AMERICAN INTERNATIONAL GROUP INC
Form 10-Q
August 03, 2017

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 June 30, 2017	**Commission File Number 1-8787**

American International Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	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 July 31, 2017, there were 903,405,681 shares outstanding of the registrant’s common stock.

AMERICAN INTERNATIONAL GROUP, INC.

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

June 30, 2017

Table of Contents

FORM 10-Q

TABLE OF CONTENTS

Part I – Financial Information

Item 1. | Financial Statements

American International Group, Inc.

Condensed Consolidated Balance Sheets *(unaudited)*

(in millions, except for share data)	
Assets:	
Investments:	
Fixed maturity securities:	
Bonds available for sale, at fair value (amortized cost: 2017 - $222,720; 2016 - $232,241)	$
Other bond securities, at fair value (*See Note 6*)	
Equity Securities:	
Common and preferred stock available for sale, at fair value (cost: 2017 - $1,181; 2016 - $1,697)	
Other common and preferred stock, at fair value (*See Note 6*)	
Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2017 - $5; 2016 - $11)	
Other invested assets (portion measured at fair value: 2017 - $6,600; 2016 - $6,946)	
Short-term investments (portion measured at fair value: 2017 - $3,405; 2016 - $3,341)	
Total investments	
Cash	
Accrued investment income	
Premiums and other receivables, net of allowance	
Reinsurance assets, net of allowance	
Deferred income taxes	
Deferred policy acquisition costs	
Other assets, including restricted cash of $234 in 2017 and $193 in 2016 (portion measured at fair value: 2017 - $996; 2016 - $1,809)	
Separate account assets, at fair value	
Assets held for sale	
Total assets	$
Liabilities:	
Liability for unpaid losses and loss adjustment expenses	$
Unearned premiums	
Future policy benefits for life and accident and health insurance contracts	
Policyholder contract deposits (portion measured at fair value: 2017 - $3,531; 2016 - $3,058)	
Other policyholder funds (portion measured at fair value: 2017 - $0; 2016 - $5)	
Other liabilities (portion measured at fair value: 2017 - $1,854; 2016 - $2,016)	
Long-term debt (portion measured at fair value: 2017 - $3,085; 2016 - $3,428)	
Separate account liabilities	
Liabilities held for sale	

Total liabilities
Contingencies, commitments and guarantees (*See Note 11*)

AIG shareholders' equity:
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued: 2017 - 1,906,671,492 and 2016 - 1,906,671,492
Treasury stock, at cost; 2017 - 1,003,278,872 shares; 2016 - 911,335,651 shares of common stock
Additional paid-in capital
Retained earnings
Accumulated other comprehensive income
Total AIG shareholders' equity
Non-redeemable noncontrolling interests
Total equity
Total liabilities and equity $

See accompanying Notes to Condensed Consolidated Financial Statements.

American International Group, Inc.

Condensed Consolidated Statements of Income *(unaudited)*

(dollars in millions, except per share data)	Three Months Ended June 30, 2017	2016
Revenues:		
Premiums	$ 7,614	$ 8,751
Policy fees	725	696
Net investment income	3,613	3,683
Net realized capital gains (losses):		
Total other-than-temporary impairments on available for sale securities	(33)	(65)
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income	(28)	(29)
Net other-than-temporary impairments on available for sale securities recognized in net income	(61)	(94)
Other realized capital gains (losses)	(8)	1,136
Total net realized capital gains (losses)	(69)	1,042
Other income	619	552
Total revenues	12,502	14,724
Benefits, losses and expenses:		
Policyholder benefits and losses incurred	6,284	6,872
Interest credited to policyholder account balances	906	961
Amortization of deferred policy acquisition costs	1,115	1,345
General operating and other expenses	2,182	2,586
Interest expense	292	320
(Gain) loss on extinguishment of debt	(4)	7
Net (gain) loss on sale of divested businesses	60	(225)
Total benefits, losses and expenses	10,835	11,866
Income from continuing operations before income tax expense	1,667	2,858
Income tax expense	557	924
Income from continuing operations	1,110	1,934
Income (loss) from discontinued operations, net of income tax expense	8	(10)
Net income	1,118	1,924
Less:		
Net income (loss) from continuing operations attributable to noncontrolling interests	(12)	11
Net income attributable to AIG	$ 1,130	$ 1,913
Income (loss) per common share attributable to AIG:		
Basic:		
Income from continuing operations	$ 1.21	$ 1.73
Income (loss) from discontinued operations	$ 0.01	$ (0.01)
Net income attributable to AIG	$ 1.22	$ 1.72
Diluted:		
Income from continuing operations	$ 1.18	$ 1.69
Income (loss) from discontinued operations	$ 0.01	$ (0.01)
Net income attributable to AIG	$ 1.19	$ 1.68

Weighted average shares outstanding:			
Basic	**925,751,084**	1,113,587,927	**95**
Diluted	**948,248,771**	1,140,045,973	**97**
Dividends declared per common share	**$ 0.320**	$ 0.320	**$**

See accompanying Notes to Condensed Consolidated Financial Statements.

American International Group, Inc.

Condensed Consolidated Statements of Comprehensive Income *(unaudited)*

(in millions)	Three Months Ended June 30, **2017**	Three Months Ended June 30, 2016	Six Months Ended June 30, **2017**	Six Months Ended June 30, 2016
Net income	**$1,118**	$1,924	**$2,329**	$1,721
Other comprehensive income, net of tax				
Change in unrealized appreciation (depreciation) of fixed maturity securities on which other-than-temporary credit impairments were taken	**119**	22	**233**	(327)
Change in unrealized appreciation of all other investments	**653**	2,409	**1,348**	5,836
Change in foreign currency translation adjustments	**398**	313	**122**	221
Change in retirement plan liabilities adjustment	**11**	(10)	**29**	(8)
Other comprehensive income	**1,181**	2,734	**1,732**	5,722
Comprehensive income	**2,299**	4,658	**4,061**	7,443
Comprehensive income (loss) attributable to noncontrolling interests	**(12)**	11	**14**	(9)
Comprehensive income attributable to AIG	**$2,311**	$4,647	**$4,047**	$7,452

See accompanying Notes to Condensed Consolidated Financial Statements.

American International Group, Inc.

Condensed Consolidated Statements of Equity *(unaudited)*

(in millions)		Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income
Six Months Ended June 30, 2017						
Balance, beginning of year	**$**	**4,766**	**$ (41,471)**	**$ 81,064**	**$ 28,711**	**$ 3,230 $**
Common stock issued under stock plans		**-**	**140**	**(304)**	**-**	**-**
Purchase of common stock		**-**	**(6,000)**	**-**	**-**	**-**
Net income attributable to AIG or noncontrolling interests		**-**	**-**	**-**	**2,315**	**-**
Dividends		**-**	**-**	**-**	**(597)**	**-**
Other comprehensive income		**-**	**-**	**-**	**-**	**1,732**
Current and deferred income taxes		**-**	**-**	**(4)**	**-**	**-**
Net increase due to acquisitions and consolidations		**-**	**-**	**-**	**-**	**-**
Contributions from noncontrolling interests		**-**	**-**	**-**	**-**	**-**
Distributions to noncontrolling interests		**-**	**-**	**-**	**-**	**-**
Other		**-**	**2**	**157**	**(9)**	**-**
Balance, end of period	**$**	**4,766**	**$ (47,329)**	**$ 80,913**	**$ 30,420**	**$ 4,962 $**
Six Months Ended June 30, 2016						
Balance, beginning of year	$	4,766	$ (30,098)	$ 81,510	$ 30,943	$ 2,537 $
Common stock issued under stock plans		-	84	(172)	-	-
Purchase of common stock		-	(6,248)	-	-	-
Net income (loss) attributable to AIG or noncontrolling interests		-	-	-	1,730	-
Dividends		-	-	-	(713)	-
Other comprehensive income (loss)		-	-	-	-	5,722
Current and deferred income taxes		-	-	19	-	-
Net increase due to acquisitions and consolidations		-	-	-	-	-
Contributions from noncontrolling interests		-	-	-	-	-
Distributions to noncontrolling interests		-	-	-	-	-
Other		-	-	(125)	(9)	-
Balance, end of period	$	4,766	$ (36,262)	$ 81,232	$ 31,951	$ 8,259 $

See accompanying Notes to Condensed Consolidated Financial Statements.

American International Group, Inc.

Condensed Consolidated Statements of Cash Flows *(unaudited)*

	Six Months E June 30,	
(in millions)	**2017**	
Cash flows from operating activities:		
Net income	**$ 2,329**	$
(Income) loss from discontinued operations	**(8)**	
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	**(400)**	
Net (gain) loss on sale of divested businesses	**160**	
(Gains) losses on extinguishment of debt	**(5)**	
Unrealized (gains) losses in earnings - net	**(287)**	
Equity in (income) loss from equity method investments, net of dividends or distributions	**(259)**	
Depreciation and other amortization	**2,002**	
Impairments of assets	**291**	
Changes in operating assets and liabilities:		
Insurance reserves	**598**	
Premiums and other receivables and payables - net	**(13)**	
Reinsurance assets and funds held under reinsurance treaties	**(12,524)**	
Capitalization of deferred policy acquisition costs	**(2,425)**	(2
Current and deferred income taxes - net	**669**	
Other, net	**587**	(1
Total adjustments	**(11,606)**	(1
Net cash provided by (used in) operating activities	**(9,285)**	
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales or distributions of:		
Available for sale securities	**23,581**	1
Other securities	**1,871**	
Other invested assets	**3,061**	
Divested businesses, net	**538**	
Maturities of fixed maturity securities available for sale	**15,128**	1
Principal payments received on and sales of mortgage and other loans receivable	**3,005**	
Purchases of:		
Available for sale securities	**(26,025)**	(27
Other securities	**(281)**	
Other invested assets	**(1,786)**	(1
Mortgage and other loans receivable	**(4,259)**	(5
Net change in restricted cash	**(44)**	
Net change in short-term investments	**1,047**	(1
Other, net	**(917)**	
Net cash provided by (used in) investing activities	**14,919**	
Cash flows from financing activities:		
Proceeds from (payments for)		
Policyholder contract deposits	**8,916**	

Policyholder contract withdrawals	**(7,917)**	(6
Issuance of long-term debt	**2,221**	
Repayments of long-term debt	**(1,606)**	(2
Purchase of common stock	**(6,000)**	(6
Dividends paid	**(597)**	
Other, net	**(44)**	
Net cash used in financing activities	**(5,027)**	
Effect of exchange rate changes on cash	**(24)**	
Net increase in cash	**583**	
Cash at beginning of year	**1,868**	
Change in cash of businesses held for sale	**66**	
Cash at end of period	**$ 2,517**	$

Supplementary Disclosure of Condensed Consolidated Cash Flow Information		
Cash paid during the period for:		
Interest	**$ 682**	$ 650
Taxes	**$ 402**	$ 117
Non-cash investing/financing activities:		
Interest credited to policyholder contract deposits included in financing activities	**$ 1,654**	$ 1,797

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

These unaudited Condensed Consolidated Financial Statements do not include all disclosures that are normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) and should be read in conjunction with the audited Consolidated Financial Statements and the related notes included in our Annual Report on Form 10-K for the year ended December 31, 2016 (the 2016 Annual Report). The condensed consolidated financial information as of December 31, 2016 included herein has been derived from the audited Consolidated Financial Statements in the 2016 Annual Report.

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

Interim-period operating results may not be indicative of the operating results for a full year. We evaluated the need to recognize or disclose events that occurred subsequent to June 30, 2017 and prior to the issuance of these Condensed Consolidated Financial Statements.

Use of Estimates

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

- income tax assets and liabilities, including recoverability of our net deferred tax asset and the predictability of future tax operating profitability of the character necessary to realize the net deferred tax asset;

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

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

2. Summary of Significant Accounting Policies

Accounting Standards Adopted During 2017

Derivative Contract Novations

In March 2016, the Financial Accounting Standards Board (FASB) issued an accounting standard that clarifies that a change in the counterparty (novation) to a derivative instrument that has been designated as a hedging instrument does not, in and of itself, require de-designation of that hedging relationship provided that all other hedge accounting criteria continue to be met.

We adopted the standard on its required effective date of January 1, 2017. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

Contingent Put and Call Options in Debt Instruments

In March 2016, the FASB issued an accounting standard that clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. The standard requires an evaluation of embedded call (put) options solely on a four-step decision sequence that requires an entity to consider whether (1) the amount paid upon settlement is adjusted based on changes in an index, (2) the amount paid upon settlement is indexed to an underlying other than interest rates or credit risk, (3) the debt involves a substantial premium or discount and (4) the put or call option is contingently exercisable.

We adopted the standard on its required effective date of January 1, 2017. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

Simplifying the Transition to the Equity Method of Accounting

In March 2016, the FASB issued an accounting standard that eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods during which the investment had been held.

We adopted the standard on its required effective date of January 1, 2017. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

Interest Held through Related Parties that are under Common Control

In October 2016, the FASB issued an accounting standard that amends the consolidation analysis for a reporting entity that is the single decision maker of a variable interest entity (VIE). The new guidance will require the decision maker's evaluation of its interests held through related parties that are under common control on a proportionate basis (rather than in their entirety) when determining whether it is the primary beneficiary of that VIE. The amendment does not change the characteristics of a primary beneficiary.

We adopted the standard on its required effective date of January 1, 2017. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

Future Application of Accounting Standards

Revenue Recognition

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

The standard is effective on January 1, 2018 and may be applied retrospectively or through a cumulative effect adjustment to retained earnings at the date of adoption. Early adoption is permitted as of January 1, 2017, including for interim periods. We continue to assess the impact to our revenue sources that are within the scope of the standard. Our analysis of revenues for the year ended December 31, 2016 indicates that substantially all of our revenues are from sources not within the scope of the standard. As substantially all of our revenue sources are not within the scope of the standard, we do not expect the adoption of the standard to have a material effect on our reported consolidated financial condition, results of operations or cash flows.

Recognition and Measurement of Financial Assets and Financial Liabilities

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

The standard is effective on January 1, 2018, with early adoption of certain provisions permitted. Based on our initial review, substantially all of our assets and liabilities are not within the scope of the standard. We do not expect the adoption of the standard to have a material effect on our reported consolidated financial condition, results of operations or cash flows.

Leases

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

The standard is effective on January 1, 2019, with early adoption permitted using a modified retrospective approach. We are assessing the impact of the standard on our reported consolidated financial condition, results of operations and cash flows. We are currently quantifying the expected recognition on our balance sheet for a right to use asset and a lease liability as required by the standard.

Financial Instruments - Credit Losses

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

The standard is effective on January 1, 2020, with early adoption permitted on January 1, 2019. We are assessing the impact of the standard on our reported consolidated financial condition, results of operations and cash flows, but we expect an increase in our allowances for credit losses. The amount of the increase will be impacted by our portfolio composition and quality at the adoption date as well as economic conditions and forecasts at that time.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued an accounting standard that addresses diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide clarity on the treatment of eight specifically defined types of cash inflows and outflows. The standard is effective on January 1, 2018, with early adoption permitted as long as all amendments are included in the same period.

The standard addresses presentation in the statement of cash flows only and will have no effect on our reported consolidated financial condition or results of operations.

Intra-Entity Transfers of Assets Other than Inventory

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

The standard is effective on January 1, 2018, with early adoption permitted. We are assessing the impact of the standard on our reported consolidated financial condition, results of operations and cash flows.

Restricted Cash

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

The standard is effective on January 1, 2018, with early adoption permitted. The standard addresses presentation of restricted cash in the Statement of Cash Flows only and will have no effect on our reported consolidated financial condition or results of operations.

Clarifying the Definition of a Business

In January 2017, the FASB issued an accounting standard that changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business. The new standard will require an entity to evaluate if substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar assets; if so, the set of transferred assets and activities is not a business. At a minimum, a set must include an input and a substantive process that together significantly contribute to the ability to create output.

The standard is effective on January 1, 2018, with early adoption permitted. We are assessing the impact of the standard on our reported consolidated financial condition, results of operations and cash flows. Because the standard requires prospective adoption, the impact is dependent on future acquisitions, dispositions and those entities that we consolidate due to obtaining a controlling financial interest.

Simplifying the Test for Goodwill Impairment

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

The standard is effective on January 1, 2020 with early adoption permitted on testing dates after January 1, 2017. We currently anticipate that the adoption of the standard will not have a material effect on our consolidated financial condition, results of operations or cash flows.

Gains and Losses from the Derecognition of Nonfinancial Assets

In February 2017, the FASB issued an accounting standard that clarifies the scope and application of Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets, to the sale or transfer of nonfinancial assets and in substance nonfinancial assets to noncustomers, including partial sales. The standard clarifies that a parent transferring its ownership interest in a consolidated subsidiary is within the scope of the accounting standard if substantially all of the fair value of the assets within that subsidiary are nonfinancial assets. The standard also clarifies that the derecognition of all businesses and nonprofit activities should be accounted for in accordance with the derecognition and deconsolidation guidance. The standard also eliminates the exception in the financial asset guidance for transfers of investments (including equity method investments) in real estate entities. An entity is required to apply the amendments in this update at the same time that it applies the amendments in revenues from contracts with customers.

The standard is effective on January 1, 2018 and may be applied retrospectively to each period presented or through a cumulative effect adjustment to retained earnings at the date of adoption (modified retrospective approach). We are currently reviewing the standard and assessing the impact of the standard on our reported consolidated financial condition, results of operations and cash flows.

Improving the Presentation of Net Periodic Pension and Postretirement Benefit Cost

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

The standard is effective on January 1, 2018, with early adoption permitted. The amendments should be applied retrospectively for the presentation of the service cost and other components, and prospectively for the capitalization of the service cost component. The standard addresses presentation of net periodic benefit costs in the income statement and will have no effect on our reported consolidated financial condition, results of operations or cash flows.

Premium Amortization on Purchased Callable Debt Securities

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

The standard is effective January 1, 2018, with early adoption permitted as of January 1, 2017, including for interim periods. We are assessing the impact of the standard, but do not expect it to have a material impact on our reported consolidated financial condition, results of operations or cash flows.

Modification of Share-Based Payment Awards

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

The standard is effective January 1, 2018, with early adoption permitted, including adoption for interim periods. This standard must be applied prospectively upon adoption. We do not expect the standard to have a material effect on our reported consolidated financial condition, results of operations or cash flows.

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.

We report our results of operations as follows:

- Commercial Insurance business is presented as two operating segments:

- Liability and Financial Lines

- Property and Special Risks

- Consumer Insurance business is presented as four operating segments:

- Individual Retirement

- Group Retirement

- Life Insurance
- Personal Insurance

- The Other Operations category consists of:

- Institutional Markets
- Income from assets held by AIG Parent and other corporate subsidiaries
- General operating expenses not attributable to specific reporting segments
- Interest expense
- United Guaranty — The sale of this business was completed on December 31, 2016
- Fuji Life — The sale of this business was completed on April 30, 2017

- The Legacy Portfolio segment consists of:

- Legacy Property and Casualty Run-Off Insurance Lines
- Legacy Life Insurance Run-Off Lines
- Legacy Investments

We evaluate segment performance based on operating revenues and pre-tax operating income (loss). Operating revenues and pre-tax operating income (loss) is derived by excluding certain items from total revenues and net income (loss) attributable to AIG, respectively. *See the table below for the items excluded from operating revenues and pre-tax operating income (loss).*

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

Three Months Ended June 30,		**2017**	
(in millions)		Total Revenues	Pre-Tax Operating Income (Loss)
Commercial Insurance			
Liability and Financial Lines	$	2,747$	586 $
Property and Special Risks		1,786	130
Total Commercial Insurance		4,533	716
Consumer Insurance			
Individual Retirement		1,383	558
Group Retirement		696	266
Life Insurance		1,030	106
Personal Insurance		2,871	330
Total Consumer Insurance		5,980	1,260
Other Operations		899	(302)
Legacy Portfolio		1,138	431
AIG Consolidation and elimination		(54)	28
Total AIG Consolidated revenues and pre-tax operating income		12,496	2,133
Reconciling Items from revenues and pre-tax operating income to revenues and pre-tax income:			
Changes in fair value of securities used to hedge guaranteed living benefits		80	80
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains		-	58
(Unfavorable) favorable prior year development and related amortization changes ceded under retroactive reinsurance agreements		-	(251)
Gain (Loss) on extinguishment of debt		-	4
Net realized capital gains (losses)		(69)	(69)
Gain (loss) from divested businesses		-	(60)
Non-operating litigation reserves and settlements		6	80
Net loss reserve discount (benefit) charge		-	(260)
Pension expense related to a one-time lump sum payment to former employees		-	(1)
Restructuring and other costs		-	(47)
Other		(11)	-
Revenues and Pre-tax income	$	12,502$	1,667 $

Six Months Ended June 30,	**2017**	
(in millions)	Total Revenues	Pre-Tax Operating Income (Loss)

Commercial Insurance			
Liability and Financial Lines	$ 5,595	$ 1,160	$
Property and Special Risks	3,621	405	
Total Commercial Insurance	9,216	1,565	
Consumer Insurance			
Individual Retirement	2,756	1,097	
Group Retirement	1,414	509	
Life Insurance	2,043	160	
Personal Insurance	5,709	542	
Total Consumer Insurance	11,922	2,308	
Other Operations	1,989	(548)	
Legacy Portfolio	2,222	773	