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)**	**-**	**(361**
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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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards Adopted During 2014

Certain Obligations Resulting from Joint and Several Liability Arrangements

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

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

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

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

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

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Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

Investment Company Guidance

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

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

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

Presentation of Unrecognized Tax Benefits

In July 2013, the FASB issued an accounting standard that requires a liability related to unrecognized tax benefits to be presented as a reduction to the related deferred tax asset for a net operating loss carryforward or a tax credit carryforward. When the carryforwards are not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the applicable jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit will be presented in the financial statements as a liability and will not be combined with the related deferred tax asset.

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

Future Application of Accounting Standards

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure

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

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Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

Reporting Discontinued Operations

In April 2014, the FASB issued an accounting standard that changes the requirements for presenting a component or group of components of an entity as a discontinued operation and requires new disclosures. Under the standard, the disposal of a component or group of components of an entity should be reported as a discontinued operation if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Disposals of equity method investments, or those reported as held-for-sale, 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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Accounting for Share-Based Payments with Performance Targets

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

The 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, *(in millions)*	Total Revenues	Pre-tax Income (Loss) from continuing operations	Total Revenues	Pre-tax 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:

	Three Months Ended June 30,				Six Months Ended June 30,			
(in millions)		**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 ar 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	$

(in millions)		Purchases		Sales		Settlements	Purch Sales, Issue 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,		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	Un
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:

(in millions)	June 30, 2014 Fair Value	June 30, 2014 Percent of Total	December 31, 2013 Fair Value	December 31, 2013 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:

(in millions)	Three Months Ended June 30, **2014**	Three Months Ended June 30, 2013	Six Months Ended June 30, **2014**	Six Months Ended June 30, 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	**11,559**	10,110
Fair value	**12,998**	11,338

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2014**	2013	**2014**	2013
Balance, beginning of period	**$ 7,170**	$ 5,114	**$ 6,940**	$ 4,766
Newly purchased PCI securities	**247**	761	**769**	1,106
Disposals	**-**	-	**-**	(60)
Accretion	**(219)**	(170)	**(431)**	(330)
Effect of changes in interest rate indices	**(172)**	22	**(231)**	106
Net reclassification from (to) non-accretable difference, including effects of prepayments	**16**	174	**(5)**	313
Balance, end of period	**$ 7,042**	$ 5,901	**$ 7,042**	$ 5,901

Pledged Investments

Secured Financing and Similar Arrangements

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

Secured financing transactions also include securities sold under agreements to repurchase (repurchase agreements), in which we transfer securities in exchange for cash, with an agreement by us to repurchase the same or substantially similar securities. In the majority of these repurchase agreements, the securities transferred by us may be sold or repledged by the counterparties. Repurchase agreements entered into by the DIB are carried at fair value based on market-observable interest rates. All other repurchase agreements are recorded at their contracted repurchase amounts plus accrued interest.

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

(in millions)	**June 30, 2014**	December 31, 2013
Securities available for sale	**$ 2,946**	$ 3,907
Other securities	**2,500**	2,766

We also enter into agreements in which securities are purchased by us under agreements to resell (reverse repurchase agreements), which are accounted for as secured financing transactions and reported as short-term investments or other assets, depending on their terms. These agreements are recorded at their contracted resale amounts plus accrued interest, other than those that are accounted for at fair value. Such agreements entered into by the DIB are carried at fair value based on market observable interest rates. In all reverse repurchase transactions, we take possession of or obtain a security interest in the related securities, and we have the right to sell or repledge this collateral received.

The following table presents information on the fair value of securities pledged to us under reverse repurchase agreements:

(in millions)	**June 30, 2014**	December 31, 2013
Securities collateral pledged to us	**$ 9,438**	$ 8,878
Amount repledged by us	**219**	71

Insurance - Statutory and Other Deposits

Total carrying values of cash and securities deposited by our insurance subsidiaries under requirements of regulatory authorities or other insurance-related arrangements, including certain annuity-related obligations and certain reinsurance treaties, were $6.4 billion and $6.7 billion at June 30, 2014 and December 31, 2013, respectively.

Other Pledges

Certain of our subsidiaries are members of Federal Home Loan Banks (FHLBs) and such membership requires the members to own stock in these FHLBs. We owned an aggregate of $56 million and $57 million of stock in FHLBs at June 30, 2014 and December 31, 2013, respectively. In addition, our subsidiaries have pledged securities available for sale with a fair value of $533 million and $80 million at June 30, 2014 and December 31, 2013, respectively, associated with advances from the FHLBs.

Certain GIAs have provisions that require collateral to be posted or payments to be made by us upon a downgrade of our long-term debt ratings. The actual amount of collateral required to be posted to the counterparties in the event of such downgrades, and the aggregate amount of payments that we could be required to make, depend on market conditions, the fair value of outstanding affected transactions and other factors prevailing at and after the time of the downgrade. The fair value of securities pledged as collateral with respect to these obligations approximated $3.6 billion and $4.2 billion at June 30, 2014 and December 31, 2013, respectively. This collateral primarily consists of securities of the U.S. government and government sponsored entities and generally cannot be repledged or resold by the counterparties.

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7. LENDING ACTIVITIES

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

(in millions)	**June 30, 2014**	December 31, 2013
Commercial mortgages*	**$ 17,499**	$ 16,195
Life insurance policy loans	**2,769**	2,830
Commercial loans, other loans and notes receivable	**2,950**	2,052
Total mortgage and other loans receivable	**23,218**	21,077
Allowance for losses	**(281)**	(312)
Mortgage and other loans receivable, net	**$ 22,937**	$ 20,765

* Commercial mortgages primarily represent loans for office, retail and industrial properties, with exposures in California and New York representing the largest geographic concentrations (aggregating approximately 15 percent and 17 percent, respectively, at June 30, 2014, and approximately 18 percent and 17 percent, respectively, at December 31, 2013).

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

	Number of			Class					Percent of
(dollars in millions)	Loans	Apartments	Offices	Retail	Industrial	Hotel	Others	Total[(c)]	Total $
June 30, 2014									
Credit Quality Indicator:									
In good standing	**991**	**$ 3,219**	**$ 5,017**	**$ 3,818**	**$ 1,714**	**$ 1,433**	**$ 1,858**	**$ 17,059**	**98 %**
Restructured[(a)]	**9**	**54**	**285**	**7**	**-**	**-**	**83**	**429**	**2**
90 days or less delinquent	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
>90 days delinquent or in process of foreclosure	**3**	**-**	**11**	**-**	**-**	**-**	**-**	**11**	**-**
Total[(b)]	**1,004**	**$ 3,273**	**$ 5,313**	**$ 3,825**	**$ 1,714**	**$ 1,433**	**$ 1,941**	**$ 17,499**	**100 %**
Valuation allowance		**$ 11**	**$ 102**	**$ 7**	**$ 20**	**$ 6**	**$ 42**	**$ 188**	**1 %**
December 31, 2013									
Credit Quality Indicator:									
In good standing	978	$ 2,786	$ 4,636	$ 3,364	$ 1,607	$ 1,431	$ 1,970	$ 15,794	98 %
Restructured[(a)]	9	53	210	6	-	-	85	354	2
90 days or less delinquent	2	-	-	5	-	-	-	5	-

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

(a) Loans that have been modified in troubled debt restructurings and are performing according to their restructured terms. For additional discussion of troubled debt restructurings see Note 7 to the Consolidated Financial Statements in the 2013 Annual Report.

(b) Does not reflect valuation allowances.

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

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Allowance for Loan Losses

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

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

	2014			2013		
Six Months Ended June 30,	Commercial	Other		Commercial	Other	
(in millions)	Mortgages	Loans	Total	Mortgages	Loans	Total
Allowance, beginning of year	**$ 201**	**$ 111**	**$ 312**	$ 159	$ 246	$ 405
Loans charged off	**(5)**	**(13)**	**(18)**	-	(26)	(26)
Recoveries of loans previously charged off	**-**	**16**	**16**	3	2	5
Net charge-offs	**(5)**	**3**	**(2)**	3	(24)	(21)
Provision for loan losses	**(8)**	**(22)**	**(30)**	8	(6)	2
Other	**-**	**1**	**1**	-	(5)	(5)
Allowance, end of period	**$ 188***	**$ 93**	**$ 281**	$ 170*	$ 211	$ 381

* Of the total allowance at the end of the period, $88 million and $58 million relates to individually assessed credit losses on $240 million and $131 million of commercial mortgage loans at June 30, 2014 and 2013, respectively.

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

8. VARIABLE INTEREST ENTITIES

We enter into various arrangements with variable interest entities (VIEs) in the normal course of business and consolidate the VIEs when we determine we are the primary beneficiary. This analysis includes a review of the VIE's capital structure, contractual relationships and terms, nature of the VIE's operations and purpose, nature of the VIE's interests issued and our involvement with the entity. When assessing the need to consolidate a VIE, we evaluate the design of the VIE as well as the related risks the entity was designed to expose the variable interest holders to.

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

For all other VIEs, the primary beneficiary is the entity that has both (1) the power to direct the activities of the VIE that most significantly affect the VIE's economic performance and (2) the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. While also considering these factors, the consolidation conclusion depends on the breadth of our decision-making ability and our ability to influence activities that significantly affect the economic performance of the VIE.

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Balance Sheet Classification and Exposure to Loss

The following table presents the total assets and total liabilities associated with our variable interests in consolidated VIEs, as classified in the Condensed Consolidated Balance Sheets:

(in millions)	Real Estate and Investment Funds[e]	Securitization Vehicles	Structured Investment Vehicles	Affordable Housing Partnerships	Other	Total
June 30, 2014						
Assets:						
Bonds available for sale	**$ -**	**$ 11,502**	**$ -**	**$ -**	**$ 42**	**$ 11,544**
Other bond securities	**-**	**7,816**	**726**	**-**	**79**	**8,621**
Mortgage and other loans receivable	**-**	**1,681**	**-**	**-**	**176**	**1,857**
Other invested assets	**594**	**-**	**-**	**1,832**	**733**	**3,159**
Other [a]	**40**	**734**	**66**	**40**	**625**	**1,505**
Total assets[b][c]	**$ 634**	**$ 21,733**	**$ 792**	**$ 1,872**	**$ 1,655**	**$ 26,686**
Liabilities:						
Long-term debt	**$ 70**	**$ 1,223**	**$ 98**	**$ 184**	**$ 105**	**$ 1,680**
Other [d]	**32**	**116**	**-**	**92**	**201**	**441**
Total liabilities	**$ 102**	**$ 1,339**	**$ 98**	**$ 276**	**$ 306**	**$ 2,121**
December 31, 2013						
Assets:						
Bonds available for sale	$ -	$ 11,028	$ -	$ -	$ 70	$ 11,098
Other bond securities	-	7,449	748	-	113	8,310
Mortgage and other loans receivable	-	1,508	-	-	189	1,697
Other invested assets	849	-	-	1,986	793	3,628
Other [a]	49	481	93	41	615	1,279
Total assets[b][c]	$ 898	$ 20,466	$ 841	$ 2,027	$ 1,780	$ 26,012
Liabilities:						
Long-term debt	$ 71	$ 494	$ 87	$ 188	$ 154	$ 994
Other[d]	31	74	-	83	367	555
Total liabilities	$ 102	$ 568	$ 87	$ 271	$ 521	$ 1,549

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

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

(c) At June 30, 2014 and December 31, 2013, includes approximately $21.6 billion and $21.4 billion, respectively, of investment-grade debt securities, loans and other assets held by certain securitization vehicles that issued beneficial interests in these investments. The majority of the beneficial interests issued are held by AIG.

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

(e) At June 30, 2014 and December 31, 2013, off-balance sheet exposure, primarily consisting of commitments to real estate and investment funds, was $61.8 million and $50.8 million, respectively.

We calculate our maximum exposure to loss to be (i) the amount invested in the debt or equity of the VIE, (ii) the notional amount of VIE assets or liabilities where we have also provided credit protection to the VIE with the VIE as the referenced obligation, and (iii) other commitments and guarantees to the VIE. Interest holders in VIEs sponsored by us generally have recourse only to the assets and cash flows of the VIEs and do not have recourse to us, except in limited circumstances when we have provided a guarantee to the VIE's interest holders.

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The following table presents total assets of unconsolidated VIEs in which we hold a variable interest, as well as our maximum exposure to loss associated with these VIEs:

		Maximum Exposure to Loss		
(in millions)	Total VIE Assets	On-Balance Sheet*	Off-Balance Sheet	Total
June 30, 2014				
Real estate and investment funds	**$ 20,010**	**$ 2,599**	**$ 402**	**$ 3,001**
Affordable housing partnerships	**477**	**476**	**-**	**476**
Other	**633**	**39**	**-**	**39**
Total	**$ 21,120**	**$ 3,114**	**$ 402**	**$ 3,516**
December 31, 2013				
Real estate and investment funds	$ 17,572	$ 2,343	$ 289	$ 2,632
Affordable housing partnerships	478	477	-	477
Other	708	37	-	37
Total	$ 18,758	$ 2,857	$ 289	$ 3,146

* At June 30, 2014 and December 31, 2013, $3.1 billion and $2.8 billion, respectively, of our total unconsolidated VIE assets were recorded as Other invested assets.

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

9. DERIVATIVES AND HEDGE ACCOUNTING

We use derivatives and other financial instruments as part of our financial risk management programs and as part of our investment operations. See Note 11 to the Consolidated Financial Statements in the 2013 Annual Report for a discussion of our accounting policies and procedures regarding derivatives and hedge accounting.

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

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

	June 30, 2014				December 31, 2013			
	Gross Derivative Assets		Gross Derivative Liabilities		Gross Derivative Assets		Gross Derivative Liabilities	
(in millions)	Notional Amount	Fair Value[a]	Notional Amount	Fair Value[a]	Notional Amount	Fair Value[a]	Notional Amount	Fair Value[a]
Derivatives designated as hedging instruments:								
Interest rate contracts	**$ -**	**$ -**	**$ 25**	**$ 1**	$ -	$ -	$ 112	$ 15
Foreign exchange contracts	**779**	**9**	**1,304**	**122**	-	-	1,857	190
Equity contracts	**16**	**1**	**192**	**6**	-	-	-	-
Derivatives not designated as hedging instruments:								
Interest rate contracts	**43,171**	**2,929**	**45,072**	**2,733**	50,897	3,771	59,585	3,849
Foreign exchange contracts	**10,563**	**1,094**	**14,720**	**1,426**	1,774	52	3,789	129
Equity contracts[b]	**6,326**	**224**	**37,077**	**945**	29,296	413	9,840	524
Commodity contracts	**16**	**1**	**13**	**4**	17	1	13	5
Credit contracts	**60**	**41**	**14,978**	**1,126**	70	55	15,459	1,335
Other contracts[c]	**34,076**	**37**	**479**	**90**	32,440	34	1,408	167
Total derivatives not designated as hedging instruments	**94,212**	**4,326**	**112,339**	**6,324**	114,494	4,326	90,094	6,009
Total derivatives, gross	**$ 95,007**	**$ 4,336**	**$ 113,860**	**$ 6,453**	$ 114,494	$ 4,326	$ 92,063	$ 6,214

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

(b) Notional amount of derivative assets and fair value of derivative assets were both zero at June 30, 2014 and were $23.2 billion and $107 million at December 31, 2013, respectively, related to bifurcated embedded derivatives. Notional amount of derivative liabilities and fair value of derivative liabilities include $33.5 billion and $855 million, respectively, at June 30, 2014, and $6.7 billion and $424 million, respectively, at December 31, 2013, related to bifurcated embedded derivatives. A bifurcated embedded derivative is generally presented with the host contract in the Condensed Consolidated Balance Sheets.

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

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

	June 30, 2014				December 31, 201		
	Derivative Assets		Derivative Liabilities		Derivative Assets		Derivati
(in millions)	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value	Notion Amou
Global Capital Markets derivatives:							
AIG Financial Products	**$ 37,422**	**$ 2,527**	**$ 48,856**	**$ 3,224**	$ 41,942	$ 2,567	$ 52,67
AIG Markets	**15,922**	**1,135**	**20,553**	**1,602**	12,531	964	23,71
Total Global Capital Markets derivatives	**53,344**	**3,662**	**69,409**	**4,826**	54,473	3,531	76,39
Non-Global Capital Markets derivatives[(a)]	**41,663**	**674**	**44,451**	**1,627**	60,021	795	15,66
Total derivatives, gross	**$ 95,007**	**4,336**	**$ 113,860**	**6,453**	$ 114,494	4,326	$ 92,06
Counterparty netting[(b)]		**(1,801)**		**(1,801)**		(1,734)	
Cash collateral[(c)]		**(918)**		**(1,326)**		(820)	
Total derivatives, net		**1,617**		**3,326**		1,772	
Less: Bifurcated embedded derivatives		**-**		**910**		107	
Total derivatives on consolidated balance sheet		**$ 1,617**		**$ 2,416**		$ 1,665	

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

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

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

Collateral

We engage in derivative transactions that are not subject to a clearing requirement directly with unaffiliated third parties, in most cases, under International Swaps and Derivatives Association, Inc. (ISDA) Master agreements. Many of the ISDA agreements also include Credit Support Annex (CSA) provisions, which provide for collateral postings that may vary at various ratings and threshold levels. We attempt to reduce our risk with certain counterparties by entering into agreements that enable collateral to be obtained from a counterparty on an upfront or contingent basis. We minimize the risk that counterparties to transactions might be unable to fulfill their contractual obligations by monitoring counterparty credit exposure and collateral value and generally requiring additional collateral to be posted upon the occurrence of certain events or circumstances. In addition, certain derivative transactions have provisions that require collateral to be posted upon a downgrade of our long term debt ratings or give the counterparty the right to terminate the transaction. In the case of some of the derivative transactions, upon a downgrade of our long term debt ratings, as an alternative to posting collateral and subject to certain conditions, we may assign the transaction to an obligor with higher debt ratings or arrange for a substitute guarantee of our obligations by an obligor with higher debt ratings or take other similar action. The actual amount of collateral required to be posted to counterparties in the event of such downgrades, or the aggregate amount of payments that we could be required to make, depends on market conditions, the fair value of outstanding affected transactions and other factors prevailing at and after the time of the downgrade.

Collateral posted by us to third parties for derivative transactions was $3.0 billion and $3.2 billion at June 30, 2014 and December 31, 2013, respectively. In the case of collateral posted under derivative transactions that are not subject to clearing, this collateral can generally be repledged or resold by the counterparties. Collateral provided to us from third parties for derivative transactions was $1.1 billion and $1.0 billion at June 30, 2014 and December 31, 2013, respectively. We generally can repledge or resell this collateral.

Offsetting

We have elected to present all derivative receivables and derivative payables, and the related cash collateral received and paid, on a net basis on our Condensed Consolidated Balance Sheets when a legally enforceable ISDA Master Agreement exists between us and our derivative counterparty. An ISDA Master

Agreement is an agreement governing multiple derivative transactions between two counterparties. The ISDA Master Agreement generally provides for the net settlement of all, or a specified group, of these derivative transactions, as well as cash collateral, through a single payment, and in a single currency, as applicable. The net settlement provisions apply in the event of a default on, or affecting any, one derivative transaction or a termination event affecting all, or a specified group of, derivative transactions governed by the ISDA Master Agreement.

Hedge Accounting

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

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We use foreign currency denominated debt and cross currency interest rate swaps as hedging instruments in net investment hedge relationships to mitigate the foreign exchange risk associated with our non U.S. dollar functional currency foreign subsidiaries. We assess the hedge effectiveness and measure the amount of ineffectiveness for these hedge relationships based on changes in spot exchange rates. For the three- and six-month periods ended June 30, 2014, we recognized gains of zero and $3 million, respectively, and for the three- and six-month periods ended June 30, 2013, we recognized losses of $35 million and gains of $95 million, respectively, included in Change in foreign currency translation adjustment in Other comprehensive income related to the net investment hedge relationships.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2014**	2013	**2014**	2013
Interest rate contracts:				
Gain (loss) recognized in earnings on derivatives[a]	**$ -**	$ -	**$ 2**	$ -
Gain recognized in earnings on hedged items[b]	**10**	23	**75**	53
Foreign exchange contracts:[c]				
Gain (loss) recognized in earnings on derivatives[d]	**32**	(35)	**56**	(40)
Gain (loss) recognized in earnings on hedged items[e]	**(28)**	43	**(60)**	47
Gain (loss) recognized in earnings for amounts excluded from effectiveness testing	**(4)**	8	**(12)**	7
Equity contracts:[f]				
Gain (loss) recognized in earnings on derivatives	**(14)**	-	**(14)**	-
Gain (loss) recognized in earnings on hedged items	**14**	-	**14**	-
Gain (loss) recognized in earnings for amounts excluded from effectiveness testing	**-**	-	**-**	-

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

(b) Includes gains of $10 million and $23 million for the three-month periods ended June 30, 2014 and 2013, respectively, and $28 million and $53 million for the six-month periods ended June 30, 2014 and 2013, respectively, representing the amortization of debt basis adjustment recorded in Other income and

Net realized capital gains (losses) following the discontinuation of hedge accounting. Also includes gains of $50 million for the six-month period ended June 30, 2014, recorded in Loss on extinguishment of debt, representing the release of debt basis following the repurchase of issued debt that was part of previously discontinued hedge accounting relationships.

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

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

(e) Includes gains of $9 million for both the three- and six-month periods ended June 30, 2014, representing the amortization of debt basis adjustment recorded in Other income and Net realized capital gains (losses) following the discontinuation of hedge accounting. All other gains and losses are recorded in Net realized capital gains (losses).

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

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Derivatives Not Designated as Hedging Instruments

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

	Gains (Losses) Recognized in Earnings			
	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2014**	2013	**2014**	2013
By Derivative Type:				
Interest rate contracts	**$ 48**	$ (69)	**$ 187**	$ (285)
Foreign exchange contracts	**37**	(8)	**23**	147
Equity contracts*	**11**	468	**(411)**	512
Commodity contracts	**-**	(2)	**1**	(2)
Credit contracts	**74**	138	**154**	313
Other contracts	**24**	16	**39**	60
Total	**$ 194**	$ 543	**$ (7)**	$ 745
By Classification:				
Policy fees	**$ 68**	$ 48	**$ 136**	$ 93
Net investment income	**12**	5	**26**	29
Net realized capital gains (losses)	**22**	276	**(315)**	-
Other income	**89**	219	**138**	631
Policyholder benefits and claims incurred	**3**	(5)	**8**	(8)
Total	**$ 194**	$ 543	**$ (7)**	$ 745

* Includes embedded derivative gains of $47 million and losses of $342 million for the three- and six-month periods ended June 30, 2014, respectively, and embedded derivative gains of $505 million and $760 million for the three- and six-month periods ended June 30, 2013, respectively.

Global Capital Markets Derivatives

Derivative transactions between AIG and its subsidiaries and third parties are generally centralized through GCM, specifically through the entity AIG Markets, Inc. (AIG Markets). The derivatives portfolio of AIG Markets consists primarily of interest rate and currency derivatives and also includes legacy credit derivatives that have been novated from AIG Financial Products Corp. and AIG Trading Group Inc. and their respective subsidiaries (collectively, AIGFP). AIGFP also enters into derivatives to mitigate market risk in its exposures (interest rates, currencies, credit, commodities and equities) arising from its portfolio of remaining transactions.

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

Super Senior Credit Default Swaps

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

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

	Net Notional Amount at		Fair Value of Derivative Liability at		Unrealized Market Valuation Gain			
					Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**June 30, 2014**	December 31, 2013	**June 30, 2014**	December 31, 2013	**2014**	2013	**2014**	2013
Arbitrage:								
Multi-sector CDOs[(a)]	**2,970**	3,257	**1,061**	1,249	**66**	126	**138**	281
Corporate debt/CLOs[(b)(c)]	**11,718**	11,832	**18**	28	**7**	5	**10**	21
Total	$ **14,688**	$ 15,089	$ **1,079**	$ 1,277	$ **73**	$ 131	$ **148**	$ 302

(a) During the six-month period ended June 30, 2014, we paid $50 million to counterparties with respect to multi sector CDOs, which was previously included in the fair value of the derivative liability as an unrealized market valuation loss. Collateral postings with regards to multi sector CDOs were $1.0 billion and $1.1 billion at June 30, 2014 and December 31, 2013, respectively.

(b) Corporate debt/Collateralized Loan Obligations (CLOs) include $887 million and $1.0 billion in net notional amount of credit default swaps written on the super senior tranches of CLOs at June 30, 2014 and December 31, 2013, respectively. Collateral postings with regards to corporate debt/CLOs were $336 million and $353 million at June 30, 2014 and December 31, 2013, respectively.

(c) See Note 17 for Corporate Debt Super Senior CDSs terminated subsequent to June 30, 2014.

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

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

Written Single Name Credit Default Swaps

We have legacy credit default swap contracts referencing single name exposures written on corporate, index and asset backed credits with the intention of earning spread income on credit exposure. Some of these transactions were entered into as part of a long short strategy to earn the net spread between CDSs written and purchased. At June 30, 2014 and December 31, 2013, the net notional amounts of these written CDS contracts were $293 million and $373 million, respectively, including ABS CDS transactions purchased from a liquidated multi sector super senior CDS transaction. These exposures were partially hedged by purchasing offsetting CDS contracts of $39 million and $50 million in net notional amounts at June 30, 2014 and December 31, 2013, respectively. The net unhedged positions of $254 million and $323 million at June 30, 2014 and December 31, 2013, respectively, represent the maximum exposure to loss on these CDS contracts. The average maturity of the written CDS contracts was three years at both June 30, 2014 and December 31, 2013. At June 30, 2014 and December 31, 2013, the fair values of derivative liabilities (which represents the carrying value) of the portfolio of CDS were $26 million and $32 million, respectively.

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

These CDS contracts were written under ISDA Master Agreements. The majority of these ISDA Master Agreements include credit support annexes (CSAs) that provide for collateral postings that may vary at various ratings and threshold levels. At June 30, 2014 and December 31, 2013, net collateral posted by us under these contracts was $32 million and $38 million, respectively, prior to offsets for other transactions.

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All Other Derivatives

Our businesses other than GCM also use derivatives and other instruments as part of their financial risk management. Interest rate derivatives (such as interest rate swaps) are used to manage interest rate risk associated with embedded derivatives contained in insurance contract liabilities, fixed maturity securities, outstanding medium and long term notes as well as other interest rate sensitive assets and liabilities. Foreign exchange derivatives (principally foreign exchange forwards and options) are used to economically mitigate risk associated with non U.S. dollar denominated debt, net capital exposures, and foreign currency transactions. Equity derivatives are used to mitigate financial risk embedded in certain insurance liabilities. The derivatives are effective economic hedges of the exposures that they are meant to offset.

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

Credit Risk-Related Contingent Features

The aggregate fair value of our derivative instruments that contain credit risk related contingent features that were in a net liability position at June 30, 2014 and December 31, 2013, was approximately $2.4 billion and $2.6 billion, respectively. The aggregate fair value of assets posted as collateral under these contracts at June 30, 2014 and December 31, 2013, was $3.0 billion and $3.1 billion, respectively.

We estimate that at June 30, 2014, based on our outstanding financial derivative transactions, a one notch downgrade of our long term senior debt ratings to BBB+ by Standard & Poor’s Financial Services LLC, a subsidiary of The McGraw Hill Companies, Inc. (S&P), would permit counterparties to make additional collateral calls and permit certain counterparties to elect early termination of contracts, resulting in a negligible amount of corresponding collateral postings and termination payments; a one notch downgrade to Baa2 by Moody’s Investors’ Service, Inc. (Moody’s) and an additional one notch downgrade to BBB by S&P would result in approximately $59 million in additional collateral postings and termination payments, and a further one notch downgrade to Baa3 by Moody’s and BBB by S&P would result in approximately $152 million in additional collateral postings and termination payments.

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

Hybrid Securities with Embedded Credit Derivatives

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

We elect to account for our investments in these hybrid securities with embedded written credit derivatives at fair value, with changes in fair value recognized in Net investment income and Other income. Our investments in these hybrid securities are

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reported as Other bond securities in the Consolidated Balance Sheets. The fair values of these hybrid securities were $6.2 billion and $6.4 billion at June 30, 2014 and December 31, 2013, respectively. These securities have par amounts of $12.7 billion and $13.4 billion at June 30, 2014 and December 31, 2013, respectively, and have remaining stated maturity dates that extend to 2052.

10. CONTINGENCIES, COMMITMENTS AND GUARANTEES

In the normal course of business, various contingent liabilities and commitments are entered into by AIG and our subsidiaries. In addition, AIG Parent guarantees various obligations of certain subsidiaries.

Although AIG cannot currently quantify its ultimate liability for unresolved litigation and investigation matters, including those referred to below, it is possible that such liability could have a material adverse effect on AIG's consolidated financial condition or its consolidated results of operations or consolidated cash flows for an individual reporting period.

Legal Contingencies

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

Various regulatory and governmental agencies have been reviewing certain transactions and practices of AIG and our subsidiaries in connection with industry-wide and other inquiries into, among other matters, certain business practices of current and former operating insurance subsidiaries. We have cooperated, and will continue to cooperate, in producing documents and other information in response to subpoenas and other requests.

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

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

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

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

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

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

On January 30, 2014, the Court stayed proceedings in the Consolidated 2008 Securities Litigation pending a decision in *Halliburton Co. v. Erica P. John Fund, Inc.*, No. 13 317 (U.S. Nov. 15, 2013) (Halliburton II).

On July 15, 2014, the parties accepted a mediator's proposal to settle the Consolidated 2008 Securities Litigation for a cash payment by AIG of $960 million. As part of the mediator's proposal accepted by the parties, the parties have also agreed that the mediator will retain authority to resolve any disputes, if they arise, with respect to the finalization of the settlement documentation. The settlement remains subject to completion of definitive settlement documentation, notice to the class, and approval by the Court. The settlement amount has been accrued.

Individual Securities Litigations. Between November 18, 2011 and September 16, 2013, nine separate, though similar, securities actions were filed asserting claims substantially similar to those in the Consolidated 2008 Securities Litigation against AIG and certain directors and officers of AIG and AIGFP (one such action also names as defendants AIG's outside auditors and the underwriters of various securities offerings). These actions are now pending in the Southern District of New York. The Court stayed all proceedings in these actions pending a decision in Halliburton II, which was issued on June 23, 2014. The stay has been lifted and proceedings in the Individual Securities Litigations have resumed.

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

ERISA Actions – Southern District of New York Between June 25, 2008 and November 25, 2008, AIG, certain directors and officers of AIG, and members of AIG's Retirement Board and Investment Committee were named as defendants in eight purported class action complaints asserting claims on behalf of participants in certain pension plans sponsored by AIG or its subsidiaries. The Court subsequently consolidated these eight actions as In re American International Group, Inc. ERISA Litigation II. On September 4, 2012, lead plaintiffs' counsel filed a consolidated second amended complaint. The action purports to be brought as a class action under the Employee Retirement Income Security Act of 1974, as amended (ERISA), on behalf of all participants in or beneficiaries of certain benefit plans of AIG and its subsidiaries that offered shares of AIG Common Stock. In the consolidated second amended complaint, plaintiffs allege, among other things, that the defendants breached their fiduciary responsibilities to plan participants and their beneficiaries under ERISA, by continuing to offer the AIG Stock Fund as an investment option in the plans after it allegedly became imprudent to do so. The alleged ERISA violations relate to, among other things, the defendants' purported failure to monitor and/or disclose certain matters, including the Subprime Exposure Issues.

On November 20, 2012, defendants filed motions to dismiss the consolidated second amended complaint. On June 26, 2014, the Court issued an order denying defendants' motions to dismiss in light of the U.S. Supreme Court's decision in *Fifth Third Bancorp v. Dudenhoeffer*, No. 12-751 (U.S. June 25, 2014), which rejected the presumption of prudence in favor of ERISA fiduciaries that many courts had previously applied. The Court's order requires the parties to meet and confer concerning the impact of the *Fifth Third Bancorp* case and the possibility of settlement, and sets a deadline of October 3, 2014 for defendants to answer or otherwise respond to the consolidated second amended complaint.

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As of August 4, 2014, discovery is ongoing, and the Court has not determined if a class action is appropriate or the size or scope of any class. As a result, we are unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

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

On April 17, 2009, defendants filed a motion record in support of their motion to stay or dismiss for lack of jurisdiction and forum non conveniens. On July 12, 2010, the Court adjourned a hearing on the motion pending a decision by the Supreme Court of Canada in a pair of actions captioned Club Resorts Ltd. v. Van Breda 2012 SCC 17. On April 18, 2012, the Supreme Court of Canada clarified the standard for determining jurisdiction over foreign and out of province defendants, such as AIG, by holding that a defendant must have some form of "actual," as opposed to a merely "virtual," presence to be deemed to be "doing business" in the jurisdiction. The Supreme Court of Canada also suggested that in future cases, defendants may contest jurisdiction even when they are found to be doing business in a Canadian jurisdiction if their business activities in the jurisdiction are unrelated to the subject matter of the litigation. The matter has been stayed pending further developments in the Consolidated 2008 Securities Litigation.

In plaintiff's proposed statement of claim, plaintiff alleged general and special damages of $500 million and punitive damages of $50 million plus prejudgment interest or such other sums as the Court finds appropriate. As of August 4, 2014, the Court has not determined whether it has jurisdiction or granted plaintiff's application to file a statement of claim, no merits discovery has occurred and the action has been stayed. As a result, we are unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

Starr International Litigation

On November 21, 2011, Starr International Company, Inc. (SICO) filed a complaint against the United States in the United States Court of Federal Claims (the Court of Federal Claims), bringing claims, both individually and on behalf of the classes defined below and derivatively on behalf of AIG (the SICO

Treasury Action). The complaint challenges the government's assistance of AIG, pursuant to which AIG entered into a credit facility with the Federal Reserve Bank of New York (the FRBNY, and such credit facility, the FRBNY Credit Facility) and the United States received an approximately 80 percent ownership in AIG. The complaint alleges that the interest rate imposed on AIG and the appropriation of approximately 80 percent of AIG's equity was discriminatory, unprecedented, and inconsistent with liquidity assistance offered by the government to other comparable firms at the time and violated the Equal Protection, Due Process, and Takings Clauses of the U.S. Constitution.

On November 21, 2011, SICO also filed a second complaint in the Southern District of New York against the FRBNY bringing claims, both individually and on behalf of all others similarly situated and derivatively on behalf of AIG (the SICO New York Action). This complaint also challenges the government's assistance of AIG, pursuant to which AIG entered into the FRBNY Credit Facility and the United States received an approximately 80 percent ownership in AIG.

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

On November 19, 2012, the Southern District of New York granted the FRBNY's motion to dismiss the SICO New York Action, on January 29, 2014, the Second Circuit affirmed the Southern District of New York's dismissal of the SICO New York Action and, on June 30, 2014, the Supreme Court of the United States denied certiorari.

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

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

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

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

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

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

False Claims Act Complaint

On February 25, 2010, a complaint was filed in the United States District Court for the Southern District of California by two individuals (Relators) seeking to assert claims on behalf of the United States against AIG and certain other defendants, including Goldman Sachs and Deutsche Bank, under the False Claims Act. Relators filed a first amended complaint on September 30, 2010, adding certain additional defendants, including Bank of America and Société Générale. The first amended complaint alleged that defendants engaged in fraudulent business practices in respect of their activities in the over-the-counter market for collateralized debt obligations, and submitted false claims to the United States in connection with the FRBNY Credit Facility and Maiden Lane II LLC (ML II) and ML III entities (the Maiden Lane Interests) through, among other things, misrepresenting AIG's ability and intent to repay amounts drawn on the FRBNY Credit Facility, and misrepresenting the value of the securities that the Maiden Lane Interests acquired from AIG and certain of its counterparties. The first amended complaint sought unspecified damages pursuant to the False Claims Act in the amount of three times the damages allegedly sustained by the United States as well as interest, attorneys' fees, costs and expenses. The complaint and the first amended complaint were initially filed and maintained under seal while the United States considered whether to intervene in the action. On or about April 28, 2011, after the United States declined to intervene, the District Court lifted the seal, and Relators served the first amended complaint on AIG on July 11, 2011. On April 19, 2013, the Court granted AIG's motion to dismiss, dismissing the first amended complaint in its entirety, without prejudice, giving the Relators the opportunity to file a second amended

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complaint. On May 24, 2013, the Relators filed a second amended complaint, which attempted to plead the same claims as the prior complaints and did not specify an amount of alleged damages. AIG and its co-defendants filed motions to dismiss the second amended complaint on August 9, 2013.On March 29, 2014, the Court dismissed the second amended complaint with prejudice. On April 30, 2014, the Relators filed a Notice of Appeal to the Ninth Circuit. We are unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

Litigation Matters Relating to AIG's Insurance Operations

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

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

On August 15, 2012, the trial court entered an order granting plaintiffs' motion for class certification. AIG and the other defendants have appealed that order to the Alabama Supreme Court, and the case in the trial court will be stayed until that appeal is resolved. General discovery has not commenced and AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

Regulatory and Related Matters

In connection with a multi state examination of certain accident and health products, including travel products, issued by National Union Fire Insurance Company of Pittsburgh, Pa. (National Union), AIG

Property Casualty Inc. (formerly Chartis Inc.), on behalf of itself, National Union, and certain of AIG Property Casualty Inc.'s insurance and non insurance companies (collectively, the AIG PC parties) entered into a Regulatory Settlement Agreement with regulators from 50 U.S. jurisdictions effective November 29, 2012. Under the agreement, and without admitting any liability for the issues raised in the examination, the AIG PC parties (i) paid a civil penalty of $50 million, (ii) entered into a corrective action plan describing agreed upon specific steps and standards for evaluating the AIG PC parties' ongoing compliance with laws and regulations governing the issues identified in the examination, and (iii) agreed to pay a contingent fine in the event that the AIG PC parties fail to satisfy certain terms of the corrective action plan. National Union and other AIG companies are also currently subject to civil litigation relating to the conduct of their accident and health business, and may be subject to additional litigation relating to the conduct of such business from time to time in the ordinary course. There can be no assurance that any regulatory action resulting from the issues identified will not have a material adverse effect on our ongoing operations of the business subject to the agreement, or on similar business written by other AIG carriers.

Industry wide examinations conducted by the Minnesota Department of Insurance and the Department of Housing and Urban Development (HUD) on captive reinsurance practices by lenders and mortgage insurance companies, including UGC, have been ongoing for several years. In 2011, the Consumer Financial Protection Bureau (CFPB) assumed responsibility for violations of the Real Estate Settlement Procedures Act from HUD, and assumed HUD's aforementioned ongoing investigation. UGC and the CFPB reached a settlement, entered on April 8, 2013 by the United States District Court for the

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Southern District of Florida, where UGC consented to discontinue its remaining captive reinsurance practices and to pay a civil monetary penalty of $4.5 million to the CFPB. The settlement includes a release for all liability related to UGC's captive reinsurance practices and resolves the CFPB's investigation. On January 31, 2014, PHH Corp. and various affiliates (all non-parties to the action and the consent order), filed a motion to reopen the case and to intervene therein for the limited purpose of obtaining a declaratory judgment enforcing the consent order. UGC opposed this request, and on March 10, 2014, the Court denied PHH Corp.'s motion. PHH Corp. has filed a Notice of Appeal to the Eleventh Circuit.

UGC has received a proposed consent order from the Minnesota Commissioner of Commerce (the MN Commissioner) which alleges that UGC violated the Real Estate Settlement Procedures Act, the Fair Credit Reporting Act and other state and federal laws in connection with its practices with captive reinsurance companies owned by lenders. UGC is engaged in discussions with the MN Commissioner with respect to the terms of the proposed consent order. UGC cannot predict if or when a consent order may be entered into or, if entered into, what the terms of the final consent order will be. UGC is also currently subject to civil litigation relating to its placement of reinsurance with captives owned by lenders, and may be subject to additional litigation relating to the conduct of such business from time to time in the ordinary course.

AIG is responding to subpoenas from the New York Department of Financial Services (NYDFS) and the Manhattan District Attorney's Office (NYDA) relating to AIG's formerly wholly owned subsidiaries, ALICO and Delaware American Life Insurance Company (DelAm), and other related business units, which were sold by AIG to MetLife in November 2010. The inquiries relate to whether ALICO, DelAm and their representatives conducted insurance business in New York over an extended period of time without a license, and whether certain representations by ALICO concerning its activities in New York were accurate. On or about March 31, 2014, a consent order between MetLife and the NYDFS, whereby MetLife agreed to pay $50 million, and a deferred prosecution agreement with the NYDA, whereby MetLife agreed to pay $10 million, were announced. AIG was not a party to either settlement. The consent order between the NYDFS and MetLife made certain findings, including that former AIG subsidiaries and affiliates conducted insurance business in New York without a license and that ALICO, while operating as a subsidiary of AIG, made misrepresentations and omissions concerning its insurance business activities in New York to NYDFS's predecessor agency, the New York State Department of Insurance. The NYDFS also found in the consent order that AIG had violated the New York Insurance Law. On April 3, 2014, AIG filed a complaint against the NYDFS and NYDFS Superintendent Benjamin Lawsky in the Southern District of New York, seeking declaratory and injunctive relief on the basis that the NYDFS's interpretation of the New York Insurance Law is unconstitutional under the Due Process and Commerce Clauses, as well as the First Amendment, of the U.S. Constitution. AIG filed an amended complaint on June 2, 2014. Defendants moved to dismiss the amended complaint on June 20, 2014.

On May 12, 2010, a complaint was filed under seal in the Southern District of New York by an individual (Relator) seeking to assert claims on behalf of the United States against AIG under the False Claims Act. The Relator filed also under seal a first amended complaint on July 28, 2011. The complaint and the first amended complaint were initially filed and maintained under seal while the United States considered whether to intervene in the action, and on or about October 29, 2013, after the United States declined to intervene, the District Court ordered the complaint be unsealed 30 days after the entry of the order. The case, however, was not unsealed until May 9, 2014. The Relator thereafter served his second amended complaint on AIG on May 23, 2014. The second amended complaint alleges that AIG made false statements relevant to the valuation of two of its former subsidiaries, ALICO and American International Assurance Limited (AIA), in connection with agreements under which interests in those subsidiaries were transferred to the FRBNY in exchange for a $25 billion decrease in the amount owed to the FRBNY under the FRBNY Credit Facility. Specifically, it alleges that AIG falsely told the federal government that ALICO and AIA had the licenses they needed to conduct their business and were in compliance with applicable laws and regulations. AIG’s response to the second amended complaint is due on September 22, 2014.

A state regulatory agency has requested additional information relating to the unwinding of a position on which we realized gains of $196 million in the three- and six-month periods ended June 30, 2014.

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Legal Reserves

We recorded increases in our legal reserve liability of $491 million and $498 million in the three- and six-month periods ended June 30, 2014, respectively.

Other Contingencies

Liability for unpaid claims and claims adjustment expense

Although we regularly review the adequacy of the established Liability for unpaid claims and claims adjustment expense, there can be no assurance that our loss reserves will not develop adversely and have a material adverse effect on our results of operations. Estimation of ultimate net losses, loss expenses and loss reserves is a complex process, particularly for long tail casualty lines of business, which include, but are not limited to, general liability, commercial automobile liability, environmental, workers' compensation, excess casualty and crisis management coverages, insurance and risk management programs for large corporate customers and other customized structured insurance products, as well as excess and umbrella liability, directors and officers and products liability. Generally, actual historical loss development factors are used to project future loss development. However, there can be no assurance that future loss development patterns will be the same as in the past. Moreover, any deviation in loss cost trends or in loss development factors might not be identified for an extended period of time subsequent to the recording of the initial loss reserve estimates for any accident year. There is the potential for reserves with respect to a number of years to be significantly affected by changes in loss cost trends or loss development factors that were relied upon in setting the reserves. These changes in loss cost trends or loss development factors could be attributable to changes in global economic conditions, changes in the legal, regulatory, judicial and social environment, changes in medical cost trends (inflation, intensity and utilization of medical services), underlying policy pricing, terms and conditions, and claims handling practices.

Other Commitments

In the normal course of business, we enter into commitments to invest in limited partnerships, private equity funds and hedge funds and to purchase and develop real estate in the U.S. and abroad. These commitments totaled $2.6 billion at June 30, 2014.

Guarantees

Subsidiaries

We have issued unconditional guarantees with respect to the prompt payment, when due, of all present and future payment obligations and liabilities of AIGFP and of AIG Markets arising from transactions entered into by AIG Markets.

In connection with AIGFP's business activities, AIGFP has issued, in a limited number of transactions, standby letters of credit or similar facilities to equity investors of structured leasing transactions in an amount equal to the termination value owing to the equity investor by the lessee in the event of a lessee default (the equity termination value). The total amount outstanding at June 30, 2014 was $240 million. In those transactions, AIGFP has agreed to pay such amount if the lessee fails to pay. The amount payable by AIGFP is, in certain cases, partially offset by amounts payable under other instruments typically equal to the present value of scheduled payments to be made by AIGFP. In the event that AIGFP is required to make a payment to the equity investor, the lessee is unconditionally obligated to reimburse AIGFP. To the extent that the equity investor is paid the

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equity termination value from the standby letter of credit and/or other sources, including payments by the lessee, AIGFP takes an assignment of the equity investor's rights under the lease of the underlying property. Because the obligations of the lessee under the lease transactions are generally economically defeased, lessee bankruptcy is the most likely circumstance in which AIGFP would be required to pay without reimbursement.

Asset Dispositions

General

We are subject to financial guarantees and indemnity arrangements in connection with the completed sales of businesses pursuant to our asset disposition plan. The various arrangements may be triggered by, among other things, declines in asset values, the occurrence of specified business contingencies, the realization of contingent liabilities, developments in litigation or breaches of representations, warranties or covenants provided by us. These arrangements are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential obligation is subject to contractual limitations, while in other cases such limitations are not specified or are not applicable.

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

ALICO Sale

Pursuant to the terms of the ALICO stock purchase agreement, we agreed to provide MetLife with certain indemnities. The most significant remaining indemnities include indemnifications related to specific product, investment, litigation and other matters that are excluded from the general representations and warranties indemnity. These indemnifications provide for various deductible amounts, which in certain cases are zero, and maximum exposures, which in certain cases are unlimited, and may extend for various periods after the completion of the sale.

In connection with the indemnity obligations described above, approximately $19 million of proceeds from the sale of ALICO remained in escrow as of June 30, 2014.

Other

- See Note 4 for a discussion about the AerCap Revolving Credit Facility.
- See Note 8 for commitments and guarantees associated with VIEs.
- See Note 9 for disclosures about derivatives.
- See Note 16 for additional disclosures about guarantees of outstanding debt.

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11. EQUITY

Shares Outstanding

The following table presents a rollforward of outstanding shares:

	Common Stock Issued	Treasury Stock	Common Stock Outstanding
Six Months Ended June 30, 2014			
Shares, beginning of year	1,906,645,689	(442,582,366)	1,464,063,323
Shares issued	16,873	-	16,873
Shares repurchased	-	(35,504,806)	(35,504,806)
Shares, end of period	1,906,662,562	(478,087,172)	1,428,575,390

Dividends

Payment of future dividends to our shareholders and repurchases of AIG Common Stock depends in part on the regulatory framework that we are currently subject to and that will ultimately be applicable to us, including as a nonbank systemically important financial institution under the Dodd Frank Wall Street Reform and Consumer Protection Act (Dodd Frank) and a global systemically important insurer. In addition, dividends are payable on AIG Common Stock only when, as and if declared by our Board of Directors in its discretion, from funds legally available therefor. In considering whether to pay a dividend or purchase shares of AIG Common Stock, our Board of Directors considers a number of factors, including, but not limited to: the capital resources available to support our core insurance operations and business strategies, AIG's funding capacity and capital resources in comparison to internal benchmarks, expectations for capital generation, rating agency expectations for capital, regulatory standards for capital and capital distributions, and such other factors as our Board of Directors may deem relevant.

On March 25, 2014, AIG paid a dividend of $0.125 per share on AIG Common Stock to shareholders of record on March 11, 2014. On June 24, 2014, AIG paid a dividend of $0.125 per share on AIG Common Stock to shareholders of record on June 10, 2014.

See Note 19 to the Consolidated Financial Statements in the 2013 Annual Report for a discussion of restrictions on payments of dividends to AIG Parent by its subsidiaries.

Repurchase of AIG Common Stock

On August 1, 2013, our Board of Directors authorized the repurchase of shares of AIG Common Stock, with an aggregate purchase price of up to $1.0 billion, from time to time in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise. On February 13, 2014, our Board of Directors authorized an increase to the August 1, 2013 repurchase authorization of AIG Common Stock by $1.0 billion. On June 5, 2014, our Board of Directors authorized an additional increase to the August 1, 2013 repurchase authorization of AIG Common Stock by $2.0 billion, resulting in an aggregate remaining authorization at such time of approximately $2.1 billion of AIG Common Stock.

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During the six-month period ended June 30, 2014, we repurchased approximately 36 million shares of AIG Common Stock for an aggregate purchase price of approximately $1.9 billion pursuant to this authorization, resulting in a remaining authorization of approximately $1.5 billion at June 30, 2014.

In the second quarter of 2014, we executed an accelerated stock repurchase (ASR) agreement with a third-party financial institution. The total number of shares of AIG Common stock repurchased in the first half of 2014, and the aggregate purchase price of those shares, each as set forth above, reflect our payment of $300 million to the financial institution under the ASR agreement and our initial receipt of 70 percent of the total notional share equivalent, or approximately 3.8 million shares of AIG Common Stock. The ASR agreement settled with the financial institution in July 2014, at which time we received approximately 1.7 million additional shares of AIG Common Stock based on a formula specified by the terms of the ASR agreement.

The timing of any future repurchases will depend on market conditions, our financial condition, results of operations, liquidity and other factors.

Accumulated Other Comprehensive Income

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

(in millions)	Unrealized Appreciation (Depreciation) of Fixed Maturity Investments on Which Other-Than-Temporary Credit investments	Unrealized Appreciation (Depreciation) of All Other Investments	C Tra Adju
Balance, December 31, 2013, net of tax	$ 936	$ 6,789	$
Change in unrealized appreciation of investments	199	7,517	
Change in deferred acquisition costs adjustment and other	36	(629)	
Change in future policy benefits	(143)	(1,185)	
Change in foreign currency translation adjustments	-	-	
Net actuarial gain	-	-	
Prior service cost	-	-	
Change in deferred tax asset (liability)	23	(563)	
Total other comprehensive income (loss)	115	5,140	

Noncontrolling interests		-	-
Balance, June 30, 2014, net of tax	**$**	**1,051 $**	**11,929 $**
Balance, December 31, 2012, net of tax	$	575 $	13,446 $
Change in unrealized appreciation (depreciation) of investments		355	(11,632)
Change in deferred acquisition costs adjustment and other		(87)	630
Change in future policy benefits		49	2,491
Change in foreign currency translation adjustments		-	-
Net actuarial gain		-	-
Prior service cost		-	-
Change in deferred tax asset (liability)		(122)	3,277
Total other comprehensive income (loss)		195	(5,234)
Noncontrolling interests		-	(16)
Balance, June 30, 2013, net of tax	$	770 $	8,228 $

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Item 1 / NOTE 11. EQUITY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The following table presents the other comprehensive income reclassification adjustments for the three- and six-month periods ended June 30, 2014 and 2013:

(in millions)	Unrealized Appreciation (Depreciation) of Fixed Maturity Investments on Which Other-Than-Temporary Credit Impairments Were Recognized	Unrealized Appreciation (Depreciation) of All Other Investments	Foreign Currency Translation Adjustments	Change in Retirement Plan Liabilities Adjustment	Total
Three Months Ended June 30, 2014					
Unrealized change arising during period	**$ 21**	**$ 2,909**	**$ 73**	**$ 10**	**$ 3,013**
Less: Reclassification adjustments included in net income	**10**	**165**	**-**	**(1)**	**174**
Total other comprehensive income (loss), before income tax expense (benefit)	**11**	**2,744**	**73**	**11**	**2,839**
Less: Income tax expense (benefit)	**(15)**	**389**	**26**	**13**	**413**
Total other comprehensive income (loss), net of income tax expense (benefit)	**$ 26**	**$ 2,355**	**$ 47**	**$ (2)**	**$ 2,426**
Three Months Ended June 30, 2013					
Unrealized change arising during period	$ (102)	$ (6,854)	$ (273)	$ 8	$ (7,221)
Less: Reclassification adjustments included in net income	6	152	-	(26)	132
Total other comprehensive income (loss), before income tax expense (benefit)	(108)	(7,006)	(273)	34	(7,353)
Less: Income tax expense (benefit)	(21)	(2,560)	32	17	(2,532)
Total other comprehensive income (loss), net of income tax expense (benefit)	$ (87)	$ (4,446)	$ (305)	$ 17	$ (4,821)
Six Months Ended June 30, 2014					
Unrealized change arising during period	**$ 110**	**$ 6,097**	**$ (29)**	**$ 11**	**$ 6,189**
Less: Reclassification adjustments					

included in net income	**18**	**394**	**-**	**(2)**	**410**
Total other comprehensive income (loss), before income tax expense (benefit)	**92**	**5,703**	**(29)**	**13**	**5,779**
Less: Income tax expense (benefit)	**(23)**	**563**	**82**	**6**	**628**
Total other comprehensive income (loss), net of income tax expense (benefit)	**$ 115**	**$ 5,140**	**$ (111)**	**$ 7**	**$ 5,151**
Six Months Ended June 30, 2013					
Unrealized change arising during period	$ 372	$ (8,132)	$ (566)	$ 26	$ (8,300)
Less: Reclassification adjustments included in net income	55	379	-	(51)	383
Total other comprehensive income (loss), before income tax expense (benefit)	317	(8,511)	(566)	77	(8,683)
Less: Income tax expense (benefit)	122	(3,277)	12	16	(3,127)
Total other comprehensive income (loss), net of income tax expense (benefit)	$ 195	$ (5,234)	$ (578)	$ 61	$ (5,556)

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Item 1 / NOTE 11. EQUITY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

	Amount Reclassified from Accumulated Other Comprehensive Income Three Months Ended June 30,		Affected Line Item in the Consolidated Statements of Income
(in millions)	**2014**	2013	
Unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were recognized			
Investments	**$ 10**	$ 6	Other realized capital gains
Total	**10**	6	-
Unrealized appreciation (depreciation) of all other investments			
Investments	**207**	1,306	Other realized capital gains
Deferred acquisition costs adjustment	**(30)**	(37)	Amortization of deferred acquisition costs
Future policy benefits	**(12)**	(1,117)	Policyholder benefits and claims incurred
Total	**165**	152	
Change in retirement plan liabilities adjustment			
Prior-service costs	**12**	10	*
Actuarial gains/(losses)	**(13)**	(36)	*
Total	**(1)**	(26)	
Total reclassifications for the period	**$ 174**	$ 132	

	Amount Reclassified from Accumulated Other Comprehensive Income Six Months Ended June 30,		Affected Line Item in the Consolidated Statements of Income
(in millions)	**2014**	2013	

Unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were recognized			
Investments	**$ 18**	$ 55	Other realized capital gains
Total	**18**	55	
Unrealized appreciation (depreciation) of all other investments			
Investments	**411**	1,592	Other realized capital gains
Deferred acquisition costs adjustment	**5**	6	Amortization of deferred acquisition costs
Future policy benefits	**(22)**	(1,219)	Policyholder benefits and claims incurred
Total	**394**	379	
Change in retirement plan liabilities adjustment			
Prior-service costs	**24**	22	*
Actuarial gains/(losses)	**(26)**	(73)	*
Total	**(2)**	(51)	-
Total reclassifications for the period	**$ 410**	$ 383	-

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

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Item 1 / NOTE 12. NONCONTROLLING INTERESTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

12. NONCONTROLLING INTERESTS

The following table presents a rollforward of noncontrolling interests:

(in millions)	Redeemable Noncontrolling Interests	Non-redeemable Noncontrolling Interests
Six Months Ended June 30, 2014		
Balance, beginning of year	**$ 30**	**$ 611**
Contributions from noncontrolling interests	**1**	**9**
Distributions to noncontrolling interests	**-**	**(37)**
Deconsolidation	**(31)**	**(127)**
Comprehensive income (loss):		
Net income (loss)	**-**	**(34)**
Total comprehensive income (loss)	**-**	**(34)**
Other	**-**	**(2)**
Balance, end of period	**$ -**	**$ 420**
Six Months Ended June 30, 2013		
Balance, beginning of year	$ 334	$ 667
Contributions from noncontrolling interests	48	13
Distributions to noncontrolling interests	(144)	(31)
Consolidation (deconsolidation)	(145)	1
Comprehensive income (loss):		
Net income	4	48
Unrealized losses on investments	(15)	-
Foreign currency translation adjustments	(2)	(4)
Total other comprehensive loss, net of tax	(17)	(4)
Total comprehensive income (loss)	(13)	44
Other	-	(2)
Balance, end of period	$ 80	$ 692

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Item 1 / NOTE 13. EARNINGS PER SHARE (EPS)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

13. EARNINGS PER SHARE (EPS)

The basic EPS computation is based on the weighted average number of common shares outstanding, adjusted to reflect all stock dividends and stock splits. The diluted EPS computation is based on those shares used in the basic EPS computation plus shares that would have been outstanding assuming issuance of common shares for all dilutive potential common shares outstanding, and adjusted to reflect all stock dividends and stock splits.

The following table presents the computation of basic and diluted EPS:

	Three Months Ended June 30,			
(dollars in millions, except per share data)		**2014**		2013
Numerator for EPS:				
Income from continuing operations	**$**	**3,006**	$	2,740
Less: Net income (loss) from continuing operations attributable to noncontrolling interests		**(37)**		27
Income attributable to AIG common shareholders from continuing operations		**3,043**		2,713
Income (loss) from discontinued operations, net of income tax expense		**30**		18
Net income attributable to AIG common shareholders		**3,073**		2,731
Denominator for EPS:				
Weighted average shares outstanding - basic		**1,442,397,111**		1,476,512,720
Dilutive shares		**22,279,219**		5,733,898
Weighted average shares outstanding - diluted*		**1,464,676,330**		1,482,246,618
Income 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

* Dilutive shares are calculated using the treasury stock method and include dilutive shares from share based employee compensation plans, a weighted average portion of the warrants issued to AIG shareholders as part of the recapitalization in January 2011 and a weighted average portion of the warrants

issued to the Department of the Treasury in 2009 that we repurchased in the first quarter of 2013. The number of shares excluded from diluted shares outstanding was 0.3 million for both the three- and six-month periods ended June 30, 2014, and 75 million and 76 million for the three- and six-month periods ended June 30, 2013, respectively, because the effect of including those shares in the calculation would have been anti-dilutive.

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Item 1 / NOTE 14. EMPLOYEE BENEFITS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

14. EMPLOYEE BENEFITS

The following table presents the components of net periodic benefit cost with respect to pensions and other postretirement benefits:

	Pension			Postretirement		
(in millions)	U.S. Plans	Non-U.S. Plans	Total	U.S. Plans	Non-U.S. Plans	Total
Three Months Ended June 30, 2014						
Components of net periodic benefit cost:						
Service cost	**$ 44**	**$ 10**	**$ 54**	**$ 1**	**$ 1**	**$ 2**
Interest cost	**57**	**8**	**65**	**3**	**-**	**3**
Expected return on assets	**(71)**	**(5)**	**(76)**	**-**	**-**	**-**
Amortization of prior service (credit) cost	**(9)**	**-**	**(9)**	**(3)**	**-**	**(3)**
Amortization of net (gain) loss	**11**	**2**	**13**	**-**	**-**	**-**
Net periodic benefit cost	**$ 32**	**$ 15**	**$ 47**	**$ 1**	**$ 1**	**$ 2**
Three Months Ended June 30, 2013						
Components of net periodic benefit cost:						
Service cost	$ 44	$ 12	$ 56	$ 2	$ 1	$ 3
Interest cost	49	7	56	2	1	3
Expected return on assets	(64)	(5)	(69)	-	-	-
Amortization of prior service (credit) cost	(9)	-	(9)	(2)	-	(2)
Amortization of net (gain) loss	33	3	36	-	-	-
Net periodic benefit cost	$ 53	$ 17	$ 70	$ 2	$ 2	$ 4
Six Months Ended June 30, 2014						
Components of net periodic benefit cost:						
Service cost	**$ 88**	**$ 21**	**$ 109**	**$ 2**	**$ 1**	**$ 3**
Interest cost	**114**	**15**	**129**	**5**	**1**	**6**
Expected return on assets	**(142)**	**(11)**	**(153)**	**-**	**-**	**-**
Amortization of prior service (credit) cost	**(17)**	**(1)**	**(18)**	**(5)**	**-**	**(5)**
Amortization of net (gain) loss	**22**	**4**	**26**	**-**	**-**	**-**
Net periodic benefit cost	**$ 65**	**$ 28**	**$ 93**	**$ 2**	**$ 2**	**$ 4**
Six Months Ended June 30, 2013						
Components of net periodic benefit cost:						
Service cost	$ 88	$ 24	$ 112	$ 3	$ 2	$ 5
Interest cost	98	15	113	4	1	5

Expected return on assets		(129)		(10)		(139)		-		-	-
Amortization of prior service (credit) cost		(17)		(1)		(18)		(5)		-	(5)
Amortization of net (gain) loss		66		6		72		1		-	1
Net periodic benefit cost	$	106	$	34	$	140	$	3	$	3	$ 6

For the six-month period ended June 30, 2014, we contributed $110 million to our U.S. and non-U.S. pension plans and estimate that we will contribute an additional $67 million for the remainder of 2014. These estimates are subject to change because contribution decisions are affected by various factors, including our liquidity, market performance and management discretion.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

15. INCOME TAXES

Interim Tax Calculation Method

We use the estimated annual effective tax rate method in computing our interim tax provision. Certain items, including those deemed to be unusual, infrequent or that cannot be reliably estimated, are excluded from the estimated annual effective tax rate. In these cases, the actual tax expense or benefit is reported in the same period as the related item. Certain tax effects are also not reflected in the estimated annual effective tax rate, primarily certain changes in the realizability of deferred tax assets and uncertain tax positions.

Interim Tax Expense (Benefit)

For the three- and six-month periods ended June 30, 2014, the effective tax rate on income from continuing operations was 32.9 percent and 30.9 percent, respectively. The effective tax rate for the three- and six-month periods ended June 30, 2014 on income from continuing operations differs from the statutory tax rate of 35 percent primarily due to tax benefits associated with tax exempt interest income and a decrease in AIG Life and Retirement's capital loss carryforward valuation allowance.

For the three- and six-month periods ended June 30, 2013, the effective tax rate on income from continuing operations was 13.4 percent and 18.9 percent, respectively. The effective tax rate for the three- and six-month periods ended June 30, 2013 on income from continuing operations differs from the statutory tax rate of 35 percent primarily due to tax benefits associated with tax exempt interest income and a decrease in the AIG Life and Retirement's capital loss carryforward valuation allowance related to the actual and projected gains on sales of AIG Life and Retirement's available-for-sale securities. For the six-month period ended June 30, 2013, these items were partially offset by changes in uncertain tax positions.

Assessment of Deferred Tax Asset Valuation Allowance

The evaluation of the recoverability of our deferred tax asset and the need for a valuation allowance requires us to weigh all positive and negative evidence to reach a conclusion that it is more likely than not that all or some portion of the deferred tax asset will not be realized. The weight given to the evidence is commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is necessary and the more difficult it is to support a conclusion that a valuation allowance is not needed.

Our framework for assessing the recoverability of the deferred tax asset requires us to consider all available evidence, including:

- the nature, frequency, and amount of cumulative financial reporting income and losses in recent years;
- the sustainability of recent operating profitability of our subsidiaries;
- the predictability of future operating profitability of the character necessary to realize the net deferred tax asset;
- the carryforward period for the net operating loss, capital loss and foreign tax credit carryforwards, including the effect of reversing taxable temporary differences; and
- prudent and feasible actions and tax planning strategies that would be implemented, if necessary, to protect against the loss of the deferred tax asset.

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Item 1 / NOTE 15. INCOME TAXES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

As a result of sales in the ordinary course of business to manage our investment portfolio, the implementation of prudent and feasible tax planning strategies and changes in market conditions, during the three month period ended June 30, 2014, certain AIG Life and Retirement capital loss carryforwards were realized prior to their expiration.

For the three-month period ended June 30, 2014, we recognized a $659 million decrease to our deferred tax asset valuation allowance associated with AIG Life and Retirement's capital loss carryforwards and unrealized tax losses in AIG Life and Retirement's available for sale portfolio, of which $77 million was allocated to income from continuing operations and $582 million was allocated to other comprehensive income.

For the six-month period ended June 30, 2014, we recognized a $1.6 billion decrease to our deferred tax asset valuation allowance associated with AIG Life and Retirement's capital loss carryforwards and unrealized tax losses in AIG Life and Retirement's available for sale portfolio, of which $139 million was allocated to income from continuing operations and $1.5 billion was allocated to other comprehensive income.

Tax Examinations and Litigation

On March 29, 2013, the U.S District Court for the Southern District of New York denied our motion for partial summary judgment related to the disallowance of foreign tax credits associated with cross border financing transactions. On March 17, 2014, the U.S. Court of Appeals for the Second Circuit (the Second Circuit) granted our petition for an immediate appeal of the partial summary judgment decision. Accordingly, we are presenting our position to the Second Circuit.

We will vigorously defend our position and continue to believe that we have adequate reserves for any liability that could result from the IRS actions.

We continue to monitor legal and other developments in this area and evaluate the effect, if any, on our position, including recent decisions affecting other taxpayers.

Accounting for Uncertainty in Income Taxes

At June 30, 2014 and December 31, 2013, our unrecognized tax benefits, excluding interest and penalties, were $4.5 billion and $4.3 billion, respectively. At June 30, 2014 and December 31, 2013, our unrecognized tax benefits included $0.2 billion and $0.1 billion, respectively, related to tax positions that if recognized would not affect the effective tax rate because they relate to the timing, rather than the permissibility, of the deduction. Accordingly, at June 30, 2014 and December 31, 2013, the amounts of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate were $4.3 billion and $4.2 billion, respectively.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense. At June 30, 2014 and December 31, 2013, we had accrued liabilities of $1.0 billion and $1.1 billion, respectively, for the payment of interest (net of the federal benefit) and penalties. For the six month periods ended June 30, 2014 and 2013, we accrued expense (benefit) of $(62) million and $78 million, respectively, for the payment of interest (net of the federal benefit) and penalties.

We regularly evaluate adjustments proposed by taxing authorities. At June 30, 2014, such proposed adjustments would not have resulted in a material change to our consolidated financial condition, although it is possible that the effect could be material to our consolidated results of operations for an individual reporting period. Although it is reasonably possible that a change in the balance of unrecognized tax benefits may occur within the next 12 months, based on the information currently available, we do not expect any change to be material to our consolidated financial condition.

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Item 1 / NOTE 16. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

16. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT

The following condensed consolidating financial statements reflect the results of AIG Life Holdings, Inc. (AIGLH), a holding company and a wholly owned subsidiary of AIG. AIG provides a full and unconditional guarantee of all outstanding debt of AIGLH.

Condensed Consolidating Balance Sheets

(in millions)	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries	Reclassifications and Eliminations	Consolida
June 30, 2014					
Assets:					
Short-term investments	$ 12,892	$ -	$ 9,313	$ (1,317)	$ 20,8
Other investments[a]	11,025	-	338,063	-	349,0
Total investments	23,917	-	347,376	(1,317)	369,9
Cash	160	2	1,665	-	1,8
Loans to subsidiaries[b]	31,880	-	727	(32,607)	
Investment in consolidated subsidiaries[b]	67,728	40,069	-	(107,797)	
Other assets, including deferred income taxes	22,512	83	137,130	(2,419)	157,3
Total assets	$ 146,197	$ 40,154	$ 486,898	$ (144,140)	$ 529,1
Liabilities:					
Insurance liabilities	$ -	$ -	$ 274,370	$ -	$ 274,3
Long-term debt	27,602	1,296	9,516	-	38,4
Other liabilities, including intercompany balances[a][c]	9,628	113	101,682	(3,679)	107,7
Loans from subsidiaries[b]	806	100	31,794	(32,700)	
Total liabilities	38,036	1,509	417,362	(36,379)	420,5
Redeemable noncontrolling interests (see Note 12)	-	-	-	-	
Total AIG shareholders' equity	108,161	38,645	69,116	(107,761)	108,1
Non-redeemable noncontrolling interests	-	-	420	-	4

Total equity	108,161	38,645	69,536	(107,761)	108,5
Total liabilities and equity	$ 146,197	$ 40,154	$ 486,898	$ (144,140)	$ 529,1

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December 31, 2013					
Assets:					
Short-term investments	$ 11,965	$ -	$ 11,404	$ (1,752)	$ 21,617
Other investments[a]	7,561	-	327,250	-	334,811
Total investments	19,526	-	338,654	(1,752)	356,428
Cash	30	51	2,160	-	2,241
Loans to subsidiaries[b]	31,220	-	854	(32,074)	-
Investment in consolidated subsidiaries[b]	66,201	39,103	-	(105,304)	-
Other assets, including deferred income taxes	21,606	112	132,492	(1,086)	153,124
Assets held for sale	-	-	29,536	-	29,536
Total assets	$ 138,583	$ 39,266	$ 503,696	$ (140,216)	$ 541,329
Liabilities:					
Insurance liabilities	$ -	$ -	$ 271,252	$ -	$ 271,252
Long-term debt	30,839	1,352	9,502	-	41,693
Other liabilities, including intercompany balances[a][c]	6,422	161	98,908	(2,766)	102,725
Loans from subsidiaries[b]	852	200	31,173	(32,225)	-
Liabilities held for sale	-	-	24,548	-	24,548
Total liabilities	38,113	1,713	435,383	(34,991)	440,218
Redeemable noncontrolling interests (see Note 12)	-	-	30	-	30
Total AIG shareholders' equity	100,470	37,553	67,672	(105,225)	100,470
Non-redeemable noncontrolling interests	-	-	611	-	611
Total equity	100,470	37,553	68,283	(105,225)	101,081
Total liabilities and equity	$ 138,583	$ 39,266	$ 503,696	$ (140,216)	$ 541,329

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

(b) Eliminated in consolidation.

(c) For June 30, 2014 and December 31, 2013, includes intercompany tax payable of $2.9 billion and $1.4 billion, respectively, and intercompany derivative liabilities of $229 million and $249 million, respectively, for American International Group, Inc. (As Guarantor) and intercompany tax receivable (payable) of $ (19) million and $98 million, respectively, for AIGLH.

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Item 1 / NOTE 16. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Condensed Consolidating Statements of Income

(in millions)		American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries	Re
Three Months Ended June 30, 2014					
Revenues:					
Equity in earnings of consolidated subsidiaries*	$	3,503 $	744 $	- $	
Other income		255	-	15,922	
Total revenues		3,758	744	15,922	
Expenses:					
Interest expense		410	29	57	
Loss on extinguishment of debt		17	-	17	
Other expenses		784	17	10,368	
Total expenses		1,211	46	10,442	
Income (loss) from continuing operations before income tax expense (benefit)		2,547	698	5,480	
Income tax expense (benefit)		(527)	123	1,878	
Income (loss) from continuing operations		3,074	575	3,602	
Income (loss) from discontinued operations, net of income taxes		(1)	-	31	
Net income (loss)		3,073	575	3,633	
Less:					
Net loss from continuing operations attributable to noncontrolling interests		-	-	(37)	
Net income (loss) attributable to AIG	$	3,073 $	575 $	3,670 $	
Three Months Ended June 30, 2013					
Revenues:					
Equity in earnings of consolidated subsidiaries*	$	2,374 $	754 $	- $	
Other income		673	-	17,837	
Total revenues		3,047	754	17,837	
Expenses:					
Interest expense		482	32	36	

Net loss on extinguishment of debt		38	-	-
Other expenses		335	-	14,410
Total expenses		855	32	14,446
Income (loss) from continuing operations before income tax expense (benefit)		2,192	722	3,391
Income tax expense (benefit)		(538)	(3)	970
Income (loss) from continuing operations		2,730	725	2,421
Income from discontinued operations, net of income taxes		1	-	17
Net income (loss)		2,731	725	2,438
Less:				
Net income from continuing operations attributable to noncontrolling interests		-	-	27
Net income (loss) attributable to AIG	$	2,731 $	725 $	2,411 $

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(in millions)		American International Group, Inc. (As Guarantor)		AIGLH		Other Subsidiaries	Re
Six Months Ended June 30, 2014							
Revenues:							
Equity in earnings of consolidated subsidiaries*	$	5,488	$	1,474	$	-	$
Other income		479		-		31,922	
Total revenues		5,967		1,474		31,922	
Expenses:							
Interest expense		832		58		118	
Loss on extinguishment of debt		305		-		17	
Other expenses		1,026		18		23,286	
Total expenses		2,163		76		23,421	
Income (loss) from continuing operations before income tax expense (benefit)		3,804		1,398		8,501	
Income tax expense (benefit)		(876)		(21)		3,004	
Income (loss) from continuing operations		4,680		1,419		5,497	
Income (loss) from discontinued operations, net of income taxes		2		-		(19)	
Net income (loss)		4,682		1,419		5,478	
Less:							
Net loss from continuing operations attributable to noncontrolling interests		-		-		(34)	
Net income (loss) attributable to AIG	$	4,682	$	1,419	$	5,512	$
Six Months Ended June 30, 2013							
Revenues:							
Equity in earnings of consolidated subsidiaries*	$	4,265	$	1,424	$	-	$
Other income		967		-		34,574	
Total revenues		5,232		1,424		34,574	
Expenses:							
Interest expense		1,010		68		118	
Net loss on extinguishment of debt		307		-		71	
Other expenses		593		71		27,251	
Total expenses		1,910		139		27,440	
Income (loss) from continuing operations before income tax expense (benefit)		3,322		1,285		7,134	
Income tax expense (benefit)		(1,618)		(14)		2,778	

Income (loss) from continuing operations		4,940	1,299		4,356	
Income (loss) from discontinued operations, net of income taxes		(3)	-		94	
Net income (loss)		4,937	1,299		4,450	
Less:						
Net income from continuing operations attributable to noncontrolling interests		-	-		52	
Net income (loss) attributable to AIG	$	4,937 $	1,299 $		4,398 $	

* Eliminated in consolidation.

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Item 1 / NOTE 16. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Condensed Consolidating Statements of Comprehensive Income

(in millions)		American International Group, Inc. (As Guarantor)		AIGLH		Other Subsidiaries	Rec
Three Months Ended June 30, 2014							
Net income (loss)	**$**	**3,073**	**$**	**575**	**$**	**3,633**	**$**
Other comprehensive income (loss)		**2,426**		**1,287**		**1,884**	
Comprehensive income (loss)		**5,499**		**1,862**		**5,517**	
Total comprehensive loss attributable to noncontrolling interests		**-**		**-**		**(37)**	
Comprehensive income (loss) attributable to AIG	**$**	**5,499**	**$**	**1,862**	**$**	**5,554**	**$**
Three Months Ended June 30, 2013							
Net income (loss)	$	2,731	$	725	$	2,438	$
Other comprehensive income (loss)		(4,800)		(3,351)		(4,707)	
Comprehensive income (loss)		(2,069)		(2,626)		(2,269)	
Total comprehensive income attributable to noncontrolling interests		-		-		6	
Comprehensive income (loss) attributable to AIG	$	(2,069)	$	(2,626)	$	(2,275)	$
Six Months Ended June 30, 2014							
Net income (loss)	**$**	**4,682**	**$**	**1,419**	**$**	**5,478**	**$**
Other comprehensive income (loss)		**5,151**		**2,781**		**3,733**	
Comprehensive income (loss)		**9,833**		**4,200**		**9,211**	
Total comprehensive loss attributable to noncontrolling interests		**-**		**-**		**(34)**	
Comprehensive income (loss) attributable to AIG	**$**	**9,833**	**$**	**4,200**	**$**	**9,245**	**$**
Six Months Ended June 30, 2013							
Net income (loss)	$	4,937	$	1,299	$	4,450	$
Other comprehensive income (loss)		(5,535)		(3,990)		(5,627)	
Comprehensive income (loss)		(598)		(2,691)		(1,177)	
Total comprehensive income attributable to noncontrolling interests		-		-		31	
Comprehensive income (loss) attributable to AIG	$	(598)	$	(2,691)	$	(1,208)	$

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Item 1 / NOTE 16. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Condensed Consolidating Statements of Cash Flows

(in millions)	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries and Eliminations	Consolidated AIG
Six Months Ended June 30, 2014				
Net cash (used in) provided by operating activities	**5,324**	**2,586**	**(6,269)**	**1,641**
Cash flows from investing activities:				
Sales of investments	**1,714**	**-**	**30,600**	**32,314**
Purchase of investments	**(624)**	**-**	**(27,533)**	**(28,157)**
Loans to subsidiaries - net	**(530)**	**-**	**530**	**-**
Contributions to subsidiaries - net	**111**	**-**	**(111)**	**-**
Net change in restricted cash	**(20)**	**-**	**(608)**	**(628)**
Net change in short-term investments	**65**	**-**	**433**	**498**
Other, net	**(27)**	**-**	**(338)**	**(365)**
Net cash provided by investing activities	**689**	**-**	**2,973**	**3,662**
Cash flows from financing activities:				
Issuance of long-term debt	**-**	**-**	**3,028**	**3,028**
Repayments of long-term debt	**(3,314)**	**-**	**(2,713)**	**(6,027)**
Purchase of Common Stock	**(1,849)**	**-**	**-**	**(1,849)**
Intercompany loans - net	**(52)**	**(175)**	**227**	**-**
Cash dividends paid	**(361)**	**(2,460)**	**2,460**	**(361)**
Other, net	**(307)**	**-**	**(286)**	**(593)**
Net cash (used in) provided by financing activities	**(5,883)**	**(2,635)**	**2,716**	**(5,802)**
Effect of exchange rate changes on cash	**-**	**-**	**(3)**	**(3)**
Change in cash	**130**	**(49)**	**(583)**	**(502)**
Cash at beginning of year	**30**	**51**	**2,160**	**2,241**
Reclassification to assets held for sale	**-**	**-**	**88**	**88**
Cash at end of period	**$ 160**	**$ 2**	**$ 1,665**	**$ 1,827**
Six Months Ended June 30, 2013				
Net cash (used in) provided by operating activities	698	1,809	(833)	1,674
Cash flows from investing activities:				

Sales of investments	646	-	38,629	39,275
Purchase of investments	(4,179)	-	(38,683)	(42,862)
Loans to subsidiaries - net	2,427	-	(2,427)	-
Contributions to subsidiaries - net	(86)	(1)	87	-
Net change in restricted cash	422	-	794	1,216
Net change in short-term investments	4,129	-	4,734	8,863
Other, net	205	-	(626)	(421)
Net cash (used in) provided by investing activities	3,564	(1)	2,508	6,071

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Item 1 / NOTE 16. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Cash flows from financing activities:				
Issuance of long-term debt	-	-	2,338	2,338
Repayments of long-term debt	(4,107)	(245)	(3,967)	(8,319)
Intercompany loans - net	128	(123)	(5)	-
Purchase of common stock	-	-	-	-
Cash dividends paid to shareholders	-	(1,482)	1,482	-
Other, net	(257)	-	(817)	(1,074)
Net cash (used in) financing activities	(4,236)	(1,850)	(969)	(7,055)
Effect of exchange rate changes on cash	-	-	(70)	(70)
Change in cash	26	(42)	636	620
Cash at beginning of year	81	73	997	1,151
Change in cash of businesses held for sale	-	-	(9)	(9)
Cash at end of period	$ 107	$ 31	$ 1,624	$ 1,762

Supplementary Disclosure of Condensed Consolidating Cash Flow Information

(in millions)	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries and Eliminations	Consolidated AIG
Cash (paid) received during the 2014 period for:				
Interest:				
Third party	**$ (946)**	**$ (51)**	**$ (730)**	**$ (1,727)**
Intercompany	**(1)**	**(4)**	**5**	**-**
Taxes:				
Income tax authorities	**$ (17)**	**$ -**	**$ (465)**	**$ (482)**
Intercompany	**953**	**-**	**(953)**	**-**
Cash (paid) received during the 2013 period for:				
Interest:				
Third party	$ (1,117)	$ (57)	$ (1,234)	$ (2,408)
Intercompany	(5)	(14)	19	-
Taxes:				
Income tax authorities	$ (6)	$ -	$ (203)	$ (209)
Intercompany	501	(78)	(423)	-

American International Group, Inc. (As Guarantor) supplementary disclosure of non-cash activities:

Six Months Ended June 30,		
(in millions)	**2014**	2013
Intercompany non-cash financing and investing activities:		
Capital contributions		
to subsidiaries through forgiveness of loans	**$ 993**	$ 341
Other capital contributions - net	**-**	245

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Item 1 / NOTE 17. SUBSEQUENT EVENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

17. SUBSEQUENT EVENTS

Debt Repurchases and Redemptions

On July 14, 2014, we purchased, in cash tender offers, (i) certain junior subordinated debentures issued or guaranteed by AIG for an aggregate purchase price of $1.8 billion and (ii) certain senior notes and debentures issued or guaranteed by AIG for an aggregate purchase price of $700 million.

On July 31, 2014, we further reduced DIB debt by approximately $2.0 billion through a redemption of $790 million aggregate principal amount of its 4.875% Notes due 2016 and a redemption of $1.25 billion aggregate principal amount of its 3.800% Notes due 2017, in each case, using cash allocated to the DIB.

Debt Offering

On July 16, 2014, we issued $1.0 billion aggregate principal amount of 2.300% Notes due 2019 and $1.5 billion aggregate principal amount of 4.500% Notes due 2044.

Dividends Declared

On August 4, 2014, our Board of Directors declared a cash dividend on AIG Common Stock of $0.125 per share, payable on September 25, 2014 to shareholders of record on September 11, 2014. The payment of any future dividends will be at the discretion of our Board of Directors and will depend on various factors, including the regulatory framework applicable to us. See Note 11 for further discussion.

Dispute Resolution

On July 16, 2014, AIG reached a global resolution of its residential mortgage related disputes with Bank of America. The resolution included its claims related to RMBS from which AIG and its subsidiaries suffered losses either directly on their own account or in connection with their participation in AIG's securities lending program. The resolution also included AIG's objections to the $8.5 billion settlement of Countrywide's mortgage repurchase obligations to various investors, as well as disputes concerning the issuance of mortgage guaranty insurance by AIG's United Guaranty subsidiaries to Bank of America and Countrywide. Under the terms of the settlement, AIG received $650 million in cash plus a right to receive its pro rata share of whatever amount is ultimately paid out to investors in connection with the Countrywide repurchase settlement. In addition, the parties have agreed, subject to the approval of Fannie Mae, Freddie Mac and certain other mortgage holders, to resolve the outstanding mortgage guaranty claims disputes in accordance with agreed-to claims processes and payment formulae. The $650 million payment has been received by AIG and will be recognized as a pre-tax gain in the third quarter of 2014.

Super Senior Credit Default Swap Terminations

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

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ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

American International Group, Inc. (AIG) has incorporated into this discussion a number of cross-references to additional information included elsewhere in this Quarterly Report on Form 10-Q to assist readers seeking additional information related to a particular subject.

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

This Quarterly Report on Form 10 Q and other publicly available documents may include, and officers and representatives of AIG may from time to time make, projections, goals, assumptions and statements that may constitute "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These projections, goals, assumptions and statements are not historical facts but instead represent only AIG's belief regarding future events, many of which, by their nature, are inherently uncertain and outside AIG's control. These projections, goals, assumptions and statements include statements preceded by, followed by or including words such as "believe," "anticipate," "expect," "intend," "plan," "view," "target' "estimate." These projections, goals, assumptions and statements may address, among other things:

- AIG's exposures to subprime mortgages, monoline insurers, the residential and commercial real estate markets, state and municipal bond issuers and sovereign bond issuers;
- AIG's exposure to European governments and European financial institutions;
- AIG's strategy for risk management;
- AIG's generation of deployable capital;
- AIG's return on equity and earnings per share;
- AIG's strategies to grow net investment income, efficiently manage capital and reduce expenses;
- AIG's strategies for customer retention, growth, product development, market position, financial results and reserves; and
- the revenues and combined ratios of AIG's subsidiaries.

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It is possible that AIG's actual results and financial condition will differ, possibly materially, from the results and financial condition indicated in these projections, goals, assumptions and statements. Factors that could cause AIG's actual results to differ, possibly materially, from those in the specific projections, goals, assumptions and statements include:

- changes in market conditions;
- the occurrence of catastrophic events, both natural and man made;
- significant legal proceedings;
- the timing and applicable requirements of any new regulatory framework to which AIG is subject as a nonbank systemically important financial institution (SIFI) and as a global systemically important insurer (G SII);
- concentrations in AIG's investment portfolios;
- actions by credit rating agencies;
- judgments concerning casualty insurance underwriting and insurance liabilities;
- judgments concerning the recognition of deferred tax assets; and
- such other factors discussed in:
- this Part I, Item 2. MD&A of this Quarterly Report on Form 10-Q;
- Part I, Item 2. MD&A of the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014; and
- Part I, Item 1A. Risk Factors and Part II, Item 7. MD&A in our Annual Report on Form 10-K for the year ended December 31, 2013 (2013 Annual Report).

AIG is not under any obligation (and expressly disclaims any obligation) to update or alter any projections, goals, assumptions or other statements, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise.

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The MD&A is organized as follows:

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Item 2 / USE OF NON-GAAP MEASURES

Throughout this MD&A, we present our financial condition and results of operations in the way we believe will be most meaningful, representative and transparent. Some of the measurements we use are "non GAAP financial measures" under SEC rules and regulations. GAAP is the acronym for "accounting principles generally accepted in the United States." The non GAAP financial measures we present may not be comparable to similarly named measures reported by other companies.

Book Value Per Common Share Excluding Accumulated Other Comprehensive Income (Loss) (AOCI) is used to show the amount of our net worth on a per share basis. We believe Book Value Per Common Share Excluding AOCI is useful to investors because it eliminates the effect of non cash items that can fluctuate significantly from period to period, including changes in fair value of our available for sale securities portfolio and foreign currency translation adjustments. Book Value Per Common Share Excluding AOCI is derived by dividing Total AIG shareholders' equity, excluding AOCI, by Total common shares outstanding. The reconciliation to book value per common share, the most comparable GAAP measure, is presented in the Executive Overview section of this MD&A.

We use the following operating performance measures because we believe they enhance understanding of the underlying profitability of continuing operations and trends of AIG and our business segments. We believe they also allow for more meaningful comparisons with our insurance competitors. When we use these measures, reconciliations to the most comparable GAAP measure are provided in the Results of Operations section of this MD&A.

AIG — After tax operating income (loss) attributable to AIG is derived by excluding the following items from net income (loss) attributable to AIG:

• income (loss) from discontinued operations; • income (loss) from divested businesses, including: • gain on the sale of International Lease Finance Corporation (ILFC); and • certain post-acquisition costs incurred by AerCap Holdings N.V. (AerCap) in connection with its acquisition of ILFC and related tax effects; • legacy tax adjustments primarily related to certain changes in uncertain tax positions and other tax adjustments;	• changes in fair value of AIG Life and Retirement fixed maturity securities designated to hedge living benefit liabilities (net of interest expense); • changes in benefit reserves and deferred policy acquisition costs (DAC), value of business acquired (VOBA), and sales inducement assets (SIA) related to net realized capital gains (losses); • AIG Property Casualty other (income) expense — net; • (gain) loss on extinguishment of debt; • net realized capital (gains) losses; and

• legal reserves (settlements) related to "legacy crisis matters," which include favorable and unfavorable settlements related to events leading up to and resulting from our September 2008 liquidity crisis and legal fees incurred by AIG as the plaintiff in connection with such legal matters; • deferred income tax valuation allowance (releases) charges;	• non qualifying derivative hedging activities, excluding net realized capital (gains) losses.

• ***AIG Property Casualty***

• **Pre tax operating income (loss):** includes both underwriting income (loss) and net investment income, but excludes net realized capital (gains) losses, other (income) expense — net, and legal settlements related to legacy crisis matters described above. Underwriting income (loss) is derived by reducing net premiums earned by claims and claims adjustment expenses incurred, acquisition expenses and general operating expenses.

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Item 2 / USE OF NON-GAAP MEASURES

- **Ratios:** AIG Property Casualty, along with most property and casualty insurance companies, uses the loss ratio, the expense ratio and the combined ratio as measures of underwriting performance. These ratios are relative measurements that describe, for every $100 of net premiums earned, the amount of claims and claims adjustment expense, and the amount of other underwriting expenses that would be incurred. A combined ratio of less than 100 indicates underwriting income and a combined ratio of over 100 indicates an underwriting loss. The underwriting environment varies across countries and products, as does the degree of litigation activity, all of which affect such ratios. In addition, investment returns, local taxes, cost of capital, regulation, product type and competition can have an effect on pricing and consequently on profitability as reflected in underwriting income and associated ratios.

- **Accident year loss and combined ratios, as adjusted:** both the accident year loss and combined ratios, as adjusted, exclude catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting. Catastrophe losses are generally weather or seismic events having a net impact on AIG Property Casualty in excess of $10 million each.

- ***AIG Life and Retirement***

- **Pre tax operating income (loss)** is derived by excluding the following items from pre tax income (loss):

• legal settlements related to legacy crisis matters described above;	• net realized capital (gains) losses; and
• changes in fair values of fixed maturity securities designated to hedge living benefit liabilities (net of interest expense);	• changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses).

- **Premiums and deposits:** includes direct and assumed amounts received on traditional life insurance policies, group benefit policies and deposits on life contingent payout annuities, as well as deposits received on universal life, investment type annuity contracts and mutual funds.

- ***Other Operations — Pre tax operating income (loss)*** is derived by excluding the following items from pre tax income (loss):

• certain legal reserves (settlements) related to legacy crisis matters described above; • (gain) loss on extinguishment of debt; • net realized capital (gains) losses;	• net (gain) loss on sale of divested businesses, including: • gain on the sale of ILFC; and • certain post-acquisition costs incurred by AerCap in connection with its acquisition of ILFC and

• changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses); • income (loss) from divested businesses, including Aircraft Leasing; and	our share of AerCap's income taxes.

Results from discontinued operations are excluded from all of these measures.

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Item 2 / EXECUTIVE OVERVIEW

This overview of the MD&A highlights selected information and may not contain all of the information that is important to current or potential investors in AIG's securities. You should read this Quarterly Report on Form 10 Q, together with the 2013 Annual Report, in its entirety for a complete description of events, trends, uncertainties, risks and critical accounting estimates affecting AIG and its subsidiaries.

On June 10, 2014, AIG announced that its Board of Directors appointed Peter D. Hancock as President, Chief Executive Officer and a Director of AIG. Mr. Hancock will assume his new roles on September 1, 2014, when our current President and Chief Executive Officer, Robert H. Benmosche, will assume an advisory role at AIG and is expected to resign as a Director.

We report our results of operations as follows:

- **AIG Property Casualty** – AIG Property Casualty offers property and casualty insurance products and services to businesses and individuals worldwide. Commercial insurance products for large and small businesses are primarily distributed through insurance brokers. Major lines of business include casualty, property, financial and specialty (including aerospace, environmental, surety, marine, trade credit and political risk insurance). Consumer insurance products are distributed to individual consumers or groups of consumers through insurance brokers, agents, and on a direct-to-consumer basis. Consumer insurance products include accident & health (A&H) and personal insurance. In addition, Fuji Fire & Marine Insurance Company Limited (Fuji) in Japan offers life insurance products through Fuji Life Insurance Company (Fuji Life), which are included in A&H.

- **AIG Life and Retirement** – AIG Life and Retirement offers a comprehensive suite of products and services to individuals and groups, including term life, universal life, A&H, fixed and variable deferred annuities, fixed payout annuities, mutual funds and financial planning. AIG Life and Retirement offers its products and services through a diverse, multi-channel distribution network that includes banks, national, regional and independent broker-dealers, affiliated financial advisors, independent marketing organizations, independent and career insurance agents, structured settlement brokers, benefit consultants and direct-to-consumer platforms.

- **Other Operations** – AIG's Other Operations include results from Mortgage Guaranty operations (conducted through United Guaranty Corporation (UGC)), Global Capital Markets (GCM) operations (consisting of the operations of AIG Markets, Inc. (AIG Markets) and the remaining derivatives portfolio of AIG Financial Products Corp. and AIG Trading Group Inc. and their respective subsidiaries (collectively, AIGFP)), the Direct Investment book (DIB), including the Matched Investment Program (MIP) and certain non-derivative assets and liabilities of AIGFP, Corporate & Other operations (after certain allocations to AIG's business segments), Aircraft Leasing through May 14, 2014 and, subsequent to May 14, 2014, AIG's share of AerCap earnings based on its 46 percent ownership interest.

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Item 2 / EXECUTIVE OVERVIEW

Financial Performance

AIG Property Casualty pre tax operating income increased in the three-month period ended June 30, 2014 compared to the same period in the prior year primarily due to lower catastrophe losses and a favorable loss reserve development compared to an adverse loss reserve development in the prior year, partially offset by an increase in the frequency and severity of severe losses and a decrease in net investment income. Pre-tax operating income decreased in the six-month period ended June 30, 2014 compared to the same period in the prior year primarily due to a decrease in net investment income and a slight decrease in underwriting income.

AIG Life and Retirement pre-tax operating income improved for the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year, reflecting higher fee income from strong growth in assets under management, partially offset by lower investment income, primarily due to strong returns on alternative investments in the prior year periods and lower base investment yield. Disciplined pricing of new business and active management of renewal crediting rates for interest rate sensitive business, together with the run-off of older business with relatively high crediting rates, has largely offset the pressure on investment yields in the sustained low interest rate environment. Premiums and deposits increased in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year, primarily due to continued strong demand for variable annuities in the Retirement Income Solutions product line and improved sales of Fixed Annuities, which have benefitted from slightly higher market interest rates compared to the prior year periods.

Mortgage Guaranty pre tax operating income improved in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year due to an increase in net premiums earned and an increase in favorable prior year loss reserve development. New insurance written decreased in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year due to declining levels of mortgage refinancing activity.

Our investment portfolio performance improved slightly in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year due to positive performance on bonds for which we elected the fair value option, primarily driven by lower interest rates since December 31, 2013.

Net realized capital gains declined in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year due to lower capital gains from sales of investments related to capital loss carryforward utilization and higher fair value losses on embedded derivatives related to variable annuity guarantee features, net of hedges.

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Item 2 / EXECUTIVE OVERVIEW

Our Performance – Selected Indicators

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except per share data and ratios)	**2014**	2013	**2014**	201
Results of operations data:				
Total revenues	**$ 16,105**	$ 18,426	**$ 32,217**	$ 35,38
Income from continuing operations	**3,006**	2,740	**4,665**	4,89
Net income attributable to AIG	**3,073**	2,731	**4,682**	4,93
Net income per common share attributable to AIG (diluted)	**2.10**	1.84	**3.19**	3.3
After-tax operating income attributable to AIG	**1,833**	1,655	**3,614**	3,63
After-tax operating income per common share attributable to AIG (diluted)	**1.25**	1.12	**2.46**	2.4
Key metrics:				
AIG Property Casualty combined ratio	**98.8**	102.6	**99.9**	100.
AIG Property Casualty accident year combined ratio, as adjusted	**96.9**	96.5	**97.0**	97.
AIG Life and Retirement premiums and deposits	**$ 7,360**	$ 6,765	**$ 14,489**	$ 12,34
AIG Life and Retirement assets under management	**332,812**	293,665	**332,812**	293,66
Mortgage Guaranty domestic first-lien new insurance written	**11,057**	13,817	**18,662**	24,37

(in millions, except per share data)	**June 30, 2014**	December 3 20
Balance sheet data:		
Total assets	**$ 529,109**	$ 541,32
Long-term debt	**38,414**	41,69
Total AIG shareholders' equity	**108,161**	100,47
Book value per common share	**75.71**	68.6
Book value per common share, excluding AOCI	**67.65**	64.2

The following table presents a reconciliation of Book value per common share to Book value per common share, excluding accumulated other comprehensive income, which is a non-GAAP measure. See Use of Non GAAP Measures for additional information.

(in millions, except per share data)	**June 30, 2014**	December 31, 2013
Total AIG shareholders' equity	**$ 108,161**	$ 100,470
Accumulated other comprehensive income	**11,511**	6,360

Total AIG shareholders' equity, excluding accumulated other comprehensive income	**$**	**96,650**	$	94,110
Total common shares outstanding		**1,428,575,390**		1,464,063,323
Book value per common share	**$**	**75.71**	$	68.62
Book value per common share, excluding accumulated other comprehensive income	**$**	**67.65**	$	64.28

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Item 2 / EXECUTIVE OVERVIEW

Total revenues

(in millions)

Income from continuing operations

(in millions)

Net income ATTRIBUTABLE TO AIG

(in millions)

Net INCOME PER COMMON SHARE ATTRIBUTABLE TO AIG (DILUTED)

after-tax operating income attributable to aig (excludes net realized capital gains and certain other items)

(in millions)

Pre-tax operating income by segment

(in millions)

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Item 2 / EXECUTIVE OVERVIEW

TOTAL ASSETS *(in millions)*		**Long-term debt** *(in millions)*
Total AIG shareholders' equity *(in millions)*		**Book value per COMMON share and book value per common share excluding AOCI**

* Includes operating borrowings of other subsidiaries and consolidated investments and hybrid debt securities.

Liquidity and Capital Resources 2014 Highlights

We reduced our debt in the first six months of 2014 as a result of maturities, repayments and repurchases of $5.9 billion, of which $3.0 billion is related to DIB redemptions.

We maintained financial flexibility in the first six months of 2014 through $701 million in cash dividends from AIG Property Casualty and $2.5 billion in cash dividends and loan repayments from AIG Life and Retirement, which included approximately $364 million of legal settlement proceeds.

Our Board of Directors increased our share repurchase authorization of AIG Common Stock, par value $2.50 per share, (AIG Common Stock), by an additional $2.0 billion on June 5, 2014, resulting in an aggregate remaining authorization at such time of approximately $2.1 billion of AIG Common Stock**.** During the six months ended June 30, 2014, we repurchased approximately 36 million shares of AIG Common Stock for an aggregate purchase price of approximately $1.9 billion. As of August 4, 2014, an aggregate repurchase authorization of approximately $1.5 billion remains. The total number of shares of AIG Common Stock repurchased in the first half of 2014, and the aggregate purchase price of these shares, reflect our payment of $300 million under an accelerated stock repurchase (ASR) agreement and our initial receipt of 70 percent of the total notional share equivalent, or approximately 3.8 million shares of AIG Common Stock.

We paid a cash dividend on AIG Common Stock of $0.125 per share on each of March 25, 2014 and June 24, 2014.

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Our Board of Directors declared a cash dividend on AIG Common Stock on August 4, 2014 of $0.125 per share, payable on September 25, 2014 to shareholders of record on September 11, 2014.

We received net cash proceeds of approximately $2.4 billion from the sale of ILFC after taking into account the settlement of intercompany loans. This cash amount is in addition to the 97.6 million newly issued AerCap common shares we received as consideration from the sale.

Investment Highlights

Net investment income increased to $3.9 billion and $8.1 billion for the three- and six-month periods ended June 30, 2014, respectively, compared to the same periods in the prior year.

Net investment income for our insurance operations decreased by approximately $131 million and $259 million for the three- and six-month periods ended June 30, 2014, respectively, compared to the same periods in the prior year due to lower reinvestment yields and lower income on alternative investments, although returns on alternative investments continue to benefit from strong equity market performance. While corporate debt securities represented the core of new investment allocations, we continued to make investments in structured securities and other fixed income securities with favorable risk versus return characteristics to improve yields and increase net investment income.

Net unrealized gains in our available for sale portfolio increased to approximately $19.4 billion as of June 30, 2014 from approximately $11.7 billion as of December 31, 2013 due to a decline in interest rates over the period and the narrowing of credit spreads.

The overall credit rating of our fixed maturity portfolio remains largely unchanged from December 31, 2013.

Industry Trends

Our business is affected by industry and economic factors such as interest rates, credit and equity market conditions, catastrophic claims events, regulation, tax policy, competition, and general economic, market and political conditions. We continued to operate under difficult market conditions in 2014, characterized by factors such as historically low interest rates, instability in the global markets and slowing growth in emerging markets, China and Euro-Zone economies.

Interest rates remain low relative to historical levels, which have affected our industry by reducing investment returns. In addition, current market conditions may not necessarily permit insurance companies to increase pricing across all our product lines.

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AIG is focused on the following priorities for 2014:

- Emphasis on customers;
- Growth and profitability in our core insurance businesses;
- Enhance the yield on our investments while maintaining focus on credit quality;
- Manage our capital more efficiently and redeploy capital to areas that promote profitable growth;
- Work with the Board of Governors of the Federal Reserve System (the FRB) in its capacity as our principal regulator; and
- Pursue initiatives that continue to reduce expenses and improve efficiencies to best meet the needs of our customers, including centralizing work streams to lower cost locations and creating a more streamlined organization.

The outlook for each of our businesses and management initiatives to improve growth and performance in 2014 and over the longer term is summarized below. See our 2013 Annual Report for additional information concerning strategic initiatives and opportunities for each of our businesses.

AIG Property Casualty Strategic initiatives and Outlook

Growth and Business Mix — Grow higher value business to increase profitability and expand in attractive growth economies.

Underwriting Excellence — Enhance risk selection and pricing to earn returns commensurate with the risk assumed.

Claims Best Practices — Improve claims practices, analytics and tools to improve customer service, increase efficiency and lower the loss ratio.

Operating Expense Discipline — Apply operating expense discipline and increase efficiencies by taking full advantage of AIG Property Casualty's global footprint.

Capital Efficiency — Enhance capital management through initiatives to streamline AIG Property Casualty’s legal entity structure, optimize AIG Property Casualty’s reinsurance program and improve tax efficiency.

Investment Strategy — Execute AIG Property Casualty’s investment strategy, which includes increased asset diversification and yield enhancement opportunities that meet AIG Property Casualty’s liquidity, capital, risk and return objectives.

Market Conditions and Industry Trends

AIG Property Casualty expects the current low interest rate environment relative to historical levels, currency volatility, and ongoing uncertainty in global economic conditions will continue to challenge the growth of net investment income and limit growth in some markets. Due to these conditions and overcapacity in the property casualty insurance industry, AIG Property

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Casualty has sought to modify terms and conditions, grow profitable segments of the business, exit unprofitable businesses and develop advanced data analytics to improve profitability.

AIG Property Casualty has observed improving trends in certain key indicators that may offset the effect of current economic challenges. In recent years, AIG Property Casualty has benefitted from favorable pricing trends, particularly in its U.S. commercial business. However, such trends have tapered off in recent quarters. The property casualty insurance industry is experiencing modest growth as a result of this positive rate trend and an increase in overall exposures in certain markets. AIG Property Casualty also expects that expansion in certain growth economies will occur at a faster pace than in developed countries, although at levels lower than those previously expected due to revised economic assumptions.

During the second quarter of 2014, within the U.S. commercial property business, AIG Property Casualty observed continued rate pressure in the U.S. Excess and Surplus lines market, particularly with respect to its natural catastrophe exposed business. AIG Property Casualty's strategy is to continue to differentiate its capacity from its peers through leveraging management's significant experience with catastrophic events, providing loss prevention expertise and maintaining discipline in pricing to internal targets despite intense competition.

In the U.S., AIG Property Casualty's exposure to terrorism risk is mitigated by the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA) in addition to limited private reinsurance protections. TRIPRA is set to expire on December 31, 2014. AIG Property Casualty is closely monitoring the legislative developments related to the TRIPRA renewal or expiration, and has implemented appropriate business strategies for potential legislation outcomes, including non renewal of the law. For additional information on TRIPRA, see Item 1A. Risk Factors — Reserves and Exposures and Item 7. MD&A — Enterprise Risk Management — Insurance Operations Risks — AIG Property Casualty Key Insurance Risks — Terrorism Risk in the 2013 Annual Report.

Strategic Initiatives

Growth and Business Mix

AIG Property Casualty continues efforts to better segment its business by industry, geography and type of coverage in order to enhance its decision making regarding risk acceptance and pricing. For example, within workers' compensation, AIG Property Casualty has observed different experience and trends based on this segmentation, which helps inform its risk appetite, pricing and loss mitigation decisions.

As part of AIG Property Casualty's strategy to expand its consumer operations in growth economies, on May 29, 2013, AIG Property Casualty entered into a joint venture agreement with PICC Life Insurance Company Limited (PICC Life), a subsidiary of the People's Insurance Company (Group) of China Limited (PICC Group), to form an agency distribution company in China to distribute life and retirement products. The joint venture company distributes jointly developed life and retirement insurance products, existing PICC Life products, PICC Property & Casualty Company Limited (PICC P&C) insurance products, AIG Property Casualty products, as well as other products aimed at meeting the needs of this developing market. AIG owns 24.9 percent of the joint venture company with PICC Life holding the remaining 75.1 percent. AIG's participation in the joint venture is managed by AIG Property Casualty. The joint venture commenced operations in March 2014.

AIG Property Casualty continues to explore other potential life insurance and accident and health opportunities internationally.

Capital Efficiency

AIG Property Casualty continues to execute capital management initiatives by enhancing broad based risk tolerance guidelines for its operating units, implementing underwriting strategies to increase return on equity by line of business and reducing exposure to businesses with inadequate pricing and increased loss trends. In addition, AIG Property Casualty remains focused on enhancing its global reinsurance strategy to improve overall capital efficiency, which may lead to periodic income statement volatility.

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AIG Property Casualty also continues to streamline its legal entity structure to enhance transparency for regulators and optimize capital and tax efficiency. The legal entity restructuring initiatives have enhanced AIG Property Casualty's dividend capacity, reduced required capital, and provided tax benefits. Additionally, the restructurings allow AIG Property Casualty to simplify its reinsurance arrangements, which further facilitates increased capital optimization. In the six months ended June 30, 2014, AIG Property Casualty continued the integration of its Japan operations through the conversion of the American Home Assurance Company's Japan branch to a subsidiary of the Japan holding company effective on April 1, 2014. AIG Property Casualty expects its overall legal entity restructuring to be substantially completed in 2015, subject to regulatory approvals in the relevant jurisdictions.

AIG LifE AND RETIREMENT STRATEGIC INITIATIVES AND Outlook

Product Diversity and Capacity for Growth – Continue to expand AIG Life and Retirement's comprehensive portfolio with superior, differentiated product solutions that meet consumer needs for financial and retirement security, using scale and capital strength to pursue growth opportunities.

Integrated Distribution – Grow assets under management by leveraging an extensive distribution organization of over 300,000 financial professionals and expanding relationships with key distribution partners to effectively market diverse product offerings across multiple channels under a more unified branding strategy.

Investment Portfolio – Maintain a diversified, high quality portfolio of fixed maturity securities that largely match the duration characteristics of liabilities with assets of comparable duration, and pursue yield-enhancement opportunities that meet liquidity, risk and return objectives.

Operational Initiatives – Continue to streamline life insurance and annuity operations and systems into a lower-cost, more agile model that provides superior service and ease of doing business.

Effective Risk and Capital Management – Deliver solid earnings through disciplined pricing and diversification of risk and increase capital efficiency within life insurance entities to enhance return on equity.

Market Conditions and Industry Trends

Baby boomers reaching retirement age expect to live longer in retirement and place less reliance on traditional pensions and government retirement benefits than previous generations. These demographic trends, combined with strong equity markets and low volatility, provide a favorable environment for sales of individual variable annuities, and have contributed to growth in separate account assets under management in both Retirement Income Solutions and Group Retirement product lines. An increasing demographic of Americans approaching retirement and seeking guaranteed income features, combined with changes in the competitive landscape, provide opportunities to continue growing AIG Life and Retirement’s position in the individual variable annuities market.

The interest rate environment has a significant impact on the life and annuity industry. Low long-term interest rates put pressure on long-term investment returns, negatively affect sales of interest rate sensitive products such as fixed annuities, and reduce future profits on certain existing fixed rate products. Low interest rates may also affect future investment margins, and may affect the recoverability and amortization rate of DAC assets in variable annuity, fixed annuity and universal life businesses. While long-term interest rates have continued to remain low relative to historical levels, the modest increase in rates since the first quarter of 2013 has caused demand for fixed annuities products to improve, and continued stable or modestly rising interest rates would provide favorable market conditions for fixed annuity sales and future profitability.

AIG Life and Retirement will continue to actively manage renewal crediting rates and use a disciplined approach to pricing new sales of interest rate sensitive products, including minimum rate guarantees. Also, as market conditions change, asset and liability interest rate exposures and strategic asset allocation are managed to emphasize lower or higher durations in the investment portfolio.

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Product Diversity and Capacity for Growth

AIG Life and Retirement has been able to meet the demand for guaranteed products and grow sales while managing risk, by offering competitive products with strong de-risking features, such as volatility control funds, rider fees indexed to a market volatility index and required minimum allocations to fixed accounts, and using a dynamic risk hedging program. In addition to individual variable annuities, the Retirement Income Solutions product line is expanding the offerings of index annuities, including those with guarantee features, to provide additional solutions for consumers approaching retirement.

Sales in the Fixed Annuities product line have improved compared to the same periods in the prior year, and could strengthen if interest rates rise and the yield curve steepens, as these market conditions make fixed annuity products more attractive compared to alternatives such as bank deposits.

Industry sales of individual life products have continued their overall downward trend, particularly in the past several quarters. AIG Life and Retirement is targeting growth by offering differentiated product solutions to better meet consumer needs, and by expanding distribution of life products through new channels and relationships, while maintaining pricing discipline as an integral component of its overall strategy. Advanced underwriting approaches that leverage existing capabilities within AIG are another key focus in AIG Life and Retirement's drive for a sustainable competitive advantage in this product line.

The Institutional Markets product line is expected to continue contributing to growth in assets under management from increased stable value wrap business as well as from disciplined growth through the pursuit of select opportunities related to the terminal funding and pension buyout business.

Other Operations strategic initiatives and OUTLOOK

Mortgage Guaranty (UGC)

Superior Risk Selection – Ensure the high quality of UGC's new business through disciplined underwriting by using its proprietary multi-variant risk-based pricing model. UGC's pricing model is based on a comprehensive range of risk attributes to generate a price reflecting the credit risk of each loan.

Customer focus – Provide exceptional service and transparency to all customers through collaboration and continuous innovation that enhances the mortgage origination process.

Product Selection – Provide a complete and competitively priced mortgage insurance product line that delivers flexible submission options and innovative solutions.

Expense Management – Streamline UGC's processes through the use of technology and shared services.

Market Conditions and Industry Trends

During 2013, refinancing activity drove much of the increased volume in the mortgage loan industry due to historically low residential mortgage interest rates. However, the majority of UGC's increase in new business written in 2013 was originated from home purchases as opposed to refinancings. Although UGC believes that home purchases will increase during 2014, primarily due to increased buyer confidence arising from home price appreciation and residential mortgage interest rates remaining low relative to historical levels, UGC continues to anticipate a decrease in new insurance written during 2014 compared to 2013 as higher residential mortgage interest rates from the third quarter of 2013 through the second quarter of 2014 have reduced refinancing activity.

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While higher residential mortgage interest rates have had an unfavorable impact on new mortgage loan volumes, particularly on refinancing activity, UGC expects current residential mortgage interest rates to have a favorable impact on the persistency of business written from 2011 through 2013 since refinancing of mortgage loans would be unattractive to homeowners who originated mortgages at the historically low residential mortgage interest rates prevalent during that period. UGC expects that this higher persistency will continue to benefit its results throughout 2014 and into 2015.

UGC also expects that newly reported delinquencies will decline during 2014 and into 2015 and cure rates will improve as a result of home value appreciation, which will encourage homeowners with delinquent mortgages to refinance or sell and purchase another home. UGC believes the combination of higher persistency, lower new delinquencies and improving cure rates, partially offset by a decline in new mortgage loan volumes, will result in favorable operating results for UGC throughout 2014.

UGC's continued success, as well as the success of the mortgage insurance industry, can be significantly affected by changes in regulatory and legislative developments and changes in the charters and business practices of Freddie Mac and Fannie Mae (collectively, the GSEs).

On July 10, 2014, the GSEs issued in draft form for public comment new eligibility requirements used to approve private mortgage insurers that provide insurance on loans owned or guaranteed by the GSEs. It is unclear what the final eligibility requirements will be; however, if adopted as issued, new requirements would include, among other things, higher capital requirements and heightened liquidity requirements.

The National Association of Insurance Commissioners (the NAIC) has begun drafting a new model law for mortgage insurance. A primary focus of the NAIC's effort is to develop a risk based capital (RBC) model that will replace or supplement the current 25:1 risk-to-surplus requirements. This RBC model law may impact the amount of statutory surplus certain UGC subsidiaries must maintain. In addition, the new model law may have an impact on various other business practices, such as underwriting and claims mitigation practices in addition to possible impacts on liquidity and other financial thresholds.

UGC cannot predict the potential effects new GSE eligibility requirements and a new model law may have on its business, results of operations, cash flows and financial condition.

Strategic Initiatives

Risk Selection

During 2014, UGC expects to continue to be a leading private provider of mortgage insurance and to differentiate itself from its competitors by providing superior service and products to its customers by utilizing its proprietary risk-based pricing strategy. This pricing strategy provides UGC's customers with mortgage insurance products that are priced commensurate with the underwriting risk, which UGC believes will result in an appropriately priced, high-quality book of business. UGC plans to continue to execute this strategy throughout 2014. The business generated under this strategy, which was initiated during 2009, accounted for approximately 65 percent of net premiums earned in the six-month period ended June 30, 2014.

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Global Capital Markets

AIG Markets acts as the derivatives intermediary between AIG and its subsidiaries and third parties to provide hedging services for AIG entities. The derivative portfolio of AIG Markets consists primarily of interest rate and currency derivatives.

The remaining derivatives portfolio of AIGFP consists primarily of hedges of the assets and liabilities of the DIB and a portion of the legacy hedges for AIG and its subsidiaries. AIGFP's derivatives portfolio consists primarily of interest rate, currency, credit, commodity and equity derivatives. Additionally, AIGFP has a credit default swap portfolio that is being managed for economic benefit and with limited risk. The AIGFP portfolio continues to be wound down and is managed consistent with our risk management objectives. Although the portfolio may experience periodic fair value volatility, it consists predominantly of transactions that we believe are of low complexity, low risk or currently not economically appropriate to unwind based on a cost versus benefit analysis.

Direct Investment Book

The DIB consists of a portfolio of assets and liabilities held directly by AIG Parent in the MIP and certain non derivative assets and liabilities of AIGFP. The DIB portfolio is being wound down and is managed with the objective of ensuring that at all times it maintains the liquidity we believe is necessary to meet all of its liabilities as they come due, even under stress scenarios, and to maximize returns consistent with our risk management objectives.

The DIB's assets consist primarily of cash, short term investments, fixed maturity securities issued by corporations, U.S. government and government sponsored entities and mortgage and asset-backed securities. The value of these assets is impacted by macro economic trends in U.S. and core European markets, including corporate credit spreads, commercial and residential real estate markets, and to a lesser extent, interest rates and foreign exchange rates, among other factors. The majority of these assets are carried at fair value with changes in fair value recognized through earnings. The DIB's liabilities consist primarily of notes and other borrowings supported by assets as well as other short term financing obligations. The DIB has both liabilities that are held at cost and liabilities that are held at fair value. The liabilities held at fair value vary in price based on changes in AIG's credit spreads with changes in fair value reflected in earnings. Changes in the fundamental drivers of the fair value of DIB assets and liabilities will create earnings volatility for the DIB on a period to period comparative basis.

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The following section provides a comparative discussion of our Results of Operations on a reported basis for the three- and six-month periods ended June 30, 2014 and 2013. Factors that relate primarily to a specific business segment are discussed in more detail within that business segment discussion. For a discussion of the Critical Accounting Estimates that affect the Results of Operations, see the Critical Accounting Estimates section of this MD&A and in Part II, Item 7. MD&A, in the 2013 Annual Report.

The following table presents AIG's condensed consolidated results of operations:

	Three Months Ended June 30,		Percentage	Six Months Ende June 30,	
(in millions)	**2014**	2013	Change	**2014**	20
Revenues:					
Premiums	**$ 9,458**	$ 9,200	3 %	**$ 18,496**	$ 18,57
Policy fees	**701**	623	13	**1,393**	1,238
Net investment income	**3,884**	3,844	1	**8,080**	8,008
Net realized capital gains (losses)	**101**	1,591	(94)	**(112)**	1,891
Aircraft leasing revenue	**489**	1,111	(56)	**1,602**	2,185
Other income	**1,472**	2,057	(28)	**2,758**	3,494
Total revenues	**16,105**	18,426	(13)	**32,217**	35,38
Benefits, claims and expenses:					
Policyholder benefits and claims incurred	**6,771**	8,090	(16)	**13,568**	14,81
Interest credited to policyholder account balances	**963**	972	(1)	**1,918**	1,989
Amortization of deferred policy acquisition costs	**1,396**	1,353	3	**2,701**	2,639
Other acquisition and insurance expenses	**2,213**	2,245	(1)	**4,330**	4,483
Interest expense	**463**	535	(13)	**942**	1,112
Aircraft leasing expenses	**489**	1,093	(55)	**1,585**	2,124
Loss on extinguishment of debt	**34**	38	(11)	**272**	378
Net (gain) loss on sale of divested businesses	**(2,174)**	47	NM	**(2,178)**	47
Other expenses	**1,470**	888	66	**2,326**	1,758
Total benefits, claims and expenses	**11,625**	15,261	(24)	**25,464**	29,34
Income from continuing operations before income tax expense	**4,480**	3,165	42	**6,753**	6,040
Income tax expense	**1,474**	425	247	**2,088**	1,142
Income from continuing operations	**3,006**	2,740	10	**4,665**	4,898
Income (loss) from discontinued operations, net of income tax expense	**30**	18	67	**(17)**	91
Net income	**3,036**	2,758	10	**4,648**	4,989
Less: Net income (loss) attributable to noncontrolling interests	**(37)**	27	NM	**(34)**	52
Net income attributable to AIG	**$ 3,073**	$ 2,731	13 %	**$ 4,682**	$ 4,937

Income from continuing operations before income tax expense was $4.5 billion for the three-month period ended June 30, 2014 compared to $3.2 billion in the same period in the prior year and reflected pre-tax income from insurance operations of $1.5 billion, $1.2 billion and $211 million from AIG Property Casualty, AIG Life and Retirement and Mortgage Guaranty in the three-month period ended June 30, 2014, respectively, compared to pre-tax income of $1.2 billion, $1.7 billion and $75 million for these operations in the same period in the prior year, respectively.

Income from continuing operations before income tax expense was $6.8 billion for the six-month period ended June 30, 2014 compared to $6.0 billion in the same period in the prior year and reflected pre-tax income from insurance operations of $2.8 billion, $2.5 billion and $288 million from AIG Property Casualty, AIG Life and Retirement and Mortgage Guaranty in the

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six-month period ended June 30, 2014, respectively, compared to pre-tax income of $2.8 billion, $3.3 billion and $119 million for these operations in the same period in the prior year, respectively.

See the business segment discussions that follow for an analysis of results for these operations.

For the three- and six-month periods ended June 30, 2014, the effective tax rate on income from continuing operations was 32.9 percent and 30.9 percent, respectively. The effective tax rate for the three- and six-month periods ended June 30, 2014 on income from continuing operations differs from the statutory tax rate of 35 percent primarily due to tax benefits associated with tax-exempt interest income and a decrease in AIG Life and Retirement's capital loss carryforward valuation allowance.

For the three- and six-month periods ended June 30, 2013, the effective tax rate on income from continuing operations was 13.4 percent and 18.9 percent, respectively. The effective tax rate for the three- and six-month periods ended June 30, 2013 on income from continuing operations differs from the statutory tax rate of 35 percent primarily due to tax benefits associated with tax exempt interest income and a decrease in AIG Life and Retirement'scapital loss carryforward valuation allowance related to the actual and projected gains on sales of AIG Life and Retirement's available for sale securities. For the six-month period ended June 30, 2013, these items were partially offset by changes in uncertain tax positions.

The following table presents a reconciliation of net income attributable to AIG to after-tax operating income attributable to AIG:

	Three Months Ended June 30,		Six Month June
(in millions)	**2014**	2013	**2014**
Net income attributable to AIG	**$ 3,073**	$ 2,731	**$ 4,682**
(Income) loss from discontinued operations	**(30)**	(18)	**17**
(Income) loss from divested businesses, including gain on the sale of ILFC	**(1,399)**	16	**(1,411)**
Uncertain tax positions and other tax adjustments	**39**	64	**11**
Legal reserves (settlements) related to legacy crisis matters	**321**	(257)	**319**
Deferred income tax valuation allowance releases	**(75)**	(752)	**(140)**
Changes in fair value of AIG Life and Retirement fixed maturity securities designated to hedge living benefit liabilities, net of interest expense	**(35)**	45	**(84)**
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses)	**28**	835	**16**
Loss on extinguishment of debt	**22**	25	**177**
Net realized capital (gains) losses	**(111)**	(1,034)	**27**
After-tax operating income attributable to AIG	**$ 1,833**	$ 1,655	**$ 3,614**

Weighted average diluted shares outstanding		**1,464,676,330**		1,482,246,618		**1,468,364,283**
Income per common share attributable to AIG (diluted)	**$**	**2.10**	$	1.84	**$**	**3.19**
After-tax operating income per common share attributable to AIG (diluted)	**$**	**1.25**	$	1.12	**$**	**2.46**

After-tax operating income attributable to AIG increased in the three-month period ended June 30, 2014 compared to the same period in the prior year, primarily due to increases in income from insurance operations, partially offset by a decrease in DIB income. After-tax operating income attributable to AIG decreased slightly in the six-month period ended June 30, 2014 compared to the same period in the prior year, primarily due to decreases in GCM and DIB income, partially offset by increases in income from insurance operations.

For the three-month periods ended June 30, 2014 and 2013, the effective tax rate on pre-tax operating income was 33.4 percent and 31.8 percent, respectively. For the six-month periods ended June 30, 2014 and 2013, the effective tax rate on pre-tax operating income was 32.6 percent and 30.8 percent, respectively. The significant factors that contributed to the

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difference from the statutory rate included tax benefits resulting from tax-exempt interest income and other permanent tax items, and the impact of discrete tax benefits.

We report the results of our operations through two reportable segments: AIG Property Casualty and AIG Life and Retirement. The Other Operations category consists of businesses and items not allocated to our reportable segments.

In 2013, we announced a reorganization of our Consumer Insurance business and named a new management team. Under the new structure, AIG's global life insurance business will be managed as part of AIG Global Consumer Insurance — enabling our consumer network across the world to benefit from the sophistication, scale, and success of our U.S. life insurance platform.

The new management team made a number of key appointments and certain critical decisions regarding how its underlying operating segments will be organized. However, we continue to work on the final elements of the new organization and operating structure. When the new structure is finalized, the presentation of AIG Property Casualty and AIG Life and Retirement results may be modified accordingly and prior periods' presentations may be revised to conform to the new operating segments.

The following table summarizes the operations of each reportable segment and Other Operations. See also Note 3 to the Condensed Consolidated Financial Statements.

	Three Months Ended June 30,		Percentage	Six Months Ended June 30,		Percentage
(in millions)	**2014**	2013	Change	**2014**	2013	Change
Total revenues:						
AIG Property Casualty	**$ 9,950**	$ 9,801	2 %	**$ 19,616**	$ 19,769	(1) %
AIG Life and Retirement	**4,570**	6,048	(24)	**8,921**	10,788	(17)
Total reportable segments	**14,520**	15,849	(8)	**28,537**	30,557	(7)
Other Operations	**1,804**	2,836	(36)	**4,064**	5,277	(23)
Consolidation and eliminations	**(219)**	(259)	15	**(384)**	(446)	14
Total revenues	**$ 16,105**	$ 18,426	(13)	**$ 32,217**	$ 35,388	(9)
Pre-tax income (loss):						
AIG Property Casualty	**$ 1,490**	$ 1,205	24	**$ 2,799**	$ 2,819	(1)
AIG Life and Retirement	**1,249**	1,719	(27)	**2,481**	3,289	(25)
	2,739	2,924	(6)	**5,280**	6,108	(14)

Total reportable segments						
Other Operations:						
Mortgage Guaranty	**211**	75	181	**288**	119	142
Global Capital Markets	**245**	175	40	**274**	402	(32)
Direct Investment book	**272**	720	(62)	**627**	1,032	(39)
Corporate & Other	**956**	(738)	NM	**132**	(1,746)	NM
Aircraft Leasing	**-**	18	NM	**17**	61	(72)
Consolidation and eliminations	**1**	1	-	**2**	2	-
Other Operations	**1,685**	251	NM	**1,340**	(130)	NM
Consolidation and eliminations	**56**	(10)	NM	**133**	62	115
Total pre-tax income	**$ 4,480**	$ 3,165	42	**$ 6,753**	$ 6,040	12

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Pre-tax operating income (loss):							
AIG Property Casualty	$	**1,355**	$ 1,086	25	$	**2,514**	$ 2,643	(5)
AIG Life and Retirement		**1,180**	1,151	3		**2,597**	2,545	2
Total reportable segments		**2,535**	2,237	13		**5,111**	5,188	(1)
Other Operations:							
Mortgage Guaranty		**210**	73	188		**286**	114	151
Global Capital Markets		**245**	175	40		**274**	402	(32)
Direct Investment book		**313**	591	(47)		**753**	920	(18)
Corporate & Other		**(570)**	(642)	11		**(1,121)**	(1,360)	18
Consolidation and eliminations		**1**	1	-		**2**	2	-
Other Operations		**199**	198	1		**194**	78	149
Consolidations, eliminations and other adjustments		**10**	33	(70)		**45**	63	(29)
Total pre-tax operating income	$	**2,744**	$ 2,468	11	$	**5,350**	$ 5,329	-

Total Revenues

(in millions)

AIG PROPERTY CASUALTY		AIG LIFE AND RETIREMENT

OTHER OPERATIONS		

A discussion of significant items affecting pre-tax segment income follows. Factors that affect pre-tax operating income for a specific business segment are discussed in the detailed business segment analysis.

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AIG Property Casualty – Pre-tax income increased in the three-month period ended June 30, 2014 due to underwriting income, compared to an underwriting loss in the same period in the prior year, partially offset by a decrease in net investment income. The improvement in underwriting results was primarily due to lower catastrophe losses and favorable loss reserve development compared to an adverse loss reserve development in the prior year, which were partially offset by an increase in the frequency and severity of severe losses.Pre-tax income decreased in the six-month period ended June 30, 2014 compared to the same period in the prior year, primarily due to a decrease in net investment income and a slight decrease in underwriting income. The decrease in underwriting income resulted from an increase in the frequency and severity of severe losses, higher catastrophe losses and unfavorable loss reserve development, which were partially offset by enhanced risk selection, rate increases and continued improvement from change in business mix, as well as a reserve discount benefit.

AIG Life and Retirement – Pre-tax income for the three- and six-month periods ended June 30, 2014 decreased compared to the same periods in the prior year, primarily due to lower net realized capital gains and lower income from legal settlements, partially offset by lower loss recognition expense in the current periods and a slight increase in pre-tax operating income, as noted earlier. Pre-tax income for the six-month period ended June 30, 2014 included realized capital losses from changes in the fair value of embedded derivatives related to variable annuity guarantee features, net of hedges, as a result of reductions in interest rates and narrowing of credit spreads during the period. The significant net realized capital gains in the 2013 periods were primarily due to investment sales related to capital loss carryforward utilization.

Other Operations –Pre tax income improved in the three- and six-month periods ended June 30,2014 compared to the same periods in the prior year primarily due to a gain on sale of divested business related to the sale of ILFC and declines in interest expense from ongoing debt management activities partially offset by decreases in pre-tax income from the DIB and increases in legal reserve expenses. In addition, pre-tax income was also impacted by changes in pre-tax income from GCM.

GCM's pre-tax income increased in the three-month period ended June 30, 2014 compared to the same period in the prior year primarily due to gains realized upon unwinding certain positions and a decrease in operating expenses, partially offset by declines in net credit valuation adjustments on derivative assets and liabilities and in unrealized market valuation gains related to the super senior CDS portfolio.GCM's pre-tax income decreased in the six-month period ended June 30, 2014 compared to the same period in the prior year primarily due to declines in net credit valuation adjustments on derivative assets and liabilities and in unrealized market valuation gains related to the super senior CDS portfolio, partially offset by gains realized upon unwinding certain positions and a decrease in operating expenses. A state regulatory agency has requested additional information relating to the unwinding of a position on which we realized gains of $196 million in the three- and six-month periods ended June 30, 2014.

The DIB's pre tax income decreased in the three-month period ended June 30, 2014 compared to the same period in the prior year primarily due to lower fair value appreciation on ABS CDOs and a decrease in gains realized upon unwinding certain positions. The DIB's pre tax income decreased in the six-month period ended June 30, 2014 compared to the same period in the prior year primarily due to lower fair value appreciation on ABS CDOs and a decline in net credit valuation adjustments on assets and liabilities for which the fair value option was elected, partially offset by an increase in gains realized upon unwinding certain positions.

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The following table presents reconciliations of pre-tax income (loss) to pre-tax operating income (loss) by reportable segment and after-tax operating income attributable to AIG, which are non-GAAP measures. See Use of Non-GAAP Measures for additional information.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2014**	2013	**2014**	2013
AIG Property Casualty				
Pre-tax income	**$ 1,490**	$ 1,205	**$ 2,799**	$ 2,819
Net realized capital gains	**(127)**	(109)	**(269)**	(163)
Legal settlements	**-**	(3)	**(8)**	(3)
Other (income) expense – net	**(8)**	(7)	**(8)**	(10)
Pre-tax operating income	**$ 1,355**	$ 1,086	**$ 2,514**	$ 2,643
AIG Life and Retirement				
Pre-tax income	**$ 1,249**	$ 1,719	**$ 2,481**	$ 3,289
Legal settlements	**(12)**	(359)	**(42)**	(467)
Changes in fair value of fixed maturity securities designated to hedge living benefit liabilities, net of interest expense	**(54)**	69	**(130)**	98
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses)	**41**	1,152	**11**	1,211
Net realized capital (gains) losses	**(44)**	(1,430)	**277**	(1,586)
Pre-tax operating income	**$ 1,180**	$ 1,151	**$ 2,597**	$ 2,545
Other Operations				
Pre-tax income (loss)	**$ 1,685**	$ 251	**$ 1,340**	$ (130)
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses)	**1**	-	**13**	-
Net realized capital (gains) losses	**120**	(88)	**195**	(133)
Net (gain) loss on sale of divested businesses	**(2,146)**	47	**(2,150)**	47
Legal reserves	**505**	14	**529**	25
Legal settlements	**-**	(46)	**12**	(48)
Loss on extinguishment of debt	**34**	38	**272**	378
Aircraft Leasing	**-**	(18)	**(17)**	(61)
Pre-tax operating income	**$ 199**	$ 198	**$ 194**	$ 78
Total				
Pre-tax operating income of reportable segments and Other Operations	**$ 2,734**	$ 2,435	**$ 5,305**	$ 5,266
Consolidations, eliminations and other adjustments	**10**	33	**45**	63
Pre-tax operating income	**2,744**	2,468	**5,350**	5,329
Income tax expense	**(918)**	(786)	**(1,745)**	(1,640)
Noncontrolling interests excluding net realized capital (gains) losses	**7**	(27)	**9**	(52)
After-tax operating income attributable to AIG	**$ 1,833**	$ 1,655	**$ 3,614**	$ 3,637

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PRE-TAX INCOME (LOSS)

(in millions)

AIG PROPERTY CASUALTY		AIG LIFE AND RETIREMENT

PRE-TAX OPERATING INCOME (LOSS)

(in millions)

AIG PROPERTY CASUALTY		AIG LIFE AND RETIREMENT

AIG PROPERTY CASUALTY

AIG Property Casualty presents its financial information in two operating segments – Commercial Insurance and Consumer Insurance – as well as an Other category.

Commercial Insurance provides insurance solutions for large and small businesses. Commercial Insurance products are primarily distributed through a network of independent retail and wholesale brokers, and through an independent agency network.

Consumer Insurance provides personal insurance solutions for individuals, organizations and families. Products are distributed primarily through agents and brokers, as well as through direct marketing, partner organizations such as bancassurance, and the internet.

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The **Other** category consists primarily of run off lines of business, including excess workers' compensation, asbestos and legacy environmental (1986 and prior); certain environmental liability businesses written prior to 2004; operations and expenses not attributable to the Commercial Insurance or Consumer Insurance operating segments; unallocated net investment income; net realized capital gains and losses; other income and expense items; and adverse loss development, net of the related amortization of deferred gains for a retroactive reinsurance arrangement.

See Part I, Item 1. Business – AIG Property Casualty in AIG's 2013 Annual Report for further discussion of AIG Property Casualty's products and geographic regions where it distributes its products.

AIG Property Casualty continues to enhance the value based metrics that provide management with enhanced measures to evaluate its profitability, such as a risk adjusted profitability model. Along with underwriting results, this risk adjusted profitability model incorporates elements of capital allocations, costs of capital and net investment income. AIG Property Casualty believes that such performance measures will allow it to better assess the true economic returns of its business.

AIG Property Casualty Quarterly and Year-to-Date 2014 Highlights

Pre tax operating income increased in the three-month period ended June 30, 2014, compared to the same period in the prior year primarily due to lower catastrophe losses and favorable loss reserve development compared to adverse loss reserve development in the prior year, partially offset by an increase in the frequency and severity of severe losses and a decrease in net investment income.

Pre-tax operating income decreased in the six-month period ended June 30, 2014 compared to the same period in the prior year primarily due to a decrease in net investment income.

Net premiums written decreased slightly in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year. Commercial Insurance net premiums written declined, reflecting lower retention on renewal business and decreases in new business growth as a result of increased competition, particularly in Casualty and Property. Consumer Insurance net premiums written declined due to the effect of foreign exchange as a result of the strengthening of the U.S. dollar against the Japanese yen. Excluding the effect of foreign exchange, net premiums written increased by approximately four percent and three percent for Consumer Insurance in the three- and six-month periods ended June 30, 2014, respectively, compared to the same periods in the prior year, reflecting growth in Fuji Life and increases in personal property products in both Japan and U.S. due to growth in the housing market.

The loss ratio decreased by 3.4 points in the three-month period ended June 30, 2014, compared to the same period in the prior year primarily due to lower catastrophe losses, favorable loss reserve development compared to adverse loss reserve development in the prior year period, the improvement in the accident year loss ratio, as adjusted, in Consumer Insurance primarily as a result of rate increases, improved loss experience in the Japan automobile business, and rate actions and coverage changes in the U.S. Warranty business. These decreases were partially offset by an increase in severe losses in Property and Specialty.

The loss ratio increased by 0.2 points in the six-month period ended June 30, 2014, compared to the same period in the prior year primarily due to higher severe and catastrophe losses, and an increase in adverse loss reserve development. These were partially offset by rate increases and improved loss experience in the Japan automobile business, rate actions and coverage changes in the U.S. Warranty business in Consumer Insurance and an increase in discount for certain workers' compensation reserves, which improved the loss ratio by approximately 0.5 points compared to the same period in the prior year.

The acquisition ratio decreased by 0.6 points and 0.3 points in the three and six-month periods ended June 30, 2014, respectively, compared to the same periods in the prior year primarily due to lower premium taxes and guaranty fund and other assessments in Commercial Insurance. This decrease was partially offset by an increase in commission rates in Commercial Insurance reflecting the change in business mix to higher value lines. In addition, the Consumer Insurance acquisition ratio for the six-month period ended June 30, 2014 increased due to higher acquisition costs in growth-targeted lines of business.

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The general operating expense ratio increased by 0.2 points and remained unchanged in the three- and six-month periods ended June 30, 2014, respectively, compared to the same periods in the prior year, primarily due to an increase in infrastructure costs. In addition, the general operating expenses for the six-month period ended June 30, 2013 included the cost of the implementation of a voluntary early retirement plan in Japan.

Net investment income decreased by 4 percent and 5 percent in the three- and six-month periods ended June 30, 2014, respectively, compared to the same periods in the prior year, primarily due to lower returns on alternative investments, lower income on investments accounted for under the fair value option and the effects of lower new investment yields compared to interest rates on matured or sold investments.

Dividends paid by AIG Property Casualty to AIG Parent were $879 million during the three- and six-month periods ended June 30, 2014, including non-cash dividends of $178 million.

AIG Property Casualty Results

The following table presents AIG Property Casualty results:

(in millions)	Three Months Ended June 30, **2014**	2013	Percentage Change	Six Months Ended June 30, **2014**	2013	Percentage Change
Commercial Insurance						
Underwriting results:						
Net premiums written	**$ 5,816**	$ 5,876	(1) %	**$ 10,812**	$ 10,779	-
Increase in unearned premiums	**(551)**	(803)	31	**(505)**	(578)	13
Net premiums earned	**5,265**	5,073	4	**10,307**	10,201	1
Claims and claims adjustment expenses incurred	**3,564**	3,685	(3)	**7,065**	7,014	1
Acquisition expenses	**812**	829	(2)	**1,630**	1,667	(2)
General operating expenses	**650**	647	-	**1,260**	1,212	4
Underwriting income (loss)	**239**	(88)	NM	**352**	308	14
Net investment income	**624**	623	-	**1,224**	1,268	(3)
Pre-tax operating income	**$ 863**	$ 535	61 %	**$ 1,576**	$ 1,576	-
Consumer Insurance						
Underwriting results:						
Net premiums written	**$ 3,407**	$ 3,390	1 %	**$ 6,745**	$ 6,922	(3)
Increase in unearned premiums	**(154)**	(135)	(14)	**(320)**	(259)	(24)
Net premiums earned	**3,253**	3,255	-	**6,425**	6,663	(4)
Claims and claims adjustment expenses incurred	**1,814**	1,916	(5)	**3,758**	3,885	(3)
Acquisition expenses	**842**	842	-	**1,663**	1,692	(2)
General operating expenses	**529**	498	6	**995**	1,032	(4)
Underwriting income (loss)	**68**	(1)	NM	**9**	54	(83)
Net investment income	**89**	92	(3)	**175**	190	(8)
Pre-tax operating income	**$ 157**	$ 91	73 %	**$ 184**	$ 244	(25)
Other						
Underwriting results:						
Net premiums written	**$ (10)**	$ (3)	(233) %	**$ (10)**	$ (1)	NM
Decrease in unearned premiums	**23**	22	5	**39**	42	(7)
Net premiums earned	**13**	19	(32)	**29**	41	(29)
Claims and claims adjustment expenses incurred	**133**	78	71	**209**	193	8
General operating expenses	**86**	75	15	**177**	201	(12)
Underwriting loss	**(206)**	(134)	(54)	**(357)**	(353)	(1)
Net investment income	**541**	594	(9)	**1,111**	1,176	(6)
Pre-tax operating income	**335**	460	(27)	**754**	823	(8)

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Net realized capital gains	**127**	109	17	**269**	163	65
Legal settlements	**-**	3	NM	**8**	3	167
Other income (expense) - net	**8**	7	14	**8**	10	(20)
Pre-tax income	**$ 470**	$ 579	(19) %	**$ 1,039**	$ 999	4 %
Total AIG Property Casualty						
Underwriting results:						
Net premiums written	**$ 9,213**	$ 9,263	(1) %	**$ 17,547**	$ 17,700	(1) %
Increase in unearned premiums	**(682)**	(916)	26	**(786)**	(795)	1
Net premiums earned	**8,531**	8,347	2	**16,761**	16,905	(1)
Claims and claims adjustment expenses incurred	**5,511**	5,679	(3)	**11,032**	11,092	(1)
Acquisition expenses	**1,654**	1,671	(1)	**3,293**	3,359	(2)
General operating expenses	**1,265**	1,220	4	**2,432**	2,445	(1)
Underwriting income (loss)	**101**	(223)	NM	**4**	9	(56)
Net investment income	**1,254**	1,309	(4)	**2,510**	2,634	(5)
Pre-tax operating income	**1,355**	1,086	25	**2,514**	2,643	(5)
Net realized capital gains	**127**	109	17	**269**	163	65
Legal settlements	**-**	3	NM	**8**	3	167
Other income (expense) - net	**8**	7	14	**8**	10	(20)
Pre-tax income	**$ 1,490**	$ 1,205	24 %	**$ 2,799**	$ 2,819	(1) %

NET PREMIUMS WRITTEN*	**Pre-Tax oPERATING INCOME**
(in millions)	*(in millions)*

* The operations reported as part of Other do not have meaningful levels of Net premiums written.

AIG Property Casualty Quarterly Results

Pre tax operating income increased in the three-month period ended June 30, 2014 due to underwriting income, compared to underwriting loss in the same period in the prior year, partially offset by a decrease in net investment income. The change in underwriting results was primarily due to lower catastrophe losses and favorable loss reserve development compared to adverse loss reserve development in the prior year, which were partially offset by an increase in the frequency and severity of severe losses. Catastrophe losses were $139 million and $316 million for the three-month periods ended June 30, 2014 and 2013, respectively. Net (favorable) adverse loss reserve development including related premium adjustments was $(14) million and $154 million, respectively, in the three-month periods ended June 30, 2014 and 2013. The current accident year losses for the three-month period ended June 30, 2014 included seven severe losses totaling $193 million compared to three severe losses totaling $38 million in the same period in the prior year. Net investment income decreased due to lower returns on alternative investments, lower income on investments accounted for under the fair value option and the effects of lower new investment yields compared to the interest rates on matured or sold investments.

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Acquisition expenses decreased in the three-month period ended June 30, 2014 compared to the same period in the prior year primarily due to the effect of foreign exchange as a result of the strengthening of the U.S. dollar against the Japanese yen. Excluding the effect of foreign exchange, acquisition expenses increased in the three-month period ended June 30, 2014 compared to the same period in the prior year, as a result of the change in business mix to higher value lines, which was partially offset by lower premium taxes and guaranty fund and other assessments in Commercial Insurance.

General operating expenses increased in the three-month period ended June 30, 2014 compared to the same period in the prior year, primarily due to an increase in infrastructure costs.

AIG Property Casualty Year-to-Date Results

Pre tax operating income decreased in the six-month period ended June 30, 2014 compared to the same period in the prior year primarily due to a decrease in net investment income and a slight decrease in underwriting income. The decrease in underwriting income resulted from an increase in the frequency and severity of severe losses, higher catastrophe losses and unfavorable loss reserve development, which were almost entirely offset by enhanced risk selection, rate increases and continued improvement from change in business mix, as well as a reserve discount benefit. See Discounting of Reserves for further discussion of the discount benefit. The current accident year losses for the six-month period ended June 30, 2014 included 19 severe losses totaling $379 million compared to six severe losses totaling $98 million in the same period in the prior year. Catastrophe losses were $401 million and $357 million for the six-month periods ended June 30, 2014 and 2013, respectively. Net adverse loss reserve development including related premium adjustments was $148 million and $102 million in the six-month periods ended June 30, 2014 and 2013, respectively. The loss reserve discount was a benefit of $90 million in the six-month period ended June 30, 2014 compared to a charge of $10 million in the same period in the prior year. Net investment income decreased due to lower returns on alternative investments, lower income associated with investments accounted for under the fair value option and the effects of lower new investment yields compared to the interest rates on matured or sold investments.

Acquisition expenses decreased in the six-month period ended June 30, 2014 compared to the same period in the prior year primarily due to the effect of foreign exchange as a result of the strengthening of the U.S. dollar against the Japanese yen. Excluding the effect of foreign exchange, acquisition expenses increased in the six-month period ended June 30, 2014 compared to the same period in the prior year, as a result of change in business mix to higher value lines, which was partially offset by lower premium taxes and guaranty fund and other assessments in Commercial Insurance.

General operating expenses decreased slightly in the six-month period ended June 30, 2014 compared to the same period in the prior year primarily due to decreases in employee-related expenses, as the six-month period ended June 30, 2013 included a $42 million charge related to the implementation of a voluntary early retirement plan in Japan. This decrease was partially offset by an increase in infrastructure costs.

Commercial Insurance Quarterly Results

Pre tax operating income increased in the three-month period ended June 30, 2014 compared to the same period in the prior year primarily due to underwriting income, compared to underwriting loss in the same period of 2013. The increase in underwriting results was primarily due to lower catastrophe losses and favorable loss reserve development compared to adverse loss reserve development in the prior year period, which were partially offset by an increase in the frequency and severity of severe losses in the Property and Specialty businesses in the America and EMEA regions. Catastrophe losses were $121 million and $307 million in the three-month periods ended June 30, 2014 and 2013, respectively. Net (favorable) adverse loss reserve development, including related premium adjustments, was $(63) million and $187 million, respectively, in the three-month periods ended June 30, 2014 and 2013. The current accident year losses for the three-month period ended June 30, 2014 include severe losses of $193 million compared to severe losses of $38 million in the same period in the prior year.

Acquisition expenses decreased in the three-month period ended June 30, 2014 compared to the same period in the prior year primarily due to lower premium taxes and guaranty fund and other assessments partially offset by higher commission rates reflecting the change in business mix to higher value lines.

General operating expenses increased slightly in the three-month period ended June 30, 2014 compared to the same period in the prior year primarily due to increased infrastructure costs, almost entirely offset by a decrease in employee-related expenses.

Commercial Insurance Year-to-Date Results

Pre tax operating income increased slightly in the six-month period ended June 30, 2014 compared to the same period in the prior year primarily due to an increase in underwriting income, largely offset by a decrease in allocated net investment income. The increase in underwriting income was primarily due to a benefit in reserve discount, lower catastrophe losses and a decrease in adverse prior year loss reserve development, which were partially offset by higher accident year losses reflecting an increase in the frequency and severity of severe losses in the Property and Specialty businesses. The loss reserve discount was a benefit of $142 million in the six-month period ended June 30, 2014, compared to zero in the prior year period. Catastrophe losses were $305 million and $340 million in the six-month periods ended June 30, 2014 and 2013, respectively. Net adverse prior year loss reserve development, including related premium adjustments, was $97 million and $116 million, respectively, in the six-month periods ended June 30, 2014 and 2013. The current accident year losses for the six-month period ended June 30, 2014 include 16 severe losses totaling $338 million compared to six severe losses totaling $98 million in the same period in the prior year. Additionally, pre-tax operating income was also impacted by a decrease in allocated net investment income primarily due to a reduction in net loss reserves and decreases in capital required to support the segment's operations as a result of changes in the mix of business written.

Acquisition expenses decreased in the six-month period ended June 30, 2014 compared to the same period in the prior year primarily due to lower premium taxes and guaranty fund and other assessments.

General operating expenses increased in the six-month period ended June 30, 2014 compared to the same period in the prior year, primarily due to an increase in infrastructure costs partially offset by a decrease in employee-related expenses. In addition, general operating expenses in the six-month period ended June 30, 2013 included unusually low bad debt expense.

Consumer Insurance Quarterly Results

Pre tax operating income increased in the three-month period ended June 30, 2014 compared to the same period in the prior year due to underwriting income, compared to a slight underwriting loss in the same period in the prior year. The underwriting income reflected lower current accident year losses partially offset by lower favorable prior year loss reserve development. Net favorable loss reserve development was $16 million in the three-month period ended June 30, 2014 compared to net favorable loss reserve development of $53 million in the same period in the prior year.

Acquisition expenses were unchanged in the three-month period ended June 30, 2014 compared to the same period in the prior year. Excluding the effect of foreign exchange, acquisition expenses increased in the three- month period ended June 30, 2014 compared to the same period in the prior year, as a result of change in business mix and higher costs in growth-targeted lines of business. Direct marketing expenses are included within acquisition expenses. Direct marketing expenses excluding commissions, were $106 million for the three-month period ended June 30, 2014 compared to $118 million in the same period in the prior year. These expenses, while not deferrable, are expected to generate business that has an average expected overall persistency of approximately five years and, in Japan, approximately nine years.

General operating expenses increased in the three-month period ended June 30, 2014 compared to the same period in the prior year primarily due to higher infrastructure costs primarily related to the ongoing integration of AIG Property Casualty's Japanese entities.

Consumer Insurance Year-to-Date Results

Pre tax operating income decreased in the six-month period ended June 30, 2014 compared to the same period in the prior year due to decreases in underwriting income and allocated net investment income. The decrease in underwriting income was primarily due to higher catastrophe and severe losses and lower favorable prior year loss reserve development in the six-month period ended June 30, 2014. Catastrophe losses in the six-month period ended June 30, 2014 were $96 million compared to $17 million in the same period in the prior year. Severe losses, which are included in current accident year losses,

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were $41 million in the six-month period ended June 30, 2014. There were no severe losses in the same period in the prior year. Net favorable prior year loss reserve development was $30 million in the six-month period ended June 30, 2014, compared to $95 million in the same period in the prior year. The decrease in allocated net investment income was due to reductions in net loss reserves, in part driven by changes in foreign exchange rates, and a decline in risk-free rates used in AIG Property Casualty's investment income allocation model.

Acquisition expenses decreased in the six-month period ended June 30, 2014 compared to the same period in the prior year, primarily due to the effect of foreign exchange as a result of the strengthening of the U.S. dollar against the Japanese yen. Excluding the effect of foreign exchange, acquisition expenses increased in the six-month period ended June 30, 2014, compared to the same period in the prior year, as a result of change in business mix and higher costs in growth targeted lines of business. Direct marketing expenses excluding commissions, were $195 million for the six-month period ended June 30, 2014, compared to $224 million in the same period in the prior year.

General operating expenses decreased in the six-month period ended June 30, 2014 compared to the same period in the prior year primarily due to a decrease in employee-related expense and the effect of foreign exchange, which were partially offset by higher infrastructure costs primarily related to the ongoing integration of AIG Property Casualty's Japanese entities.

Other Quarterly Results

Pre tax operating income decreased in the three-month period ended June 30, 2014 compared to the same period in the prior year, primarily due to an increase in underwriting loss, which reflected higher adverse prior year loss reserve development and an increase in general operating expenses. Net prior year adverse loss reserve development was $65 million in the three-month period ended June 30, 2014 compared to $20 million in the same period in the prior year.

General operating expenses increased in the three-month period ended June 30, 2014 compared to the same period in the prior year primarily due to higher infrastructure costs.

Other Year-to-Date Results

Pre tax operating income decreased in the six-month period ended June 30, 2014 compared to the same period in the prior year primarily due to lower net investment income. Net prior year adverse loss reserve development was $81 million in both the six-month periods ended June 30, 2014 and 2013.

General operating expenses decreased in the six-month period ended June 30, 2014 compared to the same period in the prior year primarily due to a decrease in employee-related expenses partially offset by higher infrastructure costs. In the six-month period ended June 30, 2013, AIG Property Casualty incurred a $42 million charge related to the implementation of a voluntary early retirement plan in Japan.

AIG Property Casualty Net Premiums Written

The following table presents AIG Property Casualty net premiums written by major line of business:

	Three Months Ended June 30,		Percentage	Six Months Ended June 30,		Percentage
(in millions)	**2014**	2013	Change	**2014**	2013	Change
Commercial Insurance						
Casualty	**$ 2,004**	$ 2,110	(5) %	**$ 4,016**	$ 4,354	(8) %
Property	**1,731**	1,770	(2)	**2,659**	2,453	8
Specialty	**907**	882	3	**1,901**	1,854	3
Financial lines	**1,174**	1,114	5	**2,236**	2,118	6
Total net premiums written	**$ 5,816**	$ 5,876	(1) %	**$ 10,812**	$ 10,779	- %

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Consumer Insurance									
Accident & Health	**$**	**1,622**	$	1,645	(1) %	**$**	**3,283**	$	3,438	(5) %
Personal lines		**1,785**		1,745	2		**3,462**		3,484	(1)
Total net premiums written	**$**	**3,407**	$	3,390	1 %	**$**	**6,745**	$	6,922	(3) %
Other		**(10)**		(3)	(233)		**(10)**		(1)	NM
Total AIG Property Casualty net premiums written	**$**	**9,213**	$	9,263	(1) %	**$**	**17,547**	$	17,700	(1) %

Worldwide NET PREMIUMS WRITTEN by Line of Business

(in millions)

Commercial Insurance

Consumer Insurance

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Commercial Insurance Quarterly and Year-to-Date Net Premiums Written

During the three- and six-month periods ended June 30, 2014, Commercial Insurance continued to focus on the execution of its strategic objectives.

AIG Property Casualty entered into a catastrophe bond reinsurance transaction, effective as of January 1, 2014, with Tradewynd Re Ltd., which provides AIG Property Casualty with up to $400 million of indemnity reinsurance protection against U.S., Gulf of Mexico and Caribbean named storms, and U.S. and Canadian earthquakes. To fund its potential obligations to AIG Property Casualty, Tradewynd Re Ltd. issued three tranches of notes. The transaction provides AIG Property Casualty with fully collateralized coverage against losses from the events described above on a per-occurrence basis through December 2016. However, the transaction has the effect of reducing net premiums written as further discussed below.

Casualty net premiums written decreased in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year primarily due to the declining rate environment and increased competition, coupled with the effect on renewals from AIG Property Casualty's strategy to enhance risk selection, particularly in the Americas. Strong growth and new writings in certain lines of business were more than offset by rate declines or market compression in others. AIG Property Casualty implemented overall rate increases in retained business, especially in the U.S., that partially offset these rate declines.

Property net premiums written decreased in the three- month period ended June 30, 2014 compared to the same period in the prior year primarily due to decreases in new business growth and lower retentions in renewal business due to increased competition and rate pressure in certain lines, particularly in the U.S. These decreases were partially offset by increases in targeted growth products outside the U.S., particularly in EMEA.

Net premiums written increased in the six-month period ended June 30, 2014 compared to the same period in the prior year primarily due to increases in targeted growth products and changes to optimize AIG Property Casualty's reinsurance structure as part of its decision to retain more favorable risks while continuing to manage aggregate exposure. These increases, although significant, were offset in part by competition and rate pressure in certain lines where underwriting discipline resulted in less favorable retention in renewal business.

Net premiums written in the six-month period ended June 30, 2014 reflected the effect of the catastrophe bond reinsurance transactions described above. Catastrophe bond reinsurance transactions reduced net premiums written by $56 million and $96 million in the six-month periods ended June 30, 2014 and 2013, respectively.

Specialty net premiums written increased in the three- and six-month periods ended June 30, 2014, compared to the same periods in the prior year primarily due to rate increases in environmental business and small and medium sized enterprise markets in the Americas region. Additionally, for the six-month period ended June 30, 2014, net premiums written also reflected new business growth in EMEA.

Financial lines net premiums written increased in the three- and six-month periods ended June 30, 2014, compared to the same periods in the prior year reflecting growth in new business related to targeted growth products, particularly in the Americas and EMEA regions, as well as a favorable rate environment globally.

Consumer Insurance Quarterly and Year-to-Date Net Premiums Written

Consumer Insurance net premiums written, excluding the effect of foreign exchange, increased in the three- and six-month periods ended June 30, 2014, compared to the same periods in the prior year as the business continued to grow through multiple product and distribution channels. In the three- and six-month periods ended June 30, 2014, direct marketing accounted for approximately 16 percent of Consumer Insurance net premiums written.

A&H net premiums written, excluding the effect of foreign exchange, increased in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year. The increase in net premiums written was due to the continued growth of Fuji Life medical products, partially offset by decreases in certain classes of business due to strict underwriting discipline.

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Personal lines net premiums written, excluding the effect of foreign exchange, increased in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year. The increase was primarily due to new business sales in Japan personal property and increased rates and improved retention in U.S. private client group, as well as continued growth of automobile and specialty products in EMEA.

AIG Property Casualty Net Premiums Written by Region

The following table presents AIG Property Casualty's net premiums written by region:

(in millions)	Three Months Ended June 30, 2014	2013	Percentage Change in U.S. dollars	Percentage Change in Original Currency	Six Months Ended June 30, 2014	2013	Percentage Change in U.S. dollars
Commercial Insurance:							
Americas	**$ 4,018**	$ 4,201	(4) %	(4) %	**$ 6,908**	$ 7,079	(2) %
Asia Pacific	**496**	516	(4)	1	**957**	1,017	(6)
EMEA	**1,302**	1,159	12	9	**2,947**	2,683	10
Total net premiums written	**$ 5,816**	$ 5,876	(1) %	(1) %	**$ 10,812**	$ 10,779	- %
Consumer Insurance:							
Americas	**$ 965**	$ 930	4 %	7 %	**$ 1,947**	$ 1,905	2 %
Asia Pacific	**1,932**	1,985	(3)	2	**3,681**	3,958	(7)
EMEA	**510**	475	7	3	**1,117**	1,059	5
Total net premiums written	**$ 3,407**	$ 3,390	1 %	4 %	**$ 6,745**	$ 6,922	(3) %
Other:							
Americas	**$ (10)**	$ (3)	(233) %	NM%	**$ (10)**	$ (1)	NM%
Total net premiums written	**$ (10)**	$ (3)	(233) %	NM%	**$ (10)**	$ (1)	NM%
Total AIG Property Casualty:							
Americas	**$ 4,973**	$ 5,128	(3) %	(2) %	**$ 8,845**	$ 8,983	(2) %
Asia Pacific	**2,428**	2,501	(3)	1	**4,638**	4,975	(7)
EMEA	**1,812**	1,634	11	7	**4,064**	3,742	9
Total net premiums written	**$ 9,213**	$ 9,263	(1) %	1 %	**$ 17,547**	$ 17,700	(1) %

WORLDWIDE NET PREMIUMS WRITTEN BY REGION ***(in millions)***

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AIG Property Casualty's business is transacted in most major foreign currencies. The following table presents the quarterly weighted average exchange rates of the currencies that have the most significant impact to our businesses:

	Three Months Ended June 30,		Percentage	Six Months Ended June 30,		Percentage
Rate for 1 USD	**2014**	2013	Change	**2014**	2013	Change
Currency:						
JPY	**102.20**	97.84	4 %	**102.68**	93.14	10 %
EUR	**0.73**	0.77	(5) %	**0.73**	0.76	(4) %
GBP	**0.60**	0.66	(9) %	**0.61**	0.65	(6) %

The Americas net premiums written decreased in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year primarily due to decreases in new business growth, lower retention on renewal business and rate pressure in Commercial Insurance, particularly in the Property and Casualty businesses, which were partially offset by continued growth in Consumer Insurance private client group and warranty businesses. Additionally, for the six-month period ended June 30, 2014, the decrease in net premiums written was partially offset by the effect of catastrophe bond reinsurance transactions.

Asia Pacific net premiums written decreased in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year primarily due to the strengthening of the U.S. dollar against the Japanese yen. Excluding the effect of foreign exchange, net premiums written increased, primarily due to growth in Consumer Insurance from Fuji Life.

EMEA net premiums written increased in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year due to Commercial Insurance new business growth, particularly in Property and Financial lines, and rate improvements on retained business, as well as growth in Consumer Insurance Personal lines products.

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AIG Property Casualty Underwriting Ratios

The following tables present the AIG Property Casualty combined ratios based on GAAP data and reconciliation to the accident year combined ratio, as adjusted:

	Three Months Ended June 30,		Increase	Six Months Ended June 30,		Increase
	2014	2013	(Decrease)	**2014**	2013	(Decrease)
Commercial Insurance						
Loss ratio	**67.7**	72.6	(4.9)	**68.5**	68.8	(0.3)
Catastrophe losses and reinstatement premiums	**(2.3)**	(6.0)	3.7	**(2.9)**	(3.4)	0.5
Prior year development net of premium adjustments	**0.7**	(4.4)	5.1	**(1.2)**	(1.6)	0.4
Net reserve discount benefit	**0.3**	-	0.3	**1.4**	-	1.4
Accident year loss ratio, as adjusted	**66.4**	62.2	4.2	**65.8**	63.8	2.0
Acquisition ratio	**15.4**	16.3	(0.9)	**15.8**	16.3	(0.5)
General operating expense ratio	**12.3**	12.8	(0.5)	**12.2**	11.9	0.3
Expense ratio	**27.7**	29.1	(1.4)	**28.0**	28.2	(0.2)
Combined ratio	**95.4**	101.7	(6.3)	**96.5**	97.0	(0.5)
Catastrophe losses and reinstatement premiums	**(2.3)**	(6.0)	3.7	**(2.9)**	(3.4)	0.5
Prior year development net of premium adjustments	**0.7**	(4.4)	5.1	**(1.2)**	(1.6)	0.4
Net reserve discount benefit	**0.3**	-	0.3	**1.4**	-	1.4
Accident year combined ratio, as adjusted	**94.1**	91.3	2.8	**93.8**	92.0	1.8
Consumer Insurance						
Loss ratio	**55.8**	58.9	(3.1)	**58.5**	58.3	0.2
Catastrophe losses and reinstatement premiums	**(0.6)**	(0.3)	(0.3)	**(1.5)**	(0.2)	(1.3)
Prior year development net of premium adjustments	**0.5**	1.6	(1.1)	**0.5**	1.4	(0.9)
Accident year loss ratio, as adjusted	**55.7**	60.2	(4.5)	**57.5**	59.5	(2.0)
Acquisition ratio	**25.9**	25.9	-	**25.9**	25.4	0.5
General operating expense ratio	**16.3**	15.3	1.0	**15.5**	15.5	-
Expense ratio	**42.2**	41.2	1.0	**41.4**	40.9	0.5
Combined ratio	**98.0**	100.1	(2.1)	**99.9**	99.2	0.7
Catastrophe losses and reinstatement premiums	**(0.6)**	(0.3)	(0.3)	**(1.5)**	(0.2)	(1.3)
Prior year development net of premium adjustments	**0.5**	1.6	(1.1)	**0.5**	1.4	(0.9)
Accident year combined ratio, as adjusted	**97.9**	101.4	(3.5)	**98.9**	100.4	(1.5)

Total AIG Property Casualty

Loss ratio	**64.6**	68.0	(3.4)	**65.8**	65.6	0.2
Catastrophe losses and reinstatement premiums	**(1.6)**	(3.7)	2.1	**(2.4)**	(2.1)	(0.3)
Prior year development net of premium adjustments	**(0.2)**	(2.3)	2.1	**(1.0)**	(0.9)	(0.1)
Net reserve discount benefit	**(0.1)**	(0.1)	-	**0.5**	-	0.5
Accident year loss ratio, as adjusted	**62.7**	61.9	0.8	**62.9**	62.6	0.3
Acquisition ratio	**19.4**	20.0	(0.6)	**19.6**	19.9	(0.3)
General operating expense ratio	**14.8**	14.6	0.2	**14.5**	14.5	-
Expense ratio	**34.2**	34.6	(0.4)	**34.1**	34.4	(0.3)
Combined ratio	**98.8**	102.6	(3.8)	**99.9**	100.0	(0.1)
Catastrophe losses and reinstatement premiums	**(1.6)**	(3.7)	2.1	**(2.4)**	(2.1)	(0.3)
Prior year development net of premium adjustments	**(0.2)**	(2.3)	2.1	**(1.0)**	(0.9)	(0.1)
Net reserve discount benefit	**(0.1)**	(0.1)	-	**0.5**	-	0.5
Accident year combined ratio, as adjusted	**96.9**	96.5	0.4	**97.0**	97.0	-

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Commercial insurance ratios Three Months Ended June 30,	 Six Months Ended June 30,

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CoNSUMER insurance ratios Three Months Ended June 30,	 Six Months Ended June 30,

Given the nature of the lines of business and the expenses included in Other, AIG Property Casualty determined that the traditional underwriting measures of loss ratio, acquisition ratio, general operating expense ratio and combined ratio do not provide a relevant measure of underwriting performance.

Therefore, these ratios are not presented for Other.

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The following tables present AIG Property Casualty accident year catastrophe and severe losses by region and the number of events:

Catastrophes*

(in millions)	# of Events		Americas		Asia Pacific		EMEA		Total
Three Months Ended June 30, 2014									
Windstorms and hailstorms	**5**	**$**	**126**	**$**	**11**	**$**	**2**	**$**	**139**
Total catastrophe-related charges	**5**	**$**	**126**	**$**	**11**	**$**	**2**	**$**	**139**
Commercial Insurance		**$**	**116**	**$**	**3**	**$**	**2**	**$**	**121**
Consumer Insurance		**$**	**10**	**$**	**8**	**$**	**-**	**$**	**18**
Three Months Ended June 30, 2013									
Flooding	4	$	158	$	-	$	47	$	205
Windstorms and hailstorms	4		111		-		-		111
Total catastrophe-related charges	8	$	269	$	-	$	47	$	316
Commercial Insurance		$	262	$	-	$	45	$	307
Consumer Insurance		$	7	$	-	$	2	$	9
Six Months Ended June 30, 2014									
Windstorms and hailstorms	**9**	**$**	**290**	**$**	**89**	**$**	**22**	**$**	**401**
Total catastrophe-related charges	**9**	**$**	**290**	**$**	**89**	**$**	**22**	**$**	**401**
Commercial Insurance		**$**	**239**	**$**	**45**	**$**	**21**	**$**	**305**
Consumer Insurance		**$**	**51**	**$**	**44**	**$**	**1**	**$**	**96**
Six Months Ended June 30, 2013									
Flooding	6	$	158	$	10	$	47	$	215
Windstorms and hailstorms	5		142		-		-		142
Total catastrophe-related charges	11	$	300	$	10	$	47	$	357
Commercial Insurance		$	286	$	9	$	45	$	340
Consumer Insurance		$	14	$	1	$	2	$	17

* Catastrophes are generally weather or seismic events having a net impact on AIG Property Casualty in excess of $10 million each.

Severe Losses*

(in millions)	# of Events		Americas		Asia Pacific		EMEA		Total
Three Months Ended June 30, 2014									
Commercial Insurance	**7**	**$**	**62**	**$**	**45**	**$**	**86**	**$**	**193**
Consumer Insurance	**-**		**-**		**-**		**-**		**-**
Total severe losses	**7**	**$**	**62**	**$**	**45**	**$**	**86**	**$**	**193**
Three Months Ended June 30, 2013									

Commercial Insurance	3	$	-	$	20	$	18	$	38
Consumer Insurance	-		-		-		-		-
Total severe losses	3	$	-	$	20	$	18	$	38
Six Months Ended June 30, 2014									
Commercial Insurance	**16**	**$**	**108**	**$**	**55**	**$**	**175**	**$**	**338**
Consumer Insurance	**3**		**37**		**4**		**-**		**41**
Total severe losses	**19**	**$**	**145**	**$**	**59**	**$**	**175**	**$**	**379**
Six Months Ended June 30, 2013									
Commercial Insurance	6	$	40	$	20	$	38	$	98
Consumer Insurance	-		-		-		-		-
Total severe losses	6	$	40	$	20	$	38	$	98

* Severe losses are defined as non-catastrophe individual first party losses and surety losses greater than $10 million, net of related reinsurance and salvage and subrogation.

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Commercial Quarterly and Year-to-Date Insurance Ratios

The combined ratio decreased by 6.3 points in the three-month period ended June 30, 2014, compared to the same period in the prior year due primarily to a decrease in the loss ratio. The acquisition ratio and general operating expense ratio also declined. The loss ratio decreased by 4.9 points in the three- month period ended June 30, 2014, compared to the same period in the prior year, primarily due to lower catastrophe losses and favorable loss reserve development compared to adverse loss reserve development for the same period in the prior year. The combined ratio decreased by 0.5 points for the six-month period ended June 30, 2014, compared to the same period in the prior year, due to a benefit in reserve discount.

The accident year combined ratio, as adjusted, increased by 2.8 points and 1.8 points in the three- and six-month periods ended June 30, 2014, respectively, compared to the same periods in the prior year primarily due to higher severe losses.

The accident year loss ratio, as adjusted, increased in the three- and six-month periods ended June 30, 2014, compared to the same periods in the prior year primarily due to higher frequency and severity in severe losses, particularly in Property and Specialty businesses, and a slight increase in non-severe property related losses. This was partially offset by an improvement in financial lines as a result of loss mitigation activities. Severe losses represented approximately 3.7 points and 3.3 points in the three- and six-month periods ended June 30, 2014, respectively, compared to 0.7 points and 1.0 point in the same periods in the prior year, respectively, and are included in the accident year loss ratio, as adjusted.

The acquisition ratio decreased by 0.9 points and 0.5 points in the three- and six-month periods ended June 30, 2014, respectively, compared to the same periods in the prior year primarily due to lower premium taxes and guaranty fund and other assessments partially offset by higher commission rates reflecting the change in business mix to higher value lines.

The general operating expense ratio decreased by 0.5 points in the three-month period ended June 30, 2014, compared to the same period in the prior year, due to a higher premiums earned base. The general operating expense ratio increased by 0.3 points in the six-month period ended June 30, 2014, compared to the same period in the prior year, primarily due to unusually low bad debt expense in the six-month period ended June 30, 2013.

Consumer Quarterly and Year-to-Date Insurance Ratios

The combined ratio decreased by 2.1 points in the three-month period ended June 30, 2014 compared to the same period in the prior year, primarily due to a lower loss ratio. In the six- month period ended June 30, 2014, the combined ratio increased by 0.7 points compared to the same period in the prior year due to increases in both the loss ratio and the acquisition ratio.

The accident year combined ratio, as adjusted, decreased by 3.5 points and 1.5 points in the three- and six- month periods ended June 30, 2014, respectively, due to a lower accident year loss ratio, as adjusted, compared to the same periods in the prior year.

The accident year loss ratio, as adjusted, decreased by 4.5 points and 2.0 points in the three- and six-month periods ended June 30, 2014, respectively, compared to the same periods in the prior year, primarily as a result of rate increases and improved loss experience in the Japan automobile business, and rate actions and coverage changes in the U.S. Warranty business. The severe losses of $41 million, resulting largely from three fire claims, accounted for 0.6 points of the accident year loss ratio, as adjusted, in the six- month period ended June 30, 2014.

The acquisition ratio remained unchanged in the three-month period ended June 30, 2014, and increased by 0.5 points in the six-month period ended June 30, 2014, compared to the same periods in the prior year, primarily due to the combined effect of the change in business mix and higher acquisition costs in growth-targeted lines of business.

The general operating expense ratio increased by 1.0 point in the three- month period ended June 30, 2014 due to higher infrastructure costs primarily related to the ongoing integration of AIG Property Casualty's Japanese entities. The general operating expense ratio remained unchanged in the six-month period ended June 30, 2014 primarily due to a decrease in employee-related expenses offset by higher infrastructure costs.

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AIG Property Casualty Net Investment Income and Net Realized Capital Gains (Losses)

The following table presents AIG Property Casualty's net investment income and net realized capital gains (losses):

(in millions)	Three Months Ended June 30, 2014	2013	Percentage Change	Six Months Ended June 30, 2014	2013	Percentage Change
Net Investment Income by Component						
Interest and dividends	**$ 987**	$ 1,008	(2) %	**$ 1,945**	$ 2,012	(3) %
Alternative investments	**188**	240	(22)	**457**	498	(8)
Fair value option assets	**55**	70	(21)	**79**	115	(31)
Other income (loss) - net	**24**	(9)	NM	**29**	9	222
Total net investment income	**$ 1,254**	$ 1,309	(4) %	**$ 2,510**	$ 2,634	(5) %
Net Investment Income by Operating Segment						
Commercial Insurance	**$ 624**	$ 623	- %	**$ 1,224**	$ 1,268	(3) %
Consumer Insurance	**89**	92	(3)	**175**	190	(8)
Other	**541**	594	(9)	**1,111**	1,176	(6)
Total net investment income	**$ 1,254**	$ 1,309	(4) %	**$ 2,510**	$ 2,634	(5) %
Net realized capital gains	**$ 127**	$ 109	17 %	**$ 269**	$ 163	65 %

AIG Property Casualty manages and accounts for its invested assets on a legal entity basis in conformity with regulatory requirements. Within a legal entity, invested assets are available to pay claims and expenses of both Commercial Insurance and Consumer Insurance operating segments as well as the Other category. Invested assets are not segregated or otherwise separately identified for the Commercial Insurance and Consumer Insurance operating segments.

Investment income is allocated to the Commercial Insurance and Consumer Insurance operating segments based on an internal investment income allocation model. The model estimates investable funds based primarily on loss reserves, unearned premiums and a capital allocation for each segment. The investment income allocation is calculated based on the estimated investable funds and risk free yields (plus a liquidity premium) consistent with the approximate duration of the liabilities. The actual yields in excess of the allocated amounts and the investment income from the assets not attributed to the Commercial Insurance or the Consumer Insurance operating segments are assigned to the Other category.

Net realized capital gains (losses) and Other income (expense) — net are not allocated to Commercial Insurance and Consumer Insurance, but are reported as part of the Other category.

Quarterly and Year-to-Date Net Investment Income

Net investment income is influenced by a number of factors, including equity market performance, changes in overall asset allocation, changes in the timing and amount of expected cash flows on certain structured securities, and the movements of interest rates. Net investment income decreased by $55 million, or 4 percent, and $124 million, or 5 percent in the three- and six-month periods ended June 30, 2014, compared to the same periods in the prior year, respectively, primarily due to lower income on alternative investments and lower income associated with investments accounted for under the fair value option as the prior year period included a $58 million gain related to the PICC P&C rights offering in June 2013. The decrease in interest rates during the three- and six-month periods ended June 30, 2014 was primarily offset by continued portfolio diversification, which helped mitigate the effects of higher interest rates on matured or sold investments versus new investment yields.

Corporate debt securities continued to be the largest asset category. AIG Property Casualty continued to focus on risk weighted opportunistic investments in higher yielding assets such as structured securities and mortgage loans. In addition, AIG Property Casualty continued to maintain a defensive strategy on interest rates in the current rising rate environment, since the first quarter of 2013, by continuing to invest in floating rate securities. This asset diversification has maintained stable average yields while the overall credit ratings of AIG Property Casualty's fixed maturity securities were largely unchanged. AIG Property Casualty expects to continue to refine its investment strategy during the remainder of 2014 to meet its liquidity, duration and credit quality objectives as well as current risk return and tax objectives.

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The fair value of AIG Property Casualty's invested assets portfolio increased compared to December 31, 2013, primarily due to an increase in unrealized appreciation, which was driven by lower interest rates and narrowing spreads.

Quarterly and Year-to-Date Net Realized Capital Gains (Losses)

Net realized capital gains increased in the three-month period ended June 30, 2014 compared to the same period in the prior year, primarily due to gains on derivatives used to economically hedge foreign currency positions compared to losses in the same period in the prior year, which were partially offset by lower gains on sales of securities.

Net realized capital gains increased in the six-month period ended June 30, 2014 compared to the same period in the prior year, primarily due to gains on sales of securities, which were accomplished along with AIG Property Casualty's portfolio diversification and derisking strategy. In addition to the higher overall gains on sales of securities, gains were also recorded on derivatives used to economically hedge foreign currency positions compared to losses in the same period in the prior year. AIG Property Casualty recognized other than temporary impairment charges of $18 million and $34 million in the three- and six-month periods ended June 30, 2014, respectively, slightly higher than the same periods in the prior year.

Liability for Unpaid Claims and Claims Adjustment Expense

The following discussion of the consolidated liability for unpaid claims and claims adjustment expense (loss reserves) presents loss reserves for AIG Property Casualty, as well as the loss reserves pertaining to the Mortgage Guaranty reporting unit, which is reported in Other Operations.

The following table presents the components of AIG's gross loss reserves by major lines of business on a U.S. statutory basis*:

(in millions)	**June 30, 2014**	December 31, 2013
Other liability occurrence (including asbestos and environmental)	**$ 20,375**	$ 21,023
International	**17,219**	17,126
Workers' compensation (net of discount)	**15,043**	15,390
Other liability claims made	**10,592**	10,645
Property	**3,749**	4,111
Auto liability	**2,541**	2,581
Products liability	**1,458**	1,463

Medical malpractice	**1,644**	1,714
Mortgage guaranty / credit	**1,173**	1,348
Accident and health	**1,269**	1,378
Commercial multiple peril	**1,886**	1,886
Aircraft	**1,360**	1,276
Fidelity/surety	**622**	538
Other	**1,046**	1,068
Total	**$ 79,977**	$ 81,547

* Presented by lines of business pursuant to statutory reporting requirements as prescribed by the National Association of Insurance Commissioners.

Gross loss reserves represent the accumulation of estimates of ultimate losses, including estimates for incurred but not reported (IBNR) and loss expenses, less applicable discount for future investment income. AIG Property Casualty regularly reviews and updates the methods and assumptions used to determine loss reserve estimates and to establish the resulting reserves. Any adjustments resulting from this review are reflected in pre tax operating income. Because loss reserve estimates are subject to the outcome of future events, changes in estimates are unavoidable given that loss trends vary and time is often required for changes in trends to be recognized and confirmed. Reserve changes that increase prior years' estimates of ultimate cost are referred to as unfavorable or adverse development or reserve strengthening. Reserve changes that decrease prior years' estimates of ultimate cost are referred to as favorable development.

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The net loss reserves represent loss reserves reduced by estimated salvage and subrogation, reinsurance recoverable, net of an allowance for unrecoverable reinsurance, and applicable discount for future investment income.

The following table presents the components of net loss reserves:

(in millions)	**June 30, 2014**	December 31, 2013
Gross loss reserves before reinsurance and discount	**$ 83,622**	$ 85,102
Less: discount	**(3,645)**	(3,555)
Gross loss reserves, net of discount, before reinsurance	**79,977**	81,547
Less: reinsurance recoverable*	**(16,887)**	(17,231)
Net liability for unpaid claims and claims adjustment expense	**$ 63,090**	$ 64,316

* Includes $1.5 billion and $1.6 billion of reinsurance recoverable under a retroactive reinsurance agreement at June 30, 2014 and December 31, 2013, respectively.

Gross loss reserves before reinsurance and discount are net of contractual deductible recoverable amounts due from policyholders of approximately $12.5 billion and $12.0 billion at June 30, 2014 and December 31, 2013, respectively. These recoverable amounts are related to certain policies with high deductibles, primarily for U.S. commercial casualty business, where AIG Property Casualty manages and pays the entire claim on behalf of the insured and is reimbursed by the insured for the deductible portion of the claim. At June 30, 2014 and December 31, 2013, AIG Property Casualty held collateral totaling $9.3 billion and $9.0 billion, respectively, for these deductible recoverable amounts, consisting primarily of letters of credit and trust agreements.

The following table classifies the components of net loss reserves by business unit[(a)]:

(in millions)	**June 30, 2014**	December 31, 2013
AIG Property Casualty:		
Commercial Insurance		
Casualty	**$ 34,216**	**$** 34,494
Financial lines	**9,855**	9,803
Specialty	**5,665**	5,485
Property	**4,052**	4,293
Total Commercial Insurance[(b)]	**53,788**	54,075
Consumer Insurance		
Personal lines	**3,072**	3,385
Accident and health	**1,943**	2,094
Total Consumer Insurance[(b)]	**5,015**	5,479
Other	**3,156**	3,475

Total AIG Property Casualty	**61,959**	63,029
Other Operations - Mortgage Guaranty	**1,131**	1,287
Net liability for unpaid claims and claims adjustment expense	**$ 63,090**	$ 64,316

(a) Excludes future policyholder benefits of $3.6 billion and $3.5 billion at June 30, 2014 and December 31, 2013, respectively.

(b) The December 31, 2013 balances have been reclassified between lines of businesses of Commercial Insurance and Consumer Insurance. The impact of this correction was a total decrease of $325 million in Commercial Insurance and a corresponding increase in Consumer Insurance, with no income statement or balance sheet impact.

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Discounting of Reserves

The following table presents the components of AIG Property Casualty's loss reserve discount included above:

	June 30, 2014			December 31, 2013		
(in millions)	**Commercial Insurance**	**Other**	**Total**	Commercial Insurance	Other	Total
U.S. workers' compensation:						
Tabular	**$ 597**	**$ 201**	**$ 798**	$ 597	$ 201	$ 798
Non-tabular	**1,764**	**1,067**	**2,831**	1,622	1,102	2,724
Asbestos	**-**	**16**	**16**	-	33	33
Total reserve discount	**$ 2,361**	**$ 1,284**	**$ 3,645**	$ 2,219	$ 1,336	$ 3,555

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

	Three Months Ended June 30,						Six Months Ended Ju			
	2014			2013			**2014**			
(in millions)	**Commercial Insurance**	**Other**	**Total**	Commercial Insurance	Other	Total	**Commercial Insurance**	**Other**	**Total**	Comm Insur
Change in loss reserve discount - current accident year	**$ 93**	**$ -**	**$ 93**	$ 71	$ -	$ 71	**$ 135**	**$ -**	**$ 135**	$
Change in loss reserve discount - prior year development	**-**	**(12)**	**(12)**	-	-	-	**110**	**(15)**	**95**	
Accretion of reserve discount	**(77)**	**(19)**	**(96)**	(71)	(5)	(76)	**(103)**	**(37)**	**(140)**	(
Net reserve discount benefit (charge)	**$ 16**	**$ (31)**	**$ (15)**	$ -	$ (5)	$ (5)	**$ 142**	**$ (52)**	**$ 90**	$

Commencing January 1, 2014, AIG Property Casualty merged its two internal pooling arrangements into one pool, and changed the participation percentages of the pool members. This resulted in an additional workers' compensation loss reserve discount benefit of approximately $110 million recorded during the first quarter of 2014. As a result of changes in the participation percentages and domiciliary states of the participants of the combined pool, a portion of the workers' compensation reserves that had been held in New York subsidiaries and discounted pursuant to New York discounting rules which generally do not permit non-tabular discounting on IBNR and prescribe a fixed 5 percent discount rate for application to case reserves, are now held in Pennsylvania and Delaware subsidiaries and discounted pursuant to Pennsylvania and Delaware rules. Pennsylvania discounting rules permit non-tabular discounting on IBNR and allow a variable discount rate for application to case reserves. AIG Property Casualty received a permitted practice from the Delaware Department of Insurance to allow discounting on the same basis as its Pennsylvania domiciled companies.

Quarterly Reserving Conclusion

AIG net loss reserves represent our best estimate of our liability for net losses and loss expenses as of June 30, 2014. While we regularly review the adequacy of established loss reserves, there can be no assurance that our ultimate loss reserves will not develop adversely and materially exceed our loss reserves as of June 30, 2014. In our opinion, such adverse development and resulting increase in reserves are not likely to have a material adverse effect on our consolidated financial condition, although such events could have a material adverse effect on our consolidated results of operations for an individual reporting period.

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The following table presents the rollforward of net loss reserves:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2014**	2013	**2014**	2013
Net liability for unpaid claims and claims adjustment expense at beginning of period	**$ 63,956**	$ 66,825	**$ 64,316**	$ 68,782
Foreign exchange effect	**95**	(393)	**44**	(909)
Other, including dispositions	**-**	(79)	**-**	(79)
Change due to retroactive asbestos reinsurance transaction	**82**	22	**86**	66
Losses and loss expenses incurred:				
Current year, undiscounted	**5,341**	5,380	**10,712**	10,791
Prior years (favorable) unfavorable development, undiscounted[(a)]	**(35)**	213	**150**	160
Change in discount	**15**	5	**(90)**	10
Losses and loss expenses incurred[(b)]	**5,321**	5,598	**10,772**	10,961
Losses and loss expenses paid[(b)]	**6,364**	6,381	**12,128**	13,229
Net liability for unpaid claims and claims adjustment expense at end of period	**$ 63,090**	$ 65,592	**$ 63,090**	$ 65,592

(a) See tables below for details of prior year development by business unit, accident year and major class of business.

(b) These amounts exclude benefit from retroactive reinsurance.

The following table summarizes development, (favorable) or unfavorable, of incurred losses and loss expenses for prior years, net of reinsurance, by business unit and major class of business:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2014**	2013	**2014**	2013
Prior accident year development by major class of business:				
Commercial Insurance U.S.:				
Excess casualty	**$ (3)**	$ 13	**$ 10**	$ (12)
Financial lines including professional liability	**(50)**	10	**(67)**	6
Primary casualty:	**-**			
Loss-sensitive	**68**	70	**64**	80
Other	**49**	2	**87**	48
Healthcare	**1**	-	**10**	-

Specialty	**33**	18	**98**	5
Property excluding natural catastrophes	**17**	(9)	**(5)**	(63)
Natural catastrophes	**(31)**	165	**(73)**	179
All other, net	**4**	29	**43**	9
Total Commercial Insurance - U.S.	**88**	298	**167**	252
Commercial Insurance International:				
Primary casualty	**7**	(12)	**(7)**	(2)
Financial lines	**16**	(6)	**119**	(10)
Specialty	**(22)**	(14)	**(12)**	(34)
Property excluding natural catastrophes	**(40)**	8	**(57)**	23
Natural catastrophes	**(42)**	(10)	**(47)**	(23)
All other, net	**(2)**	(7)	**(2)**	(10)
Total Commercial Insurance - International	**(83)**	(41)	**(6)**	(56)
Total Commercial Insurance	**5**	257	**161**	196
Consumer Insurance - U.S.:				
Natural catastrophes	**-**	(24)	**(1)**	(47)
All other, net	**5**	(1)	**(22)**	(20)
Total Consumer Insurance - U.S.	**5**	(25)	**(23)**	(67)

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Consumer Insurance - International:				
Natural catastrophes	**(1)**	(1)	**(6)**	(2)
All other, net	**(20)**	(27)	**(1)**	(26)
Total Consumer Insurance - International	**(21)**	(28)	**(7)**	(28)
Total Consumer Insurance	**(16)**	(53)	**(30)**	(95)
Other - U.S.:				
Asbestos and environmental (1986 and prior)	**46**	18	**47**	33
Run-off environmental (1987 to 2004)	**23**	-	**23**	37
Total all other, net	**-**	-	**16**	-
Total Other - U.S.	**69**	18	**86**	70
Other - International:				
Asbestos and environmental (1986 and prior)	**(4)**	2	**(4)**	11
Total all other, net	**-**	-	**(1)**	-
Total Other - International	**(4)**	2	**(5)**	11
Total Other	**65**	20	**81**	81
Total AIG Property Casualty	**54**	224	**212**	182
Other Operations - Mortgage Guaranty	**(89)**	(11)	**(62)**	(22)
Total prior year (favorable) unfavorable development	**$ (35)**	$ 213	**$ 150**	$ 160
AIG Property Casualty prior year development	**$ 54**	$ 224	**$ 212**	$ 182
Premium adjustments	**(68)**	(70)	**(64)**	(80)
AIG Property Casualty prior year development, net of premium adjustments	**$ (14)**	$ 154	**$ 148**	$ 102

Quarterly and Year-to-Date Net Loss Development

In determining the loss development from prior accident years, AIG analyzes and evaluates the change in estimated ultimate loss for each accident year by class of business. For example, if loss emergence for a class of business is different than expected for certain accident years, we examine the indicated effect such emergence would have on the reserves of that class of business. In some cases, the higher or lower than expected emergence may result in no clear change in the ultimate loss estimate for the accident years in question, and no adjustment would be made to the reserves for the class of business for prior accident years. In other cases, the higher or lower than expected emergence may result in a larger change, either favorable or unfavorable. As appropriate, we make adjustments for the difference between the actual and expected loss emergence for each accident year. As part of our reserving process, we also consider notices of claims received with respect to emerging and/or evolving issues.

In the three-month period ended June 30, 2014, the favorable prior year loss development, net of premium accruals of $68 million, was $14 million, which was driven by net favorable development in International Commercial and International Consumer Insurance, offset by reserve increases in U.S. Commercial Insurance (that were largely counter-balanced by premium accruals) and Other – U.S. The primary components of the favorable loss reserve development were Natural catastrophes of $74 million, and International Commercial Property, including $30 million favorable loss reserve development from a 2012 severe loss. The adverse development in Other of $65 million included a single large claim settlement in the run-off environmental exposures (1987 – 2004) and adverse development on legacy pollution exposures (1986 and prior), partially offset by an $8 million favorable asbestos settlement. The net adverse development (after premium accruals) in U.S. Commercial Insurance was driven by Primary Casualty (especially Auto Liability), and Specialty lines, offset by Financial Lines and Natural catastrophes.

In the six-month period ended June 30, 2014, the adverse prior year loss development, net of premium accruals of $64 million, was $148 million, which was driven by reserve increases on claims in U.S. Commercial Insurance and Other – U.S. that was modestly offset by net favorable development in U.S. Consumer Insurance. The net adverse development in U.S. Commercial Insurance was driven by Primary Casualty and Specialty lines, partially offset by Financial Lines and Natural catastrophes, while the adverse development in Other – U.S. was driven by adverse development on legacy pollution exposures (1986 and prior) and run-off environmental exposures (1987 – 2004).

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For the three- and six-month periods ended June 30, 2013, the net adverse development, net of premium accruals of $70 million and $80 million, was $154 million and $102 million, respectively, which was driven by reserve increases on claims in U.S. Commercial Insurance and Other – U.S., partially offset by net favorable development in U.S. Consumer Insurance, International Commercial and International Consumer lines. The net adverse development in U.S. Commercial Insurance was primarily attributable to domestic property exposures, mostly due to the increase in reserves for Storm Sandy, with adverse development in non-loss sensitive Primary Casualty lines, driven by higher than expected legal costs on claims for construction defects claims from accident years 2004 and prior. The adverse development on those classes was partially offset by case reductions on some large claims and favorable development on non-natural catastrophe Property business. The adverse development in Other – U.S. for the three- and six-month periods ended June 30, 2013 included adverse development on legacy asbestos and environmental exposures (1986 and prior). In addition, the six-month period ended June 30, 2013 included adverse development on run off environmental exposures (1987 – 2004).

See AIG Property Casualty Results herein and Other Operations — Other Operations Results — Mortgage Guaranty for further discussion of net loss development.

The following table summarizes development, (favorable) or unfavorable, of incurred losses and loss expenses for prior years, net of reinsurance, by accident year:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2014**	2013	**2014**	2013
Prior accident year development by accident year:				
Accident Year				
2013	**$ (67)**	$ -	**$ (127)**	$ -
2012	**(43)**	72	**(90)**	34
2011	**(104)**	(10)	**(46)**	(37)
2010	**(3)**	9	**51**	(10)
2009	**50**	15	**98**	(16)
2008	**(5)**	13	**52**	28
2007	**(21)**	27	**(9)**	26
2006	**5**	14	**7**	22
2005	**14**	36	**13**	40
2004 and prior	**139**	37	**201**	73
Total prior year (favorable) unfavorable development	**$ (35)**	$ 213	**$ 150**	$ 160

Asbestos and Environmental Reserves

The estimation of loss reserves relating to asbestos and environmental claims on insurance policies written many years ago is subject to greater uncertainty than other types of claims due to inconsistent court decisions as well as judicial interpretations and legislative actions that in some cases have tended to broaden coverage beyond the original intent of such policies and in others have expanded theories of liability.

As described more fully in the 2013 Annual Report, AIG Property Casualty's reserves relating to asbestos and environmental claims reflect comprehensive ground up and top-down analyses performed periodically. In the six-month period ended June 30, 2014, AIG Property Casualty increased its gross asbestos reserves by $22 million and the net asbestos reserves by $26 million primarily due to minor changes in estimates, accretion of discount, and anticipated uncollectible reinsurance. For the same period, AIG Property Casualty increased its gross environmental reserves by $119 million and its net environmental reserves by $50 million to reflect the results of a top-down analysis completed in the second quarter.

In addition to the U.S. asbestos and environmental reserve amounts shown in the tables below, AIG Property Casualty also has asbestos reserves relating to foreign risks written by non U.S. entities of $137 million gross and $111 million net as of June 30, 2014. The asbestos reserves relating to non U.S. risks written by non U.S. entities were $134 million gross and $108 million net as of December 31, 2013.

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The following table provides a summary of reserve activity, including estimates for applicable IBNR, relating to asbestos and environmental claims:

As of or for the Six Months Ended June 30,	**2014**		2013	
(in millions)	Gross	Net	Gross	Net
Asbestos:				
Liability for unpaid claims and claims adjustment expense at beginning of year	**$ 4,720**	**$ 529**	$ 4,896	$ 427
Change in net loss reserves due to retroactive reinsurance:				
Paid losses recoverable under retroactive reinsurance contracts	**-**	**88**	-	69
Re-estimation of amounts recoverable under retroactive reinsurance contracts[(a)]	**-**	**(2)**	-	(3)
Change in net loss reserves due to retroactive reinsurance	**-**	**86**	-	66
Dispositions	**-**	**-**	(12)	(12)
Loss and loss expenses incurred:				
Undiscounted	**(8)**	**10**	-	6
Change in discount	**30**	**18**	23	10
Losses and loss expenses incurred[(b)]	**22**	**28**	23	16
Losses and loss expenses paid[(b)]	**(421)**	**(261)**	(252)	(114)
Liability for unpaid claims and claims adjustment expense at end of period	**$ 4,321**	**$ 382**	$ 4,655	$ 383
Environmental:				
Liability for unpaid claims and claims adjustment expense at beginning of year	**$ 313**	**$ 163**	$ 309	$ 163
Dispositions	**-**	**-**	(1)	(1)
Losses and loss expenses incurred	**119**	**50**	61	38
Losses and loss expenses paid	**(28)**	**(16)**	(58)	(33)
Liability for unpaid claims and claims adjustment expense at end of period	**$ 404**	**$ 197**	$ 311	$ 167
Combined:				
Liability for unpaid claims and claims adjustment expense at beginning of year	**$ 5,033**	**$ 692**	$ 5,205	$ 590
Change in net loss reserves due to retroactive reinsurance:				
Paid losses recoverable under retroactive reinsurance contracts	**-**	**88**	-	69
Re-estimation of amount recoverable under retroactive reinsurance contracts	**-**	**(2)**	-	(3)
Change in net loss reserves due to retroactive reinsurance	**-**	**86**	-	66
Dispositions	**-**	**-**	(13)	(13)
Losses and loss expenses incurred:				
Undiscounted	**111**	**60**	61	44
Change in discount	**30**	**18**	23	10

Losses and loss expenses incurred	**141**	**78**	84	54
Losses and loss expenses paid	**(449)**	**(277)**	(310)	(147)
Liability for unpaid claims and claims adjustment expense at end of period	**$ 4,725**	**$ 579**	$ 4,966	$ 550

(a) Re-estimation of amounts recoverable under retroactive reinsurance contracts includes effect of changes in reserve estimates and changes in discount.

(b) These amounts exclude benefit from retroactive reinsurance.

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AIG LIFE AND RETIREMENT

AIG Life and Retirement presents its financial information in two operating segments – Retail and Institutional.

Retail products are generally marketed directly to individual consumers through independent and career insurance agents, retail banks, direct-to-consumer platforms, and national, regional and independent broker-dealers. The primary products offered by the Retail segment include term and universal life insurance, A&H, individual fixed and variable annuities, retail mutual funds and advisory services.

Institutional products are generally marketed to groups or large institutions through affiliated financial advisors or intermediaries including benefit consultants, independent marketing organizations, structured settlement brokers and broker-dealers. Institutional segment products include fixed and variable group annuities, group mutual funds, stable value wrap products, structured settlement and terminal funding annuities, high net worth products, corporate- and bank-owned life insurance, guaranteed investment contracts and a wide range of group benefit products.

AIG Life and Retirement Quarterly and Year-to-date 2014 Highlights

Pre-tax operating income for the three- and six-month periods ended June 30, 2014 improved slightly compared to the same periods in the prior year, reflecting higher fee income from strong growth in assets under management, partially offset by lower net investment income, primarily due to strong returns on alternative investments in the prior year periods and lower base investment yield. AIG Life and Retirement has continued to emphasize disciplined pricing of new business and active management of renewal crediting rates for interest rate sensitive business which, together with the run-off of older business with relatively high crediting rates, has largely offset the pressure on investment yields in the sustained low interest rate environment.

Pre-tax income for the three- and six-month periods ended June 30, 2014 decreased compared to the same periods in the prior year, primarily due to lower net realized capital gains and lower income from legal settlements, partially offset by lower loss recognition expense. Pre-tax income for the six-month period ended June 30, 2014 included realized capital losses from changes in the fair value of embedded derivatives related to variable annuity guarantee features, net of hedges, as a result of decreases in interest rates and narrowing of credit spreads during the period. The significant net realized capital gains in the three- and six-month periods ended June 30, 2013 were primarily due to gains on investment sales related to capital loss carryforward utilization. These decreases in pre-tax income were partially offset by lower loss recognition expense compared to the same periods in the prior year. Loss recognition expense, which was triggered primarily by the reinvestment of investment sales proceeds during 2013 in the low interest rate environment, is reported within changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses).

Premiums and deposits improved in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year, primarily due to continued strong demand for variable annuities in the Retirement Income Solutions product line and improved sales of Fixed Annuities, which have benefitted from slightly higher market interest rates in the current year periods. Although interest rates have declined during 2014 and remain at historically low levels, they have increased compared to the same periods in the prior year. As a result of the increase in premiums and deposits, net flows increased to $939 million and $2.0 billion in the three- and six-month periods ended June 30, 2014, respectively, compared to net flows of $417 million and $173 million in the same periods in the prior year. See AIG Life and Retirement – Premiums, Deposits and Net Flows for discussion of premiums as well as net flows by product line.

Dividends and loan repayments paid by AIG Life and Retirement subsidiaries to AIG Parent included cash dividends and loan repayments of $886 million in the three-month period ended June 30, 2014, reflecting continued strong statutory earnings. In addition, AIG Life and Retirement distributed $642 million of preferred equity interests in two aircraft trust entities to AIG Parent through a non-cash dividend in the three-month period ended June 30, 2014. Cash dividends and loan repayments paid by AIG Life and Retirement subsidiaries to AIG Parent totaled $2.5 billion in the six-month period ended June 30, 2014, which included approximately $364 million of legal settlement proceeds.

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AIG Life and Retirement Results

The following table presents AIG Life and Retirement results:

(in millions)	Three Months Ended June 30, 2014	2013	Percentage Change	Six Months Ended June 30, 2014	2013	Percentage Change
Retail						
Revenue:						
Premiums	**$ 431**	$ 389	11 %	**$ 818**	$ 747	10 %
Policy fees	**542**	491	10	**1,078**	978	10
Net investment income	**1,464**	1,510	(3)	**3,092**	3,167	(2)
Other income	**454**	382	19	**879**	747	18
Operating expenses:						
Policyholder benefits and claims incurred	**753**	689	9	**1,471**	1,324	11
Interest credited to policyholder account balances	**565**	584	(3)	**1,128**	1,195	(6)
Amortization of deferred policy acquisition costs	**190**	177	7	**383**	340	13
Other acquisition and insurance expenses	**699**	652	7	**1,367**	1,289	6
Pre-tax operating income	**684**	670	2	**1,518**	1,491	2
Legal settlements	**8**	221	(96)	**28**	297	(91)
Changes in fair value of fixed maturity securities designated to hedge living benefit liabilities, net of interest expense	**54**	(69)	NM	**130**	(98)	NM
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses)	**(27)**	(160)	83	**14**	(121)	NM
Net realized capital gains (losses)	**19**	515	(96)	**(287)**	604	NM
Pre-tax income	**$ 738**	$ 1,177	(37) %	**$ 1,403**	$ 2,173	(35) %
Institutional						
Revenue:						
Premiums	**$ 269**	$ 260	3 %	**$ 479**	$ 522	(8) %

Policy fees	**159**	132	20	**315**	260	21
Net investment income	**1,097**	1,127	(3)	**2,286**	2,347	(3)
Other income	**44**	37	19	**79**	65	22
Operating expenses:						
Policyholder benefits and claims incurred	**486**	494	(2)	**913**	957	(5)
Interest credited to policyholder account balances	**397**	387	3	**787**	793	(1)
Amortization of deferred policy acquisition costs	**19**	25	(24)	**40**	50	(20)
Other acquisition and insurance expenses	**171**	169	1	**340**	340	-
Pre-tax operating income	**496**	481	3	**1,079**	1,054	2
Legal settlements	**4**	138	(97)	**14**	170	(92)
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses)	**(14)**	(992)	99	**(25)**	(1,090)	98
Net realized capital gains (losses)	**25**	915	(97)	**10**	982	(99)
Pre-tax income	**$ 511**	$ 542	(6) %	**$ 1,078**	$ 1,116	(3) %
Total AIG Life and Retirement						
Revenue:						
Premiums	**$ 700**	$ 649	8 %	**$ 1,297**	$ 1,269	2 %
Policy fees	**701**	623	13	**1,393**	1,238	13
Net investment income	**2,561**	2,637	(3)	**5,378**	5,514	(2)
Other income	**498**	419	19	**958**	812	18

Operating expenses:						
Policyholder benefits and claims incurred	**1,239**	1,183	5	**2,384**	2,281	5
Interest credited to policyholder account balances	**962**	971	(1)	**1,915**	1,988	(4)
Amortization of deferred policy acquisition costs	**209**	202	3	**423**	390	8
Other acquisition and insurance expenses	**870**	821	6	**1,707**	1,629	5
Pre-tax operating income	**1,180**	1,151	3	**2,597**	2,545	2
Legal settlements	**12**	359	(97)	**42**	467	(91)
Changes in fair value of fixed maturity securities designated to hedge living benefit liabilities, net of interest expense	**54**	(69)	NM	**130**	(98)	NM
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses)	**(41)**	(1,152)	96	**(11)**	(1,211)	99
Net realized capital gains (losses)	**44**	1,430	(97)	**(277)**	1,586	NM
Pre-tax income	**$ 1,249**	$ 1,719	(27) %	**$ 2,481**	$ 3,289	(25) %

AIG LIFE AND RETIREMENT PRE-TAX OPERATING INCOME *(in millions)*

AIG Life and Retirement Quarterly and Year-to-date Results

Pre-tax operating income for the three- and six-month periods ended June 30, 2014 improved slightly compared to the same periods in the prior year, reflecting higher fee income from growth in assets under management, primarily due to strong sales of individual variable annuities, positive net flows and a favorable equity market, partially offset by lower net investment income. The decreases in net investment income for the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year reflected lower income from alternative investments, primarily hedge funds, which had strong returns in the prior year periods. Lower base investment yields reflected strong performance of commercial mortgage loans and structured securities in the prior year periods, as well as investment of available cash in the low interest rate environment. These decreases in net investment income compared to the same periods in the prior year were partially offset by growth in invested assets and better performance of assets for which the fair value option has been elected. AIG Life and Retirement has continued to emphasize disciplined pricing of new business and active management of renewal crediting rates for interest rate sensitive business which, together with the run-off of older business with relatively high crediting rates, has largely offset the pressure on investment yields in the sustained low interest rate environment. See AIG Life and Retirement – Investments and Spread Management for additional discussion of variances in net investment income.

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Pre-tax income for the three- and six-month periods ended June 30, 2014 decreased compared to the same periods in the prior year, primarily due to lower net realized capital gains and lower income from legal settlements, partially offset by lower loss recognition expense. The decrease in net realized capital gains was primarily due to significant net realized capital gains in the three- and six-month periods ended June 30, 2013 on investment sales to utilize capital loss carryforwards. See AIG Life and Retirement – Investments and Spread Management for additional discussion of realized capital gains (losses) on invested assets.

Net realized capital gains (losses) in the three- and six-month periods ended June 30, 2014 also included net gains of $16 million and net losses of $335 million, respectively, compared to net gains of $180 million and $131 million in the same periods in the prior year, from the change in the fair value of embedded derivatives related to variable annuities with GMWB living benefit guarantee features, net of hedges. These embedded derivatives are primarily in the Retirement Income Solutions product line of the Retail operating segment and, to a lesser extent, in the Group Retirement product line of the Institutional operating segment. The fair value losses in the six-month period ended June 30, 2014 were primarily due to narrower credit spreads and a decrease in interest rates during 2014, which were partially offset by increases in the fair value of U.S. Treasury bonds used to hedge interest rate risk, discussed below. The fair value calculation for these embedded derivatives reflects a market participant's view of AIG Life and Retirement's claims-paying ability by adjusting the interest rate swap curve used to discount the expected cash flows with an additional spread to reflect non-performance risk. This non-performance spread adjustment is derived from corporate credit spreads in the marketplace, which were narrower in the six-month period ended June 30, 2014 compared to the same period in the prior year, contributing to the current year fair value losses on embedded derivatives.

AIG Life and Retirement has a dynamic hedging program designed to manage economic risk exposure associated with the impact of changes in equity markets, interest rates and volatilities on the fair value of embedded derivative liabilities related to these guaranteed living benefit features. This program utilizes derivative instruments, including equity options, futures contracts and interest rate swap contracts, as well as U.S. Treasury bonds. While a small portion of AIG Life and Retirement's interest rate risk related to these products is unhedged, the majority of the interest rate exposure related to guaranteed living benefit features is hedged with derivative instruments and, to a lesser extent, with U. S. Treasury bonds, which AIG Life and Retirement began purchasing in 2012 as a capital-efficient strategy to reduce interest rate risk exposure over time. The hedging-related change in the fair value of the U.S. Treasury bonds is also excluded from pre-tax operating income and reported in changes in fair value of fixed maturity securities designated to hedge living benefit liabilities.

The decrease in pre-tax income of AIG Life and Retirement compared to the three- and six-month periods ended June 30, 2013 also reflected lower income from legal settlements with financial institutions that participated in the creation, offering and sale of RMBS from which AIG and its subsidiaries realized losses during the financial crisis.

These decreases in pre-tax income were partially offset by significantly lower loss recognition expense for certain traditional product lines, which was $12 million and $22 million in the three- and six-month periods ended June 30, 2014, respectively, compared to $1.1 billion and $1.2 billion in the same periods in the prior year. Loss recognition recorded in the 2013 periods was primarily a result of the reinvestment of investment sales proceeds during 2013 in the low interest rate environment. Loss recognition is reported in changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses). See AIG Life and Retirement Reserves and DAC – Other Reserve Changes for additional discussion of loss recognition.

Retail Quarterly and Year-to-date Results

Pre-tax operating income for the Retail operating segment increased slightly in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year, due primarily to higher fee income partially offset by lower net investment income. The decrease in net investment income compared to the same periods in the prior year included lower income from alternative investments and declining base portfolio yields, partially offset by growth in invested assets and better performance of fair value option assets. Higher fee income in the Retirement Income Solutions product line reflected growth in assets under management driven by strong sales of variable annuities, positive net flows and favorable equity market performance. Base spread (defined as net investment income excluding alternative investments and other enhancements, less interest credited) for the Fixed Annuities product line decreased in the three-month period ended June 30, 2014 compared to the same period in the prior year, which reflected declining base yields partially offset by active crediting rate management and the run-off of older business with relatively high crediting rates. DAC amortization expense increased compared to the six-month period ended June 30, 2013, as the favorable impact of equity market performance reduced amortization expense in the prior year period but had a smaller impact on the same period in 2014. Advisory fees and other income increased in the

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three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year due to higher volumes of advisory services, which were offered in the Brokerage Services, Retirement Income Solutions and Retail Mutual Fund product lines. The increase in advisory fee and other income was partially offset by a related increase in advisory expense, which is included in other acquisition and insurance expense.

Pre-tax income for the Retail operating segment decreased in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year, primarily due to lower gains from investment sales to utilize capital loss carryforwards and, for the six-month period, to fair value losses in the current year on embedded derivatives related to variable annuity guarantee features, net of hedges, primarily as a result of narrower credit spreads as well as a reduction in interest rates during the six-month period. The realized capital losses on embedded derivatives in the six-month period ended June 30, 2014 were partially offset by a favorable variance in the fair value of the U.S. Treasury bonds used to hedge interest rate risk related to these products, which is also excluded from pre-tax operating income and reported in changes in fair value of fixed maturity securities designated to hedge living benefit liabilities. These embedded derivatives had fair value gains in the same periods of the prior year due primarily to the increase in market interest rates during those periods. The decrease in Pre-tax income for the Retail operating segment also reflected a decrease in legal settlement income, partially offset by lower loss recognition expense.

Institutional Quarterly and Year-to-date Results

Pre-tax operating income for the Institutional operating segment, which primarily reflects the Group Retirement product line, increased slightly in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year, due in part to higher fee income from growth in assets under management, driven principally by favorable equity market performance and development of the stable value wrap business. In addition, effective crediting rate management in the Group Retirement product line helped offset the pressure on yields from reinvestment in the sustained low interest rate environment. Net investment income for the three- and six-month periods ended June 30, 2014 decreased compared to the same periods in the prior year, primarily due to lower income from alternative investments, partially offset by higher call income and better performance of fair value option assets.

Pre-tax income for the Institutional operating segment decreased in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year, primarily due to lower gains from investment sales to utilize capital loss carryforwards and lower legal settlement proceeds in the current year periods compared to the same periods in the prior year. These decreases were partially offset by lower loss recognition expense in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year. Loss recognition expense in the 2013 periods was triggered primarily by reinvestment of proceeds from investment sales in the low interest rate environment. See AIG Life and Retirement Reserves and DAC – Other Reserve Changes for additional discussion of loss recognition, which is reported in changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses).

AIG Life and Retirement Premiums, Deposits and Net Flows

Premiums represent amounts received on traditional life insurance policies, group benefit policies and deposits on life-contingent payout annuities. Premiums and deposits is a non GAAP financial measure that includes direct and assumed premiums as well as deposits received on universal life insurance, investment-type annuity contracts and mutual funds.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2014**	2013	**2014**	2013
Premiums and deposits	**$ 7,360**	$ 6,765	**$ 14,489**	$ 12,345
Deposits	**(6,626)**	(5,957)	**(12,999)**	(10,761)
Other	**(34)**	(159)	**(193)**	(315)
Premiums	**$ 700**	$ 649	**$ 1,297**	$ 1,269

Premiums improved in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year, primarily from higher immediate annuity premiums in the Fixed Annuities product line, partially offset by higher ceded premiums in the Life Insurance and A&H product line and lower structured settlement premiums in the Institutional Markets product line.

The following table presents premiums and deposits by operating segment and product line:

	Three Months Ended June 30,		Percentage	Six Months Ended June 30,		Percenta
(in millions)	**2014**	2013	Change	**2014**	2013	Char
Retail						
Life Insurance and A&H	**$ 836**	$ 840	- %	**$ 1,663**	$ 1,675	
Fixed Annuities	**1,061**	355	199	**2,021**	731	1
Retirement Income Solutions	**2,570**	2,233	15	**4,743**	3,646	
Retail Mutual Funds	**896**	1,216	(26)	**2,058**	2,049	
Closed blocks	**23**	22	5	**42**	51	(1
Total Retail	**$ 5,386**	$ 4,666	15 %	**$ 10,527**	$ 8,152	
Institutional						
Group Retirement	**$ 1,640**	$ 1,705	(4) %	**$ 3,348**	$ 3,445	
Institutional Markets	**195**	223	(13)	**342**	404	(1
Group Benefits	**139**	171	(19)	**272**	344	(2
Total Institutional	**1,974**	2,099	(6)	**3,962**	4,193	
Total Life and Retirement premiums and deposits	**$ 7,360**	$ 6,765	9 %	**$ 14,489**	$ 12,345	

Premiums and deposits improved significantly in the three-and six-month periods ended June 30, 2014 compared to the same periods in the prior year, primarily from improved sales in the Fixed Annuities product line and continued strong sales of individual variable annuities with guarantee features, as well as newer index annuities, in the Retirement Income Solutions product line. The improvement in the premium and deposits for those product lines in the three-month period ended June 30, 2014 was partially offset by lower Retail Mutual Fund sales.

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TOTAL PREMIUMS AND DEPOSITS by OPERATING SEGMENT *(in millions)*

Net Flows

Net flows are presented for investment product lines, which include Fixed Annuities, Retirement Income Solutions, Retail Mutual Funds and Group Retirement. Net flows from annuities, which are included in the Fixed Annuities, Retirement Income Solutions and Group Retirement product lines, represent premiums and deposits less death, surrender and other withdrawal benefits. Net flows from mutual funds, which are included in the Retail Mutual Funds and Group Retirement product lines, represent deposits less withdrawals.

The following table summarizes net flows for investment product lines:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2014**	2013	**2014**	2013
Net flows				
Fixed Annuities	**$ (424)**	$ (1,264)	**$ (839)**	$ (2,263)
Retirement Income Solutions	**1,605**	1,292	**2,874**	1,863
Retail Mutual Funds	**153**	688	**393**	989

Group Retirement	**(395)**	(299)	**(473)**	(416)
Total net flows*	**$ 939**	$ 417	**$ 1,955**	$ 173

* Excludes activity related to closed blocks of fixed and variable annuities, which had reserves of approximately $5.5 billion and $6.0 billion at June 30, 2014 and 2013, respectively.

Quarterly and Year-to-date Net Flows

Total net flows from annuities and mutual funds in AIG Life and Retirement's investment product lines increased in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year. A discussion of the significant variances in net flows for each of these product lines follows, including variances in premiums and deposits, a key component of net flows.

Retail Net Flows

Fixed Annuities premiums and deposits improved in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year, due to modest increases in interest rates and steepening of the yield curve compared to the same periods in the prior year, which have made fixed annuity products more attractive in the marketplace compared to

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competing products such as bank deposits. Although market interest rates have declined during 2014 and remain at historically low levels, they have increased compared to the same periods of the prior year. While still negative, fixed annuities net flows for the three- and six-month periods ended June 30, 2014 improved compared to the same periods in the prior year, primarily due to the increase in deposits and stable surrender rates.

Retirement Income Solutions premiums and deposits and net flows increased significantly in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year, reflecting a lower surrender rate and a continued high volume of variable annuity sales, which have benefitted from product enhancements and expanded distribution as well as a more favorable competitive environment. In addition, sales of newer index annuities have shown strong initial results.

Retail Mutual Fund deposits decreased in the three-month period ended June 30, 2014, and net flows decreased in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year, due to higher redemptions in both periods, combined with the lower deposits in the quarter. The decreases were primarily driven by the Focused Dividend Strategy fund, which had lower deposits in the three-month period and higher redemptions in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year, due to recent fund performance.

Institutional Net Flows

Group Retirement net flows decreased in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year, primarily due to moderately lower premiums and deposits and, for the three-month period ended June 30, 2014, slightly higher surrenders. Surrender of an additional large group, anticipated in the second half of 2014, is expected to put pressure on net flows of this product line. The surrender rate for the Group Retirement product line improved in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year, primarily due to growth in assets under management.

The following table presents reserves for selected investment product lines by surrender charge category at June 30, 2014 and December 31, 2013:

	June 30, 2014			December 31, 2013		
(in millions)	Group Retirement Products[(a)]	Individual Fixed Annuities	Retirement Income Solutions	Group Retirement Products[(a)]	Individual Fixed Annuities	Retirement Income Solutions
No surrender charge[(b)]	**$ 61,877**	**$ 32,130**	**$ 1,927**	$ 60,962	$ 30,906	$ 2,065
0% - 2%	**1,762**	**2,497**	**17,109**	1,508	2,261	16,839
Greater than 2% - 4%	**1,880**	**4,235**	**3,449**	1,967	4,349	2,734
Greater than 4%	**5,845**	**14,831**	**22,652**	5,719	16,895	19,039
Non-surrenderable	**663**	**3,462**	**163**	315	2,758	67

Total reserves	**$ 72,027**	**$ 57,155**	**$ 45,300**	$ 70,471	$ 57,169	$ 40,744

(a) Excludes mutual fund assets under management of $16.3 billion and $15.1 billion at June 30, 2014 and December 31, 2013, respectively.

(b) Group Retirement Products include reserves of approximately $6.2 billion that are subject to 20 percent annual withdrawal limitations at both June 30, 2014 and December 31, 2013.

The following table presents surrender rates for selected investment product lines for the three- and six-month periods ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2014**	2013	**2014**	2013
Surrenders as a percentage of average account value				
Fixed Annuities	**6.7 %**	7.1 %	**6.7** %	6.8 %
Retirement Income Solutions	**7.4**	10.3	**7.4**	9.7
Group Retirement	**8.7**	9.5	**8.2**	9.3

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AIG Life and Retirement Investments and Spread Management

Investments

AIG Life and Retirement invests primarily in fixed maturity securities issued by corporations, municipalities and other governmental agencies; structured securities collateralized by, among other assets, residential and commercial real estate; and commercial mortgage loans. Income from these investments, as well as cash and short-term investments, is included in the measure of base net investment income, after excluding certain items such as call and tender income, mortgage prepayment fees, change in accretion of discount for certain high credit quality structured securities and impairment charges on investments in leased commercial aircraft.

In addition, AIG Life and Retirement seeks to enhance returns through investments in a diversified portfolio of private equity funds, hedge funds, and affordable housing partnerships. Although these alternative investments are subject to periodic earnings fluctuations, they have historically achieved yields in excess of the fixed maturity portfolio yields. AIG Life and Retirement's investment portfolio also includes, to a lesser extent, common and preferred stocks and yield-enhancement items, such as the investment in PICC Group and other securities for which the fair value option has been elected.

AIG Life and Retirement's fundamental investment strategy is to maintain a diversified, high quality portfolio of fixed maturity securities with the intent to largely match the characteristics of liabilities, including duration, which is a measure of sensitivity to changes in interest rates. The investment portfolio of each product line is tailored to the specific characteristics of its insurance liabilities, and as a result, certain portfolios are shorter in duration and others are longer in duration. See Investments herein for additional discussion of the asset liability management process.

Yield and Net Investment Income

Overall, AIG Life and Retirement's fixed maturity portfolio yields in the three- and six-month periods ended June 30, 2014 declined compared to the same periods in the prior year, primarily as a result of investment purchases and reinvestment of portfolio cash flows from investment sales, interest and maturities that have been made at yields lower than the weighted average yield of the existing portfolio due to the sustained historically low interest rate environment.

Although portfolio yields continue to be under pressure from the investment of premiums, deposits and portfolio cash flows in the sustained low interest rate environment, AIG Life and Retirement expects to continue pursuing opportunities to maintain or increase yields without assuming additional credit risk through the purchase of less liquid asset classes, such as private placement debt, commercial mortgage loans and asset-backed securities.

AIG Life and Retirement maintains investment portfolios for each product line which, to the extent practicable, match established duration targets based on the characteristics of liabilities. AIG Life and Retirement has not made significant changes during 2014 in the duration targets or credit quality of assets supporting its business lines. Net investment income from assets that support liabilities is allocated to the product line they support. Net investment income from investments in excess of liabilities, which include the majority of the alternative investments, is allocated to the product lines using a capital-based internal allocation model.

Net Investment Income

Net investment income for the three-month period ended June 30, 2014 decreased compared to the same period in the prior year, including a $184 million decrease in income from alternative investments, which was primarily attributable to strong returns on hedge funds in the same period in the prior year. The lower alternative investment income was partially offset by fair value gains of $26 million on assets for which the fair value option has been elected, compared to $113 million of net losses on such assets in the same period of the prior year. The improved performance of fair value option assets reflected lower losses from PICC Group of $20 million in the three-month period ended June 30, 2014 compared to losses of $84 million in the same period in the prior year, as well as higher gains on fair value option bonds in the 2014 period. Base net investment income, which excludes alternative investments and other enhancements, decreased compared to the same period in the prior year as

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growth in invested assets was more than offset by lower base yield. The decrease in base yield primarily reflected strong performance of commercial mortgage loans and structured securities in the prior year period, as well as investment of available cash, including proceeds from sales made during 2013 to offset capital loss carryforwards, at rates that continue to be below the weighted average yield of the overall portfolio.

Net investment income for the six-month period ended June 30, 2014 decreased compared to the same period in the prior year, primarily due to a $133 million decrease in income from alternative investments, which reflected strong returns on hedge funds in the same period in the prior year, and lower call and tender income. Fair value losses were $20 million compared to $33 million of net losses in the same period in the prior year, which included losses from PICC Group of $99 million in the six-month period ended June 30, 2014 compared to losses of $53 million for the same period in the prior year, partially offset by higher gains from fair value option bonds. Base net investment income increased slightly due to growth in invested assets. Base net investment income in the six-month period ended June 30, 2014 also included participation income on a commercial mortgage loan and income from the redemption of an asset classified in Other invested assets, while the same period in the prior year also benefitted from strong results in commercial mortgage loans and structured securities.

Spread Management

The contractual provisions for renewal of crediting rates and guaranteed minimum crediting rates included in products may have the effect, in a sustained low interest rate environment, of reducing spreads and thus reducing future profitability. Although this interest rate risk is partially mitigated through AIG Life and Retirement’s asset liability management process, product design elements and crediting rate strategies, a prolonged low interest rate environment may negatively affect future profitability.

Disciplined pricing on new business is used to continue to pursue new sales of life and annuity products at targeted net investment spreads in the current low interest rate environment. AIG Life and Retirement has a dynamic product management process to ensure that new business offerings appropriately reflect the current interest rate environment. To the extent that AIG Life and Retirement cannot achieve targeted net investment spreads on new business, products are re-priced or no longer sold. Additionally, existing products with higher minimum rate guarantees have been re-filed with lower crediting rates as permitted under state insurance product regulations.

- New sales of fixed annuity products generally have minimum interest rate guarantees of 1 percent.

- Universal life insurance interest rate guarantees are generally 2 to 3 percent on new non-indexed products and zero to 2 percent on new indexed products, and are designed to be sufficiently low to meet targeted net investment spreads. AIG Life and Retirement is in the process of lowering the minimum guaranteed interest rates on new universal life products, and expects this process to be substantially completed in 2014.

Renewal crediting rate management is done under contractual provisions in annuity and universal life products that were designed to allow crediting rates to be reset at pre-established intervals subject to minimum crediting rate guarantees. AIG Life and Retirement has adjusted, and will continue to adjust, crediting rates to maintain targeted net investment spreads on both new business and in-force business where crediting rates are above minimum guarantees. In addition to annuity and universal life products, certain traditional long-duration products for which AIG Life and Retirement does not have the ability to adjust interest rates, such as payout annuities, expose AIG Life and Retirement to reduced earnings and potential loss recognition reserve increases in a prolonged low interest rate environment. See AIG Life and Retirement Reserves and DAC – Other Reserve Changes for additional discussion of loss recognition.

As of June 30, 2014, AIG Life and Retirement's universal life and annuity products had minimum guaranteed interest rates ranging from 1 percent to 5.5 percent, with the higher rates representing guarantees on older products. As indicated in the table below, approximately 71 percent of annuity and universal life account values were at their minimum crediting rates as of June 30, 2014, compared to 73 percent at December 31, 2013. As a result of disciplined pricing on new business and the run-off of older business with higher minimum interest crediting rates, fixed annuity account values having contractual minimum guaranteed rates above 1 percent decreased from 84 percent at December 31, 2013 to 81 percent at June 30, 2014.

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The following table presents universal life and fixed annuity account values by contractual minimum guaranteed interest rate and current crediting rates:

June 30, 2014 Contractual Minimum Guaranteed Interest Rate *(in millions)*	Current Crediting Rates: At Contractual Minimum Guarantee	1-50 Basis Points Above Minimum Guarantee	More than 50 Basis Points Above Minimum Guarantee	Total
Universal life insurance				
1%	$ 67	$ -	$ 9	$ 76
> 1% - 2%	47	69	214	330
> 2% - 3%	408	394	1,476	2,278
> 3% - 4%	2,071	598	1,174	3,843
> 4% - 5%	4,110	187	-	4,297
> 5% - 5.5%	336	-	-	336
Subtotal	$ 7,039	$ 1,248	$ 2,873	$ 11,160
Fixed annuities *				
1%	$ 1,730	$ 7,328	$ 9,188	$ 18,246
> 1% - 2%	12,957	3,297	5,152	21,406
> 2% - 3%	32,182	203	2,168	34,553
> 3% - 4%	13,287	159	30	13,476
> 4% - 5%	8,020	9	4	8,033
> 5% - 5.5%	229	-	5	234
Subtotal	$ 68,405	$ 10,996	$ 16,547	$ 95,948
Total	$ 75,444	$ 12,244	$ 19,420	$ 107,108
Percentage of total	71 %	11 %	18 %	100 %

* Fixed annuities include fixed options within variable annuities sold in Group Retirement and Retirement Income Solutions product lines.

Net Realized Capital Gains (Losses)

AIG Life and Retirement's pre-tax income reflected net realized capital gains in the three-month period and net realized capital losses in the six-month period ended June 30, 2014, compared to significant net realized capital gains in the same periods in the prior year. The decreases were largely due to lower net capital gains on the sales of investments, which were $89 million and $196 million in the three- and six-month periods June 30, 2014, respectively, compared to $1.3 billion and $1.6 billion in the same periods in the prior year. The net realized capital gains in the prior year periods included investment sales related to the utilization of capital loss carryforwards. Other-than-temporary impairments remained at relatively low levels in the three- and six-month periods ended June 30, 2014 and decreased compared to the same periods in the prior year.

In addition to investment activity, AIG Life and Retirement's net realized capital gains (losses) also included decreases from the change in fair value of embedded derivatives in variable annuities with GMWB living benefit features and related hedges, primarily in the Retail operating segment. See AIG Life and Retirement - Results for additional discussion of such activity.

NAIC Designations

The Securities Valuation Office (SVO) of the NAIC evaluates the investments of U.S. insurers for statutory reporting purposes and assigns fixed maturity securities to one of six categories called "NAIC Designations." In general, NAIC Designations of "1" highest quality, or "2" high quality, include fixed maturity securities considered investment grade, while NAIC Designations of "3" through "6" generally include fixed maturity securities referred to as below investment grade. The NAIC has adopted revised rating methodologies for certain structured securities, including non-agency RMBS and CMBS, which are intended to enable a more precise assessment of the value of such structured securities and increase the accuracy in assessing expected losses to better determine the appropriate capital requirement for such structured securities. These methodologies result in an improved NAIC Designation for such securities compared to the rating typically assigned by the three major rating agencies. The following tables summarize the ratings distribution of AIG Life and Retirement's fixed maturity security portfolio by NAIC

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Designation, and the distribution by composite AIG credit rating, which is generally based on ratings of the three major rating agencies. See Investments – Credit Ratings herein for a full description of the composite AIG credit ratings.

The following table presents the fixed maturity security portfolio of AIG Life and Retirement categorized by NAIC Designation, at fair value:

June 30, 2014
(in millions)

NAIC Designation	1	2	Total Investment Grade	3	4	5	6
Other fixed maturity securities	$ 49,028	$ 64,238	$ 113,266	$ 4,173	$ 2,116	$ 294	$ 118
Mortgage-backed, asset-backed and collateralized	40,719	1,518	42,237	757	375	252	612
Total*	$ 89,747	$ 65,756	$ 155,503	$ 4,930	$ 2,491	$ 546	$ 730

* Excludes $1.0 billion of fixed maturity securities for which no NAIC Designation is available because they are not held in legal entities within AIG Life and Retirement that require a statutory filing.

The following table presents the fixed maturity security portfolio of AIG Life and Retirement categorized by composite AIG credit rating, at fair value:

June 30, 2014
(in millions)

Composite AIG Credit Rating	AAA/AA/A	BBB	Total Investment Grade	BB	B	CCC an Low
Other fixed maturity securities	$ 48,649	$ 64,949	$ 113,598	$ 3,840	$ 2,184	$ 34
Mortgage-backed, asset-backed and collateralized	25,073	2,947	28,020	1,571	1,840	12,80
Total*	$ 73,722	$ 67,896	$ 141,618	$ 5,411	$ 4,024	$ 13,14

* Excludes $1.0 billion of fixed maturity securities for which no NAIC Designation is available because they are not held in legal entities within AIG Life and Retirement that require a statutory filing.

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AIG Life and Retirement Reserves and DAC

The following table presents AIG Life and Retirement insurance reserves and mutual fund assets under management:

	Three Months Ended June 30,		Six Months June 3	
(in millions)	**2014**	2013	**2014**	
Retail				
Balance at beginning of period, gross	**$ 139,395**	$ 126,705	**$ 137,278**	$
Premiums and deposits	**5,386**	4,666	**10,527**	
Surrenders and withdrawals	**(2,677)**	(2,571)	**(5,516)**	
Death and other contract benefits	**(995)**	(979)	**(1,850)**	
Subtotal	**1,714**	1,116	**3,161**	
Change in fair value of underlying assets and reserve accretion, net of policy fees	**1,322**	(102)	**1,845**	
Cost of funds	**535**	551	**1,064**	
Other reserve changes	**(395)**	(243)	**(777)**	
Balance at end of period	**142,571**	128,027	**142,571**	
Reserves related to unrealized appreciation of investments	**225**	84	**225**	
Reinsurance ceded	**(1,474)**	(1,502)	**(1,474)**	
Total insurance reserves and retail mutual fund assets under management	**$ 141,322**	$ 126,609	**$ 141,322**	$
Institutional				
Balance at beginning of period, gross	**$ 121,045**	$ 112,602	**$ 119,892**	$
Premiums and deposits	**1,974**	2,099	**3,962**	
Surrenders and withdrawals	**(1,932)**	(2,086)	**(3,659)**	
Death and other contract benefits	**(564)**	(496)	**(1,086)**	
Subtotal	**(522)**	(483)	**(783)**	
Change in fair value of underlying assets and reserve accretion, net of policy fees	**2,084**	522	**3,277**	
Cost of funds	**394**	380	**780**	
Other reserve changes	**(167)**	836	**(332)**	
Balance at end of period	**122,834**	113,857	**122,834**	
Reserves related to unrealized appreciation of investments	**1,065**	215	**1,065**	
Reinsurance ceded	**(202)**	(217)	**(202)**	
Total insurance reserves and group mutual fund assets under management	**$ 123,697**	$ 113,855	**$ 123,697**	$
Total AIG Life and Retirement:				
Balance at beginning of period, gross	**$ 260,440**	$ 239,307	**$ 257,170**	$
Premiums and deposits	**7,360**	6,765	**14,489**	
Surrenders and withdrawals	**(4,609)**	(4,657)	**(9,175)**	

Death and other contract benefits	**(1,559)**	(1,475)	**(2,936)**	
Subtotal	**1,192**	633	**2,378**	
Change in fair value of underlying assets and reserve accretion, net of policy fees	**3,406**	420	**5,122**	
Cost of funds	**929**	931	**1,844**	
Other reserve changes	**(562)**	593	**(1,109)**	
Balance at end of period	**265,405**	241,884	**265,405**	
Reserves related to unrealized appreciation of investments	**1,290**	299	**1,290**	
Reinsurance ceded	**(1,676)**	(1,719)	**(1,676)**	
Total insurance reserves and mutual fund assets under management	**$ 265,019**	$ 240,464	**$ 265,019**	$

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Other Reserve Changes

Other reserve changes in the table above include loss recognition on certain long-term payout annuity contracts. Sales of securities in connection with the program to utilize capital loss carryforwards and other investment sales with subsequent reinvestment at lower yields triggered recording of loss recognition reserves of $12 million and $22 million in the three- and six-month periods ended June 30, 2014, respectively, compared to $1.1 billion and $1.2 billion in the same periods in prior year, primarily on certain long-term payout annuity contracts. Assumptions related to investment yields, mortality experience and expenses are reviewed periodically and updated as appropriate, which could also result in additional loss recognition reserves. Loss recognition attributable to the program to utilize capital loss carryforwards is excluded from Pre-tax operating income and reported within Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses) in the AIG Life and Retirement Results table herein.

DAC and Reserves Related to Unrealized Appreciation of Investments

DAC for universal life and investment-type products (collectively, investment-oriented products) is adjusted at each balance sheet date to reflect the change in DAC as if fixed maturity and equity securities available for sale had been sold at their stated aggregate fair value and the proceeds reinvested at current yields. The change in DAC related to unrealized appreciation of investments generally moves in the opposite direction of the changes in unrealized appreciation of the available for sale securities portfolio. The increases in the unrealized appreciation of investments in the three- and six-month periods ended June 30, 2014 of $3.0 billion and $6.4 billion, respectively, which were driven by the decline in market interest rates, resulted in a decrease in DAC and an increase in shadow loss reserves related to unrealized appreciation of investments. Shadow loss reserves were immaterial at December 31, 2013 and increased to $1.3 billion at June 30, 2014. The change in this component of DAC and shadow loss reserves in the three- and six-month periods ended June 30, 2014 was greater than the change in the same periods of the prior year, due to a larger movement in unrealized appreciation of investments.

DAC Rollforward

The following table summarizes the major components of the changes in AIG Life and Retirement DAC:

Six Months Ended June 30,		
(in millions)	**2014**	2013
Balance, beginning of year	**$ 6,723**	$ 5,672
Acquisition costs deferred	**492**	409
Amortization expense	**(411)**	(390)
Change related to unrealized depreciation (appreciation) of investments	**(613)**	469
Other	**-**	(4)
Balance, end of period*	**$ 6,191**	$ 6,156

* DAC balance excluding the amount related to unrealized depreciation (appreciation) of investments was $7.9 billion and $7.5 billion at June 30, 2014 and 2013, respectively.

Estimated Gross Profits for Investment-Oriented Products

Policy acquisition costs and policy issuance costs that are incremental and directly related to the successful acquisition of new or renewal of existing contracts for investment-oriented products are deferred and amortized, with interest, in relation to the incidence of estimated gross profits to be realized over a period that approximates the estimated lives of the contracts. Estimated gross profits include net investment income and spreads, net realized capital gains and losses, fees, surrender charges, expenses, and mortality gains and losses. If the assumptions used for estimated gross profits change significantly, DAC and related reserves (which may include VOBA, SIA, guaranteed benefit reserves and unearned revenue reserves) are recalculated using the new assumptions, and any resulting adjustment is included in income. Updating such assumptions may

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result in acceleration of amortization in some products and deceleration of amortization in other products. During the third quarter of 2014, AIG Life and Retirement will conduct its comprehensive annual review and update of estimated gross profit assumptions.

In estimating future gross profits for variable annuity products, a long-term annual asset growth assumption is applied to estimate the future growth in assets and related asset-based fees. In determining the asset growth rate, the effect of short-term fluctuations in the equity markets is partially mitigated through the use of a “reversion to the mean” methodology, whereby short-term asset growth above or below the long-term annual rate assumption will impact the growth assumption applied to the five-year period subsequent to the current balance sheet date. When actual performance significantly deviates from the annual long-term growth assumption, as evidenced by growth assumptions for the five-year reversion to the mean period remaining below a certain rate (floor) or above a certain rate (cap) for a sustained period, judgment may be applied to revise or “unlock” the growth rate assumptions to be used for both the five-year reversion to the mean period as well as the long-term annual growth assumption applied to subsequent periods. For variable annuities in the Retirement Income Solutions product line, the assumed annual growth rate has remained above zero percent for the five-year reversion to the mean period and therefore has not met the criteria for adjustment; however, additional favorable equity market performance in excess of long-term assumptions could result in “unlocking” in this product line in the future, with a positive effect on pre-tax income in the period of the unlocking.

OTHER OPERATIONS

AIG’s Other Operations include results from Mortgage Guaranty, GCM, DIB, Corporate & Other (after allocations to AIG’s business segments), Aircraft Leasing through May 14, 2014 and, subsequent to May 14, 2014, AIG’s share of AerCap earnings based on its 46 percent ownership interest.

Mortgage Guaranty (or UGC) offers private residential mortgage guaranty insurance, which protects mortgage lenders and investors from loss due to borrower default and loan foreclosure. The coverage we provide – which is called mortgage guaranty insurance, mortgage insurance, or simply “MI” – enables borrowers to purchase a house with a modest down payment by protecting lenders against the increased risk of borrower default related to high loan-to-value (LTV) mortgages – those with less than 20 percent equity.

Prior to 2009, UGC also offered default insurance on domestic second-lien mortgages, private student loans and on mortgages issued in various countries outside the United States. In 2008, UGC ceased offering all types of default insurance other than on mortgages in the United States and Hong Kong and placed the other lines of business into runoff.

Global Capital Markets consists of the operations of AIG Markets and the remaining derivatives portfolio of AIGFP. AIG Markets acts as the derivatives intermediary between AIG and its subsidiaries and third parties to provide hedging services for AIG entities. The AIGFP portfolio continues to be wound down and is managed consistent with our risk management objectives.

Direct Investment Book consists of a portfolio of assets and liabilities held directly by AIG Parent in the MIP and certain non derivative assets and liabilities of AIGFP. The DIB portfolio is being wound down and is managed with the objective of ensuring that at all times it maintains the liquidity we believe is necessary to meet all of its liabilities as they come due, even under stress scenarios, and to maximize returns consistent with our risk management objectives.

Corporate & Other consists primarily of interest expense, consolidation and eliminations, expenses of corporate staff not attributable to specific reportable segments, certain expenses related to internal controls and the financial and operating platforms, corporate initiatives, certain compensation plan expenses, corporate level net realized capital gains and losses, certain litigation related charges and credits, the results of AIG's other non core business operations, net gain (loss) on sale of divested businesses that did not meet the criteria for discontinued operations accounting treatment, and equity in the earnings of AerCap.

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Aircraft Leasing consists of ILFC. ILFC is one of the world's leading aircraft lessors. ILFC acquires commercial jet aircraft from various manufacturers and other parties and leases those aircraft to airlines around the world. See Note 4 to the Condensed Consolidated Financial Statements for a discussion on the sale of ILFC effective May 14, 2014.

Other Operations Results

The following table presents AIG's Other operations results:

(in millions)	Three Months Ended June 30, **2014**	2013	Percentage Change	Six Months Ended June 30, **2014**	2013	Percen Cha
Other operations pre-tax operating loss:						
Mortgage Guaranty	**$ 210**	$ 73	188 %	**$ 286**	$ 114	
Global Capital Markets	**245**	175	40	**274**	402	
Direct Investment book	**313**	591	(47)	**753**	920	
Corporate & Other:						
Interest expense	**(327)**	(353)	7	**(652)**	(750)	
Corporate expenses, net	**(282)**	(253)	(11)	**(525)**	(514)	
Equity in pre-tax operating earnings of AerCap[(a)]	**53**	-	NM	**53**	-	
Other non-core businesses	**(14)**	(36)	61	**3**	(96)	
Total Corporate & Other operating loss	**(570)**	(642)	11	**(1,121)**	(1,360)	
Consolidation and eliminations	**1**	1	-	**2**	2	
Total Other operations pre-tax operating income	**199**	198	1	**194**	78	
Legal reserves	**(505)**	(14)	NM	**(529)**	(25)	
Legal settlements	**-**	46	NM	**(12)**	48	
Loss on extinguishment of debt[(b)]	**(34)**	(38)	11	**(272)**	(378)	
Aircraft Leasing	**-**	18	NM	**17**	61	
Net gain (loss) on sale of divested businesses	**2,146**	(47)	NM	**2,150**	(47)	
Changes in benefit reserves and DAC, VOBA and SIA related to net realized gains (losses)	**(1)**	-	NM	**(13)**	-	
Net realized capital gains (losses)	**(120)**	88	NM	**(195)**	133	
Total Other Operations pre-tax income (loss)	**$ 1,685**	$ 251	NM%	**$ 1,340**	$ (130)	

(a) Represents our share of AerCap's pre-tax operating income, which excludes certain post-acquisition costs incurred by AerCap in connection with its acquisition of ILFC.

(b) For the six-month period ended June 30, 2014, primarily reflects the loss on extinguishment of DIB debt, of which $48 million was reported by the DIB and $208 million (net of accelerated amortization of $49 million related hedge accounting basis difference) was reported by Corporate & Other. See Liquidity and

Capital Resources for discussion of debt redemptions and repurchases.

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Total OTHER OPERATIONS Pre-Tax OPERATING INCOME (LOSS) *(in millions)*

Mortgage Guaranty Results

The following table presents Mortgage Guaranty results:

(dollars in millions)	Three Months Ended June 30, **2014**	2013	Percentage Change	Six Months Ended June 30, **2014**	2013	Perce C
Underwriting results:						
Net premiums written	**$ 249**	$ 275	(9) %	**$ 480**	$ 521	
Increase in unearned premiums	**(23)**	(67)	66	**(41)**	(119)	
Net premiums earned	**226**	208	9	**439**	402	
Claims and claims adjustment expenses incurred	**(7)**	119	NM	**111**	250	
Underwriting expenses	**56**	49	14	**110**	105	
Underwriting income	**177**	40	343	**218**	47	
Net investment income	**33**	33	-	**68**	67	
Pre-tax operating income	**210**	73	188	**286**	114	
Net realized capital gains	**1**	2	(50)	**2**	5	
Pre-tax income	**$ 211**	$ 75	181 %	**$ 288**	$ 119	
Key metrics:						

Domestic first-lien:					
New insurance written	**$ 11,057**	$ 13,817	(20) %	**$ 18,662**	$ 24,373
Combined ratio	**18.7**	88.6		**50.8**	94.3
Risk in force				**$ 38,917**	$ 32,349
60+ day delinquency ratio on primary loans[(a)]				**4.8 %**	7.1 %
Domestic second-lien:					
Risk in force[(b)]				**$ 941**	$ 1,158

(a) Based on number of policies.

(b) Represents the full amount of second-lien loans insured reduced for contractual aggregate loss limits on certain pools of loans, usually 10 percent of the full amount of loans insured in each pool. Certain second-lien pools have reinstatement provisions, which will expire as the loan balances are repaid.

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Pre-Tax oPERATING INCOME (LOSS) *(in millions)*

Domestic first-lien New insurance written *(in millions)*

Mortgage Guaranty Quarterly Results

UGC's pre-tax operating income in the three-month period ended June 30, 2014 increased compared to the same period in the prior year due to improved underwriting income.

First Lien Quarterly Results

First lien pre-tax operating income in the three-month period ended June 30, 2014 increased compared to the same period in the prior year due to improved underwriting income as a result of decreased first-lien claims and claims adjustment expenses incurred and an increase in first lien net premiums earned. The decrease in first-lien claims and claims adjustment expenses reflects $79 million of favorable prior year loss reserve development driven by updated assumptions for overturn rates on previously denied claims related to a settlement with a mortgage lender, compared to favorable prior year loss reserve development of $14 million for the same period in the prior year. The first-lien net premiums earned increased by $37 million largely from growth in the book of business and to a lesser extent the acceleration of premiums earned as the result of the recognition of a shorter expected coverage period on certain single premium business. As a result of the decreased claims and

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claims adjustment expenses and increased premiums earned, UGC's first-lien combined ratio improved to 18.7 in the three-month period ended June 30, 2014 from 88.6 in the same period in the prior year.

Runoff Businesses Quarterly Results

Runoff businesses include second lien, student loan and international businesses, all of which were placed in runoff during 2008. The runoff business' pre-tax operating income for the three-month period ended June 30, 2014 was $14 million or $11 million lower than the same period in the prior year primarily due to the decline in net premiums earned reflecting the decline of in force business.

Mortgage Guaranty Year-to-Date Results

UGC's pre-tax operating income in the six-month period ended June 30, 2014 increased compared to the same period in the prior year due to improved underwriting income.

First Lien Year-to-Date Results

First-lien pre-tax operating income for the six-month period ended June 30, 2014 increased compared to the same period in the prior year primarily due to improved underwriting income as a result of a $123 million decrease in first-lien claims and claims adjustment expenses incurred reflecting favorable prior year loss reserve development, driven by updated assumptions for overturn rates on previously denied claims related to a settlement with a mortgage lender, and a $65 million increase in first-lien net premiums earned largely from growth in the book of business and, to a lesser extent, the acceleration of premiums earned as the result of the recognition of a shorter expected coverage period on certain single premium business. The decline in first-lien claims and claims adjustment expenses combined with the increase in earned premiums resulted in an improved combined ratio of 50.8 in the six-month period ended June 30, 2014 compared to 94.3 in the same period of the prior year.

Runoff Businesses Year-to-Date Results

The runoff business' pre-tax operating income for the six-month period ended June 30, 2014 was $30 million or $7 million lower than the same period in the prior year. The decline in pre-tax operating income is primarily due to a decline in net premiums earned of $28 million partially offset by a decline in claims and claims adjustment expenses of $15 million and a $9 million reduction in underwriting expenses.

New Insurance Written

The declines in domestic first lien new insurance written from $13.8 billion to $11.1 billion and from $24.4 billion to $18.7 billion in the three- and six-month periods ended June 30, 2014, respectively, compared to the same periods in the prior year, were primarily due to the contraction in the mortgage originations market, which began in the second half of 2013.

Delinquency Inventory

The delinquency inventory for domestic first lien business declined during the six-month period ended June 30, 2014 as a result of cures and paid claims exceeding the number of newly reported delinquencies. Mortgage Guaranty's first lien default rate at June 30, 2014 was 4.8 percent compared to 7.1 percent at June 30, 2013. Over the last several quarters, Mortgage Guaranty has seen declining newly reported defaults and increasing cure rates, a trend Mortgage Guaranty expects will continue through 2014.

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The following table provides a summary of delinquency activity in Mortgage Guaranty's domestic first lien delinquency inventory:

	Six Months Ended June 30,	
(number of policies)	**2014**	2013
Number of delinquencies at the beginning of the year	**47,518**	62,832
Newly reported	**23,268**	28,082
Cures	**(23,744)**	(27,927)
Claims paid	**(6,072)**	(10,195)
Other	**(1,169)**	245
Number of delinquencies at the end of the period	**39,801**	53,037

Global Capital Markets Operations

Global Capital Markets Quarterly Results

GCM's pre-tax income and pre-tax operating income increased in the three-month period ended June 30, 2014 compared to the same period in the prior year primarily due to gains realized upon unwinding certain positions and a decrease in operating expenses, partially offset by declines in net credit valuation adjustments on derivative assets and liabilities and in unrealized market valuation gains related to the super senior CDS portfolio. A state regulatory agency has requested additional information relating to the unwinding of a position on which we realized gains of $196 million in the three-month period ended June 30, 2014.

There were de minimis net credit valuation adjustment gains recognized in the three-month period ended June 30, 2014 compared to net credit valuation adjustment gains of $81 million in the same period in the prior year. The decline resulted primarily from credit valuation gains on uncollateralized derivative assets in the three-month period ended June 30, 2013 due to more significant tightening of counterparty credit spreads.

Unrealized market valuation gains on the CDS portfolio of $73 million and $131 million were recognized in the three-month periods ended June 30, 2014 and 2013, respectively. The decline resulted primarily from amortization and price movements within the CDS portfolio.

Global Capital Markets Year-to-Date Results

GCM's pre-tax income and pre-tax operating income decreased in the six-month period ended June 30, 2014 compared to the same period in the prior year primarily due to declines in net credit valuation adjustments on derivative assets and liabilities and in unrealized market valuation gains related to the super senior CDS portfolio, partially offset by gains realized upon unwinding certain positions and a decrease in operating expenses. See Global Capital Markets Quarterly Results for information regarding a state regulatory agency request for additional information.

Net credit valuation adjustment losses of $25 million were recognized in the six-month period ended June 30, 2014 compared to net credit valuation adjustment gains of $134 million in the same period in the prior year. The decline resulted primarily from the recognition of credit valuation losses on derivative assets in the six-month period ended June 30, 2014 due to higher exposure of uncollateralized derivative assets compared to credit valuation gains on uncollateralized derivative assets in the same period in the prior year due to the tightening of counterparty credit spreads.

Unrealized market valuation gains on the CDS portfolio of $148 million and $302 million were recognized in the six-month periods ended June 30, 2014 and 2013, respectively. The decline resulted primarily from amortization and price movements within the CDS portfolio.

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Direct Investment Book Results

The following table presents Direct Investment book results:

(in millions)	Three Months Ended June 30, 2014	2013	Percentage Change	Six Months Ended June 30, 2014	2013	Percentage Change
Pre-tax operating income	**$ 313**	$ 591	(47) %	**$ 753**	$ 920	(18) %
Legal settlements	**-**	27	NM	**-**	27	NM
Loss on extinguishment of debt	**(18)**	-	NM	**(48)**	(4)	NM
Net realized capital gains (losses)	**(23)**	102	NM	**(78)**	89	NM
Pre-tax income	**$ 272**	$ 720	(62) %	**$ 627**	$ 1,032	(39) %

Direct Investment Book Quarterly Results

The DIB’s pre tax income and pre tax operating income decreased in the three-month period ended June 30, 2014 compared to the same period in the prior year primarily due to lower fair value appreciation on ABS CDOs and a decrease in gains realized upon unwinding certain positions. The decrease in pre-tax income was also impacted by net realized capital losses in the three-month period ended June 30, 2014 primarily resulting from losses on interest rate hedges as compared to gains on similar positions in the same period in the prior year.

Fair value appreciation on ABS CDOs was $234 million and $478 million in the three-month periods ended June 30, 2014 and 2013, respectively. The fair value appreciation on the ABS CDOs was higher in the three-month period ended June 30, 2013 driven primarily by improved collateral pricing due to more significant improvements in home price indices and amortization of the underlying collateral.

Direct Investment Book Year-to-Date Results

The DIB’s pre tax income and pre tax operating income decreased in the six-month period ended June 30, 2014 compared to the same period in the prior year primarily due to lower fair value appreciation on ABS CDOs and a decline in net credit valuation adjustments on assets and liabilities for which the fair value option was elected, partially offset by an increase in gains realized upon unwinding certain positions. The decrease in pre-tax income was also impacted by net realized capital losses in the six-month period ended June 30, 2014 primarily resulting from losses on interest rate hedges and on debt extinguishments as compared to gains on interest rate hedge positions in the same period in the prior year.

Fair value appreciation on ABS CDOs was $460 million and $586 million in the six-month periods ended June 30, 2014 and 2013, respectively. The fair value appreciation on the ABS CDOs was higher in the six-month period ended June 30, 2013 driven primarily by improved collateral pricing due to more significant improvements in home price indices and amortization of the underlying collateral.

Net credit valuation adjustment gains of $206 million and $293 million were recognized in the six-month periods ended June 30, 2014 and 2013, respectively. The decrease resulted primarily from a decline in the portfolio size due to sales and maturities as well as lower credit valuation gains on assets due to less significant tightening of counterparty credit spreads and higher credit valuation losses on liabilities due to more significant tightening of AIG’s credit spreads in the six-month period ended June 30, 2014 compared to the same period in the prior year.

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The following table presents credit valuation adjustment gains (losses) for the DIB (excluding intercompany transactions):

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2014**	2013	**2014**	2013
Counterparty Credit Valuation Adjustment on Assets:				
Other bond securities	**$ 79**	$ 49	**$ 229**	$ 299
Loans and other assets	**-**	(1)	**-**	9
Increase in assets	**79**	48	**229**	308
AIG's Own Credit Valuation Adjustment on Liabilities:				
Notes and bonds payable	**(12)**	(4)	**(19)**	(40)
Guaranteed Investment Agreements	**-**	23	**(3)**	28
Other liabilities	**-**	-	**(1)**	(3)
(Increase) decrease in liabilities	**(12)**	19	**(23)**	(15)
Net increase to pre-tax operating income	**$ 67**	$ 67	**$ 206**	$ 293

Corporate & Other Results

Quarterly and Year-to-Date Corporate & Other Results

Corporate & Other's pre tax operating losses decreased in the three- and six-month periods ended June 30, 2014 compared to the same periods in the prior year primarily due to lower interest expense from ongoing debt management activities described in Liquidity and Capital Resources as well as our share of AerCap's earnings, which is accounted for under the equity method. These items were partially offset by higher compensation expense, which varies in part based on AIG's stock price.

Legal Reserves

Legal reserve expenses increased by $491 million and $504 million in the three- and six-month periods ended June 30, 2014, respectively, compared to the same periods in the prior year.

Aircraft Leasing Results

The following table presents Aircraft Leasing results through May 14, 2014, the date of our sale of ILFC to AerCap:

Three Months	Six Months

(in millions)	Ended June 30, **2014**	2013	Percentage Change	Ended June 30, **2014**	2013	Percentage Change
Aircraft leasing revenues, excluding net realized capital gains (losses):						
Rental revenue	**$ 486**	$ 1,090	(55) %	**$ 1,554**	$ 2,114	(26) %
Interest and other revenues	**3**	21	(86)	**48**	71	(32)
Total aircraft leasing revenues, excluding net realized capital gains (losses)	**489**	1,111	(56)	**1,602**	2,185	(27)
Aircraft leasing expense:						
Impairment charges, fair value adjustments and lease-related charges	**14**	9	56	**34**	9	278
Other expenses	**475**	1,084	(56)	**1,551**	2,115	(27)
Total aircraft leasing expense	**489**	1,093	(55)	**1,585**	2,124	(25)
Pre-tax income	**$ -**	$ 18	NM%	**$ 17**	$ 61	(72) %

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Aircraft Leasing reported pre-tax income in both 2014 and 2013, primarily due to certain adjustments to ILFC's assets and liabilities classified as held-for-sale. See Note 4 to the Consolidated Financial Statements for more information regarding Aircraft Leasing.

Net (Gain) Loss on Sale of Divested Businesses

Net (gain) loss on sale of divested businesses includes a gain of $2.2 billion associated with the completion of the sale of ILFC in the three- and six-month periods ended June 30, 2014.

Overview

Liquidity refers to the ability to generate sufficient cash resources to meet our payment obligations. It is defined as cash and unencumbered assets that can be monetized in a short period of time at a reasonable cost. We manage our liquidity prudently through various risk committees, policies and procedures, and a stress testing and liquidity framework established by Enterprise Risk Management (ERM). Our liquidity framework is designed to measure both the amount and composition of our liquidity to meet financial obligations in both normal and stressed markets. See Part II, Item 7. MD&A — Enterprise Risk Management — Risk Appetite, Identification, and Measurement in the 2013 Annual Report and Enterprise Risk Management — Liquidity Risk Management below for additional information.

Capital refers to the long-term financial resources available to support the operation of our businesses, fund business growth, and cover financial and operational needs that arise from adverse circumstances. Our primary source of ongoing capital generation is the profitability of our insurance subsidiaries. We and our insurance subsidiaries must comply with numerous constraints on our minimum capital positions. These constraints drive the requirements for capital adequacy for both AIG and the individual businesses and are based on internally-defined risk tolerances, regulatory requirements, rating agency and creditor expectations and business needs. Actual capital levels are monitored on a regular basis, and using ERM's stress testing methodology, we evaluate the capital impact of potential macroeconomic, financial and insurance stresses in relation to the relevant capital constraints of both AIG and our insurance subsidiaries.

We believe that we have sufficient liquidity and capital resources to satisfy future requirements and meet our obligations to policyholders, customers, creditors and debt-holders, including those arising from reasonably foreseeable contingencies or events.

Nevertheless, some circumstances may cause our cash or capital needs to exceed projected liquidity or readily deployable capital resources. Additional collateral calls, deterioration in investment portfolios or reserve strengthening affecting statutory surplus, higher surrenders of annuities and other policies, downgrades in credit ratings, or catastrophic losses may result in significant additional cash or capital needs and loss of sources of liquidity and capital. In addition, regulatory and other legal restrictions could limit our ability to transfer funds freely, either to or from our subsidiaries.

Depending on market conditions, regulatory and rating agency considerations and other factors, we may take various liability and capital management actions. Liability management actions may include, but are not limited to, repurchasing or redeeming outstanding debt, issuing new debt or engaging in debt exchange offers. Capital management actions may include, but are not limited to, paying dividends to our shareholders and share repurchases.

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Sources*

- ***AIG Parent Funding from Subsidiaries***

During the six-month period ended June 30, 2014, AIG Parent received $701 million in cash dividends from AIG Property Casualty and $2.5 billion in cash dividends and loan repayments from AIG Life and Retirement, which included approximately $364 million of legal settlement proceeds.

AIG Parent also received $781 million in tax sharing payments from our insurance businesses in the six-month period ended June 30, 2014, including $510 million of such payments during the second quarter of 2014, which are subject to reimbursement in future periods.

- ***ILFC Sale***

On May 14, 2014, we received net cash proceeds of approximately $2.4 billion from the sale of ILFC after taking into account the settlement of intercompany loans. This cash amount is in addition to the 97.6 million newly issued AerCap common shares we received as consideration from the sale.

Uses

- ***Debt Reduction****

During the six-month period ended June 30, 2014, we reduced DIB debt by approximately $3.0 billion through a redemption of $1.2 billion aggregate principal amount of its 4.250% Notes due 2014, a redemption of $750 million aggregate principal amount of its 3.000% Notes due 2015 and a repurchase of $1.0 billion aggregate principal amount of its 8.250% Notes due 2018, in each case, using cash allocated to the DIB.

We also made other repayments of approximately $2.9 billion. AIG Parent made interest payments on our debt instruments totaling $946 million.

- ***Dividend***

We paid a cash dividend of $0.125 per share on AIG Common Stock during each of the first and second quarters of 2014.

- ***Repurchase of Common Stock***

We repurchased approximately 36 million shares of AIG Common Stock during the six-month period ended June 30, 2014, for an aggregate purchase price of approximately $1.9 billion. The total number of shares of AIG Common Stock repurchased in the first half of 2014, and the aggregate purchase price of those shares, reflect our payment of $300 million under an ASR agreement and our initial receipt of 70 percent of the total notional share equivalent, or approximately 3.8 million shares of AIG Common Stock.

* On July 16, 2014, we issued $1.0 billion aggregate principal amount of 2.300% Notes due 2019 and $1.5 billion aggregate principal amount of 4.500% Notes due 2044. In July 2014, we also received $650 million in cash in connection with the global resolution of our residential mortgage related disputes with Bank of America.

** On July 14, 2014, we purchased, in cash tender offers, (i) certain junior subordinated debentures issued or guaranteed by AIG for an aggregate purchase price of $1.8 billion and (ii) certain senior notes and debentures issued or guaranteed by AIG for an aggregate purchase price of $700 million. On July 31, 2014, we further reduced DIB debt by approximately $2.0 billion through a redemption of $790 million aggregate principal amount of its 4.875% Notes due 2016 and a redemption of $1.25 billion aggregate principal amount of its 3.800% Notes due 2017, in each case, using cash allocated to the DIB.

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Analysis of Sources and Uses of Cash

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

Six Months Ended June 30, *(in millions)*	2014	2013
Sources:		
Net cash provided by operating activities	$ 1,641	$ 1,674
Net cash provided by changes in restricted cash	-	1,216
Net cash provided by other investing activities	4,290	4,855
Changes in policyholder contract balances	921	-
Issuance of long-term debt	3,028	2,338
Net cash provided by other financing activities	-	235
Total sources	9,880	10,318
Uses:		
Change in restricted cash[(a)]	(628)	-
Change in policyholder contract balances	-	(1,309)
Repayments of long-term debt	(6,027)	(8,319)
Purchases of AIG Common Stock	(1,849)	-
Net cash used in other financing activities[(b)]	(1,875)	-
Total uses	(10,379)	(9,628)
Effect of exchange rate changes on cash	(3)	(70)
Increase (decrease) in cash	$ (502)	$ 620

(a) At June 30, 2014, restricted cash of $352 million was reclassified to Other assets in the current period to correct prior presentation. Such amounts are not material to any period presented.

(b) Includes payment of cash dividend in 2014.

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

Six Months Ended June 30, *(in millions)*	2014	2013
Summary:		
Net cash provided by operating activities	$ 1,641	$ 1,674
Net cash provided by investing activities	3,662	6,071
Net cash used in financing activities	(5,802)	(7,055)
Effect of exchange rate changes on cash	(3)	(70)
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

Operating Cash Flow Activities

Insurance companies generally receive most premiums in advance of the payment of claims or policy benefits. The ability of insurance companies to generate positive cash flow is affected by the frequency and severity of losses under their insurance policies, policy retention rates and operating expenses.

Interest payments totaled $1.7 billion for the six-month period ended June 30, 2014 compared to $2.4 billion in the six-month period ended June 30, 2013. Cash provided by operating activities excluding interest payments was $3.4 billion for the six-

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month period ended June 30, 2014 and $4.1 billion for the six-month period ended June 30, 2013. Operating cash flow activities for the six-month period ended June 30, 2014 include:

- $0.1 billion of cash provided by AIG Property Casualty in the six-month period ended June 30, 2014 compared to $0.4 billion of cash used during the six-month period ended June 30, 2013 primarily due to the timing of the payments related to catastrophe losses in 2013;

- $1.4 billion of cash provided by AIG Life and Retirement in the six-month period ended June 30, 2014 compared to cash provided of $1.0 billion in the six-month period ended June 30, 2013, which reflects the continued profitability of AIG Life and Retirement.

Investing Cash Flow Activities

Net cash provided by investing activities for the six-month period ended June 30, 2014 includes:

- approximately $1.0 billion of cash collateral received in connection with the securities lending program launched during 2012 by AIG Life and Retirement;

- approximately $2.4 billion of net cash proceeds from the sale of ILFC.

Net cash provided by investing activities for the six-month period ended June 30, 2013 includes approximately $1.9 billion of cash collateral received in connection with the securities lending program launched during 2012 by AIG Life and Retirement.

Financing Cash Flow Activities

Net cash used in financing activities for the six-month period ended June 30, 2014 includes:

- approximately $361 million in the aggregate to pay a dividend of $0.125 per share on AIG Common Stock in each of the first and second quarters of 2014;

- approximately $1.9 billion to repurchase approximately 36 million shares of AIG Common Stock;

- approximately $271 million to repay long-term debt of business held-for-sale; and

- approximately $5.8 billion to repay long-term debt; see Debt – Debt Maturities below.

Net cash used in financing activities for the six-month period ended June 30, 2013 includes:

- approximately $1.1 billion to redeem our 7.70% Series A-5 Junior Subordinated Debentures Due 2047;

- approximately $1.3 billion in the aggregate to purchase, in cash tender offers, junior subordinated debentures we had issued, capital securities issued by three statutory trusts controlled by AIGLH and senior debentures we had assumed that were originally issued by SunAmerica Inc.; and

- approximately $750 million to redeem our 6.45% Series A-4 Junior Subordinated Debentures.

Liquidity and Capital Resources of AIG Parent and Subsidiaries

AIG Parent

As of June 30, 2014, AIG Parent had approximately $18.5 billion in liquidity sources. AIG Parent's liquidity sources are held in the form of cash, short-term investments and publicly traded, intermediate-term investment grade rated fixed maturity securities. Fixed maturity securities consist of U.S. government and government sponsored entity securities, U.S. agency

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mortgage-backed securities, and corporate and municipal bonds. AIG Parent actively manages its assets and liabilities in terms of products, counterparties and duration. Based upon an assessment of its immediate and longer-term funding needs, AIG Parent purchases publicly traded, intermediate-term investment grade rated fixed maturity securities that can be readily monetized through sales or repurchase agreements. These securities allow us to diversify sources of liquidity while reducing the cost of maintaining sufficient liquidity. AIG Parent liquidity sources are monitored through the use of various internal liquidity risk measures. AIG Parent's primary sources of liquidity are dividends, distributions, loans, and other payments from subsidiaries, as well as credit and contingent liquidity facilities. AIG Parent's primary uses of liquidity are for debt service, capital and liability management, operating expenses and subsidiary capital needs.

We generally manage capital flows between AIG Parent and its subsidiaries through internal, Board approved policies and guidelines. In addition, AIG Parent has unconditional capital maintenance agreements (CMAs) in place with certain AIG Property Casualty, AIG Life and Retirement and Mortgage Guarantee subsidiaries. See AIG Property Casualty, AIG Life and Retirement and Other Operations — Mortgage Guaranty below for additional details regarding the CMAs. Nevertheless, regulatory and other legal restrictions could limit our ability to transfer capital freely, either to or from our subsidiaries.

We believe that we have sufficient liquidity and capital resources to satisfy our reasonably foreseeable future requirements and meet our obligations to our creditors, debt-holders and insurance company subsidiaries. We expect to access the debt markets from time to time to meet funding requirements as needed.

We utilize our capital resources to support our businesses, with the majority of capital allocated to our core insurance operations. Should we have or generate more capital than is needed to support our business strategies (including organic growth or acquisition opportunities) or mitigate risks inherent to our business, we may develop plans to distribute such capital to shareholders via dividend or share repurchase authorizations or deploy such capital towards liability management.

In the normal course, it is expected that a portion of the capital generated by our core insurance operations through earnings or through the utilization of AIG's deferred tax assets may be available for distribution to shareholders. Additionally, it is expected that capital associated with businesses or investments that do not directly support our core insurance operations may be available for distribution to shareholders or deployment towards liability management upon their monetization.

In developing plans to distribute capital, AIG considers a number of factors, including, but not limited to: the capital resources available to support our core insurance operations and business strategies, AIG's funding capacity and capital resources in comparison to internal benchmarks, expectations for capital generation, rating agency expectations for capital, as well as regulatory standards for capital and capital distributions.

The following table presents AIG Parent's liquidity sources:

(In millions)	**As of June 30, 2014**	As of December 31, 2013
Cash and short-term investments[a][b]	**$ 10,587**	$ 10,154
Unencumbered fixed maturity securities[c]	**3,499**	2,968
Total AIG Parent liquidity	**14,086**	13,122
Available capacity under syndicated credit facility[d]	**3,947**	3,947
Available capacity under contingent liquidity facility[e]	**500**	500
Total AIG Parent liquidity sources	**$ 18,533**	$ 17,569

(a) Cash and short-term investments include reverse repurchase agreements totaling $7.7 billion and $6.9 billion as of June 30, 2014 and December 31, 2013, respectively.

(b) $4.4 billion and $5.9 billion of cash and short-term investments as of June 30, 2014 and December 31, 2013, respectively, are allocated toward future maturities of liabilities and contingent liquidity stress needs of DIB and GCM.

(c) Unencumbered securities consist of publicly traded, intermediate-term investment grade rated fixed maturity securities. Fixed maturity securities consist of U.S. government and government sponsored entity securities, U.S. agency mortgage-backed securities, and corporate and municipal bonds.

(d) For additional information relating to this syndicated credit facility, see Credit Facilities below.

(e) For additional information relating to the contingent liquidity facility, see Contingent Liquidity Facilities below.

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AIG Property Casualty

We expect that AIG Property Casualty subsidiaries will be able to continue to satisfy reasonably foreseeable future liquidity requirements and meet their obligations, including those arising from reasonably foreseeable contingencies or events, through cash from operations and, to the extent necessary, monetization of invested assets. AIG Property Casualty subsidiaries' liquidity resources are held in the form of cash, short-term investments and publicly traded, investment grade rated fixed maturity securities.

Certain AIG Property Casualty subsidiaries are members of the Federal Home Loan Banks (FHLBs) in their respective districts. Borrowings from the FHLBs may be used to supplement liquidity. As of June 30, 2014 and December 31, 2013, no AIG Property Casualty subsidiaries had FHLB borrowings outstanding.

AIG Property Casualty's subsidiaries may require additional funding to meet capital or liquidity needs under certain circumstances.

Large catastrophes may require AIG to provide additional support to our affected operations. Downgrades in AIG's credit ratings could put pressure on the insurer financial strength ratings of AIG's subsidiaries, which could result in non renewals or cancellations by policyholders and adversely affect the subsidiary's ability to meet its own obligations. Increases in market interest rates may adversely affect the financial strength ratings of our subsidiaries, as rating agency capital models may reduce the amount of available capital relative to required capital. Other potential events that could cause a liquidity strain include an economic collapse of a nation or region significant to our operations, nationalization, catastrophic terrorist acts, pandemics or other events causing economic or political upheaval.

AIG Parent and Ascot Corporate Name Limited (ACNL), an AIG Property Casualty subsidiary, are parties to a $625 million letter of credit facility. ACNL, as a member of the Lloyd's of London insurance syndicate (Lloyd's), is required to hold capital at Lloyd's, known as Funds at Lloyds (FAL). Under the facility, which supports the 2014 and 2015 years of account, the entire FAL capital requirement of $600 million, as of June 30, 2014, was satisfied with a letter of credit issued under the facility.

AIG Parent, AIG Property Casualty Inc. and certain AIG Property Casualty domestic insurance subsidiaries are parties to a consolidated CMA. Among other things, the CMA provides that AIG Parent will maintain the total adjusted capital of these AIG Property Casualty insurance subsidiaries, measured as a group (the Fleet), at or above the specified minimum percentage of the Fleet's projected total authorized control level Risk Based Capital (RBC). As of June 30, 2014, the specified minimum percentage in the CMA was 300 percent.

In the six-month period ended June 30, 2014, AIG Property Casualty paid $879 million of dividends to AIG Parent, including non-cash dividends of $178 million. AIG Parent was not required to make any capital contributions pursuant to the CMA then in place.

AIG Life and Retirement

We expect that AIG Life and Retirement subsidiaries will be able to continue to satisfy reasonably foreseeable future liquidity requirements and meet their obligations, including those arising from reasonably foreseeable contingencies or events, through cash from operations and, to the extent necessary, monetization of invested assets. AIG Life and Retirement subsidiaries’ liquidity resources are held in the form of cash, short-term investments and publicly traded, investment grade rated fixed maturity securities.

Certain AIG Life and Retirement insurance subsidiaries are members of the FHLBs in their respective districts. Borrowings from the FHLBs are used to supplement liquidity or for other uses deemed appropriate by management. AIG Life and Retirement had outstanding borrowings from the FHLBs in an aggregate amount of $44 million as of June 30, 2014 and $50 million as of December 31, 2013.

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The need to fund product surrenders, withdrawals and maturities creates a potential liquidity requirement for AIG Life and Retirement's insurance subsidiaries. Management believes that because of the size and liquidity of its investment portfolios, AIG Life and Retirement does not face a significant liquidity risk due to normal deviations from projected claim or surrender experience. Furthermore, AIG Life and Retirement's products contain certain features that mitigate surrender risk, including surrender charges. As part of its risk management framework, AIG Life and Retirement continues to evaluate and, where appropriate, pursue strategies and programs to improve its liquidity position and facilitate AIG Life and Retirement's ability to maintain a fully invested asset portfolio. AIG Life and Retirement also has developed a robust contingent liquidity plan to address unforeseen liquidity needs.

AIG Life and Retirement executes programs, which began in 2012, that lend securities from its investment portfolio to supplement liquidity or for other uses as deemed appropriate by management. Under these programs, AIG Life and Retirement insurance subsidiaries lend securities to financial institutions and receive cash as collateral equal to 102 percent of the fair value of the loaned securities. Cash collateral received is invested in short-term investments. Additionally, the aggregate amount of securities that an AIG Life and Retirement insurance company may lend under its program at any time is limited to five percent of its general account statutory-basis admitted assets. AIG Life and Retirement's liability to the borrowers for collateral received was $3.0 billion as of June 30, 2014 and $4.0 billion as of December 31, 2013.

AIG Parent is party to CMAs with certain AIG Life and Retirement insurance subsidiaries. Among other things, the CMAs provide that AIG Parent will maintain the total adjusted capital of each of these AIG Life and Retirement insurance subsidiaries at or above a specified minimum percentage of the subsidiary's projected NAIC Company Action Level RBC. As of June 30, 2014, the specified minimum percentage in the CMAs was 385 percent, except for the CMA with AGC Life Insurance Company, where the specified minimum percentage was 250 percent.

In the six-month period ended June 30, 2014, AIG Life and Retirement paid $2.5 billion in cash dividends and loan repayments to AIG Parent, which included approximately $364 million of legal settlement proceeds. AIG Life and Retirement also provided a non-cash dividend of $642 million to AIG Parent during the six-month period ended June 30, 2014. AIG Parent was not required to make any capital contributions under the CMAs then in place.

Other Operations

Mortgage Guaranty

We expect that Mortgage Guaranty subsidiaries will be able to continue to satisfy reasonably foreseeable future liquidity requirements and meet their obligations, including those arising from reasonably foreseeable contingencies or events, through cash from operations and, to the extent necessary, monetization of invested assets. Mortgage Guaranty's liquidity resources are held in the form of cash, short-term investments and publicly traded, investment grade-rated, fixed maturity securities. These securities could be monetized in the event liquidity levels are insufficient to meet obligations.

AIG Parent is party to a CMA with a Mortgage Guaranty insurance subsidiary. Among other things, the CMA provides that AIG Parent will maintain capital and surplus of this Mortgage Guaranty insurance subsidiary at or above a specified minimum required capital based on a specified risk-to-capital ratio. In addition, the CMA provides that if capital and surplus of this Mortgage Guaranty insurance subsidiary is in excess of that same specified minimum required capital, subject to board approval and compliance with applicable insurance laws, this Mortgage Guaranty insurance subsidiary would declare and pay ordinary dividends to its equity holders up to an amount necessary to reduce projected or actual capital and surplus to a level equal to or not materially greater than such specified minimum required capital. As structured, the CMA contemplates that the specified minimum required capital would be reviewed and agreed upon at least annually. As of August 1, 2014, the minimum required capital is based on a risk-to-capital ratio of 19 to 1.

In the six-month period ended June 30, 2014, Mortgage Guaranty paid no dividends to AIG Parent, and AIG Parent was not required to make any capital contributions under the CMA.

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Global Capital Markets

Derivative transactions between AIG and its subsidiaries and third parties are generally centralized through GCM, specifically through the entity AIG Markets. GCM is required to clear certain derivatives transactions through central regulated clearing organizations pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank). To the extent a derivatives transaction is subject to a clearing obligation, GCM is required to post collateral in amounts determined by the relevant clearing organization and GCM's clearing agreements with its futures commission merchants. To the extent a derivatives transaction is not subject to a clearing obligation, these derivative transactions are governed by bilateral master agreements, the form of which is published by the International Swaps and Derivatives Association, Inc. (ISDA). Many of these agreements, primarily between GCM and third party financial institutions, require collateral postings. Many of GCM's transactions with AIG and its subsidiaries also include collateral posting requirements, the purpose of which are to provide collateral to GCM, which in turn is used to satisfy posting requirements with third parties, including the margin requirements of clearing organizations and futures commission merchants.

In addition, most of GCM's CDSs within AIGFP are subject to collateral posting provisions. The collateral posting provisions contained in the ISDA Master Agreements and related transaction documents with respect to CDSs differ among counterparties and asset classes. The amount of future collateral posting requirements for super senior CDSs is a function of our credit ratings, the rating of the relevant reference obligations and the market value of the relevant reference obligations, with market value being the most significant factor. We estimate the amount of potential future collateral postings associated with the super senior CDSs using various methodologies. The contingent liquidity requirements associated with such potential future collateral postings are incorporated into our liquidity planning assumptions.

As of June 30, 2014 and December 31, 2013, GCM had total assets of $6.7 billion and $7.7 billion, respectively, and total liabilities of $3.2 billion and $3.1 billion, respectively. GCM's assets consist primarily of cash, short-term investments, other receivables, net of allowance, and unrealized gains on swaps, options and forwards. GCM's liabilities consist primarily of trade payables and unrealized losses on swaps, options and forwards. Collateral posted by GCM to third parties was $2.8 billion and $3.0 billion at June 30, 2014 and December 31, 2013, respectively. GCM obtained collateral from third parties totaling $702 million and $572 million at June 30, 2014 and December 31, 2013, respectively. The collateral amounts reflect counterparty netting adjustments available under ISDA Master Agreements and are inclusive of collateral that exceeded the fair value of derivatives as of the reporting date.

Direct Investment Book

The DIB portfolio is being wound down and is managed with the objective of ensuring that at all times it maintains the liquidity we believe is necessary to meet all of its liabilities as they come due, even under stress scenarios, and to maximize returns consistent with our risk management objectives. We are focused on meeting the DIB's liquidity needs, including the need for contingent liquidity arising from collateral posting for debt positions of the DIB, without relying on resources beyond the DIB. As part of this program management, we may from time to time access the capital markets, including issuing and repurchasing debt, and selling assets on an opportunistic basis, in each case subject to market conditions. If the DIB's risk target is breached, we expect to take appropriate actions to increase the DIB's liquidity sources or reduce liquidity requirements to maintain the risk target, although no assurance can be given that this can be achieved under then prevailing market conditions. Any additional liquidity shortfalls would need to be funded by AIG Parent.

From time to time, we may utilize cash allocated to the DIB that is not required to meet the risk target for the DIB for general corporate purposes unrelated to the DIB.

The DIB's assets consist primarily of cash, short-term investments, fixed maturity securities issued by corporations, U.S. government and government sponsored entities and mortgage and asset backed securities. The DIB's liabilities consist primarily of notes and other borrowings supported by assets as well as other short-term financing obligations. As of June 30, 2014 and December 31, 2013, the DIB had total assets of $19.8 billion and $23.3 billion, respectively, and total liabilities of $15.2 billion and $20.0 billion, respectively.

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The overall hedging activity for the assets and liabilities of the DIB is executed by GCM. The value of hedges related to the non-derivative assets and liabilities of AIGFP in the DIB is included within the assets, liabilities and operating results of GCM and is not included within the DIB's assets, liabilities or operating results.

Collateral posted by operations included in the DIB to third parties was $3.6 billion at June 30, 2014 and $4.2 billion at December 31, 2013. This collateral primarily consists of securities of the U.S. government and government sponsored entities and generally cannot be repledged or resold by the counterparties.

Credit Facilities

We maintain a committed, revolving syndicated credit facility as a potential source of liquidity for general corporate purposes. On June 19, 2014, we amended and restated the four-year syndicated credit facility that was entered into in October 2012 (the Previous Facility). The amended and restated five-year syndicated credit facility (the Five-Year Facility) provides for aggregate commitments by the bank syndicate to provide unsecured revolving loans and/or standby letters of credit of up to $4.0 billion without any limits on the type of borrowings (the Previous Facility had a $2.0 billion sublimit on letters of credit) and is scheduled to expire in June 2019 (the Previous Facility was scheduled to expire in October 2016).

As of June 30, 2014, a total of approximately $3.9 billion remains available under the Five-Year Facility. Our ability to borrow under the Five-Year Facility is not contingent on our credit ratings. However, our ability to borrow under the Five-Year Facility is conditioned on the satisfaction of certain legal, operating, administrative and financial covenants and other requirements contained in the Five-Year Facility. These include covenants relating to our maintenance of a specified total consolidated net worth and total consolidated debt to total consolidated capitalization. Failure to satisfy these and other requirements contained in the Five-Year Facility would restrict our access to the Five-Year Facility and could have a material adverse effect on our financial condition, results of operations and liquidity. We expect to borrow under the Five-Year Facility from time to time, and may use the proceeds for general corporate purposes.

Contingent Liquidity Facilities

AIG Parent has access to a contingent liquidity facility of up to $500 million as a potential source of liquidity for general corporate purposes. Under this facility, we have the unconditional right, prior to December 15, 2015, to issue up to $500 million in senior debt to the counterparty, based on a put option agreement between AIG Parent and the counterparty.

Our ability to borrow under this facility is not contingent on our credit ratings.

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Contractual Obligations

The following table summarizes contractual obligations in total, and by remaining maturity:

June 30, 2014		Payments due by Period				
(in millions)	Total Payments	Remainder of 2014	2015 - 2016	2017 - 2018	2019	Thereafter
Insurance operations						
Loss reserves	$ 83,628	$ 21,612	$ 23,933	$ 12,356	$ 4,016	$ 21,711
Insurance and investment contract liabilities	225,277	7,627	30,011	26,347	11,579	149,713
Borrowings[(a)]	1,296	282	-	-	-	1,014
Interest payments on borrowings	2,505	51	205	205	102	1,942
Other long-term obligations	27	4	14	5	4	-
Total	$ 312,733	$ 29,576	$ 54,163	$ 38,913	$ 15,701	$ 174,380
Other						
Borrowings[(a)]	$ 33,552	$ 4,646	$ 4,806	$ 9,703	$ 235	$ 14,162
Interest payments on borrowings	25,642	817	3,639	2,793	966	17,427
Other long-term obligations	293	44	105	28	-	116
Total	$ 59,487	$ 5,507	$ 8,550	$ 12,524	$ 1,201	$ 31,705
Consolidated						
Loss reserves	$ 83,628	$ 21,612	$ 23,933	$ 12,356	$ 4,016	$ 21,711
Insurance and investment contract liabilities	225,277	7,627	30,011	26,347	11,579	149,713
Borrowings[(a)]	34,848	4,928	4,806	9,703	235	15,176
Interest payments on borrowings	28,147	868	3,844	2,998	1,068	19,369
Other long-term obligations[(b)]	320	48	119	33	4	116
Total[(c)]	$ 372,220	$ 35,083	$ 62,713	$ 51,437	$ 16,902	$ 206,085

(a) On July 14, 2014, we purchased, in cash tender offers, (i) certain junior subordinated debentures issued or guaranteed by AIG for an aggregate purchase price of $1.8 billion and (ii) certain senior notes and debentures issued or guaranteed by AIG for an aggregate purchase price of $700 million. On July 31, 2014, we further reduced DIB debt by approximately $2.0 billion through a redemption of $790 million aggregate principal amount of its 4.875% Notes due 2016 and a redemption of $1.25 billion aggregate principal amount of its 3.800% Notes due 2017, in each case, using cash allocated to the DIB. Accordingly, in the table above, these instruments are reported as maturing in 2014 instead of their original maturity dates.

(b) Primarily includes contracts to purchase future services and other capital expenditures.

(c) Does not reflect unrecognized tax benefits of $4.5 billion, the timing of which is uncertain.

Loss Reserves

Loss reserves relate to the AIG Property Casualty and the Mortgage Guaranty businesses, and represent future loss and loss adjustment expense payments estimated based on historical loss development payment patterns. Due to the significance of the assumptions used, the payments by period presented above could be materially different from actual required payments. We believe that AIG Property Casualty and Mortgage Guaranty subsidiaries maintain adequate financial resources to meet the actual required payments under these obligations.

Insurance and Investment Contract Liabilities

Insurance and investment contract liabilities, including GIC liabilities, relate to AIG Life and Retirement businesses. These liabilities include various investment-type products with contractually scheduled maturities, including periodic payments of a term certain nature. These liabilities also include benefit and claim liabilities, of which a significant portion represents policies and contracts that do not have stated contractual maturity dates and may not result in any future payment obligations. For these policies and contracts (i) we are currently not making payments until the occurrence of an insurable event, such as death or disability, (ii) payments are conditional on survivorship or (iii) payment may occur due to a surrender or other non-scheduled event beyond our control.

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We have made significant assumptions to determine the estimated undiscounted cash flows of these contractual policy benefits. These assumptions include mortality, morbidity, future lapse rates, expenses, investment returns and interest crediting rates, offset by expected future deposits and premiums on in-force policies. Due to the significance of the assumptions, the periodic amounts presented could be materially different from actual required payments. The amounts presented in this table are undiscounted and exceed the future policy benefits and policyholder contract deposits included in the Condensed Consolidated Balance Sheets.

We believe that AIG Life and Retirement subsidiaries have adequate financial resources to meet the payments actually required under these obligations. These subsidiaries have substantial liquidity in the form of cash and short-term investments. In addition, AIG Life and Retirement businesses maintain significant levels of investment-grade rated fixed maturity securities, including substantial holdings in government and corporate bonds, and could seek to monetize those holdings in the event operating cash flows are insufficient. We expect liquidity needs related to GIC liabilities to be funded through cash flows generated from maturities and sales of invested assets.

Borrowings

Our borrowings exclude those incurred by consolidated investments and include hybrid financial instrument liabilities recorded at fair value. We expect to repay the long-term debt maturities and interest accrued on borrowings by AIG through maturing investments and dispositions of invested assets, future cash flows from operations, cash flows generated from invested assets, future debt issuance and other financing arrangements.

Off-Balance Sheet Arrangements and Commercial Commitments

The following table summarizes Off-Balance Sheet Arrangements and Commercial Commitments in total, and by remaining maturity:

June 30, 2014		Amount of Commitment Expiring				
(in millions)	Total Amounts Committed	Remainder of 2014	2015 - 2016	2017 - 2018	2019	Thereafter
Insurance operations						
Guarantees:						
Standby letters of credit	$ 815	$ 10	$ 170	$ 600	$ 35	$ -
Guarantees of indebtedness	164	-	4	1	-	159
All other guarantees[(a)]	9	-	1	1	-	7
Commitments:						

Investment commitments[b]	2,252	1,528	512	212	-	-
Commitments to extend credit	912	666	194	-	-	52
Letters of credit	6	-	6	-	-	-
Total[c]	$ 4,158	$ 2,204	$ 887	$ 814	$ 35	$ 218
Other						
Guarantees:						
Liquidity facilities[d]	$ 78	$ -	$ -	$ -	$ -	$ 78
Standby letters of credit	240	236	3	1	-	-
Guarantees of indebtedness	12	-	10	2	-	-
All other guarantees	34	-	22	12	-	-
Commitments:						
Investment commitments[b]	333	182	95	16	27	13
Commitments to extend credit[f]	1,001	-	1	-	1,000	-
Letters of credit	24	24	-	-	-	-
Other commercial commitments[e]	7	6	1	-	-	-
Total[c]	$ 1,729	$ 448	$ 132	$ 31	$ 1,027	$ 91

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Guarantees:						
Liquidity facilities(d)	$ 78	$ -	$ -	$ -	$ -	$ 78
Standby letters of credit	1,055	246	173	601	35	-
Guarantees of indebtedness	176	-	14	3	-	159
All other guarantees(a)	43	-	23	13	-	7
Commitments:						
Investment commitments(b)	2,585	1,710	607	228	27	13
Commitments to extend credit(f)	1,913	666	195	-	1,000	52
Letters of credit	30	24	6	-	-	-
Other commercial commitments(e)	7	6	1	-	-	-
Total(c)	$ 5,887	$ 2,652	$ 1,019	$ 845	$ 1,062	$ 309

(a) Includes AIG Life and Retirement construction guarantees connected to affordable housing investments. Excludes potential amounts for indemnification obligations included in asset sales agreements. See Note 10 to the Condensed Consolidated Financial Statements for further information on indemnification obligations.

(b) Includes commitments to invest in private equity funds, hedge funds and mutual funds and commitments to purchase and develop real estate in the United States and abroad. The commitments to invest in private equity funds, hedge funds and other funds are called at the discretion of each fund, as needed for funding new investments or expenses of the fund. The expiration of these commitments is estimated in the table above based on the expected life cycle of the related fund, consistent with past trends of requirements for funding. Investors under these commitments are primarily insurance and real estate subsidiaries.

(c) Does not include guarantees, capital maintenance agreements or other support arrangements among AIG consolidated entities.

(d) Primarily represents liquidity facilities provided in connection with certain municipal swap transactions and collateralized bond obligations.

(e) Excludes commitments with respect to pension plans. The remaining pension contribution for 2014 is expected to be approximately $67 million for U.S. and non-U.S. plans.

(f) Includes a five-year senior unsecured revolving credit facility between AerCap Ireland Capital Limited, as borrower, and AIG Parent, as lender (the AerCap Credit Facility). The AerCap Credit Facility provides for an aggregate commitment of $1.0 billion and permits loans for general corporate purposes. At June 30, 2014, no amounts were outstanding under the AerCap Credit Facility.

Arrangements with Variable Interest Entities

We enter into various arrangements with variable interest entities (VIEs) in the normal course of business, and we consolidate a VIE when we are the primary beneficiary of the entity. For a further discussion of our involvement with VIEs, see Note 8 to the Condensed Consolidated Financial Statements.

Indemnification Agreements

We are subject to financial guarantees and indemnity arrangements in connection with our sales of businesses. These arrangements may be triggered by declines in asset values, specified business contingencies, the realization of contingent liabilities, litigation developments, or breaches of representations, warranties or covenants provided by us. These arrangements are typically subject to time limitations, defined by contract or by operation of law, such as by prevailing statutes of limitation. Depending on the specific terms of the arrangements, the maximum potential obligation may or may not be subject to contractual limitations. For additional information regarding our indemnification agreements, see Note 10 to the Condensed Consolidated Financial Statements.

We have recorded liabilities for certain of these arrangements where it is possible to estimate them. These liabilities are not material in the aggregate. We are unable to develop a reasonable estimate of the maximum potential payout under some of these arrangements. Overall, we believe that it is unlikely we will have to make any material payments under these arrangements.

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Debt

The following table provides the rollforward of AIG's total debt outstanding:

Six Months Ended June 30, 2014 *(in millions)*	Balance at December 31, 2013	Issuances	Maturities and Repayments	Effect of Foreign Exchange	Other Changes
Debt issued or guaranteed by AIG:					
AIG general borrowings:					
Notes and bonds payable	$ 14,062	$ -	$ -	$ 57	$ 3
Subordinated debt	250	-	-	-	-
Junior subordinated debt	5,533	-	-	17	-
Loans and mortgages payable	1	-	(1)	-	-
AIGLH notes and bonds payable	299	-	-	-	-
AIGLH junior subordinated debt	1,054	-	(57)	-	-
Total AIG general borrowings	21,199	-	(58)	74	3
AIG/DIB borrowings supported by assets:[(a)]					
MIP notes payable	7,963	-	(2,314)	23	(22)
Series AIGFP matched notes and bonds payable	3,219	-	(1,000)	-	(63)
GIAs, at fair value	5,530	203	(1,192)	-	169
Notes and bonds payable, at fair value	1,217	16	(160)	-	41
Total AIG/DIB borrowings supported by assets	17,929	219	(4,666)	23	125
Total debt issued or guaranteed by AIG	39,128	219	(4,724)	97	128
Debt not guaranteed by AIG:					
Other subsidiaries notes, bonds, loans and mortgages payable	656	9	(157)	(4)	(424)
Debt of consolidated investments[(d)]	1,909	1,298	(1,009)	39	1,249
Total debt not guaranteed by AIG	2,565	1,307	(1,166)	35	825
Total debt	$ 41,693	$ 1,526	$ (5,890)	$ 132	$ 953

(a) AIG Parent guarantees all DIB debt, except for MIP notes payable and Series AIGFP matched notes and bonds payable, which are direct obligations of AIG Parent.

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

(c) Primarily reflects debt that has been reclassed from Other subsidiaries notes, bonds, loans and mortgages payable to Debt of consolidated investments.

(d) At June 30, 2014, includes debt of consolidated investments primarily held through AIG Global Real Estate Investment Corp., AIG Life and Retirement, AIG Property Casualty U.S. and AIG Credit Corp. of $1.9 billion, $1.4 billion, $91 million and $85 million, respectively.

(e) Primarily reflects the effect of consolidating previously unconsolidated securitization vehicles.

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Total DEBT OUTSTANDING

(in millions)

The decrease in total debt outstanding as of June 30, 2014, compared to December 31, 2013, was primarily due to maturities and repayments of debt and redemptions and repurchases of certain debt securities, as discussed above.

Debt Maturities

The following table summarizes maturing debt at June 30, 2014 of AIG (excluding $3.5 billion of borrowings of consolidated investments) for the next four quarters:

(in millions)	Third Quarter 2014	Fourth Quarter 2014	First Quarter 2015	Second Quarter 2015	Total
AIG general borrowings[(a)]	$ 2,576	$ -	$ 1	$ -	$ 2,577
AIG/DIB borrowings supported by assets[(b)]	2,285	67	139	443	2,934
Other subsidiaries notes, bonds, loans and mortgages payable	-	-	32	15	47

Total	**$ 4,861**	**$ 67**	**$ 172**	**$ 458**	**$ 5,558**

(a) On July 14, 2014, we purchased, in cash tender offers, (i) certain junior subordinated debentures issued or guaranteed by AIG for an aggregate purchase price of $1.8 billion and (ii) certain senior notes and debentures issued or guaranteed by AIG for an aggregate purchase price of $700 million. Accordingly, in the table above, these instruments are reported as maturing in the third quarter of 2014 instead of their original maturity dates.

(b) On July 31, 2014, we further reduced DIB debt by approximately $2.0 billion through a redemption of $790 million aggregate principal amount of its 4.875% Notes due 2016 and a redemption of $1.25 billion aggregate principal amount of its 3.800% Notes due 2017, in each case, using cash allocated to the DIB. Accordingly, in the table above, these instruments are reported as maturing in the third quarter of 2014 instead of their original maturity dates.

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The following table presents maturities of long-term debt (including unamortized original issue discount, hedge accounting valuation adjustments and fair value adjustments, when applicable), excluding $3.5 billion in borrowings of consolidated investments:

June 30, 2014		Remainder			Year Ending			
(in millions)	Total	of 2014	2015	2016	2017	2018	2019	T
Debt issued or guaranteed by AIG:								
AIG general borrowings:								
Notes and bonds payable[(a)]	$ 14,122	$ 682	$ 1,000	$ 1,776	$ 1,004	$ 2,495	$ -	$
Subordinated debt	250	-	250	-	-	-	-	
Junior subordinated debt[(a)]	5,550	1,612	-	-	-	-	-	
AIGLH notes and bonds payable[(a)]	299	19	-	-	-	-	-	
AIGLH junior subordinated debt[(a)]	997	263	-	-	-	-	-	
Total AIG general borrowings	21,218	2,576	1,250	1,776	1,004	2,495	-	
AIG/DIB borrowings supported by assets:								
MIP notes payable[(b)]	5,650	2,035	149	437	2,609	420	-	
Series AIGFP matched notes and bonds payable	2,156	-	-	-	10	1,983	15	
GIAs, at fair value	4,710	219	563	229	234	648	178	
Notes and bonds payable, at fair value	1,114	98	189	213	134	166	42	
Total AIG/DIB borrowings supported by assets	13,630	2,352	901	879	2,987	3,217	235	
Total debt issued or guaranteed by AIG	34,848	4,928	2,151	2,655	3,991	5,712	235	
Other subsidiaries notes, bonds, loans and mortgages payable	80	-	44	2	2	1	1	
Total	$ 34,928	$ 4,928	$ 2,195	$ 2,657	$ 3,993	$ 5,713	$ 236	$

(a) On July 14, 2014, we purchased, in cash tender offers, (i) certain junior subordinated debentures issued or guaranteed by AIG for an aggregate purchase price of $1.8 billion and (ii) certain senior notes and debentures issued or guaranteed by AIG for an aggregate purchase price of $700 million. Accordingly, in the table above, these instruments are reported as maturing in 2014 instead of their original maturity dates.

(b) On July 31, 2014, we further reduced DIB debt by approximately $2.0 billion through a redemption of $790 million aggregate principal amount of its 4.875% Notes due 2016 and a redemption of $1.25 billion aggregate principal amount of its 3.800% Notes due 2017, in each case, using cash allocated to the DIB. Accordingly, in the table above, these instruments are reported as maturing in 2014 instead of their original maturity dates.

Credit Ratings

Credit ratings estimate a company's ability to meet its obligations and may directly affect the cost and availability of financing to that company. The following table presents the credit ratings of AIG and certain of its subsidiaries as of July 31, 2014. Figures in parentheses indicate the relative ranking of the ratings within the agency's rating categories; that ranking refers only to the major rating category and not to the modifiers assigned by the rating agencies.

	Short-Term Debt		Senior Long-Term Debt		
	Moody's	S&P	Moody's[a]	S&P[b]	Fitch[c]
AIG	**P-2 (2nd of 3)**	**A-2 (2nd of 8)**	**Baa 1 (4th of 9)**	**A- (3rd of 8)**	**BBB+ (4th of 9)**
	Stable Outlook		***Stable Outlook***	***Stable Outlook***	***Stable Outlook***
AIG Financial Products Corp.[d]	**P-2**	**A-2**	**Baa 1**	**A-**	**-**
	Stable Outlook		***Stable Outlook***	***Stable Outlook***	
AIG Funding, Inc.[d]	**P-2**	**A-2**	**-**	**-**	**-**
	Stable Outlook				

(a) Moody's appends numerical modifiers 1, 2 and 3 to the generic rating categories to show relative position within the rating categories.

(b) S&P ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

(c) Fitch ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

(d) AIG guarantees all obligations of AIG Financial Products Corp. and AIG Funding, Inc.

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These credit ratings are current opinions of the rating agencies. They may be changed, suspended or withdrawn at any time by the rating agencies as a result of changes in, or unavailability of, information or based on other circumstances. Ratings may also be withdrawn at our request.

We are party to some agreements that contain “ratings triggers”. Depending on the ratings maintained by one or more rating agencies, these triggers could result in (i) the termination or limitation of credit availability or a requirement for accelerated repayment, (ii) the termination of business contracts or (iii) a requirement to post collateral for the benefit of counterparties.

In the event of adverse actions on our long-term debt ratings by the major rating agencies, AIGFP and certain other GCM entities would be required to post additional collateral under some derivative transactions, or could experience termination of the transactions. Such requirements and terminations could adversely affect our business, our consolidated results of operations in a reporting period or our liquidity. In the event of a further downgrade of AIG’s long-term senior debt ratings, AIGFP and certain other GCM entities would be required to post additional collateral, and certain of the counterparties of AIGFP or of such other GCM entities would be permitted to terminate their contracts early.

The actual amount of collateral that we would be required to post to counterparties in the event of such downgrades, or the aggregate amount of payments that we could be required to make, depend on market conditions, the fair value of outstanding affected transactions and other factors prevailing at the time of the downgrade.

For a discussion of the effects of downgrades in the financial strength ratings of our insurance companies or our credit ratings, see Note 9 to the Condensed Consolidated Financial Statements herein and Part I, Item 1A. Risk Factors – Liquidity, Capital and Credit in the 2013 Annual Report.

Regulation and Supervision

For a discussion of our regulation and supervision by different regulatory authorities in the United States and abroad, including with respect to our liquidity and capital resources, see Part I, Item 1. Business – Regulation and Part I, Item 1A. Risk Factors – Regulation in our 2013 Annual Report, Item 2. MD&A – Regulatory Environment in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014 and Item 2. MD&A – Regulatory Environment in this Quarterly Report on Form 10-Q.

Dividends and Repurchases of AIG Common Stock

On February 13, 2014, our Board of Directors declared a cash dividend on AIG Common Stock of $0.125 per share, payable on March 25, 2014 to shareholders of record on March 11, 2014. On May 5, 2014, our

Board of Directors declared a cash dividend on AIG Common Stock of $0.125 per share, payable on June 24, 2014 to shareholders of record on June 10, 2014.

On August 4, 2014, our Board of Directors declared a cash dividend on AIG Common Stock of $0.125 per share, payable on September 25, 2014 to shareholders of record on September 11, 2014. The payment of any future dividends will be at the discretion of our Board of Directors and will depend on various factors, including the regulatory framework applicable to us, as discussed further in Note 16 to the Consolidated Financial Statements in the 2013 Annual Report.

On August 1, 2013, our Board of Directors authorized the repurchase of shares of AIG Common Stock, with an aggregate purchase price of up to $1.0 billion, from time to time in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise. On February 13, 2014, our Board of Directors authorized an increase to the August 1, 2013 repurchase authorization of AIG Common Stock by $1.0 billion.

On June 5, 2014, our Board of Directors authorized an additional increase to the August 1, 2013 repurchase authorization of AIG Common Stock by $2.0 billion, resulting in an aggregate remaining authorization at such time of approximately $2.1 billion of AIG Common Stock.

During the six-month period ended June 30, 2014, we repurchased approximately 36 million shares of AIG Common Stock for an aggregate purchase price of approximately $1.9 billion pursuant to this authorization. As of August 4, 2014, an aggregate repurchase authorization of approximately $1.5 billion remains.

In the second quarter of 2014, we executed an ASR agreement with a third-party financial institution. The total number of shares of AIG Common Stock repurchased in the six-month period ended June 30, 2014, and the aggregate purchase price of those shares, each as set forth above, reflect our payment of $300 million to the financial institution under the ASR agreement and our initial receipt of 70 percent of the total notional share equivalent, or approximately 3.8 million shares of AIG Common Stock. The ASR agreement settled with the financial institution in July 2014, at which time we received approximately 1.7 million additional shares of AIG Common Stock based on a formula specified by the terms of the ASR agreement.

The timing of any future share repurchases will depend on market conditions, our financial condition, results of operations, liquidity and other factors.

Dividend Restrictions

Payments of dividends to AIG by its insurance subsidiaries are subject to certain restrictions imposed by regulatory authorities. See Note 19 to the Consolidated Financial Statements in the 2013 Annual Report for a discussion of restrictions on payments of dividends by AIG’s subsidiaries.

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Overview

Our investment strategies are tailored to the specific business needs of each operating unit. The investment objectives are driven by the respective business models for AIG Property Casualty, AIG Life and Retirement, and AIG Parent including the DIB. The primary objectives are generation of investment income, preservation of capital, liquidity management and growth of surplus to support the insurance products. The majority of assets backing our insurance liabilities consist of intermediate and long duration fixed maturity securities.

- A decrease in interest rates on investment grade fixed maturity securities and narrowing spreads of high yield securities resulted in net unrealized gains in the investment portfolio. Net unrealized gains in our available for sale portfolio increased to approximately $19.4 billion as of June 30, 2014 from approximately $11.7 billion as of December 31, 2013.

- We continued to make investments in structured securities and other fixed maturity securities and increased lending activities in commercial mortgage loans with favorable risk versus return characteristics to improve yields and increase net investment income.

- Net investment income benefitted from positive performance on bonds for which we elected the fair value option, primarily driven by lower rates and narrowing credit spreads. Although income on alternative investments was lower than prior periods, returns on these investments exceeded those of other asset classes.

- Blended investment yields on new AIG Life and Retirement and AIG Property Casualty investments were lower than blended rates on investments that were sold, matured or called.

- Other-than-temporary impairments remained at low levels, with a small portion of impairments attributable to structured securities.

- The sale of ILFC to AerCap resulted in AIG receiving a 46 percent ownership interest in the outstanding common stock of AerCap, which is included in Other invested assets and accounted for under the equity method.

Investment Strategies

Investment strategies are based on considerations that include the local market, general market conditions, liability duration and cash flow characteristics, rating agency and regulatory capital considerations, legal investment limitations, tax optimization and diversification.

Some of our key investment strategies are as follows:

- While more of a focus is placed on asset-liability matching in AIG Life and Retirement, our fundamental strategy across all of our investment portfolios is to match the duration characteristics of the liabilities with assets of comparable duration, to the extent practicable.

- Fixed maturity securities held by the domestic insurance companies included in AIG Property Casualty consist of a mix of tax-exempt municipal bonds and taxable instruments that meet our current risk-return, tax, liquidity, credit quality and diversification objectives.

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- Outside of the U.S., fixed maturity securities held by AIG Property Casualty consist primarily of intermediate duration high-grade securities generally denominated in the currencies of the countries in which we operate.

- AIG Parent's liquidity sources are held in the form of cash, short-term investments and publicly traded, intermediate term investment-grade rated fixed maturity securities. AIG Parent actively manages its assets and liabilities in terms of products, counterparties and duration. Based upon an assessment of its immediate and longer-term funding needs, AIG Parent purchases publicly traded, intermediate term, investment-grade rated fixed maturity securities that can be readily monetized through sales or repurchase agreements. These securities allow us to diversify sources of liquidity while reducing the cost of maintaining sufficient liquidity.

Credit Ratings

At June 30, 2014, approximately 90 percent of our fixed maturity securities were held by our domestic entities. Approximately 17 percent of such securities were rated AAA by one or more of the principal rating agencies, and approximately 16 percent were rated below investment grade or not rated. Our investment decision process relies primarily on internally generated fundamental analysis and internal risk ratings. Third-party rating services' ratings and opinions provide one source of independent perspective for consideration in the internal analysis.

A significant portion of our foreign entities' fixed maturity securities portfolio is rated by Moody's, S&P or similar foreign rating services. Rating services are not available for some foreign-issued securities. Our Credit Risk Management department closely reviews the credit quality of the foreign portfolio's non-rated fixed maturity securities. At June 30, 2014, approximately 16 percent of such investments were either rated AAA or, on the basis of our internal analysis, were equivalent from a credit standpoint to securities rated AAA, and approximately 4 percent were rated below investment grade or not rated. Approximately 44 percent of the foreign entities' fixed maturity securities portfolio is comprised of sovereign fixed maturity securities supporting policy liabilities in the country of issuance.

Composite AIG Credit Ratings

With respect to our fixed maturity investments, the credit ratings in the table below and in subsequent tables reflect: (a) a composite of the ratings of the three major rating agencies, or when agency ratings are not available, the rating assigned by the NAIC Securities Valuations Office (SVO) (over 98 percent of total fixed maturity investments), or (b) our equivalent internal ratings when these investments have not been rated by any of the major rating agencies or the NAIC. The "Non-rated" category in those tables consists of fixed maturity securities that have not been rated by any of the major rating agencies, the NAIC or us.

See Enterprise Risk Management herein for a discussion of credit risks associated with Investments.

The following table presents the composite AIG credit ratings of our fixed maturity securities calculated on the basis of their fair value:

	Available for Sale		Other		Total	
	June 30, 2014	December 31, 2013	**June 30, 2014**	December 31, 2013	**June 30, 2014**	December 31, 2013
Rating:						
Other fixed maturity securities						
AAA	$ **16,633**	$ 17,437	$ **5,153**	$ 5,510	$ **21,786**	$ 22,947
AA	**39,575**	39,478	**276**	261	**39,851**	39,739
A	**58,695**	56,838	**346**	445	**59,041**	57,283
BBB	**79,093**	75,668	**462**	478	**79,555**	76,146
Below investment grade	**9,323**	9,904	**323**	321	**9,646**	10,225
Non-rated	**1,164**	311	**-**	-	**1,164**	311
Total	$ **204,483**	$ 199,636	$ **6,560**	$ 7,015	$ **211,043**	$ 206,651

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Mortgage-backed, asset-backed and collateralized												
AAA	$	**23,597**	$	21,982	$	**2,952**	$	3,120	$	**26,549**	$	25,102
AA		**3,515**		3,404		**1,894**		2,357		**5,409**		5,761
A		**7,431**		6,906		**626**		660		**8,057**		7,566
BBB		**3,888**		3,973		**644**		679		**4,532**		4,652
Below investment grade		**23,366**		22,333		**8,645**		8,683		**32,011**		31,016
Non-rated		**24**		40		**109**		109		**133**		149
Total	$	**61,821**	$	58,638	$	**14,870**	$	15,608	$	**76,691**	$	74,246
Total												
AAA	$	**40,230**	$	39,419	$	**8,105**	$	8,630	$	**48,335**	$	48,049
AA		**43,090**		42,882		**2,170**		2,618		**45,260**		45,500
A		**66,126**		63,744		**972**		1,105		**67,098**		64,849
BBB		**82,981**		79,641		**1,106**		1,157		**84,087**		80,798
Below investment grade		**32,689**		32,237		**8,968**		9,004		**41,657**		41,241
Non-rated		**1,188**		351		**109**		109		**1,297**		460
Total	$	**266,304**	$	258,274	$	**21,430**	$	22,623	$	**287,734**	$	280,897

Investments by Segment

The following tables summarize the composition of AIG's investments by reportable segment:

	Reportable Segment			Consolidation
(in millions)	AIG Property Casualty	AIG Life and Retirement	Other Operations	and Eliminations
June 30, 2014				
Fixed maturity securities:				
Bonds available for sale, at fair value	**$ 97,250**	**$ 162,678**	**$ 10,002**	**$ (3,626)**
Other bond securities, at fair value	**1,833**	**2,548**	**17,390**	**(341)**
Equity securities:				
Common and preferred stock available for sale, at fair value	**4,012**	**34**	**2**	**-**
Other Common and preferred stock, at fair value	**202**	**440**	**82**	**-**
Mortgage and other loans receivable, net of allowance	**5,634**	**19,781**	**792**	**(3,270)**
Other invested assets	**9,584**	**12,350**	**11,791**	**(80)**
Short-term investments	**4,187**	**5,259**	**12,693**	**(1,251)**
Total investments*	**122,702**	**203,090**	**52,752**	**(8,568)**
Cash	**1,188**	**396**	**243**	**-**
Total invested assets	**$ 123,890**	**$ 203,486**	**$ 52,995**	**$ (8,568)**
December 31, 2013				

Fixed maturity securities:				
Bonds available for sale, at fair value	$ 96,972	$ 154,763	$ 10,974	$ (4,435)
Other bond securities, at fair value	1,995	2,406	18,558	(336)
Equity securities:				
Common and preferred stock available for sale, at fair value	3,618	36	2	-
Other Common and preferred stock, at fair value	198	538	98	-
Mortgage and other loans receivable, net of allowance	4,217	19,078	852	(3,382)
Other invested assets	9,316	13,025	6,422	(104)
Short-term investments	5,236	6,462	11,036	(1,117)
Total investments*	121,552	196,308	47,942	(9,374)
Cash	1,501	547	193	-
Total invested assets	$ 123,053	$ 196,855	$ 48,135	$ (9,374)

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*At June 30, 2014, approximately 90 percent and 10 percent of investments were held by domestic and foreign entities, respectively, compared to approximately 89 percent and 11 percent, respectively, at December 31, 2013.

AIG Property Casualty

For AIG Property Casualty, the duration of liabilities for long-tail casualty lines is greater than that for other lines. As opposed to the focus in AIG Life and Retirement, the focus is not on asset-liability matching, but on preservation of capital and growth of surplus.

Fixed maturity investments of AIG Property Casualty's domestic operations, with an average duration of 3.9 years, are currently comprised primarily of tax-exempt securities, which provide attractive risk-adjusted after-tax returns, as well as taxable municipal bonds, government and agency bonds, and corporate bonds. The majority of these high quality investments are rated A or higher based on composite ratings.

Fixed maturity investments held in AIG Property Casualty's foreign operations are of high quality, rated A or higher based on composite ratings, and short to intermediate duration, averaging 4.4 years.

While invested assets backing reserves are primarily invested in conventional fixed maturity securities in AIG Property Casualty's domestic operations, a modest portion of surplus is allocated to alternative investments, including private equity and hedge funds. These investments have provided a combination of added diversification and attractive long-term returns over time.

AIG Life and Retirement

The investment strategy of AIG Life and Retirement is to maximize net investment income and portfolio value, subject to liquidity requirements, capital constraints, diversification requirements, asset liability matching and available investment opportunities.

AIG Life and Retirement uses asset liability management as a primary tool to monitor and manage risk in our businesses. AIG Life and Retirement's objective is to maintain an investment portfolio with assets having weighted average durations that are matched to the duration and cash flow profile of its liabilities, to the extent practicable. The investment portfolio of each product line is tailored to the specific characteristics of its insurance liabilities, and as a result, certain portfolios are shorter in duration and others are longer in duration. An extended low interest rate environment may result in a lengthening of liability durations from initial estimates, primarily due to lower lapses.

AIG Life and Retirement monitors fixed income markets, including the level of interest rates, credit spreads and the shape of the yield curve. AIG Life and Retirement frequently reviews its interest rate assumptions and actively manages the crediting rates used for its new and in force business. Business strategies continue to evolve to maintain profitability of the overall business in a historically low interest rate environment. The low interest rate environment makes it more difficult to profitably price attractive guaranteed return products and puts margin pressure on existing products, due to the challenge of investing recurring premiums and deposits and reinvesting investment portfolio cash flows in the low rate environment while maintaining satisfactory investment quality and liquidity. In addition, there is investment risk associated with future premium receipts from certain in force business. Specifically, the investment of these future premium receipts may be at a yield below that required to meet future policy liabilities.

A number of guaranteed benefits, such as living benefits and guaranteed minimum death benefits, are offered on certain variable and indexed annuity products. The fair value of these benefits is measured based on actuarial and capital market assumptions related to projected cash flows over the expected lives of the contracts. AIG Life and Retirement manages its exposure resulting from these long term guarantees through reinsurance or capital market hedging instruments. AIG Life and Retirement actively reviews underlying assumptions of policyholder behavior and persistency related to these guarantees. AIG Life and Retirement has taken positions in certain derivative financial instruments to hedge the impact of changes in equity markets and interest rates on these benefit guarantees. AIG Life and Retirement executes listed futures and options contracts

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on equity indexes to hedge certain guarantees of variable and indexed annuity products. AIG Life and Retirement also enters into various types of futures and options contracts, primarily to hedge changes in value of certain guarantees of variable and indexed annuities due to fluctuations in interest rates. AIG Life and Retirement uses several instruments to hedge interest rate exposure, including listed futures on government securities, listed options on government securities and the purchase of government securities.

With respect to over the counter derivatives, AIG Life and Retirement deals with highly rated counterparties and does not expect the counterparties to fail to meet their obligations under the contracts. AIG Life and Retirement has controls in place to monitor credit exposures by limiting transactions with specific counterparties within specified dollar limits and assessing the creditworthiness of counterparties periodically. AIG Life and Retirement generally uses ISDA Master Agreements and CSAs with bilateral collateral provisions to reduce counterparty credit exposures.

Fixed maturity investments of AIG Life and Retirement, with an average duration of 6.6 years, are comprised of taxable corporate bonds, as well as taxable municipal and government bonds, and agency and non agency structured securities. The majority of these investments is held in the available for sale portfolio and is rated investment grade based on its composite ratings.

Available for Sale Investments

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

(in millions)	**Fair Value at June 30, 2014**	Fair Value at December 31, 2013
Bonds available for sale:		
U.S. government and government sponsored entities	**$ 2,825**	$ 3,195
Obligations of states, municipalities and political subdivisions	**29,722**	29,380
Non-U.S. governments	**22,180**	22,509
Corporate debt	**149,756**	144,552
Mortgage-backed, asset-backed and collateralized:		
RMBS	**37,691**	36,148
CMBS	**12,394**	11,482
CDO/ABS	**11,736**	11,008
Total mortgage-backed, asset-backed and collateralized	**61,821**	58,638
Total bonds available for sale*	**266,304**	258,274
Equity securities available for sale:		
Common stock	**3,255**	3,219
Preferred stock	**28**	27
Mutual funds	**765**	410

Total equity securities available for sale		**4,048**		3,656
Total	**$**	**270,352**	$	261,930

* At June 30, 2014 and December 31, 2013, the fair value of bonds available for sale held by us that were below investment grade or not rated totaled $33.9 billion and $32.6 billion, respectively.

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The following table presents the fair value of our aggregate credit exposures to non-U.S. governments for our fixed maturity securities:

(in millions)	June 30, 2014	December 31, 2013
Japan	$ 5,835	$ 6,350
Canada	2,295	2,714
Germany	1,429	1,281
France	953	1,005
Norway	726	682
Netherlands	704	759
United Kingdom	644	510
Mexico	633	622
South Korea	506	538
Singapore	494	457
Other	7,963	7,593
Total	$ 22,182	$ 22,511

The following table presents the fair value of our aggregate United Kingdom, Russian Federation and European credit exposures by major sector for our fixed maturity securities:

	June 30, 2014					
(in millions)	Sovereign	Financial Institution	Non-Financial Corporates	Structured Products	Total	December 31, 2013 Total
Euro-Zone countries:						
France	$ 953	$ 1,367	$ 2,831	$ -	$ 5,151	$ 5,158
Netherlands	704	1,547	1,947	537	4,735	4,396
Germany	1,429	475	2,594	93	4,591	4,687
Spain	110	468	1,207	24	1,809	1,844
Italy	71	280	1,065	14	1,430	1,351
Belgium	212	54	754	-	1,020	842
Ireland	-	-	796	116	912	692
Finland	102	19	133	-	254	281
Austria	172	17	11	-	200	250
Luxembourg	-	1	222	23	246	206
Other Euro-Zone	758	86	207	3	1,054	902
Total Euro-Zone	$ 4,511	$ 4,314	$ 11,767	$ 810	$ 21,402	$ 20,609
Remainder of Europe						
United Kingdom	$ 644	$ 3,348	$ 8,212	$ 4,665	$ 16,869	$ 16,819
Switzerland	75	1,207	1,642	-	2,924	2,898

Sweden	**377**	**788**	**286**	**-**	**1,451**	1,605
Norway	**726**	**68**	**301**	**-**	**1,095**	1,057
Russian Federation	**217**	**23**	**218**	**-**	**458**	516
Other remainder of Europe	**197**	**149**	**76**	**57**	**479**	523
Total remainder of Europe	**$ 2,236**	**$ 5,583**	**$ 10,735**	**$ 4,722**	**$ 23,276**	$ 23,418
Total	**$ 6,747**	**$ 9,897**	**$ 22,502**	**$ 5,532**	**$ 44,678**	$ 44,027

Investments in Municipal Bonds

At June 30, 2014, the U.S. municipal bond portfolio of AIG Property Casualty was composed primarily of essential service revenue bonds and high-quality tax-backed bonds with over 99 percent of the portfolio rated A or higher.

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The following table presents the fair values of our available for sale U.S. municipal bond portfolio by state and municipal bond type:

June 30, 2014 *(in millions)*	State General Obligation	Local General Obligation	Revenue	Total Fair Value
State:				
California	$ 654	$ 1,057	$ 3,097	$ 4,808
New York	29	699	3,686	4,414
Texas	257	1,891	1,793	3,941
Massachusetts	725	-	832	1,557
Illinois	170	502	753	1,425
Washington	579	164	674	1,417
Florida	226	9	919	1,154
Virginia	83	124	778	985
Georgia	364	160	404	928
Arizona	-	149	691	840
Washington DC	106	-	533	639
Maryland	345	70	165	580
Ohio	158	53	363	574
All other states	1,181	778	4,501	6,460
Total[(a)(b)]	$ 4,877	$ 5,656	$ 19,189	$ 29,722

(a) Excludes certain university and not- for- profit entities that issue their bonds in the corporate debt market. Includes industrial revenue bonds.

(b) Includes $5.5 billion of pre-refunded municipal bonds.

Investments in Corporate Debt Securities

The following table presents the industry categories of our available for sale corporate debt securities:

Industry Category *(in millions)*	**Fair Value at June 30, 2014**	Fair Value at December 31, 2013
Financial institutions:		
Money Center /Global Bank Groups	$ 11,420	$ 11,250
Regional banks — other	545	594
Life insurance	3,741	3,918
Securities firms and other finance companies	439	458

Insurance non-life	**5,801**	4,899
Regional banks — North America	**6,970**	6,875
Other financial institutions	**8,610**	7,900
Utilities	**23,872**	22,645
Communications	**10,781**	10,590
Consumer noncyclical	**17,400**	17,420
Capital goods	**9,174**	9,082
Energy	**12,708**	12,072
Consumer cyclical	**11,324**	10,787
Basic	**10,263**	9,855
Other	**16,708**	16,207
Total *	**$ 149,756**	$ 144,552

* At June 30, 2014 and December 31, 2013, approximately 94 and 93 percent of these investments were rated investment grade, respectively.

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Investments in RMBS

The following table presents AIG's RMBS available for sale investments by year of vintage:

(in millions)	Fair Value at June 30, 2014	Fair Value at December 31, 2013
Total RMBS		
2014	$ 217	$ -
2013	2,745	2,371
2012	2,399	2,375
2011	5,534	5,736
2010	1,791	1,843
2009 and prior*	25,005	23,823
Total RMBS	$ 37,691	$ 36,148
Agency		
2014	$ 193	$ -
2013	2,641	2,259
2012	2,214	2,164
2011	3,646	3,860
2010	1,760	1,797
2009 and prior	1,999	2,136
Total Agency	$ 12,453	$ 12,216
Alt-A		
2014	-	-
2013	-	-
2012	-	-
2011	-	-
2010	$ 31	$ 37
2009 and prior	12,389	10,894
Total Alt-A	$ 12,420	$ 10,931
Subprime		
2014	-	-
2013	-	-
2012	-	-
2011	-	-
2010	-	-
2009 and prior	$ 2,436	$ 2,386
Total Subprime	$ 2,436	$ 2,386
Prime non-agency		

2014	$	1	$	-
2013		9		27
2012		156		202
2011		1,888		1,876
2010		-		9
2009 and prior		7,734		7,944
Total Prime non-agency	$	9,788	$	10,058
Total Other housing related	$	594	$	557

* Commencing in the second quarter of 2011, we began purchasing certain RMBS that had experienced deterioration in the credit quality since their origination. See Note 6 to the Condensed Consolidated Financial Statements, Investments – Purchase Credit Impaired (PCI) Securities, for additional discussion. Includes approximately $13.0 billion and $11.3 billion at June 30, 2014 and December 31, 2013, respectively, of these securities.

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The following table presents our RMBS available for sale investments by credit rating:

(in millions)	**Fair Value at June 30, 2014**	Fair Value at December 31, 2013
Rating:		
Total RMBS		
AAA	**$ 14,969**	$ 14,833
AA	**463**	477
A	**562**	598
BBB	**986**	1,051
Below investment grade[a]	**20,702**	19,163
Non-rated	**9**	26
Total RMBS[b]	**$ 37,691**	$ 36,148
Agency RMBS		
AAA	**$ 12,448**	$ 12,210
AA	**5**	6
Total Agency	**$ 12,453**	$ 12,216
Alt-A RMBS		
AAA	**$ 29**	$ 32
AA	**46**	54
A	**93**	114
BBB	**347**	381
Below investment grade[a]	**11,905**	10,350
Total Alt-A	**$ 12,420**	$ 10,931
Subprime RMBS		
AAA	**$ 22**	$ 27
AA	**119**	117
A	**227**	233
BBB	**207**	248
Below investment grade[a]	**1,861**	1,761
Total Subprime	**$ 2,436**	$ 2,386
Prime non-agency		
AAA	**$ 2,317**	$ 2,462
AA	**281**	288
A	**236**	248
BBB	**394**	383
Below investment grade[a]	**6,551**	6,651
Non-rated	**9**	26
Total prime non-agency	**$ 9,788**	$ 10,058
Total Other housing related	**$ 594**	$ 557

(a) Commencing in the second quarter of 2011, we began purchasing certain RMBS that had experienced deterioration in credit quality since their origination. See Note 6 to the Condensed Consolidated Financial Statements, Investments - Purchased Credit Impaired (PCI) Securities, for additional discussion.

(b) The weighted average expected life was 6 years at June 30, 2014 and 7 years at December 31, 2013.

Our underwriting practices for investing in RMBS, other asset backed securities and CDOs take into consideration the quality of the originator, the manager, the servicer, security credit ratings, underlying characteristics of the mortgages, borrower characteristics, and the level of credit enhancement in the transaction.

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Investments in CMBS

The following table presents our CMBS available for sale investments:

(in millions)	Fair Value at June 30, 2014	Fair Value at December 31, 2013
CMBS (traditional)	$ 10,743	$ 9,794
Agency	1,543	1,558
Other	108	130
Total	$ 12,394	$ 11,482

The following table presents the fair value of our CMBS holdings by rating agency designation and by vintage year:

(in millions)	AAA	AA	A	BBB	Below Investment Grade	Non-Rated	Total
June 30, 2014							
Year:							
2014	$ 814	$ -	$ -	$ -	$ -	$ -	$ 814
2013	2,685	433	90	60	-	-	3,268
2012	1,157	61	28	62	-	14	1,322
2011	1,149	20	37	21	-	-	1,227
2010	170	6	-	-	-	-	176
2009 and prior	1,058	690	650	1,101	2,088	-	5,587
Total	$ 7,033	$ 1,210	$ 805	$ 1,244	$ 2,088	$ 14	$ 12,394
December 31, 2013							
Year:							
2013	$ 2,490	$ 378	$ 79	$ 58	$ -	$ -	$ 3,005
2012	1,064	57	26	35	-	14	1,196
2011	1,112	19	36	20	-	-	1,187
2010	172	7	-	-	-	-	179
2009 and prior	1,103	819	688	1,115	2,190	-	5,915
Total	$ 5,941	$ 1,280	$ 829	$ 1,228	$ 2,190	$ 14	$ 11,482

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The following table presents our CMBS available for sale investments by geographic region:

(in millions)	Fair Value at June 30, 2014	Fair Value at December 31, 2013
Geographic region:		
New York	$ 2,399	$ 2,110
California	1,300	1,187
Texas	801	718
Florida	545	501
New Jersey	455	436
Virginia	389	373
Illinois	351	317
Georgia	280	240
Pennsylvania	270	236
Massachusetts	241	224
North Carolina	229	204
Maryland	226	195
All Other*	4,908	4,741
Total	$ 12,394	$ 11,482

* Includes Non-U.S. locations.

The following table presents our CMBS available for sale investments by industry:

(in millions)	Fair Value at June 30, 2014	Fair Value at December 31, 2013
Industry:		
Office	$ 3,401	$ 3,205
Retail	3,489	3,146
Multi-family*	2,945	2,643
Lodging	1,083	1,023
Industrial	678	621
Other	798	844
Total	$ 12,394	$ 11,482

* Includes Agency-backed CMBS.

The fair value of CMBS holdings remained stable during the second quarter of 2014. The majority of our investments in CMBS are in tranches that contain substantial protection features through collateral subordination. The majority of CMBS holdings are traditional conduit transactions, broadly diversified across property types and geographical areas.

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Investments in CDOs

The following table presents our CDO available for sale investments by collateral type:

(in millions)	Fair value at June 30, 2014	Fair value at December 31, 2013
Collateral Type:		
Bank loans (CLO)	$ 5,409	$ 4,613
Other	443	529
Total	$ 5,852	$ 5,142

The following table presents our CDO available for sale investments by credit rating:

(in millions)	Fair Value at June 30, 2014	Fair Value at December 31, 2013
Rating:		
AAA	$ 966	$ 594
AA	1,618	1,374
A	2,407	2,158
BBB	492	499
Below investment grade	369	517
Total	$ 5,852	$ 5,142

Commercial Mortgage Loans

At June 30, 2014, we had direct commercial mortgage loan exposure of $17.5 billion. At that date, over 99 percent of the loans were current.

The following table presents the commercial mortgage loan exposure by location and class of loan based on amortized cost:

(dollars in millions)	Number of Loans	Apartments	Offices	Class Retail	Industrials	Hotels	Others	Total	Percent of Total
June 30, 2014									
State:									
New York	91	$ 644	$ 1,542	$ 266	$ 152	$ 100	$ 230	$ 2,934	17 %
California	134	30	717	424	494	395	541	2,601	15

New Jersey	51	507	354	308	6	29	41	1,245	7
Florida	94	86	199	371	128	137	164	1,085	6
Texas	56	31	223	162	121	180	63	780	4
Illinois	25	175	329	26	81	36	-	647	4
Massachusetts	20	-	207	322	-	-	34	563	3
Connecticut	23	279	156	5	43	-	-	483	3
Pennsylvania	53	46	97	172	109	16	13	453	3
Ohio	40	123	35	173	60	-	2	393	2
Other states	340	802	1,211	1,511	450	438	399	4,811	27
Foreign	77	550	243	85	70	102	454	1,504	9
Total*	1,004	$ 3,273	$ 5,313	$ 3,825	$ 1,714	$ 1,433	$ 1,941	$ 17,499	100 %

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December 31, 2013									
State:									
California	142	$ 30	$ 804	$ 429	$ 515	$ 366	$ 697	$ 2,841	18 %
New York	88	662	1,472	243	68	100	152	2,697	17
New Jersey	53	510	326	297	7	31	42	1,213	6
Florida	94	87	170	377	123	137	165	1,059	7
Texas	54	32	184	165	182	150	62	775	5
Connecticut	22	279	143	5	44	-	-	471	3
Pennsylvania	52	47	97	155	110	16	13	438	3
Ohio	44	145	33	188	61	-	3	430	3
Maryland	21	20	139	200	12	4	4	379	2
Massachusetts	17	-	178	158	-	-	34	370	2
Other states	345	666	1,203	1,158	416	525	490	4,458	27
Foreign	63	361	139	-	69	102	393	1,064	7
Total*	995	$ 2,839	$ 4,888	$ 3,375	$ 1,607	$ 1,431	$ 2,055	$ 16,195	100 %

* Excludes portfolio valuation losses.

See Note 6 to the Consolidated Financial Statements in the 2013 Annual Report for further discussion of commercial mortgage loans.

Impairments

The following table presents impairments by investment type:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2014**	2013	**2014**	2013
Fixed maturity securities, available for sale	**$ 38**	$ 22	**$ 91**	$ 58
Equity securities, available for sale	**10**	5	**11**	10
Private equity funds and hedge funds	**7**	19	**12**	26
Subtotal	**55**	46	**114**	94
Investments in life settlements*	**45**	35	**87**	78
Other investments	**20**	40	**55**	67
Real estate*	**-**	14	**-**	19
Total	**$ 120**	$ 135	**$ 256**	$ 258

* Impairments on Investments in life settlements and Real estate are recorded in Other realized losses.

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Other-Than-Temporary Impairments

To determine other-than-temporary impairments, we use fundamental credit analyses of individual securities without regard to rating agency ratings. Based on this analysis, we expect to receive cash flows sufficient to cover the amortized cost of all below investment grade securities for which credit impairments were not recognized.

The following tables present other-than-temporary impairment charges recorded in earnings on fixed maturity securities, equity securities, private equity funds and hedge funds.

Other-than-temporary impairment charges by reportable segment and impairment type:

	Reportable Segment			
(in millions)	AIG Property Casualty	AIG Life and Retirement	Other Operations	Total
Three Months Ended June 30, 2014				
Impairment Type:				
Severity	**$ -**	**$ -**	**$ -**	**$ -**
Change in intent	**1**	**-**	**-**	**1**
Foreign currency declines	**6**	**-**	**-**	**6**
Issuer-specific credit events	**11**	**33**	**-**	**44**
Adverse projected cash flows	**2**	**2**	**-**	**4**
Total	**$ 20**	**$ 35**	**$ -**	**$ 55**
Three Months Ended June 30, 2013				
Impairment Type:				
Severity	$ 3	$ -	$ -	$ 3
Change in intent	-	-	-	-
Foreign currency declines	-	-	-	-
Issuer-specific credit events	5	37	-	42
Adverse projected cash flows	1	-	-	1
Total	$ 9	$ 37	$ -	$ 46
Six Months Ended June 30, 2014				
Impairment Type:				
Severity	**$ -**	**$ -**	**$ -**	**$ -**
Change in intent	**1**	**5**	**-**	**6**
Foreign currency declines	**7**	**3**	**-**	**10**
Issuer-specific credit events	**25**	**68**	**-**	**93**
Adverse projected cash flows	**2**	**3**	**-**	**5**
Total	**$ 35**	**$ 79**	**$ -**	**$ 114**
Six Months Ended June 30, 2013				

Impairment Type:				
Severity	$ 5	$ -	$ -	$ 5
Change in intent	2	-	1	3
Foreign currency declines	-	-	-	-
Issuer-specific credit events	20	59	-	79
Adverse projected cash flows	1	6	-	7
Total	$ 28	$ 65	$ 1	$ 94

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Other-than-temporary impairment charges by investment type and impairment type:

(in millions)	RMBS	CDO/ABS	CMBS	Other Fixed Maturity	Equities/Other Invested Assets*	Total
Three Months Ended June 30, 2014						
Impairment Type:						
Severity	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Change in intent	**-**	**-**	**-**	**-**	**1**	**1**
Foreign currency declines	**-**	**-**	**-**	**6**	**-**	**6**
Issuer-specific credit events	**23**	**4**	**-**	**1**	**16**	**44**
Adverse projected cash flows	**4**	**-**	**-**	**-**	**-**	**4**
Total	**$ 27**	**$ 4**	**$ -**	**$ 7**	**$ 17**	**$ 55**
Three Months Ended June 30, 2013						
Impairment Type:						
Severity	$ -	$ -	$ -	$ -	$ 3	$ 3
Change in intent	-	-	-	-	-	-
Foreign currency declines	-	-	-	-	-	-
Issuer-specific credit events	5	-	15	1	21	42
Adverse projected cash flows	1	-	-	-	-	1
Total	$ 6	$ -	$ 15	$ 1	$ 24	$ 46
Six Months Ended June 30, 2014						
Impairment Type:						
Severity	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Change in intent	**-**	**-**	**-**	**5**	**1**	**6**
Foreign currency declines	**-**	**-**	**-**	**10**	**-**	**10**
Issuer-specific credit events	**37**	**5**	**21**	**8**	**22**	**93**
Adverse projected cash flows	**5**	**-**	**-**	**-**	**-**	**5**
Total	**$ 42**	**$ 5**	**$ 21**	**$ 23**	**$ 23**	**$ 114**
Six Months Ended June 30, 2013						
Impairment Type:						
Severity	$ -	$ -	$ -	$ -	$ 5	$ 5
Change in intent	-	-	-	1	2	3
Foreign currency declines	-	-	-	-	-	-
Issuer-specific credit events	9	3	28	10	29	79
Adverse projected cash flows	7	-	-	-	-	7
Total	$ 16	$ 3	$ 28	$ 11	$ 36	$ 94

* Includes other-than-temporary impairment charges on private equity funds, hedge funds and direct private equity investments.

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Other-than-temporary impairment charges by investment type and credit rating:

(in millions)	RMBS	CDO/ABS	CMBS	Other Fixed Maturity	Equities/Other Invested Assets*	Total
Three Months Ended June 30, 2014						
Rating:						
AAA	**$ -**	**$ -**	**$ -**	**$ 3**	**$ -**	**$ 3**
AA	**-**	**-**	**-**	**1**	**-**	**1**
A	**-**	**-**	**-**	**1**	**-**	**1**
BBB	**2**	**-**	**-**	**2**	**-**	**4**
Below investment grade	**25**	**-**	**-**	**-**	**-**	**25**
Non-rated	**-**	**4**	**-**	**-**	**17**	**21**
Total	**$ 27**	**$ 4**	**$ -**	**$ 7**	**$ 17**	**$ 55**
Three Months Ended June 30, 2013						
Rating:						
AAA	$ 1	$ -	$ -	$ -	$ -	$ 1
AA	-	-	-	-	-	-
A	-	-	-	-	-	-
BBB	-	-	-	-	-	-
Below investment grade	5	-	15	1	-	21
Non-rated	-	-	-	-	24	24
Total	$ 6	$ -	$ 15	$ 1	$ 24	$ 46
Six Months Ended June 30, 2014						
Rating:						
AAA	**$ -**	**$ -**	**$ -**	**$ 3**	**$ -**	**$ 3**
AA	**2**	**-**	**-**	**2**	**-**	**4**
A	**-**	**-**	**-**	**1**	**-**	**1**
BBB	**2**	**-**	**-**	**3**	**-**	**5**
Below investment grade	**38**	**1**	**21**	**14**	**-**	**74**
Non-rated	**-**	**4**	**-**	**-**	**23**	**27**
Total	**$ 42**	**$ 5**	**$ 21**	**$ 23**	**$ 23**	**$ 114**
Six Months Ended June 30, 2013						
Rating:						
AAA	$ 1	$ -	$ -	$ -	$ -	$ 1
AA	-	-	-	-	-	-
A	-	-	-	-	-	-
BBB	-	-	-	-	-	-
Below investment grade	15	3	28	10	-	56
Non-rated	-	-	-	1	36	37

Total	$ 16	$ 3	$ 28	$ 11	$ 36	$ 94

* Includes other-than-temporary impairment charges on private equity funds, hedge funds and direct private equity investments.

We recorded other-than-temporary impairment charges in the three- and six-month periods ended June 30, 2014 and 2013 related to:

- issuer-specific credit events;
- securities for which we have changed our intent from hold to sell;
- declines due to foreign exchange rates;
- adverse changes in estimated cash flows on certain structured securities; and
- securities that experienced severe market valuation declines.

In addition, impairments are recorded on real estate and investments in life settlements.

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There was no significant impact to our consolidated financial condition or results of operations from other-than-temporary impairment charges for any one single credit. Also, no individual other-than-temporary impairment charge exceeded 0.01 percent of total equity at either June 30, 2014 or June 30, 2013.

In periods subsequent to the recognition of an other-than-temporary impairment charge for available for sale fixed maturity securities that is not foreign-exchange related, we generally prospectively accrete into earnings the difference between the new amortized cost and the expected undiscounted recovery value over the remaining life of the security. The accretion that was recognized for these securities in earnings was $173 million and $222 million for the three-month periods ended June 30, 2014 and 2013, respectively, and $361 million and $427 million for the six-month periods ended June 30, 2014 and 2013 respectively. For a discussion of our other-than-temporary impairment accounting policy, see Note 6 to the Consolidated Financial Statements in the 2013 Annual Report.

The following table shows the aging of the pre-tax unrealized losses of fixed maturity and equity securities, the extent to which the fair value is less than amortized cost or cost, and the number of respective items in each category:

June 30, 2014	Less Than or Equal to 20% of Cost[b]			Greater Than 20% to 50% of Cost[b]			Greater Than 50% of Cost[b]			Total		
Aging[a]		Unrealized			Unrealized			Unrealized			Unrealized	
(dollars in millions)	Cost[c]	Loss	Items[e]	Cost[c]	Loss	Items[e]	Cost[c]	Loss	Items[e]	Cost[c]	Loss[d]	Ite
Investment grade bonds												
0-6 months	**$ 5,777**	**$ 42**	**814**	**$ -**	**$ -**	**-**	**$ 17**	**$ 17**	**1**	**$ 5,794**	**$ 59**	
7-11 months	**2,726**	**60**	**335**	**-**	**-**	**-**	**-**	**-**	**-**	**2,726**	**60**	
12 months or more	**29,389**	**1,114**	**2,382**	**111**	**29**	**20**	**11**	**7**	**2**	**29,511**	**1,150**	
Total	**$ 37,892**	**$ 1,216**	**3,531**	**$ 111**	**$ 29**	**20**	**$ 28**	**$ 24**	**3**	**$ 38,031**	**$ 1,269**	
Below investment grade bonds												
0-6 months	**$ 2,730**	**$ 41**	**745**	**$ 3**	**$ 1**	**6**	**$ -**	**$ -**	**-**	**$ 2,733**	**$ 42**	
7-11 months	**474**	**12**	**201**	**2**	**1**	**2**	**2**	**2**	**2**	**478**	**15**	
12 months or more	**3,257**	**174**	**453**	**232**	**60**	**46**	**23**	**15**	**6**	**3,512**	**249**	
Total	**$ 6,461**	**$ 227**	**1,399**	**$ 237**	**$ 62**	**54**	**$ 25**	**$ 17**	**8**	**$ 6,723**	**$ 306**	
Total bonds												
0-6 months	**$ 8,507**	**$ 83**	**1,559**	**$ 3**	**$ 1**	**6**	**$ 17**	**$ 17**	**1**	**$ 8,527**	**$ 101**	
7-11 months	**3,200**	**72**	**536**	**2**	**1**	**2**	**2**	**2**	**2**	**3,204**	**75**	
12 months or more	**32,646**	**1,288**	**2,835**	**343**	**89**	**66**	**34**	**22**	**8**	**33,023**	**1,399**	
Total[e]	**$ 44,353**	**$ 1,443**	**4,930**	**$ 348**	**$ 91**	**74**	**$ 53**	**$ 41**	**11**	**$ 44,754**	**$ 1,575**	
Equity securities												
0-11 months	**$ 204**	**$ 7**	**99**	**$ 17**	**$ 4**	**8**	**$ -**	**$ -**	**-**	**$ 221**	**$ 11**	

12 months or more	31	1	2	-	-	-	-	-	-	31	1
Total	$ 235	$ 8	101	$ 17	$ 4	8	$ -	$ -	-	$ 252	$ 12

(a) Represents the number of consecutive months that fair value has been less than cost by any amount.

(b) Represents the percentage by which fair value is less than cost at June 30, 2014.

(c) For bonds, represents amortized cost.

(d) The effect on Net income of unrealized losses after taxes will be mitigated upon realization because certain realized losses will result in current decreases in the amortization of certain DAC.

(e) Item count is by CUSIP by subsidiary.

Change in Unrealized Gains and Losses on Investments

The change in net unrealized gains and losses on investments for the second quarter of 2014 was primarily attributable to increases in the fair value of bonds available for sale primarily due to the decrease in interest rates since December 31, 2013. For the six month period ended June 30, 2014, net unrealized gains related to fixed maturity and equity securities increased by $7.7 billion.

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The change in net unrealized gains and losses on investments for the second quarter of 2013 was primarily attributable to the depreciation in the fair value of bonds available for sale due to the increase in interest rates, which more than offset the narrowing of credit spreads. For the six month period ended June 30, 2013, net unrealized gains related to fixed maturity and equity securities decreased by $11.3 billion.

See also Note 6 to the Condensed Consolidated Financial Statements for further discussion of our investment portfolio.

Risk management includes the identification and measurement of various forms of risk, the establishment of risk thresholds and the creation of processes intended to maintain risks within these thresholds while optimizing returns. We consider risk management an integral part of managing our core businesses and a key element of our approach to corporate governance.

Overview

We have an integrated process for managing risks throughout our organization in accordance with our firm wide risk appetite. Our Board of Directors has oversight responsibility for the management of risk. Our Enterprise Risk Management (ERM) Department supervises and integrates the risk management functions in each of our business units, providing senior management with a consolidated view of the firm's major risk positions. Within each business unit, senior leaders and executives approve risk taking policies and targeted risk tolerance within the framework provided by ERM. ERM supports our businesses and management in the embedding of enterprise risk management in our key day-to-day business processes and in identifying, assessing, quantifying, managing and mitigating the risks taken by us and our businesses. Nevertheless, our risk management efforts may not always be successful and material adverse effects on our business, results of operations, cash flows, liquidity or financial condition may occur.

For a further discussion of AIG's risk management program, see Part II, Item 7. MD&A Enterprise Risk Management in the 2013 Annual Report.

Credit Risk Management

Overview

Credit risk is defined as the risk that our customers or counterparties are unable or unwilling to repay their contractual obligations when they become due. Credit risk may also result from a downgrade of a counterparty's credit ratings or a widening of its credit spreads.

We devote considerable resources to managing our direct and indirect credit exposures. These exposures may arise from fixed income investments, equity securities, deposits, commercial paper investments, reverse repurchase agreements and repurchase agreements, corporate and consumer loans, leases, reinsurance recoverables, counterparty risk arising from derivatives activities, collateral extended to counterparties, insurance risk cessions to third parties, financial guarantees and letters of credit.

We monitor and control our company-wide credit risk concentrations and attempt to avoid unwanted or excessive risk accumulations, whether funded or unfunded. To minimize the level of credit risk in some circumstances, we may require third party guarantees, reinsurance or collateral, such as letters of credit and trust collateral accounts. We treat these guarantees, reinsurance recoverables, letters of credit and trust collateral accounts as credit exposure and include them in our risk concentration exposure data. We identify our aggregate credit exposures to our underlying counterparty risks and report them regularly to senior management for review.

See Investments – Available for Sale Investments herein for further information on our credit concentrations and credit exposures.

Market Risk Management

Overview

Market risk is defined as the potential loss arising from adverse fluctuations in equity and commodity prices, residential and commercial real estate values, interest rates, credit spreads, foreign currencies, inflation, and their levels of volatility.

We are exposed to market risks primarily within our insurance and capital markets businesses. The chief risk officer within each such business is responsible for properly identifying these risks, then ensuring that they are appropriately measured, monitored and managed in accordance with the written risk governance framework established by the Chief Market Risk Officer (CMRO).

Our market risk management framework focuses on quantifying the financial repercussions of changes in these broad market observables, distinct from the idiosyncratic risks associated with individual assets that are addressed through our credit risk management function.

Risk Identification

Market risk quantifies the adverse impact on us due to broad, systemic movements in one or more of the following market risk drivers:

Equity market prices. We are exposed to equity market prices affecting a variety of instruments. These include direct investments in publicly traded shares, investments in private equity, hedge funds and mutual funds, exchange traded funds and other equity linked capital market instruments as well as other equity linked insurance products, including but not limited to equity indexed annuities, variable annuities, universal life insurance, and variable universal life insurance.

Residential and commercial real estate values. Our investment portfolios are exposed to the risk of changing values in a variety of residential and commercial real estate investments. Residential investments include residential mortgages, residential mortgage backed securities and other structured securities with underlying assets that include residential mortgages: trusts that include real estate and/or mortgages (REITs), and mortgage insurance contracts. Commercial exposures include mortgage loans, commercial mortgage backed securities and other structured securities with underlying assets that include commercial mortgages: trusts, REITs, and other investments.

Interest rates. Interest rate risk can arise from a mismatch in the interest rate exposure of assets versus liabilities. Low interest rates mean less investment income and potentially less attractive insurance products. Conversely, higher interest rates are typically beneficial for the opposite reasons. However, when rates rise quickly, there can be a temporary asymmetric GAAP accounting effect where the existing securities lose market value, which is largely reported in Other comprehensive income, and the offsetting decrease in the value of related liabilities may not be recognized.

Credit spread or risk premium. Credit spreads measure an instrument's risk premium or yield relative to that of a comparable duration, default free instrument. Much like higher interest rates, wider credit spreads mean more investment income in the long term. In the short term, quickly rising spreads will cause a loss in the value of existing securities, which is largely reported in Other comprehensive income. A precipitous rise in credit spreads may also signal a fundamental weakness in the credit worthiness of bond obligors, potentially resulting in default losses.

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Foreign currency exchange rates. We are a globally diversified enterprise with significant income, assets and liabilities denominated in, and significant capital deployed in, a variety of currencies.

Commodity Prices. Changes in the value of commodities can affect the valuation of publicly traded commodities, commodity indices and derivatives.

Inflation. Changes in inflation can affect the valuation of fixed maturity securities, including debt securities linked to inflation index returns, derivatives on inflation indices, and insurance contracts where the claims are linked to inflation either explicitly, via indexing, or implicitly, through medical costs or wage levels in our primary casualty business.

Risk Measurement

Our market risk measurement framework was developed with the main objective of communicating the range and scale of our market risk exposures. At the firm wide level market risk is measured in a manner that is consistent with AIG's Risk Appetite Statement. This is designed to ensure that we remain within our stated risk tolerance levels and can determine how much additional market risk taking capacity we have available within our framework. At the market risk level, the framework measures our overall exposure to each systemic market risk change.

Our risk appetite is currently defined in terms of capital and liquidity levels under specified stress tests. In addition, we continue to develop economic, U.S. GAAP accounting and statutory capital based risk measures at the market risk level, business unit level and firm wide levels. This process aims to ensure that we have a comprehensive view of the impact of our market risk exposures.

Sensitivity analysis. Sensitivity analysis measures the impact from a unit change in a market risk input. Examples of such sensitivities include a one basis point increase in yield on fixed maturity securities, a one basis point increase in credit spreads on fixed maturity securities, and a one percent increase in price on equity securities.

Scenario analysis. Scenario analysis uses historical, hypothetical, or forward looking macroeconomic scenarios to assess and report exposures. Examples of hypothetical scenarios include a 100 basis point parallel shift in the yield curve or a 20 percent immediate and simultaneous decrease in world wide equity markets.

Stress testing. Stress testing is a special form of scenario analysis in which the scenarios are designed to lead to a material adverse outcome. Examples of such scenarios include the stock market crash of October 1987 or the widening of yields or spread of RMBS or CMBS during 2008.

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Market Risk Sensitivities

The following table provides estimates of our sensitivity to changes in yield curves, equity prices and foreign currency exchange rates:

	Balance Sheet Exposure		Balance Sheet Effect	
(dollars in millions)	**June 30, 2014**	December 31, 2013	**June 30, 2014**	December 31, 2013
Sensitivity factor			100 bps parallel increase in all yield curves	
Interest rate sensitive assets:				
Fixed maturity securities	**280,612**	268,208	**(15,340)**	(14,341)
Mortgage and other loans receivable	**15,360**	14,649	**(744)**	(661)
Preferred stock	**22**	21	**(3)**	(2)
Total interest rate sensitive assets	**$ 295,994** (a)	$ 282,878 (a)	**$ (16,087)** (b)	$ (15,004)
Sensitivity factor			20% decline in stock prices and value of alternative investments	
Equity and alternative investments exposure:				
Hedge funds	**10,313**	9,900	**(2,063)**	(1,980)
Private equity	**9,537**	9,810	**(1,907)**	(1,962)
Real estate investments	**3,228**	3,113	**(646)**	(623)
PICC(c)	**2,480**	2,536	**(496)**	(507)
Common equity	**2,264**	1,927	**(453)**	(385)
Aircraft asset investments	**701**	763	**(140)**	(153)
AerCap Holdings N.V.	**4,613**	-	**(923)**	-
Other investments	**991**	957	**(197)**	(191)
Total equity and alternative investments exposure	**$ 34,127**	$ 29,006	**$ (6,825)**	$ (5,801)
Sensitivity factor			10% depreciation of all foreign currency exchange rates against the U.S. dollar	
Foreign currency-denominated net asset position(d)	**$ 10,343**	$ 10,350	**$ (1,034)**	$ (1,035)

(a) At June 30, 2014, the analysis covered $296 billion of $315 billion interest-rate sensitive assets. Excluded are $2 billion in DIB assets, $7 billion of loans, and $4 billion of investments in life settlements. In addition, $6 billion of assets across various asset categories were excluded due to modeling limitations. At December 31, 2013, the analysis covered $283 billion of $306 billion interest-rate sensitive assets.

Excluded are $6 billion in DIB assets, $5 billion of loans, and $4 billion of investments in life settlements. In addition, $8 billion of assets across various asset categories were excluded due to modeling and/or data limitations.

(b) Commencing in the first quarter of 2014, we began using a duration and convexity method to estimate the impact of a 100 bps increase in interest rates on each security. The change in method resulted in no material effect on the amounts presented at December 31, 2013.

(c) Includes our investments in PICC Group and PICC P&C.

(d) The majority of the foreign currency exposure is reported on a one quarter lag.

Foreign currency-denominated net asset position reflects our consolidated non U.S. dollar assets less our consolidated non U.S dollar liabilities on a U.S. GAAP basis. We use a bottom-up approach in managing our foreign currency exchange rate exposures with the objective of protecting statutory capital at the regulated insurance entity level. We manage cash flow risk on our foreign currency-denominated debt issued by AIG Parent, and use a variety of techniques to mitigate this risk, including but not limited to the execution of cross-currency swaps and the issuance of new foreign currency-denominated debt to replace equivalent maturing debt. At the AIG Parent level, we monitor our foreign currency exposures against single currency and aggregate currency portfolio limits. As a matter of general practice, we do not typically hedge our foreign currency exposures to net investments in subsidiaries. However, we may utilize either cross-currency swaps or our foreign currency- denominated debt as a net investment hedge of our capital in subsidiaries.

At June 30, 2014, our five largest foreign currency net asset positions were denominated in Australian dollars, British pounds, Canadian dollars, Hong Kong dollars and Japanese yen. Our foreign currency-denominated net asset position at June 30, 2014 decreased by $7 million compared to December 31, 2013. The decrease was mostly due to a $247 million decrease in our Euro position, primarily resulting from bond hedging; and a $182 million decrease in our Polish zloty position, primarily

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resulting from the sale of our equity investment in Santander Consumer Bank, partially offset by a $241 million increase in our Japanese yen position, mainly attributable to Japanese yen deferred tax liability reduction; a $95 million increase in our New Zealand dollar position, primarily resulting from a decrease in loss reserves at AI Overseas Association; and a $91 million increase in our Canadian dollar position, mainly attributable to an increase in operating income from underwriting and investments.

For illustrative purposes, we modeled our sensitivities based on a 100 basis point increase in yield curves, a 20 percent decline in equities and alternative assets, and a 10 percent depreciation of all foreign currency exchange rates against the U.S. dollar. The estimated results presented in the table above should not be taken as a prediction, but only as a demonstration of the potential effects of such events.

Liquidity Risk Management

Liquidity risk is defined as the risk that our financial condition will be adversely affected by the inability or perceived inability to meet our short-term cash, collateral or other financial obligations.

The failure to appropriately manage liquidity risk can result in reduced operating flexibility, increased costs, and reputational harm. Because liquidity is critically important, our liquidity governance includes a number of liquidity and funding policies and monitoring tools to address AIG-specific, broader industry and market related liquidity events.

Sources of Liquidity risk can include, but are not limited to:

- financial market movements — significant changes in interest rates can provide incentives for policyholders to surrender their policies. Changes in markets can impact collateral posting requirements or limit our ability to sell assets at reasonable values to meet liquidity needs due to unfavorable market conditions, inadequate market depth, or other investors seeking to sell the same or similar assets;

- potential reputational events or credit downgrade — changes can have an impact on policyholder cancellations and withdrawals or impact collateral posting requirements; and

- catastrophic events, including natural and man made disasters, that can increase policyholder claims.

The principal objective of our liquidity risk framework is to protect our liquidity position and identify a diversity of funding sources available to meet actual and contingent liabilities during both normal and stress periods. This framework is guided by the liquidity risk tolerance. AIG Parent liquidity risk tolerance levels are established for base and stress scenarios over a time horizon covering a period greater than one year. We maintain a liquidity buffer designed to ensure that funding needs are met under varying market conditions. If we project that we will breach the tolerance, we will assess and determine appropriate liquidity management actions. However, the market conditions in effect at that time may not permit us to achieve an increase in liquidity sources or a reduction in liquidity requirements.

We strive to manage our liquidity prudently at a legal entity level across AIG Parent and the operating companies. Key components of the framework include effective corporate governance and policy, maintaining diversified sources of liquidity, contingency funding plans, and regular review of liquidity metrics in both normal and stress conditions. We view each component of the framework together to achieve our goal of sound liquidity risk management.

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The preparation of financial statements in accordance with U.S. GAAP requires the application of accounting policies that often involve a significant degree of judgment.

- income tax assets and liabilities, including recoverability of our net deferred tax asset and the predictability of future tax operating profitability of the character necessary to realize the net deferred tax asset;
- liability for unpaid 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. For a complete discussion of our critical accounting estimates, you should read Part II, Item 7. MD&A — Critical Accounting Estimates in the 2013 Annual Report.

Our operations around the world are subject to regulation by many different types of regulatory authorities, including insurance, securities, derivatives, investment advisory, banking and thrift regulators in the United States and abroad.

Our insurance subsidiaries are subject to regulation and supervision by the states and jurisdictions in which they do business. The insurance and financial services industries generally have been subject to heightened regulatory scrutiny and supervision in recent years.

On April 4, 2014, the FRB approved AIG's application to deregister as a savings and loan holding company in connection with the restructuring of AIG Federal Savings Bank from a federal savings association to a trust-only thrift. As a result, AIG is no longer subject to the FRB's examination, supervision and enforcement authority and reporting requirements on account of its ownership of AIG Federal Savings Bank, but will continue to be regulated and supervised by the FRB due to its designation by the Financial Stability Oversight Council as a nonbank SIFI. On July 1, 2014, as a nonbank SIFI, AIG submitted to its regulators its initial annual plan for rapid and orderly resolution in the event of material financial distress or failure, which must meet several specific standards, including requiring a detailed resolution strategy and analyses of material entities, organizational structure, interconnections and interdependencies, and management information systems, among other

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elements. The public section of the plan can be found on the websites of the FRB and the Federal Deposit Insurance Corporation. The FRB has yet to complete the regulatory framework that will be applicable to AIG as a nonbank SIFI.

On July 9, 2014, the International Association of Insurance Supervisors released for public consultation its proposed basic capital requirements, which it expects to finalize by November 2014.

In addition to the information set forth in this Quarterly Report on Form 10-Q, our regulatory status is also discussed in Part I, Item 1. Business – Regulation, Part I, Item 1A. Risk Factors – Regulation and Note 19 to the Consolidated Financial Statements in the 2013 Annual Report.

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Accident year The annual calendar accounting period in which loss events occurred, regardless of when the losses are actually reported, booked or paid.

Accident year combined ratio, as adjusted the combined ratio excluding catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting.

Accident year loss ratio, as adjusted the loss ratio excluding catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting.

Acquisition ratio acquisition costs divided by net premiums earned. Acquisition costs are those costs incurred to acquire new and renewal insurance contracts and also include the amortization of value of business acquired (VOBA) and deferred policy acquisition costs (DAC). Acquisition costs vary with sales and include, but are not limited to, commissions, premium taxes, direct marketing costs, certain costs of personnel engaged in sales support activities such as underwriting, and the change in DAC. Acquisition costs that are incremental and directly related to successful sales efforts are deferred and recognized over the coverage periods of related insurance contracts. Acquisition costs that are not incremental and directly related to successful sales efforts are recognized as incurred.

Additional premium/Return premium is a premium due either to or from an insured as a result of a change in coverage (e.g. increase or decrease in limits or risk) or cancellation of an existing policy. In addition, certain policies provide for adjustments to the original premium amount charged based on the experience of the policy, e.g. workers' compensation policies and loss sensitive policies where changes to the original premium are based on variances of the loss history against estimates built into the determination of the original premium.

AIG – After-tax operating income (loss) attributable to AIG is derived by excluding the following items from net income (loss) attributable to AIG: income (loss) from discontinued operations, income (loss) from divested businesses, including gain on the sale of ILFC and certain post-acquisition costs incurred by AerCap in connection with its acquisition of ILFC and related tax effects, legacy tax adjustments primarily related to certain changes in uncertain tax positions and other tax adjustments, legal reserves (settlements) related to "legacy crisis matters," deferred income tax valuation allowance (releases) charges, changes in fair value of AIG Life and Retirement fixed maturity securities designated to hedge living benefit liabilities (net of interest expense), changes in benefit reserves and DAC, VOBA, and sales inducement assets (SIA) related to net realized capital gains (losses), AIG Property Casualty other (income) expense - net, (gain) loss on extinguishment of debt, net realized capital (gains) losses, and non-qualifying derivative hedging activities, excluding net realized capital (gains) losses. “Legacy crisis matters” include favorable and unfavorable settlements related to events leading up to and resulting from our September 2008 liquidity crisis and legal fees incurred by AIG as the plaintiff in connection with such legal matters.

AIG Life and Retirement – Pre-tax operating income (loss) Pre-tax operating income (loss) is derived by excluding the following items from pre-tax income (loss): legal settlements related to legacy crisis matters, changes in fair values of fixed maturity securities designated to hedge living benefit liabilities (net of interest expense), net realized capital (gains) losses, and changes in benefit reserves and DAC, VOBA, and SIA related to net realized capital gains (losses).

AIG Life and Retirement – Premiums and deposits includes direct and assumed amounts received on traditional life insurance policies, group benefit policies and deposits on life-contingent payout annuities, as well as deposits received on universal life, investment-type annuity contracts and mutual funds.

AIG Life and Retirement – Surrender rate represents annualized surrenders and withdrawals as a percentage of average account value.

AIG Property Casualty – Net premiums written represent the sales of an insurer, adjusted for reinsurance premiums assumed and ceded, during a given period. Net premiums earned are the revenue of an insurer for covering risk during a given period. Net premiums written are a measure of performance for a sales period while Net premiums earned are a measure of performance for a coverage period. From the period in which the premiums are written until the period in which they are earned, the amount is presented as Unearned premium reserves in the Consolidated Balance Sheets.

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AIG Property Casualty – Pre-tax operating income (loss) includes both underwriting income (loss) and net investment income, but excludes net realized capital (gains) losses, other (income) expense - net, and legal settlements related to legacy crisis matters. Underwriting income (loss) is derived by reducing net premiums earned by claims and claims adjustment expenses incurred, acquisition expenses and general operating expenses.

BET *Binomial Expansion Technique* A model that generates expected loss estimates for CDO tranches and derives a credit rating for those tranches.

Book Value Per Common Share Excluding Accumulated Other Comprehensive Income (loss) (AOCI) is a non-GAAP measure and is used to show the amount of our net worth on a per-share basis. Book Value Per Common Share Excluding AOCI is derived by dividing Total AIG shareholders' equity, excluding AOCI, by Total common shares outstanding.

Casualty insurance Insurance that is primarily associated with the losses caused by injuries to third persons, i.e., not the insured, and the legal liability imposed on the insured as a result.

Catastrophe losses are generally weather or seismic events having a net impact on AIG Property Casualty in excess of $10 million each.

Combined ratio Sum of the loss ratio and the acquisition and general operating expense ratios.

CSA *Credit Support Annex* A legal document that provides for collateral postings at various ratings and threshold levels.

CVA *Credit Valuation Adjustment* The CVA adjusts the valuation of derivatives to account for nonperformance risk of our counterparty with respect to all net derivative assets positions. Also, the CVA reflects the fair value movement in the DIB's asset portfolio that is attributable to credit movements only without the impact of other market factors such as interest rates and foreign exchange rates. Finally, the CVA also accounts for our own credit risk, in the fair value measurement of all net derivative liabilities positions and liabilities where AIG has elected the fair value option, when appropriate.

DAC *Deferred Policy Acquisition Costs* Deferred costs that are incremental and directly related to the successful acquisition of new business or renewal of existing business.

DAC Related to Unrealized Appreciation (Depreciation) of Investments An adjustment to DAC for investment-oriented products, equal to the change in DAC amortization that would have been recorded if fixed maturity and equity securities available for sale had been sold at their stated aggregate fair value and the proceeds reinvested at current yields (also referred to as "shadow DAC"). The change in this adjustment, net of tax, is included with the change in net unrealized appreciation (depreciation) of investments that is credited or charged directly to Other comprehensive income (loss).

Deferred Gain on Retroactive Reinsurance Retroactive reinsurance is a reinsurance contract in which an assuming entity agrees to reimburse a ceding entity for liabilities incurred as a result of past insurable events. If the amount of premium paid by the ceding reinsurer is less than the related ceded loss reserves, the resulting gain is deferred and amortized over the settlement period of the reserves. Any related development on the ceded loss reserves recoverable under the contract would increase the deferred gain if unfavorable, or decrease the deferred gain if favorable.

Expense ratio Sum of acquisition expenses and general operating expenses, divided by net premiums earned.

First-Lien Priority over all other liens or claims on a property in the event of default on a mortgage.

General operating expense ratio general operating expenses divided by net premiums earned. General operating expenses are those costs that are generally attributed to the support infrastructure of the organization and include but are not limited to personnel costs, projects and bad debt expenses. General operating expenses exclude claims adjustment expenses, acquisition expenses, and investment expenses.

GIC/GIA *Guaranteed Investment Contract/Guaranteed Investment Agreement* A contract whereby the seller provides a guaranteed repayment of principal and a fixed or floating interest rate for a predetermined period of time.

G-SII *Global Systemically Important Insurer* An insurer that is deemed globally systemically important (that is, of such size, market importance and global interconnectedness that the distress or failure of the insurer would cause significant dislocation in the global financial system and adverse economic consequences across a range of countries) by the Financial Stability Board, in consultation with and based on a methodology developed by the International Association of Insurance Supervisors.

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High loss deductible policies A type of commercial insurance policy where we pay the full claim and then seek reimbursement from the insured for the deductible. Losses are retained by the insured up to a specified deductible amount (usually $25,000 or more per claim, subject to individual state approval) and we insure the claims in excess of the deductible. Generally, the total claims (including the deductible portion) are managed and paid by us as part of a loss control program, and we are reimbursed the deductible amount by the insured. In the case of unpaid claims, we make estimates of the deductible portion of claims reported to us, and reduce our loss reserves accordingly. In most cases, we obtain collateral in the form of cash, letters of credit or other funding arrangements to secure the amounts of uncollected deductibles.

IBNR *Incurred But Not Reported* Estimates of claims that have been incurred but not reported to us.

LAE *Loss Adjustment Expenses* The expenses of settling claims, including legal and other fees and the portion of general expenses allocated to claim settlement costs.

Loss Ratio Claims and claims adjustment expenses incurred divided by net premiums earned. Claims adjustment expenses are directly attributed to settling and paying claims of insureds and include, but are not limited to, legal fees, adjuster's fees, and claims department personnel costs.

Loss Recognition Related to Unrealized Appreciation (Depreciation) of Investments An adjustment to DAC and future policy benefits for long-duration traditional products, equal to the adjustments that would be required if fixed maturity and equity securities available for sale had been sold at their stated aggregate fair value and the proceeds reinvested at current yields, and such reinvestment would not be sufficient to recover DAC and meet policyholder obligations (also referred to as "shadow loss recognition"). The change in this adjustment, net of tax, is included with the change in net unrealized appreciation (depreciation) of investments that is credited or charged directly to Other comprehensive income (loss).

Loss reserve development The increase or decrease in incurred claims and claims adjustment expenses as a result of the re-estimation of claims and claims adjustment expense reserves at successive valuation dates for a given group of claims.

Loss reserves Liability for unpaid claims and claims adjustment expense. The estimated ultimate cost of settling claims relating to insured events that have occurred on or before the balance sheet date, whether or not reported to the insurer at that date.

LTV *Loan-to-Value Ratio* Principal amount of loan amount divided by appraised value of collateral securing the loan.

Master netting agreement An agreement between two counterparties who have multiple derivative contracts with each other that provides for the net settlement of all contracts, as well as cash collateral, through a single payment, in a single currency, in the event of default on or upon termination of any one contract.

Net premiums written Represent the sales of an insurer, adjusted for reinsurance premiums assumed and ceded, during a given period. Net premiums earned are the revenue of an insurer for covering risk during a given period. Net premiums written are a measure of performance for a sales period while Net premiums earned are a measure of performance for a coverage period. From the period in which the premiums are written until the period in which they are earned, the amount is presented as Unearned premium reserves in the Consolidated Balance Sheets.

Noncontrolling interest The portion of equity ownership in a consolidated subsidiary not attributable to the controlling parent company.

Other Operations – Pre-tax operating income (loss): pre-tax income (loss) excluding certain legal reserves (settlements) related to legacy crisis matters, (gain) loss on extinguishment of debt, Net realized capital (gains) losses, net (gain) loss on sale of divested businesses, including gain on the sale of ILFC and certain post-acquisition costs incurred by AerCap in connection with its acquisition of ILFC and our share of AerCap's income taxes, changes in benefit reserves and DAC, VOBA, and SIA related to net realized capital gains (losses) and income (loss) from divested businesses, including Aircraft Leasing.

Policy fees An amount added to a policy premium, or deducted from a policy cash value or contract holder account, to reflect the cost of issuing a policy, establishing the required records, sending premium notices and other related expenses.

Pool A reinsurance arrangement whereby all of the underwriting results of the pool members are combined and then shared by each member in accordance with its pool participation percentage. Our members in the admitted lines pool are licensed to write standard lines of business by the individual state departments of insurance, and the policy forms and rates are regulated by those departments. Our members in the surplus lines pool provide policyholders with insurance coverage for risks which are generally not available in the standard insurance market. Surplus lines policy forms and rates are not regulated by the insurance departments.

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Prior year development Increase or decrease in estimates of losses and loss expenses for prior years that is included in earnings.

RBC *Risk-Based Capital* A formula designed to measure the adequacy of an insurer's statutory surplus compared to the risks inherent in its business.

Reinstatement premium Additional premiums payable to reinsurers to restore coverage limits that have been exhausted as a result of reinsured losses under certain excess of loss reinsurance treaties.

Reinsurance The practice whereby one insurer, the reinsurer, in consideration of a premium paid to that insurer, agrees to indemnify another insurer, the ceding company, for part or all of the liability of the ceding company under one or more policies or contracts of insurance which it has issued.

Rescission Denial of claims and termination of coverage on loans related to fraudulent or undocumented claims, underwriting guideline violations and other deviations from contractual terms.

Retained Interest Category within AIG's Other Operations that includes the fair value gains or losses, prior to their sale, of the AIA ordinary shares retained following the AIA Group Limited initial public offering and the MetLife, Inc. securities that were received as consideration from the sale of American Life Insurance Company and the fair value gains or losses, prior to the FRBNY liquidation of Maiden Lane III LLC assets in 2012, on the retained interest in Maiden Lane III LLC.

Retroactive Reinsurance See Deferred Gain on Retroactive Reinsurance.

Salvage The amount that can be recovered by us for the sale of damaged goods for which our policyholder has been indemnified (and to which title was transferred to us).

Second-lien Subordinate in ranking to the first-lien holder claims on a property in the event of default on a mortgage.

Severe losses Individual non-catastrophe first party losses and surety losses greater than $10 million, net of related reinsurance and salvage and subrogation. Severe losses include claims related to satellite explosions, plane crashes, and shipwrecks.

SIA *Sales Inducement Asset* Represents amounts that are credited to policyholder account balances related to the enhanced crediting rates that a seller offers on certain of its annuity products.

SIFI *Systemically Important Financial Institutions* Financial institutions are deemed systemically important (that is, the failure of the financial institution could pose a threat to the financial stability of the United States) by the Financial Stability Oversight Council (FSOC) based on a three-stage analytical process.

Solvency II Legislation in the European Union which reforms the insurance industry's solvency framework, including minimum capital and solvency requirements, governance requirements, risk management and public reporting standards. The Solvency II Directive (2009/138/EEC), was adopted on November 25, 2009 and is expected to become effective in January 2016.

SSDMF *Social Security Death Master File* A database of deceased individuals, most of whom were issued a social security number during their lifetimes, maintained by the U.S. Social Security Administration.

Subrogation The amount of recovery for claims we have paid our policyholders, generally from a negligent third party or such party's insurer.

Surrender charge A charge levied against an investor for the early withdrawal of funds from a life insurance or annuity contract, or for the cancellation of the agreement.

Unearned premium reserve Liabilities established by insurers and reinsurers to reflect unearned premiums which are usually refundable to policyholders if an insurance or reinsurance contract is canceled prior to expiration of the contract term.

VOBA *Value of Business Acquired* Present value of projected future gross profits from in-force policies from acquired businesses.

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Item 2 / ACRONYMS

A&H Accident and Health Insurance
ABS Asset-Backed Security
CDO Collateralized Debt Obligation

CDS Credit Default Swap

CLO Collateralized Loan Obligations
CMA Capital Maintenance Agreement
CMBS Commercial Mortgage-Backed Securities
FASB Financial Accounting Standards Board
FRBNY Federal Reserve Bank of New York
GAAP Accounting principles generally accepted in the United States of America
GMAV Guaranteed Minimum Account Value Benefits
GMDB Guaranteed Minimum Death Benefits
GMIB Guaranteed Minimum Income Benefits
GMWB Guaranteed Minimum Withdrawal Benefits
IFRS International Financial Reporting Standards
ISDA International Swaps and Derivatives Association, Inc.
NAIC National Association of Insurance Commissioners
NM Not Meaningful
OTC Over-the-Counter
OTTI Other-Than-Temporary Impairment
RMBS Residential Mortgage-Backed Securities
S&P Standard & Poor's Financial Services LLC
SEC Securities and Exchange Commission

TARP Troubled Asset Relief Program of the Department of the Treasury
VIE Variable Interest Entity

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Item 3 / QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Item 3. / QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 4. / Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. In connection with the preparation of this Quarterly Report on Form 10-Q, an evaluation was carried out by AIG's management, with the participation of AIG's Chief Executive Officer and Chief Financial Officer, of the effectiveness of AIG's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, AIG's Chief Executive Officer and Chief Financial Officer have concluded that AIG's disclosure controls and procedures were effective as of June 30, 2014.

There has been no change in AIG's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2014 that has materially affected, or is reasonably likely to materially affect, AIG's internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1 / Legal Proceedings

For a discussion of legal proceedings, see Note 10 to the Condensed Consolidated Financial Statements, which is incorporated herein by reference.

Item 1A./ Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our 2013 Annual Report.

ITEM 2 / UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides the information with respect to purchases made by or on behalf of AIG or any "affiliated purchaser" (as defined in Rule 10b 18(a)(3) under the Securities Exchange Act of 1934) of AIG Common Stock during the three months ended June 30, 2014:

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)
April 1 - 30	**-**	**$ -**	**-**	**$ 537**
May 1 - 31	**4,958,695**	**52.60**	**4,958,695**	**276**
June 1 - 30	**13,120,624**	**54.63**	**13,120,624**	**1,466**
Total*	**18,079,319**	**$ 54.08**	**18,079,319**	**$ 1,466**

* On August 1, 2013, our Board of Directors authorized the repurchase of shares of AIG Common Stock, with an aggregate purchase price of up to $1.0 billion, from time to time in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise. On February 13, 2014, our Board of Directors authorized an increase to the August 1, 2013 repurchase authorization of AIG Common Stock by $1.0 billion. On June 5, 2014, our Board of Directors authorized an additional increase to the August 1, 2013 repurchase authorization of AIG Common Stock by $2.0 billion, resulting in an aggregate remaining authorization at such time of approximately $2.1 billion of AIG Common Stock.

During the three months ended June 30, 2014, we repurchased approximately 18.1 million shares of AIG Common Stock under this authorization for an aggregate purchase price of approximately $1.1 billion.

The total number of shares of AIG Common Stock repurchased in June 2014, and the aggregate purchase price of those shares, each as set forth above, reflect our payment of $300 million under the ASR agreement and the initial receipt of 70 percent of the total notional share equivalent, or approximately 3.8 million shares of AIG Common Stock The ASR agreement settled in July 2014, at which time we received approximately 1.7 million additional shares of AIG Common Stock based on a formula specified by the terms of the ASR agreement.

The timing of any future share repurchases will depend on market conditions, our financial condition, results of operations, liquidity and other factors.

Item 4 / Mine Safety Disclosures

Not applicable.

Item 6 / Exhibits

See accompanying Exhibit Index.

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SIGNATURES

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

	AMERICAN INTERNATIONAL GROUP, INC.
	(Registrant)
	/S/ DAVID L. HERZOG
	David L. Herzog
	Executive Vice President
	Chief Financial Officer
	Principal Financial Officer
	/S/ DON W. CUMMINGS
	Don W. Cummings
	Vice President
	Controller
	Principal Accounting Officer

Dated: August 4, 2014

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EXHIBIT INDEX

Exhibit Number	Description	Location
3	Articles of incorporation and by-laws	
3(i)	Amended and Restated Certificate of Incorporation of American International Group, Inc.	Incorporated by reference to Exhibit 3.1 to AIG’s Current Report on Form 8-K filed with the SEC on May 12, 2014 (File No. 1-8787).
3(ii)	American International Group, Inc. By-laws, as amended on July 9, 2014	Incorporated by reference to Exhibit 3.1 to AIG’s Current Report on Form 8-K filed with the SEC on July 14, 2014 (File No. 1-8787).
4	Instruments defining the rights of security holders, including indentures	
	(1) Twenty-First Supplemental Indenture, dated as of July 16, 2014, between AIG and The Bank of New York Mellon, as Trustee	Incorporated by reference to Exhibit 4.1 to AIG's Current Report on Form 8-K filed with the SEC on July 16, 2014 (File No. 1-8787).
	(2) Twenty-Second Supplemental Indenture, dated as of July 16, 2014, between AIG and The Bank of New York Mellon, as Trustee	Incorporated by reference to Exhibit 4.2 to AIG's Current Report on Form 8-K filed with the SEC on July 16, 2014 (File No. 1-8787).
	(3) Form of the 2019 Notes (included in Exhibit 4(1))	
	(4) Form of the 2044 Notes (included in Exhibit 4(2))	
10	Material Contracts	
	(1) Second Amended and Restated Credit Agreement, dated as of June 19, 2014, among AIG, the subsidiary borrowers party thereto, the lenders party thereto, JPMorgan, as Administrative Agent, and each Several L/C Agent party thereto	Incorporated by reference to Exhibit 10.1 to AIG’s Current Report on Form 8-K filed with the SEC on June 19, 2014 (File No. 1-8787).
	(2) Side Letter, dated as of August 1, 2014, to Unconditional Capital Maintenance Agreement, dated as of July 1, 2013, between AIG and United Guaranty Residential Insurance Company	Filed herewith.
11	Statement re: Computation of Per Share Earnings	Included in Note 13 to the Condensed Consolidated Financial Statements.
12	Computation of Ratios of Earnings to Fixed Charges	Filed herewith.
31	Rule 13a-14(a)/15d-14(a) Certifications	Filed herewith.
32	Section 1350 Certifications*	Filed herewith.

101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013, (ii) the Condensed Consolidated Statements of Income for the three and six months ended June 30, 2014 and 2013, (iii) the Condensed Consolidated Statement of Equity for the six months ended June 30, 2014 and 2013, (iv) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013, (v) the Condensed Consolidated Statements of Comprehensive Loss for the three and six months ended June 30, 2014 and 2013 and (vi) the Notes to the Condensed Consolidated Financial Statements.	Filed herewith.

* This information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.