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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014	**Commission File Number 1-8787**

American International Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 October 29, 2014, there were 1,399,912,329 shares outstanding of the registrant’s common stock.

AMERICAN INTERNATIONAL GROUP, INC.

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

September 30, 2014

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

American International Group, Inc.

Condensed Consolidated Balance Sheets *(unaudited)*

	Se
(in millions, except for share data)	
Assets:	
Investments:	
Fixed maturity securities:	
Bonds available for sale, at fair value (amortized cost: 2014 - $249,920; 2013 - $248,531)	**$**
Other bond securities, at fair value (See Note 6)	
Equity Securities:	
Common and preferred stock available for sale, at fair value (cost: 2014 - $2,066; 2013 - $1,726)	
Other common and preferred stock, at fair value (See Note 6)	
Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2014 - $6; 2013 - $0)	
Other invested assets (portion measured at fair value: 2014 - $9,045; 2013 - $8,598)	
Short-term investments (portion measured at fair value: 2014 - $4,191; 2013 - $6,313)	
Total investments	
Cash	
Accrued investment income	
Premiums and other receivables, net of allowance	
Reinsurance assets, net of allowance	
Deferred income taxes	
Deferred policy acquisition costs	
Derivative assets, at fair value	
Other assets, including restricted cash of $1,238 in 2014 and $865 in 2013 (portion measured at fair value: 2014 - $0; 2013 - $418)	
Separate account assets, at fair value	
Assets held-for-sale	
Total assets	**$**
Liabilities:	
Liability for unpaid claims and claims adjustment expense	**$**

Unearned premiums
Future policy benefits for life and accident and health insurance contracts
Policyholder contract deposits (portion measured at fair value: 2014 - $1,044; 2013 - $384)
Other policyholder funds (portion measured at fair value: 2014 - $8; 2013 - $0)
Derivative liabilities, at fair value
Other liabilities (portion measured at fair value: 2014 - $402; 2013 - $933)
Long-term debt (portion measured at fair value: 2014 - $5,667; 2013 - $6,747)
Separate account liabilities
Liabilities held-for-sale
Total liabilities
Contingencies, commitments and guarantees (see Note 10)

Redeemable noncontrolling interests (see Note 12)

AIG shareholders' equity:
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued: 2014 - 1,906,671,492 and 2013 - 1,906,645,689
Treasury stock, at cost; 2014 - 502,898,541 shares; 2013 - 442,582,366 shares
Additional paid-in capital
Retained earnings
Accumulated other comprehensive income
Total AIG shareholders' equity
Non-redeemable noncontrolling interests (including $100 associated with businesses held for sale in 2013)
Total equity
Total liabilities and equity $

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1 / Financial statements

American International Group, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME *(unaudited)*

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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American International Group, Inc.

cONDENSED Consolidated Statements of Comprehensive Income *(unaudited)*

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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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
Nine Months Ended September 30, 2014						
Balance, beginning of year	**$ 4,766**	**$ (14,520)**	**$ 80,899**	**$ 22,965**	**$ 6,360**	**$ 100,47**
Purchase of common stock	**-**	**(3,200)**	**-**	**-**	**-**	**(3,20**
Net income (loss) attributable to AIG or other noncontrolling interests	**-**	**-**	**-**	**6,874**	**-**	**6,87**
Dividends	**-**	**-**	**-**	**(539)**	**-**	**(53**
Other comprehensive income (loss)	**-**	**-**	**-**	**-**	**4,971**	**4,97**
Net decrease due to deconsolidation	**-**	**-**	**-**	**-**	**-**	
Contributions from noncontrolling interests	**-**	**-**	**-**	**-**	**-**	
Distributions to noncontrolling interests	**-**	**-**	**-**	**-**	**-**	
Other	**-**	**-**	**5**	**-**	**-**	
Balance, end of period	**$ 4,766**	**$ (17,720)**	**$ 80,904**	**$ 29,300**	**$ 11,331**	**$ 108,58**
Nine Months Ended September 30, 2013						
Balance, beginning of year	$ 4,766	$ (13,924)	$ 80,410	$ 14,176	$ 12,574	$ 98,00
Purchase of common stock	-	(192)	-	-	-	(19
Net income attributable to AIG or other noncontrolling interests	-	-	-	7,107	-	7,10
Dividends	-	-	-	(147)	-	(14
Other comprehensive loss	-	-	-	-	(6,065)	(6,06
Net increase due to consolidation	-	-	-	-	-	
Contributions from noncontrolling interests	-	-	-	-	-	
Distributions to noncontrolling interests	-	-	-	-	-	
Other	-	1	87	-	-	8
Balance, end of period	$ 4,766	$ (14,115)	$ 80,497	$ 21,136	$ 6,509	$ 98,79

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)*

Nine Months Ended September 30, *(in millions)*	2014	2013
Cash flows from operating activities:		
Net income	$ 6,849	$ 7,119
(Income) loss from discontinued operations	15	(73)
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash revenues, expenses, gains and losses included in income:		
Net gains on sales of securities available for sale and other assets	(602)	(2,159)
Net (gain) loss on sale of divested businesses	(2,196)	47
Net losses on extinguishment of debt	1,014	459
Unrealized gains in earnings - net	(797)	(7)
Equity in income from equity method investments, net of dividends or distributions	(1,106)	(944)
Depreciation and other amortization	3,372	3,558
Impairments of assets	415	408
Changes in operating assets and liabilities:		
Property casualty and life insurance reserves	184	768
Premiums and other receivables and payables - net	41	(44)
Reinsurance assets and funds held under reinsurance treaties	(64)	(336)
Capitalization of deferred policy acquisition costs	(4,546)	(4,412)
Current and deferred income taxes - net	2,291	(206)
Other, net	(513)	(230)
Total adjustments	(2,507)	(3,098)
Net cash provided by operating activities	4,357	3,948
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales or distribution of:		
Available for sale investments	16,063	27,961
Other securities	3,936	4,174
Other invested assets	3,034	4,111
Divested businesses, net	2,348	-
Maturities of fixed maturity securities available for sale	18,628	19,907
Principal payments received on and sales of mortgage and other loans receivable	2,552	2,721
Purchases of:		
Available for sale investments	(34,630)	(50,639)
Other securities	(301)	(1,880)
Other invested assets	(3,205)	(5,214)

Mortgage and other loans receivable		**(4,945)**		(3,109)
Net change in restricted cash		**(660)**		1,251
Net change in short-term investments		**2,342**		8,114
Other, net		**(295)**		(879)
Net cash provided by investing activities		**4,867**		6,518
Cash flows from financing activities:				
Proceeds from (payments for)				
Policyholder contract deposits		**12,311**		11,348
Policyholder contract withdrawals		**(11,036)**		(12,481)
Issuance of long-term debt		**5,827**		3,633
Repayments of long-term debt		**(11,561)**		(11,355)
Purchase of Common Stock		**(3,403)**		(192)
Dividends paid		**(539)**		(147)
Other, net		**(1,200)**		(278)
Net cash used in financing activities		**(9,601)**		(9,472)
Effect of exchange rate changes on cash		**(19)**		(79)
Net increase (decrease) in cash		**(396)**		915
Cash at beginning of year		**2,241**		1,151
Change in cash of businesses held-for-sale		**88**		(8)
Cash at end of period	**$**	**1,933**	$	2,058

Supplementary Disclosure of Condensed Consolidated Cash Flow Information

Cash paid during the period for:				
Interest	**$**	**2,496**	$	2,951
Taxes	**$**	**614**	$	378
Non-cash investing/financing activities:				
Interest credited to policyholder contract deposits included in financing activities	**$**	**3,007**	$	2,977
Non-cash consideration received from sale of ILFC	**$**	**4,586**	$	-

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1 / NOTE 1. BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. BASIS OF PRESENTATION

American International Group, Inc. (AIG) is a leading international insurance organization serving customers in more than 130 countries and jurisdictions. AIG companies serve commercial, institutional and individual customers through one of the most extensive worldwide property casualty networks of any insurer. In addition, AIG companies are leading providers of life insurance and retirement services in the United States. AIG Common Stock, par value $2.50 per share, (AIG Common Stock) is listed on the New York Stock Exchange (NYSE: AIG) and the Tokyo Stock Exchange. Unless the context indicates otherwise, the terms "AIG," "we," "us" or "our" mean American International Group, Inc. and its consolidated subsidiaries and the term "AIG Parent" means American International Group, Inc. and not any of its consolidated subsidiaries.

These unaudited condensed consolidated financial statements do not include all disclosures that are normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) and should be read in conjunction with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the year ended December 31, 2013 (2013 Annual Report). The condensed consolidated financial information as of December 31, 2013 included herein has been derived from audited consolidated financial statements in the 2013 Annual Report.

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

Interim period operating results may not be indicative of the operating results for a full year. We evaluated the need to recognize or disclose events that occurred subsequent to September 30, 2014 and prior to the issuance of these condensed consolidated financial statements.

Sale of ILFC

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

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

Use of Estimates

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

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

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Item 1 / NOTE 1. BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards Adopted During 2014

Certain Obligations Resulting from Joint and Several Liability Arrangements

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

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

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

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

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

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Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

Investment Company Guidance

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

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

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

Presentation of Unrecognized Tax Benefits

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

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

Future Application of Accounting Standards

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure

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

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Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

Reporting Discontinued Operations

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

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

Revenue Recognition

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

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

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

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

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

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Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Accounting for Share-Based Payments with Performance Targets

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

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

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

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

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

3. SEGMENT INFORMATION

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

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Item 1 / NOTE 3. SEGMENT INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The following tables present our operations by reportable segment:

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

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

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

4. HELD-FOR-SALE CLASSIFICATION AND DISCONTINUED OPERATIONS

Held-For-Sale Classification

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

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

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

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

(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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Discontinued Operations

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

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

5. FAIR VALUE MEASUREMENTS

Fair Value Measurements on a Recurring Basis

Assets and liabilities recorded at fair value in the Condensed Consolidated Balance Sheets are measured and classified in accordance with a fair value hierarchy consisting of three “levels” based on the observability of valuation inputs:

- **Level 1:** Fair value measurements based on quoted prices in active markets that we have the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets. We do not adjust the quoted price for such instruments.

- **Level 2:** Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

- **Level 3:** Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3. The circumstances for using these measurements include those in which there is little, if any, market activity for the asset or liability. Therefore, we must make certain assumptions about the inputs a hypothetical market participant would use to value that asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

September 30, 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	$ 15	$ 2,783	$ -	$ -	$ - $
Obligations of states, municipalities and political subdivisions	-	26,158	2,014	-	-
Non-U.S. governments	772	21,867	23	-	-
Corporate debt	-	146,319	2,009	-	-
RMBS	-	21,786	16,918	-	-
CMBS	-	6,626	5,916	-	-
CDO/ABS	-	4,423	8,157	-	-
Total bonds available for sale	787	229,962	35,037	-	-
Other bond securities:					
U.S. government and government sponsored entities	128	5,130	-	-	-
Obligations of states, municipalities and political subdivisions	-	122	-	-	-
Non-U.S. governments	-	2	-	-	-
Corporate debt	-	948	-	-	-
RMBS	-	1,143	1,023	-	-
CMBS	-	507	713	-	-
CDO/ABS	-	2,596	8,069	-	-
Total other bond securities	128	10,448	9,805	-	-
Equity securities available for sale:					
Common stock	3,570	2	-	-	-
Preferred stock	-	29	-	-	-
Mutual funds	740	2	1	-	-
Total equity securities available for sale	4,310	33	1	-	-
Other equity securities	701	65	-	-	-
Mortgage and other loans receivable	-	-	6	-	-
Other invested assets	25	3,211	5,809	-	-
Derivative assets:					

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Derivative liabilities:						
Interest rate contracts[b]	**-**	**2,649**	**82**	**-**	**-**	**2,731**
Foreign exchange contracts[b]	**-**	**1,493**	**10**	**-**	**-**	**1,503**
Equity contracts	**-**	**88**	**3**	**-**	**-**	**91**
Commodity contracts	**-**	**5**	**-**	**-**	**-**	**5**
Credit contracts	**-**	**-**	**1,038**	**-**	**-**	**1,038**
Other contracts	**-**	**-**	**89**	**-**	**-**	**89**
Counterparty netting and cash collateral	**-**	**-**	**-**	**(1,769)**	**(1,186)**	**(2,955)**
Total derivative liabilities	**-**	**4,235**	**1,222**	**(1,769)**	**(1,186)**	**2,502**
Long-term debt	**-**	**5,370**	**297**	**-**	**-**	**5,667**
Other liabilities	**70**	**332**	**-**	**-**	**-**	**402**
Total	**$ 70**	**$ 9,998**	**$ 2,510**	**$ (1,769)**	**$ (1,186)**	**$ 9,623**

December 31, 2013 *(in millions)*	Level 1	Level 2	Level 3	Counterparty 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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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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

Transfers of Level 1 and Level 2 Assets and Liabilities

Our policy is to record transfers of assets and liabilities between Level 1 and Level 2 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. During the three- and nine-month periods ended September 30, 2014, we transferred $32 million and $330 million, respectively, of securities issued by Non-U.S. government entities from Level 1 to Level 2, as they are no longer considered actively traded. For similar reasons, during the three- and nine-month periods ended September 30, 2014, we transferred $4 million and $107 million, respectively, of securities issued by the U.S. government and government sponsored entities from Level 1 to Level 2. We had no material transfers from Level 2 to Level 1 during the three- and nine-month periods ended September 30, 2014.

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

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Changes in Level 3 Recurring Fair Value Measurements

The following tables present changes during the three- and nine-month periods ended September 30, 2014 and 2013 in Level 3 assets and liabilities measured at fair value on a recurring basis, and the realized and unrealized gains (losses) related to the Level 3 assets and liabilities in the Condensed Consolidated Balance Sheets at September 30, 2014 and 2013:

(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 September 30, 2014					
Assets:					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions	$ 1,991	$ (1)	$ (11)	$ 43	$
Non-U.S. governments	25	-	-	1	
Corporate debt	2,196	2	(22)	(73)	
RMBS	16,328	264	(49)	375	
CMBS	5,917	27	(39)	14	
CDO/ABS	7,431	18	(2)	692	
Total bonds available for sale	33,888	310	(123)	1,052	
Other bond securities:					
RMBS	1,062	-	-	(39)	
CMBS	757	(24)	-	(20)	
CDO/ABS	8,397	257	-	(451)	
Total other bond securities	10,216	233	-	(510)	
Equity securities available for sale:					
Common stock	-	-	1	-	
Preferred stock	-	-	-	-	
Mutual funds	-	-	-	-	
Total equity securities available for sale	-	-	1	-	
Mortgage and other loans receivable	6	-	-	-	
Other invested assets	5,824	(7)	90	65	

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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

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

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

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

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

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

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

(in millions)	Purchases	Sales	Settlements	Purchase Sales, Issues ar Settlements, Net
Three Months Ended September 30, 2014				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	**$ 66**	**$ (3)**	**$ (20)**	**$ 4**
Non-U.S. governments	**1**	**-**	**-**	
Corporate debt	**22**	**-**	**(95)**	**(73**

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RMBS	**1,062**	**(62)**	**(625)**	
CMBS	**276**	**(167)**	**(95)**	
CDO/ABS	**1,085**	**(68)**	**(325)**	
Total bonds available for sale	**2,512**	**(300)**	**(1,160)**	**1**
Other bond securities:				
RMBS	**-**	**(3)**	**(36)**	
CMBS	**-**	**(9)**	**(11)**	
CDO/ABS	**6**	**(4)**	**(453)**	**(**
Total other bond securities	**6**	**(16)**	**(500)**	**(**
Equity securities available for sale	**-**	**-**	**-**	
Other invested assets	**276**	**-**	**(211)**	
Total assets	**$ 2,794**	**$ (316)**	**$ (1,871)**	**$**
Liabilities:				
Policyholder contract deposits	**$ -**	**$ (36)**	**$ 34**	**$**
Derivative liabilities, net	**-**	**(2)**	**(21)**	
Long-term debt(c)	**-**	**-**	**1**	
Total liabilities	**$ -**	**$ (38)**	**$ 14**	**$**
Three Months Ended September 30, 2013				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 194	$ (34)	$ -	$
Non-U.S. governments	1	-	-	
Corporate debt	146	-	(146)	
RMBS	750	-	(623)	
CMBS	179	(3)	(74)	
CDO/ABS	628	-	(265)	
Total bonds available for sale	1,898	(37)	(1,108)	
Other bond securities:				
RMBS	31	(12)	(27)	
CMBS	-	(9)	(44)	
CDO/ABS	-	(66)	(491)	(
Total other bond securities	31	(87)	(562)	(
Equity securities available for sale	-	-	(48)	
Other invested assets	249	(3)	(191)	
Total assets	$ 2,178	$ (127)	$ (1,909)	$

Liabilities:				
Policyholder contract deposits	$ -	$ (4)	$ (47)	$
Derivative liabilities, net	4	-	(897)	(
Long-term debt[c]	-	-	1	
Total liabilities	$ 4	$ (4)	$ (943)	$ (
(in millions)	Purchases	Sales	Settlements	Purch Sales, Issues Settlements,
Nine Months Ended September 30, 2014				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions[b]	**$ 1,002**	**$ (35)**	**$ (71)**	**$**
Non-U.S. governments	**8**	**-**	**(1)**	
Corporate debt	**141**	**(8)**	**(273)**	**(**
RMBS	**2,814**	**(88)**	**(1,727)**	

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CMBS		**368**		**(224)**		**(187)**		**(43)**
CDO/ABS		**2,307**		**(70)**		**(811)**		**1,426**
Total bonds available for sale		**6,640**		**(425)**		**(3,070)**		**3,145**
Other bond securities:								
RMBS		**162**		**(22)**		**(107)**		**33**
CMBS		**-**		**(15)**		**(136)**		**(151)**
CDO/ABS		**50**		**(19)**		**(1,369)**		**(1,338)**
Total other bond securities		**212**		**(56)**		**(1,612)**		**(1,456)**
Equity securities available for sale		**-**		**-**		**-**		**-**
Mortgage and other loans receivable		**6**		**-**		**-**		**6**
Other invested assets		**709**		**(1)**		**(609)**		**99**
Total assets	**$**	**7,567**	**$**	**(482)**	**$**	**(5,291)**	**$**	**1,794**
Liabilities:								
Policyholder contract deposits	**$**	**-**	**$**	**(94)**	**$**	**118**	**$**	**24**
Derivative liabilities, net		**1**		**(2)**		**(1)**		**(2)**
Long-term debt[(c)]		**-**		**-**		**34**		**34**
Total liabilities	**$**	**1**	**$**	**(96)**	**$**	**151**	**$**	**56**
Nine Months Ended September 30, 2013								
Assets:								
Bonds available for sale:								
Obligations of states, municipalities and political subdivisions	$	502	$	(137)	$	-	$	365
Non-U.S. governments		9		-		(2)		7
Corporate debt		454		(114)		(310)		30
RMBS		3,462		(231)		(1,838)		1,393
CMBS		872		(167)		(415)		290
CDO/ABS		2,099		(159)		(557)		1,383
Total bonds available for sale		7,398		(808)		(3,122)		3,468
Other bond securities:								
RMBS		244		(12)		(102)		130
CMBS		19		(67)		(145)		(193)
CDO/ABS		318		(66)		(1,818)		(1,566)
Total other bond securities		581		(145)		(2,065)		(1,629)
Equity securities available for sale		58		(11)		(48)		(1)
Other invested assets		697		(49)		(553)		95
Total assets	$	8,734	$	(1,013)	$	(5,788)	$	1,933

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

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

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

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

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Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3 in the tables above. As a result, the unrealized gains (losses) on instruments held at September 30, 2014 and 2013 may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable inputs (e.g., changes in unobservable long-dated volatilities).

Transfers of Level 3 Assets and Liabilities

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

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

Transfers of Level 3 Assets

During the three- and nine-month periods ended September 30, 2014 and 2013, transfers into Level 3 assets primarily included certain investments in private placement corporate debt, RMBS, CMBS, CDO/ABS, and investments in hedge funds. Transfers of investments in private placement corporate debt and certain ABS into Level 3 assets were primarily the result of limited market pricing information that required us to determine fair value for these securities based on inputs that are adjusted to better reflect our own assumptions regarding the characteristics of a specific security or associated market liquidity. The transfers of investments in RMBS, CMBS and CDO and certain ABS into Level 3 assets were due to decreases in market transparency and liquidity for individual security types. Certain investments in hedge funds were transferred into Level 3 due to these investments now being carried at fair value and no longer being accounted for using the equity method of accounting due to a change in percentage ownership, or as a result of limited market activity due to fund imposed redemption restrictions.

During the three- and nine-month periods ended September 30, 2014 and 2013, transfers out of Level 3 assets primarily related to certain investments in municipal securities, private placement and other corporate debt, RMBS, CMBS, CDO/ABS, and investments in hedge funds. Transfers of certain investments in municipal securities, corporate debt, RMBS, CMBS, and CDO/ABS out of Level 3 assets were based on consideration of market liquidity as well as related transparency of pricing and associated observable inputs for these investments. Transfers of certain investments in private placement corporate debt out of Level 3 assets were primarily the result of using observable pricing information that reflects the fair value of those securities without the need for adjustment based on our own assumptions regarding the characteristics of a specific security or the current liquidity in the market. The transfers of certain hedge fund investments out of Level 3 assets were primarily the result of easing of certain fund-imposed redemption restrictions.

Transfers of Level 3 Liabilities

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

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

			Constant default rate[(a)(c)]	2.60% - 14.90% (8.00%)
			Yield[(c)]	4.70% - 10.30% (7.70%)
CMBS	6,048	Discounted cash flow	Yield[(b)]	0.00% - 13.01% (4.50%)
CDO/ABS - Direct Investment book	425	Binomial Expansion Technique (BET)	Recovery rate[(b)]	7.00% - 58.00% (26.00%)
			Diversity score[(b)]	6 - 23 (14)
			Weighted average life[(b)]	0.25 - 10.32 years (4.09 years)
Liabilities:				
Policyholder contract deposits	991	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)]	0.10% - 35.00%
			Utilization rate[(b)]	0.50% - 30.00%
Total derivative liabilities, net	813	BET	Recovery rate[(b)]	5.00% - 32.00% (17.00%)
			Diversity score[(b)]	9 - 27 (14)
			Weighted average life[(b)]	2.69 - 10.32 years (4.67 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 and hedge funds that calculate net asset value per share (or its equivalent). For these investments, which are measured at fair value on a recurring basis, we use the net asset value per share as a practical expedient to measure fair value**.**

		September 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	**$ 2,496**	**$ 474**	$ 2,544	$ 578
Real Estate / Infrastructure	Investments in real estate properties and infrastructure positions, including power plants and other energy generating facilities	**427**	**209**	346	86
Venture capital	Early-stage, high-potential, growth companies expected to generate a return through an eventual realization event, such as an initial public	**136**	**10**	140	13

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

Private equity fund investments included above are not redeemable, as distributions from the funds will be received when underlying investments of the funds are liquidated. Private equity funds are generally expected to have 10 year lives at their inception, but these lives may be extended at the fund manager's discretion, typically in one or two year increments. At September 30, 2014, assuming average original expected lives of 10 years for the funds, 74 percent of the total fair value using net asset value per share (or its equivalent) presented above would have expected remaining lives of three years or less, 18 percent between four and six years and 8 percent between seven and 10 years.

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

Fair Value Option

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

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

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

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

We recognized gains of $8 million and losses of $14 million during the three- and nine-month periods ended September 30, 2014, respectively, and losses of $22 million and $37 million during the three- and nine-month periods ended September 30, 2013, respectively, attributable to the observable effect of changes in credit spreads on our own liabilities for which the fair value option was elected. We calculate the effect of these credit spread changes using discounted cash flow techniques that incorporate current market interest rates, our observable credit spreads on these liabilities and other factors that mitigate the risk of nonperformance such as cash collateral posted.

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

	September 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*	**$ 5,667**	**$ 4,344**	**$ 1,323**	$ 6,747	$ 5,231	$ 1,516

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

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Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

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

Fair Value Information About Financial Instruments Not Measured at Fair Value

The following table presents the carrying value and estimated fair value of our financial instruments not measured at fair value and indicates the level in the fair value hierarchy of the estimated fair value measurement based on the observability of the inputs used:

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

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

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

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

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

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

Securities Available for Sale in a Loss Position

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

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

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

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

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30, 2014 because we neither intend to sell the securities nor do we believe that it is more likely than not that we will be required to sell these securities before recovery of their amortized cost basis. For fixed maturity securities with significant declines, we performed fundamental credit analyses on a security-by-security basis, which included consideration of credit enhancements, expected defaults on underlying collateral, review of relevant industry analyst reports and forecasts and other available market data.

Contractual Maturities of Fixed Maturity Securities Available for Sale

The following table presents the amortized cost and fair value of fixed maturity securities available for sale by contractual maturity:

September 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	$ 10,843	$ 11,017	$ 857	$ 846
Due after one year through five years	50,274	52,949	7,038	6,926
Due after five years through ten years	65,793	69,252	14,788	14,353
Due after ten years	63,482	68,742	15,025	14,237
Mortgage-backed, asset-backed and collateralized	59,528	63,826	16,967	16,427
Total	$ 249,920	$ 265,786	$ 54,675	$ 52,789

Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

The following table presents the gross realized gains and gross realized losses from sales or maturities of our available for sale securities:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014		2013		**2014**		2013	
(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	**$ 118**	**$ 21**	$ 516	$ 26	**$ 528**	**$ 65**	$ 2,216	$ 153
Equity securities	**33**	**4**	18	6	**102**	**10**	101	15
Total	**$ 151**	**$ 25**	$ 534	$ 32	**$ 630**	**$ 75**	$ 2,317	$ 168

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

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

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Other Securities Measured at Fair Value

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

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

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

Net Investment Income

The following table presents the components of Net investment income:

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

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

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

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Net Realized Capital Gains and Losses

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

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

Change in Unrealized Appreciation (Depreciation) of Investments

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

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

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

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

Evaluating Investments for Other-Than-Temporary Impairments

For a discussion of our policy for evaluating investments for other-than-temporary impairments, see Note 6 to the Consolidated Financial Statements in the 2013 Annual Report.

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Credit Impairments

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

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

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

Purchased Credit Impaired (PCI) Securities

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

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

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

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

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

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

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

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

Pledged Investments

Secured Financing and Similar Arrangements

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

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

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

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

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

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

(in millions)	**September 30, 2014**	December 31, 2013
Securities collateral pledged to us	**$ 7,347**	$ 8,878
Amount sold or repledged by us	**106**	71

Insurance - Statutory and Other Deposits

Total carrying values of cash and securities deposited by our insurance subsidiaries under requirements of regulatory authorities or other insurance-related arrangements, including certain annuity-related obligations and certain reinsurance treaties, were $6.2 billion and $6.7 billion at September 30, 2014 and December 31, 2013, respectively.

Other Pledges

Certain of our subsidiaries are members of Federal Home Loan Banks (FHLBs) and such membership requires the members to own stock in these FHLBs. We owned an aggregate of $53 million and $57 million of stock in FHLBs at September 30, 2014 and December 31, 2013, respectively. In addition, our subsidiaries have pledged securities available for sale with a fair value of $530 million and $80 million at September 30, 2014 and December 31, 2013, respectively, associated with advances from the FHLBs.

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

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7. LENDING ACTIVITIES

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

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

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

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

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

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

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

(b) Does not reflect valuation allowances.

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

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Item 1 / NOTE 7. LENDING ACTIVITIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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

8. VARIABLE INTEREST ENTITIES

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

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

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

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Item 1 / NOTE 8. VARIABLE INTEREST ENTITIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Balance Sheet Classification and Exposure to Loss

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

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

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

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

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

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

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

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Item 1 / NOTE 8. VARIABLE INTEREST ENTITIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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

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

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

9. DERIVATIVES AND HEDGE ACCOUNTING

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

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

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Item 1 / NOTE 9. DERIVATIVES AND HEDGE ACCOUNTING

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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

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

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

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

	September 30, 2014				December 31, 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	**$ 30,619**	**$ 2,331**	**$ 28,650**	**$ 3,020**	$ 41,942	$ 2,567	$ 52,67
AIG Markets	**25,142**	**1,308**	**20,959**	**1,798**	12,531	964	23,71
Total Global Capital Markets derivatives	**55,761**	**3,639**	**49,609**	**4,818**	54,473	3,531	76,39
Non-Global Capital Markets derivatives[a]	**49,307**	**523**	**43,894**	**1,715**	60,021	795	15,66
Total derivatives, gross	**$ 105,068**	**4,162**	**$ 93,503**	**6,533**	$ 114,494	4,326	$ 92,06
Counterparty netting[b]		**(1,769)**		**(1,769)**		(1,734)	
Cash collateral[c]		**(805)**		**(1,186)**		(820)	
Total derivatives, net		**1,588**		**3,578**		1,772	
Less: Bifurcated embedded derivatives		**-**		**1,076**		107	