AMERICAN INTERNATIONAL GROUP INC
Form 10-Q
November 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018	**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 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 October 29, 2018, there were 884,648,470 shares outstanding of the registrant's common stock.

AMERICAN INTERNATIONAL GROUP, INC.

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

September 30, 2018

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Part I – Financial Information

Item 1. | Financial Statements

American International Group, Inc.

Condensed Consolidated Balance Sheets *(unaudited)*

	Sept
(in millions, except for share data)	
Assets:	
Investments:	
Fixed maturity securities:	
Bonds available for sale, at fair value (amortized cost: 2018 - $228,047; 2017 - $225,461)	**$ 2**
Other bond securities, at fair value (*See Note 6*)	
Equity Securities:	
Common and preferred stock available for sale, at fair value (cost: 2017 - $1,305)	
Other common and preferred stock, at fair value (*See Note 6*)	
Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2018 - $0; 2017 - $5)	
Other invested assets (portion measured at fair value: 2018 - $6,144; 2017 - $6,248)	
Short-term investments, including restricted cash of 2018 - $28; 2017 - $58 (portion measured at fair value: 2018 - $3,633; 2017 - $2,615)	
Total investments	**3**
Cash	
Accrued investment income	
Premiums and other receivables, net of allowance	
Reinsurance assets, net of allowance	
Deferred income taxes	
Deferred policy acquisition costs	
Other assets, including restricted cash of $354 in 2018 and $317 in 2017 (portion measured at fair value: 2018 - $950; 2017 - $922)	
Separate account assets, at fair value	
Total assets	**$ 5**
Liabilities:	
Liability for unpaid losses and loss adjustment expenses	**$**
Unearned premiums	
Future policy benefits for life and accident and health insurance contracts	
Policyholder contract deposits (portion measured at fair value: 2018 - $3,376; 2017 - $4,150)	**1**
Other policyholder funds	
Other liabilities (portion measured at fair value: 2018 - $1,491; 2017 - $1,124)	
Long-term debt (portion measured at fair value: 2018 - $2,311; 2017 - $2,888)	

Separate account liabilities	
Total liabilities	**4**
Contingencies, commitments and guarantees (*See Note 11*)	
AIG shareholders' equity:	
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued: 2018 - 1,906,671,492 and 2017 - 1,906,671,492	
Treasury stock, at cost; 2018 - 1,022,023,965 shares; 2017 - 1,007,626,835 shares of common stock	**(4**
Additional paid-in capital	
Retained earnings	
Accumulated other comprehensive income (loss)	
Total AIG shareholders' equity	
Non-redeemable noncontrolling interests	
Total equity	
Total liabilities and equity	**$ 5**

See accompanying Notes to Condensed Consolidated Financial Statements.

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American International Group, Inc.

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

(dollars in millions, except per share data)		Three Months Ended September 30, 2018		2017	
Revenues:					
Premiums	$	7,668	$	8,063	$
Policy fees		530		728	
Net investment income		3,396		3,416	
Net realized capital losses:					
Total other-than-temporary impairments on available for sale securities		(13)		(66)	
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income (loss)		(22)		(8)	
Net other-than-temporary impairments on available for sale securities recognized in net income (loss)		(35)		(74)	
Other realized capital losses		(476)		(848)	
Total net realized capital losses		(511)		(922)	
Other income		403		466	
Total revenues		11,486		11,751	
Benefits, losses and expenses:					
Policyholder benefits and losses incurred		8,312		10,322	
Interest credited to policyholder account balances		933		867	
Amortization of deferred policy acquisition costs		1,118		912	
General operating and other expenses		2,325		2,149	
Interest expense		326		290	
(Gain) loss on extinguishment of debt		1		1	
Net (gain) loss on sale of divested businesses		(2)		13	
Total benefits, losses and expenses		13,013		14,554	
Income (loss) from continuing operations before income tax expense (benefit)		(1,527)		(2,803)	
Income tax expense (benefit)		(307)		(1,091)	
Income (loss) from continuing operations		(1,220)		(1,712)	
Income (loss) from discontinued operations, net of income tax expense		(39)		(1)	
Net income (loss)		(1,259)		(1,713)	
Less:					
Net income from continuing operations attributable to noncontrolling interests		-		26	
Net income (loss) attributable to AIG	$	(1,259)	$	(1,739)	$
Income (loss) per common share attributable to AIG:					
Basic:					

Income (loss) from continuing operations	**$**	**(1.37)**	$	(1.91)	**$**
Income (loss) from discontinued operations	**$**	**(0.04)**	$	-	**$**
Net income (loss) attributable to AIG	**$**	**(1.41)**	$	(1.91)	**$**
Diluted:					
Income (loss) from continuing operations	**$**	**(1.37)**	$	(1.91)	**$**
Income (loss) from discontinued operations	**$**	**(0.04)**	$	-	**$**
Net income (loss) attributable to AIG	**$**	**(1.41)**	$	(1.91)	**$**
Weighted average shares outstanding:					
Basic		**895,237,359**		908,667,044	**902**
Diluted		**895,237,359**		908,667,044	**916**
Dividends declared per common share	**$**	**0.32**	$	0.32	**$**

See accompanying Notes to Condensed Consolidated Financial Statements.

American International Group, Inc.

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

	Three Months Ended September 30,		Nine Mor Endec Septembe	
(in millions)	**2018**	2017	**2018**	
Net income (loss)	**$(1,259)**	$(1,713)	**$ 621**	$
Other comprehensive income (loss), net of tax				
Change in unrealized appreciation (depreciation) of fixed maturity securities on which other-than-temporary credit impairments were taken	**107**	97	**(1,089)**	
Change in unrealized appreciation (depreciation) of all other investments	**(758)**	492	**(4,222)**	
Change in foreign currency translation adjustments	**(129)**	325	**(181)**	
Change in retirement plan liabilities adjustment	**14**	63	**66**	
Change in fair value of liabilities under fair value option attributable to changes in own credit risk	**-**	-	**1**	
Other comprehensive income (loss)	**(766)**	977	**(5,425)**	
Comprehensive income (loss)	**(2,025)**	(736)	**(4,804)**	
Comprehensive income attributable to noncontrolling interests	**-**	26	**5**	
Comprehensive income (loss) attributable to AIG	**$(2,025)**	$ (762)	**$(4,809)**	$

See accompanying Notes to Condensed Consolidated Financial Statements.

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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 (Loss)	
Three Months Ended September 30, 2018											
Balance, beginning of period	$	4,766	$	(48,052)	$	80,924	$	23,318	$	230	$
Cumulative effect of change in accounting principle, net of tax		-		-		-		-		-	
Common stock issued under stock plans		-		-		-		-		-	
Purchase of common stock		-		(348)		-		-		-	
Net income (loss) attributable to AIG or noncontrolling interests		-		-		-		(1,259)		-	
Dividends		-		-		-		(283)		-	
Other comprehensive income (loss)		-		-		-		-		(766)	
Net increase due to acquisitions and consolidations		-		-		-		-		-	
Contributions from noncontrolling interests		-		-		-		-		-	
Distributions to noncontrolling interests		-		-		-		-		-	
Other		-		(1)		84		(27)		-	
Balance, end of period	$	4,766	$	(48,401)	$	81,008	$	21,749	$	(536)	$
Nine Months Ended September 30, 2018											
Balance, beginning of year	$	4,766	$	(47,595)	$	81,078	$	21,457	$	5,465	$
Cumulative effect of change in accounting principle, net of tax		-		-		-		568		(576)	
Common stock issued under stock plans		-		187		(337)		-		-	
Purchase of common stock		-		(994)		-		-		-	
Net income attributable to AIG or noncontrolling interests		-		-		-		616		-	
Dividends		-		-		-		(858)		-	
Other comprehensive income (loss)		-		-		-		-		(5,425)	
Current and deferred income taxes		-		-		-		-		-	
Net increase due to acquisitions and consolidations		-		-		-		-		-	
Contributions from noncontrolling interests		-		-		-		-		-	
Distributions to noncontrolling interests		-		-		-		-		-	
Other		-		1		267		(34)		-	
Balance, end of period	$	4,766	$	(48,401)	$	81,008	$	21,749	$	(536)	$

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American International Group, Inc.

Condensed Consolidated Statements of Equity *(unaudited)(continued)*

(in millions)	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	To
Three Months Ended September 30, 2017						
Balance, beginning of period	$ 4,766	$ (47,329)	$ 80,913	$ 30,420	$ 4,962	$
Common stock issued under stock plans	-	-	-	-	-	
Purchase of common stock	-	(275)	-	-	-	
Net income (loss) attributable to AIG or noncontrolling interests	-	-	-	(1,739)	-	
Dividends	-	-	-	(287)	-	
Other comprehensive income (loss)	-	-	-	-	977	
Current and deferred income taxes	-	-	-	-	-	
Net increase due to acquisitions and consolidations	-	-	-	-	-	
Contributions from noncontrolling interests	-	-	-	-	-	
Distributions to noncontrolling interests	-	-	-	-	-	
Other	-	2	63	(5)	-	
Balance, end of period	$ 4,766	$ (47,602)	$ 80,976	$ 28,389	$ 5,939	$
Nine Months Ended September 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	-	(6,275)	-	-	-	
Net income attributable to AIG or noncontrolling interests	-	-	-	576	-	
Dividends	-	-	-	(884)	-	
Other comprehensive income (loss)	-	-	-	-	2,709	
Current and deferred income taxes	-	-	(4)	-	-	
Net increase due to acquisitions and consolidations	-	-	-	-	-	
Contributions from noncontrolling interests	-	-	-	-	-	
Distributions to noncontrolling interests	-	-	-	-	-	
Other	-	4	220	(14)	-	
Balance, end of period	$ 4,766	$ (47,602)	$ 80,976	$ 28,389	$ 5,939	$

See accompanying Notes to Condensed Consolidated Financial Statements.

American International Group, Inc.

Condensed Consolidated Statements of Cash Flows *(unaudited)*

(in millions)	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Net income	$ 621	$ 616
(Income) loss from discontinued operations	40	(7)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Noncash revenues, expenses, gains and losses included in income (loss):		
Net gains on sales of securities available for sale and other assets	(71)	(404)
Net (gain) loss on sale of divested businesses	(35)	173
(Gains) losses on extinguishment of debt	10	(4)
Unrealized losses in earnings - net	601	251
Equity in (income) loss from equity method investments, net of dividends or distributions	141	(16)
Depreciation and other amortization	3,813	2,806
Impairments of assets	269	669
Changes in operating assets and liabilities:		
Insurance reserves	96	4,448
Premiums and other receivables and payables - net	968	300
Reinsurance assets and funds held under reinsurance treaties	(2,057)	(12,705)
Capitalization of deferred policy acquisition costs	(4,366)	(3,593)
Current and deferred income taxes - net	224	(508)
Other, net	(292)	(888)
Total adjustments	(699)	(9,471)
Net cash used in operating activities	(38)	(8,862)
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales or distributions of:		
Available for sale securities	18,103	27,733
Other securities	3,258	2,647
Other invested assets	3,799	4,074
Divested businesses, net	10	605
Maturities of fixed maturity securities available for sale	18,305	22,126
Principal payments received on and sales of mortgage and other loans receivable	3,068	3,932
Purchases of:		
Available for sale securities	(32,807)	(38,717)
Other securities	(940)	(355)
Other invested assets	(2,263)	(2,359)
Mortgage and other loans receivable	(7,918)	(6,517)

Acquisition of businesses, net of cash and restricted cash acquired	**(5,052)**	-
Net change in short-term investments	**2,411**	2,815
Other, net	**(891)**	(1,509)
Net cash provided by (used in) investing activities	**(917)**	14,475
Cash flows from financing activities:		
Proceeds from (payments for)		
Policyholder contract deposits	**18,150**	13,164
Policyholder contract withdrawals	**(13,004)**	(11,363)
Issuance of long-term debt	**4,059**	2,405
Repayments of long-term debt	**(2,788)**	(2,751)
Purchase of common stock	**(994)**	(6,275)
Dividends paid	**(858)**	(884)
Other, net	**(3,232)**	578
Net cash provided by (used in) financing activities	**1,333**	(5,126)
Effect of exchange rate changes on cash and restricted cash	**8**	(22)
Net increase in cash and restricted cash	**386**	465
Cash and restricted cash at beginning of year	**2,737**	2,107
Change in cash of businesses held for sale	**-**	133
Cash and restricted cash at end of period	**$ 3,123**	$ 2,705

American International Group, Inc.

Condensed Consolidated Statements of Cash Flows *(unaudited)(continued)*

Supplementary Disclosure of Condensed Consolidated Cash Flow Information

	Nine Months Ended September 30,	
	2018	2017
Cash	**$2,741**	$2,433
Restricted cash included in Short-term investments*	**28**	53
Restricted cash included in Other assets*	**354**	219
Total cash and restricted cash shown in the Condensed Consolidated Statements of Cash Flows	**$3,123**	$2,705

Cash paid during the period for:		
Interest	**$ 1,018**	$ 1,046
Taxes	**$ 67**	$ 490
Non-cash investing/financing activities:		
Interest credited to policyholder contract deposits included in financing activities	**$ 2,525**	$ 2,494

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

See accompanying Notes to Condensed Consolidated Financial Statements.

1. Basis of Presentation

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

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

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

Interim-period operating results may not be indicative of the operating results for a full year. We evaluated the need to recognize or disclose events that occurred subsequent to September 30, 2018 and prior to the issuance of these Condensed Consolidated Financial Statements.

Use of Estimates

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

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

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

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

Acquisition of Validus

On July 18, 2018, we completed the purchase of Validus Holdings, Ltd. (Validus), a leading provider of reinsurance, primary insurance, and asset management services, for $5.5 billion in cash. The results of Validus following the date of the acquisition are included in our General Insurance segment starting in the third quarter of 2018. Our North America results include the results of Validus Reinsurance, Ltd. and Western World Insurance Group, Inc., while our International results include the results of Talbot Holdings Ltd.

For additional information relating to the acquisition of Validus, see Note 4.

OUT OF PERIOD ADJUSTMENTS

For the three- and nine-month periods ended September 30, 2018, our results include out of period adjustments relating to prior periods that decreased net income attributable to AIG by $205 million and $28 million, respectively, and decreased Income from continuing operations before income taxes by $253 million and $15 million, respectively. The out of period adjustments for the three-month period are primarily related to decreases in deferred policy acquisition costs and increases in policyholder contract deposits due to the update of actuarial assumptions.

We determined that these adjustments were not material to the current quarter or to any previously reported quarterly or annual financial statements.

2. Summary of Significant Accounting Policies

Accounting Standards Adopted During 2018

Revenue Recognition

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

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

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued an accounting standard that requires 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 are presented separately in other comprehensive income. The standard allows the election to record equity investments without readily determinable fair values at cost, less impairment, adjusted for subsequent observable price changes with changes in the carrying value of the equity investments recorded in earnings. The standard also updates certain fair value disclosure requirements for financial instruments carried at amortized cost.

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

Classification of Certain Cash Receipts and Cash Payments

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

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

Intra-Entity Transfers of Assets Other than Inventory

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

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

Restricted Cash

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

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

Gains and Losses from the Derecognition of Nonfinancial Assets

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

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

Improving the Presentation of Net Periodic Pension and Postretirement Benefit Cost

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

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

Modification of Share-Based Payment Awards

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

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

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued an accounting standard that allows the optional reclassification of stranded tax effects within accumulated other comprehensive income to retained earnings that arise due to the enactment of the Tax Cuts and Jobs Act of 2017 (Tax Act). The amount of the reclassification would reflect the effect of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances, if any, at the date of enactment of the Tax Act and other income tax effects of the Tax Act on items remaining in accumulated other comprehensive income.

We adopted the standard effective January 1, 2018. The impact of the adoption of the standard resulted in an increase to beginning Accumulated other comprehensive income and a corresponding decrease to beginning Retained earnings of $248 million. *For more information on the adoption of the Tax Act, see Note 15.*

Future Application of Accounting Standards

Leases

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

We plan to adopt the standard on its effective date, January 1, 2019, using the additional (and optional) transition method and recognizing a cumulative-effect adjustment to the opening balance of retained earnings, at the adoption date. We are currently quantifying the expected recognition on our balance sheet for a right to use asset and a lease liability as required by the standard. We do not expect the impact of the standard to have a material effect on our reported consolidated financial condition, results of operations, cash flows or required disclosures.

Financial Instruments - Credit Losses

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

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

Simplifying the Test for Goodwill Impairment

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

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

Premium Amortization on Purchased Callable Debt Securities

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

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

Derivatives and Hedging

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

The standard is effective on January 1, 2019, with early adoption permitted. We will adopt the standard on its effective date. The standard’s impact is immaterial to our reported consolidated financial condition, results of operations, cash flows and required disclosures.

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 changes to the measurement, recognition and disclosure as provided by the new accounting standard update are 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.

- Requires the discount rate assumption to be updated at the end of each reporting period using a 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 deferred acquisition costs (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 effect of those changes.

We plan to adopt the standard on its effective date, January 1, 2021. We are evaluating the method of adoption and impact of the standard on our reported consolidated financial condition, results of operations, cash flows and required disclosures. 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.

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. This also includes the results of Validus Reinsurance, Ltd. and Western World Insurance Group, Inc. as of the acquisition date.

- **International** — consists of insurance businesses in Japan, the United Kingdom, Europe, Asia Pacific, Latin America, Puerto Rico, Australia, the Middle East and Africa. This also includes the results of Talbot Holdings, Ltd. as of the acquisition date.

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

– Commercial Lines — consists of Liability, Financial Lines, Property and Special Risks.

– Personal Insurance — consists of Personal Lines and Accident and Health.

Life and Retirement

Life and Retirement business is presented as four operating segments:

- **Individual Retirement** — consists of fixed annuities, fixed index annuities, variable annuities and retail mutual funds.

- **Group Retirement** — consists of group mutual funds, group fixed annuities, group variable annuities, individual annuity and investment products, financial planning and advisory services.

- **Life Insurance** — primary products in the U.S. include term life and universal life insurance. International operations include distribution of life and health products in the UK and Ireland.

- **Institutional Markets** — consists of stable value wrap products, structured settlement and pension risk transfer annuities, corporate- and bank-owned life insurance and guaranteed investment contracts (GICs).

Other Operations

Other Operations category consists of:

- Income from assets held by AIG Parent and other corporate subsidiaries.
- General operating expenses not attributable to specific reporting segments.
- Interest expense.
- **Blackboard** — a subsidiary focused on delivering commercial insurance solutions using digital technology, data analytics and automation.
- **Fuji Life** — consists of term insurance, life insurance, endowment policies and annuities. The sale of this business was completed on April 30, 2017.

Legacy Portfolio

Legacy Portfolio represents exited or discontinued product lines, policy forms or distribution channels. Effective February 2018, our Bermuda domiciled composite reinsurer, Fortitude Reinsurance Company Ltd. (Fortitude Re), formerly known as DSA Reinsurance Company, Ltd., is included in our Legacy Portfolio.

- **Legacy Life and Retirement Run-Off Lines -** Reserves consist of certain structured settlements, pension risk transfer annuities and single premium immediate annuities written prior to April 2012. Also includes exposures to whole life, long-term care and exited accident & health product lines.

- **Legacy General Insurance Run-Off Lines -** Reserves consist of excess workers' compensation, environmental exposures and exposures to other products within General Insurance that are no longer actively marketed. Also includes the remaining reserves in Eaglestone Reinsurance Company (Eaglestone).

- **Legacy Investments –** Includes investment classes that we have placed into run-off including holdings in direct investments as well as investments in global capital markets and global real estate.

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

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

Three Months Ended September 30,	**2018**	
(in millions)	Adjusted Revenues	Adjusted Pre-tax Income (Loss)
General Insurance		
North America	$ 4,129	$ (160) $
International	3,853	(665)
Total General Insurance	7,982	(825)
Life and Retirement		
Individual Retirement	1,335	393
Group Retirement	718	242
Life Insurance	809	16
Institutional Markets	284	62
Total Life and Retirement	3,146	713
Other Operations	135	(417)
Legacy Portfolio	814	84
AIG Consolidation and elimination	(42)	29

Total AIG Consolidated adjusted revenues and adjusted pre-tax income		**12,035**	**(416)**
Reconciling Items to revenues and pre-tax income:			
Changes in fair value of securities used to hedge guaranteed living benefits		**(5)**	**(14)**
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains		**-**	**76**
Other income (expense) - net		**(4)**	**-**
Gain (Loss) on extinguishment of debt		**-**	**(1)**
Net realized capital losses*		**(540)**	**(524)**
Income (loss) from divested businesses		**-**	**2**
Non-operating litigation reserves and settlements		**-**	**(5)**
(Unfavorable) favorable prior year development and related amortization changes ceded under retroactive reinsurance agreements		**-**	**(605)**
Net loss reserve discount benefit (charge)		**-**	**86**
Pension expense related to a one-time lump sum payment to former employees		**-**	**-**
Integration and transaction costs associated with acquired businesses		**-**	**(91)**
Restructuring and other costs		**-**	**(35)**
Revenues and Pre-tax income (loss)	**$**	**11,486$**	**(1,527)** $

Nine Months Ended September 30,	**2018**	
(in millions)	Adjusted Revenues	Adjusted Pre-Tax Income (Loss)
General Insurance		
North America	$ 10,895	$ 567
International	11,758	(314)
Total General Insurance	22,653	253
Life and Retirement		
Individual Retirement	4,062	1,354
Group Retirement	2,209	774
Life Insurance	2,962	243
Institutional Markets	838	196
Total Life and Retirement	10,071	2,567
Other Operations	454	(1,133)
Legacy Portfolio	2,431	363
AIG Consolidation and elimination	(214)	28
Total AIG Consolidated adjusted revenues and adjusted pre-tax income	35,395	2,078
Reconciling Items to revenues and pre-tax income:		
Changes in fair value of securities used to hedge guaranteed living benefits	(109)	(127)
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains	-	46
Other income (expense) - net	(29)	-
Gain (Loss) on extinguishment of debt	-	(10)
Net realized capital losses*	(430)	(388)
Income (loss) from divested businesses	-	35
Non-operating litigation reserves and settlements	2	(30)
(Unfavorable) favorable prior year development and related amortization changes ceded under retroactive reinsurance agreements	-	(607)
Net loss reserve discount benefit (charge)	-	305
Pension expense related to a one-time lump sum payment to former employees	-	-
Integration and transaction costs associated with acquired businesses	-	(91)
Restructuring and other costs	-	(259)
Revenues and Pre-tax income	$ 34,829	$ 952

* 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.

4. Business Combination

On July 18, 2018, we completed the purchase of a 100 percent voting interest in Validus, a leading provider of reinsurance, primary insurance, and asset management services, for $5.5 billion in cash. This transaction was made with the intent to strengthen our global General Insurance business by expanding our current product portfolio through additional distribution channels and advancing the tools available to enhance underwriting. The impact of the acquisition on Total revenues, Net income (loss), and Net income (loss) attributable to AIG was $756 million, $(105) million, and $(105) million, respectively, for both the three- and nine-month periods ended September 30, 2018. Integration and transaction costs associated with the acquisition of Validus were $91 million for both the three- and nine-month periods ending September 30, 2018 and are included in General operating and other expenses in our Consolidated Statement of Income.

As part of the purchase, we guaranteed 6,000 issued and outstanding 5.875% Non-Cumulative Preference Shares, Series A (the Series A Preference Shares) and 10,000 issued and outstanding 5.800% Non-Cumulative Preference Shares, Series B (together with the Series A Preference Shares, the Preference Shares). On September 27, 2018, we provided notice to the preference shareholders that on October 30, 2018 (the Redemption Date), we will redeem all of the Preference Shares at a redemption price of $26,000 per Preference Share, plus all declared and unpaid dividends, if any, up to, but excluding, the Redemption Date. Accordingly, as of September 30, 2018, the Preference Shares are included within Other liabilities on our Condensed Consolidated Balance Sheet.

The purchase was accounted for under the acquisition method. Accordingly, the total purchase price was allocated to the estimated fair values of assets acquired and liabilities assumed. This allocation resulted in the purchase price exceeding the fair value of net assets acquired, which results in a difference recorded as goodwill. Goodwill generated from the acquisition is attributable to expected synergies from future growth and potential future monetization opportunities. Goodwill related to the purchase of Validus assigned to our General Insurance operating segments was $1.8 billion for North America and $157 million for International.

In addition, Validus participates in the market for insurance-linked securities (ILS) primarily through AlphaCat Managers, Ltd (AlphaCat Manager). AlphaCat Manager is an asset manager primarily for third party investors and in connection with the issuance of ILS invests in AlphaCat funds which are considered variable interest entities (VIEs). ILS are financial instruments for which the values are determined based on insurance losses caused primarily by natural catastrophes such as major earthquakes and hurricanes. We report the investment in AlphaCat funds, which approximated $128 million at September 30, 2018, in Other Invested Assets in the Condensed Consolidated Balance Sheet.

The following table summarizes the estimated provisional fair values of major classes of identifiable assets acquired and liabilities assumed as of July 18, 2018:

(in millions)	**July 18, 2018**

Identifiable net assets:		
Investments	$	6,613
Cash		330
Premiums and other receivables		2,130
Reinsurance assets		1,692
Value of business acquired*		298
Deferred income taxes		63
Other assets, including restricted cash of $93		1,008
Liability for unpaid claims and claims adjustment expense		(4,138)
Unearned premiums		(2,083)
Long-term debt		(1,106)
Other liabilities		(913)
Preference shares		(416)
Total identifiable net assets acquired		3,478
Cash consideration paid		5,475
Goodwill recognized from acquisition	$	1,997

* Reported in Deferred policy acquisition costs in the Condensed Consolidated Balance Sheet.

The following unaudited summarized pro forma consolidated income statement information assumes that the acquisition of Validus occurred as of January 1, 2017. The pro forma amounts are for comparative purposes only and may not necessarily reflect the results of operations that would have resulted had the acquisition been completed at the beginning of the applicable period and may not be indicative of the results that will be attained in the future.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2018**	2017*	**2018***	2017*
Total revenues	**$ 11,486**	$ 12,418	**$ 36,028**	$ 38,752
Net income (loss)	**(1,259)**	(1,958)	**576**	571
Net income (loss) attributable to AIG	**(1,259)**	(1,984)	**571**	531
Income (loss) per common share attributable to AIG:				
Basic:				
Net income (loss) attributable to AIG	**(1.41)**	(2.18)	**0.63**	0.57
Diluted:				
Net income (loss) attributable to AIG	**(1.41)**	(2.18)	**0.62**	0.55

* Pro forma adjustments were made to Validus external reporting results prior to the acquisition date for the deconsolidation of certain asset management entities consistent with AIG's post acquisition accounting, which had no impact on Net income attributable to Validus.

The following table presents details of the identified intangible assets acquired:

(in millions, except years)	**Fair Value**	**Estimated Weighted Average Useful Life**
Definite lived intangibles		
Value of distribution network acquired[(a)(b)]	**$ 444**	15 years
Value of business acquired[(c)]	**298**	2 years
Indefinite lived intangibles[(a)]		
Syndicate capacity	**193**	
Other	**75**	
Total	**$ 1,010**	

(a) Reported in Other assets in the Condensed Consolidated Balance Sheet.

(b) Amortization is reported in General operating and other expenses in the Condensed Consolidated Statement of Income (Loss).

(c) Reported in Deferred policy acquisition costs in the Condensed Consolidated Balance Sheet and Amortization of deferred policy acquisition costs in the Condensed Consolidated Statement of Income (Loss).

5. 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:

September 30, 2018 *(in millions)*	Level 1	Level 2	Level 3	Counterparty Netting(a)	Cash Collateral	T
Assets:						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 9	$ 3,084	$ -	$ -	$ -	$ 3,
Obligations of states, municipalities and political subdivisions	-	14,516	1,996	-	-	16,
Non-U.S. governments	19	15,196	4	-	-	15,
Corporate debt	-	130,942	942	-	-	131,
RMBS	-	20,365	14,861	-	-	35,
CMBS	-	11,990	701	-	-	12,
CDO/ABS	-	9,263	8,832	-	-	18,
Total bonds available for sale	28	205,356	27,336	-	-	232,
Other bond securities:						
U.S. government and government sponsored entities	96	2,538	-	-	-	2,
Non-U.S. governments	-	49	-	-	-	
Corporate debt	-	1,707	-	-	-	1,
RMBS	-	311	1,349	-	-	1,
CMBS	-	328	73	-	-	
CDO/ABS	-	511	4,458	-	-	4,
Total other bond securities	96	5,444	5,880	-	-	11,
Other equity securities(b)	1,400	18	25	-	-	1,
Mortgage and other loans receivable	-	-	-	-	-	
Other invested assets(c)	-	603	398	-	-	1,
Derivative assets:						
Interest rate contracts	-	2,505	-	-	-	2,
Foreign exchange contracts	-	927	-	-	-	
Equity contracts	16	220	104	-	-	
Credit contracts	-	-	1	-	-	
Other contracts	-	-	15	-	-	
Counterparty netting and cash collateral	-	-	-	(1,874)	(964)	(2,8
Total derivative assets	16	3,652	120	(1,874)	(964)	

Short-term investments	2,513	1,120	-	-	-	3,
Separate account assets	88,092	4,953	-	-	-	93,
Total	$ 92,145	$221,146	$ 33,759	$ (1,874)	$(964)	$344,
Liabilities:						
Policyholder contract deposits	$ -	$ -	$ 3,376	$ -	$ -	$ 3,
Derivative liabilities:						
Interest rate contracts	1	2,106	12	-	-	2,
Foreign exchange contracts	-	1,082	5	-	-	1,
Equity contracts	2	2	1	-	-	
Credit contracts	-	15	237	-	-	
Other contracts	-	-	3	-	-	
Counterparty netting and cash collateral	-	-	-	(1,874)	(290)	(2,
Total derivative liabilities	3	3,205	258	(1,874)	(290)	1,
Long-term debt	-	2,311	-	-	-	2,
Other liabilities	165	24	-	-	-	
Total	$ 168	$ 5,540	$ 3,634	$ (1,874)	$(290)	$ 7,

December 31, 2017 *(in millions)*	Level 1	Level 2	Level 3	Counterparty Netting[a]	Cash Collateral	
Assets:						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 201	$ 2,455	$ -	$ -	$ -	$
Obligations of states, municipalities and political subdivisions	-	16,240	2,404	-	-	
Non-U.S. governments	20	15,631	8	-	-	
Corporate debt	-	133,003	1,173	-	-	
RMBS	-	21,098	16,136	-	-	
CMBS	-	13,217	624	-	-	
CDO/ABS	-	8,131	8,651	-	-	
Total bonds available for sale	221	209,775	28,996	-	-	
Other bond securities:						
U.S. government and government sponsored entities	238	2,564	-	-	-	
Non-U.S. governments	-	57	-	-	-	
Corporate debt	-	1,891	18	-	-	
RMBS	-	421	1,464	-	-	
CMBS	-	485	74	-	-	
CDO/ABS	-	604	4,956	-	-	
Total other bond securities	238	6,022	6,512	-	-	
Equity securities available for sale:						
Common stock	1,061	-	-	-	-	
Preferred stock	18	515	-	-	-	
Mutual funds	110	4	-	-	-	
Total equity securities available for sale	1,189	519	-	-	-	
Other equity securities	589	-	-	-	-	
Mortgage and other loans receivable	-	-	5	-	-	
Other invested assets[c]	-	1	250	-	-	
Derivative assets:						
Interest rate contracts	1	2,170	-	-	-	
Foreign exchange contracts	-	827	4	-	-	
Equity contracts	188	252	82	-	-	
Credit contracts	-	-	1	-	-	
Other contracts	-	-	20	-	-	
Counterparty netting and cash collateral	-	-	-	(1,464)	(1,159)	
Total derivative assets	189	3,249	107	(1,464)	(1,159)	
Short-term investments	2,078	537	-	-	-	
Separate account assets	87,141	5,657	-	-	-	
Total	$ 91,645	$ 225,760	$ 35,870	$ (1,464)	$ (1,159)	$
Liabilities:						
Policyholder contract deposits	$ -	$ 14	$ 4,136	$ -	$ -	$
Derivative liabilities:						

Interest rate contracts	2	2,176	22	-	-	
Foreign exchange contracts	-	1,241	4	-	-	
Equity contracts	2	19	-	-	-	
Credit contracts	-	14	263	-	-	
Other contracts	-	-	5	-	-	
Counterparty netting and cash collateral	-	-	-	(1,464)	(1,249)	
Total derivative liabilities	4	3,450	294	(1,464)	(1,249)	
Long-term debt	-	2,888	-	-	-	
Other liabilities	46	43	-	-	-	
Total	$ 50	$ 6,395	$ 4,430	$ (1,464)	$ (1,249)	$

(a) Represents netting of derivative exposures covered by qualifying master netting agreements.

(b) As a result of the adoption of the Recognition and Measurement of Financial Assets and Financial Liabilities standard on January 1, 2018 (Financial Instruments Recognition and Measurement Standard), equity securities are no longer classified and accounted for as available for sale securities.

(c) Excludes investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent), which totaled $5.1 billion and $6.0 billion as of September 30, 2018 and December 31, 2017, respectively.

Transfers of Level 1 and Level 2 Assets and Liabilities

Our policy is to record transfers of assets and liabilities between Level 1 and Level 2 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market.

There were no transfers of securities issued by non-U.S. government entities from Level 1 to Level 2 in the three-month period ended September 30, 2018. During the nine-month period ended September 30, 2018, we transferred $16 million of securities issued by non-U.S. government entities from Level 1 to Level 2, because they are no longer considered actively traded. For similar reasons, during the three- and nine-month periods ended September 30, 2018, we transferred $52 million and $733 million, respectively, of securities issued by the U.S. government and government sponsored entities from Level 1 to Level 2. We had no material transfers from Level 2 to Level 1 during the three- and nine-month periods ended September 30, 2018.

There were no transfers of preferred stock or securities issued by the U.S. government and government sponsored entities from Level 1 to Level 2 during the three-month period ended September 30, 2017. During the three- and nine-month periods ended September 30, 2017, we transferred $300 million and $352 million, respectively, of securities issued by non-U.S. government entities from Level 1 to Level 2, because they are no longer considered actively traded. For similar reasons, during the nine-month period ended September 30, 2017, we transferred $113 million of securities issued by the U.S. government and government sponsored entities from Level 1 to Level 2. Additionally, we transferred $126 million of preferred stock from Level 1 to Level 2 during the nine-month period ended September 30, 2017. We had no material transfers from Level 2 to Level 1 during the three- and nine-month periods ended September 30, 2017.

Changes in Level 3 Recurring Fair Value Measurements

The following tables present changes during the three- and nine-month periods ended September 30, 2018 and 2017 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 September 30, 2018 and 2017:

(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	Tra
Three Months Ended September 30, 2018						
Assets:						
Bonds available for sale:						
Obligations of states, municipalities and political subdivisions	$ 2,056	$ -	$ (37)	$ (46)	$ 54	$
Non-U.S. governments	-	-	(1)	1	4	
Corporate debt	884	7	(10)	(28)	133	
RMBS	15,377	213	5	(725)	-	
CMBS	605	14	(14)	31	64	
CDO/ABS	6,856	15	(31)	320	1,508	
Total bonds available for sale	25,778	249	(88)	(447)	1,763	
Other bond securities:						
Corporate debt	18	-	-	(18)	-	
RMBS	1,338	18	-	(57)	50	
CMBS	71	(2)	-	-	4	
CDO/ABS	4,641	76	-	(267)	-	
Total other bond securities	6,068	92	-	(342)	54	
Other equity securities[(a)]	-	1	-	24	-	
Mortgage and other loans receivable	-	-	-	-	-	
Other invested assets	399	-	-	(1)	-	
Total	$ 32,245	$ 342	$ (88)	$ (766)	$ 1,817	$

	Fair Value Beginning	Net Realized and Unrealized (Gains) Losses Included	Other Comprehensive	Purchases, Sales, Issuances and	Gross Transfers	Tra

(in millions)		of Period	in Income	Income (Loss)	Settlements, Net	In
Liabilities:						
Policyholder contract deposits	$	3,534	$ (242)	$ -	$ 84	$ - $
Derivative liabilities, net:						
Interest rate contracts		14	(1)	-	(1)	-
Foreign exchange contracts		5	2	-	(2)	-
Equity contracts		(79)	(12)	-	(12)	-
Credit contracts		246	(9)	-	(1)	-
Other contracts		(10)	(19)	-	17	-
Total derivative liabilities, net[(b)]		176	(39)	-	1	-
Long-term debt[(c)]		-	-	-	-	-
Total	$	3,710	$ (281)	$ -	$ 85	$ - $

(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	Tra
Nine Months Ended September 30, 2018						
Assets:						
Bonds available for sale:						
Obligations of states, municipalities and political subdivisions	$ 2,404	$ 1	$ (152)	$ (144)	$ 54	$
Non-U.S. governments	8	(5)	5	(3)	4	
Corporate debt	1,173	(58)	(7)	(174)	701	
RMBS	16,136	632	5	(1,877)	8	
CMBS	624	18	(35)	1	111	
CDO/ABS	8,651	31	(116)	(334)	1,508	(
Total bonds available for sale	28,996	619	(300)	(2,531)	2,386	(
Other bond securities:						
Corporate debt	18	-	-	(18)	-	
RMBS	1,464	73	-	(238)	50	
CMBS	74	(5)	-	(1)	5	
CDO/ABS	4,956	283	-	(780)	-	
Total other bond securities	6,512	351	-	(1,037)	55	
Other equity securities[(a)]	-	(2)	-	27	-	
Mortgage and other loans receivable	5	-	-	(5)	-	
Other invested assets	250	52	1	95	-	
Total	$ 35,763	$ 1,020	$ (299)	$ (3,451)	$ 2,441	$ (

(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	Tra
Liabilities:						
Policyholder contract deposits	$ 4,136	$ (986)	$ -	$ 226	$ -	$
Derivative liabilities, net:						
Interest rate contracts	22	(5)	-	(5)	-	
Foreign exchange contracts	-	(2)	-	7	-	

Equity contracts	(82)	(3)	-	(20)	-
Credit contracts	262	(23)	-	(3)	-
Other contracts	(15)	(51)	-	54	-
Total derivative liabilities, net[b]	187	(84)	-	33	-
Long-term debt[c]	-	-	-	-	-
Total	$ 4,323	$ (1,070)	$ -	$ 259	$ -

(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	Gr Transf
Three Months Ended September 30, 2017					
Assets:					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions	$ 2,285	$ 2	$ 38	$ 52	$
Non-U.S. governments	12	(5)	4	-	
Corporate debt	932	5	(2)	(53)	4
RMBS	16,393	253	495	(731)	
CMBS	735	2	5	(77)	
CDO/ABS	8,605	8	(12)	(166)	
Total bonds available for sale	28,962	265	528	(975)	4
Other bond securities:					
Corporate debt	28	1	-	-	
RMBS	1,510	63	-	(130)	
CMBS	66	2	-	42	
CDO/ABS	5,234	111	-	(505)	
Total other bond securities	6,838	177	-	(593)	
Equity securities available for sale:					
Common stock	7	-	-	(2)	
Total equity securities available for sale	7	-	-	(2)	
Mortgage and other loans receivable	5	-	-	-	
Other invested assets	225	-	(2)	36	
Total	$ 36,037	$ 442	$ 526	$ (1,534)	$ 4

(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	Gr Transf
Liabilities:					
Policyholder contract deposits	$ 3,518	$ 299	$ -	$ 157	$
Derivative liabilities, net:					
Interest rate contracts	30	(2)	-	(2)	
Foreign exchange contracts	7	-	-	(4)	

Equity contracts	(63)	(11)	-	5
Credit contracts	293	(19)	-	(1)
Other contracts	(16)	(19)	-	19
Total derivative liabilities, net[(b)]	251	(51)	-	17
Long-term debt[(c)]	61	2	-	(60)
Total	$ 3,830	$ 250	$ -	$ 114 $

(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	Gr Transf
Nine Months Ended September 30, 2017					
Assets:					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions	$ 2,040	$ 3	$ 123	$ 221	$
Non-U.S. governments	17	(5)	5	(6)	
Corporate debt	1,133	6	(2)	(219)	(
RMBS	16,906	806	992	(2,270)	
CMBS	2,040	25	12	(699)	
CDO/ABS	7,835	(14)	168	478	
Total bonds available for sale	29,971	821	1,298	(2,495)	(
Other bond securities:					
Corporate debt	17	2	-	10	
RMBS	1,605	184	-	(313)	
CMBS	155	4	-	24	
CDO/ABS	5,703	459	-	(1,322)	
Total other bond securities	7,480	649	-	(1,601)	
Equity securities available for sale:					
Common stock	-	-	-	6	
Total equity securities available for sale	-	-	-	6	
Mortgage and other loans receivable	11	-	-	(6)	
Other invested assets	204	3	(5)	58	
Total	$ 37,666	$ 1,473	$ 1,293	$ (4,038)	$ (

(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	Gr Transf
Liabilities:					
Policyholder contract deposits	$ 3,033	$ 594	$ -	$ 347	$
Derivative liabilities, net:					
Interest rate contracts	38	(3)	-	(9)	
Foreign exchange contracts	11	1	-	(9)	

Equity contracts	(58)	(26)	-	15
Credit contracts	329	(55)	-	(1)
Other contracts	(11)	(58)	-	56
Total derivative liabilities, net[b]	309	(141)	-	52
Long-term debt[c]	71	16	-	(84)
Total	$ 3,413	$ 469	$ -	$ 315 $

(a) As a result of the adoption of the Financial Instruments Recognition and Measurement Standard on January 1, 2018, equity securities are no longer classified and accounted for as available for sale securities.

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

(c) Includes guaranteed investment agreements (GIAs), notes, bonds, loans and mortgages payable.

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 September 30, 2018				
Bonds available for sale	**$ 249**	**$ -**	**$ -**	**$ 249**
Other bond securities	**35**	**1**	**56**	**92**
Other equity securities	**1**	**-**	**-**	**1**
Other invested assets	**-**	**-**	**-**	**-**
Nine Months Ended September 30, 2018				
Bonds available for sale	**$ 731**	**$ (112)**	**$ -**	**$ 619**
Other bond securities	**92**	**(3)**	**262**	**351**
Other equity securities	**(2)**	**-**	**-**	**(2)**
Other invested assets	**57**	**-**	**(5)**	**52**
Three Months Ended September 30, 2017				
Bonds available for sale	$ 257	$ 8	$ -	$ 265
Other bond securities	87	(2)	92	177
Other invested assets	2	1	(3)	-
Nine Months Ended September 30, 2017				
Bonds available for sale	$ 849	$ (28)	$ -	$ 821
Other bond securities	259	-	390	649
Other invested assets	5	(1)	(1)	3

(in millions)	Net Investment Income	Net Realized Capital (Gains) Losses	Other Income	Total
Three Months Ended September 30, 2018				
Policyholder contract deposits	**$ -**	**$ (242)**	**$ -**	**$ (242)**
Derivative liabilities, net	**-**	**(1)**	**(38)**	**(39)**
Long-term debt	**-**	**-**	**-**	**-**
Nine Months Ended September 30, 2018				
Policyholder contract deposits	**$ -**	**$ (986)**	**$ -**	**$ (986)**
Derivative liabilities, net	**-**	**(3)**	**(81)**	**(84)**
Long-term debt	**-**	**-**	**-**	**-**
Three Months Ended September 30, 2017				
Policyholder contract deposits	$ -	$ 299	$ -	$ 299
Derivative liabilities, net	-	(5)	(46)	(51)
Long-term debt	-	-	2	2

Nine Months Ended September 30, 2017				
Policyholder contract deposits	$ -	$ 594	$ -	$ 594
Derivative liabilities, net	-	(13)	(128)	(141)
Long-term debt	-	-	16	16

The following table presents the gross components of purchases, sales, issuances and settlements, net, shown above, for the three- and nine-month periods ended September 30, 2018 and 2017 related to Level 3 assets and liabilities in the Condensed Consolidated Balance Sheets:

(in millions)	Purchases	Sales	Issuances and Settlements[a]	Purchases, Sa Issuances Settlements, N
Three Months Ended September 30, 2018				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ -	$ (8)	$ (38)	$
Non-U.S. governments	-	-	1	
Corporate debt	25	-	(53)	
RMBS	123	(2)	(846)	(
CMBS	58	(2)	(25)	
CDO/ABS	394	(49)	(25)	
Total bonds available for sale	600	(61)	(986)	(
Other bond securities:				
Corporate debt	-	-	(18)	
RMBS	-	-	(57)	
CMBS	-	-	-	
CDO/ABS	-	-	(267)	(
Total other bond securities	-	-	(342)	(
Other equity securities	24	-	-	
Other invested assets	-	-	(1)	
Total assets	$ 624	$ (61)	$ (1,329)	$ (
Liabilities:				
Policyholder contract deposits	$ -	$ 148	$ (64)	$
Derivative liabilities, net	(18)	-	19	
Long-term debt[b]	-	-	-	
Total liabilities	$ (18)	$ 148	$ (45)	$
Three Months Ended September 30, 2017				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 56	$ -	$ (4)	$
Non-U.S. governments	7	-	(7)	
Corporate debt	6	(5)	(54)	
RMBS	194	(16)	(909)	(
CMBS	-	(17)	(60)	
CDO/ABS	402	(136)	(432)	(
Total bonds available for sale	665	(174)	(1,466)	(
Other bond securities:				

Corporate debt	-	-	-	
RMBS	-	(51)	(79)	(
CMBS	42	-	-	
CDO/ABS	-	(57)	(448)	(
Total other bond securities	42	(108)	(527)	(
Equity securities available for sale	4	-	(6)	
Other equity securities	-	-	-	
Mortgage and other loans receivable	-	-	-	
Other invested assets	46	(9)	(1)	
Total assets	$ 757	$ (291)	$ (2,000)	$ (1,
Liabilities:				
Policyholder contract deposits	$ -	$ 79	$ 78	$
Derivative liabilities, net	-	-	17	
Long-term debt(b)	-	-	(60)	
Total liabilities	$ -	$ 79	$ 35	$

(in millions)	Purchases	Sales	Issuances and Settlements[a]	Purchases, S Issuances Settlements, I
Nine Months Ended September 30, 2018				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ **24**	$ **(8)**	$ **(160)**	$ **(**
Non-U.S. governments	**2**	**-**	**(5)**	
Corporate debt	**280**	**(216)**	**(238)**	**(**
RMBS	**630**	**(12)**	**(2,495)**	**(1**
CMBS	**70**	**(2)**	**(67)**	
CDO/ABS	**1,364**	**(962)**	**(736)**	**(**
Total bonds available for sale	**2,370**	**(1,200)**	**(3,701)**	**(2**
Other bond securities:				
Corporate debt	**-**	**-**	**(18)**	
RMBS	**1**	**(34)**	**(205)**	**(**
CMBS	**-**	**-**	**(1)**	
CDO/ABS	**-**	**(4)**	**(776)**	**(**
Total other bond securities	**1**	**(38)**	**(1,000)**	**(1**
Other equity securities	**27**	**-**	**-**	
Mortgage and other loans receivable	**-**	**(5)**	**-**	
Other invested assets	**153**	**(29)**	**(29)**	
Total assets	$ **2,551**	$ **(1,272)**	$ **(4,730)**	$ **(3**
Liabilities:				
Policyholder contract deposits	$ **-**	$ **391**	$ **(165)**	$
Derivative liabilities, net	**(37)**	**-**	**70**	
Long-term debt[b]	**-**	**-**	**-**	
Total liabilities	$ **(37)**	$ **391**	$ **(95)**	$
Nine Months Ended September 30, 2017				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 279	$ (16)	$ (42)	$
Non-U.S. governments	7	(1)	(12)	
Corporate debt	36	(59)	(196)	
RMBS	834	(260)	(2,844)	(2
CMBS	39	(128)	(610)	
CDO/ABS	1,609	(136)	(995)	
Total bonds available for sale	2,804	(600)	(4,699)	(2
Other bond securities:				
Corporate debt	11	-	(1)	
RMBS	112	(218)	(207)	
CMBS	42	(11)	(7)	

CDO/ABS		-	(65)		(1,257)	(1
Total other bond securities		165	(294)		(1,472)	(1
Equity securities available for sale		12	-		(6)	
Other equity securities		-	-		-	
Mortgage and other loans receivable		-	(6)		-	
Other invested assets		89	(11)		(20)	
Total assets	$	3,070	$ (911)	$	(6,197)	$ (4
Liabilities:						
Policyholder contract deposits	$	-	$ 231	$	116	$
Derivative liabilities, net		-	-		52	
Long-term debt[(b)]		-	-		(84)	
Total liabilities	$	-	$ 231	$	84	$

(a) There were no issuances during the three- and nine-month periods ended September 30, 2018 and 2017, respectively.

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

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 September 30, 2018 and 2017 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

We record transfers of assets and liabilities into or out of Level 3 classification at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. The Net realized and unrealized gains (losses) included in income or Other comprehensive income (loss) as shown in the table above excludes $17 million and $41 million of net gains related to assets and liabilities transferred into Level 3 during the three- and nine-month periods ended September 30, 2018, respectively, and includes $2 million and $(20) million of net gains (losses) related to assets and liabilities transferred out of Level 3 in the three- and nine-month periods ended September 30, 2018, respectively.

The Net realized and unrealized gains (losses) included in income or Other comprehensive income (loss) as shown in the table above excludes $49 million and $57 million of net losses related to assets and liabilities transferred into Level 3 during the three- and nine-month periods ended September 30, 2017, respectively, and includes $32 million and $38 million of net losses related to assets and liabilities transferred out of Level 3 during the three- and nine-month periods ended September 30, 2017, respectively.

Transfers of Level 3 Assets

During the three- and nine-month periods ended September 30, 2018 and 2017, 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 decreases in market transparency and liquidity for individual security types.

During the three- and nine-month periods ended September 30, 2018 and 2017, 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 certain investments in municipal securities, corporate debt, RMBS, CMBS and CDO/ABS 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- and nine-month periods ended September 30, 2018 and 2017.

QUANTITATIVE INFORMATION ABOUT LEVEL 3 FAIR VALUE MEASUREMENTS

The table below presents information about the significant unobservable inputs used for recurring fair value measurements for certain Level 3 instruments, and includes only those instruments for which information about the inputs is reasonably available to us, such as data from independent third-party valuation service providers and from internal valuation models. Because input information from third-parties with respect to certain Level 3 instruments (primarily CDO/ABS) may not be reasonably available to us, balances shown below may not equal total amounts reported for such Level 3 assets and liabilities:

(in millions)	**Fair Value at September 30, 2018**	Valuation Technique	Unobservable Input[b]	Range (Weighted Average)
Assets:				
Obligations of states, municipalities and political subdivisions	**$ 1,439**	Discounted cash flow	Yield	4.04% - 4.81% (4.42%)
Corporate debt	**727**	Discounted cash flow	Yield	3.55% - 15.26% (9.40%)
RMBS[a]	**14,257**	Discounted cash flow	Constant prepayment rate	4.51% - 13.02% (8.76%)
			Loss severity	39.83% - 73.69% (56.76%)
			Constant default rate	2.69% - 7.58% (5.14%)
			Yield	3.17% - 5.38% (4.28%)
CDO/ABS[a]	**4,792**	Discounted cash flow	Yield	4.09% - 5.38% (4.74%)
CMBS	**461**	Discounted cash flow	Yield	3.09% - 7.20% (5.15%)
Liabilities:				

Embedded derivatives within Policyholder contract deposits:				
Guaranteed minimum withdrawal benefits (GMWB)	**1,046**	Discounted cash flow	Equity volatility	6.15% - 48.35%
			Base lapse rate	0.16% - 12.60%
			Dynamic lapse multiplier	20.00% - 180.00%
			Mortality multiplier[(c)]	40.00% - 153.00%
			Utilization	90.00% - 100.00%
			Equity / interest-rate correlation	20.00% - 40.00%
Index Annuities	**1,890**	Discounted cash flow	Lapse rate	0.50% - 40.00%
			Mortality multiplier[(c)]	42.00% - 162.00%
			Option Budget	1.00% - 3.00%
Indexed Life	**414**	Discounted cash flow	Base lapse rate	0.00% - 13.00%
			Mortality rate	0.00% - 100.00%

(in millions)		Fair Value at December 31, 2017	Valuation Technique	Unobservable Input[b]	Range (Weighted Average)
Assets:					
Obligations of states, municipalities and political subdivisions	$	1,620	Discounted cash flow	Yield	3.55% - 4.32% (3.94%)
Corporate debt		1,086	Discounted cash flow	Yield	3.26% - 12.22% (7.74%)
RMBS[a]		16,156	Discounted cash flow	Constant prepayment rate	3.97% - 13.42% (8.69%)
				Loss severity	43.15% - 77.15% (60.15%)
				Constant default rate	3.31% - 8.30% (5.80%)
				Yield	2.73% - 5.19% (3.96%)
CDO/ABS[a]		5,254	Discounted cash flow	Yield	3.38% - 4.78% (4.08%)
CMBS		487	Discounted cash flow	Yield	2.22% - 7.77% (4.99%)
Liabilities:					
Embedded derivatives within Policyholder contract deposits:					
GMWB		1,994	Discounted cash flow	Equity volatility	6.45% - 51.25%
				Base lapse rate	0.35% - 14.00%
				Dynamic lapse multiplier	30.00% - 170.00%

			Mortality multiplier[c]	40.00% - 153.00%
			Utilization	90.00% - 100.00%
			Equity / interest-rate correlation	20.00% - 40.00%
Index Annuities	1,603	Discounted cash flow	Lapse rate	0.50% - 40.00%
			Mortality multiplier[c]	42.00% - 162.00%
			Option Budget	1.00% - 4.00%
Indexed Life	515	Discounted cash flow	Base lapse rate	2.00% - 19.00%
			Mortality rate	0.00% - 40.00%

(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) Mortality inputs are shown as multipliers of the 2012 Individual Annuity Mortality Basic table.

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.

Sensitivity to Changes in 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 sensitivities of significant unobservable inputs along with interrelationships between and among the significant unobservable inputs and their impact on the fair value measurements. The effect of a change in a particular assumption in the sensitivity analysis below is considered independently of changes in any other assumptions. 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.

Obligations of States, Municipalities and Political Subdivisions

The significant unobservable input used in the fair value measurement of certain investments in obligations of states, municipalities and political subdivisions is yield. In general, increases in the yield would decrease the fair value of investments in obligations of states, municipalities and political subdivisions.

Corporate Debt

Corporate debt securities included in Level 3 are primarily private placement issuances that are not traded in active markets or that are subject to transfer restrictions. Fair value measurements consider illiquidity and non transferability. When observable price quotations are not available, fair value is determined based on discounted cash flow models using discount rates based on credit spreads, yields or price levels of publicly traded debt of the issuer or other comparable securities, considering illiquidity and structure. The significant unobservable input used in the fair value measurement of corporate debt is the yield. The yield is affected by the market movements in credit spreads and U.S. Treasury yields. In addition, the migration in credit quality of a given security generally has a corresponding effect on the fair value measurement of the security. For example, a downward migration of credit quality would increase spreads. Holding U.S. Treasury rates constant, an increase in corporate credit spreads would decrease the fair value of corporate debt.

RMBS and CDO/ABS

The significant unobservable inputs used in fair value measurements of RMBS and certain CDO/ABS valued by third party valuation service providers are constant prepayment rates (CPR), loss severity, constant default rates (CDR) and yield. A change in the assumptions used for the probability of default will generally be accompanied by a corresponding change in the assumption used for the loss severity and an inverse change in the assumption used for prepayment rates. In general, increases in CPR, loss severity, CDR and yield, in isolation, would result in a decrease in the fair value measurement. Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship between the directional change of each input is not usually linear.

CMBS

The significant unobservable input used in fair value measurements for CMBS is the yield. Prepayment assumptions for each mortgage pool are factored into the yield. CMBS generally feature a lower degree of prepayment risk than RMBS because commercial mortgages generally contain a penalty for prepayment. In general, increases in the yield would decrease the fair value of CMBS.

Embedded derivatives within Policyholder contract deposits

Embedded derivatives reported within Policyholder contract deposits include GMWB within variable annuity products and interest crediting rates based on market indices within index annuities, indexed life and GICs.

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.

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.

		September 30, 2018		December 31, 2017	
(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	**$ 700**	**$ 646**	$ 1,243	$ 706
Real Estate / Infrastructure	Investments in real estate properties and infrastructure positions, including power plants and other energy generating facilities	**185**	**84**	210	187
Venture capital		**102**	**113**	134	73

	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				
Growth Equity	Funds that make investments in established companies for the purpose of growing their businesses	**306**	**35**	215	73
Mezzanine	Funds that make investments in the junior debt and equity securities of leveraged companies	**220**	**107**	171	135
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	**624**	**324**	155	53
Total private equity funds		**2,137**	**1,309**	2,128	1,227
Hedge funds:					
Event-driven	Securities of companies undergoing material structural changes, including mergers, acquisitions and other reorganizations	**888**	**-**	1,128	-
Long-short	Securities that the manager believes are undervalued, with corresponding short positions to hedge market risk	**993**	**-**	1,233	-
Macro	Investments that take long and short positions in financial instruments based on a top-down view of certain economic and capital market conditions	**871**	**-**	1,011	-
Distressed	Securities of companies that are in default, under bankruptcy protection or troubled	**44**	**8**	266	8
Other		**210**	**1**	231	4

	Includes investments held in funds that are less liquid, as well as other strategies which allow for broader allocation between public and private investments				
Total hedge funds		**3,006**	**9**	3,869	12
Total		**$ 5,143**	**$ 1,318**	$ 5,997	$ 1,239

* Beginning in the third quarter of 2018, Growth Equity and Mezzanine private equity fund categories are shown separately. Prior periods were revised to conform to the current period presentation.

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. At September 30, 2018, assuming average original expected lives of 10 years for the funds, 17 percent of the total fair value using net asset value per share (or its equivalent) presented above would have expected remaining lives of three years or less, 40 percent between four and six years and 43 percent between seven and 10 years.

The hedge fund investments included above, which are carried at fair value, are generally redeemable monthly (34 percent), quarterly (34 percent), semi-annually (9 percent) and annually (23 percent), with redemption notices ranging from one day to 180 days. At September 30, 2018, investments representing approximately 52 percent of the total fair value of these hedge fund investments had partial contractual redemption restrictions. These partial redemption restrictions are generally related to one or more investments held in the hedge funds that the fund manager deemed to be illiquid. The majority of these contractual restrictions, which may have been put in place at the fund's inception or thereafter, have pre-defined end dates. The majority of these restrictions are generally expected to be lifted by the end of 2018.

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:

	Gain (Loss) Three Months Ended September 30,		Gain (Loss) Nine Months Ended September 30,	
(in millions)	**2018**	2017	**2018**	2017
Assets:				
Bond and equity securities	**$ 122**	$ 289	**$ 274**	$ 1,088
Alternative investments[(a)]	**131**	129	**355**	406
Other, including Short-term investments	**-**	1	**-**	1
Liabilities:				
Long-term debt[(b)]	**6**	(18)	**74**	(66)
Other liabilities	**-**	(1)	**-**	(2)
Total gain	**$ 259**	$ 400	**$ 703**	$ 1,427

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

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

We recognized gains of $2 million during both three- and nine-month periods ended September 30, 2017 attributable to the observable effect of changes in credit spreads on our own liabilities for which the fair value option was elected. 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.

As a result of the adoption of the Financial Instruments Recognition and Measurement Standard on January 1, 2018, we are required to record unrealized gains and losses attributable to the observable effect of changes in credit spreads on our liabilities for which the fair value option was elected in Other Comprehensive Income. An unrealized gain of $1 million was recognized in Other Comprehensive Income for the nine-month period ended September 30, 2018. There was no material unrealized gain or loss recognized in Other Comprehensive Income for the three-month period ended September 30, 2018.

The following table presents the difference between fair values and the aggregate contractual principal amounts of mortgage and other loans receivable and long-term debt for which the fair value option was elected:

	September 30, 2018			December 31, 2017		
(in millions)	Fair Value	Outstanding Principal Amount	Difference	Fair Value	Outstanding Principal Amount	Difference
Assets:						
Mortgage and other loans receivable	**$ -**	**$ -**	**$ -**	$ 5	$ 5	$ -
Liabilities:						
Long-term debt*	**$ 2,311**	**$ 1,798**	**$ 513**	$ 2,888	$ 2,280	$ 608

* 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[a] Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	Level 1	Level 2	Level 3	Total	**2018**	2017	**2018**	2017
September 30, 2018								
Other investments	**$ -**	**$ -**	**$ 344**	**$ 344**	**$ -**	$ 26	**$ 89**	$ 76
Investments in life settlements	**-**	**-**	**-**	**-**	**-**	273	**-**	360
Other assets	**-**	**-**	**2**	**2**	**34**	-	**35**	35
Total	**$ -**	**$ -**	**$ 346**	**$ 346**	**$ 34**	$ 299	**$ 124**	$ 471
December 31, 2017								
Other investments	$ -	$ -	$ 55	$ 55				
Investments in life settlements	-	-	-	-				
Other assets	-	-	-	-				
Total	$ -	$ -	$ 55	$ 55				

(a) Impairments in the nine-month period ended September 30, 2017 included $35 million related to Other assets of $179 million that were sold during the three-month period ended June 30, 2017.

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
September 30, 2018					
Assets:					
Mortgage and other loans receivable	**$ -**	**$ 108**	**$ 41,060**	**$ 41,168**	**$ 41,878**
Other invested assets	**-**	**771**	**6**	**777**	**773**
Short-term investments	**-**	**5,230**	**-**	**5,230**	**5,230**
Cash	**2,741**	**-**	**-**	**2,741**	**2,741**
Liabilities:					
Policyholder contract deposits associated with investment-type contracts	**-**	**349**	**122,487**	**122,836**	**119,493**

Other liabilities	**-**	**1,465**	**1**	**1,466**	**1,466**
Long-term debt	**-**	**24,147**	**8,221**	**32,368**	**32,283**
December 31, 2017					
Assets:					
Mortgage and other loans receivable	$ -	$ 117	$ 37,644	$ 37,761	$ 37,018
Other invested assets	-	590	6	596	593
Short-term investments	-	7,771	-	7,771	7,771
Cash	2,362	-	-	2,362	2,362
Liabilities:					
Policyholder contract deposits associated with investment-type contracts	-	387	121,809	122,196	114,326
Other liabilities	-	4,494	-	4,494	4,494
Long-term debt	-	23,930	4,313	28,243	28,752

6. Investments

Securities Available for Sale

The following table presents the amortized cost or cost and fair value of our available for sale securities[(a)]:

(in millions)	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Othe Ter Impa in
September 30, 2018					
Bonds available for sale:					
U.S. government and government sponsored entities	**$ 3,069**	**$ 101**	**$ (77)**	**$ 3,093**	**$**
Obligations of states, municipalities and political subdivisions	**16,030**	**632**	**(150)**	**16,512**	
Non-U.S. governments	**15,021**	**478**	**(280)**	**15,219**	
Corporate debt	**130,263**	**4,302**	**(2,681)**	**131,884**	
Mortgage-backed, asset-backed and collateralized:					
RMBS	**32,825**	**2,961**	**(560)**	**35,226**	
CMBS	**12,821**	**182**	**(312)**	**12,691**	
CDO/ABS	**18,018**	**189**	**(112)**	**18,095**	
Total mortgage-backed, asset-backed and collateralized	**63,664**	**3,332**	**(984)**	**66,012**	
Total bonds available for sale[(c)]	**228,047**	**8,845**	**(4,172)**	**232,720**	
December 31, 2017					
Bonds available for sale:					
U.S. government and government sponsored entities	$ 2,532	$ 160	$ (36)	$ 2,656	$
Obligations of states, municipalities and political subdivisions	17,377	1,297	(30)	18,644	
Non-U.S. governments	15,059	717	(117)	15,659	
Corporate debt	126,310	8,666	(800)	134,176	
Mortgage-backed, asset-backed and collateralized:					
RMBS	34,181	3,273	(220)	37,234	
CMBS	13,538	408	(105)	13,841	
CDO/ABS	16,464	370	(52)	16,782	
Total mortgage-backed, asset-backed and collateralized	64,183	4,051	(377)	67,857	
Total bonds available for sale[(c)]	225,461	14,891	(1,360)	238,992	
Equity securities available for sale:					
Common stock	703	379	(21)	1,061	
Preferred stock	504	29	-	533	
Mutual funds	98	16	-	114	
Total equity securities available for sale	1,305	424	(21)	1,708	
Total	$ 226,766	$ 15,315	$ (1,381)	$ 240,700	$

(a) As a result of the adoption of the Financial Instruments Recognition and Measurement Standard on January 1, 2018, equity securities are no longer classified and accounted for as available for sale securities.

(b) Represents the amount of other-than-temporary impairments recognized in Accumulated other comprehensive income (loss). Amount includes unrealized gains and losses on impaired securities relating to changes in the fair value of such securities subsequent to the impairment measurement date.

(c) At September 30, 2018 and December 31, 2017, bonds available for sale held by us that were below investment grade or not rated totaled $30.6 billion and $31.5 billion, respectively.

Securities Available for Sale in a Loss Position

The following table summarizes the fair value and gross unrealized losses on our available for sale securities, aggregated by major investment category and length of time that individual securities have been in a continuous unrealized loss position[(a)]:

	Less than 12 Months		12 Months or More		Total	
(in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	G Unrea Lo
September 30, 2018						
Bonds available for sale:						
U.S. government and government sponsored entities	**$ 1,406**	**$ 61**	**$ 364**	**$ 16**	**$ 1,770**	**$**
Obligations of states, municipalities and political subdivisions	**3,475**	**98**	**743**	**52**	**4,218**	
Non-U.S. governments	**5,079**	**172**	**1,821**	**108**	**6,900**	
Corporate debt	**52,590**	**1,947**	**9,929**	**734**	**62,519**	**2**
RMBS	**7,930**	**245**	**4,706**	**315**	**12,636**	
CMBS	**5,062**	**146**	**2,626**	**166**	**7,688**	
CDO/ABS	**7,483**	**79**	**1,061**	**33**	**8,544**	
Total bonds available for sale	**$83,025**	**$ 2,748**	**$21,250**	**$ 1,424**	**$104,275**	**$ 4**
December 31, 2017						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 770	$ 23	$ 332	$ 13	$ 1,102	$
Obligations of states, municipalities and political subdivisions	586	6	646	24	1,232	
Non-U.S. governments	3,511	54	857	63	4,368	
Corporate debt	15,578	453	7,291	347	22,869	
RMBS	6,212	99	3,790	121	10,002	
CMBS	3,408	46	1,389	59	4,797	
CDO/ABS	1,455	24	822	28	2,277	
Total bonds available for sale	31,520	705	15,127	655	46,647	1
Equity securities available for sale:						
Common stock	136	21	-	-	136	
Mutual funds	1	-	-	-	1	
Total equity securities available for sale	137	21	-	-	137	
Total	$31,657	$ 726	$15,127	$ 655	$ 46,784	$ 1

(a) As a result of the adoption of the Financial Instruments Recognition and Measurement Standard on January 1, 2018, equity securities are no longer classified and accounted for as available for sale securities.

At September 30, 2018, we held 16,950 individual fixed maturity securities that were in an unrealized loss position, of which 3,008 individual fixed maturity securities were in a continuous unrealized loss position for 12 months or more. We did not recognize the unrealized losses in earnings on these fixed maturity securities at September 30, 2018 because 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, expected defaults on underlying collateral, review of relevant industry analyst reports and forecasts and other 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		Fixed Maturity Securities in a Loss Position Available for Sale	
(in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
September 30, 2018				
Due in one year or less	**$ 8,421**	**$ 8,559**	**$ 2,043**	**$ 2,032**
Due after one year through five years	**48,626**	**49,416**	**16,406**	**16,042**
Due after five years through ten years	**42,674**	**42,475**	**26,927**	**25,844**
Due after ten years	**64,662**	**66,258**	**33,219**	**31,489**
Mortgage-backed, asset-backed and collateralized	**63,664**	**66,012**	**29,852**	**28,868**
Total	**$ 228,047**	**$ 232,720**	**$ 108,447**	**$ 104,275**
December 31, 2017				
Due in one year or less	$ 7,932	$ 8,071	$ 1,526	$ 1,515
Due after one year through five years	47,179	49,093	7,764	7,571
Due after five years through ten years	42,617	43,944	11,559	11,143
Due after ten years	63,550	70,027	9,705	9,342
Mortgage-backed, asset-backed and collateralized	64,183	67,857	17,453	17,076
Total	$ 225,461	$ 238,992	$ 48,007	$ 46,647

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 September 30,				Nine Months Ended September 30,			
	2018		2017		**2018**		2017	
(in millions)	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses
Fixed maturity securities	**$ 82**	**$ 71**	$ 93	$ 39	**$ 252**	**$ 244**	$ 637	$ 263
Equity securities	**-**	**-**	6	2	**16**	**-**	106	20
Total	**$ 82**	**$ 71**	$ 99	$ 41	**$ 268**	**$ 244**	$ 743	$ 283

For the three- and nine-month periods ended September 30, 2018, the aggregate fair value of available for sale securities sold was $6.0 billion and $18.1 billion, respectively, which resulted in net realized capital gains of $11 million and $24 million, respectively.

For the three- and nine-month periods ended September 30, 2017, the aggregate fair value of available for sale securities sold was $4.4 billion and $27.8 billion, respectively, which resulted in net realized capital gains of $58 million and $460 million, respectively.

Other Securities Measured at Fair Value

The following table presents the fair value of other securities measured at fair value based on our election of the fair value option:

	September 30, 2018		December 31, 2017	
(in millions)	Fair Value	Percent of Total	Fair Value	Percent of Total
Fixed maturity securities:				
U.S. government and government sponsored entities	$ 2,634	21 %	$ 2,802	21%
Non-U.S. governments	49	-	57	1
Corporate debt	1,707	13	1,909	14
Mortgage-backed, asset-backed and collateralized:				
RMBS	1,660	13	1,885	14
CMBS	401	3	559	4
CDO/ABS and other collateralized*	4,969	39	5,560	42
Total mortgage-backed, asset-backed and collateralized	7,030	55	8,004	60
Total fixed maturity securities	11,420	89	12,772	96
Equity securities	1,443	11	589	4
Total	$ 12,863	100 %	$ 13,361	100%

* Includes $186 million and $251 million of U.S. government agency-backed ABS at September 30, 2018 and December 31, 2017, respectively.

Other Invested Assets

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

(in millions)	September 30, 2018	December 31, 2017
Alternative investments[(a) (b)]	$ 9,655	$ 11,308
Investment real estate[(c)]	8,819	8,258
All other investments	1,265	1,256
Total	$ 19,739	$ 20,822

(a) At September 30, 2018, included hedge funds of $4.6 billion, private equity funds of $4.6 billion, and affordable housing partnerships of $434 million. At December 31, 2017, included hedge funds of $5.8 billion, private equity funds of $5.0 billion, and affordable housing partnerships of $543 million.

(b) At September 30, 2018, approximately 52 percent and 21 percent of our hedge fund portfolio is available for redemption in 2018 and 2019, respectively, the remaining 27 percent will be available for redemption between 2020 and 2027.

(c) Net of accumulated depreciation of $553 million and $515 million at September 30, 2018 and December 31, 2017, respectively.

Net Investment Income

The following table presents the components of Net investment income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2018**	2017	**2018**	2017
Available for sale fixed maturity securities, including short-term investments	**$2,629**	$2,552	**$ 7,775**	$ 7,826
Other fixed maturity securities	**60**	145	**29**	500
Equity securities[(a)]	**(21)**	5	**(50)**	22
Interest on mortgage and other loans	**455**	414	**1,352**	1,206
Alternative investments[(b)]	**329**	355	**837**	1,174
Real estate	**72**	51	**133**	131
Other investments	**(13)**	30	**11**	246
Total investment income	**3,511**	3,552	**10,087**	11,105
Investment expenses	**115**	136	**365**	390
Net investment income	**$3,396**	$3,416	**$ 9,722**	$10,715

(a) Upon the adoption of the Financial Instruments Recognition and Measurement Standard on January 1, 2018, the change in fair value of all equity securities is included in Net investment income.

(b) Includes income from hedge funds, private equity funds and affordable housing partnerships. Hedge funds for which we elected the fair value option are recorded as of the balance sheet date. Other hedge funds are generally reported on a one-month lag, while private equity funds are generally reported on a one-quarter lag.

Net Realized Capital Gains and Losses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2018**	2017	**2018**	2017
Sales of fixed maturity securities	**$ 11**	$ 54	**$ 8**	$ 374
Sales of equity securities	**-**	4	**16**	86
Other-than-temporary impairments:				
Severity	**-**	-	**-**	(2)
Change in intent	**(3)**	(1)	**(52)**	(9)
Foreign currency declines	**(1)**	(1)	**(13)**	(11)
Issuer-specific credit events	**(30)**	(85)	**(92)**	(197)
Adverse projected cash flows	**(1)**	(1)	**(1)**	(4)
Provision for loan losses	**(23)**	(38)	**(73)**	(56)
Foreign exchange transactions	**(21)**	66	**(155)**	299
Variable annuity embedded derivatives, net of related hedges	**(185)**	(430)	**(2)**	(1,023)
All other derivatives and hedge accounting	**(1)**	(136)	**149**	(217)
Impairments on investments in life settlements	**-**	(273)	**-**	(360)
Loss on sale of private equity funds	**(311)**	-	**(311)**	-
Other	**54**	(81)	**161**	14
Net realized capital losses	**$ (511)**	$ (922)	**$ (365)**	$ (1,106)

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 September 30,		Nine M Enc Septem
(in millions)	**2018**	2017	**2018**
Increase (decrease) in unrealized appreciation (depreciation) of investments:			
Fixed maturity securities	**$(920)**	$1,059	**$(8,858**
Equity securities[(a)]	**-**	9	

Other investments	**(31)**	10	**(59**
Total increase (decrease) in unrealized appreciation (depreciation) of investments[b]	**$(951)**	$1,078	**$(8,917**

(a) As a result of the adoption of the Financial Instruments Recognition and Measurement Standard on January 1, 2018, equity securities are no longer classified and accounted for as available for sale securities.

(b) Excludes net unrealized losses attributable to businesses held for sale.

The following table summarizes the unrealized gains and losses recognized during the reporting period on equity securities still held at the reporting date:

	Three Months Ended September 30, 2018			**Nine Months Ended September 30, 2018**		
(in millions)	Equities	Other Invested Assets	Total	Equities	Other Invested Assets	Total
Net gains and losses recognized during the period on equity securities	$ (13)	$ 183	**$ 170**	$ (41)	$ 497	**$ 456**
Less: Net gains and losses recognized during the period on equity securities sold during the period	28	18	**46**	34	45	**79**
Unrealized gains and losses recognized during the reporting period on equity securities still held at the reporting date	$ (41)	$ 165	**$ 124**	$ (75)	$ 452	**$ 377**

Evaluating Investments for Other-Than-Temporary Impairments

For a discussion of our policy for evaluating investments for other-than-temporary impairments see Note 6 to the Consolidated Financial Statements in the 2017 Annual Report.

Credit Impairments

The following table presents a rollforward of the cumulative credit losses in other-than-temporary impairments recognized in earnings for available for sale fixed maturity securities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2018**	2017	**2018**	2017
Balance, beginning of period	**$ 188**	$ 762	**$ 526**	$ 1,098
Increases due to:				
Credit impairments on new securities subject to impairment losses	**15**	58	**32**	116
Additional credit impairments on previously impaired securities	**16**	12	**61**	49
Reductions due to:				
Credit impaired securities fully disposed for which there was no prior intent or requirement to sell	**(12)**	(44)	**(143)**	(99)
Accretion on securities previously impaired due to credit*	**(164)**	(147)	**(433)**	(523)
Balance, end of period	**$ 43**	$ 641	**$ 43**	$ 641

* Represents both accretion recognized due to changes in cash flows expected to be collected over the remaining expected term of the credit impaired securities and the accretion due to the passage of time.

Purchased Credit Impaired (PCI) Securities

We purchase certain RMBS securities that have experienced deterioration in credit quality since their issuance. We determine whether it is probable at acquisition that we will not collect all contractually required payments for these PCI securities, including both principal and interest. At acquisition, the timing and amount of the undiscounted future cash flows expected to be received on each PCI security is determined based on our best estimate using key assumptions, such as interest rates, default rates and prepayment speeds. At acquisition, the difference between the undiscounted expected future cash flows of the PCI securities and the recorded investment in the securities represents the initial accretable yield, which is accreted into Net investment income over their remaining lives on an effective yield basis. Additionally, the difference between the contractually required payments on the PCI securities and the undiscounted expected future cash flows represents the non-accretable difference at acquisition. The accretable yield and the non-accretable difference will change over time, based on actual payments received and changes in estimates of undiscounted expected future cash flows, which are discussed further below.

On a quarterly basis, the undiscounted expected future cash flows associated with PCI securities are re-evaluated based on updates to key assumptions. Declines in undiscounted expected future cash flows due to further credit deterioration as well as changes in the expected timing of the cash flows can result in the recognition of an other-than-temporary impairment charge, as PCI securities are subject to our policy for evaluating investments for other-than-temporary impairment. Changes to undiscounted expected future cash flows due solely to the changes in the contractual benchmark interest rates on variable rate PCI securities will change the accretable yield prospectively. Significant increases in undiscounted expected future cash flows for reasons other than interest rate changes are recognized prospectively as adjustments to the accretable yield.

The following tables present information on our PCI securities, which are included in bonds available for sale:

(in millions)	**At Date of Acquisition**
Contractually required payments (principal and interest)	**$ 36,640**
Cash flows expected to be collected*	**30,077**
Recorded investment in acquired securities	**20,294**

* Represents undiscounted expected cash flows, including both principal and interest.

(in millions)	**September 30, 2018**	December 31, 2017
Outstanding principal balance	**$ 13,060**	$ 14,718
Amortized cost	**9,087**	10,492
Fair value	**10,941**	12,293

The following table presents activity for the accretable yield on PCI securities:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(in millions)	**2018**	2017	**2018**	2017
Balance, beginning of period	**$ 7,461**	$ 7,465	**$ 7,501**	$ 7,498
Newly purchased PCI securities	**5**	16	**32**	117
Disposals	**-**	-	**-**	(18)
Accretion	**(176)**	(193)	**(553)**	(609)
Effect of changes in interest rate indices	**15**	(74)	**189**	(188)
Net reclassification from (to) non-accretable difference, including effects of prepayments	**93**	172	**229**	586
Balance, end of period	**$ 7,398**	$ 7,386	**$ 7,398**	$ 7,386

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)	**September 30, 2018**	December 31, 2017
Fixed maturity securities available for sale	**$ 1,247**	$ 2,911
Other bond securities, at fair value	**$ 136**	$ 1,585

At September 30, 2018 and December 31, 2017, amounts borrowed under repurchase and securities lending agreements totaled $1.5 billion and $4.5 billion, respectively.

The following table presents the fair value of securities pledged under our repurchase agreements by collateral type and by remaining contractual maturity:

	Remaining Contractual Maturity of the Agreements					
(in millions)	Overnight and Continuous	up to 30 days	31 - 90 days	91 - 364 days	365 days or greater	Total
September 30, 2018						
Bonds available for sale:						
Non-U.S. governments	**$ -**	**$ 79**	**$ -**	**$ -**	**$ -**	**$ 79**
Corporate debt	**-**	**110**	**1**	**-**	**-**	**111**
Other bond securities:						
U.S. government and government sponsored entities	**24**	**-**	**-**	**-**	**-**	**24**
Non-U.S. governments	**-**	**3**	**-**	**-**	**-**	**3**
Corporate debt	**-**	**55**	**54**	**-**	**-**	**109**
Total	**$ 24**	**$ 247**	**$ 55**	**$ -**	**$ -**	**$ 326**
December 31, 2017						
Bonds available for sale:						
Non-U.S. governments	$ -	$ 7	$ 19	$ -	$ -	$ 26
Corporate debt	-	13	35	-	-	48
Other bond securities:						
U.S. government and government sponsored entities	44	-	-	-	-	44
Non-U.S. governments	-	-	11	-	-	11
Corporate debt	-	387	1,065	-	-	1,452
Total	$ 44	$ 407	$ 1,130	$ -	$ -	$ 1,581

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
September 30, 2018						
Bonds available for sale:						
Non-U.S. governments	**$ -**	**$ -**	**$ 82**	**$ 22**	**$ -**	**$ 104**
Corporate debt	**-**	**378**	**467**	**108**	**-**	**953**
Other bond securities:						
Non-U.S. governments	**-**	**-**	**-**	**-**	**-**	**-**
Corporate debt	**-**	**-**	**-**	**-**	**-**	**-**
Total	**$ -**	**$ 378**	**$ 549**	**$ 130**	**$ -**	**$ 1,057**
December 31, 2017						

Bonds available for sale:						
Non-U.S. governments	$ -	$ -	$ 18	$ -	$ -	$ 18
Corporate debt	-	588	2,231	-	-	2,819
Other bond securities:						
Non-U.S. governments	-	-	22	-	-	22
Corporate debt	-	-	56	-	-	56
Total	$ -	$ 588	$ 2,327	$ -	$ -	$ 2,915

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)	**September 30, 2018**	December 31, 2017
Securities collateral pledged to us	**$ 1,324**	$ 2,227
Amount sold or repledged by us	**$ 164**	$ 46

At September 30, 2018 and December 31, 2017, amounts loaned under reverse repurchase agreements totaled $1.3 billion and $2.2 billion, respectively.

We do not currently offset any secured financing transactions. All such transactions are collateralized and margined daily consistent with market standards and subject to enforceable master netting arrangements with rights of set off.

Insurance – Statutory and Other Deposits

The total carrying value of cash and securities deposited by our insurance subsidiaries under requirements of regulatory authorities or other insurance-related arrangements, including certain annuity-related obligations and certain reinsurance treaties, was $7.9 billion and $4.9 billion at September 30, 2018 and December 31, 2017, 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 $205 million and $93 million of stock in FHLBs at September 30, 2018 and December 31, 2017, 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 $4.2 billion and $2.0 billion, respectively, at September 30, 2018 and $2.7 billion and $471 million, respectively, at December 31, 2017.

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 $1.7 billion and $2.0 billion at September 30, 2018 and December 31, 2017, 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.

Investments held in escrow accounts or otherwise subject to restriction as to their use were $155 million and $255 million, comprised of bonds available for sale and short term investments at September 30, 2018 and December 31, 2017, respectively.

7. Lending Activities

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

(in millions)	September 30, 2018	December 31, 2017
Commercial mortgages*	$ 32,082	$ 28,596
Residential mortgages	6,530	5,398
Life insurance policy loans	2,178	2,295
Commercial loans, other loans and notes receivable	1,467	1,056
Total mortgage and other loans receivable	42,257	37,345
Allowance for credit losses	(379)	(322)
Mortgage and other loans receivable, net	$ 41,878	$ 37,023

* 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 22 percent and 11 percent, respectively, at September 30, 2018, and 23 percent and 12 percent, respectively, at December 31, 2017).

Credit Quality of Commercial Mortgages

The following table presents debt service coverage ratios and loan-to-value ratios for commercial mortgages:

	Debt Service Coverage Ratios(a)			
(in millions)	>1.20X	1.00X - 1.20X	<1.00X	Total
September 30, 2018				
Loan-to-Value Ratios(b)				
Less than 65%	$ 17,986	$ 2,508	$ 239	$ 20,733
65% to 75%	9,115	302	258	9,675
76% to 80%	831	8	15	854
Greater than 80%	572	106	142	820
Total commercial mortgages	$ 28,504	$ 2,924	$ 654	$ 32,082
December 31, 2017				
Loan-to-Value Ratios(b)				
Less than 65%	$ 18,000	$ 1,525	$ 351	$ 19,876
65% to 75%	6,038	193	184	6,415
76% to 80%	569	40	-	609
Greater than 80%	1,416	206	74	1,696
Total commercial mortgages	$ 26,023	$ 1,964	$ 609	$ 28,596

(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 1.9X and

2.1X at September 30, 2018 and December 31, 2017, respectively.

(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 58 percent and 57 percent at September 30, 2018, and December 31, 2017, respectively.

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 $
September 30, 2018									
Credit Quality Performance Indicator:									
In good standing	**763**	**$ 10,393**	**$ 9,257**	**$ 5,333**	**$ 3,002**	**$ 2,531**	**$ 1,422**	**$ 31,938**	**100%**
Restructured[a]	**4**	**-**	**113**	**-**	**15**	**16**	**-**	**144**	**-**
90 days or less delinquent	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
>90 days delinquent or in process of foreclosure	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total[b]	**767**	**$ 10,393**	**$ 9,370**	**$ 5,333**	**$ 3,017**	**$ 2,547**	**$ 1,422**	**$ 32,082**	**100%**
Allowance for credit losses:									
Specific		**$ -**	**$ 2**	**$ -**	**$ -**	**$ 1**	**$ -**	**$ 3**	**-%**
General		**106**	**96**	**46**	**12**	**19**	**14**	**293**	**1**
Total allowance for credit losses		**$ 106**	**$ 98**	**$ 46**	**$ 12**	**$ 20**	**$ 14**	**$ 296**	**1%**
December 31, 2017									
Credit Quality Performance Indicator:									
In good standing	778	$ 8,163	$ 8,585	$ 5,338	$ 2,023	$ 2,373	$ 1,960	$ 28,442	99%
Restructured[a]	5	-	115	23	-	16	-	154	1
90 days or less delinquent	-	-	-	-	-	-	-	-	-
>90 days delinquent or in process of foreclosure	-	-	-	-	-	-	-	-	-
Total[b]	783	$ 8,163	$ 8,700	$ 5,361	$ 2,023	$ 2,389	$ 1,960	$ 28,596	100%
Allowance for credit losses:									
Specific		$ -	$ 3	$ 1	$ -	$ 1	$ -	$ 5	-%
General		72	94	37	6	15	18	242	1
Total allowance for credit losses		$ 72	$ 97	$ 38	$ 6	$ 16	$ 18	$ 247	1%

(a) Loans that have been modified in troubled debt restructurings and are performing according to their restructured terms. *For additional discussion of troubled debt restructurings see Note 7 to the Consolidated Financial Statements in the 2017 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.

Allowance for Credit Losses

For a discussion of our accounting policy for evaluating Mortgage and other loans receivable for impairment see Note 7 to the Consolidated Financial Statements in the 2017 Annual Report

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

	2018			2017		
Nine Months Ended September 30, *(in millions)*	Commercial Mortgages	Other Loans	Total	Commercial Mortgages	Other Loans	Total
Allowance, beginning of year	$ 247	$ 75	$ 322	$ 194	$ 103	$ 297
Loans charged off	(17)	-	(17)	(5)	(2)	(7)
Recoveries of loans previously charged off	-	-	-	-	-	-
Net charge-offs	(17)	-	(17)	(5)	(2)	(7)
Provision for loan losses	66	8	74	75	(20)	55
Other	-	-	-	-	-	-
Allowance, end of period	$ 296 *	$ 83	$ 379	$ 264 *	$ 81	$ 345

* Of the total allowance, $3 million and $35 million relate to individually assessed credit losses on $25 million and $342 million of commercial mortgages at September 30, 2018 and 2017, respectively.

During the nine-month periods ended September 30, 2018 and 2017, loans with a carrying value of $15 million and $25 million, respectively, were modified in troubled debt restructurings.

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 the entity was designed to expose the variable interest holders to.

The primary beneficiary is the entity that has both (1) the power to direct the activities of the VIE that most significantly affect the entity's economic performance and (2) 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

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
September 30, 2018					
Assets:					
Bonds available for sale	$ -	$ 8,130	$ -	$ -	$ 8,130
Other bond securities	-	4,010	-	2	4,012
Mortgage and other loans receivable	-	3,424	-	-	3,424
Other invested assets	1,696	-	3,231	25	4,952
Other[a]	259	1,448	428	82	2,217
Total assets[b]	$ 1,955	$ 17,012	$ 3,659	$ 109	$ 22,735
Liabilities:					
Long-term debt	$ 785	$ 2,858	$ 1,922	$ 5	$ 5,570
Other [c]	138	126	172	23	459
Total liabilities	$ 923	$ 2,984	$ 2,094	$ 28	$ 6,029
December 31, 2017					

Assets:					
Bonds available for sale	$ -	$ 9,632	$ -	$ -	$ 9,632
Other bond securities	-	4,518	-	3	4,521
Mortgage and other loans receivable	-	2,290	-	-	2,290
Other invested assets	1,365	206	3,087	25	4,683
Other(a)	302	1,481	350	85	2,218
Total assets(b)	$ 1,667	$ 18,127	$ 3,437	$ 113	$ 23,344
Liabilities:					
Long-term debt	$ 680	$ 1,624	$ 1,825	$ 5	$ 4,134
Other(c)	144	244	181	26	595
Total liabilities	$ 824	$ 1,868	$ 2,006	$ 31	$ 4,729

(a) Comprised primarily of Short-term investments and Other assets at September 30, 2018 and December 31, 2017.

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

(c) Comprised primarily of Other liabilities at September 30, 2018 and December 31, 2017.

(d) At September 30, 2018 and December 31, 2017, off-balance sheet exposure primarily consisting of commitments to real estate and investment entities was $227 million and $86 million, respectively.

(e) At September 30, 2018 and December 31, 2017, $16.1 billion and $17.6 billion, respectively, of the total assets of consolidated securitization vehicles were owed to AIG Parent or its subsidiaries.

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. Interest holders in VIEs sponsored by us generally have recourse only to the assets and cash flows of the VIEs and do not have recourse to us, except in limited circumstances when we have provided a guarantee to the VIE's interest holders.

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
September 30, 2018					
Real estate and investment entities[a]	**$ 322,117**	**$ 7,902**	**$ 1,994**		**$ 9,896**
Affordable housing partnerships	**4,116**	**606**	**-**		**606**
Other	**2,705**	**260**	**1,222**	(c)	**1,482**
Total	**$ 328,938**	**$ 8,768**	**$ 3,216**		**$ 11,984**
December 31, 2017					
Real estate and investment entities[a]	$ 380,030	$ 9,253	$ 2,043		$ 11,296
Affordable housing partnerships	4,468	725	-		725
Other	2,703	254	1,205	(c)	1,459
Total	$ 387,201	$ 10,232	$ 3,248		$ 13,480

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

(b) At September 30, 2018 and December 31, 2017, $8.5 billion and $9.8 billion, respectively, of our total unconsolidated VIE assets were recorded as Other invested assets.

(c) 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 2017 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.

For a discussion of our accounting policies and procedures regarding derivatives and hedge accounting see Note 11 to the Consolidated Financial Statements in the 2017 Annual Report.

Our businesses use derivatives and other instruments as part of their financial risk management. 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 options) are used to economically mitigate risk associated with non U.S. dollar denominated debt, net capital exposures, and foreign currency transactions. Equity derivatives are used to mitigate financial risk embedded in certain insurance liabilities. We use credit derivatives to manage our credit exposures. The derivatives are effective economic hedges of the exposures that they are meant to offset.

In addition to hedging activities, we also enter into derivative instruments with respect to investment operations, which may include, among other things, CDSs 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:

	September 30, 2018				December 31, 2017			
	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	**$ 75**	**$ 1**	**$ 811**	**$ 23**	$ -	$ -	$ 838	$ 15
Foreign exchange contracts	**4,323**	**241**	**4,173**	**269**	2,823	173	4,783	350
Equity contracts	**-**	**-**	**-**	**-**	-	-	159	19
Derivatives not designated as hedging instruments:[a]								
Interest rate contracts	**36,841**	**2,504**	**27,131**	**2,096**	37,751	2,171	26,461	2,185
Foreign exchange contracts	**8,877**	**686**	**8,282**	**818**	6,305	658	11,093	895
Equity contracts	**18,826**	**340**	**1,585**	**5**	19,975	522	1,130	2
Credit contracts[b]	**3**	**1**	**1,418**	**252**	4	1	1,365	277
Other contracts[c]	**38,292**	**15**	**60**	**3**	39,829	20	59	5
Total derivatives, gross	**$ 107,237**	**$ 3,788**	**$ 43,460**	**$ 3,466**	$ 106,687	$ 3,545	$ 45,888	$ 3,748
Counterparty netting[d]		**(1,874)**		**(1,874)**		(1,464)		(1,464)
Cash collateral[e]		**(964)**		**(290)**		(1,159)		(1,249)
Total derivatives on condensed consolidated balance sheets[f]		**$ 950**		**$ 1,302**		$ 922		$ 1,035

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

(b) As of September 30, 2018 and December 31, 2017, included CDSs on super senior multi-sector CDOs with a net notional amount of $616 million and $685 million (fair value liability of $232 million and $254 million), respectively. The net notional amount represents the maximum exposure to loss on the portfolio. As of September 30, 2018 and December 31, 2017, there were no super senior corporate debt/CLOs remaining.

(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 Liabilities, respectively. Fair value of assets related to bifurcated embedded derivatives was zero at both September 30, 2018 and December 31, 2017. Fair value of liabilities related to bifurcated embedded derivatives was $3.4 billion and $4.1 billion, respectively, at September 30, 2018 and December 31, 2017. 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.

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 (CSA) 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 $2.0 billion and $2.9 billion at September 30, 2018 and December 31, 2017, respectively. In the case of collateral posted under derivative transactions that are not subject to clearing, this collateral can generally be repledged or resold by the counterparties. Collateral provided to us from third parties for derivative transactions was $1.2 billion and $1.3 billion at September 30, 2018 and December 31, 2017, 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- and nine-month periods ended September 30, 2018, we recognized a gain of $28 million and $27 million, respectively, and for the three- and nine-month periods ended September 30, 2017, we recognized losses of $39 million and $87 million, respectively, included in Change in foreign currency translation adjustment in Other comprehensive income related to the net investment hedge relationships.

A qualitative methodology is utilized to assess hedge effectiveness for net investment hedges, while regression analysis is employed for all other hedges.

The following table presents the gain (loss) recognized in earnings on our derivative instruments in fair value hedging relationships in the Condensed Consolidated Statements of Income:

	Gains/(Losses) Recognized in Earnings for:		Including Gains/(Losses) Attributable to:		
(in millions)	Hedging Derivatives[(a)]	Hedged Items	Hedge Ineffectiveness	Excluded Components	Other[(b)]
Three Months Ended September 30, 2018					
Interest rate contracts:					
Realized capital gains/(losses)	**$ (1)**	**$ 1**	**$ -**	**$ -**	**$ -**
Foreign exchange contracts:					
Realized capital gains/(losses)	**(11)**	**16**	**-**	**5**	**-**
Other income	**-**	**-**	**-**	**-**	**-**
Equity contracts:					
Realized capital gains/(losses)	**-**	**-**	**-**	**-**	**-**
Three Months Ended September 30, 2017					
Interest rate contracts:					
Realized capital gains/(losses)	$ (1)	$ 1	$ -	$ -	$ -
Foreign exchange contracts:					
Realized capital gains/(losses)	(157)	142	-	(15)	-
Other income	-	-	-	-	-
Equity contracts:					
Realized capital gains/(losses)	(3)	2	-	(1)	-
Nine Months Ended September 30, 2018					
Interest rate contracts:					
Realized capital gains/(losses)	**$ (9)**	**$ 10**	**$ 1**	**$ -**	**$ -**
Foreign exchange contracts:					
Realized capital gains/(losses)	**184**	**(175)**	**-**	**9**	**-**
Other income	**-**	**-**	**-**	**-**	**-**
Equity contracts:					
Realized capital gains/(losses)	**-**	**-**	**-**	**-**	**-**
Nine Months Ended September 30, 2017					
Interest rate contracts:					
Realized capital gains/(losses)	$ 1	$ (1)	$ -	$ -	$ -
Foreign exchange contracts:					
Realized capital gains/(losses)	(318)	332	-	14	-
Other income	-	4	-	-	4
Equity contracts:					
Realized capital gains/(losses)	(29)	26	-	(3)	-

(a) The amounts presented do not include the periodic net coupon settlements of the derivative contract or the coupon income (expense) related to the hedged item.

(b) Represents accretion/amortization of opening fair value of the hedged item at inception of hedge relationship, amortization of basis adjustment on hedged item following the discontinuation of hedge accounting, and the release of debt basis adjustment following the repurchase of issued debt that was part of previously-discontinued fair value hedge relationship.

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:

	Gains (Losses) Recognized in Earnings			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2018**	2017	**2018**	2017
By Derivative Type:				
Interest rate contracts	**$ (270)**	$ (18)	**$ (892)**	$ 81
Foreign exchange contracts	**43**	(98)	**295**	(220)
Equity contracts	**(199)**	(233)	**(386)**	(723)
Credit contracts	**6**	19	**18**	55
Other contracts	**18**	19	**52**	55
Embedded derivatives	**229**	(213)	**1,164**	(326)
Total	**$ (173)**	$ (524)	**$ 251**	$ (1,078)
By Classification:				
Policy fees	**$ 17**	$ 20	**$ 51**	$ 59
Net investment income	**-**	(3)	**(3)**	(10)
Net realized capital gains (losses)	**(223)**	(550)	**133**	(1,250)
Other income	**35**	8	**76**	121
Policyholder benefits and claims incurred	**(2)**	1	**(6)**	2
Total	**$ (173)**	$ (524)	**$ 251**	$ (1,078)

Credit Risk-Related Contingent Features

We estimate that at September 30, 2018, 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 $49 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 $421 million and $572 million at September 30, 2018 and December 31, 2017, respectively. The aggregate fair value of assets posted as collateral under these contracts at September 30, 2018 and December 31, 2017, was approximately $466 million and $676 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 $4.0 billion and $4.4 billion at September 30, 2018 and December 31, 2017, respectively. These securities have par amounts of $8.6 billion and $9.1 billion at September 30, 2018 and December 31, 2017, 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 (IBNR) and loss adjustment expenses (LAE), 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 it 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. 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 $12.1 billion and $12.6 billion at September 30, 2018 and December 31, 2017, 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 September 30, 2018 and December 31, 2017, we held collateral of approximately $9.3 billion and $9.5 billion, respectively, for these deductible recoverable amounts, consisting primarily of letters of credit and funded trust agreements.

The following table presents the roll-forward of activity in Loss Reserves:

	Three Months Ended September 30,		**Nir**
(in millions)	**2018**	2017	**Sep 2**
Liability for unpaid loss and loss adjustment expenses, beginning of period	**$ 76,713**	$ 76,422	**$ 78,**
Reinsurance recoverable	**(27,406)**	(27,660)	**(26,7**
Net Liability for unpaid loss and loss adjustment expenses, beginning of period	**49,307**	48,762	**51,**
Losses and loss adjustment expenses incurred:			
Current year	**6,670**	7,511	**15,**
Prior years, excluding discount and amortization of deferred gain	**949**	901	
Prior years, discount charge (benefit)	**3**	48	**(1**
Prior years, amortization of deferred gain on retroactive reinsurance[a]	**(175)**	(75)	**(2**
Total losses and loss adjustment expenses incurred	**7,447**	8,385	**16,**

Losses and loss adjustment expenses paid:			
Current year	**(1,791)**	(1,634)	**(3,2**
Prior years	**(4,526)**	(3,395)	**(14,3**
Total losses and loss adjustment expenses paid	**(6,317)**	(5,029)	**(17,6**
Other changes:			
Foreign exchange effect	**(236)**	330	**(3**
Acquisitions[(b)]	**3,020**	-	**3,**
Retroactive reinsurance adjustment (net of discount)[(c)]	**(464)**	22	**(1**
Reclassified to liabilities held for sale[(d)]	**-**	8	
Total other changes	**2,320**	360	**2,**
Liability for unpaid loss and loss adjustment expenses, end of period:			
Net liability for unpaid losses and loss adjustment expenses	**52,757**	52,478	**52,**
Reinsurance recoverable	**29,202**	27,609	**29,**
Total	**$ 81,959**	$ 80,087	**$ 81,**

(a) Includes $9 million and $6 million for the retroactive reinsurance agreement with NICO covering U.S. asbestos exposures for the three-month periods ended September 30, 2018 and 2017, respectively, and $22 million and $11 million for the nine-month periods ended September 30, 2018 and 2017, respectively.

(b) Amounts relate to the acquisition of Validus in July 2018.

(c) Includes discount on retroactive reinsurance of $46 million and $(53) million for the three-month periods ended September 30, 2018 and 2017, respectively, and $154 million and $1.5 billion for the nine-month periods ended September 30, 2018 and 2017, respectively.

(d) Represents change in loss reserves included in our sale of certain of our insurance operations to Fairfax Financial Holdings Limited (Fairfax) for the three- and nine-month periods ended September 30, 2017. Upon consummation of the sale, we retained a portion of these reserves through reinsurance arrangements.

On January 20, 2017, we entered into an adverse development reinsurance agreement with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc. (Berkshire), 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. The total paid claims subject to the agreement as of September 30, 2018 were below the attachment point.

Discounting of Loss Reserves

At September 30, 2018, the loss reserves reflect a net loss reserve discount of $2.0 billion, including tabular and non-tabular calculations based upon the following assumptions:

Certain asbestos claims are discounted when allowed by the regulator and when payments are fixed and determinable, based on the investment yields of the companies and the payout pattern for the claims. At December 31, 2016, the discount for asbestos reserves was fully amortized.

The tabular workers' compensation discount is calculated based on a 3.5 percent interest rate and the mortality rate used in the 2007 U.S. Life Table.

The non-tabular workers' compensation discount is calculated separately for companies domiciled in New York and Pennsylvania, 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. For the Pennsylvania companies, the statute specifies discount factors for accident years 2001 and prior, which are based on a 6 percent interest rate and an industry payout pattern. For accident years 2002 and subsequent, the discount is based on the payout patterns and investment yields of the companies.

In 2013, our Pennsylvania regulator 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 companies, as well as our use of updated payout patterns specific to our primary and excess workers compensation portfolios.

The discount consists of $622 million of tabular discount and $1.4 billion of non-tabular discount for workers' compensation. During the nine-month periods ended September 30, 2018 and 2017, the benefit/(charge) from changes in discount of $305 million and $(283) million, respectively, were recorded as part of the policyholder benefits and losses incurred in the Consolidated Statement of Income.

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

	September 30, 2018			December 31, 2017		
(in millions)	North America Commercial Insurance	Legacy Portfolio	Total	North America Commercial Insurance	Legacy Portfolio	Total
U.S. workers' compensation	**$ 2,733**	**$ 955**	**$ 3,688**	$ 2,465	$ 918	$ 3,383
Retroactive reinsurance	**(1,693)**	**-**	**(1,693)**	(1,539)	-	(1,539)
Total reserve discount*	**$ 1,040**	**$ 955**	**$ 1,995**	$ 926	$ 918	$ 1,844

* Excludes $182 million and $173 million of discount related to certain long tail liabilities in the United Kingdom at September 30, 2018 and December 31, 2017, respectively.

The following tables present the net loss reserve discount benefit (charge):

Three Months Ended September 30,	**2018**			2017		
(in millions)	North America Commercial Insurance	Legacy Portfolio	Total	North America Commercial Insurance	Legacy Portfolio	Total
Current accident year	**$ 89**	**$ -**	**$ 89**	$ 33	$ -	$ 33
Accretion and other adjustments to prior year discount	**(7)**	**(12)**	**(19)**	(100)	25	(75)
Effect of interest rate changes	**13**	**3**	**16**	(7)	1	(6)
Net reserve discount benefit (charge)	**95**	**(9)**	**86**	(74)	26	(48)
Change in discount on loss reserves ceded under retroactive reinsurance	**(46)**	**-**	**(46)**	53	-	53
Net change in total reserve discount[a]	**$ 49**	**$ (9)**	**$ 40**	$ (21)	$ 26	$ 5

Nine Months Ended September 30,	**2018**			2017		
(in millions)	North America Commercial Insurance	Legacy Portfolio	Total	North America Commercial Insurance	Legacy Portfolio	Total
Current accident year	**$ 131**	**$ -**	**$ 131**	$ 94	$ -	$ 94
Accretion and other adjustments to prior year discount	**(95)**	**(42)**	**(137)**	(205)	(34)	(239)
Effect of interest rate changes	**232**	**79**	**311**	(96)	(42)	(138)
Net reserve discount benefit (charge)	**268**	**37**	**305**	(207)	(76)	(283)
Change in discount on loss reserves ceded under retroactive reinsurance	**(154)**	**-**	**(154)**	(1,494)	-	(1,494)
Net change in total reserve discount[b]	**$ 114**	**$ 37**	**$ 151**	$ (1,701)	$ (76)	$ (1,777)

(a) Excludes $12 million and $(18) million discount related to certain long tail liabilities in the United Kingdom for the three-month periods ended September 30, 2018 and 2017, respectively.

(b) Excludes $10 million and $20 million discount related to certain long tail liabilities in the United Kingdom for the nine-month periods ended September 30, 2018 and 2017, respectively.

During the nine-month period ended September 30, 2018 effective interest rates increased due to an increase in the forward yield curve component of the discount rates reflecting an increase in U.S. Treasury rates along with changes in payout pattern assumptions. This resulted in an increase in the loss reserve discount by $311 million in the nine-month period ended September 30, 2018.

During the nine-month period ended September 30, 2017 effective interest rates decreased due to a decrease in the forward yield curve component of the discount rates reflecting a decrease in U.S. Treasury rates along with changes in payout pattern assumptions. This resulted in a decrease in the loss reserve discount by $138 million in the nine-month period ended September 30, 2017.

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, like others in the insurance and financial services industries in general, 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 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 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 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 into, among other matters, the business practices of current and former operating insurance subsidiaries. We have cooperated, and will continue to cooperate, in producing documents and other information in response to such requests.

Tax Litigation

We are party to pending tax litigation before the Southern District of New York. *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 $3.6 billion at September 30, 2018.

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 arising from transactions entered into by AIG Markets.

In connection with AIGFP’s business activities, AIGFP has issued, in a limited number of transactions, standby letters of credit or similar facilities to equity investors of structured leasing transactions in an amount equal to the termination value owing to the equity investor by the lessee in the event of a lessee default (the equity termination value). The total amount outstanding at September 30, 2018 was $85 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 pursuant to our asset disposition plan. 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.

We are unable to develop a reasonable estimate of the maximum potential payout under certain of these arrangements. Overall, we believe that it is unlikely we will have to make any material payments related to completed sales under these arrangements, and no material liabilities related to these arrangements have been recorded in the Condensed Consolidated Balance Sheets.

Other

- *For additional discussion on commitments and guarantees associated with VIEs see Note 8.*
- *For additional disclosures about derivatives see Note 9.*
- *For additional disclosures about guarantees of outstanding debt and Preference Shares of Validus and outstanding debt of AIG Life Holdings, Inc. (AIGLH), see Note 16.*

12. Equity

Shares Outstanding

The following table presents a rollforward of outstanding shares:

Nine Months Ended September 30, 2018	Common Stock Issued	Treasury Stock	Common Stock Outstanding
Shares, beginning of year	**1,906,671,492**	**(1,007,626,835)**	**899,044,657**
Shares issued	-	4,055,727	4,055,727
Shares repurchased	-	(18,452,857)	(18,452,857)
Shares, end of period	**1,906,671,492**	**(1,022,023,965)**	**884,647,527**

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 following table presents declaration date, record date, payment date and dividends paid per share on AIG Common Stock:

Declaration Date	Record Date	Payment Date	Dividends Paid Per Share
August 2, 2018	September 17, 2018	September 28, 2018	$ 0.32
May 2, 2018	June 14, 2018	June 28, 2018	0.32
February 8, 2018	March 15, 2018	March 29, 2018	0.32
August 2, 2017	September 15, 2017	September 29, 2017	0.32
May 3, 2017	June 14, 2017	June 28, 2017	0.32
February 14, 2017	March 15, 2017	March 29, 2017	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 2017 Annual Report.

Repurchase of AIG Common Stock

The following table presents repurchases of AIG Common Stock and warrants to purchase shares of AIG Common Stock:

Nine Months Ended September 30, *(in millions)*	**2018**	2017

Aggregate repurchases of common stock	**$**	**994**	$	6,275
Total number of common shares repurchased		**18**		100
Aggregate repurchases of warrants	**$**	**6**	$	3
Total number of warrants repurchased*		**-**		-

* For the nine-month periods ended September 30, 2018 and 2017, we repurchased 366,253 and 185,000 warrants to purchase shares of AIG Common Stock, respectively.

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 May 3, 2017, our Board of Directors authorized an additional increase of $2.5 billion to its previous share repurchase authorization. As of September 30, 2018, approximately $1.3 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.

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.

Accumulated Other Comprehensive Income

The following table presents a rollforward of Accumulated other comprehensive income (loss):

(in millions)	Unrealized Appreciation (Depreciation) of Fixed Maturity Securities on Which Other-Than-Temporary Credit Impairments Were Taken	Unrealized Appreciation (Depreciation) of All Other Investments	Foreign Currency Translation Adjustments	Ret Li Adj
Balance, June 30, 2018, net of tax	$ (234)	$ 3,944	$ (2,426)	$
Cumulative effect of change in accounting principles	-	-	-	
Change in unrealized appreciation (depreciation) of investments	350	(1,301)	-	
Change in deferred policy acquisition costs adjustment and other	(205)	216	-	
Change in future policy benefits	-	340	-	
Change in foreign currency translation adjustments	-	-	(131)	
Change in net actuarial loss	-	-	-	
Change in prior service cost	-	-	-	
Change in deferred tax asset (liability)	(38)	(13)	2	
Change in fair value of liabilities under fair value option attributable to changes in own credit risk	-	-	-	
Total other comprehensive income (loss)	107	(758)	(129)	
Noncontrolling interests	-	-	-	
Balance, September 30, 2018, net of tax	$ (127)	$ 3,186	$ (2,555)	$
Balance, December 31, 2017, net of tax	$ 793	$ 7,693	$ (2,090)	$
Cumulative effect of change in accounting principles	169	(285)	(284)	
Change in unrealized depreciation of investments	(1,258)	(7,659)	-	
Change in deferred policy acquisition costs adjustment and other	(91)	1,121	-	
Change in future policy benefits	-	1,464	-	
Change in foreign currency translation adjustments	-	-	(154)	
Change in net actuarial loss	-	-	-	

Change in prior service credit		-	-	-
Change in deferred tax asset (liability)		260	852	(27)
Change in fair value of liabilities under fair value option attributable to changes in own credit risk		-	-	-
Total other comprehensive income (loss)		(1,089)	(4,222)	(181)
Noncontrolling interests		-	-	-
Balance, September 30, 2018, net of tax	$	(127) $	3,186 $	(2,555) $

(in millions)	Unrealized Appreciation (Depreciation) of Fixed Maturity Securities on Which Other-Than-Temporary Credit Impairments Were Taken	Unrealized Appreciation (Depreciation) of All Other Investments	Foreign Currency Translation Adjustments	Ret Li Adj
Balance, June 30, 2017, net of tax	$ 659	$ 7,753	$ (2,507)	$
Change in unrealized appreciation of investments	223	855	-	
Change in deferred policy acquisition costs adjustment and other	(73)	(271)	-	
Change in future policy benefits	-	114	-	
Change in foreign currency translation adjustments	-	-	328	
Change in net actuarial loss	-	-	-	
Change in prior service cost	-	-	-	
Change in deferred tax liability	(53)	(206)	(3)	
Total other comprehensive income	97	492	325	
Noncontrolling interests	-	-	-	
Balance, September 30, 2017, net of tax	$ 756	$ 8,245	$ (2,182)	$
Balance, December 31, 2016, net of tax	$ 426	$ 6,405	$ (2,629)	$
Change in unrealized appreciation of investments	564	3,693	-	
Change in deferred policy acquisition costs adjustment and other*	(56)	(1,269)	-	
Change in future policy benefits	-	(425)	-	
Change in foreign currency translation adjustments	-	-	474	
Change in net actuarial loss	-	-	-	
Change in prior service cost	-	-	-	
Change in deferred tax liability	(178)	(159)	(27)	
Total other comprehensive income	330	1,840	447	
Noncontrolling interests	-	-	-	
Balance, September 30, 2017, net of tax	$ 756	$ 8,245	$ (2,182)	$

* Includes net unrealized gains attributable to businesses held for sale.

The following table presents the other comprehensive income reclassification adjustments for the three- and nine-month periods ended September 30, 2018 and 2017, respectively:

(in millions)	Unrealized Appreciation (Depreciation) of Fixed Maturity Investments on Which Other-Than-Temporary Credit Impairments Were Recognized	Unrealized Appreciation (Depreciation) of All Other Investments	Foreign Currency Translation Adjustments	Retirement Plan Liabilities Adjustment
Three Months Ended September 30, 2018				
Unrealized change arising during period	**$ 146**	**$ (705)**	**$ (131)**	**$ 7**
Less: Reclassification adjustments included in net income	**1**	**40**	**-**	**(9)**
Total other comprehensive income (loss), before income tax expense (benefit)	**145**	**(745)**	**(131)**	**16**
Less: Income tax expense (benefit)	**38**	**13**	**(2)**	**2**
Total other comprehensive income (loss), net of income tax expense (benefit)	**$ 107**	**$ (758)**	**$ (129)**	**$ 14**
Three Months Ended September 30, 2017				
Unrealized change arising during period	$ 160	$ 831	$ 328	$ 38
Less: Reclassification adjustments included in net income	10	133	-	(58)
Total other comprehensive income, before income tax expense	150	698	328	96
Less: Income tax expense	53	206	3	33
Total other comprehensive income, net of income tax expense	$ 97	$ 492	$ 325	$ 63
Nine Months Ended September 30, 2018				
Unrealized change arising during period	**$ (1,344)**	**$ (5,055)**	**$ (154)**	**$ 26**
Less: Reclassification adjustments included in net income	**5**	**19**	**-**	**(26)**
Total other comprehensive income (loss), before income tax expense (benefit)	**(1,349)**	**(5,074)**	**(154)**	**52**
Less: Income tax expense (benefit)	**(260)**	**(852)**	**27**	**(14)**
Total other comprehensive income (loss), net of income tax expense (benefit)	**$ (1,089)**	**$ (4,222)**	**$ (181)**	**$ 66**
Nine Months Ended September 30, 2017				
Unrealized change arising during period	$ 553	$ 2,610	$ 474	$ 62
Less: Reclassification adjustments included in net income	45	611	-	(78)
Total other comprehensive income, before income tax expense	508	1,999	474	140

Less: Income tax expense		178	159	27	48
Total other comprehensive income, net of income tax expense	$	330	$ 1,840	$ 447	$ 92

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

	Amount Reclassified from Accumulated Other Comprehensive Income Three Months Ended September 30,		
(in millions)	**2018**	2017	Affected Line Item in the Condensed Consolidated Statements of Income
Unrealized appreciation (depreciation) of fixed maturity securities on which other-than-temporary credit impairments were taken			
Investments	**$ 1**	$ 10	Other realized capital gains
Total	**1**	10	
Unrealized appreciation (depreciation) of all other investments			
Investments	**10**	48	Other realized capital gains
Deferred acquisition costs adjustment	**30**	85	Amortization of deferred policy acquisition costs
Future policy benefits	**-**	-	Policyholder benefits and losses incurred
Total	**40**	133	
Change in retirement plan liabilities adjustment			
Prior-service credit	**-**	-	*
Actuarial losses	**(9)**	(58)	*
Total	**(9)**	(58)	
Total reclassifications for the period	**$ 32**	$ 85	

	Amount Reclassified from Accumulated Other Comprehensive Income Nine Months Ended September 30,		
(in millions)	**2018**	2017	Affected Line Item in the Condensed Consolidated Statements of Income
Unrealized appreciation (depreciation) of fixed maturity securities on which other-than-temporary credit impairments were taken			
Investments	**$ 5**	$ 45	Other realized capital gains
Total	**5**	45	

Unrealized appreciation (depreciation) of all other investments			
Investments	**19**	415	Other realized capital gains
Deferred acquisition costs adjustment	**-**	196	Amortization of deferred policy acquisition costs
Future policy benefits	**-**	-	Policyholder benefits and losses incurred
Total	**19**	611	
Change in retirement plan liabilities adjustment			
Prior-service credit	**1**	1	*
Actuarial losses	**(27)**	(79)	*
Total	**(26)**	(78)	
Total reclassifications for the period	**$ (2)**	$ 578	

* These Accumulated other comprehensive income components are included in the computation of net periodic pension cost. *See Note 14*.

13. Earnings Per 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 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 September 30,		Nine Months Ended September 30,	
(dollars in millions, except per share data)	**2018**	2017	**2018**	201
Numerator for EPS:				
Income (loss) from continuing operations	**$ (1,220)**	$ (1,712)	**$ 661**	$ 60
Less: Net income from continuing operations attributable to noncontrolling interests	**-**	26	**5**	4
Income (loss) attributable to AIG common shareholders from continuing operations	**(1,220)**	(1,738)	**656**	56
Income (loss) from discontinued operations, net of income tax expense	**(39)**	(1)	**(40)**	
Net income (loss) attributable to AIG common shareholders	**$ (1,259)**	$ (1,739)	**$ 616**	$ 57
Denominator for EPS:				
Weighted average shares outstanding — basic	**895,237,359**	908,667,044	**902,081,555**	938,130,83
Dilutive shares	**-**	-	**14,736,714**	23,165,11
Weighted average shares outstanding — diluted[a][b]	**895,237,359**	908,667,044	**916,818,269**	961,295,94
Income (loss) per common share attributable to AIG:				
Basic:				
Income (loss) from continuing operations	**$ (1.37)**	$ (1.91)	**$ 0.72**	$ 0.6
Income (loss) from discontinued operations	**$ (0.04)**	$ -	**$ (0.04)**	$ 0.0
Income (loss) attributable to AIG	**$ (1.41)**	$ (1.91)	**$ 0.68**	$ 0.6
Diluted:				
Income (loss) from continuing operations	**$ (1.37)**	$ (1.91)	**$ 0.71**	$ 0.5
Income (loss) from discontinued operations	**$ (0.04)**	$ -	**$ (0.04)**	$ 0.0
Income (loss) attributable to AIG	**$ (1.41)**	$ (1.91)	**$ 0.67**	$ 0.6

(a) Shares in the diluted EPS calculation represent basic shares for the three-month periods ended September 30, 2018 and 2017 due to the net losses in those periods. The shares excluded from the calculation were 13,538,168 and 22,459,868 shares, respectively.

(b) Dilutive shares included our share based employee compensation plans and a weighted average portion of the warrants issued to AIG shareholders as part of AIG's recapitalization in January 2011. The number of shares excluded from diluted shares outstanding was 5.8 million and 4.7 million for the three- and nine-month periods ended September 30, 2018, respectively, and 2.4 million and 2.0 million for the three- and nine-month periods ended September 30, 2017, respectively, because the effect of including those shares in the calculation would have been anti-dilutive.

14. Employee Benefits

We sponsor various defined benefit pension plans, post-retirement medical and life insurance 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 with respect to pensions and other postretirement benefits:

	Pension			Postretirement		
(in millions)	U.S. Plans	Non-U.S. Plans	Total	U.S. Plans	Non-U.S. Plans	Total
Three Months Ended September 30, 2018						
Components of net periodic benefit cost:						
Service cost	**$ -**	**$ 6**	**$ 6**	**$ -**	**$ -**	**$ -**
Interest cost	**41**	**4**	**45**	**1**	**1**	**2**
Expected return on assets	**(72)**	**(6)**	**(78)**	**-**	**-**	**-**
Amortization of prior service cost	**-**	**-**	**-**	**-**	**-**	**-**
Amortization of net loss	**7**	**2**	**9**	**-**	**-**	**-**
Net periodic benefit cost (credit)	**$ (24)**	**$ 6**	**$ (18)**	**$ 1**	**$ 1**	**$ 2**
Three Months Ended September 30, 2017						
Components of net periodic benefit cost:						
Service cost	$ (5)	$ 7	$ 2	$ -	$ 1	$ 1
Interest cost	41	4	45	2	1	3
Expected return on assets	(66)	(6)	(72)	-	-	-
Amortization of prior service cost	-	-	-	-	-	-
Amortization of net loss	6	3	9	-	-	-
Curtailment gain	-	(5)	(5)	-	-	-
Settlement charges	50	-	50	-	-	-
Net periodic benefit cost	$ 26	$ 3	$ 29	$ 2	$ 2	$ 4
Nine Months Ended September 30, 2018						
Components of net periodic benefit cost:						
Service cost	**$ 4**	**$ 17**	**$ 21**	**$ 1**	**$ 1**	**$ 2**
Interest cost	**122**	**12**	**134**	**4**	**2**	**6**
Expected return on assets	**(213)**	**(19)**	**(232)**	**-**	**-**	**-**
Amortization of prior service cost (credit)	**-**	**1**	**1**	**(1)**	**(1)**	**(2)**
Amortization of net loss	**21**	**6**	**27**	**-**	**-**	**-**
Net periodic benefit cost (credit)	**$ (66)**	**$ 17**	**$ (49)**	**$ 4**	**$ 2**	**$ 6**
Nine Months Ended September 30, 2017						
Components of net periodic benefit cost:						
Service cost	$ 8	$ 23	$ 31	$ 1	$ 2	$ 3
Interest cost	126	12	138	5	3	8
Expected return on assets	(194)	(18)	(212)	-	-	-

Amortization of prior service credit	-	-	-	(1)	-	(1)
Amortization of net loss	20	9	29	-	-	-
Curtailment gain	-	(5)	(5)	-	-	-
Settlement charges	50	-	50	-	-	-
Net periodic benefit cost	$ 10	$ 21	$ 31	$ 5	$ 5	$ 10

For the nine-month period ended September 30, 2018, we did not make any contributions to the U.S. AIG Retirement Plan.

15. Income Taxes

U.S. Tax Reform Overview

On December 22, 2017, the U.S. enacted Public Law 115-97, known informally as the Tax Cuts and Jobs Act (the Tax Act). The Tax Act reduced the statutory rate of U.S. federal corporate income tax to 21 percent and enacted numerous other changes impacting AIG and the insurance industry.

During December 2017, the SEC staff issued Staff Accounting Bulletin 118 (SAB 118), which provided guidance on accounting for the tax effects of the Tax Act. SAB 118 addressed situations where accounting for certain income tax effects of the Tax Act under ASC 740 may be incomplete upon issuance of an entity's financial statements and provides a one-year measurement period from the enactment date to complete the accounting under ASC 740. In accordance with SAB 118, a company was required to reflect the following:

- Income tax effects of those aspects of the Tax Act for which accounting under ASC 740 is complete
- Provisional estimate of income tax effects of the Tax Act to the extent accounting is incomplete but a reasonable estimate is determinable
- If a provisional estimate cannot be determined, ASC 740 should still be applied on the basis of tax law provisions that were in effect immediately before the enactment of the Tax Act.

At December 31, 2017, we originally recorded a provisional estimate of income tax effects of the Tax Act of $6.7 billion, including a tax charge of $6.7 billion attributable to the reduction in the U.S. corporate income tax rate and tax benefit of $38 million related to the deemed repatriation tax. Our provisional estimate of $6.7 billion was based in part on a reasonable estimate of the effects of the statutory income tax rate reduction on existing deferred tax balances and of certain provisions of the Tax Act. We recently filed our 2017 consolidated U.S. income tax return and have substantially completed our review of the primary impact of the Tax Act provisions on our deferred taxes. As a result, we consider the accounting for the effects of the rate change on deferred tax balances to be complete and no material measurement period changes were recorded for this item. As further guidance is issued by the U.S. tax authority, any resulting changes in our estimates will be treated in accordance with the relevant accounting guidance.

The Tax Act includes provisions for Global Intangible Low-Taxed Income (GILTI) under which taxes on foreign income 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. There are substantial uncertainties in the interpretation of BEAT and GILTI and formal guidance from the U.S. tax authority is still pending. 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.

Tax effects for which a reasonable estimate can be determined

Deemed Repatriation Tax

The Tax Act requires companies to pay a one-time transition tax, net of tax credits, related to applicable foreign taxes paid, on previously untaxed current and accumulated earnings and profits (E&P) of certain of our foreign subsidiaries. We were able to reasonably estimate the deemed repatriation tax and originally recorded a provisional estimated tax benefit of $38 million at December 31, 2017. We have completed our review of post-1986 E&P computations of our foreign affiliates. Incorporating additional IRS guidance issued with respect to the deemed repatriation tax, as well as the relevant basis adjustments, we recognized a measurement period tax charge of $62 million. The effect of deemed repatriation tax, which has now been determined to be complete, resulted in a liability of $24 million.

Other Provisions

The Tax Act modified computations of insurance reserves for both life and general insurance companies. For life insurance companies, tax reserves are now computed with reference to NAIC reserves. For general insurance companies, the Tax Act extends the discount period for certain long-tail lines of business from 10 years to 24 years and increases the discount rate, replacing the applicable federal rate for a higher-yield corporate bond rate, and eliminates the election allowing companies to use their historical loss payment patterns for loss reserve discounting. Adjustments related to the differences in insurance reserves balances computed under the old tax law versus the Tax Act have to be taken into income over eight years by both life and general insurance companies. Accordingly, these changes give rise to new deferred tax liabilities. At December 31, 2017, we recorded a provisional estimate of $1.9 billion with respect to such deferred tax liabilities. This increase in deferred tax liabilities was offset by an increase in the deferred tax asset related to insurance reserves as a result of applying the new provisions of the Tax Act. As of September 30, 2018, these estimates remain provisional.

Provisions Impacting Projections of Taxable Income and Valuation Allowance Considerations

Certain provisions of the Tax Act impact our projections of future taxable income used in analyzing realizability of our U.S. tax attribute deferred tax asset. As discussed above, there are specific insurance industry provisions, including changes in computations of insurance reserves, amortization of specified policy acquisition expenses, and treatment of separate account dividends received deduction. Provisional estimates have been included in our future taxable income projections for these insurance industry specific provisions to reflect application of the new tax law.

Because we have made provisional estimates related to the impact of certain aspects of the Tax Act on our future taxable income, corresponding determination of the need for a valuation allowance is also provisional. While we have substantively completed our review of the primary impact of the Tax Act provisions on our deferred tax balances, we are still analyzing the complex interplay of the new tax rules with the rules governing the utilization of our tax attributes. We expect to finalize this analysis and to complete our accounting within the prescribed measurement period. Accordingly, as of September 30, 2018, these estimates remain provisional.

Tax effects for which no estimate can be determined

At December 31, 2017, our accounting for the following elements of the Tax Act was incomplete and we continued accounting for them in accordance with ASC 740 on the basis of the tax laws in effect before enactment of the Tax Act.

The Tax Act may affect the results in certain investments and partnerships in which we are a non-controlling interest owner. At December 31, 2017, the information needed to determine a provisional estimate was not currently available (such as for interest deduction limitations in those entities and the changed definition of a U.S. Shareholder), and accordingly, no provisional estimates were recorded. We have since completed our review of these investments and partnerships. As of September 30, 2018, we consider the accounting for this item to be complete and no measurement period change was recorded.

At December 31, 2017, due to minimal formal guidance issued from state and local jurisdictions, provisional estimates were not recorded for the impact of any state and local corporate income tax implications of the Tax Act. Guidance from state and local jurisdictions has varied and most have not formally passed law specific to the treatment of the Tax Act. While we have not identified any material impact at this point in time, we continue to review any guidance issued by those states that have passed tax legislation related to the Tax Act and continue to work through the state and local corporate income tax implications of the Tax Act. We expect further guidance throughout 2018, and the impact, if any, will be recorded when the related guidance is issued. If new law or guidance is issued beyond this period, any further change will be reflected in the period in which the new law is enacted under relevant accounting guidance.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued an accounting standard that allows the optional reclassification of stranded tax effects within accumulated other comprehensive income (AOCI) that arise due to the enactment of the Tax Act to retained earnings. We elected to early adopt the standard for the three-month period ended March 31, 2018. As a result of adopting this standard, we reclassified $248 million from AOCI to retained earnings. The amount reclassified includes stranded effects related to the change in the U.S. federal corporate income tax rate on the gross temporary differences and related valuation allowances. As of September 30, 2018, the effect of the Tax Act on gross temporary differences related to AOCI is complete, and no additional reclassification adjustments were recorded.

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 the realizability of deferred tax assets and uncertain tax positions, 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 September 30, 2018, the annual effective tax rate includes the tax effects of significant catastrophe losses recognized in the third quarter of 2018.

Interim Tax Expense (Benefit)

For the three-month period ended September 30, 2018, the effective tax rate on loss from continuing operations was 20.1 percent. The effective tax rate on loss from continuing operations differs from the statutory tax rate of 21 percent primarily due to tax charges related to income in our foreign operations taxed at statutory tax rates higher than 21 percent, additional U.S. taxes imposed on income of our foreign subsidiaries under international provisions of the Tax Act, valuation allowance activity related to certain foreign subsidiaries and non-deductible transfer pricing charges, partially offset by tax benefits associated with tax exempt income, and reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities. As noted above, we also recorded a measurement period tax charge of $62 million related to the effects of the deemed repatriation tax.

For the nine-month period ended September 30, 2018, the effective tax rate on income from continuing operations was 30.6 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 21 percent primarily due to tax charges related to income in our foreign operations taxed at statutory tax rates higher than 21 percent, additional U.S. taxes imposed on income of our foreign subsidiaries under international provisions of the Tax Act, valuation allowance activity related to certain foreign subsidiaries and state jurisdictions and non-deductible transfer pricing charges, partially offset by tax benefits associated with tax exempt income, reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities and excess tax deductions related to share based compensation payments recorded through the income statement.

For the three-month period ended September 30, 2017, the effective tax rate on loss from continuing operations was 38.9 percent. The effective tax rate on loss from continuing operations differs from the statutory tax rate of 35 percent primarily due to tax benefits associated with tax exempt income and reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities, partially offset by tax charges related to losses in our European operations taxed at a statutory tax rate lower than 35 percent.

For the nine-month period ended September 30, 2017, the effective tax rate on income from continuing operations was not meaningful, due to a tax benefit on pre-tax income. The tax benefit was primarily due to tax exempt income, reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities and excess tax deductions related to share based compensation payments recorded through the income statement in accordance with relevant accounting literature, partially offset by tax charges related to increases in uncertain tax positions associated with the impact of settlement discussions with the IRS related to certain open tax issues and losses in our European operations taxed at a statutory tax rate lower than 35 percent.

As a result of the Tax Act, the majority of accumulated foreign earnings that were previously untaxed are subject to a one-time deemed repatriation tax. Going forward, certain foreign earnings of our foreign affiliates will be exempt from U.S. tax upon repatriation. Notwithstanding the changes, U.S. tax on foreign exchange gain or loss and certain non-U.S. withholding taxes will continue to be applicable upon future repatriations of foreign earnings. For the nine-month period ended September 30, 2018, 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.

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;
- the carryforward period 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 utilize both the net operating loss and foreign tax credit carryforwards concurrently which enables us to realize our tax attributes prior to expiration. As of September 30, 2018, based on all available evidence, it is more likely than not that the U.S. net operating loss and foreign tax credit carryforwards will be utilized prior to expiration and, thus, no valuation allowance has been established.

Estimates of future taxable income, including income generated from prudent and feasible actions and tax planning strategies 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. Such potential impact could be material to our consolidated financial condition or results of operations for an individual reporting period.

For the three- and nine-month periods ended September 30, 2018, recent changes in market conditions, including rising interest rates, impacted the unrealized tax gains and losses in the U.S. Life Insurance Companies' available for sale securities portfolio, resulting in a deferred tax asset related to net unrealized tax capital losses. The deferred tax asset relates to the unrealized losses for which the carryforward period has not yet begun, and as such, when assessing its recoverability, we consider our ability and intent to hold the underlying securities to recovery. As of September 30, 2018, based on all available evidence, we concluded that a valuation allowance should be established on a portion of the deferred tax asset related to unrealized losses that are not more-likely-than-not to be realized. For both the three- and nine-month periods ended September 30, 2018, we established $149 million of valuation allowance associated with the unrealized tax losses in the U.S. Life Insurance Companies' available for sale securities portfolio, all of which was allocated to other comprehensive income.

For the three- and nine-month periods ended September 30, 2018, recent changes in market conditions, including rising interest rates, impacted the unrealized tax gains and losses in the U.S. Non-Life Companies' available for sale securities portfolio, resulting in a decrease to the deferred tax liability related to net unrealized tax capital gains. As of September 30, 2018, we continue to be in an overall unrealized tax gain position with respect to the U.S. Non-Life Companies' available for sale securities portfolio and thus concluded no valuation allowance is necessary in the U.S. Non-Life Companies' available for sale securities portfolio.

For the three- and nine-month periods ended September 30, 2018, we recognized net increases of $5 million and $42 million, respectively, in our deferred tax asset valuation allowance associated with certain foreign subsidiaries and state jurisdictions, primarily attributable to current year activity.

Tax Examinations and Litigation

On August 1, 2012, we filed a motion for partial summary judgment related to the disallowance of foreign tax credits associated with cross border financing transactions in the Southern District of New York. The Southern District of New York denied our summary judgment motion and upon AIG's appeal, the U.S. Court of Appeals for the Second Circuit (the Second Circuit) affirmed the denial. AIG's petition for certiorari to the U.S. Supreme Court from the decision of the Second Circuit was denied on March 7, 2016. As a result, the case has been remanded back to the Southern District of New York for a jury trial.

In January 2018, the parties reached non-binding agreements in principle on issues presented in the dispute and are currently reviewing the computations reflecting the settlement terms. The resolution is not final and is subject to various reviews. The litigation has been stayed pending the outcome of the review process. We can provide no assurance regarding the outcome of any such litigation or whether binding compromised settlements with the parties will ultimately be reached. We currently believe that we have adequate reserves for the potential liabilities that may result from these matters.

Accounting for Uncertainty in Income Taxes

At both September 30, 2018 and December 31, 2017, our unrecognized tax benefits, excluding interest and penalties were $4.7 billion. At September 30, 2018 and December 31, 2017, 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 $45 million and $28 million, respectively. Accordingly, at both September 30, 2018 and December 31, 2017, the amounts of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate were $4.7 billion.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense. At September 30, 2018 and December 31, 2017, we had accrued liabilities of $2.2 billion and $2.0 billion, respectively, for the payment of interest (net of the federal benefit) and penalties. For the nine-month periods ended September 30, 2018 and 2017, we accrued expense (benefit) of $148 million and $102 million, respectively, for the payment of interest and penalties.

We believe it is reasonably possible that our unrecognized tax benefits could decrease within the next 12 months by as much as $3.9 billion, principally as a result of potential resolutions or settlements of prior years' tax items. The prior years' tax items include unrecognized tax benefits related to the deductibility of certain expenses and matters related to cross border financing transactions.

16. Information Provided in Connection with Outstanding Debt and Preference Shares

The following Condensed Consolidating Financial Statements reflect the results of Validus Holdings, Ltd. and AIG Life Holdings, Inc. (AIGLH), each a holding company and a wholly owned subsidiary of AIG. AIG provides a full and unconditional guarantee of the senior notes and Preference Shares of Validus and all outstanding debt of AIGLH.

Condensed Consolidating Balance Sheets

(in millions)	American International Group, Inc. (As Guarantor)	Validus Holdings, Ltd.	AIGLH	Other Subsidiaries	Re
September 30, 2018					
Assets:					
Short-term investments[(a)]	**$ 1,459**	**$ 2**	**$ -**	**$ 9,150**	**$**
Other investments[(b)]	**4,016**	**13**	**-**	**303,171**	
Total investments	**5,475**	**15**	**-**	**312,321**	
Cash	**3**	**66**	**3**	**2,669**	
Loans to subsidiaries[(c)]	**34,713**	**-**	**-**	**572**	
Investment in consolidated subsidiaries[(c)]	**36,727**	**4,120**	**27,038**	**-**	
Other assets, including deferred income taxes[(d)]	**15,996**	**2,289**	**170**	**169,420**	
Total assets	**$ 92,914**	**$ 6,490**	**$ 27,211**	**$ 484,982**	**$**
Liabilities:					
Insurance liabilities	**$ -**	**$ -**	**$ -**	**$ 291,391**	**$**
Long-term debt	**22,459**	**710**	**643**	**10,782**	
Other liabilities, including intercompany balances[(b)]	**11,296**	**416**	**132**	**111,419**	
Loans from subsidiaries[(c)]	**573**	**-**	**-**	**34,713**	
Total liabilities	**34,328**	**1,126**	**775**	**448,305**	
Total AIG shareholders' equity	**58,586**	**5,364**	**26,436**	**36,086**	
Non-redeemable noncontrolling interests	**-**	**-**	**-**	**591**	
Total equity	**58,586**	**5,364**	**26,436**	**36,677**	
Total liabilities and equity	**$ 92,914**	**$ 6,490**	**$ 27,211**	**$ 484,982**	**$**
December 31, 2017					
Assets:					
Short-term investments[(a)]	$ 2,541	$ -	$ -	$ 11,559	$
Other investments[(b)]	6,004	-	-	305,902	
Total investments	8,545	-	-	317,461	
Cash	3	-	20	2,339	
Loans to subsidiaries[(c)]	35,004	-	-	517	
Investment in consolidated subsidiaries[(c)]	40,135	-	30,359	-	
Other assets, including deferred income taxes[(d)]	16,016	-	170	159,594	

Total assets	$ 99,703	$ -	$30,549	$ 479,911	$
Liabilities:					
Insurance liabilities	$ -	$ -	$ -	$ 282,105	$
Long-term debt	21,557	-	642	9,441	
Other liabilities, including intercompany balances[b]	12,458	-	143	112,275	
Loans from subsidiaries[c]	517	-	-	35,004	
Total liabilities	34,532	-	785	438,825	
Total AIG shareholders' equity	65,171	-	29,764	40,549	
Non-redeemable noncontrolling interests	-	-	-	537	
Total equity	65,171	-	29,764	41,086	
Total liabilities and equity	$ 99,703	$ -	$30,549	$ 479,911	$

(a) At September 30, 2018, includes restricted cash of $1 million and $27 million for American International Group, Inc. (As Guarantor) and Other Subsidiaries, respectively. At December 31, 2017, includes restricted cash of $4 million and $54 million for American International Group, Inc. (As Guarantor) and Other Subsidiaries, respectively.

(b) Includes intercompany derivative positions, which are reported at fair value before credit valuation adjustment.

(c) Eliminated in consolidation.

(d) At September 30, 2018, includes restricted cash of $1 million and $353 million for American International Group, Inc. (As Guarantor) and Other Subsidiaries, respectively. At December 31, 2017, includes restricted cash of $1 million and $316 million for American International Group, Inc. (As Guarantor) and Other Subsidiaries, respectively.

Condensed Consolidating Statements of Income

(in millions)	American International Group, Inc. (As Guarantor)	Validus Holdings, Ltd.	AIGLH	Other Subsidiaries	Recla E
Three Months Ended September 30, 2018					
Revenues:					
Equity in earnings of consolidated subsidiaries*	**$ (989)**	**$ (93)**	**$ 1,316**	**$ -**	**$**
Other income	**183**	**23**	**1**	**11,412**	
Total revenues	**(806)**	**(70)**	**1,317**	**11,412**	
Expenses:					
Interest expense	**244**	**10**	**12**	**63**	
Loss on extinguishment of debt	**-**	**-**	**-**	**1**	
Other expenses	**132**	**2**	**1**	**12,513**	
Total expenses	**376**	**12**	**13**	**12,577**	
Income (loss) from continuing operations before income tax expense (benefit)	**(1,182)**	**(82)**	**1,304**	**(1,165)**	
Income tax expense (benefit)	**38**	**-**	**(2)**	**(343)**	
Income (loss) from continuing operations	**(1,220)**	**(82)**	**1,306**	**(822)**	
Loss from discontinued operations, net of income taxes	**(39)**	**-**	**-**	**-**	
Net income (loss)	**(1,259)**	**(82)**	**1,306**	**(822)**	
Less:					
Net income (loss) from continuing operations attributable to noncontrolling interests	**-**	**-**	**-**	**-**	
Net income (loss) attributable to AIG	**$ (1,259)**	**$ (82)**	**$ 1,306**	**$ (822)**	**$**
Three Months Ended September 30, 2017					
Revenues:					
Equity in earnings of consolidated subsidiaries*	$ (2,098)	$ -	$ 1,138	$ -	$
Other income	225	-	-	11,455	
Total revenues	(1,873)	-	1,138	11,455	
Expenses:					
Interest expense	236	-	12	44	
(Gain) loss on extinguishment of debt	2	-	-	(1)	
Other expenses	177	-	1	14,154	
Total expenses	415	-	13	14,197	
Income (loss) from continuing operations before income tax benefit	(2,288)	-	1,125	(2,742)	
Income tax benefit	(549)	-	(4)	(538)	
Income (loss) from continuing operations	(1,739)	-	1,129	(2,204)	
Loss from discontinued operations,					

net of income taxes	-	-	-	(1)
Net income (loss)	(1,739)	-	1,129	(2,205)
Less:				
Net income from continuing operations attributable to noncontrolling interests	-	-	-	26
Net income (loss) attributable to AIG	$ (1,739)	$ -	$ 1,129	$ (2,231) $

(in millions)	American International Group, Inc. (As Guarantor)	Validus Holdings, Ltd.	AIGLH	Other Subsidiaries	Recla E
Nine Months Ended September 30, 2018					
Revenues:					
Equity in earnings of consolidated subsidiaries*	**$ 889**	**$ (93)**	**$ 2,497**	**$ -**	**$**
Other income	**750**	**23**	**1**	**34,103**	
Total revenues	**1,639**	**(70)**	**2,498**	**34,103**	
Expenses:					
Interest expense	**710**	**10**	**37**	**154**	
Loss on extinguishment of debt	**-**	**-**	**-**	**10**	
Other expenses	**643**	**2**	**2**	**32,357**	
Total expenses	**1,353**	**12**	**39**	**32,521**	
Income (loss) from continuing operations before income tax expense (benefit)	**286**	**(82)**	**2,459**	**1,582**	
Income tax expense (benefit)	**(370)**	**-**	**-**	**661**	
Income (loss) from continuing operations	**656**	**(82)**	**2,459**	**921**	
Loss from discontinued operations, net of income taxes	**(40)**	**-**	**-**	**-**	
Net income (loss)	**616**	**(82)**	**2,459**	**921**	
Less:					
Net income from continuing operations attributable to noncontrolling interests	**-**	**-**	**-**	**5**	
Net income (loss) attributable to AIG	**$ 616**	**$ (82)**	**$ 2,459**	**$ 916**	**$**
Nine Months Ended September 30, 2017					
Revenues:					
Equity in earnings of consolidated subsidiaries*	$ 794	$ -	$ 2,553	$ -	$
Other income	653	-	-	36,085	
Total revenues	1,447	-	2,553	36,085	
Expenses:					
Interest expense	719	-	37	129	
(Gain) loss on extinguishment of debt	2	-	-	(6)	
Other expenses	693	-	2	34,865	
Total expenses	1,414	-	39	34,988	
Income (loss) from continuing operations before income tax expense (benefit)	33	-	2,514	1,097	
Income tax expense (benefit)	(544)	-	(12)	538	
Income (loss) from continuing operations	577	-	2,526	559	
Income (loss) from discontinued operations, net of income taxes	(1)	-	-	8	
Net income (loss)	576	-	2,526	567	

Less:					
Net income from continuing operations attributable to noncontrolling interests		-	-	-	40
Net income (loss) attributable to AIG	$	576 $	- $	2,526 $	527 $

* Eliminated in consolidation.

Condensed Consolidating Statements of Comprehensive Income

(in millions)		American International Group, Inc. (As Guarantor)	Validus Holdings, Ltd.	AIGLH	Other Subsidiaries	Reclassif Elim
Three Months Ended September 30, 2018						
Net income (loss)	**$**	**(1,259)$**	**(82)$**	**1,306$**	**(822)$**	
Other comprehensive income (loss)		**(766)**	**-**	**(301)**	**(1,436)**	
Comprehensive income (loss)		**(2,025)**	**(82)**	**1,005**	**(2,258)**	
Total comprehensive income attributable to noncontrolling interests		**-**	**-**	**-**	**-**	
Comprehensive income (loss) attributable to AIG	**$**	**(2,025)$**	**(82)$**	**1,005$**	**(2,258)$**	
Three Months Ended September 30, 2017						
Net income (loss)	$	(1,739)$	-$	1,129$	(2,205)$	
Other comprehensive income (loss)		977	-	1,274	(30,625)	
Comprehensive income (loss)		(762)	-	2,403	(32,830)	
Total comprehensive income attributable to noncontrolling interests		-	-	-	26	
Comprehensive income (loss) attributable to AIG	$	(762)$	-$	2,403$	(32,856)$	
Nine Months Ended September 30, 2018						
Net income (loss)	**$**	**616$**	**(82)$**	**2,459$**	**921$**	
Other comprehensive income (loss)		**(5,425)**	**-**	**3,139**	**12,568**	**(**
Comprehensive income (loss)		**(4,809)**	**(82)**	**5,598**	**13,489**	**(**
Total comprehensive income attributable to noncontrolling interests		**-**	**-**	**-**	**5**	
Comprehensive income (loss) attributable to AIG	**$**	**(4,809)$**	**(82)$**	**5,598$**	**13,484$**	**(**
Nine Months Ended September 30, 2017						
Net income (loss)	$	576$	-$	2,526$	567$	
Other comprehensive income (loss)		2,709	-	7,056	18,864	(
Comprehensive income (loss)		3,285	-	9,582	19,431	(
Total comprehensive income attributable to noncontrolling interests		-	-	-	40	
Comprehensive income (loss) attributable to AIG	$	3,285$	-$	9,582$	19,391$	(

Condensed Consolidating Statements of Cash Flows

(in millions)	American International Group, Inc. (As Guarantor)	Validus Holdings, Ltd.	AIGLH	Other Subsidiaries	Reclassificatio a Eliminatio
Nine Months Ended September 30, 2018					
Net cash (used in) provided by operating activities	$ 1,389	$ (40)	$ 2,003	$ (433)	$ (2,95
Cash flows from investing activities:					
Sales of investments	4,641	-	-	45,218	(3,32
Sales of divested businesses, net	-	-	-	10	
Purchase of investments	(1,680)	-	-	(45,574)	3,3
Loans to subsidiaries - net	878				