AMERICAN INTERNATIONAL GROUP INC
Form 10-Q
August 04, 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 June 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 (Do not check if a smaller reporting company)	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 July 30, 2014, there were 1,426,883,895 shares outstanding of the registrant's common stock.

AMERICAN INTERNATIONAL GROUP, INC.

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

June 30, 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 - $248,923; 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 - $2,073; 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 - $8,869; 2013 - $8,598)

Short-term investments (portion measured at fair value: 2014 - $4,310; 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 $1,206 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 - $898; 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 - $569; 2013 - $933)
Long-term debt (portion measured at fair value: 2014 - $5,824; 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 - 1,906,662,562 and 2013 - 1,906,645,689
Treasury stock, at cost; 2014 - 478,087,172 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.

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Item 1 / Financial statements

American International Group, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME *(unaudited)*

	Three Months Ended June 30,	
(dollars in millions, except per share data)	**2014**	2013
Revenues:		
Premiums	$ **9,458**	$ 9,200
Policy fees	**701**	623
Net investment income	**3,884**	3,844
Net realized capital gains (losses):		
Total other-than-temporary impairments on available for sale securities	**(32)**	(17)
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income (loss)	**(16)**	(10)
Net other-than-temporary impairments on available for sale securities recognized in net income	**(48)**	(27)
Other realized capital gains (losses)	**149**	1,618
Total net realized capital gains (losses)	**101**	1,591
Aircraft leasing revenue	**489**	1,111
Other income	**1,472**	2,057
Total revenues	**16,105**	18,426
Benefits, claims and expenses:		
Policyholder benefits and claims incurred	**6,771**	8,090
Interest credited to policyholder account balances	**963**	972
Amortization of deferred acquisition costs	**1,396**	1,353
Other acquisition and insurance expenses	**2,213**	2,245
Interest expense	**463**	535
Aircraft leasing expenses	**489**	1,093
Loss on extinguishment of debt	**34**	38
Net (gain) loss on sale of divested businesses	**(2,174)**	47
Other expenses	**1,470**	888
Total benefits, claims and expenses	**11,625**	15,261
Income from continuing operations before income tax expense	**4,480**	3,165
Income tax expense	**1,474**	425
Income from continuing operations	**3,006**	2,740
Income (loss) from discontinued operations, net of income tax expense	**30**	18
Net income	**3,036**	2,758
Less:		
Net income (loss) from continuing operations attributable to		

noncontrolling interests		**(37)**		27
Net income attributable to AIG	**$**	**3,073**	$	2,731
Income (loss) per common share attributable to AIG:				
Basic:				
Income from continuing operations	**$**	**2.11**	$	1.84
Income (loss) from discontinued operations	**$**	**0.02**	$	0.01
Net income attributable to AIG	**$**	**2.13**	$	1.85
Diluted:				
Income from continuing operations	**$**	**2.08**	$	1.83
Income (loss) from discontinued operations	**$**	**0.02**	$	0.01
Net income attributable to AIG	**$**	**2.10**	$	1.84
Weighted average shares outstanding:				
Basic		**1,442,397,111**		1,476,512,720
Diluted		**1,464,676,330**		1,482,246,618
Dividends declared per common share	**$**	**0.125**	$	-

See accompanying Notes to Condensed Consolidated Financial Statements.

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American International Group, Inc.

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

	Three Months Ended June 30,		Six Month June	
(in millions)	**2014**	2013	**2014**	
Net income	**$ 3,036**	$ 2,758	**$ 4,648**	$
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	**26**	(87)	**115**	
Change in unrealized appreciation (depreciation) of all other investments	**2,355**	(4,446)	**5,140**	
Change in foreign currency translation adjustments	**47**	(305)	**(111)**	
Change in retirement plan liabilities adjustment	**(2)**	17	**7**	
Other comprehensive income (loss)	**2,426**	(4,821)	**5,151**	
Comprehensive income (loss)	**5,462**	(2,063)	**9,799**	
Comprehensive income (loss) attributable to noncontrolling interests	**(37)**	6	**(34)**	
Comprehensive income (loss) attributable to AIG	**$ 5,499**	$ (2,069)	**$ 9,833**	$

See accompanying Notes to Condensed Consolidated Financial Statements.

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American International Group, Inc.

CONDENSED Consolidated Statement of Equity *(unaudited)*

(in millions)	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total A Shar holde Equ
Six Months Ended June 30, 2014						
Balance, beginning of year	**$ 4,766**	**$ (14,520)**	**$ 80,899**	**$ 22,965**	**$ 6,360**	**$ 100,47**
Purchase of common stock	**-**	**(1,849)**	**-**	**-**	**-**	**(1,849**
Net income (loss) attributable to AIG or other noncontrolling interests	**-**	**-**	**-**	**4,682**	**-**	**4,68**
Dividends	**-**	**-**	**-**	**(361)**	**-**	**(36**
Other comprehensive income (loss)	**-**	**-**	**-**	**-**	**5,151**	**5,15**
Net decrease due to deconsolidation	**-**	**-**	**-**	**-**	**-**	
Contributions from noncontrolling interests	**-**	**-**	**-**	**-**	**-**	
Distributions to noncontrolling interests	**-**	**-**	**-**	**-**	**-**	
Other	**-**	**-**	**68**	**-**	**-**	**6**
Balance, end of period	**$ 4,766**	**$ (16,369)**	**$ 80,967**	**$ 27,286**	**$ 11,511**	**$ 108,16**
Six Months Ended June 30, 2013						
Balance, beginning of year	$ 4,766	$ (13,924)	$ 80,410	$ 14,176	$ 12,574	$ 98,00
Net income attributable to AIG or other noncontrolling interests	-	-	-	4,937	-	4,93
Other comprehensive loss	-	-	-	-	(5,535)	(5,535
Net increase due to consolidation	-	-	-	-	-	
Contributions from noncontrolling interests	-	-	-	-	-	
Distributions to noncontrolling interests	-	-	-	-	-	
Other	-	1	58	-	-	5
Balance, end of period	$ 4,766	$ (13,923)	$ 80,468	$ 19,113	$ 7,039	$ 97,46

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1 / Financial statements

American International Group, Inc.

CONDENSED Consolidated Statements of Cash Flows *(unaudited)*

Six Months Ended June 30, *(in millions)*	2014	2013
Cash flows from operating activities:		
Net income	$ 4,648	$ 4,989
(Income) loss from discontinued operations	17	(91)
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	(456)	(1,665)
Net (gain) loss on sale of divested businesses	(2,178)	47
Net losses on extinguishment of debt	272	378
Unrealized (gains) losses in earnings - net	127	(1,173)
Equity in income from equity method investments, net of dividends or distributions	(687)	(792)
Depreciation and other amortization	2,343	2,500
Impairments of assets	259	282
Changes in operating assets and liabilities:		
Property casualty and life insurance reserves	981	775
Premiums and other receivables and payables - net	(782)	(564)
Reinsurance assets and funds held under reinsurance treaties	(815)	(544)
Capitalization of deferred policy acquisition costs	(3,019)	(2,953)
Current and deferred income taxes - net	1,605	933
Other, net	(674)	(448)
Total adjustments	(3,024)	(3,224)
Net cash provided by operating activities	1,641	1,674
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales or distribution of:		
Available for sale investments	12,191	19,164
Other securities	2,744	2,850
Other invested assets	1,925	3,121
Divested businesses, net	2,348	-
Maturities of fixed maturity securities available for sale	11,460	12,517
Principal payments received on and sales of mortgage and other loans receivable	1,646	1,623
Purchases of:		
Available for sale investments	(22,186)	(35,522)
Other securities	(290)	(1,763)
Other invested assets	(2,236)	(3,434)

Mortgage and other loans receivable	**(3,445)**	(2,143)
Net change in restricted cash	**(628)**	1,216
Net change in short-term investments	**498**	8,863
Other, net	**(365)**	(421)
Net cash provided by investing activities	**3,662**	6,071
Cash flows from financing activities:		
Proceeds from (payments for)		
Policyholder contract deposits	**8,162**	6,757
Policyholder contract withdrawals	**(7,241)**	(8,066)
Issuance of long-term debt	**3,028**	2,338
Repayments of long-term debt	**(6,027)**	(8,319)
Purchase of Common Stock	**(1,849)**	-
Dividends paid	**(361)**	-
Other, net	**(1,514)**	235
Net cash used in financing activities	**(5,802)**	(7,055)
Effect of exchange rate changes on cash	**(3)**	(70)
Net increase (decrease) in cash	**(502)**	620
Cash at beginning of year	**2,241**	1,151
Change in cash of businesses held-for-sale	**88**	(9)
Cash at end of period	**$ 1,827**	$ 1,762

Supplementary Disclosure of Condensed Consolidated Cash Flow Information

Cash paid during the period for:		
Interest	**$ 1,727**	$ 2,408
Taxes	**$ 482**	$ 209
Non-cash investing/financing activities:		
Interest credited to policyholder contract deposits included in financing activities	**$ 1,937**	$ 1,980
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 June 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.

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, will be eligible for presentation as a discontinued operation if they meet the new definition. The standard also requires entities to provide disclosures about a 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 new 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 must be applied retrospectively or through a cumulative effect adjustment to retained earnings recognized 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 new 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 amendments are effective for interim and annual reporting periods beginning after December 15, 2014. Earlier adoption is not 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.

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Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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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 amendments are effective for interim and annual reporting periods beginning after December 15, 2015. Earlier 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. We do not expect the adoption of the standard to have a material effect 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.

The following tables present our operations by reportable segment:

	2014		2013	
Three Months Ended June 30,		Pre-tax Income (Loss)		Pre-tax
(in millions)	Total Revenues	from continuing operations	Total Revenues	from contin
AIG Property Casualty				
Commercial Insurance	$ 5,889	$ 863	$ 5,696	$
Consumer Insurance	3,342	157	3,347	
Other	719	470	758	

Total AIG Property Casualty		9,950		1,490		9,801	
AIG Life and Retirement							
Retail		2,972		738		3,439	
Institutional		1,598		511		2,609	
Total AIG Life and Retirement		4,570		1,249		6,048	
Other Operations							
Mortgage Guaranty		260		211		243	
Global Capital Markets		286		245		232	
Direct Investment book		365		272		815	
Corporate & Other		411		956		445	
Aircraft Leasing		489		-		1,111	
Consolidation and elimination		(7)		1		(10)	
Total Other Operations		1,804		1,685		2,836	
AIG Consolidation and elimination		(219)		56		(259)	
Total AIG Consolidated	$	16,105	$	4,480	$	18,426	$

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Item 1 / NOTE 3. SEGMENT INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

	2014		2013	
Six Months Ended June 30,		Pre-tax Income (Loss)		Pre-tax
(in millions)	Total Revenues	from continuing operations	Total Revenues	from contin
AIG Property Casualty				
Commercial Insurance	**$ 11,531**	**$ 1,576**	$ 11,469	$
Consumer Insurance	**6,600**	**184**	6,853	
Other	**1,485**	**1,039**	1,447	
Total AIG Property Casualty	**19,616**	**2,799**	19,769	
AIG Life and Retirement				
Retail	**5,738**	**1,403**	6,442	
Institutional	**3,183**	**1,078**	4,346	
Total AIG Life and Retirement	**8,921**	**2,481**	10,788	
Other Operations				
Mortgage Guaranty	**509**	**288**	474	
Global Capital Markets	**345**	**274**	505	
Direct Investment book	**830**	**627**	1,226	
Corporate & Other	**793**	**132**	906	
Aircraft Leasing	**1,602**	**17**	2,185	
Consolidation and elimination	**(15)**	**2**	(19)	
Total Other Operations	**4,064**	**1,340**	5,277	
AIG Consolidation and elimination	**(384)**	**133**	(446)	
Total AIG Consolidated	**$ 32,217**	**$ 6,753**	$ 35,388	$

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 three- and six-month periods ended June 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 June 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 June 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.

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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:

(in millions)		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

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:

(in millions)	Three Months Ended June 30,				Six Months Ended June 30,			
		2014		2013		**2014**		2013
Revenues:								
Gain on sale	**$**	**52**	$	28	**$**	**51**	$	145
Income from discontinued operations, before income tax expense		**52**		28		**51**		145

Income tax expense		**22**		10		**68**		54
Income (loss) from discontinued operations, net of income tax	**$**	**30**	$	18	**$**	**(17)**	$	91

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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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Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

June 30, 2014 *(in millions)*	Level 1	Level 2	Level 3	Counterparty Netting[a]	Cash Collateral
Assets:					
Bonds available for sale:					
U.S. government and government sponsored entities	$ 24	$ 2,801	$ -	$ -	$ -
Obligations of states, municipalities and political subdivisions	-	27,731	1,991	-	-
Non-U.S. governments	604	21,551	25	-	-
Corporate debt	-	147,560	2,196	-	-
RMBS	-	21,363	16,328	-	-
CMBS	-	6,477	5,917	-	-
CDO/ABS	-	4,305	7,431	-	-
Total bonds available for sale	628	231,788	33,888	-	-
Other bond securities:					
U.S. government and government sponsored entities	89	5,291	-	-	-
Obligations of states, municipalities and political subdivisions	-	123	-	-	-
Non-U.S. governments	-	2	-	-	-
Corporate debt	-	1,055	-	-	-
RMBS	-	1,216	1,062	-	-
CMBS	-	553	757	-	-
CDO/ABS	-	2,885	8,397	-	-
Total other bond securities	89	11,125	10,216	-	-
Equity securities available for sale:					
Common stock	3,253	2	-	-	-
Preferred stock	-	28	-	-	-
Mutual funds	763	2	-	-	-
Total equity securities available for sale	4,016	32	-	-	-
Other equity securities	653	71	-	-	-
Mortgage and other loans receivable	-	-	6	-	-
Other invested assets	25	3,020	5,824	-	-
Derivative assets:					

Interest rate contracts(b)	16	2,890	23	-	-
Foreign exchange contracts(b)	-	1,089	14	-	-
Equity contracts	110	22	93	-	-
Commodity contracts	-	-	1	-	-
Credit contracts	-	-	41	-	-
Other contracts	-	-	37	-	-
Counterparty netting and cash collateral	-	-	-	(1,801)	(918)
Total derivative assets	126	4,001	209	(1,801)	(918)
Short-term investments	595	3,715	-	-	-
Separate account assets	72,986	2,732	-	-	-
Other assets	-	-	-	-	-
Total	$ 79,118	$ 256,484	$ 50,143	$ (1,801)	$ (918) $ 3
Liabilities:					
Policyholder contract deposits	$ -	$ 56	$ 842	$ -	$ - $
Other policyholder funds	-	8	-	-	-

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Derivative liabilities:						
Interest rate contracts[b]	-	2,589	90	-	-	2,679
Foreign exchange contracts[b]	-	1,525	23	-	-	1,548
Equity contracts	1	93	2	-	-	96
Commodity contracts	-	4	-	-	-	4
Credit contracts	-	-	1,126	-	-	1,126
Other contracts	-	-	90	-	-	90
Counterparty netting and cash collateral	-	-	-	(1,801)	(1,326)	(3,127)
Total derivative liabilities	1	4,211	1,331	(1,801)	(1,326)	2,416
Long-term debt	-	5,430	394	-	-	5,824
Other liabilities	208	361	-	-	-	569
Total	$ 209	$ 10,066	$ 2,567	$ (1,801)	$ (1,326)	$ 9,715

December 31, 2013 *(in millions)*	Level 1	Level 2	Level 3	Counterparty Netting[a]	Cash Collateral
Assets:					
Bonds available for sale:					
U.S. government and government sponsored entities	$ 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	-	-	-

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 six-month periods ended June 30, 2014, we transferred $236 million and $298 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 six-month period ended June 30, 2014, we transferred $103 million of securities issued by the

U.S. government and government sponsored entities from Level 1 to Level 2. There were no material transfers during the three-month period ended June 30, 2014 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 six-month periods ended June 30, 2014.

During the three- and six-month periods ended June 30, 2013, we transferred $318 million and $557 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 six-month period ended June 30, 2013, we transferred $93 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 1 to Level 2 for U.S. government and government sponsored entities for the three-month period ended June 30, 2013. We had no material transfers from Level 2 to Level 1 during the three- and six-month periods ended June 30, 2013.

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Changes in Level 3 Recurring Fair Value Measurements

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

(in millions)	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 June 30, 2014					
Assets:					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions	**$ 2,042**	**$ -**	**$ 74**	**$ 7**	**$**
Non-U.S. governments	**17**	**-**	**-**	**4**	
Corporate debt	**1,815**	**9**	**33**	**(71)**	**7**
RMBS	**15,764**	**251**	**127**	**67**	**1**
CMBS	**5,741**	**17**	**129**	**(7)**	
CDO/ABS	**6,610**	**18**	**1**	**726**	**1**
Total bonds available for sale	**31,989**	**295**	**364**	**726**	**1,0**
Other bond securities:					
RMBS	**1,069**	**23**	**-**	**(32)**	
CMBS	**770**	**21**	**-**	**(40)**	
CDO/ABS	**8,498**	**334**	**-**	**(436)**	
Total other bond securities	**10,337**	**378**	**-**	**(508)**	
Equity securities available for sale:					
Common stock	**-**	**-**	**-**	**-**	
Preferred stock	**-**	**-**	**-**	**-**	
Total equity securities available for sale	**-**	**-**	**-**	**-**	
Mortgage and other loans receivable	**-**	**-**	**-**	**6**	
Other invested assets	**5,990**	**8**	**(5)**	**(15)**	
Total	**$ 48,316**	**$ 681**	**$ 359**	**$ 209**	**$ 1,0**

Liabilities:				
Policyholder contract deposits	$ (765) $	(58) $	(16) $	(3) $
Derivative liabilities, net:				
Interest rate contracts	(98)	8	-	23
Foreign exchange contracts	-	3	-	(12)
Equity contracts	88	11	-	(8)
Commodity contracts	1	-	-	-
Credit contracts	(1,185)	75	-	25
Other contracts	(109)	18	48	(10)
Total derivative liabilities, net	(1,303)	115	48	18
Long-term debt[(c)]	(403)	(5)	-	14
Total	$ (2,471) $	52 $	32 $	29 $

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(in millions)	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
Six Months Ended June 30, 2014					
Assets:					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions[(b)]	$ 1,080	$ -	$ 191	$ 853	$
Non-U.S. governments	16	-	(1)	6	
Corporate debt	1,255	6	53	(67)	1,3
RMBS	14,941	495	260	624	1
CMBS	5,735	23	240	(57)	
CDO/ABS	6,974	52	3	734	1
Total bonds available for sale	30,001	576	746	2,093	1,7
Other bond securities:					
RMBS	937	51	-	72	
CMBS	844	38	-	(131)	
CDO/ABS	8,834	669	-	(887)	
Total other bond securities	10,615	758	-	(946)	
Equity securities available for sale:					
Common stock	1	-	-	-	
Preferred stock	-	-	-	-	
Total equity securities available for sale	1	-	-	-	
Mortgage and other loans receivable	-	-	-	6	
Other invested assets	5,930	87	49	34	
Total	$ 46,547	$ 1,421	$ 795	$ 1,187	$ 1,8
Liabilities:					
Policyholder contract deposits	$ (312)	$ (532)	$ (24)	$ 26	$
Derivative liabilities, net:					
Interest rate contracts	(100)	2	-	32	
Foreign exchange contracts	-	3	-	(12)	
Equity contracts	49	8	-	(14)	
Commodity contracts	1	-	-	-	
Credit contracts	(1,280)	154	-	41	

Other contracts		**(109)**	**35**	**47**	**(26)**	
Total derivative liabilities, net		**(1,439)**	**202**	**47**	**21**	
Long-term debt[c]		**(370)**	**(8)**	**-**	**33**	**(7**
Total	**$**	**(2,121) $**	**(338) $**	**23 $**	**80 $**	**(2**

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(in millions)	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 June 30, 2013					
Assets:					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions	$ 1,019	$ 24	$ (145)	$ 69	$
Non-U.S. governments	18	(1)	-	4	
Corporate debt	1,449	-	(20)	8	2
RMBS	12,096	204	(144)	1,529	
CMBS	5,315	-	(121)	263	
CDO/ABS	5,577	72	(76)	381	1
Total bonds available for sale	25,474	299	(506)	2,254	4
Other bond securities:					
RMBS	730	(12)	-	64	
CMBS	776	(1)	-	(41)	
CDO/ABS	8,842	569	-	(572)	1
Total other bond securities	10,348	556	-	(549)	2
Equity securities available for sale:					
Common stock	22	(9)	6	57	
Preferred stock	49	-	(1)	-	
Total equity securities available for sale	71	(9)	5	57	
Other invested assets	5,467	108	23	42	2
Total	$ 41,360	$ 954	$ (478)	$ 1,804	$ 9
Liabilities:					
Policyholder contract deposits	$ (1,047)	$ 410	$ -	$ 51	$
Derivative liabilities, net:					
Interest rate contracts	756	3	-	20	
Equity contracts	66	8	-	(6)	
Commodity contracts	1	-	-	-	
Credit contracts	(1,775)	138	-	43	
Other contracts	(139)	13	8	13	
Total derivatives liabilities, net	(1,091)	162	8	70	

Long-term debt(c)		(407)	(15)	-	3
Total	$	(2,545) $	557 $	8 $	124 $

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(in millions)	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
Six Months Ended June 30, 2013					
Assets:					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions	$ 1,024	$ 25	$ (150)	$ 205	$
Non-U.S. governments	14	-	-	6	
Corporate debt	1,487	(4)	(14)	30	3
RMBS	11,662	408	339	1,266	
CMBS	5,124	11	20	188	1
CDO/ABS	4,841	97	-	1,020	3
Total bonds available for sale	24,152	537	195	2,715	8
Other bond securities:					
RMBS	396	10	-	138	2
CMBS	812	11	-	(140)	2
CDO/ABS	8,536	853	-	(1,009)	6
Total other bond securities	9,744	874	-	(1,011)	1,1
Equity securities available for sale:					
Common stock	24	-	5	47	
Preferred stock	44	-	4	-	
Total equity securities available for sale	68	-	9	47	
Other invested assets	5,389	169	10	40	3
Total	$ 39,353	$ 1,580	$ 214	$ 1,791	$ 2,3
Liabilities:					
Policyholder contract deposits	$ (1,257)	$ 615	$ -	$ 56	$
Derivative liabilities, net:					
Interest rate contracts	732	14	-	33	
Equity contracts	47	36	-	(14)	
Commodity contracts	1	-	-	(1)	
Credit contracts	(1,991)	313	-	84	
Other contracts	(162)	21	8	30	
Total derivatives liabilities, net	(1,373)	384	8	132	

Long-term debt[c]		(344)	(95)	-	22
Total	$	(2,974) $	904 $	8 $	210 $

(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:

(in millions)	Net Investment Income	Net Realized Capital Gains (Losses)	Other Income	Total
Three Months Ended June 30, 2014				
Bonds available for sale	**$ 298**	**$ (15)**	**$ 12**	**$ 295**
Other bond securities	**49**	**1**	**328**	**378**
Equity securities available for sale	**-**	**-**	**-**	**-**
Other invested assets	**12**	**(9)**	**5**	**8**
Policyholder contract deposits	**-**	**(58)**	**-**	**(58)**
Derivative liabilities, net	**16**	**8**	**91**	**115**
Long-term debt	**-**	**-**	**(5)**	**(5)**
Three Months Ended June 30, 2013				
Bonds available for sale	$ 239	$ 6	$ 54	$ 299
Other bond securities	(5)	-	561	556
Equity securities available for sale	-	(9)	-	(9)
Other invested assets	107	(22)	23	108
Policyholder contract deposits	-	410	-	410
Derivative liabilities, net	15	(5)	152	162
Long-term debt	-	-	(15)	(15)
Six Months Ended June 30, 2014				
Bonds available for sale	**$ 602**	**$ (51)**	**$ 25**	**$ 576**
Other bond securities	**100**	**2**	**656**	**758**
Equity securities available for sale	**-**	**-**	**-**	**-**
Other invested assets	**89**	**(13)**	**11**	**87**
Policyholder contract deposits	**-**	**(532)**	**-**	**(532)**
Derivative liabilities, net	**31**	**5**	**166**	**202**
Long-term debt	**-**	**-**	**(8)**	**(8)**
Six Months Ended June 30, 2013				
Bonds available for sale	$ 449	$ 13	$ 75	$ 537
Other bond securities	28	-	846	874
Equity securities available for sale	-	-	-	-
Other invested assets	154	(28)	43	169
Policyholder contract deposits	-	615	-	615
Derivative liabilities, net	15	17	352	384

Long-term debt	-	-	(95)	(95)

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

(in millions)	Purchases	Sales	Settlements	Purchase Sales, Issues a Settlements, Net
Three Months Ended June 30, 2014				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	**$ 48**	**$ (27)**	**$ (14)**	**$**
Non-U.S. governments	**5**	**-**	**(1)**	

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Corporate debt	**63**	**(1)**	**(133)**	
RMBS	**665**	**(11)**	**(587)**	
CMBS	**27**	**-**	**(34)**	
CDO/ABS	**892**	**(2)**	**(164)**	
Total bonds available for sale	**1,700**	**(41)**	**(933)**	
Other bond securities:				
RMBS	**21**	**(14)**	**(39)**	
CMBS	**-**	**-**	**(40)**	
CDO/ABS	**23**	**(8)**	**(451)**	**(**
Total other bond securities	**44**	**(22)**	**(530)**	**(**
Equity securities available for sale	**-**	**-**	**-**	
Mortgage and other loans receivable	**6**	**-**	**-**	
Other invested assets	**137**	**(1)**	**(151)**	
Total assets	**$ 1,887**	**$ (64)**	**$ (1,614)**	**$**
Liabilities:				
Policyholder contract deposits	**$ -**	**$ (46)**	**$ 43**	**$**
Derivative liabilities, net	**-**	**-**	**18**	
Long-term debt[(c)]	**-**	**-**	**14**	
Total liabilities	**$ -**	**$ (46)**	**$ 75**	**$**
Three Months Ended June 30, 2013				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 150	$ (81)	$ -	$
Non-U.S. governments	5	-	(1)	
Corporate debt	211	(114)	(89)	
RMBS	2,110	-	(581)	1
CMBS	320	(18)	(39)	
CDO/ABS	673	-	(292)	
Total bonds available for sale	3,469	(213)	(1,002)	2
Other bond securities:				
RMBS	108	-	(44)	
CMBS	-	-	(41)	
CDO/ABS	129	-	(701)	(
Total other bond securities	237	-	(786)	(
Equity securities available for sale	58	(1)	-	

Other invested assets		205		(16)		(147)		
Total assets	$	3,969	$	(230)	$	(1,935)	$	1
Liabilities:								
Policyholder contract deposits	$	-	$	(6)	$	57	$	
Derivative liabilities, net		2		3		65		
Long-term debt[(c)]		-		-		3		
Total liabilities	$	2	$	(3)	$	125	$	

								Purch
								Sales, Issue
(in millions)		Purchases		Sales		Settlements		Settlements,
Six Months Ended June 30, 2014								
Assets:								
Bonds available for sale:								
Obligations of states, municipalities and political subdivisions[(b)]	**$**	**936**	**$**	**(32)**	**$**	**(51)**	**$**	
Non-U.S. governments		**7**		**-**		**(1)**		

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Corporate debt		**119**		**(8)**		**(178)**		**(67)**
RMBS		**1,752**		**(26)**		**(1,102)**		**624**
CMBS		**92**		**(57)**		**(92)**		**(57)**
CDO/ABS		**1,222**		**(2)**		**(486)**		**734**
Total bonds available for sale		**4,128**		**(125)**		**(1,910)**		**2,093**
Other bond securities:								
RMBS		**162**		**(19)**		**(71)**		**72**
CMBS		**-**		**(6)**		**(125)**		**(131)**
CDO/ABS		**44**		**(15)**		**(916)**		**(887)**
Total other bond securities		**206**		**(40)**		**(1,112)**		**(946)**
Equity securities available for sale		**-**		**-**		**-**		**-**
Mortgage and other loans receivable		**6**		**-**		**-**		**6**
Other invested assets		**433**		**(1)**		**(398)**		**34**
Total assets	**$**	**4,773**	**$**	**(166)**	**$**	**(3,420)**	**$**	**1,187**
Liabilities:								
Policyholder contract deposits	**$**	**-**	**$**	**(58)**	**$**	**84**	**$**	**26**
Derivative liabilities, net		**1**		**-**		**20**		**21**
Long-term debt[(c)]		**-**		**-**		**33**		**33**
Total liabilities	**$**	**1**	**$**	**(58)**	**$**	**137**	**$**	**80**
Six Months Ended June 30, 2013								
Assets:								
Bonds available for sale:								
Obligations of states, municipalities and political subdivisions	$	308	$	(103)	$	-	$	205
Non-U.S. governments		8		-		(2)		6
Corporate debt		308		(114)		(164)		30
RMBS		2,712		(231)		(1,215)		1,266
CMBS		693		(164)		(341)		188
CDO/ABS		1,471		(159)		(292)		1,020
Total bonds available for sale		5,500		(771)		(2,014)		2,715
Other bond securities:								
RMBS		213		-		(75)		138
CMBS		19		(58)		(101)		(140)
CDO/ABS		318		-		(1,327)		(1,009)
Total other bond securities		550		(58)		(1,503)		(1,011)
Equity securities available for sale		59		(11)		(1)		47

Other invested assets		448		(46)		(362)		40
Total assets	$	6,557	$	(886)	$	(3,880)	$	1,791
Liabilities:								
Policyholder contract deposits	$	-	$	(12)	$	68	$	56
Derivative liabilities, net		5		(1)		128		132
Long-term debt[(c)]		-		-		22		22
Total liabilities	$	5	$	(13)	$	218	$	210

(a) There were no issuances during the three- and six-month periods ended June 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 June 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 $14 million and $37 million of net gains related to assets and liabilities transferred into Level 3 during the three- and six-month periods ended June 30, 2014, respectively, and includes $25 million and $2 million of net losses related to assets and liabilities transferred out of Level 3 during the three- and six-month periods ended June 30, 2014, respectively.

The Net realized and unrealized gains (losses) included in income or other comprehensive income as shown in the table above excludes $17 million of net gains and $55 million of net losses related to assets and liabilities transferred into Level 3 during the three- and six-month periods ended June 30, 2013, respectively, and includes $10 million and $12 million of net gains related to assets and liabilities transferred out of Level 3 during the three- and six-month periods ended June 30, 2013, respectively.

Transfers of Level 3 Assets

During the three- and six-month periods ended June 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 six-month periods ended June 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

There were no significant transfers of derivative or other liabilities into or out of Level 3 for the three- and six-month periods ended June 30, 2014 and 2013.

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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**:**

(in millions)		Fair Value at June 30, 2014	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:					
Obligations of states, municipalities and political subdivisions	$	1,099	Discounted cash flow	Yield[(b)]	4.14% - 4.90% (4.52%)
Corporate debt		1,365	Discounted cash flow	Yield[(b)]	0.00% - 7.99% (5.69%)
RMBS		16,844	Discounted cash flow	Constant prepayment rate[(a)(c)]	0.20% - 9.91% (5.05%)
				Loss severity[(a)(c)]	44.22% - 79.45% (61.83%)
				Constant default rate[(a)(c)]	3.90% - 11.11% (7.50%)
				Yield[(c)]	2.51% - 6.61% (4.56%)
Certain CDO/ABS		5,364	Discounted cash flow	Constant prepayment rate[(a)(c)]	6.10% - 11.30% (9.00%)
				Loss severity[(a)(c)]	46.20% - 60.90% (54.00%)

			Constant default rate[(a)(c)]	2.80% - 15.30% (8.40%)
			Yield[(c)]	4.90% - 10.40% (8.40%)
CMBS	6,142	Discounted cash flow	Yield[(b)]	0.00% - 13.53% (4.52%)
CDO/ABS - Direct Investment book	568	Binomial Expansion Technique (BET)	Recovery rate[(b)]	6.00% - 59.00% (24.00%)
			Diversity score[(b)]	6 - 30 (15.3)
			Weighted average life[(b)]	0.54 - 11.20 years (5.22 years)
Liabilities:				
Policyholder contract deposits	842	Discounted cash flow	Equity implied 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 liabilities, net	853	BET	Recovery rate[(b)]	6.00% - 32.00% (17.00%)
			Diversity score[(b)]	9 - 31 (14)
			Weighted average life[(b)]	3.82 - 11.20 years (6.16 years)

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(in millions)		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%)

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 deposits	312	Discounted cash flow	Equity implied 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 liabilities, net	996	BET	Recovery rate[b]	5.00% - 34.00% (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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Investments in Certain Entities Carried at Fair Value Using Net Asset Value Per Share

The following table includes information related to our investments in certain other invested assets, including private equity funds, hedge funds and other alternative investments that calculate net asset value per share (or its equivalent). For these investments, which are measured at fair value on a recurring basis, we use the net asset value per share as a practical expedient to measure fair value**.**

		June 30, 2014		December 31, 2013	
(in millions)	Investment Category Includes	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
Investment Category					
Private equity funds:					
Leveraged buyout	Debt and/or equity investments made as part of a transaction in which assets of mature companies are acquired from the current shareholders, typically with the use of financial leverage	**$ 2,462**	**$ 480**	$ 2,544	$ 578
Real Estate / Infrastructure	Investments in real estate properties and infrastructure positions, including power plants and other energy generating facilities	**396**	**266**	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	**141**	**10**	140	13

	offering or sale of the company				
Distressed	Securities of companies that are in default, under bankruptcy protection, or troubled	**168**	**46**	183	34
Other	Includes multi-strategy and mezzanine strategies	**174**	**234**	134	238
Total private equity funds		**3,341**	**1,036**	3,347	949
Hedge funds:					
Event-driven	Securities of companies undergoing material structural changes, including mergers, acquisitions and other reorganizations	**1,229**	**2**	976	2
Long-short	Securities that the manager believes are undervalued, with corresponding short positions to hedge market risk	**1,962**	**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	**479**	**-**	612	-
Distressed	Securities of companies that are in default, under bankruptcy protection or troubled	**645**	**22**	594	15
Emerging markets	Investments in the financial markets of developing countries	**302**	**-**	287	-
Other	Includes multi-strategy and relative value strategies	**169**	**-**	157	-
Total hedge funds		**4,786**	**28**	4,385	28
Total		**$ 8,127**	**$ 1,064**	$ 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 June 30, 2014, assuming average original expected lives of 10 years for the funds, 78 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, 16 percent between four and six years and 6 percent between seven and 10 years.

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The hedge fund investments included above are generally redeemable monthly (13 percent), quarterly (46 percent), semi annually (16 percent) and annually (25 percent), with redemption notices ranging from one day to 180 days. At June 30, 2014, however, investments representing approximately 49 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:

	Gain (Loss) Three Months Ended June 30,		Gain (Loss) Six Months Ended June 30,	
(in millions)	**2014**	2013	**2014**	2013
Assets:				
Mortgage and other loans receivable	**$ -**	$ 1	**$ -**	$ 2
Bond and equity securities	**611**	256	**1,277**	632
Alternative Investments[(a)]	**18**	122	**172**	206
Other, including Short-term investments	**2**	2	**5**	5
Liabilities:				
Long-term debt[(b)]	**(135)**	313	**(209)**	322
Other liabilities	**(2)**	(2)	**(6)**	(6)
Total gain	**$ 494**	$ 692	**$ 1,239**	$ 1,161

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

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

We recognized losses of $11 million and $22 million during the three- and six-month periods ended June 30, 2014, respectively, and gains of $19 million and losses of $15 million during the three- and six-month periods ended June 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:

	June 30, 2014			December 31, 2013		
(in millions)	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*	**$ 5,824**	**$ 4,393**	**$ 1,431**	$ 6,747	$ 5,231	$ 1,516

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

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Fair Value Measurements on a Non-Recurring Basis

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

	Assets at Fair Value Non-Recurring Basis				Impairment Charges Three Months Ended June 30,		Impairment Charges Six Months Ended June 30,	
(in millions)	Level 1	Level 2	Level 3	Total	**2014**	2013	**2014**	2013
June 30, 2014								
Other investments	**$ -**	**$ -**	**$ 1,445**	**$ 1,445**	**$ 20**	$ 36	**$ 55**	$ 72
Investments in life settlements	**-**	**-**	**399**	**399**	**45**	35	**87**	78
Other assets	**-**	**-**	**-**	**-**	**-**	11	**1**	24
Total	**$ -**	**$ -**	**$ 1,844**	**$ 1,844**	**$ 65**	$ 82	**$ 143**	$ 174
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:

	Estimated Fair Value				Carrying
(in millions)	Level 1	Level 2	Level 3	Total	Value
June 30, 2014					
Assets:					
Mortgage and other loans receivable	**$ -**	**$ 219**	**$ 23,598**	**$ 23,817**	**$ 22,931**
Other invested assets	**-**	**600**	**2,809**	**3,409**	**4,337**
Short-term investments	**-**	**16,578**	**-**	**16,578**	**16,578**
Cash	**1,827**	**-**	**-**	**1,827**	**1,827**

Liabilities:					
Policyholder contract deposits associated with investment-type contracts	**-**	**211**	**117,328**	**117,539**	**105,131**
Other liabilities	**-**	**3,993**	**-**	**3,993**	**3,993**
Long-term debt	**-**	**33,665**	**3,538**	**37,203**	**32,590**
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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6. INVESTMENTS

Securities Available for Sale

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

(in millions)	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Oth T Imp i
June 30, 2014					
Bonds available for sale:					
U.S. government and government sponsored entities	**$ 2,652**	**$ 187**	**$ (14)**	**$ 2,825**	**$**
Obligations of states, municipalities and political subdivisions	**28,225**	**1,579**	**(82)**	**29,722**	
Non-U.S. governments	**21,391**	**946**	**(157)**	**22,180**	
Corporate debt	**139,393**	**11,181**	**(818)**	**149,756**	
Mortgage-backed, asset-backed and collateralized:					
RMBS	**34,369**	**3,599**	**(277)**	**37,691**	
CMBS	**11,705**	**791**	**(102)**	**12,394**	
CDO/ABS	**11,188**	**673**	**(125)**	**11,736**	
Total mortgage-backed, asset-backed and collateralized	**57,262**	**5,063**	**(504)**	**61,821**	
Total bonds available for sale[(b)]	**248,923**	**18,956**	**(1,575)**	**266,304**	
Equity securities available for sale:					
Common stock	**1,320**	**1,946**	**(11)**	**3,255**	
Preferred stock	**24**	**4**	**-**	**28**	
Mutual funds	**729**	**37**	**(1)**	**765**	
Total equity securities available for sale	**2,073**	**1,987**	**(12)**	**4,048**	
Total	**$ 250,996**	**$ 20,943**	**$ (1,587)**	**$ 270,352**	**$**
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 June 30, 2014 and December 31, 2013, bonds available for sale held by us that were below investment grade or not rated totaled $33.9 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	
(in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Unr
June 30, 2014						
Bonds available for sale:						
U.S. government and government sponsored entities	**$ 38**	**$ -**	**$ 416**	**$ 14**	**$ 454**	**$**
Obligations of states, municipalities and political subdivisions	**482**	**7**	**1,800**	**75**	**2,282**	
Non-U.S. governments	**1,815**	**22**	**2,211**	**135**	**4,026**	
Corporate debt	**5,007**	**62**	**17,957**	**756**	**22,964**	
RMBS	**2,681**	**42**	**4,882**	**235**	**7,563**	
CMBS	**108**	**1**	**2,566**	**101**	**2,674**	
CDO/ABS	**1,424**	**42**	**1,792**	**83**	**3,216**	
Total bonds available for sale	**11,555**	**176**	**31,624**	**1,399**	**43,179**	
Equity securities available for sale:						
Common stock	**133**	**10**	**4**	**1**	**137**	
Mutual funds	**77**	**1**	**26**	**-**	**103**	
Total equity securities available for sale	**210**	**11**	**30**	**1**	**240**	
Total	**$ 11,765**	**$ 187**	**$ 31,654**	**$ 1,400**	**$ 43,419**	**$**
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	
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 June 30, 2014, we held 5,018 and 109 individual fixed maturity and equity securities, respectively, that were in an unrealized loss position, of which 2,909 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 June 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

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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:

June 30, 2014	Total Fixed Maturity Securities Available for Sale		Fixed Maturity Securities in a Loss Position Available for Sale	
(in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 10,262	$ 10,453	$ 617	$ 609
Due after one year through five years	50,469	53,409	4,752	4,683
Due after five years through ten years	67,282	71,508	11,107	10,809
Due after ten years	63,648	69,113	14,321	13,625
Mortgage-backed, asset-backed and collateralized	57,262	61,821	13,957	13,453
Total	$ 248,923	$ 266,304	$ 44,754	$ 43,179

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 June 30,				Six Months Ended June 30,			
	2014		2013		**2014**		2013	
(in millions)	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses
Fixed maturity securities	**$ 194**	**$ 13**	$ 1,329	$ 56	**$ 410**	**$ 44**	$ 1,700	$ 127
Equity securities	**39**	**4**	46	6	**69**	**6**	83	9
Total	**$ 233**	**$ 17**	$ 1,375	$ 62	**$ 479**	**$ 50**	$ 1,783	$ 136

For the three- and six-month periods ended June 30, 2014, the aggregate fair value of available for sale securities sold was $5.9 billion and $12.0 billion, respectively, which resulted in net realized capital gains of

$0.2 billion and $0.4 billion, respectively.

For the three- and six-month periods ended June 30, 2013, the aggregate fair value of available for sale securities sold was $12.2 billion and $19.2 billion, respectively, which resulted in net realized capital gains of $1.3 billion and $1.6 billion, respectively.

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Other Securities Measured at Fair Value

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

	June 30, 2014		December 31, 2013	
(in millions)	Fair Value	Percent of Total	Fair Value	Percent of Total
Fixed maturity securities:				
U.S. government and government sponsored entities	**$ 5,380**	**24 %**	$ 5,723	24 %
Obligations of states, municipalities and political subdivisions	**123**	**1**	121	1
Non-U.S. governments	**2**	**-**	2	-
Corporate debt	**1,055**	**5**	1,169	5
Mortgage-backed, asset-backed and collateralized:				
RMBS	**2,278**	**10**	2,263	10
CMBS	**1,310**	**6**	1,353	6
CDO/ABS and other collateralized*	**11,275**	**51**	11,985	51
Total mortgage-backed, asset-backed and collateralized	**14,863**	**67**	15,601	67
Other	**7**	**-**	7	-
Total fixed maturity securities	**21,430**	**97**	22,623	97
Equity securities	**724**	**3**	834	3
Total	**$ 22,154**	**100 %**	$ 23,457	100 %

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

Net Investment Income

The following table presents the components of Net investment income:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2014**	2013	**2014**	2013
Fixed maturity securities, including short-term investments	**$ 3,111**	$ 2,919	**$ 6,242**	$ 5,964

Equity securities	**17**	(12)	**(68)**	25
Interest on mortgage and other loans	**311**	290	**629**	570
Alternative investments*	**547**	738	**1,472**	1,604
Real estate	**33**	36	**61**	67
Other investments	**(2)**	28	**9**	81
Total investment income	**4,017**	3,999	**8,345**	8,311
Investment expenses	**133**	155	**265**	303
Net investment income	**$ 3,884**	$ 3,844	**$ 8,080**	$ 8,008

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

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Net Realized Capital Gains and Losses

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2014**	2013	**2014**	2013
Sales of fixed maturity securities	**$ 181**	$ 1,273	**$ 366**	$ 1,573
Sales of equity securities	**35**	40	**63**	74
Other-than-temporary impairments:				
Severity	**-**	(3)	**-**	(5)
Change in intent	**(1)**	-	**(6)**	(3)
Foreign currency declines	**(6)**	-	**(10)**	-
Issuer-specific credit events	**(44)**	(42)	**(93)**	(79)
Adverse projected cash flows	**(4)**	(1)	**(5)**	(7)
Provision for loan losses	**15**	(2)	**20**	(5)
Foreign exchange transactions	**(47)**	82	**(21)**	411
Derivative instruments	**12**	288	**(338)**	17
Impairments on investments in life settlements	**(45)**	(35)	**(87)**	(78)
Other	**5**	(9)	**(1)**	(7)
Net realized capital gains (losses)	**$ 101**	$ 1,591	**$ (112)**	$ 1,891

Change in Unrealized Appreciation (Depreciation) of Investments

The following table presents the increase (decrease) in unrealized appreciation (depreciation) of our available for sale securities and other investments:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2014**	2013	**2014**	2013
Increase (decrease) in unrealized appreciation (depreciation) of investments:				
Fixed maturity securities	**$ 3,644**	$ (10,123)	**$ 7,638**	$ (11,275)
Equity securities	**173**	(16)	**45**	(9)
Other investments	**(40)**	55	**33**	7

Total Increase (decrease) in unrealized appreciation (depreciation) of investments*	**$ 3,777**	$ (10,084)	**$ 7,716**	$ (11,277)

* 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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Credit Impairments

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2014**	2013	**2014**	2013
Balance, beginning of period	**$ 3,389**	$ 4,603	**$ 3,872**	$ 5,164
Increases due to:				
Credit impairments on new securities subject to impairment losses	**14**	10	**22**	27
Additional credit impairments on previously impaired securities	**18**	12	**54**	30
Reductions due to:				
Credit impaired securities fully disposed for which there was no prior intent or requirement to sell	**(82)**	(167)	**(412)**	(558)
Accretion on securities previously impaired due to credit*	**(173)**	(222)	**(361)**	(427)
Other	**-**	-	**(9)**	-
Balance, end of period	**$ 3,166**	$ 4,236	**$ 3,166**	$ 4,236

* 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:

(in millions)	At Date of Acquisition
Contractually required payments (principal and interest)	$ 28,482
Cash flows expected to be collected*	22,778
Recorded investment in acquired securities	15,049

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

(in millions)	**June 30, 2014**	December 31, 2013
Outstanding principal balance	**$ 16,272**	$ 14,741
Amortized cost		