

AMERICAN INTERNATIONAL GROUP INC
Form 10-Q
November 03, 2014

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, 2014

Commission File Number 1-8787

American International Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-2592361

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

175 Water Street, New York, New York

(Address of principal executive offices)

10038

(Zip Code)

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

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

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

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

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

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, 2014, there were 1,399,912,329 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, 2014

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

American International Group, Inc.

Condensed Consolidated Balance Sheets (*unaudited*)

(in millions, except for share data)

Assets:

Investments:

Fixed maturity securities:

Bonds available for sale, at fair value (amortized cost: 2014 - \$249,920; 2013 - \$248,531)

Other bond securities, at fair value (See Note 6)

Equity Securities:

Common and preferred stock available for sale, at fair value (cost: 2014 - \$2,066; 2013 - \$1,726)

Other common and preferred stock, at fair value (See Note 6)

Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2014 - \$6; 2013 - \$0)

Other invested assets (portion measured at fair value: 2014 - \$9,045; 2013 - \$8,598)

Short-term investments (portion measured at fair value: 2014 - \$4,191; 2013 - \$6,313)

Total investments

Cash

Accrued investment income

Premiums and other receivables, net of allowance

Reinsurance assets, net of allowance

Deferred income taxes

Deferred policy acquisition costs

Derivative assets, at fair value

Other assets, including restricted cash of \$1,238 in 2014 and \$865 in 2013 (portion measured at fair value: 2014 - \$0; 2013 - \$418)

Separate account assets, at fair value

Assets held-for-sale

Total assets

Liabilities:

Liability for unpaid claims and claims adjustment expense

Unearned premiums

Future policy benefits for life and accident and health insurance contracts

Policyholder contract deposits (portion measured at fair value: 2014 - \$1,044; 2013 - \$384)

Other policyholder funds (portion measured at fair value: 2014 - \$8; 2013 - \$0)

Derivative liabilities, at fair value

Other liabilities (portion measured at fair value: 2014 - \$402; 2013 - \$933)

Long-term debt (portion measured at fair value: 2014 - \$5,667; 2013 - \$6,747)

Separate account liabilities

Liabilities held-for-sale

Total liabilities

Contingencies, commitments and guarantees (see Note 10)

Redeemable noncontrolling interests (see Note 12)

AIG shareholders' equity:

Common stock, \$2.50 par value; 5,000,000,000 shares authorized; shares issued: 2014 - 1,906,671,492 and 2013 - 1,906,645,689

Treasury stock, at cost; 2014 - 502,898,541 shares; 2013 - 442,582,366 shares

Additional paid-in capital

Retained earnings

Accumulated other comprehensive income

Total AIG shareholders' equity

Non-redeemable noncontrolling interests (including \$100 associated with businesses held for sale in 2013)

Total equity

Total liabilities and equity

\$

See accompanying Notes to Condensed Consolidated Financial Statements.

TABLE OF CONTENTS**Item 1 / Financial statements****American International Group, Inc.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**
(unaudited)

	Three Months Ended September 30,	
	2014	2013
<i>(dollars in millions, except per share data)</i>		
Revenues:		
Premiums	\$ 9,453	\$ 9,352
Policy fees	743	645
Net investment income	4,028	3,573
Net realized capital gains:		
Total other-than-temporary impairments on available for sale securities	(34)	(33)
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income (loss)	(1)	(6)
Net other-than-temporary impairments on available for sale securities recognized in net income	(35)	(39)
Other realized capital gains	505	291
Total net realized capital gains	470	252
Aircraft leasing revenue	-	1,118
Other income	1,960	1,004
Total revenues	16,654	15,944
Benefits, claims and expenses:		
Policyholder benefits and claims incurred	7,203	7,416
Interest credited to policyholder account balances	882	924
Amortization of deferred acquisition costs	1,288	1,220
Other acquisition and insurance expenses	2,117	2,251
Interest expense	430	516
Aircraft leasing expenses	-	1,119
Loss on extinguishment of debt	742	81
Net (gain) loss on sale of divested businesses	(18)	-
Other expenses	991	1,239
Total benefits, claims and expenses	13,635	14,766
Income from continuing operations before income tax expense	3,019	1,178
Income tax expense (benefit)	820	(970)
Income from continuing operations	2,199	2,148
Income (loss) from discontinued operations, net of income tax expense	2	(18)
Net income	2,201	2,130
Less:		
Net income (loss) from continuing operations attributable to		

noncontrolling interests		9		(40)
Net income attributable to AIG	\$	2,192	\$	2,170
Income (loss) per common share attributable to AIG:				
Basic:				
Income from continuing operations	\$	1.54	\$	1.48
Income (loss) from discontinued operations	\$	-	\$	(0.01)
Net income attributable to AIG	\$	1.54	\$	1.47
Diluted:				
Income from continuing operations	\$	1.52	\$	1.47
Income (loss) from discontinued operations	\$	-	\$	(0.01)
Net income attributable to AIG	\$	1.52	\$	1.46
Weighted average shares outstanding:				
Basic		1,419,239,774		1,475,053,126
Diluted		1,442,067,842		1,485,322,858
Dividends declared per common share	\$	0.125	\$	0.10

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1 / Financial statements

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

	Three Months Ended September 30,		Nine Month Septemb
	2014	2013	2014
<i>(in millions)</i>			
Net income	\$ 2,201	\$ 2,130	\$ 6,849
Other comprehensive income (loss), net of tax			
Change in unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were taken	59	(23)	174
Change in unrealized appreciation (depreciation) of all other investments	(168)	(434)	4,972
Change in foreign currency translation adjustments	(78)	(49)	(189)
Change in retirement plan liabilities adjustment	6	(26)	13
Other comprehensive income (loss)	(181)	(532)	4,970
Comprehensive income	2,020	1,598	11,819
Comprehensive income (loss) attributable to noncontrolling interests	8	(42)	(26)
Comprehensive income attributable to AIG	\$ 2,012	\$ 1,640	\$ 11,845

See accompanying Notes to Condensed Consolidated Financial Statements.

TABLE OF CONTENTS**Item 1 / Financial statements****American International Group, Inc.****CONDENSED Consolidated Statement of Equity (unaudited)**

<i>(in millions)</i>	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total A Share holder Equity
Nine Months Ended September 30, 2014						
Balance, beginning of year	\$ 4,766	\$ (14,520)	\$ 80,899	\$ 22,965	\$ 6,360	\$ 100,474
Purchase of common stock	-	(3,200)	-	-	-	(3,200)
Net income (loss) attributable to AIG or other noncontrolling interests	-	-	-	6,874	-	6,874
Dividends	-	-	-	(539)	-	(539)
Other comprehensive income (loss)	-	-	-	-	4,971	4,971
Net decrease due to deconsolidation	-	-	-	-	-	-
Contributions from noncontrolling interests	-	-	-	-	-	-
Distributions to noncontrolling interests	-	-	-	-	-	-
Other	-	-	5	-	-	5
Balance, end of period	\$ 4,766	\$ (17,720)	\$ 80,904	\$ 29,300	\$ 11,331	\$ 108,581
Nine Months Ended September 30, 2013						
Balance, beginning of year	\$ 4,766	\$ (13,924)	\$ 80,410	\$ 14,176	\$ 12,574	\$ 98,002
Purchase of common stock	-	(192)	-	-	-	(192)
Net income attributable to AIG or other noncontrolling interests	-	-	-	7,107	-	7,107
Dividends	-	-	-	(147)	-	(147)
Other comprehensive loss	-	-	-	-	(6,065)	(6,065)
Net increase due to consolidation	-	-	-	-	-	-
Contributions from noncontrolling interests	-	-	-	-	-	-
Distributions to noncontrolling interests	-	-	-	-	-	-
Other	-	1	87	-	-	88
Balance, end of period	\$ 4,766	\$ (14,115)	\$ 80,497	\$ 21,136	\$ 6,509	\$ 98,793

See accompanying Notes to Condensed Consolidated Financial Statements.

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(unaudited)****Nine Months Ended September 30,***(in millions)*

	2014	2013
Cash flows from operating activities:		
Net income	\$ 6,849	\$ 7,119
(Income) loss from discontinued operations	15	(73)
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash revenues, expenses, gains and losses included in income:		
Net gains on sales of securities available for sale and other assets	(602)	(2,159)
Net (gain) loss on sale of divested businesses	(2,196)	47
Net losses on extinguishment of debt	1,014	459
Unrealized gains in earnings - net	(797)	(7)
Equity in income from equity method investments, net of dividends or distributions	(1,106)	(944)
Depreciation and other amortization	3,372	3,558
Impairments of assets	415	408
Changes in operating assets and liabilities:		
Property casualty and life insurance reserves	184	768
Premiums and other receivables and payables - net	41	(44)
Reinsurance assets and funds held under reinsurance treaties	(64)	(336)
Capitalization of deferred policy acquisition costs	(4,546)	(4,412)
Current and deferred income taxes - net	2,291	(206)
Other, net	(513)	(230)
Total adjustments	(2,507)	(3,098)
Net cash provided by operating activities	4,357	3,948
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales or distribution of:		
Available for sale investments	16,063	27,961
Other securities	3,936	4,174
Other invested assets	3,034	4,111
Divested businesses, net	2,348	-
Maturities of fixed maturity securities available for sale	18,628	19,907
Principal payments received on and sales of mortgage and other loans receivable	2,552	2,721
Purchases of:		
Available for sale investments	(34,630)	(50,639)
Other securities	(301)	(1,880)
Other invested assets	(3,205)	(5,214)

Mortgage and other loans receivable	(4,945)	(3,109)
Net change in restricted cash	(660)	1,251
Net change in short-term investments	2,342	8,114
Other, net	(295)	(879)
Net cash provided by investing activities	4,867	6,518
Cash flows from financing activities:		
Proceeds from (payments for)		
Policyholder contract deposits	12,311	11,348
Policyholder contract withdrawals	(11,036)	(12,481)
Issuance of long-term debt	5,827	3,633
Repayments of long-term debt	(11,561)	(11,355)
Purchase of Common Stock	(3,403)	(192)
Dividends paid	(539)	(147)
Other, net	(1,200)	(278)
Net cash used in financing activities	(9,601)	(9,472)
Effect of exchange rate changes on cash		
Net increase (decrease) in cash	(396)	915
Cash at beginning of year	2,241	1,151
Change in cash of businesses held-for-sale	88	(8)
Cash at end of period	\$ 1,933	\$ 2,058

Supplementary Disclosure of Condensed Consolidated Cash Flow Information

Cash paid during the period for:

Interest	\$ 2,496	\$ 2,951
Taxes	\$ 614	\$ 378

Non-cash investing/financing activities:

Interest credited to policyholder contract deposits included in financing activities	\$ 3,007	\$ 2,977
Non-cash consideration received from sale of ILFC	\$ 4,586	\$ -

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1 / NOTE 1. BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. BASIS OF PRESENTATION

American International Group, Inc. (AIG) is a leading international insurance organization serving customers in more than 130 countries and jurisdictions. AIG companies serve commercial, institutional 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, 2013 (2013 Annual Report). The condensed consolidated financial information as of December 31, 2013 included herein has been derived from audited consolidated financial statements in the 2013 Annual Report.

Certain of our foreign subsidiaries included in the condensed consolidated financial statements report on different fiscal-period bases. The effect on our condensed 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 recorded. 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, 2014 and prior to the issuance of these condensed consolidated financial statements.

Sale of ILFC

On May 14, 2014, we completed the sale of 100 percent of the common stock of International Lease

Finance Corporation (ILFC) to AerCap Ireland Limited, a wholly owned subsidiary of AerCap Holdings N.V. (AerCap), in exchange for total consideration of approximately \$7.6 billion, including cash and 97.6 million newly issued AerCap common shares (the AerCap Transaction). The total value of the consideration was based in part on AerCap's closing price per share of \$47.01 on May 13, 2014. ILFC's results of operations are reflected in Aircraft leasing revenue and Aircraft leasing expenses in the Condensed Consolidated Statements of Income through the date of the completion of the sale. ILFC's assets and liabilities were classified as held-for-sale at December 31, 2013 in the Condensed Consolidated Balance Sheets. See Note 4 herein for further discussion.

Use of Estimates

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

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

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Item 1 / NOTE 1. BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

- liability for unpaid claims and claims adjustment expense;
- 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 acquisition costs for investment oriented products;
- impairment charges, including other than temporary impairments on available for sale securities, impairments on investments in life settlements and goodwill impairment;
- liability for legal contingencies; and
- fair value measurements of certain financial assets and liabilities.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards Adopted During 2014

Certain Obligations Resulting from Joint and Several Liability Arrangements

In February 2013, the Financial Accounting Standards Board (FASB) issued an accounting standard that requires us to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date as the sum of (i) the amount we agreed to pay on the basis of our arrangement among our co obligors and (ii) any additional amount we expect to pay on behalf of our co obligors.

We adopted the standard on its required effective date of January 1, 2014. The adoption of this standard had no material effect on our consolidated financial condition, results of operations or cash flows.

[Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of an Investment within a Foreign Entity or of an Investment in a Foreign Entity](#)

In March 2013, the FASB issued an accounting standard addressing whether consolidation guidance or foreign currency guidance applies to the release of the cumulative translation adjustment into net income when a parent sells all or a part of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or net assets that are a business (other than a sale of in substance real estate) within a foreign entity. The standard also resolves the diversity in practice for the cumulative translation adjustment treatment in business combinations achieved in stages involving foreign entities.

Under the standard, the entire amount of the cumulative translation adjustment associated with the foreign entity should be released into earnings when there has been: (i) a sale of a subsidiary or group of net assets within a foreign entity and the sale represents a complete or substantially complete liquidation of the foreign entity in which the subsidiary or the net assets had

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Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

resided; (ii) a loss of a controlling financial interest in an investment in a foreign entity; or (iii) a change in accounting method from applying the equity method to an investment in a foreign entity to consolidating the foreign entity.

We adopted the standard on its required effective date of January 1, 2014 on a prospective basis. The adoption of this standard had no material effect on our consolidated financial condition, results of operations or cash flows.

Investment Company Guidance

In June 2013, the FASB issued an accounting standard that amends the criteria a company must meet to qualify as an investment company, clarifies the measurement guidance, and requires new disclosures for investment companies. An entity that is regulated by the Securities and Exchange Commission under the Investment Company Act of 1940 (the 1940 Act) qualifies as an investment company. Entities that are not regulated under the 1940 Act must have certain fundamental characteristics and must consider other characteristics to determine whether they qualify as investment companies. An entity's purpose and design must be considered when making the assessment.

An entity that no longer meets the requirements to be an investment company as a result of this standard should present the change in its status as a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption. An entity that is an investment company should apply the standard prospectively as an adjustment to opening net assets as of the effective date. The adjustment to net assets represents both the difference between the fair value and the carrying amount of the entity's investments and any amount previously recognized in Accumulated other comprehensive income.

We adopted the standard on its required effective date of January 1, 2014 on a prospective basis. The adoption of this standard had no material effect on our consolidated financial condition, results of operations or cash flows.

Presentation of Unrecognized Tax Benefits

In July 2013, the FASB issued an accounting standard that requires a liability related to unrecognized tax benefits to be presented as a reduction to the related deferred tax asset for a net operating loss carryforward or a tax credit carryforward. When the carryforwards are not available at the reporting date

under the tax law of the applicable jurisdiction or the tax law of the applicable jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit will be presented in the financial statements as a liability and will not be combined with the related deferred tax asset.

We adopted the standard on its required effective date of January 1, 2014 on a prospective basis. The adoption of this standard had no material effect on our consolidated financial condition, results of operations or cash flows.

Future Application of Accounting Standards

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure

In January 2014, the FASB issued an accounting standard that clarifies that a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, so that the loan is derecognized and the real estate property is recognized, when either (i) the creditor obtains legal title to the residential real estate property upon completion of a foreclosure or (ii) the borrower conveys all interest in the residential real estate property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement.

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Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The standard is effective for interim and annual reporting periods beginning after December 15, 2014. Early adoption is permitted. We plan to adopt the standard on its required effective date of January 1, 2015 and do not expect the adoption of the standard to have a material effect on our consolidated financial condition, results of operations or cash flows.

Reporting Discontinued Operations

In April 2014, the FASB issued an accounting standard that changes the requirements for presenting a component or group of components of an entity as a discontinued operation and requires new disclosures. Under the standard, the disposal of a component or group of components of an entity should be reported as a discontinued operation if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Disposals of equity method investments, or those reported as held-for-sale, must be presented as a discontinued operation if they meet the new definition. The standard also requires entities to provide disclosures about the disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation.

The standard is effective prospectively for all disposals of components (or classification of components as held-for-sale) of an entity that occur within interim and annual periods beginning on or after December 15, 2014. Early adoption is permitted, but only for disposals (or classifications of components as held-for-sale) that have not been reported in financial statements previously issued. We plan to adopt the standard on its required effective date of January 1, 2015 and do not expect the adoption of the standard to have a material effect on our consolidated financial condition, results of operations or cash flows.

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 other agreements that are governed under other GAAP guidance, but affects the revenue recognition for certain of our other activities.

The standard is effective for interim and annual reporting periods beginning after December 15, 2016 and may be applied retrospectively or through a cumulative effect adjustment to retained earnings at the date of adoption. Early adoption is not permitted. We plan to adopt the standard on its required effective date of January 1, 2017 and are assessing the impact of the standard on our consolidated financial condition,

results of operations and cash flows.

Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures

In June 2014, the FASB issued an accounting standard that changes the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. It also requires additional disclosures about repurchase agreements and other similar transactions. The standard aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements such that they all will be accounted for as secured borrowings. The standard eliminates sale accounting for repurchase-to-maturity transactions and supersedes the standard under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement.

The accounting guidance and new disclosure requirements for certain transactions accounted for as sales are effective for interim and annual reporting periods beginning after December 15, 2014, while the disclosure requirements for transactions accounted for as secured borrowings are effective for annual reporting periods beginning after December 15, 2014 and for interim reporting periods beginning after March 15, 2015. Early adoption is not permitted. We plan to adopt the standard on its required effective dates and do not expect the adoption of the standard to have a material effect on our consolidated financial condition, results of operations or cash flows.

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Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Accounting for Share-Based Payments with Performance Targets

In June 2014, the FASB issued an accounting standard that clarifies the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The standard requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition.

The standard is effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted. The standard may be applied prospectively to all awards granted or modified after the effective date or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. We plan to adopt the standard on its required effective date of January 1, 2016 and do not expect the adoption of the standard to have a material effect on our consolidated financial condition, results of operations or cash flows.

Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity

In August 2014, the FASB issued an accounting standard that allows a reporting entity to measure the financial assets and financial liabilities of a qualifying consolidated collateralized financing entity using the fair value of either its financial assets or financial liabilities, whichever is more observable.

The standard is effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted. The standard may be applied retrospectively to all relevant prior periods presented starting with January 1, 2010 or through a cumulative effect adjustment to retained earnings at the date of adoption. We plan to adopt the standard on its required effective date of January 1, 2016 and are assessing the impact of the standard on our consolidated financial condition, results of operations or cash flows.

3. SEGMENT INFORMATION

We report the results of our operations consistent with the manner in which our chief operating decision makers review the business to assess performance and to allocate resources through two reportable segments: AIG Property Casualty and AIG Life and Retirement. We evaluate performance based on revenues and pre tax income (loss), excluding results from discontinued operations, because we believe this provides more meaningful information on how our operations are performing.

TABLE OF CONTENTS**Item 1 / NOTE 3. SEGMENT INFORMATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

The following tables present our operations by reportable segment:

Three Months Ended September 30, <i>(in millions)</i>	2014		2013	
	Total Revenues	Pre-tax Income (Loss) from continuing operations	Total Revenues	Pre-tax Income (Loss) from continuing operations
AIG Property Casualty				
Commercial Insurance	\$ 5,971	\$ 573	\$ 5,760	\$ 573
Consumer Insurance	3,362	131	3,359	131
Other	674	503	585	503
Total AIG Property Casualty	10,007	1,207	9,704	1,207
AIG Life and Retirement				
Retail	3,318	1,160	2,884	1,160
Institutional	1,756	771	1,760	771
Total AIG Life and Retirement	5,074	1,931	4,644	1,931
Other Operations				
Mortgage Guaranty	262	135	236	135
Global Capital Markets	72	58	87	58
Direct Investment book	430	228	147	228
Corporate & Other	978	(676)	217	(676)
Aircraft Leasing	-	-	1,118	-
Consolidation and elimination	(9)	(1)	(9)	(1)
Total Other Operations	1,733	(256)	1,796	(256)
AIG Consolidation and elimination	(160)	137	(200)	137
Total AIG Consolidated	\$ 16,654	\$ 3,019	\$ 15,944	\$ 3,019

Nine Months Ended September 30, <i>(in millions)</i>	2014		2013	
	Total Revenues	Pre-tax Income (Loss) from continuing operations	Total Revenues	Pre-tax Income (Loss) from continuing operations
AIG Property Casualty				
Commercial Insurance	\$ 17,502	\$ 2,149	\$ 17,229	\$ 2,149
Consumer Insurance	9,962	315	10,212	315
Other	2,159	1,542	2,032	1,542
Total AIG Property Casualty	29,623	4,006	29,473	4,006
AIG Life and Retirement				
Retail	9,056	2,563	9,326	2,563

Institutional	4,939	1,849	6,106
Total AIG Life and Retirement	13,995	4,412	15,432
Other Operations			
Mortgage Guaranty	771	423	710
Global Capital Markets	417	332	592
Direct Investment book	1,260	855	1,373
Corporate & Other	1,771	(544)	1,123
Aircraft Leasing	1,602	17	3,303
Consolidation and elimination	(24)	1	(28)
Total Other Operations	5,797	1,084	7,073
AIG Consolidation and elimination	(544)	270	(646)
Total AIG Consolidated	\$ 48,871	\$ 9,772	\$ 51,332

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Item 1 / NOTE 4. HELD-FOR-SALE CLASSIFICATION AND DISCONTINUED OPERATIONS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

4. HELD-FOR-SALE CLASSIFICATION AND DISCONTINUED OPERATIONS

Held-For-Sale Classification

On May 14, 2014, we completed the sale of 100 percent of the common stock of ILFC to AerCap Ireland Limited, a wholly owned subsidiary of AerCap, in exchange for total consideration of approximately \$7.6 billion, including cash and 97.6 million newly issued AerCap common shares, valued at approximately \$4.6 billion based on AerCap's closing price per share of \$47.01 on May 13, 2014. Net cash proceeds to AIG were \$2.4 billion after the settlement of intercompany loans, and AIG recorded pre-tax and after-tax gains of approximately \$2.2 billion and \$1.4 billion, respectively, for the nine-month period ended September 30, 2014. In connection with the AerCap Transaction, we entered into a five-year credit agreement for a senior unsecured revolving credit facility between AerCap Ireland Capital Limited, as borrower, and AIG Parent as lender (the Revolving Credit Facility). The Revolving Credit Facility provides for an aggregate commitment of \$1.0 billion and permits loans for general corporate purposes after the closing of the AerCap Transaction. At September 30, 2014, no amounts were outstanding under the Revolving Credit Facility.

As a result of the AerCap Transaction, we own approximately 46 percent of the outstanding common stock of AerCap. This common stock is subject to certain restrictions as to the amount and timing of potential sales as set forth in the Stockholders' Agreement and Registration Rights Agreement between AIG and AerCap. We account for our interest in AerCap using the equity method of accounting. The difference between the carrying amount of our investment in AerCap common stock and our share of the underlying equity in the net assets of AerCap was approximately \$1.4 billion at September 30, 2014. Approximately \$0.4 billion of this difference was allocated to the assets and liabilities of AerCap based on their respective fair values and is being amortized into income over the estimated lives of the related assets and liabilities. The remainder was allocated to goodwill.

ILFC's results of operations are reflected in Aircraft leasing revenue and Aircraft leasing expenses in the Condensed Consolidated Statements of Income through the date of the completion of the sale. ILFC's assets and liabilities were classified as held-for-sale at December 31, 2013 in the Condensed Consolidated Balance Sheets.

The following table summarizes the components of ILFC assets and liabilities held-for-sale:

<i>(in millions)</i>	December 31, 2013
Assets:	
Equity securities	\$ 3
Mortgage and other loans receivable, net	229
Flight equipment primarily under operating leases, net of accumulated depreciation	35,508
Short-term investments	658
Cash	88
Premiums and other receivables, net of allowance	318
Other assets	2,066
Assets held-for-sale	38,870
Less: Loss accrual	(9,334)
Total assets held-for-sale	\$ 29,536
Liabilities:	
Other liabilities	\$ 3,127
Long-term debt	21,421
Total liabilities held-for-sale	\$ 24,548

TABLE OF CONTENTS**Item 1 / NOTE 4. HELD-FOR-SALE CLASSIFICATION AND DISCONTINUED OPERATIONS****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****Discontinued Operations**

In connection with the 2010 sale of American Life Insurance Company (ALICO) to MetLife, Inc. (MetLife), we recognized the following income (loss) from discontinued operations:

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Gain (loss) on sale	\$ 5	\$ (27)	\$ 56	\$ 119
Income (loss) from discontinued operations, before income tax				
(benefit) expense	5	(27)	56	119
Income tax (benefit) expense	3	(9)	71	46
Income (loss) from discontinued operations, net of income tax	\$ 2	\$ (18)	\$ (15)	\$ 73

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 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.

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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, 2014*(in millions)***Assets:**

Bonds available for sale:

	Level 1	Level 2	Level 3	Counterparty Netting	Cash Collateral
U.S. government and government sponsored entities	\$ 15	\$ 2,783	\$ -	\$ -	\$ -
Obligations of states, municipalities and political subdivisions	-	26,158	2,014	-	-
Non-U.S. governments	772	21,867	23	-	-
Corporate debt	-	146,319	2,009	-	-
RMBS	-	21,786	16,918	-	-
CMBS	-	6,626	5,916	-	-
CDO/ABS	-	4,423	8,157	-	-
Total bonds available for sale	787	229,962	35,037	-	-
Other bond securities:					
U.S. government and government sponsored entities	128	5,130	-	-	-
Obligations of states, municipalities and political subdivisions	-	122	-	-	-
Non-U.S. governments	-	2	-	-	-
Corporate debt	-	948	-	-	-
RMBS	-	1,143	1,023	-	-
CMBS	-	507	713	-	-
CDO/ABS	-	2,596	8,069	-	-
Total other bond securities	128	10,448	9,805	-	-
Equity securities available for sale:					
Common stock	3,570	2	-	-	-
Preferred stock	-	29	-	-	-
Mutual funds	740	2	1	-	-
Total equity securities available for sale	4,310	33	1	-	-
Other equity securities	701	65	-	-	-
Mortgage and other loans receivable	-	-	6	-	-
Other invested assets	25	3,211	5,809	-	-
Derivative assets:					

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Interest rate contracts ^(b)	7	2,805	11	-	-
Foreign exchange contracts ^(b)	-	1,061	3	-	-
Equity contracts	107	65	49	-	-
Commodity contracts	-	-	-	-	-
Credit contracts	-	-	20	-	-
Other contracts	-	-	34	-	-
Counterparty netting and cash collateral	-	-	-	(1,769)	(805)
Total derivative assets	114	3,931	117	(1,769)	(805)
Short-term investments	560	3,631	-	-	-
Separate account assets	72,592	5,218	-	-	-
Other assets	-	-	-	-	-
Total	\$ 79,217	\$ 256,499	\$ 50,775	\$ (1,769)	\$ (805)
Liabilities:					
Policyholder contract deposits	\$ -	\$ 53	\$ 991	\$ -	\$ -
Other policyholder funds	-	8	-	-	-

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Derivative liabilities:						
Interest rate contracts ^(b)	-	2,649	82	-	-	2,731
Foreign exchange contracts ^(b)	-	1,493	10	-	-	1,503
Equity contracts	-	88	3	-	-	91
Commodity contracts	-	5	-	-	-	5
Credit contracts	-	-	1,038	-	-	1,038
Other contracts	-	-	89	-	-	89
Counterparty netting and cash collateral	-	-	-	(1,769)	(1,186)	(2,955)
Total derivative liabilities	-	4,235	1,222	(1,769)	(1,186)	2,502
Long-term debt	-	5,370	297	-	-	5,667
Other liabilities	70	332	-	-	-	402
Total	\$ 70	\$ 9,998	\$ 2,510	\$ (1,769)	\$ (1,186)	\$ 9,623
December 31, 2013						
(in millions)			Level 1	Level 2	Level 3	Counterparty Cash Netting Collateral
Assets:						
Bonds available for sale:						
U.S. government and government sponsored entities	\$	133	\$	3,062	\$	-
Obligations of states, municipalities and political subdivisions		-		28,300		1,080
Non-U.S. governments		508		21,985		16
Corporate debt		-		143,297		1,255
RMBS		-		21,207		14,941
CMBS		-		5,747		5,735
CDO/ABS		-		4,034		6,974
Total bonds available for sale		641		227,632		30,001
Other bond securities:						
U.S. government and government sponsored entities		78		5,645		-
Obligations of states, municipalities and political subdivisions		-		121		-
Non-U.S. governments		-		2		-
Corporate debt		-		1,169		-
RMBS		-		1,326		937
CMBS		-		509		844
CDO/ABS		-		3,158		8,834
Total other bond securities		78		11,930		10,615
Equity securities available for sale:						
Common stock		3,218		-		1
Preferred stock		-		27		-
Mutual funds		408		2		-

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Total equity securities available for sale	3,626	29	1	-	-
Other equity securities	750	84	-	-	-
Mortgage and other loans receivable	-	-	-	-	-
Other invested assets	1	2,667	5,930	-	-
Derivative assets:					
Interest rate contracts	14	3,716	41	-	-
Foreign exchange contracts	-	52	-	-	-
Equity contracts	151	106	49	-	-
Commodity contracts	-	-	1	-	-
Credit contracts	-	-	55	-	-
Other contracts	-	1	33	-	-
Counterparty netting and cash collateral	-	-	-	(1,734)	(820)
Total derivative assets	165	3,875	179	(1,734)	(820)

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Short-term investments	332	5,981	-	-	-	6,313
Separate account assets	67,708	3,351	-	-	-	71,059
Other assets	-	418	-	-	-	418
Total	\$ 73,301	\$ 255,967	\$ 46,726	\$ (1,734)	\$ (820)	\$ 373,440
Liabilities:						
Policyholder contract deposits	\$ -	\$ 72	\$ 312	\$ -	\$ -	\$ 384
Other policyholder funds	-	-	-	-	-	-
Derivative liabilities:						
Interest rate contracts	-	3,661	141	-	-	3,802
Foreign exchange contracts	-	319	-	-	-	319
Equity contracts	-	101	-	-	-	101
Commodity contracts	-	5	-	-	-	5
Credit contracts	-	-	1,335	-	-	1,335
Other contracts	-	25	142	-	-	167
Counterparty netting and cash collateral	-	-	-	(1,734)	(1,484)	(3,218)
Total derivative liabilities	-	4,111	1,618	(1,734)	(1,484)	2,511
Long-term debt	-	6,377	370	-	-	6,747
Other liabilities	42	891	-	-	-	933
Total	\$ 42	\$ 11,451	\$ 2,300	\$ (1,734)	\$ (1,484)	\$ 10,575

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

(b) Effective April 1, 2014, we reclassified cross-currency swaps from Interest rate contracts to Foreign exchange contracts. This change was applied prospectively.

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. During the three- and nine-month periods ended September 30, 2014, we transferred \$32 million and \$330 million, respectively, of securities issued by Non-U.S. government entities from Level 1 to Level 2, as they are no longer considered actively traded. For similar reasons, during the three- and nine-month periods ended September 30, 2014, we transferred \$4 million

and \$107 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, 2014.

During the three- and nine-month periods ended September 30, 2013, we transferred \$174 million and \$731 million, respectively, of securities issued by Non-U.S. government entities from Level 1 to Level 2, as they are no longer considered actively traded. For similar reasons, during the three- and nine-month periods ended September 30, 2013, we transferred \$263 million and \$356 million 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, 2013.

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The following tables present changes during the three- and nine-month periods ended September 30, 2014 and 2013 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, 2014 and 2013:

<i>(in millions)</i>	Fair Value Beginning of Period ^(a)	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gr Transf
Three Months Ended September 30, 2014					
Assets:					
Bonds available for sale:					
Obligations of states, municipalities					
and political subdivisions	\$ 1,991	\$ (1)	\$ (11)	\$ 43	
Non-U.S. governments	25	-	-	1	
Corporate debt	2,196	2	(22)	(73)	
RMBS	16,328	264	(49)	375	
CMBS	5,917	27	(39)	14	
CDO/ABS	7,431	18	(2)	692	
Total bonds available for sale	33,888	310	(123)	1,052	
Other bond securities:					
RMBS	1,062	-	-	(39)	
CMBS	757	(24)	-	(20)	
CDO/ABS	8,397	257	-	(451)	
Total other bond securities	10,216	233	-	(510)	
Equity securities available for sale:					
Common stock	-	-	1	-	
Preferred stock	-	-	-	-	
Mutual funds	-	-	-	-	
Total equity securities available for sale	-	-	1	-	
Mortgage and other loans receivable	6	-	-	-	
Other invested assets	5,824	(7)	90	65	

Total	\$	49,934	\$	536	\$	(32)	\$	607	\$	1
Liabilities:										
Policyholder contract deposits	\$	(842)	\$	(155)	\$	8	\$	(2)	\$	
Derivative liabilities, net:										
Interest rate contracts		(67)		(3)		-				1
Foreign exchange contracts		(9)		-		-				2
Equity contracts		91		6		-				2
Commodity contracts		1		(1)		-				-
Credit contracts		(1,085)		75		-				(8)
Other contracts		(53)		14		4				(20)
Total derivative liabilities, net		(1,122)		91		4				(23)
Long-term debt ^(c)		(394)		21		-				1
Total	\$	(2,358)	\$	(43)	\$	12	\$	(24)	\$	

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<i>(in millions)</i>	Fair Value Beginning of Period ^(a)	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gr Transf
Nine Months Ended September 30, 2014					
Assets:					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions ^(b)					
	\$ 1,080	\$ (1)	\$ 180	\$ 896	
Non-U.S. governments	16	-	(1)	7	
Corporate debt	1,255	8	31	(140)	1,3
RMBS	14,941	759	211	999	1
CMBS	5,735	50	201	(43)	
CDO/ABS	6,974	70	1	1,426	2
Total bonds available for sale	30,001	886	623	3,145	1,7
Other bond securities:					
RMBS	937	51	-	33	
CMBS	844	14	-	(151)	
CDO/ABS	8,834	926	-	(1,338)	
Total other bond securities	10,615	991	-	(1,456)	
Equity securities available for sale:					
Common stock	1	-	1	-	
Preferred stock	-	-	-	-	
Mutual funds	-	-	-	-	
Total equity securities available for sale	1	-	1	-	
Mortgage and other loans receivable	-	-	-	6	
Other invested assets	5,930	80	139	99	1
Total	\$ 46,547	\$ 1,957	\$ 763	\$ 1,794	\$ 1,9
Liabilities:					
Policyholder contract deposits	\$ (312)	\$ (687)	\$ (16)	\$ 24	
Derivative liabilities, net:					
Interest rate contracts	(100)	(2)	-	33	
Foreign exchange contracts	-	3	-	(10)	
Equity contracts	49	14	-	(12)	
Commodity contracts	1	-	-	-	

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Credit contracts	(1,280)	229	-	33	
Other contracts	(109)	49	51	(46)	
Total derivative liabilities, net	(1,439)	293	51	(2)	
Long-term debt ^(c)	(370)	13	-	34	(7)
Total	\$ (2,121) \$	(381) \$	35 \$	56 \$	(2)

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<i>(in millions)</i>	Fair value Beginning of Period ^(a)	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Tra
<i>Three Months Ended September 30, 2013</i>					
Assets:					
Bonds available for sale:					
Obligations of states, municipalities					
and political subdivisions	\$ 945	\$ 4	\$ (28)	\$ 160	
Non-U.S. governments	20	-	-	1	
Corporate debt	1,634	(3)	5	-	
RMBS	13,694	216	(60)	127	
CMBS	5,455	4	55	102	
CDO/ABS	6,142	37	(47)	363	
Total bonds available for sale	27,890	258	(75)	753	
Other bond securities:					
RMBS	782	14	-	(8)	
CMBS	820	33	-	(53)	
CDO/ABS	8,972	243	-	(557)	
Total other bond securities	10,574	290	-	(618)	
Equity securities available for sale:					
Common stock	76	-	(1)	(48)	
Preferred stock	48	-	-	-	
Total equity securities available for sale	124	-	(1)	(48)	
Other invested assets	5,639	(25)	78	55	
Total	\$ 44,227	\$ 523	\$ 2	\$ 142	
Liabilities:					
Policyholder contract deposits	\$ (586)	\$ 250	\$ -	\$ (51)	
Derivative liabilities, net:					
Interest rate contracts	779	6	-	(912)	
Equity contracts	70	12	-	(1)	
Commodity contracts	1	-	-	-	
Credit contracts	(1,594)	52	-	36	
Other contracts	(105)	16	(25)	(16)	
Total derivatives liabilities, net	(849)	86	(25)	(893)	

Long-term debt ^(c)		(419)	(25)	-	1
Total	\$	(1,854)	\$ 311	\$ (25)	\$ (943)

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<i>(in millions)</i>	Fair value Beginning of Period ^(a)	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	G Tran
<i>Nine Months Ended September 30, 2013</i>					
Assets:					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions					
	\$ 1,024	\$ 29	\$ (178)	\$ 365	
Non-U.S. governments	14	-	-	7	
Corporate debt	1,487	(7)	(9)	30	
RMBS	11,662	624	279	1,393	
CMBS	5,124	15	75	290	
CDO/ABS	4,841	134	(47)	1,383	
Total bonds available for sale	24,152	795	120	3,468	1
Other bond securities:					
RMBS	396	24	-	130	
CMBS	812	44	-	(193)	
CDO/ABS	8,536	1,096	-	(1,566)	
Total other bond securities	9,744	1,164	-	(1,629)	1
Equity securities available for sale:					
Common stock	24	-	4	(1)	
Preferred stock	44	-	4	-	
Total equity securities available for sale	68	-	8	(1)	
Other invested assets	5,389	144	88	95	
Total	\$ 39,353	\$ 2,103	\$ 216	\$ 1,933	\$ 3
Liabilities:					
Policyholder contract deposits	\$ (1,257)	\$ 865	\$ -	\$ 5	
Derivative liabilities, net:					
Interest rate contracts	732	20	-	(879)	
Equity contracts	47	49	-	(14)	
Commodity contracts	1	-	-	(1)	
Credit contracts	(1,991)	365	-	120	
Other contracts	(162)	35	(16)	13	
Total derivatives liabilities, net	(1,373)	469	(16)	(761)	

Long-term debt ^(c)	(344)	(120)	-	23
Total	\$ (2,974) \$	1,214 \$	(16) \$	(733) \$

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

(b) Purchases, Sales, Issues and Settlements, Net primarily reflect the effect of consolidating previously unconsolidated securitization vehicles.

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

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

<i>(in millions)</i>	Net Investment Income	Net Realized Capital Gains (Losses)	Other Income	Total
Three Months Ended September 30, 2014				
Bonds available for sale	\$ 320	\$ (22)	\$ 12	\$ 310
Other bond securities	(3)	-	236	233
Equity securities available for sale	-	-	-	-
Other invested assets	18	(20)	(5)	(7)
Policyholder contract deposits	-	(155)	-	(155)
Derivative liabilities, net	18	(1)	74	91
Long-term debt	-	-	21	21
Three Months Ended September 30, 2013				
Bonds available for sale	\$ 264	\$ (21)	\$ 15	\$ 258
Other bond securities	86	7	197	290
Equity securities available for sale	-	-	-	-
Other invested assets	(12)	(5)	(8)	(25)
Policyholder contract deposits	-	250	-	250
Derivative liabilities, net	11	8	67	86
Long-term debt	-	-	(25)	(25)
Nine Months Ended September 30, 2014				
Bonds available for sale	\$ 922	\$ (73)	\$ 37	\$ 886
Other bond securities	97	2	892	991
Equity securities available for sale	-	-	-	-
Other invested assets	107	(33)	6	80
Policyholder contract deposits	-	(687)	-	(687)
Derivative liabilities, net	49	4	240	293
Long-term debt	-	-	13	13
Nine Months Ended September 30, 2013				
Bonds available for sale	\$ 713	\$ (8)	\$ 90	\$ 795
Other bond securities	114	8	1,042	1,164
Equity securities available for sale	-	-	-	-
Other invested assets	142	(34)	36	144
Policyholder contract deposits	-	865	-	865
Derivative liabilities, net	26	25	418	469

Long-term debt - - (120) (120)

The following tables present the gross components of purchases, sales, issues and settlements, net, shown above, for the three- and nine-months ended September 30, 2014 and 2013 related to Level 3 assets and liabilities in the Condensed Consolidated Balance Sheets:

<i>(in millions)</i>	Purchases	Sales	Settlements	Purchase Sales, Issues and Settlements, Net
Three Months Ended September 30, 2014				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	\$ 66	\$ (3)	\$ (20)	\$ 43
Non-U.S. governments	1	-	-	(7)
Corporate debt	22	-	(95)	(73)

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RMBS	1,062	(62)	(625)
CMBS	276	(167)	(95)
CDO/ABS	1,085	(68)	(325)
Total bonds available for sale	2,512	(300)	(1,160)
Other bond securities:			
RMBS	-	(3)	(36)
CMBS	-	(9)	(11)
CDO/ABS	6	(4)	(453)
Total other bond securities	6	(16)	(500)
Equity securities available for sale	-	-	-
Other invested assets	276	-	(211)
Total assets	\$ 2,794	\$ (316)	\$ (1,871)
Liabilities:			
Policyholder contract deposits	\$ -	\$ (36)	\$ 34
Derivative liabilities, net	-	(2)	(21)
Long-term debt ^(c)	-	-	1
Total liabilities	\$ -	\$ (38)	\$ 14

Three Months Ended September 30, 2013**Assets:****Bonds available for sale:**

Obligations of states, municipalities and political subdivisions	\$ 194	\$ (34)	\$ -
Non-U.S. governments	1	-	-
Corporate debt	146	-	(146)
RMBS	750	-	(623)
CMBS	179	(3)	(74)
CDO/ABS	628	-	(265)
Total bonds available for sale	1,898	(37)	(1,108)
Other bond securities:			
RMBS	31	(12)	(27)
CMBS	-	(9)	(44)
CDO/ABS	-	(66)	(491)
Total other bond securities	31	(87)	(562)
Equity securities available for sale	-	-	(48)
Other invested assets	249	(3)	(191)
Total assets	\$ 2,178	\$ (127)	\$ (1,909)

Liabilities:

Policyholder contract deposits	\$	-	\$ (4)	\$ (47)
Derivative liabilities, net		4	-	(897)
Long-term debt ^(c)		-	-	1
Total liabilities	\$	4	\$ (4)	\$ (943)

(in millions)

Nine Months Ended September 30, 2014

Assets:

Bonds available for sale:

Obligations of states, municipalities and political subdivisions ^(b)	\$	1,002	\$ (35)	\$ (71)
Non-U.S. governments		8	-	(1)
Corporate debt		141	(8)	(273)
RMBS		2,814	(88)	(1,727)

Purchases Sales Settlements Purch Sales, Issue Settlements,

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CMBS	368	(224)	(187)	(43)
CDO/ABS	2,307	(70)	(811)	1,426
Total bonds available for sale	6,640	(425)	(3,070)	3,145
Other bond securities:				
RMBS	162	(22)	(107)	33
CMBS	-	(15)	(136)	(151)
CDO/ABS	50	(19)	(1,369)	(1,338)
Total other bond securities	212	(56)	(1,612)	(1,456)
Equity securities available for sale	-	-	-	-
Mortgage and other loans receivable	6	-	-	6
Other invested assets	709	(1)	(609)	99
Total assets	\$ 7,567	\$ (482)	\$ (5,291)	\$ 1,794
Liabilities:				
Policyholder contract deposits	\$ -	\$ (94)	\$ 118	\$ 24
Derivative liabilities, net	1	(2)	(1)	(2)
Long-term debt ^(c)	-	-	34	34
Total liabilities	\$ 1	\$ (96)	\$ 151	\$ 56

Nine Months Ended September 30, 2013**Assets:****Bonds available for sale:**

Obligations of states, municipalities and political subdivisions	\$ 502	\$ (137)	\$ -	\$ 365
Non-U.S. governments	9	-	(2)	7
Corporate debt	454	(114)	(310)	30
RMBS	3,462	(231)	(1,838)	1,393
CMBS	872	(167)	(415)	290
CDO/ABS	2,099	(159)	(557)	1,383
Total bonds available for sale	7,398	(808)	(3,122)	3,468
Other bond securities:				
RMBS	244	(12)	(102)	130
CMBS	19	(67)	(145)	(193)
CDO/ABS	318	(66)	(1,818)	(1,566)
Total other bond securities	581	(145)	(2,065)	(1,629)
Equity securities available for sale	58	(11)	(48)	(1)
Other invested assets	697	(49)	(553)	95
Total assets	\$ 8,734	\$ (1,013)	\$ (5,788)	\$ 1,933

Liabilities:

Policyholder contract deposits	\$	-	\$	(16)	\$	21	\$	5
Derivative liabilities, net		9		(1)		(769)		(761)
Long-term debt ^(c)		-		-		23		23
Total liabilities	\$	9	\$	(17)	\$	(725)	\$	(733)

(a) There were no issuances during the three- and nine-month periods ended September 30, 2014 and 2013.

(b) Purchases primarily reflect the effect of consolidating previously unconsolidated securitization vehicles.

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

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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, 2014 and 2013 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 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. As a result, the Net realized and unrealized gains (losses) included in income or other comprehensive income as shown in the table above excludes \$2 million of net losses and \$35 million of net gains related to assets and liabilities transferred into Level 3 during the three- and nine-month periods ended September 30, 2014, respectively, and includes \$52 million and \$50 million of net gains related to assets and liabilities transferred out of Level 3 during the three- and nine-month periods ended September 30, 2014, respectively.

The Net realized and unrealized gains (losses) included in income or other comprehensive income as shown in the table above excludes \$43 million of net gains and \$12 million of net losses related to assets and liabilities transferred into Level 3 during the three- and nine-month periods ended September 30, 2013, respectively, and includes \$18 million and \$30 million of net gains related to assets and liabilities transferred out of Level 3 during the three- and nine-month periods ended September 30, 2013, respectively.

Transfers of Level 3 Assets

During the three- and nine-month periods ended September 30, 2014 and 2013, transfers into Level 3 assets primarily included certain investments in private placement corporate debt, RMBS, CMBS, CDO/ABS, and investments in hedge funds. Transfers of investments in 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. Certain investments in hedge funds were transferred into Level 3 due to these investments now being carried at fair value and no longer being accounted for using the equity method of accounting due to a change in percentage ownership, or as a result of limited market activity due to fund imposed redemption restrictions.

During the three- and nine-month periods ended September 30, 2014 and 2013, transfers out of Level 3 assets primarily related to certain investments in municipal securities, private placement and other corporate debt, RMBS, CMBS, CDO/ABS, and investments in hedge funds. 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 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. The transfers of certain hedge fund investments out of Level 3 assets were primarily the result of easing of certain fund-imposed redemption restrictions.

Transfers of Level 3 Liabilities

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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, 2014 and 2013.

TABLE OF CONTENTS**Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****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 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:

<i>(in millions)</i>	Fair Value at September 30, 2014	Valuation Technique	Unobservable Input (Weighted Average)	Range
Assets:				
Obligations of states, municipalities and political subdivisions	\$ 1,141	Discounted cash flow	Yield ^(b)	4.15% - 4.93% (4.54%)
Corporate debt	1,217	Discounted cash flow	Yield ^(b)	0.00% - 8.57% (6.19%)
RMBS	17,384	Discounted cash flow	Constant prepayment rate ^{(a)(c)}	0.36% - 9.74% (5.05%)
			Loss severity ^{(a)(c)}	45.61% - 79.52% (62.57%)
			Constant default rate ^{(a)(c)}	3.84% - 10.46% (7.15%)
			Yield ^(c)	2.51% - 6.61% (4.56%)
Certain CDO/ABS	5,321	Discounted cash flow	Constant prepayment rate ^{(a)(c)}	6.40% - 13.40% (9.90%)
			Loss severity ^{(a)(c)}	43.80% - 59.90% (52.00%)

			Constant default rate ^{(a)(c)}	2.60% - 14.90% (8.00%)
			Yield ^(c)	4.70% - 10.30% (7.70%)
CMBS	6,048	Discounted cash flow	Yield ^(b)	0.00% - 13.01% (4.50%)
CDO/ABS - Direct Investment book	425	Binomial Expansion Technique (BET)	Recovery rate ^(b) Diversity score ^(b) Weighted average life ^(b)	7.00% - 58.00% (26.00%) 6 - 23 (14) 0.25 - 10.32 years (4.09 years)
Liabilities:				
Policyholder contract deposits	991	Discounted cash flow	Equity implied volatility ^(b) Base lapse rate ^(b) Dynamic lapse rate ^(b) Mortality rate ^(b) Utilization rate ^(b)	6.00% - 39.00% 1.00% - 40.00% 0.20% - 60.00% 0.10% - 35.00% 0.50% - 30.00%
Total derivative liabilities, net	813	BET	Recovery rate ^(b) Diversity score ^(b) Weighted average life ^(b)	5.00% - 32.00% (17.00%) 9 - 27 (14) 2.69 - 10.32 years (4.67 years)

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<i>(in millions)</i>	Fair Value at December 31, 2013	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:				
Obligations of states, \$ municipalities and political subdivisions	920	Discounted cash flow	Yield ^(b)	4.94% - 5.86% (5.40%)
Corporate debt	788	Discounted cash flow	Yield ^(b)	0.00% - 14.29% (6.64%)
RMBS	14,419	Discounted cash flow	Constant prepayment rate ^{(a)(c)}	0.00% - 10.35% (4.97%)
			Loss severity ^{(a)(c)}	42.60% - 79.07% (60.84%)
			Constant default rate ^{(a)(c)}	3.98% - 12.22% (8.10%)
			Yield ^(c)	2.54% - 7.40% (4.97%)
Certain CDO/ABS	5,414	Discounted cash flow	Constant prepayment rate ^{(a)(c)}	5.20% - 10.80% (8.20%)
			Loss severity ^{(a)(c)}	48.60% - 63.40% (56.40%)
			Constant default rate ^{(a)(c)}	3.20% - 16.20% (9.00%)
			Yield ^(c)	5.20% - 11.50% (9.40%)
CMBS	5,847	Discounted cash flow	Yield ^(b)	0.00% - 14.69% (5.58%)
CDO/ABS - Direct		Binomial Expansion	Recovery rate ^(b)	6.00% - 63.00% (25.00%)
Transfers of Level 3 Liabilities				56

Investment book	557	Technique (BET)	Diversity score ^(b)	5 - 35 (12)
			Weighted average life ^(b)	1.07 - 9.47 years (4.86 years)

Liabilities:

Policyholder contract			Equity implied	
deposits	312	Discounted cash flow	volatility ^(b)	6.00% - 39.00%
			Base lapse rate ^(b)	1.00% - 40.00%
			Dynamic lapse rate ^(b)	0.20% - 60.00%
			Mortality rate ^(b)	0.50% - 40.00%
			Utilization rate ^(b)	0.50% - 25.00%
Total derivative				5.00% - 34.00%
liabilities, net	996	BET	Recovery rate ^(b)	(17.00%)
			Diversity score ^(b)	9 - 32 (13)
			Weighted average life ^(b)	4.50 - 9.47 years (5.63 years)

(a) The unobservable inputs and ranges for the 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) Information received from independent third-party valuation service providers.

The ranges of reported inputs for Corporate debt, RMBS, CDO/ABS, and CMBS valued using a discounted cash flow technique consist of plus/minus 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 investments.

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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 is 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 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 Certain 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.

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CDO/ABS – Direct Investment book

The significant unobservable inputs used for certain CDO/ABS securities valued using the BET are recovery rates, diversity score, and the weighted average life of the portfolio. An increase in recovery rates and diversity score will increase the fair value of the portfolio. An increase in the weighted average life will decrease the fair value.

Policyholder contract deposits

Embedded derivatives within Policyholder contract deposits relate to guaranteed minimum withdrawal benefits (GMWB) within variable annuity products and certain enhancements to interest crediting rates based on market indices within equity indexed annuities and guaranteed investment contracts (GICs). GMWB represents our largest exposure of these embedded derivatives, although the carrying value of the liability fluctuates based on the performance of the equity markets and therefore, at a point in time, can be low relative to the exposure. The principal unobservable input used for GMWBs and embedded derivatives in equity indexed annuities measured at fair value is equity implied volatility. For GMWBs, other significant unobservable inputs include base and dynamic lapse rates, mortality rates, and utilization rates. Lapse, mortality, and utilization rates may vary significantly depending upon age groups and duration. In general, increases in volatility and utilization rates will increase the fair value of the liability associated with GMWB, while increases in lapse rates and mortality rates will decrease the fair value of the liability. Significant unobservable inputs used in valuing embedded derivatives within GICs include long term forward interest rates and foreign exchange rates. Generally, the embedded derivative liability for GICs will increase as interest rates decrease or if the U.S. dollar weakens compared to the euro.

Total derivative liabilities, net

The significant unobservable inputs used for derivative liabilities valued using the BET, which include certain credit contracts, are recovery rates, diversity scores, and the weighted average life of the portfolio. AIG non performance risk is also considered in the measurement of the liability.

An increase in recovery rates and diversity score will decrease the fair value of the liability. An increase in the weighted average life will increase the fair value measurement of the liability.

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The following table includes information related to our investments in certain other invested assets, including private equity funds and hedge funds 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 as a practical expedient to measure fair value.

	Investment Category Includes	September 30, 2014		December 31, 2013	
		Fair Value Using Net Asset Value Per Share (or its equivalent)	Unfunded Commitments	Fair Value Using Net Asset Value Per Share (or its equivalent)	Unfunded Commitments
<i>(in millions)</i>					
Investment Category					
<i>Private equity funds:</i>					
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	\$ 2,496	\$ 474	\$ 2,544	\$ 578
Real Estate / Infrastructure	Investments in real estate properties and infrastructure positions, including power plants and other energy generating facilities	427	209	346	86
Venture capital	Early-stage, high-potential, growth companies expected to generate a return through an eventual realization event, such as an initial public	136	10	140	13

	offering or sale of the company				
Distressed	Securities of companies that are in default, under bankruptcy protection, or troubled	174	44	183	34
Other	Includes multi-strategy and mezzanine strategies	194	213	134	238
Total private equity funds		3,427	950	3,347	949
<i>Hedge funds:</i>					
Event-driven	Securities of companies undergoing material structural changes, including mergers, acquisitions and other reorganizations	1,188	2	976	2
Long-short	Securities that the manager believes are undervalued, with corresponding short positions to hedge market risk	2,096	4	1,759	11
Macro	Investments that take long and short positions in financial instruments based on a top-down view of certain economic and capital market conditions	486	-	612	-
Distressed	Securities of companies that are in default, under bankruptcy protection or troubled	659	5	594	15
Emerging markets	Investments in the financial markets of developing countries	302	-	287	-
Other	Includes multi-strategy and relative value strategies	238	-	157	-
Total hedge funds		4,969	11	4,385	28
Total		\$ 8,396	\$ 961	\$ 7,732	\$ 977

Private equity fund investments included above are not redeemable, as 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, 2014, assuming average original expected lives of 10 years for the funds, 74 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, 18 percent between four and six years and 8 percent between seven and 10 years.

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The hedge fund investments included above are generally redeemable monthly (15 percent), quarterly (46 percent), semi annually (16 percent) and annually (23 percent), with redemption notices ranging from one day to 180 days. At September 30, 2014, however, investments representing approximately 51 percent of the total fair value of the hedge fund investments cannot be redeemed, either in whole or in part, because the investments include various contractual restrictions. 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 and are generally expected to be lifted by the end of 2015. The fund investments for which redemption is restricted only in part generally relate to certain hedge funds that hold at least one investment that the fund manager deems to be illiquid.

Fair Value Option

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

<i>(in millions)</i>	Gain (Loss) Three Months Ended September 30,		Gain (Loss) Nine Months Ended September 30,	
	2014	2013	2014	2013
Assets:				
Mortgage and other loans receivable	\$ -	\$ 1	\$ -	\$ 3
Bond and equity securities	252	331	1,529	963
Alternative Investments ^(a)	73	23	245	229
Other, including Short-term investments	2	3	7	8
Liabilities:				
Long-term debt ^(b)	23	(51)	(186)	271
Other liabilities	(4)	(4)	(10)	(10)
Total gain	\$ 346	\$ 303	\$ 1,585	\$ 1,464

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

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

We recognized gains of \$8 million and losses of \$14 million during the three- and nine-month periods ended September 30, 2014, respectively, and losses of \$22 million and \$37 million during the three- and nine-month periods ended September 30, 2013, respectively, 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.

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:

<i>(in millions)</i>	September 30, 2014			December 31, 2013		
	Fair Value	Outstanding Principal Amount	Difference	Fair Value	Outstanding Principal Amount	Difference
Assets:						
Mortgage and other loans receivable	\$ 6	\$ 4	\$ 2	\$ -	\$ -	\$ -
Liabilities:						
Long-term debt*	\$ 5,667	\$ 4,344	\$ 1,323	\$ 6,747	\$ 5,231	\$ 1,516

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

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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				Impairment Charges			
	Non-Recurring Basis				Three Months Ended September 30,		Nine Months Ended September 30,	
	Level 1	Level 2	Level 3	Total	2014	2013	2014	2013
<i>(in millions)</i>								
September 30, 2014								
Other investments	\$ -	\$ -	\$ 766	\$ 766	\$ 62	\$ 9	\$ 117	\$ 82
Investments in life settlements	-	-	473	473	52	61	139	139
Other assets	-	-	1	1	1	2	2	26
Total	\$ -	\$ -	\$ 1,240	\$ 1,240	\$ 115	\$ 72	\$ 258	\$ 247
December 31, 2013								
Other investments	\$ -	\$ -	\$ 1,615	\$ 1,615				
Investments in life settlements	-	-	896	896				
Other assets	-	11	48	59				
Total	\$ -	\$ 11	\$ 2,559	\$ 2,570				

Fair Value Information About Financial Instruments Not Measured at Fair Value

The following table presents the carrying value and estimated fair value 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:

	Level 1	Estimated Fair Value		Total	Carrying Value
		Level 2	Level 3		
<i>(in millions)</i>					
September 30, 2014					
Assets:					
Mortgage and other loans receivable	\$ -	\$ 217	\$ 24,468	\$ 24,685	\$ 23,391
Other invested assets	-	626	2,839	3,465	4,357
Short-term investments	-	13,661	-	13,661	13,661

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Cash	1,933	-	-	1,933	1,933
Liabilities:					
Policyholder contract deposits associated with investment-type contracts	-	226	117,983	118,209	105,258
Other liabilities	-	3,993	-	3,993	3,993
Long-term debt	-	30,880	3,689	34,569	30,556
December 31, 2013					
Assets:					
Mortgage and other loans receivable	\$ -	\$ 219	\$ 21,418	\$ 21,637	\$ 20,765
Other invested assets	-	529	2,705	3,234	4,194
Short-term investments	-	15,304	-	15,304	15,304
Cash	2,241	-	-	2,241	2,241
Liabilities:					
Policyholder contract deposits associated with investment-type contracts	-	199	114,361	114,560	105,093
Other liabilities	-	4,869	1	4,870	4,869
Long-term debt	-	36,239	2,394	38,633	34,946

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

<i>(in millions)</i>	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Oth T Imp i
September 30, 2014					
Bonds available for sale:					
U.S. government and government sponsored entities	\$ 2,638	\$ 180	\$ (20)	\$ 2,798	
Obligations of states, municipalities and political subdivisions	26,699	1,557	(84)	28,172	
Non-U.S. governments	21,889	955	(182)	22,662	
Corporate debt	139,166	10,222	(1,060)	148,328	
Mortgage-backed, asset-backed and collateralized:					
RMBS	35,511	3,507	(314)	38,704	
CMBS	11,959	694	(111)	12,542	
CDO/ABS	12,058	637	(115)	12,580	
Total mortgage-backed, asset-backed and collateralized	59,528	4,838	(540)	63,826	
Total bonds available for sale^(b)	249,920	17,752	(1,886)	265,786	
Equity securities available for sale:					
Common stock	1,323	2,268	(19)	3,572	
Preferred stock	24	5	-	29	
Mutual funds	719	41	(17)	743	
Total equity securities available for sale	2,066	2,314	(36)	4,344	
Total	\$ 251,986	\$ 20,066	\$ (1,922)	\$ 270,130	
December 31, 2013					
Bonds available for sale:					
U.S. government and government sponsored entities	\$ 3,084	\$ 150	\$ (39)	\$ 3,195	
Obligations of states, municipalities and political subdivisions	28,704	1,122	(446)	29,380	
Non-U.S. governments	22,045	822	(358)	22,509	

Corporate debt	139,461	7,989	(2,898)	144,552
Mortgage-backed, asset-backed and collateralized:				
RMBS	33,520	3,101	(473)	36,148
CMBS	11,216	558	(292)	11,482
CDO/ABS	10,501	649	(142)	11,008
Total mortgage-backed, asset-backed and collateralized	55,237	4,308	(907)	58,638
Total bonds available for sale^(b)	248,531	14,391	(4,648)	258,274
Equity securities available for sale:				
Common stock	1,280	1,953	(14)	3,219
Preferred stock	24	4	(1)	27
Mutual funds	422	12	(24)	410
Total equity securities available for sale	1,726	1,969	(39)	3,656
Total	\$ 250,257	\$ 16,360	\$ (4,687)	\$ 261,930

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

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(b) At September 30, 2014 and December 31, 2013, bonds available for sale held by us that were below investment grade or not rated totaled \$35.0 billion and \$32.6 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:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<i>(in millions)</i>						
September 30, 2014						
Bonds available for sale:						
U.S. government and government sponsored entities	\$ 491	\$ 5	\$ 303	\$ 15	\$ 794	\$
Obligations of states, municipalities and political subdivisions	924	20	1,183	64	2,107	
Non-U.S. governments	2,074	34	2,213	148	4,287	
Corporate debt	14,653	239	14,521	821	29,174	
RMBS	3,849	72	4,432	242	8,281	
CMBS	956	6	2,483	105	3,439	
CDO/ABS	2,937	33	1,770	82	4,707	
Total bonds available for sale	25,884	409	26,905	1,477	52,789	
Equity securities available for sale:						
Common stock	116	13	7	6	123	
Preferred stock	5	-	-	-	5	
Mutual funds	282	12	70	5	352	
Total equity securities available for sale	403	25	77	11	480	
Total	\$ 26,287	\$ 434	\$ 26,982	\$ 1,488	\$ 53,269	
December 31, 2013						
Bonds available for sale:						
U.S. government and government sponsored entities	\$ 1,101	\$ 34	\$ 42	\$ 5	\$ 1,143	\$
Obligations of states, municipalities and political subdivisions	6,134	379	376	67	6,510	
Non-U.S. governments	4,102	217	710	141	4,812	

Transfers of Level 3 Liabilities

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Corporate debt	38,495	2,251	4,926	647	43,421
RMBS	8,543	349	1,217	124	9,760
CMBS	3,191	176	1,215	116	4,406
CDO/ABS	2,845	62	915	80	3,760
Total bonds available for sale	64,411	3,468	9,401	1,180	73,812
Equity securities available for sale:					
Common stock	96	14	-	-	96
Preferred stock	5	1	-	-	5
Mutual funds	369	24	-	-	369
Total equity securities available for sale	470	39	-	-	470
Total	\$ 64,881	\$ 3,507	\$ 9,401	\$ 1,180	\$ 74,282

At September 30, 2014, we held 6,689 and 137 individual fixed maturity and equity securities, respectively, that were in an unrealized loss position, of which 2,399 individual fixed maturity securities were in a continuous unrealized loss position for longer than 12 months. We did not recognize the unrealized losses in earnings on these fixed maturity securities at September

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30, 2014 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	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	September 30, 2014 <i>(in millions)</i>			
Due in one year or less	\$ 10,843	\$ 11,017	\$ 857	\$ 846
Due after one year through five years	50,274	52,949	7,038	6,926
Due after five years through ten years	65,793	69,252	14,788	14,353
Due after ten years	63,482	68,742	15,025	14,237
Mortgage-backed, asset-backed and collateralized	59,528	63,826	16,967	16,427
Total	\$ 249,920	\$ 265,786	\$ 54,675	\$ 52,789

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,			
	2014		2013		2014		2013	
	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses
<i>(in millions)</i>								
Fixed maturity securities	\$ 118	\$ 21	\$ 516	\$ 26	\$ 528	\$ 65	\$ 2,216	\$ 153
Equity securities	33	4	18	6	102	10	101	15
Total	\$ 151	\$ 25	\$ 534	\$ 32	\$ 630	\$ 75	\$ 2,317	\$ 168

For the three- and nine-month periods ended September 30, 2014, the aggregate fair value of available for sale securities sold was \$4.2 billion and \$16.2 billion, respectively, which resulted in net realized capital gains of \$0.1 billion and \$0.5 billion, respectively.

For the three- and nine-month periods ended September 30, 2013, the aggregate fair value of available for sale securities sold was \$8.4 billion and \$27.7 billion, respectively, which resulted in net realized capital gains of \$0.5 billion and \$2.1 billion, respectively.

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

<i>(in millions)</i>	September 30, 2014		December 31, 2013	
	Fair Value	Percent of Total	Fair Value	Percent of Total
Fixed maturity securities:				
U.S. government and government sponsored entities	\$ 5,258	25 %	\$ 5,723	24 %
Obligations of states, municipalities and political subdivisions	122	1	121	1
Non-U.S. governments	2	-	2	-
Corporate debt	948	4	1,169	5
Mortgage-backed, asset-backed and collateralized:				
RMBS	2,166	10	2,263	10
CMBS	1,220	6	1,353	6
CDO/ABS and other collateralized*	10,665	50	11,985	51
Total mortgage-backed, asset-backed and collateralized	14,051	66	15,601	67
Other	-	-	7	-
Total fixed maturity securities	20,381	96	22,623	97
Equity securities	766	4	834	3
Total	\$ 21,147	100 %	\$ 23,457	100 %

* Includes \$0.9 billion and \$1.0 billion of U.S. Government agency backed ABS at September 30, 2014 and December 31, 2013, respectively.

Net Investment Income

The following table presents the components of Net investment income:

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Fixed maturity securities, including short-term investments	\$ 3,022	\$ 3,005	\$ 9,264	\$ 8,969

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Equity securities	135	98	67	123
Interest on mortgage and other loans	318	292	947	862
Alternative investments*	636	288	2,108	1,892
Real estate	25	32	86	99
Other investments	25	(22)	34	59
Total investment income	4,161	3,693	12,506	12,004
Investment expenses	133	120	398	423
Net investment income	\$ 4,028	\$ 3,573	\$ 12,108	\$ 11,581

* Includes hedge funds, private equity funds, affordable housing partnerships, investments in life settlements and other investment partnerships.

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

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Sales of fixed maturity securities	\$ 97	\$ 490	\$ 463	\$ 2,063
Sales of equity securities	29	12	92	86
Other-than-temporary impairments:				
Severity	-	-	-	(5)
Change in intent	(14)	(1)	(20)	(4)
Foreign currency declines	(3)	-	(13)	-
Issuer-specific credit events	(31)	(51)	(124)	(130)
Adverse projected cash flows	(2)	-	(7)	(7)
Provision for loan losses	(11)	(33)	9	(38)
Foreign exchange transactions	350	(276)	329	135
Derivative instruments	36	192	(302)	209
Impairments on investments in life settlements	(52)	(61)	(139)	(139)
Other	71	(20)	70	(27)
Net realized capital gains	\$ 470	\$ 252	\$ 358	\$ 2,143

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:

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Increase (decrease) in unrealized appreciation (depreciation) of investments:				
Fixed maturity securities	\$ (1,515)	\$ (1,696)	\$ 6,123	\$ (12,971)
Equity securities	303	189	348	180
Other investments	94	50	127	57

Total Increase (decrease) in unrealized appreciation (depreciation) of investments* **\$ (1,118)** \$ (1,457) **\$ 6,598** \$ (12,734)

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

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 2013 Annual Report.

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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:

<i>(in millions)</i>	Three Months Ended		Nine Months Ended	
	September 30, 2014	2013	September 30, 2014	2013
Balance, beginning of period	\$ 3,166	\$ 4,236	\$ 3,872	\$ 5,164
Increases due to:				
Credit impairments on new securities subject to impairment losses	13	6	35	33
Additional credit impairments on previously impaired securities	5	29	59	59
Reductions due to:				
Credit impaired securities fully disposed for which there was no prior intent or requirement to sell	(116)	(68)	(528)	(626)
Accretion on securities previously impaired due to credit*	(183)	(184)	(544)	(611)
Other	-	-	(9)	-
Balance, end of period	\$ 2,885	\$ 4,019	\$ 2,885	\$ 4,019

* 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, based on our expectations as to the timing and amount of cash flows expected to be received, whether it is probable at acquisition that we will not collect all contractually required payments for these PCI securities, including both principal and interest after considering the effects of prepayments. 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 a level 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.

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

<i>(in millions)</i>	At Date of Acquisition
Contractually required payments (principal and interest)	\$ 29,851
Cash flows expected to be collected*	23,983
Recorded investment in acquired securities	15,896

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

<i>(in millions)</i>	September 30, 2014	December 31, 2013
Outstanding principal balance	\$ 16,883	\$ 14,741
Amortized cost	12,097	10,110
Fair value	13,489	11,338

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

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Balance, beginning of period	\$ 7,042	\$ 5,901	\$ 6,940	\$ 4,766
Newly purchased PCI securities	358	202	1,127	1,308
Disposals	-	-	-	(60)
Accretion	(223)	(187)	(654)	(517)
Effect of changes in interest rate indices	(96)	282	(327)	388
Net reclassification from non-accretable difference, including effects of prepayments	30	405	25	718
Balance, end of period	\$ 7,111	\$ 6,603	\$ 7,111	\$ 6,603

Pledged Investments**Secured Financing and Similar Arrangements**

We enter into financing transactions whereby certain securities are transferred to financial institutions in exchange for cash or other liquid collateral. Securities transferred by us under these financing transactions

may be sold or repledged by the counterparties. As collateral for the securities transferred by us, counterparties transfer assets to us, such as cash or high quality fixed maturity securities. Collateral levels are monitored daily and are generally maintained at an agreed-upon percentage of the fair value of the transferred securities during the life of the transactions. Where we receive fixed maturity securities as collateral, we do not have the right to sell or repledge the collateral unless an event of default occurs by the counterparties. At the termination of the transactions, we and our counterparties are obligated to return the collateral provided and the securities transferred, respectively. We treat these transactions as secured financing arrangements.

Secured financing transactions also include securities 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. In the majority of these repurchase agreements, the securities transferred by us may be sold or repledged by the counterparties. Repurchase agreements entered into by the DIB are carried at fair value based on market-observable interest rates. All other repurchase agreements are recorded at their contracted repurchase amounts plus accrued interest.

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The following table presents the fair value of securities pledged to counterparties under secured financing transactions:

<i>(in millions)</i>	September 30, 2014	December 31, 2013
Securities available for sale	\$ 2,860	\$ 3,837
Other securities	2,187	2,766

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. Such agreements entered into by the DIB are carried at fair value based on market observable interest rates. 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:

<i>(in millions)</i>	September 30, 2014	December 31, 2013
Securities collateral pledged to us	\$ 7,347	\$ 8,878
Amount sold or repledged by us	106	71
Insurance - Statutory and Other Deposits		

Total carrying values 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, were \$6.2 billion and \$6.7 billion at September 30, 2014 and December 31, 2013, respectively.

Other Pledges

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 \$53 million and \$57 million of stock in FHLBs at September 30, 2014 and December 31, 2013, respectively. In addition, our subsidiaries have pledged securities available for sale with a fair value of \$530 million and \$80 million at September 30, 2014 and December 31, 2013, respectively, associated with advances from the FHLBs.

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 approximated \$3.6 billion and \$4.2 billion at September 30, 2014 and December 31, 2013, 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.

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

<i>(in millions)</i>	September 30, 2014	December 31, 2013
Commercial mortgages*	\$ 17,841	\$ 16,195
Life insurance policy loans	2,756	2,830
Commercial loans, other loans and notes receivable	3,084	2,052
Total mortgage and other loans receivable	23,681	21,077
Allowance for losses	(284)	(312)
Mortgage and other loans receivable, net	\$ 23,397	\$ 20,765

* Commercial mortgages primarily represent loans for office, retail and industrial properties, with exposures in California and New York representing the largest geographic concentrations (aggregating approximately 14 percent and 16 percent, respectively, at September 30, 2014, and approximately 18 percent and 17 percent, respectively, at December 31, 2013).

The following table presents the credit quality indicators for commercial mortgages:

<i>(dollars in millions)</i>	Number of Loans by Class							Percent of Total	
	Apartments	Offices	Retail	Industrial	Hotel	Others	Total ^(c)	Total	\$
September 30, 2014									
Credit Quality Indicator:									
In good standing	973	\$ 3,231	\$ 5,390	\$ 3,868	\$ 1,718	\$ 1,469	\$ 1,784	\$ 17,460	98 %
Restructured ^(a)	8	4	285	16	-	-	22	327	2
90 days or less delinquent	1	-	14	-	-	-	-	14	-
>90 days delinquent or in process of foreclosure	3	40	-	-	-	-	-	40	-
Total ^(b)	985	\$ 3,275	\$ 5,689	\$ 3,884	\$ 1,718	\$ 1,469	\$ 1,806	\$ 17,841	100 %
Valuation allowance		\$ 9	\$ 96	\$ 14	\$ 20	\$ 6	\$ 30	\$ 175	1 %
December 31, 2013									
Credit Quality Indicator:									
In good standing	978	\$ 2,786	\$ 4,636	\$ 3,364	\$ 1,607	\$ 1,431	\$ 1,970	\$ 15,794	98 %
Restructured ^(a)	9	53	210	6	-	-	85	354	2
90 days or less delinquent	2	-	-	5	-	-	-	5	-

>90 days delinquent or in process of foreclosure	6	-	42	-	-	-	-	42	-
Total ^(b)	995	\$ 2,839	\$ 4,888	\$ 3,375	\$ 1,607	\$ 1,431	\$ 2,055	\$ 16,195	100 %
Allowance for losses		\$ 10	\$ 109	\$ 9	\$ 19	\$ 3	\$ 51	\$ 201	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 2013 Annual Report.

(b) Does not reflect valuation allowances.

(c) Over 99 percent of the commercial mortgages held at such respective dates were current as to payments of principal and interest.

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See Note 7 to the Consolidated Financial Statements in the 2013 Annual Report for a discussion of our accounting policy for evaluating mortgage and other loans receivable for impairment.

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

Nine Months Ended September 30, <i>(in millions)</i>	2014			2013		
	Commercial Mortgages	Other Loans	Total	Commercial Mortgages	Other Loans	Total
Allowance, beginning of year	\$ 201	\$ 111	\$ 312	\$ 159	\$ 246	\$ 405
Loans charged off	(10)	(13)	(23)	(5)	(37)	(42)
Recoveries of loans previously charged off	-	16	16	3	6	9
Net charge-offs	(10)	3	(7)	(2)	(31)	(33)
Provision for loan losses	(16)	(6)	(22)	47	(16)	31
Other	-	1	1	(1)	(4)	(5)
Allowance, end of period	\$ 175*	\$ 109	\$ 284	\$ 203*	\$ 195	\$ 398

* Of the total allowance at the end of the period, \$86 million and \$102 million relates to individually assessed credit losses on \$246 million and \$267 million of commercial mortgage loans at September 30, 2014 and 2013, respectively.

No significant loans were modified in a troubled debt restructuring during the nine-month periods ended September 30, 2014 and 2013.

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, 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.

For VIEs with attributes consistent with that of an investment company or a money market fund, the primary beneficiary is the party or group of related parties that absorbs a majority of the expected losses of the VIE, receives the majority of the expected residual returns of the VIE, or both.

For all other VIEs, the primary beneficiary is the entity that has both (1) the power to direct the activities of the VIE that most significantly affect the VIE'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.

TABLE OF CONTENTS**Item 1 / NOTE 8. VARIABLE INTEREST ENTITIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****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:

<i>(in millions)</i>	Real Estate and Investment Funds ^(e)	Securitization Vehicles	Structured Investment Vehicles	Affordable Housing Partnerships	Other	Total
September 30, 2014						
Assets:						
Bonds available for sale	\$ -	\$ 11,320	\$ -	\$ -	\$ 41	\$ 11,361
Other bond securities	-	7,375	662	-	44	8,081
Mortgage and other loans receivable	-	2,460	-	-	168	2,628
Other invested assets	586	-	-	1,725	705	3,016
Other ^(a)	41	697	90	46	561	1,435
Total assets ^{(b)(c)}	\$ 627	\$ 21,852	\$ 752	\$ 1,771	\$ 1,519	\$ 26,521
Liabilities:						
Long-term debt	\$ 69	\$ 1,371	\$ 91	\$ 184	\$ 73	\$ 1,788
Other ^(d)	32	91	-	88	201	412
Total liabilities	\$ 101	\$ 1,462	\$ 91	\$ 272	\$ 274	\$ 2,200
December 31, 2013						
Assets:						
Bonds available for sale	\$ -	\$ 11,028	\$ -	\$ -	\$ 70	\$ 11,098
Other bond securities	-	7,449	748	-	113	8,310
Mortgage and other loans receivable	-	1,508	-	-	189	1,697
Other invested assets	849	-	-	1,986	793	3,628
Other ^(a)	49	481	93	41	615	1,279
Total assets ^{(b)(c)}	\$ 898	\$ 20,466	\$ 841	\$ 2,027	\$ 1,780	\$ 26,012
Liabilities:						
Long-term debt	\$ 71	\$ 494	\$ 87	\$ 188	\$ 154	\$ 994
Other ^(d)	31	74	-	83	367	555
Total liabilities	\$ 102	\$ 568	\$ 87	\$ 271	\$ 521	\$ 1,549

(a) Comprised primarily of Short-term investments, Premiums and other receivables and Other assets at both September 30, 2014 and December 31, 2013.

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

(c) At September 30, 2014 and December 31, 2013, includes approximately \$21.7 billion and \$21.4 billion, respectively, of investment-grade debt securities, loans and other assets held by certain securitization vehicles that issued beneficial interests in these investments. The majority of the beneficial interests issued are held by AIG.

(d) Comprised primarily of Other liabilities and Derivative liabilities, at fair value, at both September 30, 2014 and December 31, 2013.

(e) At September 30, 2014 and December 31, 2013, off-balance sheet exposure, primarily consisting of commitments to real estate and investment funds, was \$60.2 million and \$50.8 million, respectively.

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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:

<i>(in millions)</i>	Total VIE Assets	Maximum Exposure to Loss		Total
		On-Balance Sheet*	Off-Balance Sheet	
September 30, 2014				
Real estate and investment funds	\$ 20,228	\$ 2,741	\$ 421	\$ 3,162
Affordable housing partnerships	438	438	-	438
Other	615	31	-	31
Total	\$ 21,281	\$ 3,210	\$ 421	\$ 3,631
December 31, 2013				
Real estate and investment funds	\$ 17,572	\$ 2,343	\$ 289	\$ 2,632
Affordable housing partnerships	478	477	-	477
Other	708	37	-	37
Total	\$ 18,758	\$ 2,857	\$ 289	\$ 3,146

* At September 30, 2014 and December 31, 2013, \$3.2 billion and \$2.8 billion, respectively, of our total unconsolidated VIE assets were recorded as Other invested assets.

See Note 10 to the Consolidated Financial Statements in the 2013 Annual Report for additional information on VIEs.

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. See Note 11 to the Consolidated Financial Statements in the 2013 Annual Report for a discussion of our accounting policies and procedures regarding derivatives and hedge

accounting.

Effective April 1, 2014, we reclassified cross-currency swaps from Interest rate contracts to Foreign exchange contracts. This change was applied prospectively.

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The following table presents the notional amounts and fair values of our derivative instruments:

	September 30, 2014				December 31, 2013			
	Gross Derivative Assets		Gross Derivative Liabilities		Gross Derivative Assets		Gross Derivative Liabilities	
	Notional Amount	Fair Value ^(a)	Notional Amount	Fair Value ^(a)	Notional Amount	Fair Value ^(a)	Notional Amount	Fair Value ^(a)
<i>(in millions)</i>								
Derivatives designated as hedging instruments:								
Interest rate contracts	\$ -	\$ -	\$ 25	\$ 1	\$ -	\$ -	\$ 112	\$ 15
Foreign exchange contracts	327	12	1,645	164	-	-	1,857	190
Equity contracts	99	1	8	1	-	-	-	-
Derivatives not designated as hedging instruments:								
Interest rate contracts	47,090	2,823	37,613	2,783	50,897	3,771	59,585	3,849
Foreign exchange contracts	13,965	1,052	9,456	1,339	1,774	52	3,789	129
Equity contracts ^(b)	8,373	220	38,420	1,113	29,296	413	9,840	524
Commodity contracts	15	-	12	5	17	1	13	5
Credit contracts	30	20	5,688	1,038	70	55	15,459	1,335
Other contracts ^(c)	35,169	34	636	89	32,440	34	1,408	167
Total derivatives not designated as hedging instruments	104,642	4,149	91,825	6,367	114,494	4,326	90,094	6,009
Total derivatives, gross	\$ 105,068	\$ 4,162	\$ 93,503	\$ 6,533	\$ 114,494	\$ 4,326	\$ 92,063	\$ 6,214

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

(b) Notional amount of derivative assets and fair value of derivative assets were both zero at September 30, 2014 and were \$23.2 billion and \$107 million at December 31, 2013, respectively, related to bifurcated embedded derivatives. Notional amount of derivative liabilities and fair value of derivative liabilities include \$35.6 billion and \$1.0 billion, respectively, at September 30, 2014, and \$6.7 billion and \$424 million, respectively, at December 31, 2013, related to bifurcated embedded derivatives. A bifurcated embedded derivative is generally presented with the host contract in the Condensed Consolidated Balance Sheets.

(c) Consists primarily of contracts with multiple underlying exposures.

The following table presents the fair values of derivative assets and liabilities in the Condensed Consolidated Balance Sheets:

	September 30, 2014				December 31, 2013		
	Derivative Assets		Derivative Liabilities		Derivative Assets		Derivative Liabilities
	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount
<i>(in millions)</i>							
Global Capital Markets derivatives:							
AIG Financial Products	\$ 30,619	\$ 2,331	\$ 28,650	\$ 3,020	\$ 41,942	\$ 2,567	\$ 52,677
AIG Markets	25,142	1,308	20,959	1,798	12,531	964	23,711
Total Global Capital Markets derivatives	55,761	3,639	49,609	4,818	54,473	3,531	76,388
Non-Global Capital Markets derivatives ^(a)	49,307	523	43,894	1,715	60,021	795	15,666
Total derivatives, gross	\$ 105,068	4,162	\$ 93,503	6,533	\$ 114,494	4,326	\$ 92,054
Counterparty netting ^(b)		(1,769)		(1,769)		(1,734)	
Cash collateral ^(c)		(805)		(1,186)		(820)	
Total derivatives, net		1,588		3,578		1,772	
Less: Bifurcated embedded derivatives		-		1,076		107	
Total derivatives on consolidated balance sheet		\$ 1,588		\$ 2,502		\$ 1,665	

(a) Represents derivatives used to hedge the foreign currency and interest rate risk associated with insurance as well as embedded derivatives included in insurance contracts. Assets and liabilities include bifurcated embedded derivatives which are recorded in Policyholder contract deposits.

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

(c) Represents cash collateral posted and received that is eligible for netting.

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 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 to transactions 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 \$2.9 billion and \$3.2 billion at September 30, 2014 and December 31, 2013, 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 \$1.0 billion at both September 30, 2014 and December 31, 2013. We generally can repledge or resell this 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 by Global Capital Markets (GCM) 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 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 cross-currency interest rate swaps as hedges of the change in fair values of fixed-rate GICs attributable to changes in benchmark interest rates and foreign exchange rates.

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We use foreign currency denominated debt and cross currency interest rate 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. We assess the hedge effectiveness and measure the amount of ineffectiveness for these hedge relationships based on changes in spot exchange rates. For the three- and nine-month periods ended September 30, 2014, we recognized gains of \$104 million and \$107 million, respectively, and for the three- and nine-month periods ended September 30, 2013, we recognized losses of \$108 million and \$13 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:

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
<i>(in millions)</i>				
Interest rate contracts:				
Gain recognized in earnings on derivatives ^(a)	\$ -	\$ 2	\$ 2	\$ 2
Gain recognized in earnings on hedged items ^(b)	10	17	85	70
Foreign exchange contracts: ^(c)				
Loss recognized in earnings on derivatives ^(d)	(76)	(21)	(20)	(61)
Gain recognized in earnings on hedged items ^(e)	97	19	37	66
Gain (loss) recognized in earnings for amounts excluded from effectiveness testing	9	(2)	(3)	5
Equity contracts: ^(f)				
Gain (loss) recognized in earnings on derivatives	4	-	(10)	-
Gain (loss) recognized in earnings on hedged items	(6)	-	8	-
Gain (loss) recognized in earnings for amounts excluded from effectiveness testing	(2)	-	(2)	-

(a) Includes gains of \$1 million recorded in Interest credited to policyholder account balances and \$1 million recorded in Net realized capital gains (losses) for the nine-month period ended September 30, 2014.

(b) Includes gains of \$10 million and \$17 million for the three-month periods ended September 30, 2014 and 2013, respectively, and \$37 million and \$72 million for the nine-month periods ended September 30,

2014 and 2013, respectively, representing the amortization of debt basis adjustment recorded in Other income and Net realized capital gains (losses) following the discontinuation of hedge accounting. Also includes gains of \$50 million for the nine-month period ended September 30, 2014, recorded in Loss on extinguishment of debt, representing the release of debt basis following the repurchase of issued debt that was part of previously discontinued hedge accounting relationships.

(c) Gains and losses recognized in earnings for the ineffective portion and amounts excluded from effectiveness testing, if any, are recorded in Net realized capital gains (losses).

(d) Includes gains of \$1 million recorded in Interest credited to policyholder account balances for the three- and nine-month periods ended September 30, 2014. All other gains and losses are recorded in Net realized capital gains (losses).

(e) Includes gains of \$14 million and \$22 million for the three- and nine-month periods ended September 30, 2014, respectively, representing the amortization of debt basis adjustment recorded in Other income and Net realized capital gains (losses) following the discontinuation of hedge accounting. Also includes losses of \$2 million and \$3 million for the three- and nine-month periods ended September 30, 2014, respectively, in Interest credited to policyholder account balances. All other gains and losses are recorded in Net realized capital gains (losses).

(f) Gains and losses recognized in earnings are recorded in Net realized capital gains (losses).

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The following table presents the effect of derivative instruments not designated as hedging instruments in the Condensed Consolidated Statements of Income:

<i>(in millions)</i>	Gains (Losses) Recognized in Earnings			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
By Derivative Type:				
Interest rate contracts	\$ 222	\$ 35	\$ 409	\$ (250)
Foreign exchange contracts	253	(83)	276	64
Equity contracts*	(151)	158	(562)	670
Commodity contracts	(2)	(1)	(1)	(3)
Credit contracts	75	52	229	365
Other contracts	44	14	83	74
Total	\$ 441	\$ 175	\$ 434	\$ 920
By Classification:				
Policy fees	\$ 74	\$ 56	\$ 210	\$ 149
Net investment income	43	(7)	69	22
Net realized capital gains (losses)	13	200	(302)	200
Other income (losses)	309	(71)	447	560
Policyholder benefits and claims incurred	2	(3)	10	(11)
Total	\$ 441	\$ 175	\$ 434	\$ 920

* Includes embedded derivative losses of \$64 million and \$406 million for the three- and nine-month periods ended September 30, 2014, respectively, and embedded derivative gains of \$266 million and \$1.0 billion for the three- and nine-month periods ended September 30, 2013, respectively.

Global Capital Markets Derivatives

Derivative transactions between AIG and its subsidiaries and third parties are generally centralized through GCM, specifically through the entity AIG Markets, Inc. (AIG Markets). The derivatives portfolio of AIG Markets consists primarily of interest rate and currency derivatives and also includes legacy credit derivatives that have been novated from AIG Financial Products Corp. and AIG Trading Group Inc. and

their respective subsidiaries (collectively, AIGFP). AIGFP also enters into derivatives to mitigate market risk in its exposures (interest rates, currencies, credit, commodities and equities) arising from its portfolio of remaining transactions.

GCM follows a policy of minimizing interest rate, currency, commodity, and equity risks associated with investment securities by entering into offsetting positions, thereby offsetting a significant portion of the unrealized appreciation and depreciation.

Super Senior Credit Default Swaps

Credit default swap (CDS) transactions were entered into with the intention of earning revenue on credit exposure. In the majority of these transactions, we sold credit protection on a designated portfolio of loans or debt securities. Generally, such credit protection was provided on a “second loss” basis, meaning we would incur credit losses only after a shortfall of principal and/or interest, or other credit events, in respect of the protected loans and debt securities, exceeded a specified threshold amount or level of “first losses.”

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The following table presents the net notional amount (net of all structural subordination below the covered tranches), fair value of derivative (asset) liability before the effects of counterparty netting adjustments and offsetting cash collateral and unrealized market valuation gain (loss) of the super senior credit default swap portfolio by asset class:

	Net Notional Amount at		Fair Value of Derivative Liability at		Unrealized Market Valuation Gain			
					Three Months Ended		Nine Months Ended	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013	September 30, 2014	2013	September 30, 2014	2013
<i>(in millions)</i>								
Arbitrage:								
Multi-sector CDOs ^(a)	2,769	3,257	989	1,249	63	49	201	330
Corporate debt/CLOs ^{(b)(c)}	2,715	11,832	6	28	12	5	22	26
Total	\$ 5,484	\$ 15,089	\$ 995	\$ 1,277	\$ 75	\$ 54	\$ 223	\$ 356

(a) During the nine-month period ended September 30, 2014, we paid \$59 million to counterparties with respect to multi sector CDOs, which was previously included in the fair value of the derivative liability as an unrealized market valuation loss. Collateral postings with regards to multi sector CDOs were \$899 million and \$1.1 billion at September 30, 2014 and December 31, 2013, respectively.

(b) Corporate debt/Collateralized Loan Obligations (CLOs) include \$790 million and \$1.0 billion in net notional amount of credit default swaps written on the super senior tranches of CLOs at September 30, 2014 and December 31, 2013, respectively. Collateral postings with regards to Corporate debt/CLOs were \$182 million and \$353 million at September 30, 2014 and December 31, 2013, respectively.

(c) On July 17, 2014, GCM terminated Corporate Debt Super Senior CDSs with a notional amount of \$8.8 billion.

The expected weighted average maturity of the super senior credit derivative portfolios as of September 30, 2014 was five years for the multi sector CDO arbitrage portfolio and three years for the corporate debt/CLO portfolio.

Because of long term maturities of the CDSs in the arbitrage portfolio, we are unable to make reasonable estimates of the periods during which any payments would be made. However, the net notional amount represents the maximum exposure to loss on the super senior credit default swap portfolio.

Written Single Name Credit Default Swaps

We have legacy credit default swap contracts referencing single name exposures written on corporate, index and asset backed credits with the intention of earning spread income on credit exposure. Some of these transactions were entered into as part of a long short strategy to earn the net spread between CDSs written and purchased. At September 30, 2014 and December 31, 2013, the net notional amounts of these written CDS contracts were \$205 million and \$373 million, respectively, including ABS CDS transactions purchased from a liquidated multi sector super senior CDS transaction. These exposures were partially hedged by purchasing offsetting CDS contracts of \$30 million and \$50 million in net notional amounts at September 30, 2014 and December 31, 2013, respectively. The net unhedged positions of \$175 million and \$323 million at September 30, 2014 and December 31, 2013, respectively, represent the maximum exposure to loss on these CDS contracts. The average maturity of the written CDS contracts was three years at both September 30, 2014 and December 31, 2013. At September 30, 2014 and December 31, 2013, the fair values of derivative liabilities (which represents the carrying value) of the portfolio of CDS were \$23 million and \$32 million, respectively.

Upon a triggering event (e.g., a default) with respect to the underlying reference obligations, settlement is generally effected through the payment of the notional amount of the contract to the counterparty in exchange for the related principal amount of securities issued by the underlying credit obligor (physical settlement) or, in some cases, payment of an amount associated with the value of the notional amount of the reference obligations through a market quotation process (cash settlement).

These CDS contracts were written under ISDA Master Agreements. The majority of these ISDA Master Agreements include credit support annexes (CSAs) that provide for collateral postings that may vary at various ratings and threshold levels. At September 30, 2014 and December 31, 2013, net collateral posted by us under these contracts was \$26 million and \$38 million, respectively, prior to offsets for other transactions.

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All Other Derivatives

Our businesses other than GCM also 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. The derivatives are effective economic hedges of the exposures that they are meant to offset.

In addition to hedging activities, we also enter into derivative instruments with respect to investment operations, which may include, among other things, credit default swaps and purchasing investments with embedded derivatives, such as equity linked notes and convertible bonds.

Credit Risk-Related Contingent Features

The aggregate fair value of our derivative instruments that contain credit risk related contingent features that were in a net liability position at September 30, 2014 and December 31, 2013, was approximately \$2.8 billion and \$2.6 billion, respectively. The aggregate fair value of assets posted as collateral under these contracts at September 30, 2014 and December 31, 2013, was \$3.6 billion and \$3.1 billion, respectively.

We estimate that at September 30, 2014, based on our outstanding financial derivative transactions, a one notch downgrade of our long term senior debt ratings to BBB+ by Standard & Poor's Financial Services LLC, a subsidiary of The McGraw Hill Companies, Inc. (S&P), would permit counterparties to make additional collateral calls and permit certain counterparties to elect early termination of contracts, resulting in a negligible amount of corresponding collateral postings and termination payments; a one notch downgrade to Baa2 by Moody's Investors' Service, Inc. (Moody's) and an additional one notch downgrade to BBB by S&P would result in approximately \$48 million in additional collateral postings and termination payments, and a further one notch downgrade to Baa3 by Moody's and BBB by S&P would result in approximately \$190 million in additional collateral postings and termination payments.

Additional collateral postings upon downgrade are estimated based on the factors in the individual collateral

posting provisions of the CSA with each counterparty and current exposure as of September 30, 2014. Factors considered in estimating the termination payments upon downgrade include current market conditions, the complexity of the derivative transactions, historical termination experience and other observable market events such as bankruptcy and downgrade events that have occurred at other companies. Our estimates are also based on the assumption that counterparties will terminate based on their net exposure to us. The actual termination payments could significantly differ from our estimates given market conditions at the time of downgrade and the level of uncertainty in estimating both the number of counterparties who may elect to exercise their right to terminate and the payment that may be triggered in connection with any such exercise.

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

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reported as Other bond securities in the Consolidated Balance Sheets. The fair values of these hybrid securities were \$6.1 billion and \$6.4 billion at September 30, 2014 and December 31, 2013, respectively. These securities have par amounts of \$12.1 billion and \$13.4 billion at September 30, 2014 and December 31, 2013, respectively, and have remaining stated maturity dates that extend to 2052.

10. 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 litigation, including claims for punitive damages. In our insurance and mortgage guaranty operations, litigation arising from claims settlement activities is generally considered in the establishment of our liability for unpaid claims and claims adjustment expense. However, the potential for increasing jury awards and settlements makes it difficult to assess the ultimate outcome of such litigation. AIG is also subject to derivative, class action and other claims asserted by its shareholders and others alleging, among other things, breach of fiduciary duties by its directors and officers and violations of insurance laws and regulations, as well as federal and state securities laws. In the case of any derivative action brought on behalf of AIG, any recovery would accrue to the benefit of AIG.

Various regulatory and governmental agencies have been reviewing certain transactions and practices of AIG and our subsidiaries in connection with industry-wide and other inquiries into, among other matters, certain 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 subpoenas and other requests.

AIG's Subprime Exposure, AIGFP Credit Default Swap Portfolio and Related Matters

AIG, AIGFP and certain directors and officers of AIG, AIGFP and other AIG subsidiaries have been named in various actions relating to our exposure to the U.S. residential subprime mortgage market, unrealized market valuation losses on AIGFP's super senior credit default swap portfolio, losses and liquidity constraints relating to our securities lending program and related disclosure and other matters (Subprime Exposure Issues).

Consolidated 2008 Securities Litigation. Between May 21, 2008 and January 15, 2009, eight purported securities class action complaints were filed against AIG and certain directors and officers of AIG and AIGFP, AIG's outside auditors, and the underwriters of various securities offerings in the United States District Court for the Southern District of New York (the Southern District of New York), alleging claims under the Securities Exchange Act of 1934, as amended (the Exchange Act), or claims under the Securities Act of 1933, as amended (the Securities Act). On March 20, 2009, the Court consolidated all eight of the purported securities class actions as In re American International Group, Inc. 2008 Securities Litigation (the Consolidated 2008 Securities Litigation).

On May 19, 2009, the lead plaintiff in the Consolidated 2008 Securities Litigation filed a consolidated complaint on behalf of purchasers of AIG Common Stock during the alleged class period of March 16, 2006 through September 16, 2008, and on

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behalf of purchasers of various AIG securities offered pursuant to AIG's shelf registration statements. The consolidated complaint alleges that defendants made statements during the class period in press releases, AIG's quarterly and year-end filings, during conference calls, and in various registration statements and prospectuses in connection with the various offerings that were materially false and misleading and that artificially inflated the price of AIG Common Stock. The alleged false and misleading statements relate to, among other things, the Subprime Exposure Issues. The consolidated complaint alleges violations of Sections 10(b) and 20(a) of the Exchange Act and Sections 11, 12(a)(2), and 15 of the Securities Act. On August 5, 2009, defendants filed motions to dismiss the consolidated complaint, and on September 27, 2010, the Court denied the motions to dismiss.

On April 26, 2013, the Court granted a motion for judgment on the pleadings brought by the defendants. The Court's order dismissed all claims against the outside auditors in their entirety, and it also reduced the scope of the Securities Act claims against AIG and defendants other than the outside auditors.

On July 15, 2014, lead plaintiffs and all defendants except AIG's outside auditors accepted a mediator's proposal to settle the Consolidated 2008 Securities Litigation for a cash payment by AIG of \$960 million (the AIG Settlement). On August 1, 2014, lead plaintiff and AIG's outside auditors accepted a mediator's proposal to resolve the Consolidated 2008 Securities Litigation for a cash payment by the outside auditors (the Auditor Settlement and, collectively with the AIG Settlement, the Settlement). On October 7, 2014, the Court granted lead plaintiff's Motion for Preliminary Approval of Settlement and Approval of Notice to the Class and scheduled a final settlement approval hearing for March 20, 2015. The Settlement remains subject to notice to the class and final approval by the Court. On October 22, 2014, AIG made a cash payment of \$960 million, which is being held in escrow pending final approval of the AIG Settlement and which will be returned if the AIG Settlement is not approved. The AIG Settlement amount has been accrued.

Individual Securities Litigations. Between November 18, 2011 and September 16, 2013, nine separate, though similar, securities actions were filed asserting claims substantially similar to those in the Consolidated 2008 Securities Litigation against AIG and certain directors and officers of AIG and AIGFP (one such action also names as defendants AIG's outside auditors and the underwriters of various securities offerings). These actions are now pending in the Southern District of New York.

We have accrued our current estimate of probable loss with respect to these litigations and other potential related litigations.

ERISA Actions – Southern District of New York Between June 25, 2008 and November 25, 2008, AIG, certain directors and officers of AIG, and members of AIG's Retirement Board and Investment Committee

were named as defendants in eight purported class action complaints asserting claims on behalf of participants in certain pension plans sponsored by AIG or its subsidiaries. The Court subsequently consolidated these eight actions as *In re American International Group, Inc. ERISA Litigation II*. On September 4, 2012, lead plaintiffs' counsel filed a consolidated second amended complaint. The action purports to be brought as a class action under the Employee Retirement Income Security Act of 1974, as amended (ERISA), on behalf of all participants in or beneficiaries of certain benefit plans of AIG and its subsidiaries that offered shares of AIG Common Stock. In the consolidated second amended complaint, plaintiffs allege, among other things, that the defendants breached their fiduciary responsibilities to plan participants and their beneficiaries under ERISA, by continuing to offer the AIG Stock Fund as an investment option in the plans after it allegedly became imprudent to do so. The alleged ERISA violations relate to, among other things, the defendants' purported failure to monitor and/or disclose certain matters, including the Subprime Exposure Issues.

On November 20, 2012, defendants filed motions to dismiss the consolidated second amended complaint. On June 26, 2014, the Court issued an order denying defendants' motions to dismiss in light of the U.S. Supreme Court's decision in *Fifth Third Bancorp v. Dudenhoeffer*, No. 12-751 (U.S. June 25, 2014), which rejected the presumption of prudence in favor of ERISA fiduciaries that many courts had previously applied. The Court's order required the parties to meet and confer concerning the impact of the *Fifth Third Bancorp* case and the possibility of settlement. On September 10, 2014, plaintiffs' counsel filed a letter with the Court on behalf of all parties, informing the Court that the parties had agreed to schedule a mediation to explore the

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possibility of settlement. The parties have scheduled a mediation in November 2014. On September 12, 2014, Judge Swain issued an order extending defendants' time to respond to the second amended complaint to December 12, 2014.

As of November 3, 2014, discovery is ongoing, and the Court has not determined if a class action is appropriate or the size or scope of any class. As a result, we are unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

Canadian Securities Class Action – Ontario Superior Court of Justice On November 12, 2008, an application was filed in the Ontario Superior Court of Justice for leave to bring a purported class action against AIG, AIGFP, certain directors and officers of AIG and Joseph Cassano, the former Chief Executive Officer of AIGFP, pursuant to the Ontario Securities Act. If the Court grants the application, a class plaintiff will be permitted to file a statement of claim against defendants. The proposed statement of claim would assert a class period of March 16, 2006 through September 16, 2008 and would allege that during this period defendants made false and misleading statements and omissions in quarterly and annual reports and during oral presentations in violation of the Ontario Securities Act.

On April 17, 2009, defendants filed a motion record in support of their motion to stay or dismiss for lack of jurisdiction and forum non conveniens. On July 12, 2010, the Court adjourned a hearing on the motion pending a decision by the Supreme Court of Canada in a pair of actions captioned Club Resorts Ltd. v. Van Breda 2012 SCC 17. On April 18, 2012, the Supreme Court of Canada clarified the standard for determining jurisdiction over foreign and out of province defendants, such as AIG, by holding that a defendant must have some form of "actual," as opposed to a merely "virtual," presence to be deemed to be "doing business" in the jurisdiction. The Supreme Court of Canada also suggested that in future cases, defendants may contest jurisdiction even when they are found to be doing business in a Canadian jurisdiction if their business activities in the jurisdiction are unrelated to the subject matter of the litigation. The matter has been stayed pending further developments in the Consolidated 2008 Securities Litigation. Plaintiff has not yet moved to lift the stay.

In plaintiff's proposed statement of claim, plaintiff alleged general and special damages of \$500 million and punitive damages of \$50 million plus prejudgment interest or such other sums as the Court finds appropriate. As of November 3, 2014, the Court has not determined whether it has jurisdiction or granted plaintiff's application to file a statement of claim, no merits discovery has occurred and the action has been stayed. As a result, we are unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

Starr International Litigation

Transfers of Level 3 Liabilities

On November 21, 2011, Starr International Company, Inc. (SICO) filed a complaint against the United States in the United States Court of Federal Claims (the Court of Federal Claims), bringing claims, both individually and on behalf of the classes defined below and derivatively on behalf of AIG (the SICO Treasury Action). The complaint challenges the government's assistance of AIG, pursuant to which AIG entered into a credit facility with the Federal Reserve Bank of New York (the FRBNY, and such credit facility, the FRBNY Credit Facility) and the United States received an approximately 80 percent ownership in AIG. The complaint alleges that the interest rate imposed on AIG and the appropriation of approximately 80 percent of AIG's equity was discriminatory, unprecedented, and inconsistent with liquidity assistance offered by the government to other comparable firms at the time and violated the Equal Protection, Due Process, and Takings Clauses of the U.S. Constitution.

In rulings dated July 2, 2012 and September 17, 2012, the Court of Federal Claims largely denied the United States' motion to dismiss in the SICO Treasury Action.

In the SICO Treasury Action, the only claims naming AIG as a party (as a nominal defendant) are derivative claims on behalf of AIG. On September 21, 2012, SICO made a pre litigation demand on our Board demanding that we pursue the derivative claims or allow SICO to pursue the claims on our behalf. On January 9, 2013, our Board unanimously refused SICO's demand in its entirety and on January 23, 2013, counsel for the Board sent a letter to counsel for SICO describing the process by which our Board considered and refused SICO's demand and stating the reasons for our Board's determination.

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On March 11, 2013, SICO filed a second amended complaint in the SICO Treasury Action alleging that its demand was wrongfully refused. On June 26, 2013, the Court of Federal Claims granted AIG's and the United States' motions to dismiss SICO's derivative claims in the SICO Treasury Action and denied the United States' motion to dismiss SICO's direct claims.

On March 11, 2013, the Court of Federal Claims in the SICO Treasury Action granted SICO's motion for class certification of two classes with respect to SICO's non derivative claims: (1) persons and entities who held shares of AIG Common Stock on or before September 16, 2008 and who owned those shares on September 22, 2008; and (2) persons and entities who owned shares of AIG Common Stock on June 30, 2009 and were eligible to vote those shares at AIG's June 30, 2009 annual meeting of shareholders. SICO has provided notice of class certification to potential members of the classes, who, pursuant to a court order issued on April 25, 2013, had to return opt in consent forms by September 16, 2013 to participate in either class. On November 15, 2013, SICO informed the Court that 286,892 holders of AIG Common Stock during the two class periods had opted into the classes.

While no longer a party to the SICO Treasury Action, AIG understands that SICO is seeking significant damages. Trial in the SICO Treasury Action began in the Court of Federal Claims on September 29, 2014.

The United States has alleged, as an affirmative defense in its answer, that AIG is obligated to indemnify the FRBNY and its representatives, including the Federal Reserve Board of Governors and the United States (as the FRBNY's principal), for any recovery in the SICO Treasury Action, and seeks a contingent offset or recoupment for the value of net operating loss benefits the United States alleges that we received as a result of the government's assistance. On November 8, 2013, the Court denied a motion by SICO to strike the United States' affirmative defenses of indemnification and contingent offset or recoupment.

A determination that the United States is liable for damages, together with a determination that AIG is obligated to indemnify the United States for any such damages, could have a material adverse effect on our business, consolidated financial condition and results of operations.

False Claims Act Complaint

On February 25, 2010, a complaint was filed in the United States District Court for the Southern District of California by two individuals (Relators) seeking to assert claims on behalf of the United States against AIG and certain other defendants, including Goldman Sachs and Deutsche Bank, under the False Claims Act. Relators filed a first amended complaint on September 30, 2010, adding certain additional defendants, including Bank of America and Société Générale. The first amended complaint alleged that defendants

engaged in fraudulent business practices in respect of their activities in the over-the-counter market for collateralized debt obligations, and submitted false claims to the United States in connection with the FRBNY Credit Facility and Maiden Lane II LLC (ML II) and Maiden Lane III LLC entities (the Maiden Lane Interests) through, among other things, misrepresenting AIG's ability and intent to repay amounts drawn on the FRBNY Credit Facility, and misrepresenting the value of the securities that the Maiden Lane Interests acquired from AIG and certain of its counterparties. The first amended complaint sought unspecified damages pursuant to the False Claims Act in the amount of three times the damages allegedly sustained by the United States as well as interest, attorneys' fees, costs and expenses. The complaint and the first amended complaint were initially filed and maintained under seal while the United States considered whether to intervene in the action. On or about April 28, 2011, after the United States declined to intervene, the District Court lifted the seal, and Relators served the first amended complaint on AIG on July 11, 2011. On April 19, 2013, the Court granted AIG's motion to dismiss, dismissing the first amended complaint in its entirety, without prejudice, giving the Relators the opportunity to file a second amended complaint. On May 24, 2013, the Relators filed a second amended complaint, which attempted to plead the same claims as the prior complaints and did not specify an amount of alleged damages. AIG and its co-defendants filed motions to dismiss the second amended complaint on August 9, 2013. On March 29, 2014, the Court dismissed the second amended complaint with prejudice. On April 30, 2014, the Relators filed a Notice of Appeal to the Ninth Circuit. We are unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

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Litigation Matters Relating to AIG's Insurance Operations

Caremark. AIG and certain of its subsidiaries have been named defendants in two putative class actions in state court in Alabama that arise out of the 1999 settlement of class and derivative litigation involving Caremark Rx, Inc. (Caremark). The plaintiffs in the second filed action intervened in the first filed action, and the second filed action was dismissed. An excess policy issued by a subsidiary of AIG with respect to the 1999 litigation was expressly stated to be without limit of liability. In the current actions, plaintiffs allege that the judge approving the 1999 settlement was misled as to the extent of available insurance coverage and would not have approved the settlement had he known of the existence and/or unlimited nature of the excess policy. They further allege that AIG, its subsidiaries, and Caremark are liable for fraud and suppression for misrepresenting and/or concealing the nature and extent of coverage.

The complaints filed by the plaintiffs and the intervenors request compensatory damages for the 1999 class in the amount of \$3.2 billion, plus punitive damages. AIG and its subsidiaries deny the allegations of fraud and suppression, assert that information concerning the excess policy was publicly disclosed months prior to the approval of the settlement, that the claims are barred by the statute of limitations, and that the statute cannot be tolled in light of the public disclosure of the excess coverage. The plaintiffs and intervenors, in turn, have asserted that the disclosure was insufficient to inform them of the nature of the coverage and did not start the running of the statute of limitations.

On August 15, 2012, the trial court entered an order granting plaintiffs' motion for class certification, and on September 12, 2014, the Alabama Supreme Court affirmed that order. AIG and the other defendants have petitioned for rehearing of that decision. Absent further review of the class certification order, the matter will return to the trial court for general discovery (which has not yet commenced) and adjudication of the merits. AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

Regulatory and Related Matters

In connection with a multi state examination of certain accident and health products, including travel products, issued by National Union Fire Insurance Company of Pittsburgh, Pa. (National Union), AIG Property Casualty Inc. (formerly Chartis Inc.), on behalf of itself, National Union, and certain of AIG Property Casualty Inc.'s insurance and non insurance companies (collectively, the AIG PC parties) entered into a Regulatory Settlement Agreement with regulators from 50 U.S. jurisdictions effective November 29, 2012. Under the agreement, and without admitting any liability for the issues raised in the examination, the AIG PC parties (i) paid a civil penalty of \$50 million, (ii) entered into a corrective action plan describing

agreed upon specific steps and standards for evaluating the AIG PC parties' ongoing compliance with laws and regulations governing the issues identified in the examination, and (iii) agreed to pay a contingent fine in the event that the AIG PC parties fail to satisfy certain terms of the corrective action plan. National Union and other AIG companies are also currently subject to civil litigation relating to the conduct of their accident and health business, and may be subject to additional litigation relating to the conduct of such business from time to time in the ordinary course. There can be no assurance that any regulatory action resulting from the issues identified will not have a material adverse effect on our ongoing operations of the business subject to the agreement, or on similar business written by other AIG carriers.

Industry wide examinations conducted by the Minnesota Department of Insurance and the Department of Housing and Urban Development (HUD) on captive reinsurance practices by lenders and mortgage insurance com