increased demand for our insurance products with improved rates as well as improved terms and conditions. While the global economic outlook continues to improve, the ultimate impact of COVID-19 on our business will depend upon the speed at which government-mandated safety precautions can be fully lifted, the distribution and effectiveness of vaccinations, and the manner and speed with which economic activity sustainably rebounds.

General Insurance – North America

Continued market discipline and pullbacks in capacity in select lines are supporting rate increases across nearly all Commercial Lines (outside of Workers' Compensation), with common drivers being higher industry-wide claims severity trends driven by social inflation, higher natural catastrophe frequency over recent years and the uncertain impact of COVID-19. 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 is improving across the portfolio. These retention rates are often coupled with an exposure limit management strategy to reduce volatility within the portfolio. We continue to proactively identify and prioritize targeted businesses to grow as market conditions warrant through effective portfolio management.

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.

During the first quarter of 2021, AIG amended a distribution agreement with one of its largest travel insurance distributors. Following the effectiveness of the amendments, the revised agreement no longer represents a risk transfer transaction and as such will be accounted for under deposit accounting.

General Insurance – International

We believe our global presence provides Commercial Lines and Personal Insurance a 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.

We are continuing to pursue growth in our most profitable lines of business and diversify our portfolio across all regions by expanding key business lines (i.e. Financial Lines and Accident & Health) 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

Three Months Ended March 31, *(in millions)*	2021	2020	Percentage Change
Underwriting results:			
Net premiums written	$ 6,479	$ 5,921	9 %
(Increase) decrease in unearned premiums	(613)	158	NM
Net premiums earned	5,866	6,079	(4)
Losses and loss adjustment expenses incurred[(a)]	3,848	4,059	(5)
Acquisition expenses:			
Amortization of deferred policy acquisition costs	873	986	(11)
Other acquisition expenses	311	345	(10)
Total acquisition expenses	1,184	1,331	(11)
General operating expenses	761	776	(2)
Underwriting income (loss)	73	(87)	NM
Net investment income	772	588	31
Adjusted pre-tax income	$ 845	$ 501	69 %
Loss ratio[(a)]	65.6	66.8	(1.2)
Acquisition ratio	20.2	21.9	(1.7)
General operating expense ratio	13.0	12.8	0.2
Expense ratio	33.2	34.7	(1.5)
Combined ratio[(a)]	98.8	101.5	(2.7)
Adjustments for accident year loss ratio, as adjusted and accident year combined ratio, as adjusted:			
Catastrophe losses and reinstatement premiums	(7.3)	(6.9)	(0.4)
Prior year development, net of (additional) return premium on loss sensitive business	0.9	0.9	-
Accident year loss ratio, as adjusted	59.2	60.8	(1.6)
Accident year combined ratio, as adjusted	92.4	95.5	(3.1)

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

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

Three Months Ended March 31,			Percentage Change in	
(in millions)	2021	2020	U.S. dollars	Original Currency
North America	$ 2,930	$ 2,699	9 %	8 %
International	3,549	3,222	10	4
Total net premiums written	**$ 6,479**	$ 5,921	9 %	6 %

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
Three Months Ended March 31, 2021				
Flooding and rainstorms	**1**	**$ -**	**$ 10**	**$ 10**
Windstorms and hailstorms	**1**	**10**	**-**	**10**
Winter storms	**2**	**351**	**39**	**390**
Earthquakes	**1**	**-**	**12**	**12**
Total catastrophe-related charges	**5**	**$ 361**	**$ 61**	**$ 422**
Three Months Ended March 31, 2020				
Flooding and rainstorms	2	$ 17	$ 10	$ 27
Windstorms and hailstorms	4	30	64	94
Earthquakes	2	15	11	26
COVID-19	N/A[(c)]	123	149	272
Total catastrophe-related charges	8	$ 185	$ 234	$ 419

(a) Geography: North America primarily includes insurance businesses in the United States, Canada and 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 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 COVID-19 continues to evolve, impacting many lines of business, the number of events is yet to be determined.

NORTH AMERICA RESULTS

Three Months Ended March 31, (in millions)	2021	2020	Percentage Change
Underwriting results:			
Net premiums written	$ 2,930	$ 2,699	9 %
(Increase) decrease in unearned premiums	(542)	32	NM
Net premiums earned	2,388	2,731	(13)
Losses and loss adjustment expenses incurred[(a)]	1,902	1,985	(4)
Acquisition expenses:			
Amortization of deferred policy acquisition costs	307	431	(29)
Other acquisition expenses	95	117	(19)
Total acquisition expenses	402	548	(27)
General operating expenses	286	301	(5)
Underwriting loss	$ (202)	$ (103)	(96)%
Loss ratio[(a)]	79.6	72.7	6.9
Acquisition ratio	16.8	20.1	(3.3)
General operating expense ratio	12.0	11.0	1.0
Expense ratio	28.8	31.1	(2.3)
Combined ratio[(a)]	108.4	103.8	4.6
Adjustments for accident year loss ratio, as adjusted and accident year combined ratio, as adjusted:			
Catastrophe losses and reinstatement premiums	(15.2)	(6.8)	(8.4)
Prior year development, net of (additional) return premium on loss sensitive business	2.4	0.7	1.7
Accident year loss ratio, as adjusted	66.8	66.6	0.2
Accident year combined ratio, as adjusted	95.6	97.7	(2.1)

(a) 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

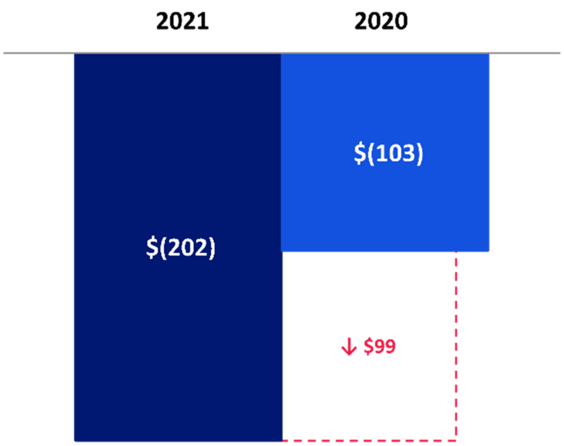
The North America General Insurance business continues to make progress in strengthening our underwriting, actively managing our portfolio to improve business mix and articulating our revised risk appetite to the marketplace. We are leading the industry across multiple lines in terms of driving rate 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.

Underwriting loss increased in the first quarter of 2021 compared to the same period in the prior year primarily due to significantly higher catastrophe losses, partially offset by a lower acquisition ratio driven by changes in business mix including the impact of COVID-19 as well as new quota share reinsurance agreements and more favorable prior year reserve development.

Net premiums written increased in the first quarter of 2021 compared to the same period in the prior year primarily due to growth in Commercial lines driven by higher renewal retentions, strong new business production and continued rate momentum. While increased net premium was recorded across most Commercial Lines, it was particularly strong within our AIG Re, Financial Lines and property businesses. This growth was partially offset by higher ceded premiums due to the new series of quota share reinsurance agreements to reinsure risks related to PCG, the impact of COVID-19 most notably in Travel and underwriting actions taken to improve the portfolio.

For a discussion of 2021 reinsurance programs see Part II, Item 7. MD&A – Enterprise Risk Management in the 2020 Annual Report.

North America Underwriting Income (Loss)
Three Months Ended March 31,
(in millions)



2021 and 2020 Comparison

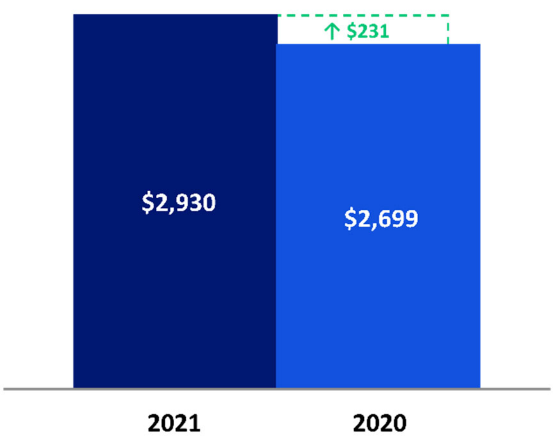
Underwriting loss increased primarily due to:

- significantly higher catastrophe losses, notably as a result of the winter storms.

This increase was partially offset by:

- improvement in the accident year combined ratio, as adjusted driven by improved rates, risk selection and terms and conditions in our Commercial Lines business and lower general operating expenses reflecting ongoing expense discipline; and
- slightly favorable prior year reserve development as compared with adverse development recorded in the prior year quarter.

North America Net Premiums Written
Three Months Ended March 31,
(in millions)



2021 and 2020 Comparison

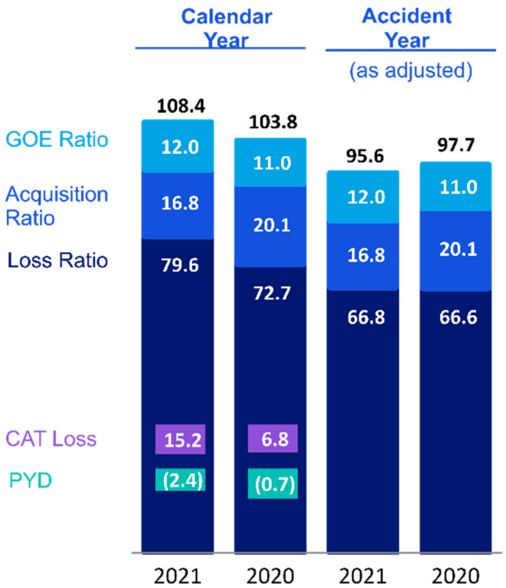
Net premiums written increased primarily due to:

- growth in Commercial Lines, particularly within our AIG Re business, Financial Lines and property businesses, driven by continued rate momentum, higher renewal retentions and strong new business production.

These increases were partially offset by:

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

North America Combined Ratios
Three Months Ended March 31,



2021 and 2020 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:

- significantly higher catastrophe losses.

This increase was partially offset by favorable prior year reserve development, primarily in PCG.

The decrease in the expense ratio reflected:

- a lower acquisition ratio primarily driven by changes in business mix including the impact of COVID-19 most notably in Travel as well as new quota share reinsurance agreements.

This decrease was partially offset by higher general expense ratio primarily due to lower premiums partially offset by ongoing expense discipline.

INTERNATIONAL RESULTS

Three Months Ended March 31, *(in millions)*	2021	2020	Percentage Change
Underwriting results:			
Net premiums written	$ 3,549	$ 3,222	10 %
(Increase) decrease in unearned premiums	(71)	126	NM
Net premiums earned	3,478	3,348	4
Losses and loss adjustment expenses incurred	1,946	2,074	(6)
Acquisition expenses:			
Amortization of deferred policy acquisition costs	566	555	2
Other acquisition expenses	216	228	(5)
Total acquisition expenses	782	783	-
General operating expenses	475	475	-
Underwriting income	$ 275	$ 16	NM%
Loss ratio	56.0	61.9	(5.9)
Acquisition ratio	22.5	23.4	(0.9)
General operating expense ratio	13.7	14.2	(0.5)
Expense ratio	36.2	37.6	(1.4)
Combined ratio	92.2	99.5	(7.3)
Adjustments for accident year loss ratio, as adjusted and accident year combined ratio, as adjusted:			
Catastrophe losses and reinstatement premiums	(1.9)	(7.0)	5.1
Prior year development, net of (additional) return premium on loss sensitive business	(0.1)	1.1	(1.2)
Accident year loss ratio, as adjusted	54.0	56.0	(2.0)
Accident year combined ratio, as adjusted	90.2	93.6	(3.4)

Business and Financial Highlights

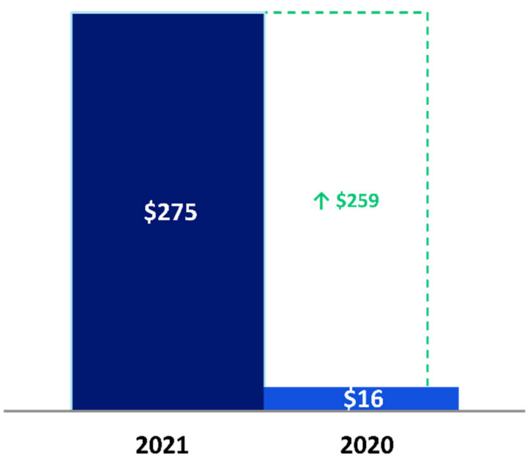
The International General Insurance business is focused on underwriting profits and improved efficiency, further improving underwriting margins, and growing profitably in businesses and geographies that support our growth strategy.

Underwriting income increased in the first quarter of 2021 compared to the same period in the prior year primarily due to significantly lower catastrophe losses, lower accident year loss ratio, as adjusted primarily due to strong premium rate increases across most Commercial Lines, benefits from underwriting actions and better risk selection and a lower acquisition ratio, partially offset by unfavorable prior year reserve development compared to favorable prior year reserve development in the first quarter of 2020.

Net premiums written, excluding the impact of foreign exchange, increased in the first quarter of 2021 compared to the same period in the prior year primarily due to rate increases across most Commercial Lines, in particular Property and Financial Lines, growth in Financial Lines and Warranty, partially offset by the impact of COVID-19, most notably in Personal Lines.

For a discussion of 2021 reinsurance programs see Part II, Item 7 MD&A – Enterprise Risk Management in the 2020 Annual Report.

International Underwriting Income (Loss)
Three Months Ended March 31,
(in millions)



2021 and 2020 Comparison

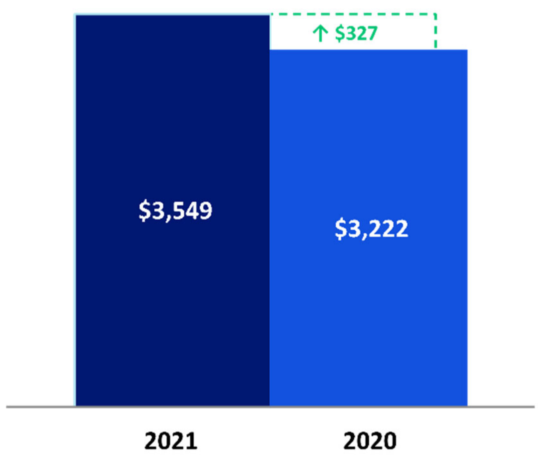
Underwriting income increased primarily due to:

- significantly lower catastrophe losses;
- lower accident year loss ratio, as adjusted primarily driven by strong premium rate increases across most Commercial Lines, benefits from underwriting actions and better risk selection; and
- a lower acquisition ratio primarily driven by change in business mix and changes in 2021 reinsurance program.

These increases were partially offset by:

- unfavorable prior year reserve development compared to favorable prior year reserve development in casualty in the prior year.

International Net Premiums Written
Three Months Ended March 31,
(in millions)



2021 and 2020 Comparison

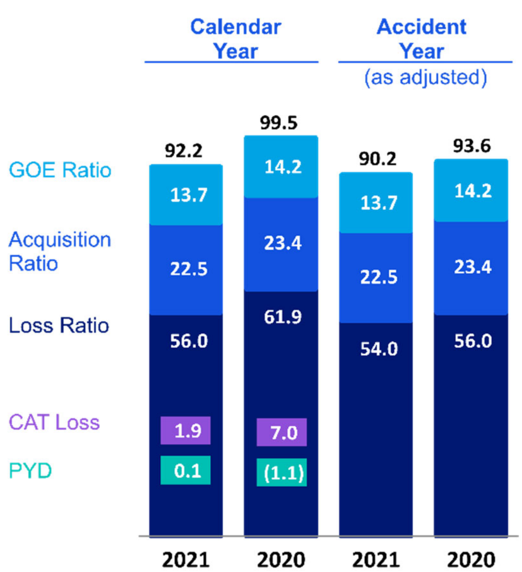
Net premiums written, excluding the impact of foreign exchange, increased due to:

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

These increases were partially offset by:

- the impact of COVID-19, most notably in Personal Lines.

International Combined Ratios
Three Months Ended March 31,



2021 and 2020 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; and
- lower accident year loss ratio, as adjusted primarily driven by strong premium rate increases across most Commercial Lines, benefits from underwriting actions and better risk selection.

These decreases were partially offset by unfavorable prior year reserve development compared to favorable prior year reserve development in casualty in the prior year.

The decrease in the expense ratio reflected a lower acquisition ratio primarily driven by change in business mix, changes in 2021 reinsurance program and a lower general operating expense ratio due to higher premiums and ongoing expense discipline.

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. *For further details on the Sale of Certain Assets of the Retail Mutual Funds Business, see Executive Summary – Overview.*

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.

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 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 worldwide health and economic impact of COVID-19 continues to evolve, influenced by the scope, severity and duration of the crisis as well as the actions of governments, judiciaries, legislative bodies, regulators and other third parties in response, as well as the distribution and effectiveness of vaccinations, all of which are subject to continuing uncertainty. The impact on the results for the first quarter of 2021 with respect to COVID-19 is primarily but not limited to related COVID-19 mortality.

On October 26, 2020, AIG announced its intention to separate its Life and Retirement business from AIG. 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. While we currently believe an initial public offering represents an optimal path, 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.

On February 8, 2021, we announced we entered into a definitive agreement with Touchstone, an indirect wholly-owned subsidiary of Western & Southern Financial Group, to sell certain assets of AIG Life and Retirement's Retail Mutual Funds business. As of March 31, 2021, AIG Life and Retirement's Retail Mutual Funds business managed $7.6 billion in assets across eighteen funds. Pursuant to the definitive agreement, twelve retail mutual funds with $7.4 billion in assets will be reorganized into Touchstone funds. The transaction closing is subject to customary regulatory and fund shareholder approvals and is targeted for mid-2021. Six retail mutual funds with $0.2 billion in assets, excluding fund of funds, managed by AIG Life and Retirement and not included in the transaction will be wound down and liquidated. AIG Life and Retirement will retain its fund management platform and capabilities dedicated to its variable insurance products.

For additional information please see the 2020 Annual Report, 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 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 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

Three Months Ended March 31, (in millions)	2021	2020	Percentage Change
Revenues:			
Premiums	$ 600	$ 1,267	(53)%
Policy fees	783	733	7
Net investment income	2,353	2,066	14
Advisory fee and other income	244	220	11
Total adjusted revenues	3,980	4,286	(7)
Benefits, losses and expenses:			
Policyholder benefits and losses incurred	1,257	1,789	(30)
Interest credited to policyholder account balances	870	897	(3)
Amortization of deferred policy acquisition costs	225	322	(30)
General operating and other expenses*	653	635	3
Interest expense	34	42	(19)
Total benefits, losses and expenses	3,039	3,685	(18)
Adjusted pre-tax income	$ 941	$ 601	57 %

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

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

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

INDIVIDUAL RETIREMENT RESULTS

Three Months Ended March 31, (in millions)	2021	2020	Percentage Change
Revenues:			
Premiums	$ 25	$ 41	(39)%
Policy fees	232	207	12
Net investment income	1,068	973	10
Advisory fee and other income	152	147	3
Benefits and expenses:			
Policyholder benefits and losses incurred	116	138	(16)
Interest credited to policyholder account balances	426	443	(4)
Amortization of deferred policy acquisition costs	133	221	(40)
Non deferrable insurance commissions	88	79	11
Advisory fee expenses	52	52	-
General operating expenses	114	110	4
Interest expense	16	20	(20)
Adjusted pre-tax income (loss)	$ 532	$ 305	74 %
Fixed annuities base net investment spread:			
Base yield*	3.99 %	4.36 %	(37) bps
Cost of funds	2.62	2.61	1
Fixed annuities base net investment spread	1.37 %	1.75 %	(38) bps

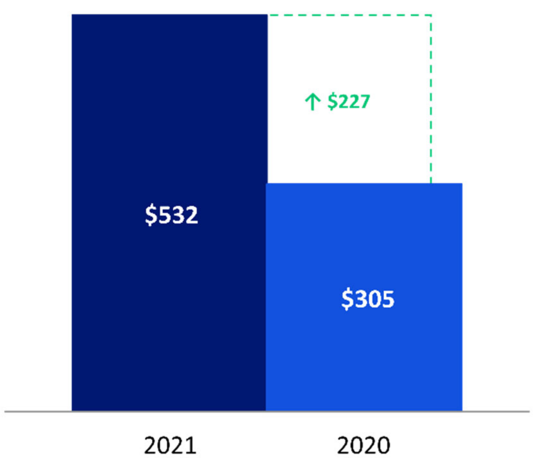
* Includes returns from base portfolio including accretion and income (loss) from certain other invested assets.

Business and Financial Highlights

The market environment continues to reflect uncertainties in the annuity business resulting from a low interest rate environment as well as the COVID-19 crisis. Premiums and deposits increased in the first quarter of 2021 compared to the same period in the prior year. Net flows improved in the first quarter of 2021 compared to the same period in the prior year primarily due to higher sales in variable and index annuities, as well as lower retail mutual fund surrenders and withdrawals, partially offset by lower retail mutual fund sales and higher annuity surrenders and withdrawals.

Adjusted pre-tax income increased in the first quarter of 2021 compared to the same period in the prior year, primarily driven by decreases in variable annuity DAC/SIA amortization and reserves, higher net investment income driven by higher yield enhancement and alternative investment income, and higher policy and advisory fee income. Partially offsetting these increases was lower income resulting from decreased reinvestment rates on the base portfolio.

Individual Retirement Adjusted Pre-Tax Income (Loss)
Three Months Ended March 31,
(in millions)



2021 and 2020 Comparison

Adjusted pre-tax income increased primarily due to:

- decreases in variable annuity DAC/SIA amortization and reserves due to stronger equity market performance;
- increase in net investment income driven by higher private equity and hedge fund income, higher gains on securities for which the fair value option was elected, and higher call and tender income, partially offset by lower income resulting from decreased reinvestment rates on the base portfolio; and
- higher policy and advisory fee income, due to an increase in separate account assets.

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

For Individual Retirement, premiums primarily represent amounts received on life-contingent payout annuities. Premiums decreased in the first quarter of 2021 compared to the same period in the prior year. 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.

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

Three Months Ended March 31, *(in millions)*	2021	2020
Premiums	$ 25	$ 41
Deposits	3,349	3,079
Other	(1)	(4)
Premiums and deposits	**$ 3,373**	$ 3,116

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

Three Months Ended March 31,	2021	2020
Surrenders as a percentage of average reserves		
Fixed annuities	7.1 %	6.6 %
Variable and index annuities	6.4	6.5
Variable annuities	7.1	7.3
Index annuities	4.8	4.2

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

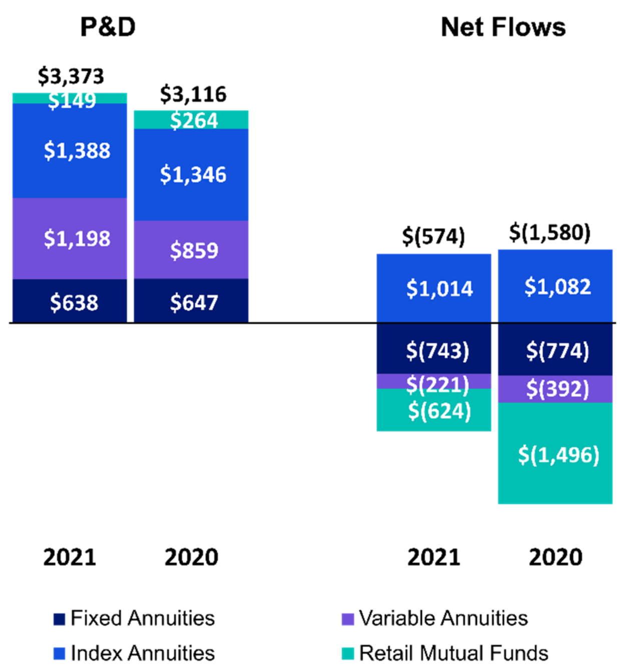
	March 31, 2021		December 31, 2020*	
(in millions)	Fixed Annuities	Variable and Index Annuities	Fixed Annuities	Variable and Index Annuities
No surrender charge	$ 27,226	$ 31,325	$ 27,110	$ 30,954
Greater than 0% - 2%	2,009	11,392	2,298	11,647
Greater than 2% - 4%	2,929	14,950	2,758	15,361
Greater than 4%	15,665	32,465	16,163	32,261
Non-surrenderable	2,210	-	2,214	-
Total reserves	$ 50,039	$ 90,132	$ 50,543	$ 90,223

* Certain reclassifications have been made to the prior year amounts for consistency with the current year presentation.

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 March 31, 2021 decreased compared to December 31, 2020. The increase in reserves with no surrender charge for variable and index annuities at March 31, 2021 compared to December 31, 2020 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
Three Months Ended March 31,
(in millions)



2021 and 2020 Comparison

- **Fixed Annuities** premiums and deposits decreased primarily due to the low interest rate environment. Net flows remained negative.
- **Variable and Index Annuities** premiums and deposits increased primarily due to higher variable annuity sales driven by growth in independent and regional broker dealers, and higher index annuity sales driven by growth in wirehouse and bank channels. Variable annuity net flows remained negative but improved primarily due to an increase in sales partially offset by higher surrenders and death benefits. Index annuity net flows decreased primarily due to higher surrenders and death benefits, partially offset by higher sales.
- **Retail Mutual Funds** premiums and deposits decreased due to investors' continued preference for passive, low-fee investment vehicles, the distribution channel disruptions related to COVID-19 and reduction of flows within our largest fund. Net flows remained negative but significantly improved due to lower surrenders partially offset by lower deposits.

GROUP RETIREMENT RESULTS

Three Months Ended March 31, (in millions)	2021	2020	Percentage Change
Revenues:			
Premiums	$ 4	$ 6	(33)%
Policy fees	124	109	14
Net investment income	600	517	16
Advisory fee and other income	78	62	26
Benefits and expenses:			
Policyholder benefits and losses incurred	18	33	(45)
Interest credited to policyholder account balances	283	281	1
Amortization of deferred policy acquisition costs	16	35	(54)
Non deferrable insurance commissions	29	28	4
Advisory fee expenses	31	24	29
General operating expenses	113	139	(19)
Interest expense	9	11	(18)
Adjusted pre-tax income (loss)	$ 307	$ 143	115 %
Base net investment spread:			
Base yield*	4.10 %	4.39 %	(29)bps
Cost of funds	2.62	2.69	(7)
Base net investment spread	1.48 %	1.70 %	(22)bps

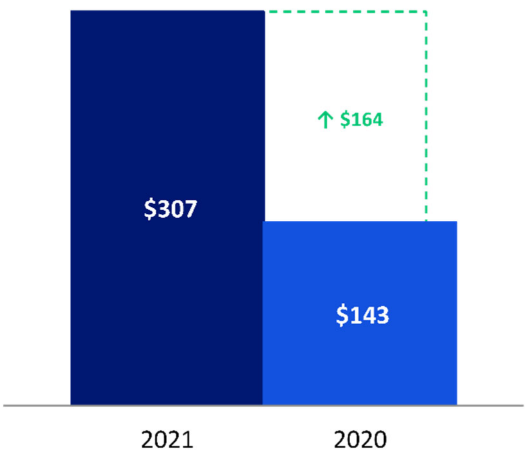
* Includes returns from base portfolio including accretion and income (loss) from certain other invested assets.

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 slightly decreased in the first quarter of 2021 compared to the same period in the prior year. Net flows remained negative and deteriorated in the first quarter of 2021 compared to the same period in 2020 primarily due to higher surrenders.

Adjusted pre-tax income increased in the first quarter of 2021 compared to the same period in 2020 primarily from higher net investment returns in our alternative portfolio, higher yield enhancement income, decreases in variable annuity DAC amortization and reserves, lower general operating expenses and higher policy and advisory fee income. Partially offsetting these increases was lower income resulting from decreased reinvestment rates on the base portfolio.

Group Retirement Adjusted Pre-Tax Income (Loss)
Three Months Ended March 31,
(in millions)



2021 and 2020 Comparison

Adjusted pre-tax income increased primarily due to :

- higher net investment income, primarily driven by higher private equity returns, higher gains on calls and higher gains on securities for which the fair value option was elected;
- decreases in variable annuity DAC amortization and reserves due to stronger equity market performance;
- lower general operating expenses primarily due to decreased regulatory expenses and savings from COVID-19 travel restrictions; 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 income resulting from decreased reinvestment rates on the base portfolio partially offset by higher average invested assets and lower interest credited.

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

For Group Retirement, premiums primarily represent amounts received on life-contingent payout annuities. Premiums in the first quarter of 2021, which primarily represents immediate annuities, decreased compared to the same period in the prior year. 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.

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

Three Months Ended March 31, *(in millions)*	**2021**	2020
Premiums	**$ 4**	$ 6
Deposits	**1,814**	1,849
Premiums and deposits	**$ 1,818**	$ 1,855

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

Three Months Ended March 31,	**2021**	2020
Surrenders as a percentage of average reserves and mutual funds	**8.9 %**	9.4 %

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

(in millions)		March 31, 2021[(a)]		December 31, 2020[(a)]
No surrender charge[(b)]	$	78,487	$	77,507
Greater than 0% - 2%		632		565
Greater than 2% - 4%		749		829
Greater than 4%		6,236		6,119
Non-surrenderable		721		616
Total reserves	$	86,825	$	85,636

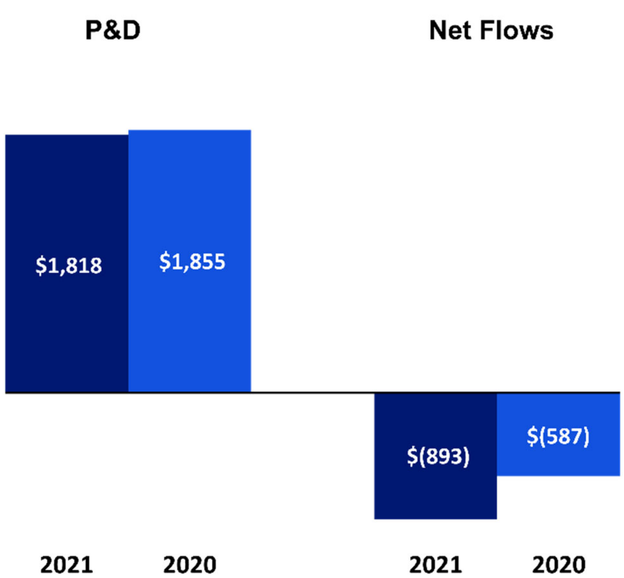
(a) Excludes mutual fund assets under administration of $25.9 billion and $25.0 billion at March 31, 2021 and December 31, 2020, respectively.

(b) Group Retirement amounts in this category include general account reserves of approximately $6.4 billion and $6.3 billion at March 31, 2021 and December 31, 2020 respectively, which are subject to 20 percent annual withdrawal limitations at the participant level and general account reserves of $5.8 billion at both March 31, 2021 and December 31, 2020, 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 March 31, 2021, Group Retirement annuity reserves with no surrender charge increased compared to December 31, 2020 primarily due to growth in assets under management.

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

Group Retirement Premiums and Deposits and Net Flows
Three Months Ended March 31,
(in millions)



2021 and 2020 Comparison

Net flows remained negative and deteriorated due to higher surrenders. There were approximately $0.4 billion of large plan related surrenders in the first quarter of 2021 compared to approximately $0.2 billion of large plan related surrenders in the same period in the prior year. External factors including consolidation of healthcare providers and other employers in target markets continue to impact Group Retirement customer retention.

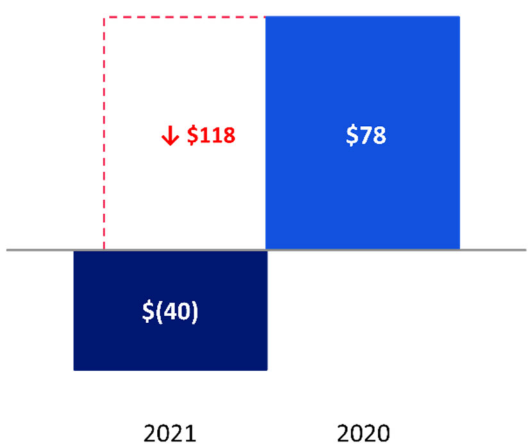
LIFE INSURANCE RESULTS

Three Months Ended March 31, *(in millions)*	2021	2020	Percentage Change
Revenues:			
Premiums	$ 532	$ 463	15 %
Policy fees	380	371	2
Net investment income	407	355	15
Other income	14	11	27
Benefits and expenses:			
Policyholder benefits and losses incurred	1,004	778	29
Interest credited to policyholder account balances	88	93	(5)
Amortization of deferred policy acquisition costs	75	65	15
Non deferrable insurance commissions	33	28	18
General operating expenses	166	150	11
Interest expense	7	8	(13)
Adjusted pre-tax income (loss)	$ (40)	$ 78	NM%

Business and Financial Highlights

Life Insurance is focused on selling profitable new products through strategic channels to enhance future returns. Adjusted pre-tax loss in the first quarter of 2021 compared to adjusted pre-tax income in the same period in the prior year was primarily due to higher mortality driven by COVID-19 partially offset by higher net investment income.

Life Insurance Adjusted Pre-Tax Income (Loss)
Three Months Ended March 31,
(in millions)



2021 and 2020 Comparison

Adjusted pre-tax loss compared to adjusted pre-tax income primarily due to:

- higher mortality driven by COVID-19.

Partially offset by:

- higher net investment income, primarily driven by higher gains on calls and higher equity partnership income due to stronger equity market performance.

LIFE INSURANCE GAAP PREMIUMS AND PREMIUMS AND DEPOSITS

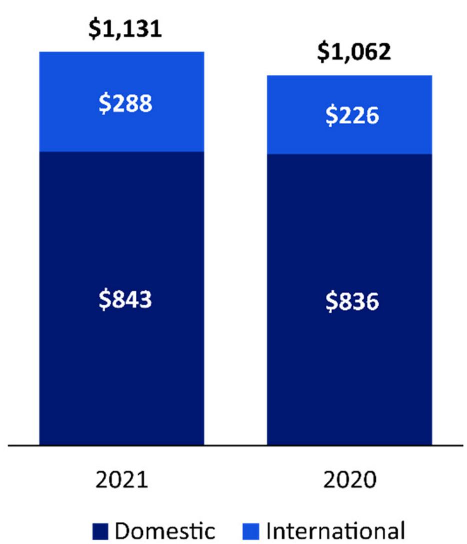
Premiums for Life Insurance represent amounts received on traditional life insurance policies, primarily term life and international life and health. Premiums, excluding the effect of foreign exchange, increased in the first quarter of 2021 compared to the same period in the prior year. Premiums and 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:

Three Months Ended March 31, *(in millions)*	**2021**	2020
Premiums	**$ 532**	$ 463
Deposits	**397**	403
Other	**202**	196
Premiums and deposits	**$ 1,131**	$ 1,062

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

Life Insurance Premiums and Deposits
Three Months Ended March 31,
(in millions)



2021 and 2020 Comparison

Premiums and deposits, excluding the effect of foreign exchange, increased primarily due to growth in international life and group premiums.

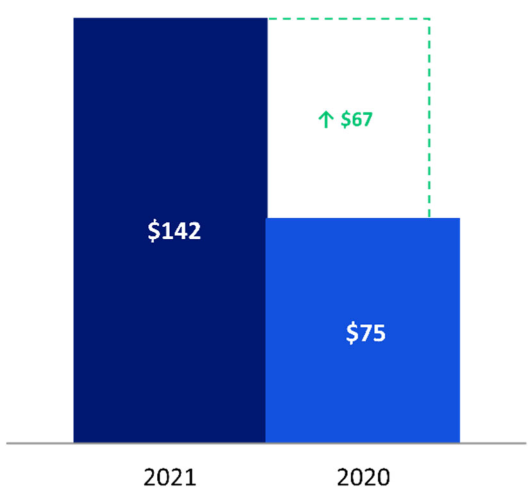
INSTITUTIONAL MARKETS RESULTS

Three Months Ended March 31, *(in millions)*		2021		2020	Percentage Change
Revenues:					
Premiums	$	39	$	757	(95)%
Policy fees		47		46	2
Net investment income		278		221	26
Benefits and expenses:					
Policyholder benefits and losses incurred		119		840	(86)
Interest credited to policyholder account balances		73		80	(9)
Amortization of deferred policy acquisition costs		1		1	-
Non deferrable insurance commissions		7		8	(13)
General operating expenses		20		17	18
Interest expense		2		3	(33)
Adjusted pre-tax income (loss)	$	142	$	75	89 %

Business and Financial Highlights

Institutional Markets is focused on opportunities to grow its portfolio while maintaining pricing discipline. Product distribution continues to be strong. Growth in assets under management in recent years has partially driven higher net investment income and adjusted pre-tax income in the first quarter of 2021, compared to the same period in the prior year.

Institutional Markets Adjusted Pre-Tax Income (Loss)
Three Months Ended March 31,
(in millions)



2021 and 2020 Comparison

Decrease in premiums and policyholder benefits were primarily due to lower pension risk transfer business written in 2021 compared to 2020.

Adjusted pre-tax income increased primarily due to:

- higher alternative investment returns due to higher equity partnership returns and yield enhancement income due to higher gains on call and tender income; and
- higher average invested assets and lower interest credited.

INSTITUTIONAL MARKETS GAAP PREMIUMS AND PREMIUMS AND DEPOSITS

Premiums for Institutional Markets primarily represent amounts received on pension risk transfer or structured settlement annuities with life contingencies. Premiums decreased in the first quarter of 2021 compared to the same period in the prior year primarily driven by pension risk transfer business (direct and assumed reinsurance) written in the first quarter of 2020.

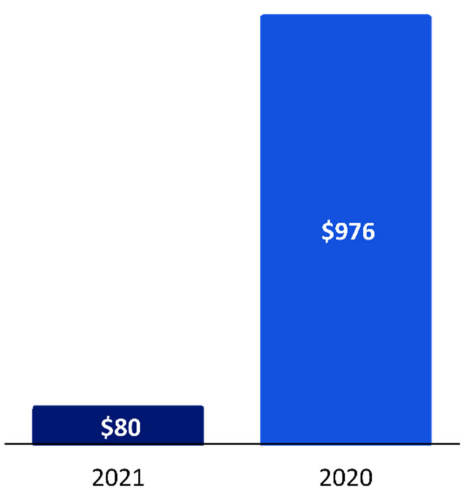
Premiums and deposits for Institutional Markets is a non-GAAP financial measure that includes direct and assumed premiums as well as deposits received on investment-type annuity contracts, including GICs. Deposits also include FHLB funding agreements.

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

Three Months Ended March 31, *(in millions)*	**2021**	2020
Premiums	**$ 39**	$ 757
Deposits	**34**	211
Other	**7**	8
Premiums and deposits	**$ 80**	$ 976

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

Institutional Markets Premiums and Deposits
Three Months Ended March 31,
(in millions)



2021 and 2020 Comparison

Premiums and deposits decreased due to lower pension risk transfer (direct and assumed reinsurance) and structured settlement sales, and lower deposits on GICs and high net worth products.

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 as well as the historical results of our legacy insurance lines ceded to Fortitude Re.

OTHER OPERATIONS RESULTS

Three Months Ended March 31, *(in millions)*	2021	2020	Percentage Change
Revenues:			
Premiums	$ 52	$ 104	(50)%
Policy fees	-	21	NM
Net investment income:			
Interest and dividends	50	478	(90)
Alternative investments	207	(23)	NM
Other investment income (loss)	(2)	(248)	99
Investment expenses	(6)	(17)	65
Total net investment income	249	190	31
Other income	23	-	NM
Total adjusted revenues	324	315	3
Benefits, losses and expenses:			
Policyholder benefits and losses incurred	66	449	(85)
Interest credited to policyholder account balances	-	49	NM
Acquisition expenses:			
Amortization of deferred policy acquisition costs	10	18	(44)
Other acquisition expenses	-	1	NM
Total acquisition expenses	10	19	(47)
General operating expenses			
Corporate and Other	241	286	(16)
Asset Management	35	16	119
Amortization of intangible assets	10	10	-
Total General operating expenses	286	312	(8)
Interest expense:			
Interest - Corporate and Other	272	273	-
Interest - Asset Management*	44	48	(8)
Total interest expense	316	321	(2)
Total benefits, losses and expenses	678	1,150	(41)
Adjusted pre-tax income (loss) before consolidation and eliminations	(354)	(835)	58
Consolidation and eliminations	(176)	(87)	(102)
Adjusted pre-tax loss	$ (530)	$ (922)	43 %
Adjusted pre-tax income (loss) by activities:			
Corporate and Other	$ (552)	$ (879)	37 %
Asset Management	198	44	350
Consolidation and eliminations	(176)	(87)	(102)
Adjusted pre-tax loss	$ (530)	$ (922)	43 %

* Interest – Asset Management primarily represents interest expense on consolidated investment entities of $41 million and $46 million in the three-month periods ended March 31, 2021 and 2020, respectively.

2021 AND 2020 COMPARISON

Adjusted pre-tax loss decreased primarily due to:

- higher net investment income associated with consolidated investment entities; and
- lower premiums and policyholder benefits and losses incurred due to the deconsolidation of Fortitude Re on June 2, 2020.

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 worldwide health and economic impact of COVID-19 continues to evolve, influenced by the scope, severity and duration of the crisis as well as the actions of governments, judiciaries, legislative bodies, regulators and other third parties in response, including the distribution and effectiveness of vaccinations, all of which are subject to continuing uncertainty. Weak initial 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 sectors 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 new business closures are imposed or economic conditions worsen in response to a future resurgence of the virus.

INVESTMENT HIGHLIGHTS IN THE FIRST QUARTER OF 2021

- A significant rise in interest rates resulted in a net unrealized loss movement in our investment portfolio. Net unrealized gains in our available for sale portfolio decreased to approximately $15.7 billion as of March 31, 2021 from approximately $27.4 billion as of December 31, 2020.
- 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 an increase in net investment income in the three-month period ended March 31, 2021 compared to the three-month period ended March 31, 2020 due primarily to the higher income on our alternative investments and fair value option equity security holdings that directionally followed the positive returns achieved in equity markets. The same period in the prior year experienced significant volatility and declines in equity markets.
- Blended investment yields on new investments were lower than blended rates on investments that were sold, matured or called.

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 3.7 years. Fixed maturity securities of the General Insurance companies' International operations have an average duration of 4.3 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 8.6 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:

March 31, 2021
(in millions)

NAIC Designation	1	2	Total Investment Grade	3	4	5	6	Total Below Investment Grade	Total
Other fixed maturity securities	$ 97,612	$ 84,422	$ 182,034	$ 9,677	$ 7,638	$ 1,474	$ 113	$ 18,902	$ 200,936
Mortgage-backed, asset-backed and collateralized	60,379	4,282	64,661	281	100	44	1,949	2,374	67,035
Total*	$ 157,991	$ 88,704	$ 246,695	$ 9,958	$ 7,738	$ 1,518	$ 2,062	$ 21,276	$ 267,971

* Excludes $14 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:

March 31, 2021
(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	$ 101,370	$ 80,543	$ 181,913	$ 9,305	$ 7,276	$ 2,442	$ 19,023	$ 200,936
Mortgage-backed, asset-backed and collateralized	51,261	4,667	55,928	579	377	10,151	11,107	67,035
Total*	$ 152,631	$ 85,210	$ 237,841	$ 9,884	$ 7,653	$ 12,593	$ 30,130	$ 267,971

* Excludes $14 million of fixed maturity securities for which no NAIC Designation is available.

CREDIT RATINGS

At March 31, 2021, approximately 88 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 March 31, 2021, 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 26 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 Part II, Item 7. MD&A – Enterprise Risk Management – Credit Risk Management in the 2020 Annual Report.

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)	**March 31, 2021**	December 31, 2020	**March 31, 2021**	December 31, 2020	**March 31, 2021**	December 31, 2020
Rating:						
Other fixed maturity securities						
AAA	**$ 11,266**	$ 11,758	**$ 1,709**	$ 1,803	**$ 12,975**	$ 13,561
AA	**34,926**	36,146	**42**	42	**34,968**	36,188
A	**53,414**	57,255	**12**	12	**53,426**	57,267
BBB	**80,544**	80,878	**-**	-	**80,544**	80,878
Below investment grade	**17,970**	18,087	**-**	-	**17,970**	18,087
Non-rated	**1,067**	769	**-**	-	**1,067**	769
Total	**$ 199,187**	$ 204,893	**$ 1,763**	$ 1,857	**$ 200,950**	$ 206,750
Mortgage-backed, asset-backed and collateralized						
AAA	**$ 29,266**	$ 31,133	**$ 310**	$ 347	**$ 29,576**	$ 31,480
AA	**14,972**	15,287	**179**	195	**15,151**	15,482
A	**6,391**	6,711	**144**	145	**6,535**	6,856
BBB	**4,347**	4,137	**320**	343	**4,667**	4,480
Below investment grade	**8,822**	9,281	**2,002**	2,165	**10,824**	11,446
Non-rated	**27**	54	**255**	239	**282**	293
Total	**$ 63,825**	$ 66,603	**$ 3,210**	$ 3,434	**$ 67,035**	$ 70,037
Total						
AAA	**$ 40,532**	$ 42,891	**$ 2,019**	$ 2,150	**$ 42,551**	$ 45,041
AA	**49,898**	51,433	**221**	237	**50,119**	51,670
A	**59,805**	63,966	**156**	157	**59,961**	64,123
BBB	**84,891**	85,015	**320**	343	**85,211**	85,358
Below investment grade	**26,792**	27,368	**2,002**	2,165	**28,794**	29,533
Non-rated	**1,094**	823	**255**	239	**1,349**	1,062
Total	**$ 263,012**	$ 271,496	**$ 4,973**	$ 5,291	**$ 267,985**	$ 276,787

Available-for-Sale Investments

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

(in millions)	**Fair Value at March 31, 2021**	Fair Value at December 31, 2020
Bonds available for sale:		
U.S. government and government sponsored entities	**$ 3,977**	$ 4,126
Obligations of states, municipalities and political subdivisions	**15,139**	16,124
Non-U.S. governments	**15,187**	15,345
Corporate debt	**164,884**	169,298
Mortgage-backed, asset-backed and collateralized:		
RMBS	**30,108**	31,465
CMBS	**15,149**	16,133
CDO/ABS	**18,568**	19,005
Total mortgage-backed, asset-backed and collateralized	**63,825**	66,603
Total bonds available for sale*	**$ 263,012**	$ 271,496

* At March 31, 2021 and December 31, 2020, the fair value of bonds available for sale held by us that were below investment grade or not rated totaled $27.9 billion and $28.2 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)	March 31, 2021	December 31, 2020
Japan	$ 1,407	$ 1,510
Canada	1,159	986
United Kingdom	771	820
France	715	790
Germany	626	642
Indonesia	552	554
Israel	521	535
United Arab Emirates	483	519
Chile	421	398
Qatar	397	410
Other	8,135	8,181
Total	$ 15,187	$ 15,345

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

	March 31, 2021					
(in millions)	Sovereign	Financial Institution	Non-Financial Corporates	Structured Products	Total	December 31, 2020 Total
Euro-Zone countries:						
France	$ 715	$ 1,806	$ 1,400	$ -	$ 3,921	$ 4,206
Germany	626	201	2,760	-	3,587	3,691
Netherlands	230	1,058	1,228	82	2,598	2,804
Ireland	12	137	494	1,441	2,084	2,162
Belgium	135	253	1,096	-	1,484	1,538
Spain	26	355	511	-	892	989
Luxembourg	86	260	433	-	779	712
Italy	21	79	472	-	572	580
Finland	78	27	42	-	147	123
Austria	64	-	-	-	64	93
Other Euro-Zone	548	97	253	-	898	928
Total Euro-Zone	$ 2,541	$ 4,273	$ 8,689	$ 1,523	$ 17,026	$ 17,826
Remainder of Europe:						
United Kingdom	$ 771	$ 4,286	$ 9,570	$ 2,051	$ 16,678	$ 17,066
Switzerland	19	944	733	-	1,696	1,778
Sweden	158	264	134	-	556	646
Norway	355	55	120	-	530	556
Russian Federation	169	21	199	-	389	407
Other - Remainder of Europe	63	47	155	-	265	227
Total - Remainder of Europe	$ 1,535	$ 5,617	$ 10,911	$ 2,051	$ 20,114	$ 20,680
Total	$ 4,076	$ 9,890	$ 19,600	$ 3,574	$ 37,140	$ 38,506

Investments in Municipal Bonds

At March 31, 2021, 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:

	March 31, 2021				
(in millions)	State General Obligation	Local General Obligation	Revenue	Total Fair Value	December 31, 2020 Total Fair Value
State:					
California	$ 710	$ 396	$ 1,968	$ 3,074	$ 3,301
New York	7	282	2,638	2,927	3,135
Texas	95	494	899	1,488	1,553
Illinois	88	101	884	1,073	1,106
Massachusetts	414	1	343	758	800
Ohio	24	-	478	502	542
Georgia	106	71	286	463	494
Florida	6	-	414	420	436
Washington	166	6	230	402	413
Virginia	9	-	373	382	456
Pennsylvania	17	2	345	364	399
Washington, D.C.	11	-	279	290	328
New Jersey	12	1	267	280	269
All other states(a)	333	232	2,151	2,716	2,892
Total(b)(c)	$ 1,998	$ 1,586	$ 11,555	$ 15,139	$ 16,124

(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 $635 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 March 31, 2021	Fair Value at December 31, 2020
Financial institutions:		
Money center/Global bank groups	$ 10,167	$ 10,512
Regional banks – other	594	627
Life insurance	2,981	3,175
Securities firms and other finance companies	306	312
Insurance non-life	5,759	5,805
Regional banks – North America	7,039	7,505
Other financial institutions	15,690	15,581
Utilities	22,674	23,470
Communications	10,781	11,137
Consumer noncyclical	23,582	24,826
Capital goods	8,683	8,773
Energy	12,936	13,293
Consumer cyclical	12,659	13,213
Basic	5,866	5,894
Other	25,167	25,175
Total*	$ 164,884	$ 169,298

* At March 31, 2021 and December 31, 2020, respectively, approximately 89 percent and 90 percent of these investments were rated investment grade.

Our investments in the energy category, as a percentage of total investments in available-for-sale fixed maturities, was 4.9 percent at both March 31, 2021 and December 31, 2020, 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 March 31, 2021**		Fair Value at December 31, 2020
Agency RMBS	**$**	**14,907**	$	15,816
Alt-A RMBS		**7,062**		7,278
Subprime RMBS		**2,483**		2,575
Prime non-agency		**3,720**		3,847
Other housing related		**1,936**		1,949
Total RMBS[(a)(b)]	**$**	**30,108**	$	31,465

(a) Includes approximately $7.3 billion and $7.6 billion at March 31, 2021 and December 31, 2020, respectively, of certain RMBS that had experienced deterioration in credit quality since their origination. *For additional discussion on Purchased Credit Impaired Securities see Note 5 to the Condensed Consolidated Financial Statements*.

(b) The weighted average expected life was five years at March 31, 2021 and five years at December 31, 2020.

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 March 31, 2021**		Fair Value at December 31, 2020
CMBS (traditional)	**$**	**12,188**	$	12,917
Agency		**1,868**		2,078
Other		**1,093**		1,138
Total	**$**	**15,149**	$	16,133

The fair value of CMBS holdings remained stable during the first quarter of 2021. 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 March 31, 2021**		Fair value at December 31, 2020
Collateral Type:				
ABS	**$**	**8,992**	$	9,178
Bank loans (collateralized loan obligation)		**9,557**		9,793
Other		**19**		34
Total	**$**	**18,568**	$	19,005

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:

March 31, 2021	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	$ 45,880	$ 1,830	6,435	$ 67	$ 14	4	$ 5	$ 5	1	$ 45,952	$ 1,849	6,440
7-11 months	4,520	312	556	221	52	7	-	-	-	4,741	364	563
12 months or more	4,462	152	641	70	22	11	2	1	1	4,534	175	653
Total	$ 54,862	$ 2,294	7,632	$ 358	$ 88	22	$ 7	$ 6	2	$ 55,227	$ 2,388	7,656
Below investment grade bonds												
0-6 months	$ 3,803	$ 69	1,795	$ 23	$ 8	11	$ 18	$ 13	14	$ 3,844	$ 90	1,820
7-11 months	794	26	236	21	7	15	3	3	4	818	36	255
12 months or more	4,128	187	996	372	85	35	22	17	11	4,522	289	1,042
Total	$ 8,725	$ 282	3,027	$ 416	$ 100	61	$ 43	$ 33	29	$ 9,184	$ 415	3,117
Total bonds												
0-6 months	$ 49,683	$ 1,899	8,230	$ 90	$ 22	15	$ 23	$ 18	15	$ 49,796	$ 1,939	8,260
7-11 months	5,314	338	792	242	59	22	3	3	4	5,559	400	818
12 months or more	8,590	339	1,637	442	107	46	24	18	12	9,056	464	1,695
Total[e]	$ 63,587	$ 2,576	10,659	$ 774	$ 188	83	$ 50	$ 39	31	$ 64,411	$ 2,803	10,773

(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 March 31, 2021.

(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 $13 million for investment grade bonds and $109 million for below investment grade bonds as of March 31, 2021.

Change in Unrealized Gains and Losses on Investments

The change in net unrealized gains and losses on investments in the first quarter of 2021 was primarily attributable to decreases in the fair value of fixed maturity securities. For the first quarter of 2021, net unrealized gains related to fixed maturity securities decreased by $11.6 billion due primarily to an increase in interest rates.

The change in net unrealized gains and losses on investments in the first quarter of 2020 was primarily attributable to decreases in the fair value of fixed maturity securities. For the first quarter of 2020, net unrealized gains related to fixed maturity securities decreased by $10.5 billion due primarily to a significant widening of credit spreads.

For further discussion of our investment portfolio see Note 5 to the Condensed Consolidated Financial Statements.

Commercial Mortgage Loans

At March 31, 2021, 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:

	Number	Class							Percent
(dollars in millions)	of Loans	Apartments	Offices	Retail	Industrial	Hotel	Others	Total	of Total
March 31, 2021									
State:									
New York	**107**	**$ 2,509**	**$ 5,193**	**$ 463**	**$ 443**	**$ 103**	**$ -**	**$ 8,711**	**24 %**
California	**65**	**840**	**1,346**	**247**	**525**	**773**	**32**	**3,763**	**10**
New Jersey	**47**	**1,797**	**31**	**423**	**96**	**12**	**33**	**2,392**	**7**
Texas	**51**	**624**	**1,147**	**169**	**105**	**144**	**-**	**2,189**	**6**
Florida	**69**	**420**	**152**	**495**	**214**	**216**	**-**	**1,497**	**4**
Massachusetts	**12**	**534**	**226**	**548**	**26**	**-**	**-**	**1,334**	**4**
Illinois	**21**	**559**	**573**	**10**	**17**	**-**	**22**	**1,181**	**3**
Washington, D.C.	**13**	**476**	**212**	**-**	**-**	**19**	**-**	**707**	**2**
Pennsylvania	**21**	**79**	**17**	**485**	**76**	**25**	**-**	**682**	**2**
Ohio	**23**	**170**	**10**	**180**	**260**	**-**	**-**	**620**	**2**
Other states	**180**	**1,980**	**717**	**1,160**	**680**	**390**	**-**	**4,927**	**13**
Foreign	**82**	**4,153**	**1,018**	**1,023**	**1,266**	**580**	**375**	**8,415**	**23**
Total*	**691**	**$ 14,141**	**$ 10,642**	**$ 5,203**	**$ 3,708**	**$ 2,262**	**$ 462**	**$ 36,418**	**100 %**
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 %

* Does not reflect allowance for credit losses.

For additional discussion on commercial mortgage loans see Note 7 to the Consolidated Financial Statements in the 2020 Annual Report.

Net Realized Capital Gains and Losses

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

Three Months Ended March 31,	2021			2020
(in millions)	Excluding Fortitude Re Funds Withheld Assets	Fortitude Re Funds Withheld Assets	Total	
Sales of fixed maturity securities	$ 94	$ 295	$ 389	$ 214
Intent to sell	-	-	-	-
Change in allowance for credit losses on fixed maturity securities	51	2	53	(198)
Change in allowance for credit losses on loans	41	(5)	36	(38)
Foreign exchange transactions	(49)	(6)	(55)	(254)
Variable annuity embedded derivatives, net of related hedges	89	-	89	2,192
All other derivatives and hedge accounting	351	(117)	234	1,559
Other	118	4	122	44
Net realized capital gains – excluding Fortitude Re funds withheld embedded derivative	695	173	868	3,519
Net realized capital gains (losses) on Fortitude Re funds withheld embedded derivative	-	2,382	2,382	-
Net realized capital gains	$ 695	$ 2,555	$ 3,250	$ 3,519

Lower net realized capital gains in the first quarter of 2021 compared to the same period in the prior year were primarily due to lower derivative gains, which more than offset higher gains on securities sales and lower foreign exchange losses.

Variable annuity embedded derivatives, net of related hedges, reflected lower gains in the first quarter of 2021 compared to the same period 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 Part II, Item 7. MD&A – Enterprise Risk Management – Insurance Risks – Life and Retirement Companies’ Key Risks – Variable Annuity, Index Annuity and Universal Life Risk Management and Hedging Programs in the 2020 Annual Report. For more information on the economic hedging target and the impact to pre-tax income of this program see Insurance Reserves – Life and Annuity Future Policy Benefits, Policyholder Contract Deposits and DAC – Variable Annuity Guaranteed Benefits and Hedging Results in this MD&A.

For further discussion of our investment portfolio see Note 5 to the Condensed 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)]:

(in millions)	March 31, 2021 Net liability for unpaid losses and loss adjustment expenses	March 31, 2021 Reinsurance recoverable on unpaid losses and loss adjustment expenses	March 31, 2021 Gross liability for unpaid losses and loss adjustment expenses	December 31, 2020 Net liability for unpaid losses and loss adjustment expenses	December 31, 2020 Reinsurance recoverable on unpaid losses and loss adjustment expenses	December 31, 2020 Gross liability for unpaid losses and loss adjustment expenses
General Insurance:						
U.S. Workers' Compensation (net of discount)	$ 3,783	$ 5,704	$ 9,487	$ 3,905	$ 5,653	$ 9,558
U.S. Excess Casualty	3,575	4,600	8,175	3,746	4,584	8,330
U.S. Other Casualty	3,763	4,581	8,344	3,520	4,568	8,088
U.S. Financial Lines	4,897	2,229	7,126	4,838	2,193	7,031
U.S. Property and Special Risks	6,294	2,691	8,985	6,181	2,571	8,752
U.S. Personal Insurance	1,086	1,675	2,761	1,116	1,626	2,742
UK/Europe Casualty and Financial Lines	7,002	1,506	8,508	6,826	1,225	8,051
UK/Europe Property and Special Risks	2,781	1,309	4,090	2,679	1,215	3,894
UK/Europe and Japan Personal Insurance	2,213	594	2,807	2,219	505	2,724
Other product lines[(b)]	6,091	5,536	11,627	6,202	5,410	11,612
Unallocated loss adjustment expenses[(b)]	1,494	1,123	2,617	1,526	1,106	2,632
Total General Insurance	42,979	31,548	74,527	42,758	30,656	73,414
Other Operations Run-Off:						
U.S. Run-Off Long Tail Insurance Lines (net of discount)	151	3,446	3,597	205	3,500	3,705
Other run-off product lines	242	67	309	210	60	270
Blackboard U.S. Holdings, Inc.	124	94	218	88	101	189
Unallocated loss adjustment expenses	65	116	181	28	114	142
Total Other Operations Run-Off	582	3,723	4,305	531	3,775	4,306
Total	$ 43,561	$ 35,271	$ 78,832	$ 43,289	$ 34,431	$ 77,720

(a) Includes net loss reserve discount of $796 million and $725 million as of March 31, 2021 and December 31, 2020, respectively. *For discussion of loss reserve discount see Note 10 to the Condensed Consolidated Financial Statements.*

(b) Other product lines and Unallocated loss adjustment expenses includes $3.7 billion within Gross liability for unpaid losses and loss adjustment expense and Reinsurance recoverable on unpaid losses and loss adjustment expense as of March 31, 2021, and $3.8 billion within Gross liability for unpaid losses and loss adjustment expense as of December 31, 2020, for the Fortitude Re reinsurance.

Prior Year Development

The following table summarizes incurred (favorable) unfavorable prior year development net of reinsurance by segment:

Three Months Ended March 31, (in millions)	2021	2020
General Insurance:		
North America*	$ (58)	$ (25)
International	2	(35)
Total General Insurance	$ (56)	$ (60)
Other Operations Run-Off	19	-
Total prior year (favorable) unfavorable development	$ (37)	$ (60)

* Includes the amortization attributed to the deferred gain at inception from the National Indemnity Company (NICO) adverse development reinsurance agreement of $52 million and $53 million for the three-month periods ended March 31, 2021 and 2020, 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 $1 million and $6 million for the three-month periods ended March 31, 2021 and 2020, respectively. Also excludes the related changes in amortization of the deferred gain, which were $20 million and $22 million for the three-month periods ended March 31, 2021 and 2020, respectively.

Net Loss Development

In the three-month period ended March 31, 2021, we recognized favorable prior year loss reserve development of $37 million.

The key components of this development were as follows:

North America

- development for the quarter was largely driven by favorable amortization of the deferred gain from adverse development reinsurance with Catastrophe Property and Specialty and Non-Catastrophe Property and Specialty lines largely offsetting each other.

International

- development for the quarter consisted of Catastrophe and Non-Catastrophe Property and Other Short Tailed lines largely offsetting each other.

Other Operations:

- development for the quarter largely consisted of adverse development on our runoff Blackboard business.

In the three-month period ended March 31, 2020, we recognized favorable prior year loss reserve development of $60 million.

The key components of this development were as follows:

North America

- amortization of the deferred gain from the adverse development reinsurance agreement with NICO; and
- adverse development in Personal Insurance.

International

- favorable development in International Casualty recoveries.

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:

Three Months Ended March 31, 2021 *(in millions)*	Total	2020	2019 & Prior
General Insurance North America:			
U.S. Workers' Compensation	$ (26)	$ 2	$ (28)
U.S. Excess casualty	(12)	-	(12)
U.S. Other casualty	(2)	-	(2)
U.S. Financial Lines	(9)	-	(9)
U.S. Property and Special Risks	(2)	(14)	12
U.S. Personal Insurance	(4)	1	(5)
Other product lines	(3)	(2)	(1)
Total General Insurance North America	$ (58)	$ (13)	$ (45)
General Insurance International:			
UK/Europe Casualty and Financial Lines	$ (4)	$ (3)	$ (1)
UK/Europe Property and Special Risks	3	9	(6)
UK/Europe and Japan Personal Insurance	(1)	(4)	3
Other product lines	4	11	(7)
Total General Insurance International	$ 2	$ 13	$ (11)
Other Operations Run-Off	19	(1)	20
Total prior year (favorable) unfavorable development	$ (37)	$ (1)	$ (36)

Three Months Ended March 31, 2020 *(in millions)*	Total	2019	2018 & Prior
General Insurance North America:			
U.S. Workers' Compensation	$ (28)	$ 2	$ (30)
U.S. Excess casualty	(13)	-	(13)
U.S. Other casualty	(11)	-	(11)
U.S. Financial Lines	(8)	-	(8)
U.S. Property and Special Risks	(7)	(4)	(3)
U.S. Personal Insurance	40	47	(7)
Other product lines	2	(14)	16
Total General Insurance North America	$ (25)	$ 31	$ (56)
General Insurance International:			
UK/Europe Casualty and Financial Lines	$ -	$ -	$ -
UK/Europe Property and Special Risks	(9)	(13)	4
UK/Europe and Japan Personal Insurance	(12)	(12)	-
Other product lines	(14)	3	(17)
Total General Insurance International	$ (35)	$ (22)	$ (13)
Other Operations Run-Off	-	-	-
Total prior year (favorable) unfavorable development	$ (60)	$ 9	$ (69)

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.

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 2021, see Part II, Item 7. MD&A – Enterprise Risk Management – Insurance Risks – General Insurance Companies' Key Risks – Natural Catastrophe Risk in the 2020 Annual Report.

The table below shows the calculation of the deferred gain on the adverse development reinsurance agreement as of March 31, 2021 and as of December 31, 2020, showing the effect of discounting of loss reserves and amortization of the deferred gain.

(in millions)	**March 31, 2021**	December 31, 2020
Gross Covered Losses		
Covered reserves before discount	**$ 16,051**	$ 16,534
Inception to date losses paid	**25,683**	25,198
Attachment point	**(25,000)**	(25,000)
Covered losses above attachment point	**$ 16,734**	$ 16,732
Deferred Gain Development		
Covered losses above attachment ceded to NICO (80%)	**$ 13,387**	$ 13,386
Consideration paid including interest	**(10,188)**	(10,188)
Pre-tax deferred gain before discount and amortization	**3,199**	3,198
Discount on ceded losses[(a)]	**(872)**	(911)
Pre-tax deferred gain before amortization	**2,327**	2,287
Inception to date amortization of deferred gain at inception	**(956)**	(904)
Inception to date amortization attributed to changes in deferred gain[(b)]	**(89)**	(86)
Deferred gain liability reflected in AIG's balance sheet	**$ 1,282**	$ 1,297

(a) For the period from inception to March 31, 2021, 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:

Three Months Ended March 31, (in millions)	2021	2020
Balance at beginning of year, net of discount	**$ 1,297**	$ 1,381
(Favorable) unfavorable prior year reserve development ceded to NICO[(a)]	**1**	6
Amortization attributed to deferred gain at inception[(b)]	**(52)**	(53)
Amortization attributed to changes in deferred gain[(c)]	**(3)**	(14)
Changes in discount on ceded loss reserves	**39**	72
Balance at end of period, net of discount	**$ 1,282**	$ 1,392

(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 March 31, 2021, approximately $30.3 billion of reserves from our Life and Retirement Run-Off Lines and approximately $4.0 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 $23.1 billion of AGL reserves as of March 31, 2021 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 Part II. Item 7. MD&A – Enterprise Risk Management – Insurance Risks – Reinsurance Activities – Reinsurance Recoverable in the 2020 Annual Report.

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.

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 Part II, Item 7. MD&A – Enterprise Risk Management – Insurance Risks – Life and Retirement Companies' Key Risks – Variable Annuity, Index Annuity and Universal Life Risk Management and Hedging Programs in the 2020 Annual Report.

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 4 to the Condensed 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)	March 31, 2021	December 31, 2020
Reconciliation of embedded derivatives and economic hedge target:		
Embedded derivative liability	$ 1,884	$ 3,572
Exclude non-performance risk adjustment	(2,162)	(2,958)
Embedded derivative liability, excluding NPA	4,046	6,530
Adjustments for risk margins and differences in valuation	(1,624)	(2,502)
Economic hedge target liability	$ 2,422	$ 4,028

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:

Three Months Ended March 31, *(in millions)*	**2021**	2020
Change in fair value of embedded derivatives, excluding NPA	**$ 2,679**	$ (5,601)
Change in fair value of variable annuity hedging portfolio:		
Fixed maturity securities*	**18**	7
Interest rate derivative contracts	**(1,404)**	2,194
Equity derivative contracts	**(390)**	1,384
Change in fair value of variable annuity hedging portfolio	**(1,776)**	3,585
Change in fair value of embedded derivatives excluding NPA, net of hedging portfolio	**903**	(2,016)
Change in fair value of embedded derivatives due to NPA spread	**(111)**	2,646
Change in fair value of embedded derivatives due to change in NPA volume	**(685)**	1,569
Total change due to NPA	**(796)**	4,215
Net impact on pre-tax income (loss)	**$ 107**	$ 2,199
Impact to Consolidated Income Statement		
Net investment income, net of related interest credited to policyholder account balances	**$ 18**	$ 7
Net realized capital gains (losses)	**89**	2,192
Net impact on pre-tax income (loss)	**$ 107**	$ 2,199
Net change in value of economic hedge target and related hedges		
Net impact on economic gains (losses)	**$ (190)**	$ 1,968

* The change in fair value of available-for-sale fixed maturity securities recognized as a component of other comprehensive income was a loss of $216 million for the three-month period ended March 31, 2021 due to higher interest rates. The change in fair value of available-for-sale fixed maturity securities recognized as a component of other comprehensive income was a loss of $13 million for the three-month period ended March 31, 2020 due to widening spreads, offset by lower interest rates.

The net impact on pre-tax income of $107 million from the GMWB embedded derivatives and related hedges in the three-month period ended March 31, 2021 (excluding related DAC amortization) was driven by gains from higher equity markets, impact of higher interest rates on the change in the fair value of embedded derivatives excluding NPA, net of the hedging portfolio, offset by the tightening of NPA credit spreads and impact of higher interest rates that resulted in NPA volume losses from lower expected GMWB payments. In the first quarter of 2020, the net impact on pre-tax income of $2.2 billion was driven by widening of credits spreads on the economic hedge target as well as the NPA spread, impact of lower interest rates that resulted in NPA volume gains from higher expected GMWB payments, 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.

The change in the fair value of the GMWB embedded derivatives, excluding NPA, in the first quarter of 2021 reflected gains from increases in interest rates and gains from higher equity markets. The change in the fair value of the GMWB embedded derivatives, excluding NPA, in the first quarter of 2020 reflected losses from decreases in interest rates and lower equity markets, offset by widening of crediting spreads.

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 the three-month period ended March 31, 2021, we estimated a net mark to market loss of approximately $190 million from our hedging activities related to our economic hedge target primarily driven by tightening credit spreads. In the first quarter of 2020, we estimated a net mark to market gain of approximately $2 billion from our hedging activities related to our economic hedge target primarily driven by widening credit spreads.

Change in Economic Hedge Target

The decrease in the economic hedge target liability in the three-month period ended March 31, 2021 was primarily due to higher interest rates and equity markets, offset by tighter credit spreads. The increase in the economic hedge target liability in the first quarter of 2020 was primarily due to lower interest rates and lower equity markets, offset by widening credit spreads.

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 losses driven by higher interest rates in the first quarters of 2021 compared to gains due to lower interest rates in the first quarter of 2020.
- Changes in the fair value of equity derivative contracts, which included futures and options, resulted in losses in the first quarter of 2021 compared to gains in the first quarter of 2020, which 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. The change in the fair value of the corporate bond hedging program in the first quarter of 2021 reflected losses due to increases in interest rates, offset by tightening credit spreads. The change in the fair value of the corporate bond hedging program in the first quarter of 2020 reflected gains due to decreases in interest rates offset by widening credit spreads.

DAC

The following table summarizes the major components of the changes in DAC, including VOBA, within the Life and Retirement companies:

Three Months Ended March 31, *(in millions)*	**2021**	2020
Balance, beginning of year	**$ 7,316**	$ 8,119
Initial allowance upon CECL adoption	**-**	15
Acquisition costs deferred	**249**	261
Amortization expense:		
Related to realized capital gains and losses	**(194)**	(535)
All other operating amortization	**(225)**	(322)
Increase (decrease) in DAC due to foreign exchange	**6**	(33)
Change related to unrealized depreciation (appreciation) of investments	**1,304**	1,195
Balance, end of period, excluding Fortitude Re DAC(a)	**8,456**	8,700
DAC on business ceded to Fortitude Re(b)	**-**	454
Balance, end of period, including Fortitude Re DAC	**$ 8,456**	$ 9,154

(a) DAC balance excluding the amount related to unrealized depreciation (appreciation) of investments was $10.3 billion and $9.5 billion at March 31, 2021 and 2020, 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.

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 the first quarter of 2021 drove a $10.5 billion decrease in the unrealized appreciation of fixed maturity securities held to support the Life and Retirement businesses at March 31, 2021 compared to December 31, 2020. At March 31, 2021, the shadow Investment-Oriented Adjustments reflected increases in amortized balances including DAC and unearned revenue reserves, while accrued liabilities such as policyholder benefit liabilities decreased compared to December 31, 2020. Accrued shadow loss recognition reserves decreased from December 31, 2020.

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:

Three Months Ended March 31, *(in millions)*	**2021**	2020
Individual Retirement		
Balance at beginning of period, gross	**$ 148,837**	$ 144,753
Premiums and deposits	**3,373**	3,116
Surrenders and withdrawals	**(3,111)**	(3,873)
Death and other contract benefits	**(836)**	(823)
Subtotal	**148,263**	143,173
Change in fair value of underlying assets and reserve accretion, net of policy fees	**(243)**	(7,419)
Cost of funds[(a)]	**414**	412
Other reserve changes	**(324)**	(268)
Balance at end of period	**148,110**	135,898
Reinsurance ceded	**(313)**	(313)
Total Individual Retirement insurance reserves and mutual fund assets	**$ 147,797**	$ 135,585
Group Retirement		
Balance at beginning of period, gross	**$ 110,651**	$ 102,049
Premiums and deposits	**1,818**	1,855
Surrenders and withdrawals	**(2,484)**	(2,260)
Death and other contract benefits	**(227)**	(182)
Subtotal	**109,758**	101,462
Change in fair value of underlying assets and reserve accretion, net of policy fees	**2,843**	(10,705)
Cost of funds[(a)]	**280**	278
Other reserve changes	**(149)**	(88)
Balance at end of period	**112,732**	90,947
Total Group Retirement insurance reserves and mutual fund assets	**$ 112,732**	$ 90,947
Life Insurance		
Balance at beginning of period, gross	**$ 27,998**	$ 27,397
Premiums and deposits	**1,029**	972
Surrenders and withdrawals	**(144)**	(171)
Death and other contract benefits	**(173)**	(131)
Subtotal	**28,710**	28,067
Change in fair value of underlying assets and reserve accretion, net of policy fees	**(208)**	(383)
Cost of funds[(a)]	**88**	93
Other reserve changes	**(1,001)**	(1,034)
Balance at end of period	**27,589**	26,743
Reinsurance ceded	**(1,461)**	(1,365)
Total Life Insurance reserves	**$ 26,128**	$ 25,378

Institutional Markets		
Balance at beginning of period, gross	**$ 27,342**	$ 23,673
Premiums and deposits	**80**	976
Surrenders and withdrawals	**(312)**	(109)
Death and other contract benefits	**(208)**	(294)
Subtotal	**26,902**	24,246
Change in fair value of underlying assets and reserve accretion, net of policy fees	**165**	49
Cost of funds(a)	**73**	80
Other reserve changes	**(327)**	14
Balance at end of period	**26,813**	24,389
Reinsurance ceded	**(46)**	(46)
Total Institutional Markets reserves	**$ 26,767**	$ 24,343
Total insurance reserves and mutual fund assets		
Balance at beginning of period, gross	**$ 314,828**	$ 297,872
Premiums and deposits	**6,300**	6,919
Surrenders and withdrawals	**(6,051)**	(6,413)
Death and other contract benefits	**(1,444)**	(1,430)
Subtotal	**313,633**	296,948
Change in fair value of underlying assets and reserve accretion, net of policy fees	**2,557**	(18,458)
Cost of funds(a)	**855**	863
Other reserve changes	**(1,801)**	(1,376)
Balance at end of period, excluding Fortitude Re reserves	**315,244**	277,977
Fortitude Re reserves(b)	**28,300**	29,389
Balance at end of period, including Fortitude Re reserves	**343,544**	307,366
Fortitude Re reinsurance ceded(b)	**(28,300)**	-
Reinsurance ceded	**(1,820)**	(1,724)
Total insurance reserves and mutual fund assets	**$ 313,424**	$ 305,642

(a) Excludes amortization of deferred sales inducements.

(b) Includes amounts related to policies where AIG has partially ceded to other reinsurers and Fortitude Re.

Insurance reserves, as well as Retail Mutual Funds and Group Retirement mutual fund assets under administration, were comprised of the following balances:

(in millions)	**March 31, 2021**	December 31, 2020
Future policy benefits	**$ 48,467**	$ 48,864
Policyholder contract deposits	**157,907**	160,450
Other policyholder funds*	**948**	957
Separate account liabilities	**102,689**	100,290
Total insurance reserves	**310,011**	310,561
Mutual fund assets	**33,533**	32,772
Total insurance reserves and mutual fund assets	**$ 343,544**	$ 343,333

* 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 Part II, Item 7. MD&A – Enterprise Risk Management – Risk Appetite, Limits, Identification and Measurement and Enterprise Risk Management – Liquidity Risk Management in the 2020 Annual Report 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 the 2020 Annual Report, Part I. Item 1A. – Risk Factors – 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.

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, par value $2.50 per share (AIG Common Stock), paying dividends to the holders of our Series A 5.85% Non-Cumulative Perpetual Preferred Stock (Series A Preferred Stock), and repurchases of AIG Common Stock.

LIQUIDITY AND CAPITAL RESOURCES HIGHLIGHTS

SOURCES

AIG Parent Funding from Subsidiaries

During the first quarter of 2021, AIG Parent received $486 million in dividends from subsidiaries. Of this amount, $200 million consisted of dividends in the form of cash and fixed maturity securities from our General Insurance companies and $286 million consisted of dividends in the form of cash from our Life and Retirement companies.

AIG Parent also received a net amount of $361 million in tax sharing payments in the form of cash from our insurance businesses in the first quarter of 2021. The tax sharing payments may be subject to further adjustment in future periods.

Other Cash Inflows

During the first quarter of 2021, we received other cash inflows of approximately $522 million in connection with debt unrelated to AIG's general borrowings, including:

- $495 million of debt of consolidated investment entities not guaranteed by AIG, which includes real estate investments, affordable housing partnership investments and other securitization vehicles; and
- $27 million of borrowings supported by assets, principally GIAs.

Warrant Exercises

In January 2021, we received aggregate proceeds of approximately $92 million in connection with warrant exercises to purchase approximately 2 million shares of AIG Common Stock that occurred prior to the January 19, 2021 expiration of warrants to purchase shares of AIG Common Stock.

Tax Sharing Payment from Fortitude Re

In January 2021, we received $109 million in tax sharing payments in the form of cash from Fortitude Re related to periods prior to the Majority Interest Fortitude Sale. The tax sharing payments from Fortitude Re may be subject to further adjustment in future periods.

USES

General Borrowings

In February 2021, we redeemed $1.5 billion aggregate principal amount of our 3.300% Notes Due 2021.

We made interest payments on our general borrowings totaling $203 million during the first quarter of 2021.

Other Cash Outflows

During the first quarter of 2021, we made other repayments of approximately $932 million in connection with debt unrelated to AIG's general borrowings, including:

- $900 million on debt of consolidated investment entities not guaranteed by AIG, which includes real estate investments, affordable housing partnership investments and other securitization vehicles; and
- $32 million on borrowings supported by assets, principally GIAs.

Dividends

We paid a cash dividend of $365.625 per share on AIG's Series A Preferred Stock during the first quarter of 2021 totaling $7 million.

We paid a cash dividend of $0.32 per share on AIG Common Stock during the first quarter of 2021 totaling $276 million.

Repurchases of Common Stock*

During the first quarter of 2021, we repurchased approximately 8 million shares of AIG Common Stock, for an aggregate purchase price of approximately $362 million pursuant to Exchange Act Rule 10b5-1 repurchase plans. Approximately $92 million of these share repurchases were funded 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.

* Pursuant to an Exchange Act Rule 10b5-1 repurchase plan, from April 1, 2021 to May 6, 2021, we repurchased approximately $65 million of shares of AIG Common Stock. As of May 6, 2021, approximately $1.1 billion remained under our share repurchase authorization.

ANALYSIS OF SOURCES AND USES OF CASH

The following table presents selected data from AIG's Condensed Consolidated Statements of Cash Flows:

Three Months Ended March 31, *(in millions)*	2021	2020
Sources:		
Net cash provided by operating activities	$ 640	$ -
Net cash provided by investing activities	1,505	-
Changes in policyholder contract balances	526	1,214
Issuance of long-term debt	27	38
Issuance of debt of consolidated investment entities	495	635
Borrowings under syndicated credit facility	-	1,300
Total sources	3,193	3,187
Uses:		
Net cash used in operating activities	-	(586)
Net cash used in investing activities	-	(633)
Repayments of long-term debt	(1,515)	(363)
Repayments of debt of consolidated investment entities	(900)	(521)
Purchase of common stock	(362)	(500)
Dividends paid on preferred stock	(7)	(7)
Dividends paid on common stock	(276)	(276)
Net cash used in other financing activities	(102)	(288)
Total uses	(3,162)	(3,174)
Effect of exchange rate changes on cash and restricted cash	(17)	10
Increase in cash and restricted cash	$ 14	$ 23

The following table presents a summary of AIG's Condensed Consolidated Statements of Cash Flows:

Three Months Ended March 31, *(in millions)*	2021	2020
Summary:		
Net cash provided by (used in) operating activities	$ 640	$ (586)
Net cash provided by (used in) investing activities	1,505	(633)
Net cash provided by (used in) financing activities	(2,114)	1,232
Effect of exchange rate changes on cash and restricted cash	(17)	10
Net Increase in cash and restricted cash	14	23
Cash and restricted cash at beginning of year	3,230	3,287
Change in cash of businesses held for sale	-	9
Cash and restricted cash at end of period	$ 3,244	$ 3,319

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 $255 million in the first quarter of 2021 compared to $323 million in the first quarter of 2020. Excluding interest payments, AIG had operating cash inflows of $895 million in the first quarter of 2021 compared to operating cash outflows of $263 million in the first quarter of 2020.

Investing Cash Flow Activities

Net cash provided by investing activities in the first quarter of 2021 was $1.5 billion compared to net cash used in investing activities of $633 million in the first quarter of 2020.

Financing Cash Flow Activities

Net cash used in financing activities in the first quarter of 2021 reflected:

- approximately $276 million in the aggregate to pay a dividend of $0.32 per share on AIG Common Stock;
- approximately $7 million in the aggregate to pay a dividend of $365.625 per share on AIG's Series A Preferred Stock;
- approximately $362 million in the aggregate to repurchase approximately 8 million shares of AIG Common Stock;
- approximately $92 million inflow from warrants exercised on approximately 2 million shares of AIG Common Stock;
- approximately $1.5 billion in net outflows from the issuance and repayment of long-term debt; and
- approximately $405 million in net outflows from the issuance and repayment of debt of consolidated investment entities.

Net cash provided by financing activities in the first quarter of 2020 reflected:

- approximately $1.3 billion inflow from AIG's committed, revolving syndicated credit facility;
- approximately $276 million in the aggregate to pay a dividend of $0.32 per share on AIG Common Stock;
- approximately $7 million in the aggregate to pay a dividend of $365.625 per share on AIG's Series A Preferred Stock;
- $500 million to repurchase approximately 12 million shares of AIG Common Stock;
- approximately $325 million in net outflows from the issuance and repayment of long-term debt; and
- approximately $114 million 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 March 31, 2021, AIG Parent had approximately $12.4 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 March 31, 2021	As of December 31, 2020
Cash and short-term investments[(a)]	**$ 4,401**	$ 6,762
Unencumbered fixed maturity securities[(b)]	**3,521**	3,711
Total AIG Parent liquidity	**7,922**	10,473
Available capacity under committed, syndicated credit facility[(c)]	**4,500**	4,500
Total AIG Parent liquidity sources	**$ 12,422**	$ 14,973

(a) Cash and short-term investments include reverse repurchase agreements totaling $3.2 billion and $5.4 billion as of March 31, 2021 and December 31, 2020, 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 March 31, 2021 and December 31, 2020. Our U.S. Life and Retirement companies had $3.6 billion which were due to FHLBs in their respective districts at both March 31, 2021 and December 31, 2020, 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 March 31, 2021 and December 31, 2020.

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 $3.3 billion and $3.4 billion of securities subject to these agreements at March 31, 2021 and December 31, 2020, respectively, and $3.4 billion and $3.5 billion of liabilities to borrowers for collateral received at March 31, 2021 and December 31, 2020, 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.

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 $4.2 billion at March 31, 2021. Letters of credit issued in support of the Life and Retirement companies totaled approximately $613 million at March 31, 2021.

In the first quarter of 2021, our General Insurance companies collectively paid a total of approximately $200 million 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 the first quarter of 2021, our Life and Retirement companies collectively paid a total of approximately $286 million in dividends in the form of cash to AIG Parent.

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 as early as the second quarter of 2021.

For additional information regarding this matter see Note 15 to the Condensed 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.

As of March 31, 2021, 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

As of March 31, 2021, there have been no material changes in our contractual obligations from December 31, 2020, a description of which may be found in Part II, Item 7. MD&A – Liquidity and Capital Resources – Contractual Obligations in the 2020 Annual Report.

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 Condensed 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

As of March 31, 2021, there have been no material changes in our off-balance sheet arrangements and commercial commitments from December 31, 2020, a description of which may be found in Part II, Item 7. MD&A – Liquidity and Capital Resources – Off-Balance Sheet Arrangements and Commercial Commitments in the 2020 Annual Report.

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 8 to the Condensed 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 11 to the Condensed 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:

Three Months Ended March 31, 2021 (in millions)	Balance at December 31, 2020	Issuances	Maturities and Repayments	Effect of Foreign Exchange	Other Changes	Balance at March 31, 2021
Debt issued or guaranteed by AIG:						
AIG general borrowings:						
Notes and bonds payable	$ 23,068	$ -	$ (1,500)	$ (82)	$ 9	$ 21,495
Junior subordinated debt	1,561	-	-	(7)	-	1,554
AIG Japan Holdings Kabushiki Kaisha	361	-	-	(8)	-	353
AIGLH notes and bonds payable	282	-	-	-	-	282
AIGLH junior subordinated debt	361	-	-	-	-	361
Validus notes and bonds payable	348	-	-	-	(1)	347
Total AIG general borrowings	25,981	-	(1,500)	(97)	8	24,392
AIG borrowings supported by assets:[a]						
Series AIGFP matched notes and bonds payable	21	-	-	-	-	21
GIAs, at fair value	2,033	27	(28)	-	(83)[b]	1,949
Notes and bonds payable, at fair value	64	-	(4)	-	6[b]	66
Total AIG borrowings supported by assets	2,118	27	(32)	-	(77)	2,036
Total debt issued or guaranteed by AIG	28,099	27	(1,532)	(97)	(69)	26,428
Other subsidiaries' notes, bonds, loans and mortgages payable - not guaranteed by AIG	4	-	-	-	-	4
Total long-term debt	28,103	27	(1,532)	(97)	(69)	26,432
Debt of consolidated investment entities - not guaranteed by AIG[c]	9,431	495	(900)	12	178[d]	9,216
Total debt	$ 37,534	$ 522	$ (2,432)	$ (85)	$ 109	$ 35,648

(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 $1.5 billion and $1.4 billion at March 31, 2021 and December 31, 2020, 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.

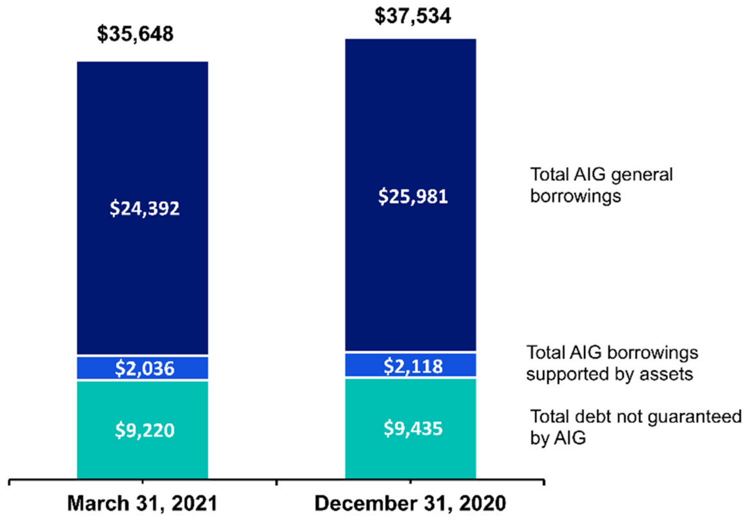
(b) Primarily represents adjustments to the fair value of debt.

(c) At March 31, 2021, includes debt of consolidated investment entities related to real estate investments of $3.1 billion, affordable housing partnership investments of $2.5 billion and other securitization vehicles of $3.6 billion. 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.

(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 March 31, 2021 of AIG for the next four quarters:

(in millions)	Second Quarter 2021	Third Quarter 2021	Fourth Quarter 2021	First Quarter 2022	Total
AIG general borrowings	$ 231	$ -	$ -	$ -	**$ 231**
AIG borrowings supported by assets	69	53	36	-	**158**
Other subsidiaries' notes, bonds, loans and mortgages payable	1	-	-	1	**2**
Total	$ 301	$ 53	$ 36	$ 1	**$ 391**

The following table presents maturities of long-term debt (including unamortized original issue discount, hedge accounting valuation adjustments and fair value adjustments, when applicable):

March 31, 2021		Remainder	Year Ending				
(in millions)	Total	of 2021	2022	2023	2024	2025	2026	Thereafter
Debt issued or guaranteed by AIG:								
AIG general borrowings:								
Notes and bonds payable	$ 21,495	$ -	$ 1,515	$ 1,676	$ 998	$ 2,751	$ 1,546	$ 13,009
Junior subordinated debt	1,554	-	-	-	-	-	-	1,554
AIG Japan Holdings Kabushiki Kaisha	353	231	-	-	-	122	-	-
AIGLH notes and bonds payable	282	-	-	-	-	135	-	147
AIGLH junior subordinated debt	361	-	-	-	-	-	-	361
Validus notes and bonds payable	347	-	-	-	-	-	-	347
Total AIG general borrowings	**24,392**	**231**	**1,515**	**1,676**	**998**	**3,008**	**1,546**	**15,418**
AIG borrowings supported by assets:								
Series AIGFP matched notes and bonds payable	21	-	-	-	-	-	-	21
GIAs, at fair value	1,949	158	52	126	147	576	100	790
Notes and bonds payable, at fair value	66	-	-	-	-	-	-	66
Total AIG borrowings supported by assets	**2,036**	**158**	**52**	**126**	**147**	**576**	**100**	**877**
Total debt issued or guaranteed by AIG	**26,428**	**389**	**1,567**	**1,802**	**1,145**	**3,584**	**1,646**	**16,295**
Debt not guaranteed by AIG:								
Other subsidiaries notes, bonds, loans and mortgages payable	4	1	1	2	-	-	-	-
Total debt not guaranteed by AIG	**4**	**1**	**1**	**2**	**-**	**-**	**-**	**-**
Total*	**$ 26,432**	**$ 390**	**$ 1,568**	**$ 1,804**	**$ 1,145**	**$ 3,584**	**$ 1,646**	**$ 16,295**

* Does not reflect $9.2 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.

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 Inc. (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 9 to the Condensed Consolidated Financial Statements and Part I, Item 1A. Risk Factors – Liquidity, Capital and Credit in the 2020 Annual Report.

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 9 to the Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q and Part I, Item 1A. Risk Factors – Liquidity, Capital and Credit in the 2020 Annual Report.

RATING AGENCY ACTIONS RELATED TO THE ANNOUNCED SEPARATION OF LIFE AND RETIREMENT

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 I, Item 1. Business – Regulation and Part I, Item 1A. Risk Factors – Regulation in the 2020 Annual Report, and Regulatory Environment below in this MD&A.

DIVIDENDS

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 May 6, 2021, our Board of Directors declared a cash dividend on AIG Common Stock of $0.32 per share, payable on June 29, 2021 to shareholders of record on June 15, 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. On May 6, 2021, our Board of Directors declared a cash dividend on AIG's Series A Preferred Stock of $365.625 per share, payable on June 15, 2021 to holders of record on May 31, 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 12 to the Condensed 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 May 6, 2021, $1.1 billion remained under the authorization.

During the first quarter of 2021, we repurchased approximately 8 million shares of AIG Common Stock for an aggregate purchase price of $362 million pursuant to Exchange Act Rule 10b5-1 repurchase plans. From April 1, 2021 to May 6, 2021, we repurchased approximately one million shares of AIG Common Stock for an aggregate purchase price of approximately $65 million pursuant to an Exchange Act Rule 10b5-1 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 12 to the Condensed 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 in the 2020 Annual Report.

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.

For a further discussion of AIG's risk management program see Part II, Item 7. MD&A — Enterprise Risk Management in the 2020 Annual Report.

As of March 31, 2021, there have been no material changes in our economic exposure to market risk from December 31, 2020, a description of which may be found in Part II, Item 7A. “Quantitative and Qualitative Disclosures about Market Risk,” in the 2020 Annual Report. *See Part I, Item 1A. Risk Factors in the 2020 Annual Report on how difficult conditions in the financial markets and the economy generally may materially adversely affect our business and results of our operations.*

Regulatory Environment

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, a 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 issued guidance in 2020 for insurance groups subject to their jurisdiction to carefully consider the prudential impact of dividend payments and share buybacks for the benefit of shareholders, and variable remuneration policies such as cash bonuses. In the UK, the Prudential Regulation Authority announced in December 2020 that they would not be extending these recommendations into 2021. In the EU, the European Insurance and Occupational Pensions Authority and the Luxembourg Commissariat aux Assurances guidance requiring disclosure to national regulators in advance of dividends being paid remain in place until September 2021. We cannot predict what form any further 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 further develop their responses.

In addition to the information set forth in this Quarterly Report on Form 10-Q, our regulatory status is also discussed in the 2020 Annual Report, Part I, Item 1A. Risk Factors – 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.

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 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 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 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

AUM Assets Under Management

APTI Adjusted pre-tax income

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

ORR Obligor Risk Ratings

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 3 | Quantitative and Qualitative Disclosures About Market Risk

Included in Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Enterprise Risk Management.

ITEM 4 | 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 Quarterly Report on Form 10-Q, an evaluation was carried out by American International Group, Inc. (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-15(e) and 15d-15(e) under the Exchange Act), as of March 31, 2021. Based on this evaluation, AIG’s Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2021.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f)) that have occurred during the quarter ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II – Other Information

ITEM 1 | Legal Proceedings

For a discussion of legal proceedings see Note 11 to the Condensed Consolidated Financial Statements, which is incorporated herein by reference.

ITEM 1A | Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A. Risk Factors in the 2020 Annual Report.

ITEM 2 | Unregistered Sales of Equity Securities and Use of Proceeds

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)
January 1 – 31	2,193,888	$ 41.95	2,193,888	$ 1,408
February 1 – 28	634,614	44.59	634,614	1,380
March 1 – 31	5,203,669	46.50	5,203,669	1,138
Total	**8,032,171**	**$ 45.10**	**8,032,171**	**$ 1,138**

On February 13, 2019, our Board of Directors authorized an additional increase to its previous repurchase authorization of AIG Common Stock, par value $2.50 per share (AIG Common Stock) of $1.5 billion.

During the first quarter of 2021, we repurchased approximately 8 million shares of AIG Common Stock for an aggregate purchase price of $362 million pursuant to Exchange Act Rule 10b5-1 repurchase plans. Approximately $92 million of these share repurchases were funded with proceeds received from warrant exercises that occurred prior to the January 19, 2021 expiration of warrants to purchase shares of AIG Common Stock.

As of March 31, 2021, approximately $1.1 billion remained under the authorization. From April 1, 2021 to May 6, 2021, we repurchased approximately one million shares of AIG Common Stock for an aggregate purchase price of approximately $65 million pursuant to an Exchange Act Rule 10b5-1 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 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 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.

ITEM 4 | Mine Safety Disclosures

Not applicable.

Exhibit Index

Exhibit Number	Description	Location
10	(1) AIG 2012 Executive Severance Plan (as amended and restated February 2021)*	Incorporated by reference to Exhibit 10.35 to AIG's Annual Report on Form 10-K, filed with the SEC on February 19, 2021 (File No. 1-8787).
	(2) AIG Long Term Incentive Plan (as amended and restated February 2021)*	Incorporated by reference to Exhibit 10.36 to AIG's Annual Report on Form 10-K, filed with the SEC on February 19, 2021 (File No. 1-8787).
	(3) AIG Non-Qualified Retirement Income Plan (as amended and restated February 2021)*	Incorporated by reference to Exhibit 10.37 to AIG's Annual Report on Form 10-K, filed with the SEC on February 19, 2021 (File No. 1-8787).
	(4) Letter Agreement, dated February 11, 2021, between AIG and Peter S. Zaffino*	Incorporated by reference to Exhibit 10.38 to AIG's Annual Report on Form 10-K, filed with the SEC on February 19, 2021 (File No. 1-8787).
	(5) Letter Agreement, dated February 11, 2021, between AIG and Brian Duperreault*	Incorporated by reference to Exhibit 10.39 to AIG's Annual Report on Form 10-K, filed with the SEC on February 19, 2021 (File No. 1-8787).
	(6) AIG Long Term Incentive Plan (as amended and restated April 2021)*	Filed herewith.
	(7) AIG Long Term Incentive Plan Form of Award Agreement*	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 formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets as of March 31, 2021 and December 31, 2020, (ii) the Condensed Consolidated Statements of Income for the three and three months ended March 31, 2021 and 2020, (iii) the Condensed Consolidated Statements of Equity for the three and three months ended March 31, 2021 and 2020, (iv) the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2021 and 2020, (v) the Condensed Consolidated Statements of Comprehensive Income for the three and three months ended March 31, 2021 and 2020 and (vi) the Notes to the Condensed Consolidated Financial Statements	Filed herewith.
104	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101)	Filed herewith.

* This exhibit is a management contract or compensatory 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.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN INTERNATIONAL GROUP, INC.

(Registrant)

/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)

Dated: May 7, 2021

CERTIFICATIONS

I, Peter S. Zaffino, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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: May 7, 2021

/S/ PETER S. ZAFFINO

Peter S. Zaffino

President and Chief Executive Officer

CERTIFICATIONS

I, Mark D. Lyons, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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: May 7, 2021

/S/ MARK D. LYONS

Mark D. Lyons

Executive Vice President and

Chief Financial Officer

CERTIFICATION

In connection with this Quarterly Report on Form 10-Q of American International Group, Inc. (the “Company”) for the quarter ended March 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Peter S. Zaffino, President and 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: May 7, 2021

/S/ PETER S. ZAFFINO

Peter S. Zaffino

President and 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 Quarterly Report on Form 10-Q of American International Group, Inc. (the "Company") for the quarter ended March 31, 2021, 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: May 7, 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.